

Milk Producers Council

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CHICAGO MERCANTILE EXCHANGE

Blocks $-\$.1175$ \$1.4500
Barrels $-\$.0100$ \$1.4300

CHICAGO AA BUTTER

Weekly Change N.C. \$1.3275
Weekly Average $+\$.0006$ \$1.3275

NON-FAT DRY MILK

Week Ending 12/25 & 12/26
Calif. Plants \$1.3152 5,551,796
NASS Plants \$1.3327 8,920,437

Weekly Average

Blocks $-\$.1594$ \$1.4800
Barrels $-\$.0044$ \$1.4306

DRY WHEY

WEST MSTLY AVG w/e 12/24/09 \$.4013
NASS w/e 12/26/09 \$.3725

CHEESE MARKET COMMENTS: The Big Spread (the price difference between blocks and barrels on the CME) is now history. It held above \$.20 per lb for fifteen days, and the final price movement (blocks moving down) apparently was determined by last week's report that the amount of American cheeses in cold storage was moving in the wrong direction, which was upward. Prices for block cheese have now fallen \$.25 per lb in five days of trading. **So far, this is only a "correction," not a collapse.** Corrections have a way of stabilizing the market. Let this one be one of those. The block-barrel price spread reported to NASS for sales made last week finally rose to the \$.20 per lb level, lagging three weeks behind the CME. *Dairy Market News* (DMN) reports that cheese production has been higher over the past two weeks, which is normal and expected because of lower fluid milk usage from school closings (yes, milk sales to schools is that important) and lower production of "spoonable" dairy products. USDA's report on production of dairy products in November will be published on Tuesday. A report that cheese production is at least in line with expected seasonal trends would be very welcome.

BUTTER MARKET COMMENTS: Prices on the CME have held at \$1.3275 for seven straight trading days. Retail sales into the holidays were reported to be good. Production of butter over the short term is reported to be higher because of the extra cream available. DMN continues to report that some butter destined for export is being produced. The price correction for butter on the CME occurred last week, and may have established a foundation for future increases.

POWDER MARKET COMMENTS: The powder market is ending the year on a quiet note. Prices for nonfat dry milk reported by the two major reporting agencies again are higher this week, on very low volume. DMN finds that many buyers are holding off on commitments until after the holidays. Current production rates are somewhat higher, with dryers handling the extra milk from bottling plants and others. Inventories are edging upward, but production over the winter months is expected to continue to be well below last year's levels. The news that milk output in Oceania is well below expected levels lends hope for continuing increases in U.S. powder prices and a tightening in the international supply-demand balance.

WHEY PRODUCTS MARKET COMMENTS: Usual holiday schedules and activity throughout: dryers are busy handling extra whey from cheese vats, and buyers are being offered temporary discounts to accept shipments now rather than later. DMN reports that negotiations for dry whey contracts for 2010 are well along. The "mostly" price in the central region was steady, and it rose again in the West. Some central region orders continue to be filled from western plants. The market for whey protein concentrate is firm, and prices continue to rise. The "mostly" price for WPC 34 is now double what it was a year ago, at \$.89 per lb. Prices for lactose have been rising steadily, parallel with the 2006 pattern, but somewhat below last year's level. Production for WPC and lactose is rising, but inventories are not a concern.

FRED DOUMA'S PRICE PROJECTIONS...

Jan 2010 Est:	Quota cwt. \$ 15.60	Overbase cwt. \$13.90	Cls. 4a cwt. \$14.72	Cls. 4b cwt. \$12.78
Dec 2009 Final:	Quota cwt. \$ 16.13	Overbase cwt. \$14.44	Cls. 4a cwt. \$14.67	Cls. 4b cwt. \$15.04

RECOVERY IS UNDERWAY, BUT FAR MORE IS NEEDED: *(By J. Kaczor)* This sorry, sorry, year ends with the powder and whey markets looking strong, the butter market stable, and the cheese market possibly back down to a point where buyers have enough confidence that current price levels fairly reflect current product values. Prices for all four of the basic dairy commodities that generate milk prices are substantially higher than where they were in the first two quarters of the year, and the expected levels of milk production over the next several months should provide a solid foundation for further price increases. But the futures prices on the CME for Class III milk, nonfat dry milk, dry whey, and butter, are virtually flat for the next twelve months. Those prices generate milk prices high enough for very few producers to break even, or even to earn a small profit. But for most, much higher prices are needed. Break even prices barely provide the basis to obtain extended credit, much less providing enough money to repay the enormous debt incurred this year. Far more is needed.

All eyes will be on the milk production numbers for the next two or three months. If the cow numbers edge a bit below where they were in November and stay there for a time, that could itself be sufficient foundation to begin to generate the kind of milk prices needed for profitability. The other things needed to build on that foundation: continuing growth in fluid milk, butter, and cheese consumption and a stronger export market for all dairy commodities, particularly nonfat dry milk. Following are some things that could help make that happen.

- Secretary Vilsack's Advisory Committee, independent of control by the industry's national organizations, making its first priority to seriously address how milk prices can be made more stable and predictable.
- The House Dairy Farmer Caucus opening itself up to input from all segments of the industry – and doing something other than saying (if indeed they have) “wait until 2011 or 2012.”
- CWT getting serious about developing a robust program to support the export of U.S. dairy products, which means, at a minimum, shifting funds from herd retirement programs to export assistance programs. This could be the most important practical development, among all considered, needed to support U.S. milk prices.
- National Milk Producers Federation understanding that the necessary foundation for a robust export program is relatively stable milk prices. So far, they haven't seemed to have associated one with the other.
- NMPF's understanding that solutions to industry problems cannot wait until 2012. They understand that 2010 is an election year; what do they think that makes 2012?
- NMPF's understanding that true consensus is best reached by supporting programs that are needed, are workable, and are in the industry's best interests.
- Independent thinking by some of the large and small really great, well run, cooperative members of NMPF.

The above list of “things” that could help this industry recover has National Milk Producers Federation written all over it. That is because NMPF has assumed command and control of all things dairy. Okay, but do they really want to wait until the industry goes through another full cycle of rising and falling prices? What's the true consensus they're seeking on that question?

LATEST CARES COLUMN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The December 2009 Dairy Cares Column has been posted to <http://www.milkproducerscouncil.org/cares.htm>. This month's column reflects on a year remembered not only for the devastating dairy economy, but a well-funded and unified attack on the way dairies care for their animals. Our industry leadership has responded to this growing threat by creating a national animal welfare standard, called the National Dairy FARM (Farmers Assuring Responsible Management) program. Many more details on the FARM program will be coming out in 2010, so stay tuned.

REMINDER: STATE WATER BOARD FEES DUE BY JANUARY 8TH: *(By Rob Vandenheuvel)* This is a reminder that your annual fees to the State Water Resources Control Board (SWRCB) must be paid by January 8th. For those of you interested in cutting that annual fee in half, the California Dairy Quality Assurance Program (CDQAP) has promised to make themselves available in the Spring to help get dairies environmentally certified, which carries with it the benefit of a reduced annual fee to the water board.

MPC wishes each of you a blessed New Year!