



Milk Producers Council

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MPC FRIDAY MARKET UPDATE – SPECIAL WEDNESDAY EDITION

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0225 \$1.4675
Barrels +\$.0100 \$1.4400

Weekly Average

Blocks +\$.0490 \$1.4775
Barrels +\$.0505 \$1.4400

CHICAGO AA BUTTER

Weekly Change - \$.2200 \$1.6700
Weekly Average - \$.1980 \$1.7500

DRY WHEY

WEST MSTLY AVG w/e 11/19/10 \$.3913
NASS N/A N/A

NON-FAT DRY MILK

Week Ending 11/19

Calif. Plants \$1.1767 11,838,100
NASS Plants N/A N/A

CHEESE MARKET COMMENTS: The short Thanksgiving business week, following a very heavy cheese buying period, usually is quiet. Not for cheese manufacturing and packaging plants, which juggle a number considerations very important to how well they do for the entire year. Nor for those buyers who have not already committed for what they may need through the end of the year. Nor for speculators on the CME, because opportunities are almost always there for the taking. Nor for cheese prices this time around. Three carloads of barrel cheese were bought on Monday, raising the price by a penny, and three carloads of blocks plus an uncovered offer to sell on Wednesday resulted in a loss of part of the week's gain for blocks. Both styles of cheese continued to show something akin to strength over the three days of trading. On Monday, USDA released its report on the amount of cheese in cold storage at the end of October. No significant changes from recent patterns and levels were reported (historically high, and relatively level); stocks of American cheese were above September's level by less than 2 million lbs and stocks of all other natural cheeses fell by about 7 million lbs. Class III milk futures prices for the December through March period have fallen to below \$14.00 per cwt, reflective mostly of the level of cheese stocks, the stagnant U.S. economy, the expectation of higher milk production in the immediate future, and more cheese coming to market. Cheese production through this summer was unusually level, and September's output was higher than August's for the first time in five years. The October production report will be available next week.

BUTTER MARKET COMMENTS: There's nothing on the radar screen to suggest that butter prices will continue to fall. After today's loss of \$.11 per lb (resulting from an uncovered offer) they have already fallen \$.565 per lb from the most recent high point reached seven weeks ago. Let's presume that was the expected seasonal drop that results from a decrease in purchases after the heavy sales season leading into the first of three great holiday weekends. Contributing to the price weakness is the coming seasonal increase in production, although day to day decisions tend to limit current output, reflecting concern from both sides of the seller-buyer process about what may happen to near term prices. Sales have been quite good so far, and the amount of butterfat products in cold storage at the end of October fell again. The amount stored is about one-half of the amount in storage six months ago, 82 million lbs lower than a year ago, and is as low as it's been since January 2005. Dairy Market News continues to mention a global shortage of butterfat which, of course, will not continue indefinitely. Would anyone care to say if these rapid price movements are fair and accurate reflections of changes in supply and demand? Not here.

POWDER MARKET COMMENTS: It's surprising, but prices for buttermilk powder are essentially unchanged this week, despite what has happened to butter prices over the past few weeks. DMN reports demand for BMP to be slow, following recent heavy purchases. Prices for whole milk powder are also steady; buyers are aware of the sharp drop in butter prices and expect prices for WMP to begin to respond to the lower cost of butterfat. Sales have slowed. For nonfat dry milk, the bottom of the full range of prices reported for current sales in the west remained unchanged at \$1.15 per lb, but the "mostly" ranged increased again, as did the average price

reported by California plants for shipments made last week. Exports of NFDM and skim milk powder in September totaled 95.5 million lbs, equivalent to 75% of what was produced that month. Current stocks are reported to be tight and the market steady.

WHEY PRODUCTS MARKET COMMENTS: Everything having to do with the market for whey protein concentrates is positive and upbeat. Production is barely keeping up with demand. Domestic buyers are having to compete with buyers for the export market. Prices continue to advance, and early reports about contracts for 2011 indicate they will go higher. Supplies of dry whey in the eastern and central regions of the U.S. are tight to extremely tight; prices are moving up. In the west, DMN says supplies are in balance with demand. The average of the west's "mostly" price edged up by a fraction of a penny per lb. Export demand continues to drive the market for high quality U.S. produced whey protein products.

FRED DOUMA'S PRICE PROJECTIONS...

Nov 24 Final:	Quota cwt. \$16.53	Overbase cwt. \$14.83	Cls. 4a cwt. \$16.28	Cls. 4b cwt. \$13.14
Last week:	Quota cwt. \$16.48	Overbase cwt. \$14.79	Cls. 4a cwt. \$16.22	Cls. 4b cwt. \$13.07

OCTOBER'S MILK OUTPUT SLOWS SOMEWHAT BUT CHALLENGES LIE AHEAD: *(by J. Kaczor)*

In last month's report on U.S. milk production, a great deal was made about this year's astounding increases in monthly production per cow. Through September, PPC averaged just short of 3% over 2009, and April through September averaged 3.3% above the same period a year earlier. The importance of the PPC increases was shown by pointing out that if that rate continued into October, milk production would be up by 3.6% even if cow numbers in October were no higher than the month before. As it happens, in its report last week on October milk production, USDA reported **no change in cow numbers for three months straight** and a PPC increase of 45 lbs over a year earlier, a 2.7% increase, which was lower than the Spring and Summer levels. The increase in milk production is reported to be 448 million lbs above last October, an increase of 2.9%.

Last October, the size of the U.S. milking herd was still falling because of CWT's herd removal programs. Last year, October's herd size was 24,000 smaller than September's, and another 14,000 head were gone by the end of the year. Since then, the number of milk cows grew fairly steadily through August, and then stabilized. USDA reported this October there were 22,000 more milk cows than a year earlier, and 36,000 more than in December. However, the 23 largest milk producing states, which accounted for 93.2% of October's milk production, were reported to have **52,000 more milk cows than a year ago** – meaning the number of cows in the states with relatively little milk production fell by 30,000 from a year ago. Corn prices, weather issues, credit issues, and business closures may account for many of those reductions but, obviously, has done little to stem overall increases in milk production.

California and several other western states account for most of the October increase, a repeat of the pattern seen in September. Here's a list of the western states with the largest percentage milk production increases over a year ago. From lowest to highest: California (+4.3%), Idaho (+6.9%), Washington (+7.1%), Colorado (+8.1%), Arizona (+9.5%), and Oregon (+11.4%). Of those, California was the only state reported to have fewer milk cows than last October. The west is on the move.

In one sense, the report for October is a relief in that the increasing rate of higher milk production slowed somewhat, but the expansion in most of the states that produce most of the milk is what should be noted. It raises the question about whether there will continue to be an acceptable market for U.S. milk processors and manufacturers for the additional 400 to 500 million lbs of milk that will be coming their way every month. By far, most of the monthly increases will land on top of what is now going into butter/powder and cheese plants. That's not to say there may be a lack of capacity to handle that milk; the concern milk producers should have is about the level and volatility of prices those plants may have to accept for the additional products produced.

SEPTEMBER EXPORTS OF MAJOR DAIRY PRODUCTS CONTINUE AT RECENT HIGH LEVELS:

(By J. Kaczor) Led by continuing heavy demand for dry products, and with the help of CWT's subsidies for American cheeses, exporters continued to clear significant volumes from U.S. milk plants and warehouses in September. The table shown here includes the four dairy commodities used in most milk price setting formulas

by U.S. milk plants, and related products. The monthly and year to date volumes reflect 1,000 lbs of product. The estimated average prices, f.o.b. point of export, for cheddar cheese in September was about \$1.84 per lb. The price for butter was \$1.43 per lb. The price for NFDM/SMP was \$1.195 per lb. The price for dry whey was \$.465 per lb. Exports of the whey products this year are running at record high levels, and the prices received for those products have contributed substantially to the plants' net receipts for the year.

Products	September		Year To Date	
	Exports	Pct Of Production	Exports	Pct Of Production
Cheddar Cheese	4,869	1.9%	56,132	2.3%
Other Cheeses	23,414	3.8%	222,841	2.4%
Butter	6,849	6.2%	78,452	6.8%
Other Butterfat Products	2,944	n/a	17,294	n/a
Nonfat Dry Milk/SMP	95,478	75.8%	587,984	42.7%
Dry Whey	41,714	55.1%	412,881	50.3%
Whey Protein Concentrate	24,240	75.0%	208,114	62.7%

It's worthwhile to take a look at the volumes and percentage of production for these exports, and consider where the strengths and weaknesses may be in regard to a sustainable, nationally coordinated, export program. The point is, the U.S. does not have a sustainable program, nor is it nationally coordinated, but the need for one is clearly shown by how vulnerable the industry has been over the past four years to very sharp and unpredictable upswings and downswings in volumes and prices for major dairy product exports. Meanwhile, U.S. milk producers shall remain at the mercy of the marvelous unknowns attending to international dairy product supply and demand, and competition.

A SPECIAL THANKS TO OUR 2010 ASSOCIATE MEMBERS: *(By Rob Vandenheuvel)* While a majority of the funding for Milk Producers Council comes from the dairy families we represent, MPC is proud to have strong support from other businesses and individuals that have an interest in maintaining a vibrant dairy industry in California. These Associate Members recognize the value MPC brings to the California and U.S. dairy industry and their financial support plays an integral role helping us be a strong voice our members. **A special thanks on behalf of the MPC board of directors, members and staff goes out to:**

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Thanks again to all of our Associate Members for your support!

Anyone else interested in supporting MPC with an associate membership should contact the MPC office at (909) 628-6018. **Our dairy members greatly appreciate all the support we get.**

Have a wonderful Thanksgiving!