

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0150 \$1.1375
Barrels - \$.0325 \$1.0550

Weekly Average

Blocks - \$.0135 \$1.1435
Barrels - \$.0250 \$1.0670

CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.2400
Weekly Average +\$.0085 \$1.2355

DRY WHEY

WEST MSTLY AVG w/e 05/07/09 \$.2525
NASS w/e 05/02/09 \$.2130

NON-FAT DRY MILK

Week Ending 5/01 & 5/02

Calif. Plants \$.8081 19,752,167
NASS Plants \$.8233 27,374,337

CHEESE MARKET COMMENTS: Cheese prices continued to decline this week on the CME as demand, particularly for barrel cheese, continues to lag behind production. Barrels ended the week 4.5 cents per lb below support, which could mark the point below which offers to the CCC begin to be made. Prices lost ground Monday through Thursday but were unchanged today – perhaps a sign that enough is enough. *Dairy Market News* reports there doesn't seem to be much medium or aged Cheddar available and yet production of cheese in March, reported on Monday, was an all-time high, and this week there were reports that some plants didn't have enough orders to even run full production schedules. **Are prices not low enough?** Consumers are eating out less, buyers have less need to carry large inventories and have less money to buy, and plants are left with more cheese than they want and yet they continue to produce for a market that doesn't seem to be willing. Very little seems to make sense at this point. The University of Wisconsin report we mentioned several weeks ago had it right: **the path for cheese price recovery – and therefore milk price recovery – is going to come from U.S. consumers.** The Administration's economic stimulus program delivers checks for \$250 to each Social Security recipient this month. That should help. The Class III futures market appears to reflect a "prove it to me" attitude regarding future milk production and usage. NASS reports the number of dairy cows culled for the third week in a row was slightly lower than the same week a year earlier, presumably a sign that producers who have bid to have their herds eliminated through CWT's latest herd removal program have stopped culling as directed by CWT.

BUTTER MARKET COMMENTS: Butter production in March was about 5% lower than a year earlier, according to NASS's report released on Monday. That is exactly what this market needs because of the virtual disappearance of demand from international buyers. The butter price advanced another penny per lb this week on the CME, and the futures market sees another twelve or so cents to be a reasonable possibility by September.

POWDER MARKET COMMENTS: The price for extra grade nfdm on the CME moved up another half cent per lb this week, to \$.86 per lb. All other price measurements for nonfat powders were virtually unchanged. Surplus powder from the Western region continues to be moving to buyers in the Central region and, from California plants, to the CCC. The weekly offers to CCC appear to continue to be moving lower. DMN observes that, so long as nfdm continues to be offered to the CCC at \$.80 per lb, buyers seem to believe they do not have to bargain over price levels. However, the CME futures market continues to see nfdm prices above \$.91 per lb by September. Demand for other powders definitely are moving up: prices for buttermilk powder continue to increase and are now within six cents per lb of nfdm prices in the West, and prices for whole milk powder are an astounding \$.25 per lb above nfdm.

WHEY MARKET COMMENTS: The market for dry whey continues to be firm and prices continue to edge upward. Fairly strong demand from the export market is definitely helping. Production of dry whey in March was lower than a year earlier, and inventories were also lower. The market for whey protein concentrate seems to

have steadied, and DMN reports that some manufacturers have switched back to producing dry whey now that those prices likely cover more than costs. Rounding out the field, even lactose prices are again moving in the right direction, but slowly.

FRED DOUMA'S PRICE PROJECTIONS...

May 08 Est:	Quota cwt. \$ 11.44	Overbase cwt. \$ 9.74	Cls. 4a cwt. \$ 9.94	Cls. 4b cwt. \$ 9.56
Last week:	Quota cwt. \$ 11.47	Overbase cwt. \$ 9.77	Cls. 4a cwt. \$ 9.91	Cls. 4b cwt. \$ 9.66

UPDATE ON USDA'S PROGRAM TO DISPOSE OF SURPLUS NONFAT DRY MILK: *(By J. Kaczor)*

Six weeks have passed since U.S. Secretary of Agriculture announced that about 200 million lbs of the nonfat dry milk that had been purchased by the Commodity Credit Corporation under the price support program is being transferred to USDA's Food and Nutrition Service (FNS) for use in its domestic feeding programs. At a basic level, that initially involves about 4,400 trailer loads of product moving from California plants and warehouses to staging points throughout the U.S. It was described as a **massive program** in MPC's report on March 27th, and it is all of that. Here's a brief recap of the program and an update of what has happened so far, and what remains to be done.

The purpose of the program is two-fold: to assist milk producers by removing a huge amount of an important dairy commodity from "over-hanging" the market by making it available to another agency who can use the commodity to supplement its fifteen domestic feeding programs which affect close to one fifth of the U.S. population. The plans for use of the nonfat dry milk include trading some of it for low fat cheese, prepared soups, and UHT milk in consumer-size packages. Some will be shipped to plants where the powder will be de-bagged and converted to instantized powder and repackaged into consumer-sized packages. Some of it will be donated to states to prepare food for use in school lunch programs.

Currently, most of the activity is in the planning stage. Warehouses, plants, and food manufacturers are being contacted and evaluated as to their willingness and ability to perform whatever is needed to be done on schedule, contract terms and conditions are being drafted to confirm commitments, negotiations of the terms for trading nonfat dry milk for non-similar products are on-going, and transportation is being pre-arranged. (The 4,400 trailer load shipments of product mentioned above is just the start; that gets the nonfat dry milk out of the government warehouses to wherever. Next comes the job of getting the bartered or re-formulated products to the tens of thousands places around the country where they will be consumed.) The key to success of this program is how much and what kind of additional food, generated from FNS's use of the nonfat dry milk, will reach FNS's needy clients. Regarding that question, an FNS principal replied this week "There's going to be a whole lot more dairy products used around the country this year." That suits me just fine.

FONTERRA'S MAY 5TH AUCTION POSTPONED ONE WEEK: *(By J. Kaczor)* The auction manager encountered a software problem in mid-auction last week, and terminated the process. Fonterra announced that it will be re-done on May 12th. A recap of the results will be made in next week's *Update*.

A REPORT ON THE TASK FORCE MEETING: *(By Sybrand Vander Dussen, MPC President)* This past Monday, the Industry Task Force met to review the presentations made in the three industry-wide meetings conducted in February and March. For those who may not recall, these three meeting were held to educate the task force (and those producers who attended) on major issues facing the dairy industry – both in California and throughout the U.S.

Two weeks ago, I authored an article in this newsletter with a summary of those meetings and my take-aways. If you missed that article from two April 24th, I'd encourage you to take a look on the MPC website: <http://www.milkproducerscouncil.org/updates/042409.pdf>.

Below is a list of the issues we discussed at the meeting, as well as the task force discussion that ensued for each item:

ISSUE	TASK FORCE DISCUSSION
Modeling what a Federal Milk Marketing Order for California would look like	Not now, perhaps at another time.
Canadian Quota System	No.
CWT	The task force sent a letter to National Milk Producers Federation encouraging them to be aggressive with the funds they have available.
Growth Management Plan	There is wide interest to take this plan to the next level.
CDFA	Much discussion on areas needing attention.
Marketing	Problems discussed and explored.
Product Innovation	Discuss later.
Import/Export	Much discussion.

My take-away is that the most available sea-change we can explore to mitigate the present catastrophe in our industry is the Growth Management Plan (GMP). As our readers know, economists from Cornell University have analyzed the GMP and said that this is a concept worth exploring. Dr. Chuck Nicholson made a very compelling presentation at the first industry-wide meeting held on February 19th and producers that heard Dr. Nicholson's presentation at that meeting showed great interest in pursuing the GMP.

As a follow-up, members of the task force believe that having another set of eyes analyze the program would be valuable. Dr. Richard Sexton, an Ag Economist at the University of Davis, will be asked to provide this analysis. A subcommittee of task force members was formed to work with Dr. Sexton, and a follow-up conversation to review his findings is scheduled for May 27, 2009.

As stated many times in this newsletter, oversupply lies at the root of all our problems, in that it forbears decent returns on our product, keeps the industry from being creative in marketing, and nullifies efforts by coops to achieve higher prices. Our coops, because we oversupply, are in a tough position to get more value out of our products from the market. The oversupply of milk forces those who market milk to do whatever they can to sell that milk, even if those decisions are not in the best financial interests of the dairymen.

There are those in our industry that look at the GMP with a skeptical eye. This I do not understand. Supply and demand imbalance is simply not smart, not conducive to marketing, and is the first rule to follow in any successful economic model. We as an industry seem to refuse to accept that. As long as that mentality rules, we are doomed.

I am delighted that the task force is exploring this option. I look forward to Dr. Sexton's analysis, and will do what I can to further this concept. If anyone has any questions or comments for the task force, I urge you to get in touch with one of the task force members. Feel free to fax any questions or concerns to MPC at (909) 591-7328. You can also email your thoughts to mpc@milkproducers.org.

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