



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



**DATE:** October 15, 2010  
**TO:** Directors & Members

**PAGES:** 4  
**FROM:** John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0300 \$1.7400  
Barrels - \$.0025 \$1.7325

### Weekly Average

Blocks - \$.0025 \$1.7640  
Barrels - \$.0025 \$1.7325

### CHICAGO AA BUTTER

Weekly Change N/C \$2.1850  
Weekly Average - \$.0090 \$2.1850

### DRY WHEY

**WEST MSTLY AVG** w/e 10/8/10 \$3.850  
**NASS** w/e 10/9/10 \$3.640

### NON-FAT DRY MILK

#### Week Ending 10/8 & 10/9

Calif. Plants \$1.1059 18,991,950  
NASS Plants \$1.1586 14,487,123

**CHEESE MARKET COMMENTS:** After having reached the mid-\$1.70's per lb on the CME, three weeks ago prices reported by manufacturers for sales of block and barrel cheese last week have almost caught up. Last week's average block price on the CME was \$1.7640 per lb; prices reported to NASS were \$1.7502 per lb. Barrels showed similar relationships. However, the spread between current spot prices on the CME and futures prices for cheese and class III milk just two and four months out (noted here almost weekly) have been a concern; they reflect a consensus viewpoint of a lot of people holding contracts and options which cover an immense amount of product that current prices may not reflect industry conditions in the immediate future. Those traders have been wrong as often as they have been right. For example, just two months ago the CME block cheese price was \$1.62 per lb and the class III milk futures prices were \$15.04 per cwt for October, \$14.56 for December, and \$14.10 for February. Yesterday (before the \$.03 per lb drop today) the block price was \$1.77 per lb, the October class III futures price was \$16.82, December's was \$15.19, and February's was \$14.17. Futures prices will always move to the spot prices, but the important question is where will the spot prices be when the future months arrive. A current reading on the situation comes from Eric Meyer and Dave Kurzawski, brokers at Downes-O'Neill in Chicago, who note cheese is being offered by manufacturers at a discount to CME prices in order to help clear what may be considered excess inventories, a prudent and not unusual practice, but they believe the pattern of spot and futures prices anticipates more offers soon of product on the exchange at lower prices. Today's \$.03 per lb drop in the block price (three separate sales followed by a lower offer) is consistent with that belief, but is not a confirmation of anything. On a more positive note, USDA FAS reported this week that U.S. exports of cheese in August (38.1 million lbs) was the largest ever (June was the second highest) and cheese exports this year will set a new record. The amount of cheese in cold storage at the end of August was 19 million lbs lower than a month before.

**BUTTER MARKET COMMENTS:** It was another quiet week for butter on the CME; two uncovered offers at the current price, and no sales. Dairy Market News (DMN) continues to report butter sales to be at least steady, with more retailers said to be planning features over the coming holidays. In the west, buyers are reported to be holding back, hoping for lower prices. DMN reports more cream is becoming available to manufacturers, but there is a reluctance to produce beyond what current orders indicate can be readily sold. August exports of butterfat products totaled 13.3 million lbs; this year is shaping up to be the second highest for butter exports, behind 2008's levels. The amount of butter and anhydrous milkfat in cold storage at the end of August was 43 million lbs lower than the month before and 108 million lbs below a year earlier. Still, CME's February futures price for butter is \$.58 per lb below the current spot market price. Go figure that.

**POWDER MARKET COMMENTS:** Some weakness is showing up in buttermilk powder prices – on the low end of the range in the west and the high end of the range in the central and eastern regions. Production is up slightly. Inventories at the end of August were 20% lower than a month before, at 5.2 million lbs. The market

for whole milk powder continues to be steady; prices were \$.03 per lb higher on the low end of the range. Inventories at the end of August were about a third lower than in July, at 4.2 million lbs. Demand continues to be steady. Prices for nonfat dry milk are unchanged for spot sales this week but the average prices for the major price series fell again. The current difference between the California plant average and the national price (for current sales) has widened to more than \$.05 per lb. DMN says that sales/orders in the west are below manufacturers' expectations. There's great news on inventories: August's month end stocks were 33.2 million lbs lower than July's. Exports of NFDM and skim milk powder in August totaled 78.8 million lbs (58% of what was produced during the month), which is 17 million lbs higher than this year's monthly average. 2010 looks to be the second highest year for exports of nonfat powders.

**WHEY PRODUCTS MARKET COMMENTS:** Close to three-quarters of all whey protein concentrate that was produced this year through August has been exported; August's exports totaled 25.9 million lbs. Perhaps that's why prices have again risen; the high end of the price range has it at \$1.00 per lb. August's inventories fell by 2.1 million lbs. DMN reports that manufacturers do not have enough product to fill orders on a timely basis, and few spot loads are available. The average of the west's "mostly" price for dry whey also edged upward this week. August's stocks fell 10% below July's. Exports of DW in August totaled 38.6 million lbs, 47.2 % of what was produced during the month. Total DW exports so far this year represent 53% of production. 2010 is shaping up to be the second highest year for DW exports. Average prices for current sales of DW have been steady within a \$.01 per lb range for the past four months and have been trending upward for the past two months.

\*\*\*

**FRED DOUMA'S PRICE PROJECTIONS...**

<b>Oct 08 Est:</b>	<b>Quota cwt. \$ 17.69</b>	<b>Overbase cwt. \$16.00</b>	<b>Cls. 4a cwt. \$16.61</b>	<b>Cls. 4b cwt. \$15.78</b>
<b>Last Week:</b>	<b>Quota cwt. \$ 17.74</b>	<b>Overbase cwt. \$16.04</b>	<b>Cls. 4a cwt. \$16.60</b>	<b>Cls. 4b cwt. \$15.88</b>

\*\*\*

**MILK PRODUCTION AND USAGE: A LOOK AT YEAR TO DATE AND AUGUST:** *(By J. Kaczor)* The normal seasonal pattern of milk production for California and the U.S. is for production to peak in the spring and bottom out in the fall. For the U.S., total milk production in August was estimated to be 325 million lbs lower than in July. However, California's milk production, because of strong production per cow, was 3 million lbs more than in July but bulk milk from out of state was 3 million lbs lower and exports were 0.6 million higher. The net amount of milk available to California plants therefore was 535 thousand lbs less than in July.

Nationwide, class 1 usage averages about a third of total milk production, but the monthly volume usually peaks in the fall and winter months and bottoms out in spring, almost the mirror opposite of the milk production pattern. Manufacture of cream products, condensed and evaporated products, cultured products, and frozen products uses about eleven percent of milk production; the rest of the milk is converted into butter, butteroils, powders, and cheese.

So far this year, through August, total class 1 usage is lower than last year's usage by about 1.6%, about 525 million lbs, while milk production is 724 million lbs higher. That's a net increase of 1.25 billion lbs of milk that had to be used for manufactured products, mostly butter, powder, and cheese. That "surplus" relates to the following amounts – or combinations – of those products:

- Butter/powder: 50 million lbs of butter or butteroils and 98 million lbs of powders;
- Cheese: 120 million lbs of cheese.

Through August, cheese production was 192 million lbs higher than during the same period last year and butter production was 58 million lbs lower than last year. The two major powder products, nonfat dry milk and skim milk powder, were 6 million lbs lower. Assuming no appreciable net change in the amount of milk used for the "soft" and frozen usage categories which normally use up about 11 percent of milk production, it appears milkfat

usage balances out, but some skim usage seems unaccounted for – perhaps in condensed and evaporated usage and the additional milk needed to produce cheese in those parts of the U.S. where milk with lower protein content lowered cheese yields.

**August Summary:** Total class 1 usage during the month is reported to be 136 million lbs higher than in July. That, when added to the 325 million lbs lower milk produced during the month, means about 461 million lbs less milk was available for everything else. The following recap shows how it was used. The comparisons are to July.

- Cheddar cheese: down 11.1 million lbs
- All other cheeses: up 9.6 million lbs
- Butter: down 8.4 million lbs
- Powders:
  - Nonfat dry milk: down 11.9 million lbs
  - Skim milk powder: down 7.6 million lbs
  - Milk protein concentrate: down 2.6 million lbs
  - Whole milk powder: down 2.1 million lbs
  - Whey powder: down 5.7 million lbs
  - Whey protein concentrate: down 0.7 million lbs
- Ice cream mixes: down 2.6 million lbs
- Sour cream: up 9.2 million lbs
- Yogurts: up 21.5 million lbs
- Condensed and evaporated milks: down 2.0 million lbs

A tip of the hat goes to yogurt manufacturers for producing products clearly wanted by consumers. Production is up by 211 million lbs this year, an increase of 8.2%.

California's class 1 sales (milk processed by California plants and sold in California) fell by about 13 million lbs. [Sales of organic fluid milk increased by 4.3 million lbs.] Increases included butter production by 4.2%, NFDM by 8.0% other powders by 59.0%, condensed and evaporated products by 4.2%, and all cheese by 12.2%. Decreases included cottage cheese by 10.5%, yogurt by 0.5% (but up by 5.8% for the year), and frozen products by 15.0%.

**CONTINUED EVIDENCE THAT WE NEED DAIRY REFORM NOW:** *(By Rob Vandenheuvel)* A couple weeks ago, I wrote an article in this newsletter pointing out the urgency of implementing much-needed dairy policy reform now, rather than waiting for the 2012 Farm Bill. In that article, I included a chart from a recent economic analysis done by Dr. Mark Stephenson (University of Wisconsin) and Dr. Chuck Nicholson (Cal Poly, San Luis Obispo), which showed a “baseline scenario” that attempts to show what could happen to our milk price if no policy changes are made. Of course, this type of model has no way of projecting extraordinary variables such as weather, feed prices or dollar valuations that could have an impact on milk pricing, but it is still a very valuable tool for confirming our belief that the dairy industry is hardwired to chronically produce more than the market demand, which results in chronic imbalances in supply and demand and an increasingly volatile milk price. If you missed the article, it's at: [http://www.milkproducerscouncil.org/092410\\_needactionnow.htm](http://www.milkproducerscouncil.org/092410_needactionnow.htm).

This week, we received more sobering news from Washington, DC: the Obama Administration continued to show its commitment to propping up the ethanol industry regardless of the effect on livestock agriculture. This week, the Environmental Protection Agency increased the amount of ethanol that can be blended into gasoline for cars and light trucks built in 2007 or later, opening the door for even more corn to end up in our gas tanks instead of being available for feed. And EPA continues to do testing on older vehicles (2001-2006) to determine the feasibility of expanding this allowance to those cars and trucks. As many publications have documented, our nation's ethanol policy, combined with a smaller-than-predicted national corn crop, has resulted in corn prices shooting upwards in a head-jerking fashion.

So what does this mean for the dairy industry? To get a glimpse of that, I'd like to thank DFA for putting together the following "Class III milk-feed margin" figures in their DFA Today publication. Now remember, this is not a profit-margin projection. This is the margin between the milk price (Class III, or milk sold to cheese plants) and what it is expected to cost dairymen to feed their cows, using the futures markets as an indication of where these price points will be. **This "margin" doesn't include the other non-feed costs associated with a dairy.**

<b>Class III Milk-Feed Margin (per cwt.)</b>	
<b>Oct-10</b>	<b>\$7.85</b>
<b>Nov-10</b>	<b>\$5.57</b>
<b>Dec-10</b>	<b>\$4.70</b>
<b>Jan-11</b>	<b>\$4.21</b>
<b>Feb-11</b>	<b>\$4.01</b>
<b>Mar-11</b>	<b>\$3.93</b>
<b>Jan-11 – Dec-11</b>	<b>\$4.87</b>

*Courtesy of "DFA Today," October 15, 2010*

So the question for each of you is this: Will \$3-5 per hundredweight cover your dairy's non-feed costs? For most, if not all, of the U.S. dairy farmers, I'm guessing the answer is no. For an industry still reeling after 2009-10, this is a scary thought, to say the least. And it should be a huge wake-up call (as if we needed another one) for our industry's leadership that we don't have the luxury of waiting until a 2012 Farm Bill to make the kinds of changes we need to combat these kinds of negative margins. To their credit, the National Milk Producers Federation (NMPF) has recognized this, and made the following statement in a press release put out this week:

***"The USDA report lowering corn production last week and the EPA announcement of E15 today solidify the need for Congress to seriously consider dairy policy reform as soon as next spring when the 112th Congress convenes."*** (full press release can be found at: <http://www.nmpf.org/latest-news/press-releases/oct-2010/foundation-for-the-future-only-answer-to-new-reality-of-higher-f>)

We need real change now. As the readers of this newsletter know well, there are a couple different proposals that have been developed and discussed around the industry. The first is the Costa-Sanders Bill, which is a production management stand-alone proposal, already introduced as legislation (H.R. 5288 and S. 3531) and boasting Congressional co-sponsors from coast-to-coast. The second major proposal is NMPF's "Foundation for the Future," which is a broader collection of ideas (including a production management program). This proposal is still developing the legislative language, but it boasts broad support amongst the cooperative members of NMPF. (A "marginal milk pricing" proposal has also been made by Agri-Mark, a cooperative in the Northeast, but this proposal has largely been included as the basis for the production management piece of NMPF's "Foundation for the Future").

As I wrote last week ([http://www.milkproducerscouncil.org/100810\\_idfa.htm](http://www.milkproducerscouncil.org/100810_idfa.htm)), the lobbying wing of the nation's processors, IDFA, has made it clear that they are going to oppose these efforts by producers to enhance our ability to maintain better supply/demand balance. That means that going into Congress, we need dairy farmers to be united behind a common proposal. We simply cannot afford to be arguing amongst ourselves if we want to successfully implement positive change for our industry.

So that's our task for the three months between now and next January when Congress comes back into regular session. It's up to the leadership of our industry to pull producers together and unify our industry behind a common proposal. If it can't be done at this point in time, looking at the kind of negative margins shown in the chart above, let's make sure it's not because dairy farmers failed to unite and work together.