



Milk Producers Council

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TO: Directors & Members

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0250 \$2.0100
Barrels +\$.0250 \$2.0600

Weekly Average, Cheddar Cheese

Blocks +\$.0375 \$2.0940
Barrels +\$.0340 \$2.0480

CHICAGO AA BUTTER

Weekly Change - \$.0900 \$1.8600
Weekly Average - \$.0075 \$1.9325

DRY WHEY

Dairy Market News w/e 10/05/12 \$.6063
National Plants w/e 09/29/12 \$.6061

NON-FAT DRY MILK

Week Ending 9/21 & 9/22
Calif. Plants \$1.3664 4,932,619
Nat'l Plants \$1.4395 13,558,827

Prior Week Ending 9/21 & 9/22
Calif. Plants \$1.3013 8,161,824
Nat'l Plants \$1.3809 13,558,827

CHEESE MARKET COMMENTS: Production of American type cheeses in August was 2.5 million lbs lower than in July, virtually no change, and month-end stocks were 19 million lbs lower. Production of all cheese was 4.3 million lbs higher than in July, with higher output in the Central and Atlantic regions, and month-end stocks were 41.4 million lbs lower. [California's production of American cheese was little changed from July and a year earlier while total cheese production was lower.] U.S. stocks of both measures were 5% or more below last August. Yes, domestic usage of cheese is holding up well despite the continuing rise in prices. However, export sales, according to *Dairy Market News*, are facing the headwinds of lower prices elsewhere. CWT is helping, providing valuable assistance to member exporters at a rate of about ten million lbs per month of American cheese. With domestic sales of all cheese clearing the current relatively low level of production, most cheese plants would like a higher milk supply but many are not willing to pay the price. This week prices for blocks and barrels on the CME gained \$.025 per lb with trading for blocks more active than for barrels. Despite some apparent uneasiness over prices next year, futures prices through Thursday for cheese and class III milk rose for all months from October through March. Cheese prices range from November's \$2.076 down to March's \$1.825 per lb. Class III prices range from November's \$21.26 down to March's \$19.01 per cwt. Friday's prices are not available.

Another Month of the "California Discount" on Milk Sold to California Cheese Manufacturers			
	September 2012	Jan-Sept 2012	2010-Present
CA Class 4b price	\$17.50	\$14.69	\$14.75
F/O Class III price	\$19.00	\$16.54	\$16.43
"California Discount"	(\$1.50)	(\$1.85)	(\$1.68)
<i>The discount in August 2012 was narrowed by a CME block Cheddar price that was more than \$0.02/lb above the USDA-reported Cheddar cheese price.</i>			

BUTTER MARKET COMMENTS: U.S. butter production in August was 4.1 million lbs lower than in July and 4.6 million lbs lower than last August. Production in the western region, compared to July, fell somewhat more than elsewhere; production in the central region, with their stronger milk supply, rose by 3 million lbs. U.S. butterfat stocks at the end of August were 30 million lbs lower than at the end of July but were 39 million lbs higher than last August. Domestic sales remain steady to strong as buyers enter orders for the upcoming heavy sales season. Export sales remain relatively weak despite CWT's assistance program. This week butter prices on the CME rose by \$.0025 per lb on Thursday then dropped like a rock today; 13 carloads sold, taking the price down by \$.0925 per lb. Friday's closing Spot price is now about \$.02 per lb below last week's average price reported by manufacturers but the week's average price is still \$.0525 per lb higher. The week's update by *DMN* on the butter market, published on Wednesday, was definitely upbeat for all regions. There was no hint of price weakness, much less a break like what happened today. Butter futures reflected the lack of a solid basis for the rising Spot prices and fell from Monday through Wednesday for all months from October to March; December's

price fell the most, to \$1.782 per lb, at which point the prices level out. Friday's prices are not available at press time.

POWDER MARKET COMMENTS: The market for nonfat powders continues to tighten. Production of nonfat dry milk in August fell by a record amount, 45.5 million lbs from July. Month-end stocks were 23.4 million lbs lower than in July and 62 million lbs lower than last August. Sales during the month exceeded production by 25 million lbs. Production of skim milk powder rose to 40.3 million lbs, the 5th highest monthly level in the eight years it has been reported – 3.1 million lbs more than July and 1.6 million lbs more than last August. Stocks of SMP are not published, however, it is assumed what is made is soon shipped because SMP is made solely for export purposes. Prices reported this week to AMS and CDFR for very low volumes shipped last week were up by \$.045 and \$.046 per lb, respectively. The “mostly” prices this week top out at \$1.60 per lb for all regions, still reflecting a much wider than normal range. Buyers confronted with prices at the top end are balking either because re-sales are available at lower prices or, according to *DMN*, because some with ample supplies believe lower prices may be lower next month. They may be mistaken. *DMN* reports domestic and export sales are steady. The market for buttermilk powder is seasonally strong. Prices have risen almost to parity with those for NFD. BMP production in August was 200,000 lbs lower than in July and stocks fell by 3.5 million lbs.

WHEY PRODUCTS MARKET COMMENTS: Production of dry whey in August was slightly lower than in July but stocks fell by 9.3 million lbs. *DMN* describes the market for dry whey in the Central region to be steady to lower and firm in the West. The difference seems to be related to how readily available shipments may be and, of course, how high the prices have gotten at the high end of the price ranges. The mid-point of the “mostly” prices this week are \$.585 per lb in the Central/East region and \$.6063 in the West. The average price for manufacturers' shipments last week was \$.6061 per lb. Despite the obvious tightening of this market some buyers in the Central region tell *DMN* spot supplies seem to be available from a number of sources. The reasons for the firm western market is the current low level of cheese production (meaning less whey) and the increase in production of whey protein concentrates and isolates (also meaning less whey for drying). Production of the less concentrated WPC in August bucked the recent trend; production was 9.9% higher than in July while production of the more concentrated WPC was 5.4% lower. WPC stocks were 1.5 million lbs lower for the month. Production of whey protein isolates was up by 9.1% and stocks were slightly lower. CME futures prices through Thursday this week were higher for the October-December period and lower for the following three months. The high price for the “six pack” is December's \$.638 per lb; the low is March's \$.605 per lb.

FRED DOUMA'S PRICE PROJECTIONS...

Oct 5 Est:	Quota cwt. \$20.09	Overbase cwt. \$18.39	Cls. 4a cwt. \$17.50	Cls. 4b cwt. \$19.63
Sept '12 Final:	Quota cwt. \$18.43	Overbase cwt. \$16.73	Cls. 4a cwt. \$16.62	Cls. 4b cwt. \$17.50

PRICES ARE MIXED IN THIS WEEK'S GLOBAL AUCTION: (by *J. Kaczor*) While the prices were mixed in this week's global auction, the average winning price for all products sold rose for a fifth straight time since the recent low on July 17th. The increase in the AWP over that period was \$.24 per lb, or 19%. The products of greatest interest to Fonterra are anhydrous milkfat, skim milk powder and whole milk powder because they represent about 90% of all products offered in the auction and, according to a recent report by NZX, more than one half of New Zealand's production of those products. Only whole milk and buttermilk powder were higher than the previous auction held two weeks ago but all prices were higher than on July 17, the most recent low point for the auction's AWP. Looking back a little further to the May 15th auction, which is the lowest point this year for the AWP, the price recovery is 25%. The line of products did not change from May 15 but the volume in this week's sale was 50% higher than in mid-May and was weighted heavily towards WMP.

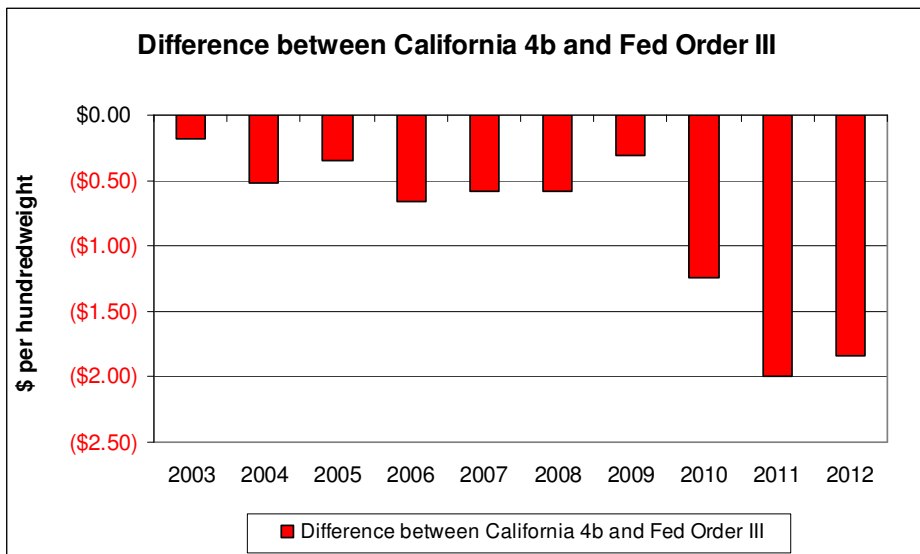
The trend of prices from contract #2 (December shipments) through contract #6 (April shipments) is either unchanged or slightly up for most of the products currently offered. The exceptions are AMF and rennet casein, which are pointed sharply higher. The Spot Month price (December shipments) for AMF is \$1.312 per lb; SMP is at \$1.496 per lb [Arla Foods is \$1.547, Dairy America is \$1.508, but is \$1.681 for shipments in November]; WMP is at \$1.421 per lb; bulk cheddar cheese for processed cheese applications is at \$1.478, but pointed upward.

Although the AWP for skim milk powder was \$.013 per lb lower than for the previous auction, prices for Arla Foods' and Dairy America's SMP, with volumes significantly lower than what is offered by Fonterra, were higher, as noted above. The reason or reasons why bidders in an auction (where bidders are supposedly knowledgeable, located throughout the world, and unknown to each other) are willing to pay significantly higher prices for a standardized dairy product than is paid for Fonterra's product are as puzzling as were the reasons why they paid significantly lower prices to some in earlier auctions. An additional oddity about skim milk prices is why they continue to be higher than prices for whole milk powder. Yes, different buyers and different uses, but still. The pressure on WMP prices could be a lingering effect from China's decision to cut back on purchases of the higher priced product, but that now would be skim milk powder, wouldn't it? Coming up, look for salted and unsalted bulk butter to be offered by Fonterra in the February 19th auction.

PRE-RALLY PREP SESSION HELD FOR OCTOBER 18TH RALLY IN SACRAMENTO: *(By Rob*

Vandenheuvel) This week, a grassroots group of about 150 dairymen gathered at Lucio Hay in Tulare to set the stage for an October 18th "Rally for California Dairy Relief" scheduled for 11 a.m. on the steps of the State Capitol in Sacramento. This is a follow-up on the rally held last month in Sacramento (<http://www.milkproducerscouncil.org/updates/091412.pdf>).

The rally largely stems from CDFA's unwillingness to implement changes to our Class 4b formula (the minimum price that must be paid for the milk we sell to California's cheese manufacturers) that would bring in into line with the Federal Order Class III price (which the minimum price that must be paid by cheese plants regulated by the Federal Orders, and is widely regarded as the benchmark price in the U.S. for milk sold to cheese plants). Anyone with questions about this grassroots producer effort can either check out their website at <http://www.rallyforcaliforniadairyrelief.com> or visit <http://www.facebook.com/ProtestingCDFA>.



FUNDING IN THE CENTRAL VALLEY AVAILABLE FOR TRACTOR REPLACEMENT: *(By Kevin*

Abernathy, Director of Regulatory Affairs) Starting on October 15th, the San Joaquin Valley Air Pollution Control District (SJVAPCD) will begin accepting applications for agricultural tractor replacement projects. The funding for these projects is available on a first-come-first-serve, so MPC members interested in participating should contact either myself (kevin@milkproducers.org or 209-678-0666) or the SJVAPCD in the **very near future**. A flyer distributed by the SJVAPCD can be found on our website at: <http://www.milkproducerscouncil.org/valleyairtractor.pdf>.

SPECIAL NOTE: The MPC Weekly Update will be taking a break next week, but will be back with our next issue on October 19th.