

# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.1825 \$2.1925  
Barrels +\$.1425 \$2.1600

### CHICAGO AA BUTTER

Weekly Change +\$.1000 \$1.3300  
Weekly Average -\$.0315 \$1.3235

### NON-FAT DRY MILK

Week Ending 11/30 & 12/01

Calif. Plants \$1.8310 19,317,308  
NASS Plants \$1.8523 21,552,774

### Weekly Average

Blocks +\$.0390 \$2.1645  
Barrels +\$.0205 \$2.1320

### DRY WHEY

NASS w/e 12/01/07 \$.4559 WEST MSTLY AVG w/e 12/06/07 \$.4425

**CHEESE MARKET COMMENTS:** Was last week's collapse in cheese prices on the CME merely a panic attack, or something else? It doesn't seem to have been panic because of how "orderly" it happened. After a weekend for traders to think things over, virtually all of last week's losses were restored this week. The recovery was as orderly as last week's losses. Holiday orders for cheese continue to be filled. Inventories are not yet growing. USDA even reports some additional exports are occurring. While current prices are very welcome, producers are cautioned to not get too used to them; additional milk production and the end of the holiday sales season should cause downward pressure on these close-to-record-high prices.

**BUTTER MARKET COMMENTS:** The butter market continues to show signs of stability, although production continues at high levels, and inventories remain very high. Apparently some sales for exporting purposes are continuing, but current volumes are not known. Holiday sales are reported to be good, with sales volumes reported to NASS over the past 5 weeks about the same as last year's levels. It still looks like butter prices are currently higher than they should be.

**NONFAT DRY MILK:** Prices in the U.S. as well as internationally continue to decrease. The latest California plant average price reported by CDFFA shows a drop of a little more than \$.055 per lb, and **has now lost more than \$.25 in 7 weeks.** Over the same period, **prices in New Zealand-Australia have fallen by \$.10 per lb and prices in Western Europe by \$.43.** Current market conditions are described by a spokesman for Dairy America as weak for domestic sales and good for export sales, with strong resistance from all buyers to recent price levels. The big increase in last week's volume was described as month end "push out" of contracted product. Growing amounts of product in inventory in the U.S. are a concern and a problem. [Next week's *Update* will include a review of international nfdm sales.]

**WHEY MARKET COMMENTS:** The market is steady, sales are steady, and prices are steady. Sales volumes are still mostly export-demand driven. USDA reports that domestic usage is slow and buyers are putting off commitments for next year -- until something tells them the time is right. Inventories continue to increase. [California producers should note that as of December 1st dry whey price changes will not be reflected in the price for the 45% of California milk used to produce cheese. However, whey prices continue to be part of the formula for determining Class 1 prices.]

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### FRED DOUMA'S PRICE PROJECTIONS...

Dec 07 Est:      Quota cwt. \$20.96    Overbase cwt. \$19.26    Cls. 4a cwt. \$19.09    Cls. 4b cwt. \$18.97  
Nov 30 Final:    Quota cwt. \$21.95    Overbase cwt. \$20.25    Cls. 4a cwt. \$20.86    Cls. 4b cwt. \$19.74

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**HELP IS AVAILABLE WITH WDR REPORTS:** (By Betsy Hunter) This is a reminder to MPC's Central Valley members that the Preliminary Dairy Facility Assessment (PDFA) form is due at the Central Valley Regional Water Quality Control Board by December 31<sup>st</sup>. The PDFA is the first of a series of information requirements that is part of the new General Waste Discharge Requirements (WDR). Help is available- **Call Betsy at 661-205-6721** to set up an appointment. **I'll come to your dairy to help you with the form, maps, and other items that are due! Remember that the form is only available on-line.**

The California Dairy Quality Assurance Program (CDQAP), the folks that held the WDR workshops, are also offering help with your PDFA by scheduling **three "last resort" office hour computer sessions next week.** You will need to bring your **completed** PDFA Report Completion Worksheet (the pink form that you got at the workshops). Appointments are highly recommended but walk-ins are welcome. For an appointment **call Trish Price at 530-574-0524.** The locations for getting this help are:

- December 12, 2007 9:30 am - 4:00 pm Fresno County UCCE Office, 1720 S. Maple Ave, Fresno
- December 13, 2007 9:30 am - 4:00 pm UC Davis Vet Med Teaching Center, 18830 Road 112, Tulare
- December 14, 2007 9:30 am - 4:00 pm Stanislaus County Ag Center, 3800 Cornucopia Way, Modesto

**Don't delay. Call me or call CDQAP for assistance in completing this critical compliance requirement.**

**MILK PRICE PROJECTIONS FOR 2008:** (By J. Kaczor) A major question that should be in every producer's mind is what is likely to happen in the way of milk prices next year. The answer to that question could play a key part of decisions regarding future operations. A quick general answer is that milk prices next year will almost certainly average lower than this year. More specifically, following are three recent and one current estimate of next year's average milk price.

1. The reasoning used by USDA's Economic Research Service, in its October 22nd *Dairy Outlook* which included a projection of 2008 milk prices, is similar to the approach used by the other three sources. It goes like this. Despite growing costs of production, current high milk prices will cause producers to add more cows that give more milk than will be consumed because dairy prices along with just about everything else are too high, and the economy is weakening. Milk supply will exceed demand for dairy products, and the inventory of surplus products will grow. Therefore, prices for bulk butter, powder, cheese, and dry whey will fall and carry milk prices along with them. Because ERS economists predict that the increase in **milk production next year will be only 2.6%** above this year, they believe milk prices will decrease by only about \$.85 per cwt, plus or minus \$.45 per cwt.

2. USDA's Foreign Agricultural Service (FAS), in its July look at international dairy trade, saw the U.S. benefiting from a "booming export market" that they expect will continue to clear away a large part of whatever dairy product surplus would otherwise build up. Less surplus means firmer milk prices. FAS is projecting a 2008 decrease in the average milk price of only \$.45 per cwt. They project **milk production to increase by only 2%** from 2007 levels.

3. Last Thursday, Dr. Mark Stephenson, Cornell University, presented a one hour "on-line" seminar on milk price volatility that was hosted by the CME Group, Chicago Board of Trade. The review focused mainly on milk supply and demand factors. Milk production costs were projected to increase as much as \$3 per cwt above current levels, with most of the increase coming from feed costs. Other points made: current milk prices will lead U.S. producers to continue to expand herds, the weak economy and high prices will soften demand for dairy products, most of the milk surplus will be used to produce butter and powder, and export demand for these products is expected to remain strong. His projections for commodity prices are: \$1.64 per lb for cheese, \$1.43 per lb for butter, \$1.60 per lb for nfdm, \$.42 per lb for dry whey.

4. The most current projection of next year's milk prices comes from the futures market on the CME. The futures markets are made up of one part sellers who hedge against price decreases, one part buyers who hedge against price increases, and one part speculators. Because sellers and buyers theoretically are indifferent to price changes, it falls

to the speculators to generate changes to the commodities that are traded on the exchange. In doing so, they continually evaluate the same factors that dairy industry economists, such as those reviewed above, consider in preparing their projections. As of yesterday the futures markets for dairy commodities for 2008, compared to 2007 averages, were \$.15 per lb lower for cheese, \$.20 per lb lower for dry whey, \$.25 per lower for nfdm, and \$.14 per lb higher for butter.

**COMMENTS ON THE ABOVE:** With no disrespect intended, it should be pointed out that ERS's quarterly Dairy Outlook is seldom on the mark with its projections, and they seem to be placing a great reliance on CWT's ability and willingness to fund another one or two herd retirement programs in order to keep next year's milk production increase from exceeding 2.6%. While CWT will have the resources and the will to remove 100,000 or so milk cows from the U.S. dairy herd, it should be pointed out that a good portion of those would be culled anyway. At this point it doesn't look like CWT's programs will be able to overcome the expansion that is already underway, and the 2008 milk production increase is expected to be above the 2.6% level. With respect to FAS, their expertise is well regarded when it comes to evaluating the opportunities relating to international trade. They would do well to limit their projections to import and export volumes and prices.

In last week's seminar, Dr. Stephenson used one of the most sophisticated models available in reviewing dairy industry supply and demand factors. His projections of commodity prices for next year are accepted here as thoughtful and reliable. While different from each other, it turns out that the futures market numbers and Dr. Stephenson's projections would result in similar price levels for California producers. After making appropriate adjustments to the commodity prices in order to fit them into current California price formulas, the following comparisons result:

	<u>Class 4a</u>	<u>Class 4b</u>
2007 Average	\$17.44	\$17.51
2008 Futures	16.23	15.19
2008 Cornell Model	16.81	14.58
2007 November	20.66	19.75

All in all, it wouldn't look too bad if someone had a magic wand to control production cost increases.

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