



# 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](mailto:office@milksproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



DATE: March 4, 2011  
TO: Directors & Members

PAGES: 4  
FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0325 \$2.0200  
Barrels +\$.0300 \$1.9800

### CHICAGO AA BUTTER

Weekly Change +\$.0975 \$2.1175  
Weekly Average +\$.0680 \$2.0780

### NON-FAT DRY MILK

Week Ending 2/25 & 2/26  
Calif. Plants \$1.3605 13,854,271  
NASS Plants \$1.4027 17,533,704

### Weekly Average

Blocks +\$.0180 \$2.0030  
Barrels +\$.0192 \$1.9655

### DRY WHEY

WEST MSTLY AVG w/e 02/25/11 \$.4775  
NASS w/e 02/26/11 \$.4288

**CHEESE MARKET COMMENTS:** Trading activity was again relatively active on the CME this week. Prices continued to rise, with blocks finally, and again, reaching \$2.00 per lb on Wednesday and then adding more on Thursday and Friday. Block prices gained during every trading session this week. Once again, most of the week's activity started with buyers bidding for product. Three sellers and four buyers accounted for 18 trades. The tone and pace of the trading appeared to be assertive. Assertiveness is good in this case. The production report for January was released midweek. Cheese production was below December's levels for most varieties and end of month stocks indicated sales are keeping up with production. Class III milk futures traders were paying attention; prices for March-May gained about \$.43 per cwt, and by lesser amounts through September. The June price, \$17.02 per cwt, supports a cheese market price of \$1.68 per lb, assuming butter and whey prices hold where they are. That's a pretty strong supportive statement.

**BUTTER MARKET COMMENTS:** Five buyers and one seller accounted for 17 trades for butter this week on the CME; the price gained \$.0975 per lb. Futures traders came back with strong support for the spot prices, rising from \$.16 to \$.18 per in the near term months. Very aggressive for them – they seem to agree that butterfat supplies are tight relative to demand and should continue to be so at least through the fall. January's end of month inventory, after rising by 37 million lbs during the month, is still well below what could be called normal for this time of year. Food service orders are still holding steady, but there is concern about retail prices, which are now above \$3.00 per lb, affecting consumer purchases. It's easy to cut back on butter purchases, unfortunately.

**POWDER MARKET COMMENTS:** Prices for shipments of nonfat dry milk last week moved higher, both with moderate volumes; the California plant average price narrowed the gap between it and the national price by about \$.03 per lb. The production report for January was released this week; it showed a significant shift to skim milk powder production, which is destined for the export market. The grade A price on the CME this week gave up \$.0175 per lb on two offers; the spread between grade A and extra grade had widened to \$.0325 per lb. DMN reports rising prices for SMP and whole milk powder in Oceania, reflecting this week's internet auction (see report that follows). The stock of NFDN at the end of January was well down from a month before, which supports DMN's reports about the relative scarcity of product for other than contracted buyers. The upper end of the price range for the west's "mostly" price this week is now about equal to the auction's price for May deliveries. Prices for whole milk powder top out at just over \$2.00 per lb, with limited sales. Prices for buttermilk powder are higher; the market is described as firm, with growing interest from exporters. While all the above paints a definite positive picture for continuing price increases, futures traders this week apparently took some profits, and the prices eased down from last week's levels. There's nothing bad about taking profits, whenever and wherever they may be found.

**WHEY PRODUCTS MARKET COMMENTS:** Production of dry whey and whey protein concentrates remain relatively steady, and domestic demand appears to continue to exceed the amount of product available.

Export demand continues to draw most of what's available. The stock of dry whey on hand at the end of January represented about only two week's worth of production; stocks of WPC are a bit higher. The west's "mostly" price this week was unchanged, explained in part by how few sales there were. The weekly NASS price was about \$.006 per lb lower than the previous week, presumably a reflection of product mix or a shift in the weighting of index markers. World buyers continue to look to the U.S. for much of their whey protein products.

\*\*\*

### FRED DOUMA'S PRICE PROJECTIONS...

**Mar 4 Est:            Quota cwt. \$19.45    Overbase cwt. \$17.75    Cls. 4a cwt. \$18.42    Cls. 4b cwt. \$18.40**  
**Feb '11 Final:       Quota cwt. \$18.40    Overbase cwt. \$16.70    Cls. 4a cwt. \$17.88    Cls. 4b cwt. \$16.92**

\*\*\*

### DAIRY PRODUCT PRODUCTION, INVENTORIES, CLASS 1 SALES, AND RELATED THOUGHTS:

(by J. Kaczor) What seemed so clear two weeks ago when USDA published their estimate of January milk production didn't turn out quite the way events unfolded. January's milk production was reported to be 235 million lbs greater than December's. Class 1 sales, which represent about 27% of all U.S. milk production, had been falling: Class 1 sales in federal order areas in December were 1.3% lower than the previous December, and 1.4% lower for the year; California's Class 1 sales in December were 3.0% lower than the previous December, and 1.6% lower for the year.

So it was logically concluded in the discussion about where the extra January milk was going to go: "*The additional amount of milk means, of course, that more butter, powder, and cheese will have been produced in January than a year earlier and a month ago.*" There was no place else where it could go, but that comment turned out to be not completely correct. It was one third correct. January butter production did increase: 8.5 million more lbs were produced in January than in December, which accounted for virtually all of the additional butterfat that was produced during the month. The volume of skim milk resulting from the additional butter production was enough to have generated an extra 16 million lbs of nonfat powders but, instead, 10.5 million **fewer** lbs of those powders were produced. How about cheese? Production of all cheese types **fell** by 24 million lbs below December's levels, which was the normal December to January cheese production decrease, which is contrary to the normal month to month milk production increase – in other words, a normal result.

Just what happened with much of the additional 235 million lbs of milk production and the 240 million lbs of milk that was not used by cheese plants in January (compared to December) is not clear. Production in a number of product categories did increase. They include ice cream mixes, yogurt, cottage cheese, whole milk powder, and bulk condensed skim milk. Other categories decreased. Higher Class 1 usage also accounted for some of the additional milk: USDA reports that fluid product sales in January were 70 million lbs higher than in December. But it turns out there are simply too many uses for milk which are not included in the monthly USDA report to use a "mass balance approach" in an attempt to reconcile total production and total usage.

Regardless of not being able to account for specific end usages in January, the product production report, along with the report on Class 1 usage, does offer some positive news for milk producers. Cheese production decreased, nonfat powder production decreased, and Class 1 usage, at least in federal order areas, increased.

The table shown to the right updates end of month inventories for eight major product categories, and compares them to how much production occurred in January. The increase in butter stocks from December to January was four times the increase in production during the month, but still is at a six year low for this time of

Product	Stocks On Hand At End Of Month (Million Pounds)			Production January '11 (Million lbs)
	November '10	December '10	January '11	
American Cheese	625,293	630,789	638,982	362,735
All Other Cheese	378,481	417,137	412,742	520,674
Butter	69,932	81,695	118,926	166,518
Nonfat Dry Milk	127,811	144,536	97,666	116,751
Dry Whey	41,818	47,040	48,600	91,206
Whole Milk Powder	7,083	7,660	7,578	6,160
Whey Protein Conc.	32,263	36,087	33,923	35,119
Buttermilk Powder	11,473	10,927	9,623	11,395

year. Retail prices for private label butter have risen to about \$3.50 per lb, exports are reported to be slowing, and yet buyers indicate a need for more supplies by bidding up the price on the CME. Production of American cheeses in December and January totaled 734 million lbs and stocks grew by only 13.7 million lbs since November. Wholesale prices are catching up to CME's spot price levels, which could affect consumer purchases, but CWT says they still have a sizable backlog of approved exports yet to be shipped. The sizable drop in nonfat dry milk stocks is encouraging. Production of NFDM in January fell by about 25 million lbs, but was partially offset by an increase in production of skim milk powder of about 13 million lbs (stocks of which are not reported).

**CALIFORNIA'S MILK POOL GROWS AS PRODUCERS AND PLANTS REJOIN:** *(by J. Kaczor)*

Pooling and de-pooling in several federal milk order areas occurs fairly frequently when the advanced Class 1 price moves above the orders' basic formula price which is determined by cheese prices. Plants in federal order areas are able to calculate each month whether they would draw money out of the pool or pay into it before they choose to be pooled or not. California also allows producers and plants to decide if they want to be pooled or not, but the timeline is much different than federal order rules, and the ownership of quota also plays a role in those decisions. Producers in California must declare their decision to leave the pool or re-enter it before the start of the year and must wait a full year before they may change their status. Almost all plants in California are pool plants because it is easy to qualify and producers who have quota qualify for that price for shipping to a pool plant. Plants in California may decide at any time to leave the pool but must retain non-pool status for a full twelve months.

California producers who left the pool last year had a rough go of it, price wise. The overbase price averaged \$.75 per cwt higher than the 4b price for the year. That may have influenced a number of them to declare pool status by regaining grade A status for their dairies and shipping their milk to a pool plant. At least one plant also decided to regain pool status. The table to the right shows numbers of producers, by status, from January 2010 to January 2011. The numbers for January 2011 presume no producers began or ended their operations during the month.

	Pool	Non-Pool	Total
<b>January 2010</b>	1,611	141	1,752
<b>December 2010</b>	1,586	129	1,715
<b>January 2011</b>	1,638	77	1,715

CDFR reports there were 1,715 producers operating at the end of 2010, and there was a net loss of 37 during the year. The number of pool producers is reported by the Pooling Bureau. CWT reported 21 California producers opted to shut down their operations via CWT's buy-out program in mid-year and at least another 16 elected to leave. Total milk production in January grew by 19.8 million lbs; manufacturing grade milk production fell by 117 million lbs; market grade milk grew by 136.8 million lbs. Pool milk increased by 157.7 million lbs. The difference between the increase in pool milk and market grade milk is mostly accounted for by the re-entry of one plant. The 52 producers who entered the pool in January appeared to have no quota, as the zero percent quota category increased by a total of 54 for the month.

**FONTERRA'S AUCTION GENERATES MORE PRICE INCREASES; ALL PRODUCTS ADVANCE:**

*(By J. Kaczor)* The recent widening and deepening political unrest in several important Middle Eastern nations did not distract dairy commodity buyers from their appointed tasks this week. Maybe that's another benefit offered by a global internet auction – reserved and impartial, as it is. It's almost like the auction occurs in a vacuum, unaffected by elections or even revolutions, so long as the source of the product supply and the reality of the demand remains intact.

There's lots of good news from this week's auction. First, consider the price increases since the December auctions. The table below shows the increases per lb in the weighted average prices and for the "spot" month prices (the spot month is the single month covered by the auction that represents about one half of all the volume that is offered in each auction) since the December 15<sup>th</sup> auction.

The sizable differences between spot month prices and the average prices for total volumes for the milk powders results from considerably lower bid prices bid for

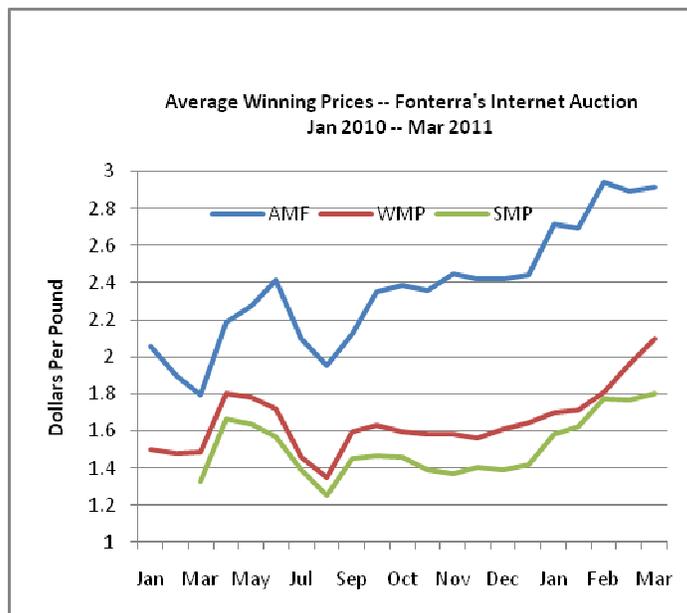
	All Volume		Spot Month	
<b>Skim Milk Powder</b>	\$.385	+27%	\$.476	+35%
<b>Whole Milk Powder</b>	\$.452	+28%	\$.617	+38%
<b>Anhydrous Milkfat</b>	\$.474	+19%	\$.497	+21%

deliveries in the distant 3<sup>rd</sup> contract period (September-November) than those bid for earlier deliveries (\$.30 per lb lower for WMP and \$.12 per lb lower for SMP).

Then consider the level to which the prices rose. The spot month price for whole milk powder is well above where it has been at any time since July 2008, when the auction began, and is within about \$.06 per lb of the record high price that was reached in September 2007. The spot month price for AMF is at an all time high. The spot month price for skim milk powder is the highest it's been since it was added to the auction lineup last March, but is the laggard of the group, still about \$.54 per lb below its record high that was reached in May 2007.

The graph shown here includes the latest weighted average winning prices for all products – for the last twenty one auctions. Prices for deliveries in May (contract 1) are \$2.91 per lb for AMF (about \$2.33 per lb on a butter equivalency basis), \$2.25 per lb for whole milk powder, and \$1.83 per lb for skim milk powder. The SMP price is \$.03 per lb higher than the current CME spot price for extra grade powder, and \$.20 per lb higher than the CME NFDM futures price for May.

AMF prices, after reaching their recent peak in the February 1<sup>st</sup> auction, have remained essentially unchanged in the two subsequent bidding periods. Skim milk powder prices rose through August but decreased for the last three delivery months. Prices for whole milk powder for the first two contract periods rose sharply but steadied somewhat for the last three months.



In commenting on the results, a Fonterra spokesman said current international demand remains strong, and is projected to exceed supply for the coming year by as much as two percent. China, India, and possibly Russia are seen as the major sources for demand for internationally traded dairy products, and the U.S. and Europe are seen as the two possible sources for substantial increases in milk supply. The somewhat disappointing results for the 3<sup>rd</sup> contract period were attributed to uncertainty about next year's milk supply.

The possibility that supply may not keep up with demand is certainly encouraging in terms of possible future price levels for dairy farmers everywhere. But, on the same subject, a note of caution and concern was expressed this week by the *World Bank* which said food prices have risen to "dangerous levels," and threaten to push millions of people into poverty. It seldom is simple, is it? On the home front, the race between rising prices and rising costs for milk producers is so far being won by the optimists, but please do be smart about it. Last week's comment by a wise person at the *Bank of New Zealand* that "it doesn't take much of a change in outlook of supply to create volatility" could also be true for a change in total demand.

**MONTHLY MPC BOARD MEETING TO BE HELD NEXT TUESDAY:** (By Rob Vandenheuvel) MPC's monthly board meeting will be held next Tuesday, March 8<sup>th</sup>. This month's meeting will be at Centro Basco Restaurant in Chino, CA. The meeting will start at 11 a.m. All current and prospective MPC members and associate members are welcome to attend. If you plan on attending, please RSVP to the MPC office at (909) 628-6018.