



Milk Producers Council

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TO: Directors & Members

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks N/C \$1.3225
Barrels - \$.0100 \$1.3550

CHICAGO AA BUTTER

Weekly Change N/C \$1.6525
Weekly Average +\$.0055 \$1.6525

NON-FAT DRY MILK

Week Ending 12/17 & 12/18
Calif. Plants \$1.1940 10,646,886
NASS Plants \$1.2163 13,809,153

Weekly Average

Blocks - \$.0100 \$1.3225
Barrels +\$.0205 \$1.3725

DRY WHEY

WEST MSTLY AVG w/e 12/17/10 \$.3938
NASS w/e 12/18/10 \$.3780

CHEESE MARKET COMMENTS: It appears that the cheese market is nearing a point where even those manufacturers who can't seem to count or plan or conduct themselves like responsible businessmen may reacquire the skills to do those essential tasks. Yes, prices are that low. Activity on the CME in this shortened week was much lower than the hectic pace of the past several weeks, but still continued to look more like a school yard fight than an orderly market for the industry's major commodity. Block prices managed to finish the week where they started; barrel prices gained a net \$.0025 per lb after strong gains early in the week were lost when a lone seller dumped more cheese. There's still some unfinished business in the pit; barrel prices ended the week more than \$.03 per lb higher than blocks and that seems to set some people off. Class III milk futures for the January-March period lost ground this week but showed growing strength from January through October (\$13.15 per cwt in January, up to \$15.60 in October). Short term, through the next two weeks, cheese production is expected to increase as milk, normally used for fluid usage and other holiday products, moves on to the market. Cheese sales, including exports, have been quite good; November's end of month inventory was 29 million lbs lower than a month before, but 45 million lbs higher than last November.

BUTTER MARKET COMMENTS: Butter prices were unchanged this week, with little trading. Retailers report steady to strong sales, and food service buyers (from fast food outlets to high end restaurant) reported strong sales. As usual, after the run up to the heaviest sales demand period and before the next one arrives less than a month from now, the entire marketing channel is trying to determine what needs to be done better or sooner, or at least next. Expect to see increases in butter production for November and December (USDA's report for November will be released on 1/03/2011) – to replenish inventories, to demonstrate the ability to meet all needs, and to take advantage of a very ready supply of milk. Butter prices on the CME are well-supported by cash-settled futures prices; January's price closed unchanged today, at \$1.66 per lb.

POWDER MARKET COMMENTS: Current demand for whole milk powder is low and steady, and prices are unchanged. There's little U.S. consumer demand for WMP, and little opportunity for exports, partly because of the way milk components are priced in the U.S. It's not suitable for export because the raw product cost is completely unpredictable, as changeable as butterfat and nonfat solids prices. Therefore, sellers cannot commit themselves to long or medium term prices, which are said to be a requirement for the export market. Unfortunately, it's also said to be a matter of questionable product quality. Not so steady are prices for buttermilk powder, which are slightly lower, and interest is either limited (in the West) or extremely light (in the East), and it's hard to understand why that is the case. Current low end prices for BMP are now six to fourteen cents per lb under the low end for nonfat dry milk. Production of BMP is expected to increase somewhat in line with the expected increase in butter production. NFDM production throughout the U.S. is moving higher, as are inventories. Prices reported for last week's low volume of sales of nonfat dry milk were basically unchanged. The average of the west's "mostly" price series this week is unchanged at \$1.22 per lb, which is about where the CME price for extra grade NFDM has been for some time. The CME futures prices for NFDM have been tracking well (and slightly above) the weekly prices reported by the two major price reporting agencies. That's a good sign.

WHEY PRODUCTS MARKET COMMENTS: The market for commodity grade whey protein concentrate continues to be strong. Inventories are tight, mainly because of the robust export market. U.S. buyers are having to plan further ahead in order to have an assured supply for the coming year. Similar tightness is reported for dry whey, for the same reason – exports – and because some manufacturers are converting more fluid whey to value-added WPC products. Prices for DW are generally unchanged this week, although increases have been reported at the upper end of the price ranges in the central and eastern regions. The west’s “mostly” price remains unchanged. CME’s futures prices for dry whey, now at \$.42 per lb for the late Spring months, continue to reflect the belief that this bull market for this fine product will continue for the foreseeable future.

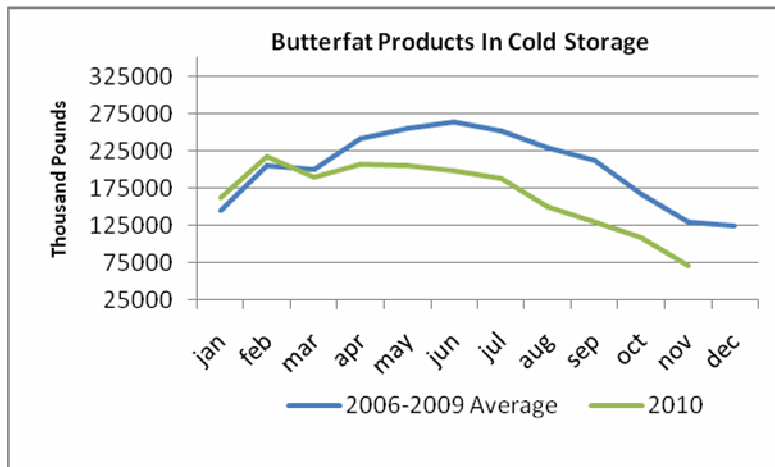
FRED DOUMA’S PRICE PROJECTIONS...

Dec 24 Final: Quota cwt. \$15.69 Overbase cwt. \$13.99 Cls. 4a cwt. \$14.92 Cls. 4b cwt. \$12.22
Last Week: Quota cwt. \$15.67 Overbase cwt. \$13.98 Cls. 4a cwt. \$14.94 Cls. 4b cwt. \$12.18

COLD STORAGE NUMBERS FOR NOVEMBER SHOW SALES CONTINUE TO OUTPACE PRODUCTION: (By J. Kaczor) USDA’s report on the amount of butterfat products and cheese in storage at the end of November bring good tidings to milk producers and should cheer their spirits. The numbers for butterfat are astounding, and the numbers for cheese are not that bad. Combined, they should be considered, at the least, satisfactory.

Butterfat Products. For reasons not at all clear, the storage report for butter includes anhydrous milkfat and butteroil. Production and sales of these two products are not reported because too few plants with sufficient volume produce them (their identities would be disclosed). So, all comments and analysis of “butter” in storage either presume there is no AMF or BO held in the facilities that report to NASS, or the volume of those products is small and changes little from month to month. That being said, the amount of butterfat products reported by cold storage facilities at the end of November was less than half of what it was a year ago and 36% below a month ago, a drop of 39 million lbs. The 70 million lbs reported to be in storage represents little more than two weeks of butter production, the lowest it’s been in more than five years.

The graph shown here compares this year’s end of monthly inventories of butterfat products in cold storage facilities (intended to be held for thirty days or more) to the average of the previous four years, which could be considered normal levels. It shows the current situation is far from the norm.

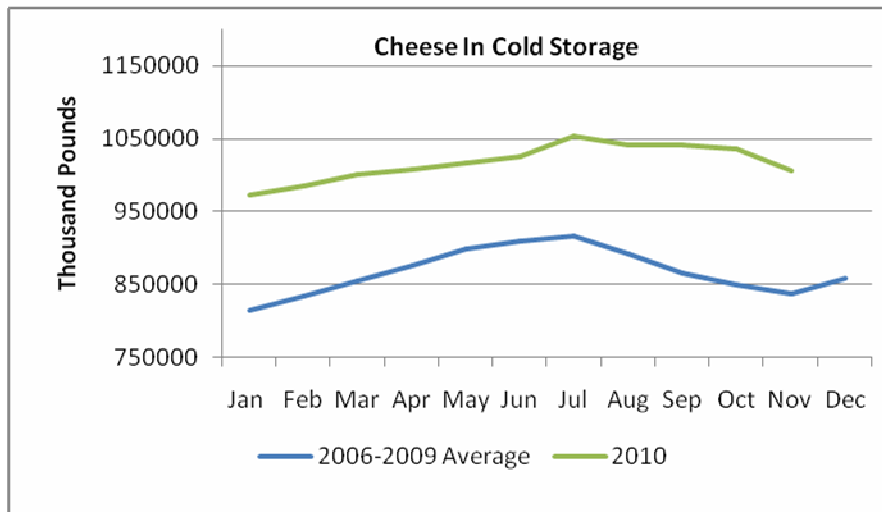


The most notable thing about this comparison is how persistently low this year’s levels are from May through November, compared to the four year average. That difference is not explained by lower production because butter production for each month this year was about even with the average for each month in the past four years. On the other hand, the reason for 2010 inventories to be so much lower than 2009’s is clear: exports this year through October are about 40 million lbs higher than last year and production is 30 million lbs lower. [Again, this comparison ignores the fact that no report is available on how much other butterfat products are produced.] The sharp price increases that occurred from March through September reflected the tightening in domestic supply and demand. One remarkable thing is how domestic sales held steady through that period. Another is how “right” the butter futures traders were at the time; cash-settled futures prices for the January through June 2011 period stubbornly held to around the \$1.60 per lb level until the cash prices fell all the way from \$2.23 per lb to below \$1.60 per lb. The futures market has since seemingly accepted the reality of higher cash prices, with the January-March average now at \$1.68 per lb.

Butter production through August was 5.3% below the same period last year (58 million lbs), and has since increased by 27 million lbs. Production is expected to continue to respond to what appears to be stable and rising prices, and more milk. USDA will release November’s production data on January 3rd.

Cheese. The amount of cheese in cold storage facilities rose above the one billion lb level in March and remains there through November. The year to year increase since 2008 is not that great, but is greater than the year to year increase in cheese production. The cumulative difference between current year levels of cheese in storage and what has been considered normal levels is shown in this graph. The difference is substantial, despite this year's record high levels of cheese exports.

Cheese production this year has been increasing at an increasing rate. Production in January was 1.8% higher than a year earlier; the cumulative total through October has risen to 3.0% above the same period last year. The total increase is 253 million lbs. The good news part of this report is that the amount of cheese in cold storage in November is only 45 million lbs higher than last November.



Exports of cheese this year, through October, are more than 70 million lbs greater than last year. Contributing to that

increase is CWT's export subsidy program which began in mid-March. CWT's latest report says a total of 73 million lbs for export has been approved and, according to an earlier report, apparently only a small number of the approved bids for export assistance were shipped before September, which means the backlog of additional exports is large and still growing.

A problem with presuming that cheese inventories would be that much higher than they now are, had exports not increased, is that no one knows how much of the increase in cheese production occurred **because** higher exports or higher domestic sales were anticipated. Cheese plant production seems to be betting on the come. It really doesn't look like the U.S. dairy industry can realistically think they can expand cheese sales by enough to reduce inventories by 200 million lbs – to the average level of the past four years. More likely, the current storage levels will be accepted and life will go on, or prices will fall, or cheese plants will be starved to the point where they have no option other than to control production.

MONDAY, DECEMBER 27TH IS THE DEADLINE TO SIGN UP FOR THE REGIONAL GROUNDWATER MONITORING EFFORT: (By Rob Vandenheuvel) It's been reported in this newsletter and others for the past couple months that Monday, December 27th is the deadline to sign up for the Central Valley Dairy Representative Monitoring Program (CVDRMP). For dairymen in the Central Valley that have not yet been required to install monitoring wells on their dairy, this dairymen-funded, dairymen-controlled organization is providing a substantially cheaper option.

A document with "frequently asked questions" has been included in the packet, and is also available on our website at: <http://www.milkproducerscouncil.org/cvdrmpfaq.pdf>. If you do not sign up by next Monday, you risk not being admitted to the program. If you are admitted late, the CVDRMP Board will charge a minimum \$1,000 penalty plus back dues to the beginning of the program. If you have any questions, please contact MPC's Central Valley Representative, Betsy Hunter, at (661) 205-6721.

KNOW SOMEONE THAT'S INTERESTED IN RECEIVING THE MPC FRIDAY NEWSLETTER? Send an email to office@milkproducers.org with their name and email address and we'll start sending them the newsletter each Friday.

*On behalf of the MPC Board of Directors and Staff,
we'd like to wish you and your family a wonderful Christmas!*