

Milk Producers Council

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DATE: January 25, 2008
TO: DIRECTORS & MEMBERS

PAGES: 4
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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks NC \$1.6500
Barrels -\$.0525 \$1.7500

CHICAGO AA BUTTER

Weekly Change +\$.0125 \$1.2325
Weekly Average +\$.0100 \$1.2300

NON-FAT DRY MILK

Week Ending 1/18 & 1/19

Calif. Plants \$1.4398 31,685,054
NASS Plants \$1.4509 47,210,067

Weekly Average

Blocks -\$.0905 \$1.6500
Barrels -\$.0732 \$1.7763

DRY WHEY

NASS w/e 1/19/08 \$.3920 WEST MSTLY AVG w/e 1/25/08 \$.3150

CHEESE MARKET COMMENTS: All things considered, this was a very good week for cheese prices on the CME. After having crashed through the \$1.80 per lb support level for blocks last week, it looks like traders this week were tip-toeing around so as to not do something stupid or which could be considered so. The only activity on the Exchange that related to blocks this week came on the 1st day of trading: a single bid to sell at the existing price, which was not filled. That may be taken as a sign of strength, an unwillingness to give up product at that level. Barrels lost 5.25 cents, to reduce the inverted price gap to a dime, and the week closed with a lot of uncertainty in the air. The flat pattern of Class III futures prices through December on the CME suggests that the experts may not know what is driving this market either. Production is said to be fairly heavy. The December production figures are still 2 weeks away.

BUTTER MARKET COMMENTS: Plenty of milk and cream throughout the U.S. means plenty more butter is being produced. Domestic sales are said to be picking up relative to the approaching Easter/Passover holiday period, and export activity to complete commitments made last Fall continues to clear a fair amount of product from the shelves. The small increase in prices on the CME this week is considered to be a gift. Inventories continue to grow.

NONFAT DRY MILK: Record sales volumes at sharply lower prices were reported for last week by California plants, and nationally. The volumes were about 50% higher than the previous high weekly volume which occurred more than 3 years ago. The combination of price and volume gives the appearance of a clearance sale. We are trying to get a sense of what is happening from the major U.S. seller of the product. Dairy Market News has the market as weak, and that seems to be a bit of an understatement. The price for extra grade powder on the CME was lowered by 21 cents on Thursday, presumably in response to the posting of the California price. International prices are said to be firming up. The low end of the price range in Europe is \$1.54 per lb and \$1.81 in New Zealand, and the latest market comments from those areas do not suggest that presently there is a surplus of powder.

WHEY MARKET COMMENTS: After this week's price drop it's not out of the question to think that buyers are beginning to see a real opportunity. Some sales are reported as low as 24 cents per lb. How much lower can prices for this truly excellent product go? The average of the West "mostly" price series has fallen to 31.5 cents, 21 cents below a year earlier. Although current prices have now fallen a full 50 cents from their high in late June, buyers' reluctance to make a substantial commitment is understandable because the whole situation is incomprehensible. Exports continue to clear the majority of production but domestic usage is presently hard to find. Prices for other whey-based products continue their slump. DMN this week highlighted a point made by some buyers that prices for nfdm, dry whey, and various whey protein concentrates do not consistently reflect their protein contents. Well?

FRED DOUMA'S PRICE PROJECTIONS...

Jan 25 FINAL: Quota cwt. \$19.19 Overbase cwt. \$17.49 Cls. 4a cwt. \$16.22 Cls. 4b cwt. \$16.91
Last week: Quota cwt. \$19.35 Overbase cwt. \$17.65 Cls. 4a cwt. \$17.05 Cls. 4b cwt. \$16.81

HOW ARE 2008 MILK PRICES SHAPING UP?: *(By J. Kaczor)* Few would disagree that the number one requirement for strong milk prices in 2008 is to keep the **growth of U.S. milk production** within 2% of 2007's level. While that is considered necessary it is not itself sufficient because just about anything above a 1% increase is likely to be more than will be consumed in the U.S. The +1% figure relates to the average annual increase in U.S. population. The basis for believing that 1% more milk will not depress milk prices is the expectation that **per capita consumption** of dairy products in the U.S. will not be below 2007's level, and that the net volume of **dairy product exports** from the U.S. will continue at about last year's levels. The failure of any of those 3 expectations will dim the likelihood of strong milk prices this year.

Milk Production: While milk production in 2007 was 2.1% above 2006, production in the July-December period was 3.2% above 2006, reflecting more cows and more production per cow. December's milking herd was 85,000 larger than a year earlier. January's figures are not expected to be much different from December's, which merely shows that individual dairy producers are making good business decisions – to produce the milk while milk prices remain strong. At some point, CWT is expected to launch its 5th herd retirement program, which should trim about one-half of one percent from the amount of milk that would otherwise be produced. The rest is up to the collective decision-making of the industry's 60,000 producers, and history has generally shown that milk prices will have to move down (and production costs up) before herd sizes decrease.

Per Capita Consumption: The expectation that per capita consumption of dairy products will continue at 2007's level depends upon the strength of the U.S. economy. Recent reports of a serious economic slowdown and possible recession suggest that per capita consumption levels this year could continue to decrease. In fact, the nationwide consumption of **milk in fluid form** last year, which absorbs about 35% of all milk produced, was about 1% below where it was a year earlier. When combined with a 1% increase in population, **the per capita decrease was about 2% for the year.** Even if U.S. per capita consumption of butter, powder, and cheese remain at 2007 levels in 2008, production of those products is expected to be well above U.S. domestic usage.

Dairy Product Exports: In an earlier article that reviewed various projections for strong milk prices in 2008, it was noted that every one of the sources referred to in the article relied upon continuing strong export volumes and prices for the year. 2007 was a year for the record books in many ways including dairy product exports. Following is a recap for the July-November period of production, exports and export prices, and inventories of the 4 basic dairy products that are used in California's and federal order milk pricing formulas. The volumes are thousands of lbs. The prices are per lb of product.

	July-November	
	2006	2007
Cheese, All Styles		
Production	3,969.5	3,998.5
Exports	65.5	91.1
Export Price	\$1.62	\$1.88
Inventory, 11/30	784.8	785.4
Butter		
Production	525.1	598.2
Exports	11.1	50.0
Export Price	\$.72	\$1.36
Inventory, 11/30	108.1	143.3

Dry Whey

Production	426.7	435.8
Exports	214.1	249.8
Export Price	\$.32	\$.53
Inventory, 11/30	34.8	52.6

Nonfat Dry Milk/Skim Milk Powder

Production	506.9	606.1
Exports	274.5	235.3
Export Price	\$.91	\$1.83
Inventory, 11/30	41.4	131.6

The increase in exports of all styles of cheese is certainly welcome, and the prices received look pretty good, but the total volume as a percentage of total production is insignificant. The really good news on cheese is that inventories have not been increasing because production has been kept in line with current demand.

The increase in butter exports during this period rose to 8.4% of production, which is significant and likely had some effect on prices. But production increases have absorbed all of these "bonus" sales and more, and the amount of product at the end of the period is 32% higher than a year earlier and continues to grow.

The increase in exports of dry whey, and other whey-based products as well, partly explains the sharp increase in prices last year, but leaves unanswered why those prices have come down so far, so fast. The increase in the amount of product in storage at the end of the period reported reflects much lower domestic usage that Dairy Market News attributes to buyer resistance. Meanwhile, international prices have followed the U.S. prices down to well below where they were a year ago.

Just what has happened to cause U.S. exporters to lose a significant portion of the international market for nonfat dry milk during a year when supplies were reported to be limited is a question waiting to be answered. The run up in the amount in inventory is costly, and until it is brought under control, the future for nfdm prices does not look very good.

To summarize the above discussion about the prospects for strong milk prices in 2008, a lot has to happen to make it happen. The three things that would seem to support strong milk prices (a control over milk production, continuing strong domestic consumption, and continuing strong export sales) at present seem to be well beyond reach. As additional data becomes available, we will continue to track them and comment on them.

A CLOSER LOOK AT THE PEOPLE BEHIND MPC – THE LAST IN A SERIES: (By Rob VandenHeuvel)

This month, we've been featuring the individuals that make up the Milk Producers Council staff. In the past two weeks, we've profiled John Kaczor, Editor of the *Friday Market Update*, and Betsy Hunter, MPC's Central Valley Representative. This week, we wrap up the series with a feature on Pat Boldt, our Environmental Specialist in Southern California.

A Little Background on Pat Boldt: (By Pat Boldt)

I was born and raised in the Midwest – Toledo, Ohio to be exact. A city girl who spent her summers on her uncle's farm in Quebec, Canada.

After college I spent numerous years in corporate America in various environmental capacities: operations manager, President of a laboratory testing firm, sales & marketing for a large environmental firm, and my favorite was as a strategic planner.

I started *Pat Boldt Consulting* in 2000 and immediately found a niche in the water resource planning arena. I obtained a contract to start the San Jacinto River Watershed Council (SJRWC), which has been instrumental to my current activities in the Southern California market.

In early 2004, a small group of concerned and proactive agricultural and dairy operators began the Western Riverside County Agriculture Coalition (WRCAC) in the San Jacinto area. This group saw the need and understood the value in addressing environmental issues that were at the forefront for the agricultural community. In particular, this group was interested in the Lake Elsinore and Canyon Lake Nutrient Total Maximum Daily Load (TMDL), various environmental permit issues and the need for sound scientific data that supports ag activities. Subsequently, two large grants (more than \$1 million) were obtained to assist the ag community in addressing many environmental issues over a three year period. I had the distinct honor of being asked to be the Executive Director of WRCAC when it started and am proud of the accomplishments I've led them to from the beginning.

Late in 2006, I got to know MPC and suggested that they become actively involved in the Middle Santa Ana Pathogen TMDL stakeholder process. (*The TMDL issue is an ongoing complex process, which I will go into much more detail in a future article.*) It was at this point that I joined MPC as a consultant working on environmental issues facing Southern California dairy families. Throughout 2007, I worked extensively on behalf of MPC as we represented the local dairy community in complying with a number of TMDL requirements outlined by the Santa Ana Regional Water Board.

Additionally, the new permit for dairy operations in the Chino/Ontario and San Jacinto regions was adopted in September of 2007. The process of negotiating this new permit required substantial coordination by MPC, outside consultants and many individuals with the Santa Ana Regional Water Board. As the coordinator of this important effort, MPC presented a strategic, unified front and the Water Board adopted a permit that appropriately balances the concerns of everyone involved.

Although I do not have the pleasure of having day-to-day contact with many of the MPC members, I'm working hard behind the scenes for you on water quality issues and other environmental matters facing your dairy operation. We continue to develop our relationship with the local regulators and other groups as we work together to keep dairying a viable industry in Southern California.

If you have any questions, please don't hesitate to call me at (951) 808-8531 or email me at Mpboldt@aol.com

One more thing...Besides being a strong proponent of ag, I also have the pleasure of raising purebred Irish Setters. So if you call between 5:30 pm and 6:30 pm, you will likely hear a symphony of hungry Irish Setters telling me it's time for dinner!

MANAGERS NOTE: (By Rob VandenHeuvel) As you can see, Pat plays a huge role behind the scenes in keeping dairy farming viable in Southern California, at least from an environmental perspective. Pat is representing our members on issues that most – if not all – dairymen would rather avoid. Thanks to the work Pat is doing, Southern California dairymen have been able to focus more on their cows without worrying about TMDL deadlines and the host of other environmental issues that she is involved in.

That concludes the three-part series on “The People Behind MPC.” If you missed the profiles on John Kaczor or Betsy Hunter, you can access them in the [Friday Update](http://www.MilkProducersCouncil.org/friday_updates.htm) archive on MPC's website: http://www.MilkProducersCouncil.org/friday_updates.htm

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