



Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
Fax (909) 591-7328 ~ office@milksproducers.org ~ www.MilkProducers.org



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TO: Directors & Members

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0725 \$1.6675
Barrels - \$.0525 \$1.6800

CHICAGO AA BUTTER

Weekly Change N/C \$2.1850
Weekly Average N/C \$2.1850

NON-FAT DRY MILK

Week Ending 10/15 & 10/16

Calif. Plants \$1.1207 16,066,927
NASS Plants \$1.1838 12,744,835

Weekly Average

Blocks - \$.0610 \$1.7030
Barrels - \$.0305 \$1.7020

DRY WHEY

WEST MSTLY AVG w/e 10/15/10 \$.3863
NASS w/e 10/16/10 \$.3627

CHEESE MARKET COMMENTS: Cheese came to the market this week, and prices for blocks and barrels fell. A total of 29 carloads were sold this week – heavy. The week ended with an uncovered offer to sell blocks at \$.0025 per lb lower than the last sale, which is never a positive sign. The comment last week about a broker's belief that the pattern of spot and futures price movements anticipates more offers of cheese soon at lower prices was spot on. This week Eric Meyer and Dave Kurzawski, brokers at Downes-O'Neill in Chicago, commented on the aggressive tone of the offers, which they say begets expectation of more of the same. USDA's report on milk production in September, released Wednesday (see article below), was not surprising as to the increase over last September, and today's report on the amount of cheese in cold storage at the end of September should not change anyone's position – the stocks are still above 1 billion lbs, but not really growing. That suggests current production is clearing to sellers fairly readily. However, while one or two weeks of heavy sales on the CME doesn't necessarily translate into a trend, it certainly means that more than one manufacturer either wants to get rid of some of their cheese or wants lower prices. What the sudden, but not unexpected, drop in spot prices on the CME will do to current sales is not clear; many buyers were reported to be waiting for a break. The average price reported by manufacturers for shipments made last week was almost \$.10 per lb above the spot market.

BUTTER MARKET COMMENTS: Butter prices held steady with 1 sale and 2 uncovered offers, and the average sales price for shipments last week has caught up with CME prices. Futures prices for cash settled butter have been moving upward – more so for the nearby months (February still sits at \$1.62 per lb). DMN says retailers seem confident as the holidays approach, but wholesalers are concerned about having too much product on hand if prices break lower; they are trying to time orders for immediate needs only. Butter production is steady. Today's report on the amount of butterfat products in cold storage at the end of September was very reassuring – stocks fell again, by 26 million lbs, and are now at about one half of where they were a year ago.

POWDER MARKET COMMENTS: Prices for buttermilk powder are reported to be slipping this week; sales are steady, stocks are adequate, and production is beginning to increase in line with butter production. Prices for whole milk powder are steady, in line with recent winning prices in Fonterra's global auction. Prices for nonfat powders continue to drag on the market. Inventories at the end of August were reported to have dropped as exports through that month remained heavy. The California plant average last week rose by \$.015 per lb, but is now more than \$.06 per lb below the national average price, which supposedly includes at least some sales from California plants. The spot price for grade A NFDM has been sitting at \$1.23 per lb for some time; offers to sell at that price have been left uncovered even though the "mostly" price range in the central region is \$1.23 to \$1.26. Futures prices on the CME for November and December are just below the current NASS average prices, but slip down to the \$1.12 per lb area soon after, reflecting a general pessimism about everything having to do with dairy next year. And yet, DMN reports some manufacturing plants are short of milk. That doesn't sound like a problem, it sounds like a solution.

WHEY PRODUCTS MARKET COMMENTS: Interest is high for the few loads of whey protein concentrate that are occasionally offered to buyers. Demand is presently greater than supply because of the huge volume of exports so far this year. Prices are firm. The market for dry whey is keeping pace with heavy production. Domestic demand is seasonally high and export interest, already heavy, is reported to be growing. Prices for shipments last week remain about where they have been for several months. The west's "mostly" price once again eased upward on the high end of the price range. DMN reports shortages of product in the eastern region resulting in product being shuttled from the west to east to meet demand.

FRED DOUMA'S PRICE PROJECTIONS...

Oct 22 Est:	Quota cwt. \$ 17.65	Overbase cwt. \$15.96	Cls. 4a cwt. \$16.65	Cls. 4b cwt. \$15.66
Last Week:	Quota cwt. \$ 17.69	Overbase cwt. \$16.00	Cls. 4a cwt. \$16.61	Cls. 4b cwt. \$15.78

MILK PRODUCTION UP, COW NUMBERS DOWN IN SEPTEMBER: *(By J. Kaczor)* After making some quarterly adjustments in number of cows and production per cow, USDA this week announced that U.S. milk production in September increased by 3.26% over a year earlier. The math: 0.06% fewer cows producing 3.27% more milk results in 3.21% more milk (rounding "errors" for number of cows and production per cow explain the fractional percentage differences shown for milk production).

USDA makes quarterly corrections to earlier estimates of number of cows and milk production for states for which usable or timely information on a monthly basis was not available – generally smaller milk producing states. The adjustments this time for July and August were larger than normal. They were **downward** and skewed towards states which produce relatively little milk. The number of milk cows for July was lowered by 10,000 and by 17,000 for August. Production per cow was also slightly lowered for those months. The net result was a reported reduction, from earlier estimates, of 39 million lbs of milk for July and 53 million lbs of milk for August.

Those changes result in a short-term change in the pattern of growth, going forward, but there's no practical effect resulting from them because the major changes affected only a small portion of the industry. The adjustments for July and August for the 23 largest milk producing states, which represent about 93% of total milk production, resulted in no change in cow numbers for either month, no change in milk production for July, and a decrease in milk production of 18 million lbs for August.

The part of the growth pattern that continued virtually unchanged is production per cow. That growth continues to be astounding. The average monthly increase for the first nine months this year over the same period last year is 50.3 lbs per cow, almost 3% above last year (September was 3.3% higher). By comparison, the year-to-year growth in average monthly PPC for the previous four years was 20.8 lbs.

The downward adjustment in milk production for August broke the short string of months with 400 million more lbs of milk than a year earlier, but September's output jumped 490 million lbs above last September's; it was accomplished with 4,000 fewer cows and 50 more lbs of milk per cow. After the adjustments mentioned above, total number of cows are now reported to have fallen for two months in a row: July's herd is still listed as 10,000 larger than June's; August had been listed at 9,000 fewer cows than July but was adjusted to 16,000 fewer, and September is listed at 2,000 fewer than August. This flattening of the growth in number of milk cows (which had been increasing at an increasing rate) is mostly attributable to CWT's herd removal program which began mid-July and appears to have been strung out through September (CWT has not yet announced the final results).

A projection made two months ago that cow numbers will be higher than year-earlier levels and milk production at least 3.5% above a year ago "almost certainly will happen by September," was short by 4,000 cows and by 0.2

percentage points on total volume. Here's to no more projections by this writer (plain arithmetic will do from now on). So, if the U.S. herd size this month remains at September's levels and milk production per cow increases seasonally, total milk output will be 560 million lbs higher than last October, or +3.6%. If the herd size resumes its growth, even by half the rate it had been increasing earlier this year, which speculators appear to believe will happen, there should be plenty of milk on the market in the first half of next year. The "cross currents" of relatively good milk prices, abundant number of replacements, greater usage of risk management tools versus rising feed costs, bearish financing prospects, and bearish futures prices, make it very easy to not want to make another projection on how 53,000 or so independently minded dairy farmers decide on how to manage their businesses.

California, with 22,000 fewer cows than a year ago, produced 224 million lbs more milk this September than last year, an increase of 7.3%; **production per cow increased by 150 lbs for the month**, an increase of 8.6%. Can that PPC increase really have happened? That reported increase is well more than twice the average of the other 22 largest milk producing states. A year ago, California producers were still shedding cows – there were 13,000 fewer in September than in August; it was the last of several large month-to-month reductions in herd size that occurred last year – and production per cow was 40 lbs lower than the previous September.

The regional comparisons in number of milk cows that have been made in these reports of monthly milk production – 5 western states to 6 midwestern states – began shortly after a report on the Status of Wisconsin Agriculture was made by a distinguished panel of experts with UW's Department of Agricultural and Applied Economics. That report was objective and likely correct with respect to that state's prospects for dairy industry growth and prosperity. But comparisons of the midwest's future to what apparently was believed to be happening to major milk producing states in the west seemed to invite a closer, and simpler, look at what was happening down on the ground – in terms of numbers of milk cows – and hence, the series of regional comparisons. Following is an update of changes in number of milk cows in the two regions since last September.

The comparison through May is notable for the similarity between the two groups: the five western states (CA, AZ, ID, NM, TX) added a net total of 6,000 milk cows since last October. The six Midwestern states (MN, WI, IA, IL, IN, MI) added a net total of 5,000 cows over the same period. But sharp differences are seen within the western group during that period: California had 17,000 fewer cows and Texas had 3,000 fewer; the other three added 26,000. Internal differences continued since May to the present: Arizona, Idaho, and Texas have added a total of 28,000 cows while California and New Mexico dropped a total of 9,000. Changes by the Midwestern states were much more uniform over the entire twelve months: individual changes in the Midwestern grouping from October to May did not exceed +/- 3,000 cows but, since May, Iowa lost 7,000 cows while the other five states in that group added a total of 2,000.

While it's not a contest in survivability, the western states are again growing in some kind of disjointed manner while the selected Midwestern states – at least in terms of milking herds – appear to have stabilized at last fall's levels. They continue to benefit from the natural advantages pointed out in UW-M's Status Report earlier this year – higher prices, lower feed costs, competition for their milk from a growing industry segment, and support from their academic, regulatory, and political leaders – factors which are not all that apparent (or at least uniformly present) in the wild western states. It doesn't seem to matter.

PRICES SLUMP FOR ALL PRODUCTS IN FONTERRA'S LATEST AUCTION: *(By. J. Kaczor)* This auction was the second one in October. Starting with September's auction, Fonterra divides the volume of each product that had been offered in a single bid each month into two, and offers the halved volume twice each month. There's no sure way to tell if the buyer/bidders like to have to attend an auction twice each month to secure the amount of product they are seeking for each of the seven months covered by each auction but, short term at least, it's presumed they appreciate the lower prices that resulted from the "second bite at the apple" this month.

The Spot Month for this auction still is for shipments in December; the second contract still is for shipments in January-March, and the third contract still is for shipments in April-June. The final prices bid two weeks ago for

each of those periods apply to the volume of products associated with those prices, and the final prices bid this week for each of those same periods apply to the volume of products associated with this week's bids. Based upon the bi-weekly price changes resulting from these auctions, it's apparent that attention to changes in global supply and demand is high.

Following is a recap of the prices and price changes for the four product covered by the auction. The changes noted below compare current prices to the winning prices bid two weeks ago for shipments during December. The prices relate to regular grade whole milk powder, an average price for low heat and medium heat skim milk powder, UHT buttermilk powder, and premium grade AMF in drums.

- Whole milk powder: \$1.567 per lb, down \$.032 per lb from 10/5;
- Skim milk powder: \$1.322 per lb, down \$.100 per lb from 10/5;
- Buttermilk powder: \$1.361, no change from 10/5;
- Anhydrous milkfat: \$2.361 per lb, down \$.075 per lb from 10/5.

Following is a recap of the prices and price changes for shipments in the second and third contract periods (January-March and April-June):

- Whole milk powder: \$1.567 per lb for the 2nd contract, down \$.005 per lb, and \$1.599 per lb for the 3rd contract, down \$.016 per lb;
- Skim milk powder: \$1.398 per lb for the 2nd contract, down \$.058 per lb and, \$1.459 per lb for the 3rd contract, down \$.058 per lb;
- Buttermilk powder: \$1.417 per lb for the 2nd contract, down \$.064 per lb (no product was offered for the 3rd period);
- Anhydrous milkfat: \$2.341 per lb for the 2nd contract, down \$.034 per lb, and \$2.481 per lb for the 3rd contract, **UP** \$.075 per lb.

Buttermilk powder prices appear to have steadied. The winning price for the product when first offered in August was \$1.27 per lb; it rose to \$1.417 in early September, fell to \$1.343 in mid September, and rose to \$1.361 per lb in October. The price for AMF reached a peak in June, \$2.81 per lb, fell to \$2.04 per lb two months later, rose again to \$2.436 in the first week in October. AMF, for shipments next Spring, was the only price increase in this week's auction. Prices for whole milk powder and skim milk powder appear to be responding to reports of increasing milk supplies in all major exporting countries.

REMINDER – CDQAP HOLDING WORKSHOPS THROUGHOUT THE CENTRAL VALLEY ON NEW AIR REGULATIONS: *(By Rob Vandenheuvel)* As we've written in past newsletters (and as you've seen in recent CDQAP flyers mailed to your dairy), a series of workshops are scheduled for this fall to update dairies (and other farmers) about new air regulations. For those of you who haven't already received it, the flyer can be found at: <http://www.milkproducerscouncil.org/fall2010air.pdf>. Next week, five more workshops will be held.

- Tuesday, October 26, 9:30 am - 12:30pm, Madera County Fairgrounds, Little Theatre *(1000 South 3rd Street, Chowchilla)*
- Tuesday, October 26, 1 pm – 4 pm, Madera County Fairgrounds, Little Theatre *(1000 South 3rd Street, Chowchilla)*
- Wednesday, October 27, 9:30 am - 12:30pm, Hanford Fraternal Hall *(1015 North 10th Ave, Hanford)*
- Wednesday, October 27, 1 pm – 4 pm, Hanford Fraternal Hall *(1015 North 10th Ave, Hanford)*
- Thursday, October 28, 9:30 am – 12:30 pm, Kern Agriculture Pavilion *(3300 East Belle Terrace, Bakersfield)*
- Thursday, October 28, 1 pm – 4 pm, Kern Agriculture Pavilion *(3300 East Belle Terrace, Bakersfield)*