Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328
801 S. MOUNT VERNON AVENUE – BAKERSFIELD, CA 93306 – (661) 833-2549
E-mail: mpc@milkproducers.org Website: www.MilkProducersCouncil.org

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TO: DIRECTORS & MEMBERS **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*- $.0650*	$1.1700
Barrels	*-$.0600*	$1.1100

Weekly Average

Blocks	*-$.0756*	$1.1800
Barrels	*-$.0873*	$1.1190

CHICAGO AA BUTTER

Weekly Change	*- $.0025*	$1.2025
Weekly Average	*+$.0069*	$1.2025

DRY WHEY

WEST MSTLY AVG	w/e 04/16/09	$.2300
NASS	w/e 04/11/09	$.1931

NON-FAT DRY MILK
Week Ending 4/10 & 4/11

Calif. Plants	$.8090	18,540,753
NASS Plants	$.8203	28,126,633

CHEEESE MARKET COMMENTS: Weakness and more selling of cheese occurred Monday and Tuesday on the CME, as interest in cheese fell after relatively good sales leading into the Holidays. Barrel cheese sales apparently didn't keep up with production – or maybe it was the other way around – and led the way down to within one cent of the support level. Blocks followed, falling 6.5 cents on the week and are four cents above support. One good point to make is the weekly averages for both styles moved closer to their Friday prices, which should improve prospects for ordering. The recent Agricultural Economic Outlook Forum held by the University of Wisconsin talked about market psychology having an impact on cheese prices (the "wait for the bottom game"), amplified by the thinness of the CME spot cheese market. Well, if buyers were waiting for lower prices to happen, or to return, that time has come. Have buyers already forgotten that production of cheddar cheese in February, on a per day basis, was about 9% below where it was in January? Buyers, be ready for cheddar on brats, cheddar on burgers, and cheddar in Philly cheese steak sandwiches.

BUTTER MARKET COMMENTS: Butter prices were steady this week. Butter production is reported to be somewhat higher, in keeping with the Spring flush, but use of milk and cream for ice cream production continues to increase. *Dairy Market News* (DMN) reports that buyers and sellers are "perplexed" because butter prices haven't fallen after the Easter holiday. Well, maybe that's because butter production in February, like that of cheese, was lower on a per day basis than in January.

POWDER MARKET COMMENTS: The average of the "mostly" price for nfdm in the central region continues to move up, to $.86 per lb this week; and in the West, to $.815 per lb. DMN says that domestic demand is rising but, so long as sales continue to be made to the CCC, significant price improvement will be suppressed as the effect of USDA's removal of about 200 million lbs of the product from the uncommitted category is nullified. Dairy America continues to use California plants exclusively for those sales. Wouldn't it save a great deal on hauling costs if some of those sales, which are going to be used by USDA throughout the U.S. in its feeding programs, were made by some of DA's plants in the mid-west? It wouldn't hurt to give California producers a break for a change, would it? The weekly average nfdm price reported to NASS, representing current sales, has risen to $.8203 for the week ending April 4th. International sales of nfdm/smp continue to be slow, and DMN notes this week that "*the U.S. is not the first choice in securing needs*" [for world buyers].

WHEY MARKET COMMENTS: The good news is that demand for dry whey for domestic and export uses continues to be good, inventories are a bit low or at least under control, and prices continue to increase on a weekly basis. The other news: DMN reports that manufacturing plants in the Central and West regions are offering extra product to already contracted amounts (presumably for export), which keeps product away from the spot market. This should help boost the cash market, shouldn't it, but the implication in DMN's reports is the opposite. A clarification will be gotten. Prices for whey protein concentrate continue unchanged.

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FRED DOUMA'S PRICE PROJECTIONS…

April 17 Est:	**Quota cwt. $ 11.55**	**Overbase cwt. $ 9.85**	**Cls. 4a cwt. $ 9.77**	**Cls. 4b cwt. $10.39**
Last Week:	**Quota cwt. $ 11.67**	**Overbase cwt. $ 9.97**	**Cls. 4a cwt. $ 9.77**	**Cls. 4b cwt. $10.67**

USDA REPORTS THAT MILK PRODUCTION, PRODUCTION PER COW, AND NUMBER OF COWS DECLINE IN MARCH: *(By J. Kaczor)* That's what is called a good start – producers throughout the U.S. responding as they need to in order to build a foundation for better prices. Milk production in March was -0.3%, 42 million lbs, below March 2008. This is **the first time since June 2004** the monthly milk supply slipped below a year earlier levels. The heavy culling that began last November has continued through mid-March, overcoming the natural inclination to fill the void created when cows are shipped out. **The lower production per cow is also a rarity, happening only twice since 2001.** Less usage of rbst and grain apparently did the trick.

California's production was reported to be 3.8% lower, 140 million lbs, with 20,000 fewer cows and production per cow down by 75 lbs for the month. California had 27 producers leave the industry via the CWT herd reduction program that began in mid-December, which accounts for a big part of the decrease. Ten other of the 23 highest milk producing states followed California in reducing their output of milk. Notable among those who increased are Colorado, (+3.3%), Kansas (+7.8%), New Mexico (+3.8%), and Texas (+8.4%). New Mexico did it with 7,000 fewer cows and a huge increase in production per cow, to become the highest among the 23 states in that category.

The weekly reports by DMN suggest that the heavy culling is beginning to level off, but measures taken by producers to minimize feed costs should help to keep production per cow close to year-earlier levels until milk prices signal that the time is right to change course. The recently-announced 3rd herd removal program in a single year should also help. The sign-up period has another 13 days to go. CWT hasn't exactly turned on the "open for business, come on in" sign to entice CWT members to sign up, but whatever the response is to their open door will be welcome.

USDA's report was released after the CME markets were closed on Friday. While this report is definitely "bullish" for dairy commodity prices, the market is fickle, and buyers, sellers, and speculators sometimes try to outguess each other. **Regardless of whether the cheese and butter markets respond robustly or with a yawn next week, the lower amount of milk available to milk plants of all types, along with the reports of surprisingly strong sales of fluid milk (yes, helped by the lower prices), are essential steps toward recovery.**

GROWTH MANAGEMENT PLAN CONTINUES TO GET INTEREST THROUGHOUT THE COUNTRY: *(By Rob Vandenheuvel)* While we are still working with our industry leadership in California – many of whom have shown interest in the Growth Management Plan (GMP), but have yet to take a position on it – more and more people across the country are seeing the merits of the GMP. MPC has gotten requests to present the details of the GMP with trade associations and cooperatives throughout the U.S. We've already met with dairymen and representatives from Vermont, New York, Florida, Idaho, Washington, Oregon, New Mexico, Utah, and Texas – not to mention California. We've also been talking with groups from Kentucky, Georgia, Maryland, Virginia, and Pennsylvania – all of whom have shown great interest in the plan. And in the coming weeks, we'll be meeting with several more groups.

As you've read in this newsletter, an industry task force has been created in California to consider – among other things – solutions to this milk price volatility. MPC President Syp Vander Dussen is a member of that task force and I'm hopeful that we'll be hearing something very soon from them (last month the task force concluded a series of industry forums with presentations on various long-term policy options). But in the meantime, our readers should know that momentum for the GMP is building in areas all over the country. Producers are making one thing very clear – **the status quo is simply not an acceptable option**. The booms and busts that have become commonplace in our milk price are absolutely destroying the industry, and the GMP would fundamentally address this by keeping supply and demand in better balance. It would not prevent any dairy from growing, but would create a tangible financial incentive for dairies to think about how much milk is going in their tanks. As an industry, we need to be thinking more about the market demand for our products and keeping our supply in line with that demand. Demand continues to grow from year to year, so we need continued production growth. But we need to be smarter about how we grow, and that is exactly what the GMP would do.

For anyone new to the GMP, I urge you to check out the "frequently asked questions" we've posted on our website: **http://www.milkproducerscouncil.org/q&a_gmp.htm**. And as always, if you have any questions, you can call us at (909) 628-6018 or email us at gmp@milkproducers.org.

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