

Milk Producers Council

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DATE: February 01, 2008
TO: DIRECTORS & MEMBERS

PAGES: 3
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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.1500 \$1.8000
Barrels +\$.0300 \$1.7800

CHICAGO AA BUTTER

Weekly Change -\$.0100 \$1.2225
Weekly Average -\$.0070 \$1.2230

NON-FAT DRY MILK

Week Ending 1/25 & 1/26

Calif. Plants \$1.5200 7,024,551
NASS Plants \$1.4604 23,532,763

Weekly Average

Blocks +\$.0890 \$1.7390
Barrels -\$.0388 \$1.7375

DRY WHEY

NASS w/e 1/26/08 \$.3480 WEST MSTLY AVG w/e 1/31/08 \$.2850

CHEESE MARKET COMMENTS: Last week was considered a good one for cheese prices because of very little activity on the CME and because the block prices held at \$1.65 per lb. This week is considered very good because block prices gained 15 cents for the week in an up and down market. Blocks and barrels ended the week **on a strong note**, with the final activity being unaccepted bids at higher prices. The price inversion between block and barrels, which concerns some market watchers, was corrected this week. Dairy Market News (DMN) reports that cheese production is increasing but apparently so are sales. Production figures for December will be released on Monday.

BUTTER MARKET COMMENTS: DMN says they feel that the undertone of the butter market is soft, because of the very **heavy production and growing inventories**. There is a lot of milk and cream available. Prices this week on the CME lost one cent per lb which, under the circumstances, is not bad. Shipments out of the country are continuing, but it is not clear if additional orders are being received. Prices are just about where they were a year ago, but it will take a lot of good news to have them keep pace with the pattern that was set early last year. A CWT herd retirement program would help. Continuing good export orders would help. We can count on the first, but the second remains to be seen.

NONFAT DRY MILK: DMN's comments about buyers' restraint do not square with the sales volumes reported by NASS in the past 2 weeks. 72 million lbs sold in 2 weeks is a bit more than what is needed to fill short-term needs. This was a 2-week clearance sale for the purpose of reducing inventories, but weekly production continues to test plants' ability to handle the supply of raw product that is coming at them. Reports about the international supply/demand situation are starting to sound a bit more positive in that milk production in New Zealand may not be as high as was earlier projected. The average weekly price and volume for California plants continues to bounce around, and a pattern is emerging. Based upon information through November, it appears that prices for export sales are at least for a time somewhat higher than domestic spot and indexed prices. The 32 million lbs sold by California plants 2 weeks ago, which pulled the average price down by 19 cents, is believed to have been mainly domestic sales. The 7 million lbs sold last week, at an average price 8 cents higher, is believed to be mainly export sales. The fact that the CWAP is 6 cents higher than the national price this week bears this out. **Major questions overhanging this market are to what extent is the U.S. channel of distribution now clogged with product, will export volumes recover in 2008 and, if they do, at what price.**

WHEY MARKET COMMENTS: Prices for all whey-related products continue to be weak. Domestic sales are very weak. There appears to be a general pattern of buyers and users trading down to the next lower-priced product. It looks like this: WPC 80 (a concentrated whey product) is plentiful but is not competitively priced with WPC 34, while WPC prices continue to decline under weak demand. Inventories of dry whey continue to grow and prices continue to fall while buyers may be switching away from dairy proteins, or to lactose. And lactose buyers

may be switching to dry permeate, which is a good product for some uses but is at the very bottom of the whey chain of useful products. Prices for dry whey are now well below year-earlier levels and the likelihood of a repeat of last year's pricing patterns is remote.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 01 Est: Quota cwt. \$18.16 Overbase cwt. \$16.46 Cls. 4a cwt. \$15.58 Cls. 4b cwt. \$16.03
Jan 07 Revised Final: Quota cwt. \$19.23 Overbase cwt. \$17.53 Cls. 4a cwt. \$16.41 Cls. 4b cwt. \$16.91

A LOOK AT OUR NEW PRICE FORMULAS: (By J. Kaczor) Prices for milk used to produce butter, powder, and cheese in Arizona and other federal order areas during January were announced today. California's prices were announced yesterday. We now have prices for 2 months under the amended price formulas that became effective December 1st to compare to what they would have been under the previous formulas – and to federal order prices.

	<u>December</u>		<u>January</u>		<u>Jan vs Dec</u>
	Old	New	Old	New	New
Butter/Powder					
California 4a	\$19.28	\$19.14	\$16.55	\$16.40	- \$2.74
Fed.Ord. IV		19.18		16.29	- 2.89
Cheese					
California 4b	\$19.54	\$18.58	\$17.51	\$16.91	- \$1.67
Fed.Ord. III		20.60		19.32	- 1.28

The change made to the dry whey component in the 4b formula caused \$.76 of the \$.96 price drop in December and \$.39 of the \$.60 drop in January. The rest of the differences between the old and new formulas are accounted for by increases to the “make” allowances for powder and cheese and price adjustments for butter. The estimated effect of the December 1st price formula changes on California producer income for December and January is **\$28 million, or about \$15,300 for a 1,000 cow dairy**. The right-hand column in the table spells out the bad news for producers, and more is coming. As commodity prices fall, milk prices follow. **Class 2 and 3 prices for February and March**, which are based upon 4a prices, were announced yesterday, **\$3.22 per cwt lower than the previous 2 months**, and February's Class 1 price is \$1.25 below January's. The Overbase price in 2007 peaked in November at \$20.23 per cwt, and has fallen to \$17.53 in January. **All current commodity indicators point to lower Quota and Overbase prices for February and beyond.** (Fred Douma's price projections, which are a feature of this Update do a very good job of tracking the effects of weekly commodity price changes.)

The reason for the lesser effect of the price formula change on January 4b prices compared to December prices is because the new 4b formula has **a low fixed allowance for whey**, and whey prices have been coming down towards that allowance. In fact, because this week's western “mostly” price for whey is now below the \$.31 per lb “break-even” point for measuring the net gain or loss that results from the change to the fixed allowance, the 4b price for February could actually benefit somewhat. For every cent below \$.31 per lb for dry whey the 4b price avoids a \$.058 per cwt reduction and for every cent above \$.31 per lb the 4b price misses out on a \$.058 per cwt increase.

The reasons why the prices between California and federal orders for the 2 manufacturing classes of usage differ from month to month, even though they each are based upon prices of basic dairy commodities, are because the sources and time periods used for those prices are different. Those differences will be explained in next week's Update.

QUOTES OF THE WEEK/MONTH/YEAR?: (By J. Kaczor) It's not partisan politics here. Regarding complaints about a recent new law that would significantly reduce the maximum coliform count in raw milk in

order for it to be sold to consumers as such, Assemblywoman Nicole Parra (D) said that CDFA staff “*purposely omitted mention of opposition to the bill,*” and Assemblyman Michael Villines (R) said that CDFA “*showed an arrogance that says ‘we’re going to do what we want.’*” And yes, the Assembly then **unanimously** passed a bill to overturn the new standards. CDFA staff minds made up? Withholding of relevant information? Arrogance? Could that really happen?

REMINDER – SECOND MEETING OF THE WHEY REVIEW COMMITTEE NEXT MONDAY: *(By Rob VandenHeuvel)* On Monday, February 4th, the Whey Review Committee set up by the California Department of Food and Agriculture will hold its second of four scheduled meetings. The meeting will be held at the California Farm Bureau Federation office in Sacramento, CA.

As you know, this committee – which is made up of fourteen individuals consisting of producers, processors and co-op representatives – is attempting to address the difficult issue of how to properly account for the value of whey products in the class 4b (cheese) formula. The third scheduled meeting is set for Tuesday, March 11th and the fourth meeting is scheduled for Thursday, March 27th. Producers are strongly encouraged to attend any if these committee meetings.

EPA ANNOUNCES PLAN TO CLARIFY AIR PERMIT REQUIREMENTS FOR CALIFORNIA AG OPERATIONS: *(By Rob VandenHeuvel)* Yesterday, EPA released a proposed rule which would, if implemented, help clarify the air quality regulations that govern California dairies. This has been a heavily discussed topic since a federal judge ruled last fall that state-approved air regulations – which the local air districts recognize and follow – are not yet recognized by federal law (*Association of Irrigated Residents v. C&R Vanderham Dairy*).

While it remains to be seen whether this will have an effect on the pending lawsuit filed by extreme environmentalists against the Vanderham Dairy, this is an important development showing the intent of EPA all along to accept California state law – which requires large operations to obtain an air permit while providing an exemption for smaller operations – as a part of the federal regulations that govern California’s air quality.

TAKE ADVANTAGE OF THE UPCOMING DRY PERIOD: *(By Rob VandenHeuvel)* The 10-day forecast for Southern and Central California show only one day of rain. Regardless of your opinion about weather forecasters, the Regional Water Board would like to remind dairies that this “dry period” provides an opportunity to pump the existing storm water from your lagoons to make room for any future rain.

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