

Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

801 S. MOUNT VERNON AVENUE - BAKERSFIELD, CA 93306 - (661) 833-2549

E-mail: mpc@milkproducers.org

Website: www.MilkProducersCouncil.org

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0550 \$1.2000
Barrels +\$.0300 \$1.1700

Weekly Average

Blocks +\$.0580 \$1.1700
Barrels +\$.0485 \$1.1540

CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.2600
Weekly Average +\$.0140 \$1.2630

DRY WHEY

WEST MSTLY AVG w/e 07/23/09 \$.3200
NASS w/e 07/18/09 \$.2941

NON-FAT DRY MILK

Week Ending 7/17 & 7/18

Calif. Plants \$.8216 16,930,775
NASS Plants \$.8369 19,917,896

CHEESE MARKET COMMENTS: The market's surprise response on Monday to Friday's somewhat disappointing report on June milk production was to move cheese prices **up another penny per lb**. Tuesday and Wednesday passed with some trading activity but no net price changes – which seemed to show that cheese traders were satisfied that prices for blocks and barrels were each above their support price levels and that was that. Another potential threat to prices came Wednesday after the market had closed for the day when it was reported that cheese inventories at the end of June were 7.6% larger than a year earlier (Cheddar stocks were 7.1% larger). The response was to move block prices up another penny; barrels remained unchanged. These kinds of responses to two clearly disappointing measures of industry supply and demand in a single week **suggest** that there is a growing number among those relatively few insiders who believe that the supply side of the equation is about to tip in favor of higher prices, although *Dairy Market News* (DMN) reporters say “*buyers are not convinced.*” **Well, another three cents was added to blocks and two cents to barrels today in what finally appears to be a market with some foresight.** USDA's export subsidies should continue to add to increased sales, but the total quantity of cheese eligible for those subsidies is not very large; **we need more domestic consumption.** Note: the recent upward moves in cheese prices also convinced many who held positions in lower Class III futures prices to quickly close them out; the average for the October-December period is now \$3.82 per cwt higher than the price for July, and the January-March period is \$4.92 per cwt higher. The next major indicator of market activity is the report on June's dairy product manufacture, to be released on August 4th.

BUTTER MARKET COMMENTS: The report on butterfat products in storage at the end of June showed slightly higher levels than the month and year prior. Trading was very active this week on the CME – 43 truckloads, with prices increasing three days and decreasing one for a net increase of a penny. It appears that buyers have calculated the difference between current prices plus storage costs versus anticipated prices at least in the \$1.40 per lb range before too long. Domestic sales are keeping pace with current production, and production should be headed for its seasonal decline.

POWDER MARKET COMMENTS: DMN says demand for nfdm is steady to slow, depending on the region, and prices have flattened. Some of that powder that was and is being bartered for various other higher value dairy products is competing with current production, possibly on price and certainly on volume. Exports of skim milk powder and nfdm in May were about 56 million lbs lower than last May, but the DEIP subsidies in June and so far in July have found buyers for about 47 million lbs of the good stuff, nonfat dry milk. Sales to the CCC continue to hold down the California plant average price; this week's average price would have been about \$.0125 per lb higher without those sales. That's a business model that's hard to understand. The difference in “mostly” prices between the West and the Central region is about equal to the transportation cost.

WHEY MARKET COMMENTS: Whey Protein Concentrate added another two cents per lb to the West’s “mostly” price this week, and are now higher than they have been since last July. Prices for lactose also moved higher and are now the highest they’ve been in nine months; DMN says inventories are tight and domestic prices may now be higher than prices for export purposes. Prices for dry whey have leveled off, at least for a time, but have doubled (up \$.15 per lb) since January and are now about as high as they have been at anytime in the past four years (with the obvious exception of the 2007 “bubble” experience). Market watchers should wonder if the now profitable stream of whey products will have cheese manufacturers do the wrong thing – add to the already too high inventory of cheese and flush away the profits for whey products. The August 4th report may give a clue to whether this could be happening.

FRED DOUMA’S PRICE PROJECTIONS...

July 24 Final:	Quota cwt. \$ 11.26	Overbase cwt. \$ 9.56	Cls. 4a cwt. \$10.00	Cls. 4b cwt. \$ 9.39
Last week:	Quota cwt. \$ 11.22	Overbase cwt. \$ 9.53	Cls. 4a cwt. \$9.97	Cls. 4b cwt. \$ 9.32

A LOOK AT CURRENT PRODUCTION AND USAGE OF MAJOR DAIRY PRODUCTS: *(By J. Kaczor)*

Following is a recap of how production of some of our major dairy products matches up with domestic usage. The period used is January through May. A comparison is made to the same period one year ago. (May is the month for which we have end-of-month inventory numbers for all of the products included in the recap.) Domestic usage is described here as “disappearance;” once the product leaves a manufacturer’s hands it could be consumed, stored at a customer’s location, or be in transit – it does not necessarily mean the product has been removed from commerce.

- U.S. production of all types of cheese increased by 1.3% and domestic disappearance **increased** by 1.6%. Excellent showing for cheese. The net difference in imports and exports between the two time periods resulted in an increase in the amount to account for of about 34 million more lbs of product in the current period. The amount of cheese counted in cold storage by USDA at the end of this May was 77 million lbs more than a year earlier, and the total amounts to about 35 days of production.
- U.S. production of dry whey decreased by 7% and domestic disappearance **decreased** by 16%. However, the U.S. exported about 23 million lbs more than last year. The amount in storage at the end of this May was 9 million lbs lower than a year earlier, and the total amounts to about 16 days of production.
- U.S. production of butter decreased by 1% and domestic disappearance **seemingly increased** by 18%. The net difference in imports and exports between the two time periods resulted in an increase in the amount to account for of about 74 million lbs. Excellent showing for butter – or is it? The explanation for the surprisingly large “usage” number may be that buyers have been building stocks for use later in the year, but also that USDA throws butteroil and anhydrous butterfat in with butter when they publish their cold storage number for the butter category. The amount of product in cold storage at the end of this May was 16 million lbs less than a year earlier, and the total amounts to about 50 days of production.
- U.S. production of nonfat dry milk and skim milk powder decreased by 2% and domestic disappearance (not counting sales to the CCC) **decreased** by 3%. Exports decreased by 220 million lbs during the current period and government stocks increased by 206 million lbs. The amount counted in manufacturers’ warehouses increased by 65 million lbs, and the total amounts to about 35 days of production.

This brief recap highlights the need to continue to reduce the production of butter and nonfat powders. At present there is little or no export market for them but they are the products that clear the market of surplus milk. Maybe next year.

MPC JOINS OTHER DAIRY GROUPS IN PRESENTING THE HOLSTEIN ASSOCIATION PLAN: *(By Rob Vandenheuvel)* As you have read in recent issues of this newsletter, MPC was invited to present the details of the Dairy Price Stabilization Program – a proposal that is virtually identical to the Growth Management Plan advocated by MPC for the past two years. This past Monday, MPC joined Holstein Association USA and Dairy Farmers Working Together (a groups of dairymen from Vermont) in making the presentation.

The NMPF Task Force, which is made up of 24 individuals from across the country – most of whom are co-op leadership – had a lot of questions about the Dairy Price Stabilization Program. The presentation and ensuing Q&A session lasted about 2 ½ hours, and aired many of the concerns that have been expressed about the plan.

NMPF published a press release following the meeting. For those interested in reading that release in full, it can be found at: <http://www.nmpf.org/files/file/Strategic%20Planning%20Meeting%20072209.pdf>. According to the press release, the Task Force “*is now in the process of conducting a more detailed analysis of the [Dairy Price Stabilization Program], and will meet again in August to review that, and other ideas to reform the milk pricing system.*”

In the meantime, MPC will continue to do what we can to grow the coalition of support for this idea. Groups and individuals throughout the country are recognizing the appeal of the Dairy Price Stabilization Program and logging their support at: <http://www.holsteinusa.com/association/dairyprice.html>. If your cooperative or trade association has not taken a position on the proposal, I would strongly urge you and your fellow owners/members of that co-op/trade association to call your board members and demand that they consider supporting the program. Simply standing back and allowing the status quo to continue should not be an option.

The industry (and Congress – *see below*) is engaged in a debate on the future of U.S. dairy farming, and we need our industry leadership to step up and participate. What do you want the industry’s future to look like? Do you want more of the same? A continuation of the massive boom/bust cycles in our milk price? Or is it time for this industry to consider a rational approach to growth in our industry? The Dairy Price Stabilization Program – as Holstein Association President and California dairyman Doug Maddox has said – allows us to “**produce for the market instead of trying to market all we can produce**” That’s a concept we all should embrace.

SECOND CONGRESSIONAL HEARING HELD IN TWO WEEKS ON THE DAIRY INDUSTRY: *(By Rob Vandenheuvel)* This past Tuesday, the House Agriculture Subcommittee on Livestock, Dairy and Poultry held its 2nd hearing “to review economic conditions facing the dairy industry.” A 3rd hearing has been scheduled for Tuesday, July 28th at 10 am Eastern Time.

Three California Congressmen sit on that Subcommittee, and **they need to hear from you!** They have read the stories in the paper and seen the stories on TV, but they need to hear directly from the dairy farmers about the massive pain being felt in this state. **California’s dairy farmers have been hurting longer than any other state in the nation, and our three Congressmen on that Subcommittee should be the most active and vocal members at these hearings.**

So whether you live in their district or not, **I urge all of you to call the three offices below and let them know what you and your family are going through.** Let them know that this is a time for our elected officials to demonstrate the leadership we entrust to them.

- Congressman Joe Baca (D-Ontario) - **(202) 225-6161**
- Congressman Dennis Cardoza (D-Modesto) - **(202) 225-6131**
- Congressman Jim Costa (D-Fresno/Hanford/Bakersfield) – **(202) 225-3341**

Don’t be shy. For the sake of our industry, we need these offices to hear from all 1,700 producers in California, all their family members, their feed salesmen, their bankers, their accountants, etc. **Get on the telephone and make the calls;** the 10 minutes you take out of your day will make a difference.

ATTENTION CENTRAL VALLEY DAIRIES – GRANT FUNDS AVAILABLE FOR YOUR ENGINEERED WASTE MANAGEMENT PLAN: *(By Rob Vandenheuvel)* As our Central Valley members undoubtedly know, over the next year each facility will need to develop a “waste management plan” (WMP) as part of their compliance with the new water quality regulations. The WMP, which must be submitted to the Regional Water Board by July 2010, requires the expertise of a registered civil engineer to develop and certify the plan.

USDA’s Natural Resource Conservation Service recently announced that \$1,200,000 is available “for protecting water quality by helping dairy operators improve their manure utilization systems.” These funds can be used to hire a civil engineer to have this work done. I’d like to thank our fellow trade association – Western United Dairymen – for their work in helping to secure this funding.

The deadline for submitting an application is July 31st. For those of you interested in applying for these funds, please contact MPC’s Central Valley Representative Betsy Hunter at (661) 205-6721 or contact your local NRCS office.