

Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.1175 \$1.9025
Barrels +\$.1075 \$1.8825

CHICAGO AA BUTTER

Weekly Change N.C. \$1.6600
Weekly Average -\$0.0038 \$1.6600

NON-FAT DRY MILK

Week Ending 9/5 & 9/6

Calif. Plants \$1.3312 10,485,614
NASS Plants \$1.3255 13,535,488

Weekly Average

Blocks +\$.1425 \$1.8625
Barrels +\$.1451 \$1.8295

DRY WHEY

NASS w/e 9/6/08 \$.2270 WEST MSTLY AVG w/e 9/11/08 \$.2275

CHEESE MARKET COMMENTS: Prices for blocks and barrels on the CME this week rocketed upward. Few sales on the Exchange were made; the buying happened out there in the scary free-marketplace. Dairy Market News mentioned that buying patterns are sometimes influenced by the many buyers whose contracts call for this week's purchases to be priced at last week's **average price**. This week, buyers sniffed out the price advantage and actively placed orders. Of course, those "mechanics" work the opposite way when prices drop sharply. The recurring pricing pattern of price run-ups followed by deep decreases that we have seen for the past 16 months could be explained by that single purchasing pattern. Bottom line: many buyers stay away until **opportunity** or **necessity** causes them to act. **The important difference between what has been happening over the past 16 months compared to earlier periods is the underlying strength in cheese prices that has resulted from the self-control over the amount of cheese that is produced.** But never say that cheese will never show future surpluses. Cheese exports in July, reported yesterday, were still well above last year's levels, but still was not a significant percentage of total usage.

BUTTER MARKET COMMENTS: It was another very good week for butter prices on the CME – they stayed right where they ended last Friday. It's that time of year where buyers need to look ahead as much as 4 months to decide if they are where they should be regarding assured supplies at reasonable prices for the expected strong fall and winter sales seasons. The current high butter prices are making those decisions more difficult than normal; buy now or wait for lower prices. The "normal" butter price pattern at this time of year is downward. Butter exports in July were below June's level, and DMN reports that **fewer new orders from other nations are being received.** These are anxious times.

NONFAT POWDER MARKET COMMENTS: Prices continue to decrease on all fronts, including the CME offer price. DMN reports, but does not comment on, a 12 cent per lb difference between the average spot prices for the central and western regions. No need to guess which region is the lowest, is there? Some sales in the west are reported to be as low as \$1.20 per lb. The "mostly" price average is \$1.30 per lb, 12 cents lower than the central region's average. Shouldn't someone be asking what's up? An offer to buy at \$1.30 per lb on the CME yesterday caused that index price to drop by 6 cents per lb. Prices and sales volumes for nfdm for California plants and the national report continue their teeter-totter relationship; this week the CWAP price increased by a fraction of a cent and the NASS price fell by more than 4 cents per lb. The national volume is once again higher than the California plant volume. **Do any of those moves make any sense?** (The latest prices and volumes are printed in the recaps at the top of this page.) Exports in July fell sharply from June's level, and DMN reports that the availability of product in other major exporting nations is showing signs of increasing, and international prices are heading downward. Maybe the most interesting thing about this week's report by DMN is the silence by those plants who are gearing up for production of rbst-free and organic powders. The excitement over those developments is so hard to contain.

WHEY MARKET COMMENTS: Prices for dry whey are not quite in a free-fall anymore, but they continue to move downward. The west “mostly” average price this week fell by 1.5 cents per lb, and sales as low as 14 cents per lb were reported. There are reports that bottom feeders are starting to nibble. How low do prices have to go to generate some real interest? \$.14 per lb – at that level, isn’t it more cost-effective just to dump the liquid whey? Prices for dry lactose and whey protein concentrates are reported to be still moving downward, but the **DMN reports on these two products are beginning to look like nonsense**. Examples: the average price for lactose is about equal to the average price for dry whey, and some manufacturers are said to be concerned about having enough product to fill commitments through the end of the year, but others say they have way too much on hand. Exports of dry whey in July were about even with last July, but the average price was reported to be about \$.44 per lb. Gee, it looks like some sellers are a lot smarter than others. The general message here is don’t look for much improvement any time soon.

FRED DOUMA’S PRICE PROJECTIONS...

Sept 12 Est: Quota cwt. \$18.00 Overbase cwt. \$16.30 Cls. 4a cwt. \$16.19 Cls. 4b cwt. \$16.45
Last Week: Quota cwt. \$17.98 Overbase cwt. \$16.28 Cls. 4a cwt. \$16.25 Cls. 4b cwt. \$16.14

USAGE OF MILK IN JULY: (By J. Kaczor) U.S. milk production in July increased by 1.7% (250 million lbs) over July 2007. California’s production **decreased** by 1.0% (35 million lbs). Last week, USDA published its report on what products were produced from the July milk. The following table lists the changes in production volumes that occurred for the major products. All percentages are **positive** except those marked otherwise.

	United States	California
Butter	0.1%	5.0%
Nonfat dry milk	11.0%	6.8%
Skim milk powder	41.2%	
Cheese	1.5%	-11.8%
Cheddar cheese	3.4%	-16.7%
Cottage cheese	-0.5%	-22.6%
Sour cream	-0.5%	-19.3%
Yogurt	1.3%	16.8%
Ice cream	-1.9%	-4.2%
Dry whey	-5.8%	
Whey protein conc	8.3%	9.1%
Condensed & evap	22.7%	2.3%

The figures for the U.S. makes it look like some milkfat is missing, but cheese contains about 40% milkfat; that balances out the flat butter usage figure so let’s call it even on the national level . The figures for California show what happens when cheese production, the largest usage of milk in the state, falls sharply; the milk flows to what is normally the lowest-priced usage category, butter and powder.

AMS reported today that sales of packaged fluid milk products in July increased by 0.7% over July 2007 levels. However, after adjusting for calendar composition, AMS said that July sales were 0.6% **lower** than July 2007. (The process of adjusting sales for calendar composition is valid but, because the AMS calculations are 7 years old, and could be out of date, the adjustment in this case is being discounted.) The most interesting thing about the AMS report is that all sales of organic fluid products showed an increase over last July, whereas sales of all non-organic fluid products showed a decrease.

California bottling plants reported a sales increase for fluid milk products in July **to California customers** of 2.5% over July 2007, and Class 1 pool usage increased by 3.2%. Those figures suggest that California consumers are drinking more milk than they were a year ago and/or California plant operators are doing a better

job competing against those companies in other states who distribute packaged milk inside California. But Arizona plants also have been reporting higher Class 1 sales made outside of the state (where else but into California?) so it's hard to say just what is happening. The least likely possibility is that Californians have turned to milk in order to drown their financial sorrows. Let's wait to see a few more months' results before a call is made on whether the reported increase in Class 1 sales in California is real. Meanwhile, because of the Class 1 sales increase, regardless of the reason for the increase, California milk producers received a penny or two more per cwt in July than what would otherwise have occurred.

California producers are also benefiting from the combined continuing decrease in the amount of bulk milk **entering the state** and the increase in the amount **leaving the state**. In just the last 3 months, the net difference between bulk milk imports and exports decreased by 53 million lbs. That's a change we can believe in. Higher transportation costs have eaten up part of the potential gain for Arizona producers, and the relatively better local Arizona blend prices explain much of the rest of that change. **The lower amount coming into California translates into higher Class 1 usage of California milk by California plants sold to California customers.** CMAB would like to take the credit for that part of the change, but the facts seem to point to the reasons stated above.

JULY INVENTORY LEVELS AND CHANGES: (By J. Kaczor) Except for July-ending butter stocks, which decreased by 9% from a year earlier, stocks of all other dairy products rose. Here they are, ranked from the smallest percentage increase to the largest: dry whey (+2%), all cheese (+2%), American cheese (+2%), dry buttermilk (+12%), nonfat dry milk (+12%), evaporated & condensed (+25%), whey protein concentrates (+49%), dry lactose (+67%). Stocks of **skim milk powder**, the product which is just another form of nonfat dry milk, are not reported but are presumed to be minimal.

Why report these figures? What do they mean to manufacturers, buyers, consumers, milk producers? We know the percentage changes are different from what they were last month and expect them to be different again next month. What gives? Well, most forecasters, including the very important people who manage the futures markets for dairy products, pay a lot of **attention to levels of unsold products, and to changes in those levels**. Most speakers at Cornell's National Workshop on forecasting milk and dairy product prices (April, 2008) either had developed their own or worked with powerful formulas designed to use the **dairy past** to predict the **dairy future**. All of those formulas included some version of levels and changes in levels of unsold products as an important factor in arriving at the projected results.

But the really interesting thing about it is that there didn't seem to be much agreement at the workshop on any specific interpretation of what any particular level of inventory may mean in the way of affecting people's bargaining behavior. There was agreement about what may happen if the stock of a product is much too small or much too large, but little agreement on everything in between. It became even more unclear when it was noted that the important things to remember in evaluating dairy product stocks are first, that the levels and changes in levels themselves may be less important than **whether they are what was expected** (and no one could say what that may be), second, that expectations differ between manufacturers, buyers, and users of the products, and third, that even if expectations were met, the levels themselves may be either a concern, a problem, or perfectly fine. This observation is intended only to show the intensity of interest in trying to decipher the effects of a very important part of the dairy industry's supply/demand situation. **It is important.**

One measurement that should be sensitive to manufacturers and buyers, which is where critical first decisions are made, is how many days worth of production is represented by the stock of unsold product – and whether that number is increasing or decreasing. Those numbers are in the following table; the dairy products named above are re-ranked in the order of fewest days of production represented by their unsold stocks, to the largest number of days of production. The changes in number of day's production caused by the increase or decrease in July's stocks are also shown.

Dry whey	20 days, up 0.3 days
Nonfat dry milk	32 days, up 3.5 days
All Cheese	33 days, up 0.5 days

Whey protein concentrates	36 days, up 11.6 days
Dry Lactose	41 days, up 16.1 days
Dry buttermilk	49 days, up 5.3 days
American cheese	51 days, up 1.1 days
Evaporated & condensed milk	51 days, up 10.0 days
Butter	52 days, down 4.8 days

These are averages for all plants who manufacture at least 1 million lbs of these products per year. According to Dairy Market News, stocks of most products vary quite a bit among manufacturers and between the central region and the west. Note: the stock of American cheese seems high, but it includes quite a bit of Cheddar that is held in storage for aging.

Whether these numbers are expected and satisfactory – or something else – is very important to know. Are dry whey manufacturers, with 20 days of production on hand and prices at or below the cost of production, better off than butter manufacturers with 52 days of production on hand, with prices much higher than predicted, and seemingly on solid ground? Or should they be concerned about WPC, whose stocks grew very fast in July and are now almost twice as large as dry whey stocks (in terms of production days), with prices also at or below cost of production, and presently a better value than dry whey? These are the kinds of questions that confront and confound people who have “hands on” responsibilities, as well of those who try to provide guidance to everyone else. Stay tuned in; we’ll keep you informed.

NEXT WEEK’S DISCUSSION: *(By J. Kaczor)* The review of income over feed costs is still being developed, and will be reported next week along with a report on July’s export activity with a special look at butter exports.

MPC ASKS SENATOR FLOREZ TO RETRACT HIS COMMENTS ABOUT PASTEURIZED MILK: *(By Rob VandenHeuvel)* This past week, California State Senator Dean Florez (D-Bakersfield) appeared at a press event touting the health benefits of drinking raw milk. Rather than merely focus on raw milk, however, Senator Florez opted to use the opportunity to take a shot at the rest of the dairy industry. In a quote seen on CBS News in Los Angeles (<http://www.cbs2.com/video/?id=76783@kcbs.dayport.com>), **Senator Florez stated, “The reality is that pasteurized milk is milk that has been burned to a point where all the good nutrients are out.”** We should all be outraged that a public official would make such an irresponsible comment like this! MPC has sent a letter to Senator Florez requesting that he publicly retract this statement and acknowledge the healthy and nutritious value of the milk products that his dairy constituents produce. If you’d like to read the letter sent to Senator Florez, you can find it at: <http://www.MilkProducersCouncil.org/091208florez.pdf>.

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