



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.1600 \$1.5250
Barrels +\$.1325 \$1.4750

CHICAGO AA BUTTER

Weekly Change N/C \$2.1000
Weekly Average +\$.2620 \$2.1000

NON-FAT DRY MILK

Week Ending 1/7 & 1/8
Calif. Plants \$1.2195 9,532,092
NASS Plants \$1.2224 16,315,877

Weekly Average

Blocks +\$.1195 \$1.4705
Barrels +\$.0915 \$1.4320

DRY WHEY

WEST MSTLY AVG w/e 01/07/11 \$.4088
NASS w/e 01/08/11 \$.3870

CHEESE MARKET COMMENTS: Cheddar prices for both styles moved sharply higher this week. It was the 3rd week in a row for block increases and the 2nd for barrels. Block prices are now back above the \$1.50 per lb level once thought to have good support. Trading volume was moderate. Prices increased everyday this week for both styles. Most of the price increases originated with bids to buy, which is a strong sign that buyers want cheese now. A good part of that interest could be related to indexed pricing formulas that use prior weeks' average or ending prices for current buys. (The NASS price for blocks for sales last week was \$.03 per lb lower than the week before, while last week's CME average block price rose by \$.02 per lb. This week's CME block average is \$1.4705 per lb while last week's average NASS price was \$1.3457 per lb.) The CME block price is now \$.2025 per lb above its recent low four weeks ago, good news for California producers. Dairy Market News says these price increases are a reaction to the recent surge in butter prices. Maybe that's so, but there's a lot of confusion in the U.S. and internationally about weather issues, milk and milk product supplies, and global demand. Better said, perhaps, is the increases are speculative, opportunistic, and welcome. Class III milk futures prices again were up across the board this week; February, at \$15.00 per cwt gained \$.85. Other months gained less, and July's price was the first to reach above \$16 per cwt.

BUTTER MARKET COMMENTS: The only activity on the CME this week for butter occurred Tuesday, when four carloads were traded; two were below \$2.10 per lb but the final trade that day brought the price back to where it began. Butter's cash-settled futures prices, after last week's of frantic efforts to get closer to the spot price, were relatively calm; February's price is at a supportive \$2.00 per lb and all prices through November this year are above \$1.90 per lb. The NASS price is lagging far behind; last week's average price was \$1.6702 per lb, \$.43 per lb below the spot price (which is the amount of last week's CME spot price increase), but should begin to rise by nickels and dimes soon if the spot price holds. DMN says many of their contacts don't believe last week's price eruption was a result of demand over supply. Buying should continue until the NASS price begins to catch up, by which time stocks should be fully adequate for the month. Exporters are concerned about being able to, or even wanting to, compete with prices at present levels.

POWDER MARKET COMMENTS: Buttermilk powder users appear to know a value when they see it, and have returned to the marketplace. Prices moved a little higher this week, even as spot loads became available after several weeks of apparent low sales. Higher butterfat prices make up part of the current interest and the buying interest is consistent with seasonal usage patterns. Prices for **whole milk powder** are firm and unchanged, well supported by the recent increases butterfat prices. Prices this week for **nonfat dry milk** are reported to be higher in all regions; supplies are reported to be tight in the eastern region, adequate in the central region, and light to moderate in the west after recent heavy sales. Amazing news from the CME: prices for grade A and extra grade powders again rose, through a combination of bids and **fifteen sales** this week. The extra grade price rose \$.06 per lb, to \$1.40 per lb. Prices reported for shipments last week by California plants, and nationally, moved higher and are within a half-cent of each other. DMN observes that drought conditions in New Zealand and floods in the northeastern part of Australia, along with Fonterra's cutting back on production of skim milk powder in favor of whole milk powder (for China), may be affecting international prices for nonfat powder

– a matter of keen interest in the west. November’s U.S. average price for exported nonfat powders was reported to be competitive, at about \$1.18 per lb, f.o.b. points of exit.

WHEY PRODUCTS MARKET COMMENTS: Demand from all end users of **whey protein concentrates** is reported to be higher, with limited product availability. Prices have edged upward. Huge demand from the export market continues to commit supplies, leaving relatively little available to any buyers who have not secured contracts. Demand for **dry whey** appears to be overwhelming its supply. DMN reports an active market in the east and Midwest by resellers who ask for and receive premiums over spot sales. The west’s “mostly” average price added \$.005 per lb this week. Some end-users are again in the search for alternative sources for quality protein ingredients, as prices rise and available supplies diminish. Dry whey futures prices continued to move upward this week, and now average \$.462 per lb for the 2nd quarter of the year.

FRED DOUMA’S PRICE PROJECTIONS...

Jan 7 Est:	Quota cwt. \$16.14	Overbase cwt. \$14.44	Cls. 4a cwt. \$16.27	Cls. 4b cwt. \$12.47
Last Week:	Quota cwt. \$15.82	Overbase cwt. \$14.12	Cls. 4a cwt. \$16.24	Cls. 4b cwt. \$11.72

EXPORTS OF MAJOR DAIRY PRODUCTS CONTINUE TO RISE THROUGH NOVEMBER 2010; PRICING FACTORS MAY LIMIT FURTHER INCREASES: *(By J. Kaczor)* The recent surprises in butter, powder, and cheese prices on the CME are certainly welcomed by milk producers throughout the country. It’s hoped they lead to greatly needed increases in milk prices. But they also highlight how poorly suited the industry’s milk pricing programs are in terms of providing buyers and sellers with the means to plan for, or at least to anticipate, future price movements. Not the kind of price movements that normally occur, such as responses to changes in supply and demand resulting from normal seasonal weather patterns and consumer social activities, or even the abnormal results from unexpected blows of various kinds to the system. Those things happen; there are winners and losers; normalcy returns. The failure being referred to is price volatility from an in-grained, deep-seated lack of transparency – the lack of relevant information that should be readily available to those who need to plan well ahead in order to properly manage their businesses.

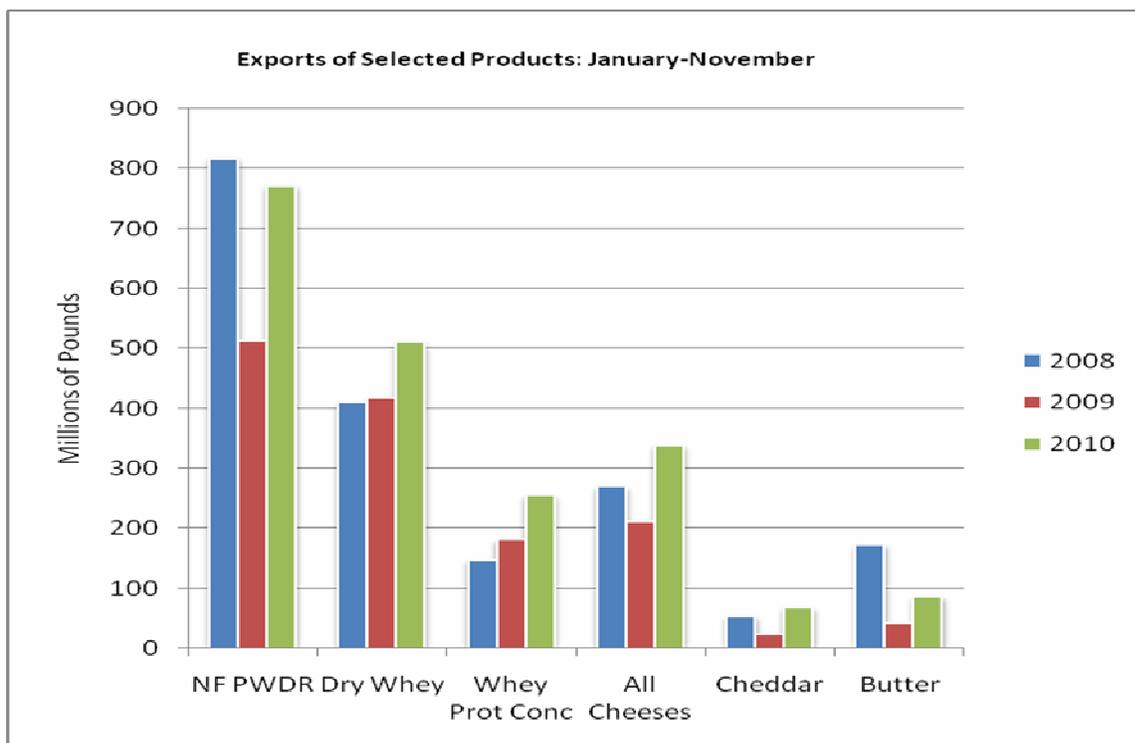
This problem is not new to the U.S. dairy industry but, until recently, it hadn’t been of great concern because milk pricing programs were designed to respond as quickly as possible to current changes in supply and demand for locally produced milk. Unregulated competitive prices for milk used for market balancing purposes, used to make products with long shelf lives, provided an effective, efficient, and transparent means to communicate to buyers and sellers what was happening. That system worked well for more than fifty years but the eventual decline in the volume of grade B milk throughout the country caused it to be replaced with various schemes for a time, and finally with our present system of end-product pricing formulas which, either directly or indirectly, use CME spot prices and reports of recent end-product sales to determine regulated milk prices.

Major criticisms of the present systems are that speculation may play too great a role in short term price movements, CME spot markets for butter and cheese are thinly traded and used unwisely, and market information is not universally shared or available on a timely basis. Those elements result in untimely and volatile price movements – or, perhaps as much of a problem, are seen as likely to do so at anytime in the future, and therefore affect business decisions and planning in ways too many to mention.

One of the reasons why that is of concern is the apparent current consensus within the industry that future growth and prosperity can only happen if the U.S. becomes a major exporter of dairy products. Until five or so years ago, exports of nonfat dry milk and dry whey were the only two dairy products with consistent, meaningful export volumes. That changed in 2007 when a sweet combination of factors pulled the U.S. into a higher bracket; shortages of products elsewhere, growing demand, and a weak U.S. currency transformed the U.S. industry into a viable source for products that couldn’t be gotten elsewhere. The ultimate lesson learned from that opportunity was we had to be reliable, understanding, and competitive. Reliability means the products must be available when needed; understanding means we need to oftentimes commit to prices far in advance of shipments; competitive means our prices need to be no higher than those of other exporting nations, and often much lower.

The graph shown here compares U.S. exports of six product categories for the past three years. The volumes shown for nonfat powders, dry whey, and whey protein concentrates represent significant percentages of the total amount produced of those products.

Following are the exported percentages of production for the periods shown for the products in the graph, for each of the three years.



	2008	2009	2010
Nonfat Powders	47.5%	33.5%	47.0%
Dry Whey	40.3%	56.1%	55.0%
Whey Protein Conc.	38.0%	47.7%	66.3%
All Cheeses	3.5%	3.0%	4.1%
Cheddar Cheese	1.9%	0.8%	2.3%
Butter	11.6%	2.9%	6.1%

All of 2010's volumes are higher than 2009's volumes, and some are very impressive. The pattern of year-to-year percentages of production mirrors the pattern of year-to-year exported volumes. The same consensus of industry that believes a strong export program is necessary for future prosperity also believes the above volumes and percentages of production are not where they have to be for butter and cheese. [The volume of cheddar cheese may be somewhat understated because of product coding and classification issues; a "mixed cheeses" category could include some cheddar.]

What keeps U.S. exporters from selling more butter and cheese? Why did the export volume of nonfat powders and butter drop in 2009? Why are the prices for nonfat powder exports so much lower than prices shown for other major exporters of that product? Why can't the U.S. take part in the massive international market for whole milk powder? Answers to these questions lie **in part** with differences in methods used to price milk in the U.S. compared to methods used virtually everywhere else. **Everywhere else:** a target price is somehow determined at the beginning of the year and adjusted a various times during the year, depending mainly on volumes of milk, products sold, and prices charged. **The U.S.:** prices change monthly by unpredictable amounts based on product values determined in a variety of ways. The reasons why differences in milk pricing methods do not fully explain why the U.S. is so far behind others in international competitiveness, even with its weak currency, is because the U.S. is still considered by many buyers to be the source of last resort, and available risk aversion tools apparently are not being used to the extent they can be. Cheese and butter exporters have available CME's futures prices for class III milk, and cheese and butter futures and options, to hedge against raw product increases on products they commit for future shipments. Some successful exporters make extensive use of those tools; others less so. Before milk producers buy into the idea that they need to produce more milk (solely for export purposes) perhaps it should be clearly explained how that's going to work for them. The price cycles are killing too many.