

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-\$.0050$ \$1.1475
Barrels *N/C* \$1.1000

CHICAGO AA BUTTER

Weekly Change $-\$.0125$ \$1.2525
Weekly Average $-\$.0035$ \$1.2615

NON-FAT DRY MILK

Week Ending 5/29 & 5/30

Calif. Plants \$.8260 14,880,753
NASS Plants \$.8430 22,335,825

Weekly Average

Blocks $+\$.0032$ \$1.1495
Barrels $+\$.0079$ \$1.1010

DRY WHEY

WEST MSTLY AVG w/e 06/04/09 \$.2900
NASS w/e 05/30/09 \$.2449

CHEESE MARKET COMMENTS: Generally good weather across the country has been helping to keep cheese production since March at higher than expected levels, and the closing of most schools for the summer could add to the amount of milk available to manufacturers. Cheese in storage at the end of April was about the same as it was at that time in 2006 and 2007, but higher than last year. (By this time last year increasing exports of cheese because of product shortages in the major exporting countries were clearing a good part of the U.S. surplus.) This year, despite the virtual disappearance of export volume, fairly strong usage of milk for fluid consumption and cream for manufacturing of soft and frozen dairy products, along with an expected reduction of about 1% in milk production by the end of July because of CWT's herd removal program, a significant reduction in the amount of milk and cream available to manufacturers is expected by mid-summer. **Cheese inventories could be at or lower than where they were by this August.** This mixture of probable improvement, tight credit, and cautious buyers seems to have left the CME traders in a holding pattern – presumably awaiting CWT's final count of cows to be permanently removed from production. Block prices this week on the CME lost a half-cent but barrels were unchanged, with only moderate trading.

BUTTER MARKET COMMENTS: Butter prices this week on the CME lost \$.0125 per lb, the first sign of uncertainty for butter prospects in some time. The largest part of the decrease came the day after USDA's report on April butter production showed that it was 3.9% lower than a year earlier. That was good news, so if butter traders expected a reduction twice that, they may have to wait until August or so. The main thing that may have affected the market this week was USDA's announcement that the CCC will be accepting offers to buy back the paltry 4.5 million lbs it recently bought at support prices. That news should have been over-shadowed by the earlier USDA announcement that the subsidy program for U.S. exports of butter and butterfat products was reactivated, with offers to be reviewed by June 11th. Bottom line: the fact has not changed that butter traders appeared two months ago to have accepted the fact that far less U.S. butterfat products will be exported this year, while the underlying market outlook for the U.S. dairy industry appears to be getting much better, although the improvement certainly is slower than one would like.

POWDER MARKET COMMENTS: Prices for nonfat dry milk continue to improve on a weekly basis. Last week both the NASS and California average prices moved up more than a cent per lb. Sales to the CCC (all of which have been by California plants) appear close to their end. Production of nfdm and skim milk powder in April was about 8% lower than last April, and should continue to drop through the summer as less milk becomes available for drying. Prices for dry buttermilk remain strong, but dry whole milk prices – perhaps affected by Fonterra's latest disappointing auction results – have weakened. Excluding their sales to the CCC last week, the California plant average price, which does include the effects of fixed-priced long-term contracts, increased by almost \$.0175 per lb, but was still about a penny per lb lower than the national average.

WHEY MARKET COMMENTS: It continues to look like a sellers' market for dry whey, as domestic and export sales remain strong and prices continue to rise. This week the West "mostly" average added \$.015 per lb, the largest increase seen for a great while. The national average price added a half-cent. However, prices for whey protein concentrate are steady, while production of all types of wpc except in the most concentrated form continues to decrease. *Dairy Market News* (DMN) reports there appears to be continuing interest in shifting production to dry whey, where demand now appears to be very strong.

FRED DOUMA'S PRICE PROJECTIONS...

June 05 Est:	Quota cwt. \$ 11.37	Overbase cwt. \$ 9.68	Cls. 4a cwt. \$10.13	Cls. 4b cwt. \$ 9.60
Last week:	Quota cwt. \$ 11.47	Overbase cwt. \$ 9.77	Cls. 4a cwt. \$10.04	Cls. 4b cwt. \$ 9.54

NEWS FROM NEW ZEALAND: THE MONTHLY AUCTION, AND MORE: (By J. Kaczor) The hopeful signs in March that prices for whole milk powder (wmp) could be on their way up, as indicated by Fonterra's monthly internet auction results, appear to have been premature. The winning price for regular wmp of commodity grade in the February auction (for delivery in April) bottomed out at \$.828 per lb. The winning prices from the next three auctions, for delivery months May through July rose steadily to \$.973 per lb. This Tuesday, the winning price for deliveries in August fell by \$.089 per lb and was matched by similar decreases for deliveries through February 2010. The reasons offered in stories from New Zealand for these results were placed directly on the export subsidy programs in Europe and the U.S., although the continuing global economic weakness was also mentioned. Fonterra's Global Trade director was quoted as saying "*Interventions by the U.S. and Europe are 'body-blows' for a market that was showing signs of stabilizing as buyers restocked.*" He noted that customers seemed to be buying the least they can to keep stocks in balance. The director had previously said that Europe was using its subsidies in a responsible manner but is now concerned that they may be increased to meet competition expected from the U.S.

On a more positive note, Fonterra again indicated they intend to add to the line of products offered in the auction (skim milk powder and butterfat products have been mentioned as possibilities). Another development, also from down under, was the announcement that the New Zealand stock exchange is planning to establish a futures market for whole milk powder, which could operate in conjunction with the spot prices developed through Fonterra's monthly auctions – similar to how CME's spot prices for cheese, butter, and nonfat dry milk interact with their futures counterparts. This should not be viewed as competition to the CME, but as a complementary program designed to provide additional means for buyers and sellers to protect against volatility.

CALIFORNIA STATE SENATE APPROVES A LARGE EXPANSION OF THE PRODUCER-HANDLER EXEMPTION: (By Rob Vandenheuvel) This week, with a vote of 24 to 12, the California State Senate approved SB 362 (introduced by Senator Dean Florez) which would allow the five producer-handlers in the state to exempt all the milk they produce on their own dairies from pool obligations. If signed into law, this bill would give these five producer-handlers a huge competitive advantage over all the fluid milk processors that operate in the California pool.

There was a lot of misinformation floating around Sacramento as the bill made its way to the Senate floor. As industry leaders, MPC and the other producer groups that work with our legislators obviously need to do a better job of educating our elected officials about the history of the producer-handler exemption, why it exists, and why it doesn't need to be expanded.

The producer-handler exemption dates back to the passage of the Gonsalves Milk Pooling Act in 1967. At that time, as part of the deal that was negotiated to bring about market wide pooling, California's producer-handlers were given "exempt quota" to cover the production from their own dairy cows, but it was capped. In exchange for being able to exempt this quota from the pool, producer-handlers were allowed to purchase unlimited supplies of milk so they could grow their processing businesses, unbounded by the limits of their own production. Since then, most of these operations have become large-scale milk companies. According to industry experts, these

five bottlers hold 25 percent of the bottled milk market in California. And only a small portion of that milk is being produced on the farm. The rest is being purchased from the pool, just like the plants they are competing with. In fact, if these bottlers were operating in a Federal Milk Marketing Order, they would not even qualify for a producer-handler exemption (a producer-handler can only purchase 150,000 lbs of milk per month for balancing).

These producer-handlers are competing with other Class 1 plants in the state, in a business climate where contracts are gained or lost on pennies per gallon. Handing this huge advantage to milk exempted from the pool will further erode our Class 1 utilization (which is already down to less than 15 percent of the pool) and would be a devastating blow to the pool.

The bill now moves to the Assembly. Clearly, there is much work to be done. Many of our elected officials in Sacramento don't seem to understand the history and reasoning behind the producer-handler exemption, and are susceptible to the aggressive lobbying efforts being directed their way.

The MPC Board greatly appreciates the 12 Senators who opposed this bill. Those 12 Senators are:

- Roy Ashburn (R-Bakersfield)
- Dave Cogdill (R-Modesto)
- Lou Correa (D-Santa Ana)
- Dave Cox (R-Fair Oaks)
- Jeff Denham (R-Merced)
- Dennis Hollingsworth (R-Murrieta)
- Mark Leno (D-San Francisco)
- Abel Maldonado (R-Santa Maria)
- Gloria Negrete McLeod (D-Chino)
- Mimi Walters (R-Laguna Niguel)
- Pat Wiggins (D-Santa Rosa)
- Leland Yee (D-San Francisco)

In all, the 14 Republicans were split on the bill 7-7. Of the 22 Democrats that voted (4 did not vote) there were 17 that supported the bill and 5 that opposed it.

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