

Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

E-mail: mpc@milkproducers.org

Website: www.MilkProducersCouncil.org

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$0.0075 \$1.7600
Barrels -\$0.0200 \$1.7000

CHICAGO AA BUTTER

Weekly Change -\$0.0050 \$1.6450
Weekly Average -\$0.0115 \$1.6400

NON-FAT DRY MILK

Week Ending 8/8 & 8/9

Calif. Plants \$1.3514 12,748,975
NASS Plants \$1.3953 11,675,804

Weekly Average

Blocks +\$.0180 \$1.7680
Barrels +\$.0165 \$1.7330

DRY WHEY

NASS w/e 8/9/08 \$.2513 WEST MSTLY AVG w/e 8/14/08 \$.2750

CHEESE MARKET COMMENTS: Considering all the concerns and confusion about what has happened and what may happen in this industry and to the U.S. economy, it really looks like cheese prices on the CME did pretty darn well this week. Prices held about where they have held after falling sharply 5 times over the past year. That's a pattern we would not like to see broken. Buyers have been responding positively to these price drops. U.S. inventory of American Cheese in June was a bit higher than a year earlier (the 1st time that happened this year), and retail cheese prices are about 15% higher than last July. Export volume in June, while insignificant in terms of total production of cheese, held at about where it has been for the past several months.

BUTTER MARKET COMMENTS: Lots of little bits of news this week about the butter market. Alarms were sounded about the U.S. currency **rising** instead of falling (it hasn't risen much), new export orders are not as strong as expected (but we weren't told what was expected), total current usage continues to exceed current high production, and inventories at the end of June were lower than a year earlier – for the second month in a row. The market at this time appears to be strong and this week's average price on the CME is quite a bit higher than the same week a year ago. The weekly pattern now seems to be following the 2005 pattern, which is good news for another several weeks, and then it's not. The export volume in June was down a bit from May's level, but still very good, and what happens in July should be an indication of whether the sizable monthly increases over the prior year will continue.

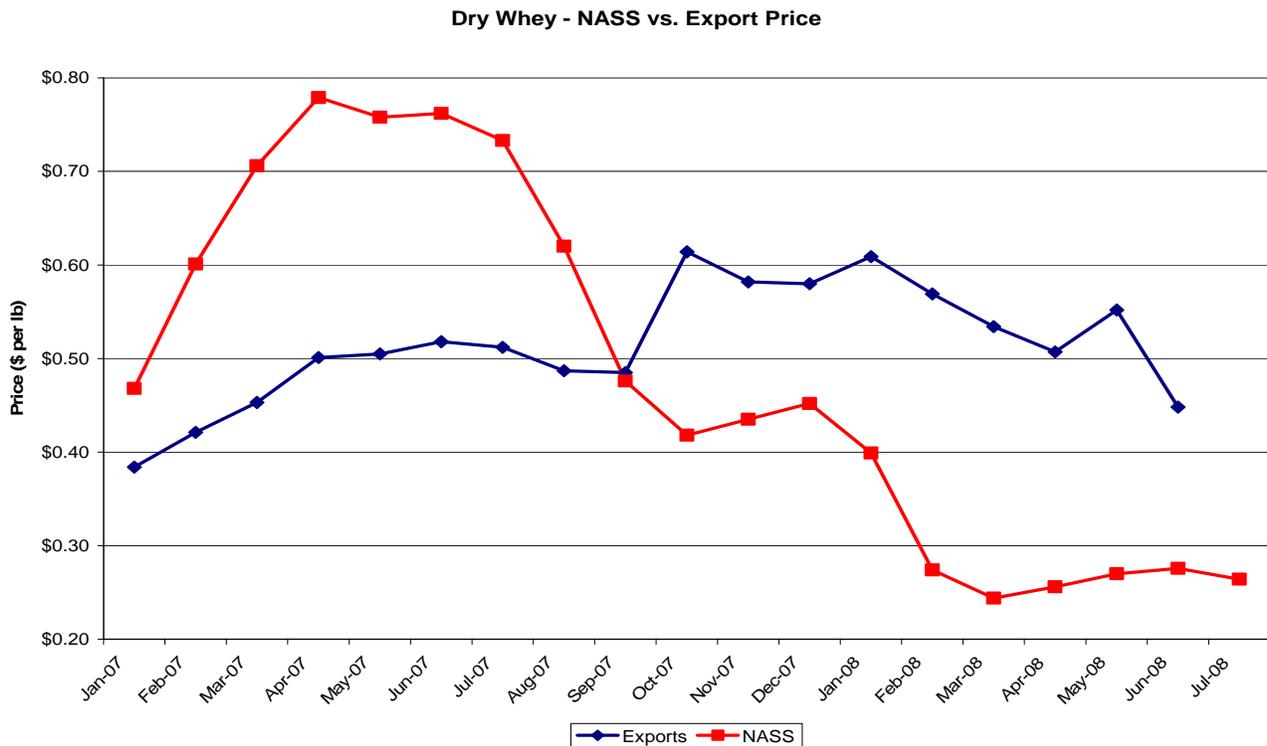
NONFAT POWDER MARKET COMMENTS: Another very strong showing with June's exports. Dairy Market News reports that nonfat powder exports this year are 83% higher than last year. Prices, however, are not so strong. The California plant average is now about 4.5 cents below the national price – **and the volume is higher**, which is not something often seen. That means that a lot of older, fixed priced products are being sold by plants outside of California. It's a great deal for them – the non-reportable export prices are much higher than the NASS price which sets their cost for milk used to produce the product that is exported. Brilliant! DMN reports that some powder in the Western region was sold as low as \$1.35 per lb.

WHEY MARKET COMMENTS: High quality dairy protein products continue to be disrespected in the U.S. and internationally. For the first time in months, the Western "mostly" average fell by just a bit. Some dry whey sold for as low as \$.19 per lb last week. Prices for whey protein concentrate continued downward, and the weakness in this market has been mentioned as a possible key reason for what is happening to the entire protein product market.

FRED DOUMA'S PRICE PROJECTIONS...

Aug. 15 Est:	Quota cwt. \$18.06	Overbase cwt. \$16.36	Cls. 4a cwt. \$16.30	Cls. 4b cwt. \$16.27
Last week:	Quota cwt. \$18.11	Overbase cwt. \$16.41	Cls. 4a cwt. \$16.42	Cls. 4b cwt. \$16.29

EXPORTS OF DRY WHEY: WHERE HAS THE MONEY GONE? (By J. Kaczor) While U.S. exports of dry whey this year are lagging behind last year's volumes, the graph below shows that prices for those exports have been doing quite well. In fact, **this year's export prices have been averaging higher than last year**, even though prices for domestic usage have fallen far below where they were in 2007. [The export prices in this graph represent the prices charged for the product by the first seller, plus transportation to the place where they leave the country. Prices received by the first seller, therefore, would be about 3 cents per lb lower than the prices indicated on this graph.]



The NASS prices in this graph represent “current” sales reported by U.S. plants who manufacture 1 million lbs or more of dry whey per year. Current sales are defined by NASS as **the first sale of a product** that takes place within 30 days of the time the prices were set (and not adjusted). The NASS prices are used in federal order formulas to determine the price plants pay for Class III usage (cheese milk). Exports of dry whey so far this year represent 65% of the total amount produced. The sales volumes reported to NASS this year have been averaging about one half of the amount produced.

California plants do not produce a large percentage of total U.S. dry whey production and the current price formula for determining the price for milk used to make cheese no longer includes a market price factor for dry whey. But milk producers in federal order areas may be asking themselves a number of questions, such as: how do U.S. exporters of dry whey manage to sell at prices that average almost 20 cents per lb higher than their international competitors and keep the prices from affecting their cost of milk. That's really more in the way of a comment than a question, isn't it?

PICKING APART PRICES FOR NONFAT POWDER SALES: (By J. Kaczor) Another week, another few questions about how U.S. prices for exports of nonfat dry milk can be so much higher than prices charged for domestic sales. The report for June's exports was published this week. The average price was \$1.54 per lb, 4 cents per lb lower than May, 7 cents lower than April, 17 cents lower than March, and 29 cents lower than February. It looks like a trend, and it doesn't look good. The volume, for a second month in a row, exceeded 100 millions lbs, an estimated 40% of which was **skim milk powder (SMP)**, the product reportedly designed for export exclusively and whose sales are not reportable by anyone.

It was another great job by everyone involved of keeping inventories from getting out of control, but leaves unanswered the question raised above: what accounts for the price differences? The weighted average nonfat dry milk price for June, reported by California plants (CWAP) to CDFA, was \$1.34 per lb. The CWAP price is considered to be the price most representative of all nfdm sales because CDFA permits the reporting of sales whose prices were set as much as 6 months before the sale is made, and California plants have been handling the majority of powder exports. [Note: prices for exported dairy products include the cost for transporting the product from the place of first sale to the place where it leaves the country. If transportation costs 3 cents per lb, the price received by the first seller in June would have been \$1.51 per lb.]

Last week's article on this subject closed with a comment that at least part of the troubling price difference between export prices and domestic prices could be caused by the fact that exports of nonfat powders include substantial volumes of **SMP** which is said to be sold at a price higher than NFDM. In order to check that out, we assumed that all SMP that is produced is exported within weeks of production, and that the CWAP was representative of all exports of NFDM, for the reasons stated above. Using those assumptions, it's concluded that 42% of nonfat powder exports during the January to June period consisted of SMP, sold **at a price that averaged \$2.14 per lb.** The average price for NFDM exported during that period averaged 1.29 per lb. Now that's pretty interesting, isn't it, and it does raise still more questions, doesn't it?

NOTE FROM THE GENERAL MANAGER: *(By Rob VandenHeuvel) For the past couple weeks, John Kaczor has been exploring possible reasons for the large disparity between the higher export prices being reported for nonfat dry milk (nfdm) and the lower California Weighted Average Price (CWAP), which drives our class 2 (yogurt, cottage cheese, etc.), class 3 (frozen products), and class 4a (butter/powder) minimum prices.*

The issue of what commodity prices are reported – and how they are reported – is of tremendous importance to producers, as these prices directly determine what you are paid for your milk. A difference of only pennies per pound can result in real money gained or lost by producers. In the latest pool price statement, CDFA reported that these three classes (2, 3 and 4a) represent almost 43 percent of the total solids in the California pool! And consider this – for every penny per pound that the CWAP goes up or down, the minimum price for these three classes goes up or down almost 9 cents per cwt. With about 43 percent of the pooled solids going into the manufacturing of these products, that's a major driver for your overall milk price!

If you missed John's articles from the last couple weeks, I urge you to go back and take a look – you can find them at: http://www.milkproducerscouncil.org/friday_updates.htm.

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