



# Milk Producers Council

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**DATE:** February 4, 2011  
**TO:** Directors & Members

**PAGES:** 3  
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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0750 \$1.8100  
Barrels +\$.0700 \$1.7750

### CHICAGO AA BUTTER

Weekly Change N/C \$2.1000  
Weekly Average N/C \$2.1000

### NON-FAT DRY MILK

#### Week Ending 1/28 & 1/29

Calif. Plants \$1.2495 19,137,866  
NASS Plants \$1.2842 24,643,145

### Weekly Average

Blocks +\$.1050 \$1.7785  
Barrels +\$.0965 \$1.7410

### DRY WHEY

**WEST MSTLY AVG** w/e 01/28/11 \$ .4200  
**NASS** w/e 01/29/11 \$ .3996

**CHEESE MARKET COMMENTS:** Prices on the CME again advanced for both styles this week, but the market was a lot less hot than last week. Blocks increased each day, from two sales and a handful of bids. The barrel price increased by three bids; two sales were made at existing prices midweek. Sales are reported to be good. The amount of cheese in cold storage is still at historically high levels. There doesn't appear to be anything in the way of news or market developments that will convince buyers and potential buyers to not keep bidding. The impetus could be a belief that milk production will be affected by what seems to be an ever increasing level in feed costs. February's class III milk futures price increased by \$2.07 per cwt this week (to \$18.50, the year's high); those traders are believers, at least for the short run, and they apparently like it better when bids are unfilled than when someone brings product to the market. On Wednesday, two carloads were sold – one at the current price and one \$.025 per lb higher, and the futures market panicked. Two more days with unfilled bids calmed things down. Class III futures prices this week increased for all months through September, by far lesser amounts than February's, and fell by small amounts in the last quarter; December, at \$15.73, is the year's low.

**BUTTER MARKET COMMENTS:** Butter prices are stuck on \$2.10 per lb – and it's February! It's now been twenty trading days without a change. This week the price appears to have been tested; two sellers offered a total of five carloads of product at the current price. The offers were accepted and that was that. The NASS weekly average price has climbed to within pennies of the CME spot price. Despite the high prices, sales continue to be strong. Production jumped in December by 25 million lbs but sales (including exports) increased by 13 million lbs. Still, the amount in storage at the end of December was 49 million lbs lower than the previous December. The apparent global shortage of butterfat is not so much a result of lower milk production; major exporters in Oceania and Europe are simply shifting production to cheese (Europe) and to whole milk powder (New Zealand) in response to the demand they have for those higher valued products. Let it continue.

**POWDER MARKET COMMENTS:** One canny seller in the northwest accepted some requests from bidders over the past several weeks, and pocketed somewhere around \$200,000 net profit for the trouble. Good move, that. Seven carloads of grade A powder were sold on the CME spot market this week which, along with one unfilled bid moved the price up by \$.0625 per lb. Three unfilled bids for extra grade powder moved that price up by \$.09 per lb. The NASS price for shipments last week increased by \$.024 per lb; the California plant average price increased by \$.019 per lb (Prices and volumes are shown above.) The action on the spot market, supported as it is by increases in NFDM futures prices and by more increases in Fonterra's global auction this week, suggests that it's only a matter of time before the badly lagging price movers (NASS and CWAP) beef up. DMN reports good to very good demand for NFDM, including the very strong market for exports, but little apparently being made available to those who are not covered by existing contracts. The "mostly" price ranges increased again this week, particularly on the high side – \$1.30 to \$1.60 per in the west and somewhat higher in the central and eastern regions. There's definitely money to be made in the resale market by those that were smart enough to see what was going to happen. USDA reported this week that 144 million lbs of NFDM were in stock at the end

of December. Production of buttermilk powder is increasing; the market is firm and prices are edging up, below but in step with NFDM prices. Production of whole milk powder in December fell sharply from November; DMN is finding that manufacturers cannot afford to produce whole milk powder because the components are more valuable and useful than the finished product.

**WHEY PRODUCTS MARKET COMMENTS:** Production of dry whey, whey protein concentrates, and whey isolates continues to increase in response to very good domestic and export demand. The NASS average price for shipments of DW last week is within mils of \$.40 per lb. CME futures prices continue head higher; prices for February through August are above \$.50 per lb; March, at \$.565 per lb, is the high for the year. DMN says buyers without contracts continue to be frustrated by their inability to buy product. That makes for a very nice re-sale market, with some sales reported at \$.4325 per lb. The average weekly price for WPC (34% protein) reached \$1.04 per lb.

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**FRED DOUMA’S PRICE PROJECTIONS...**

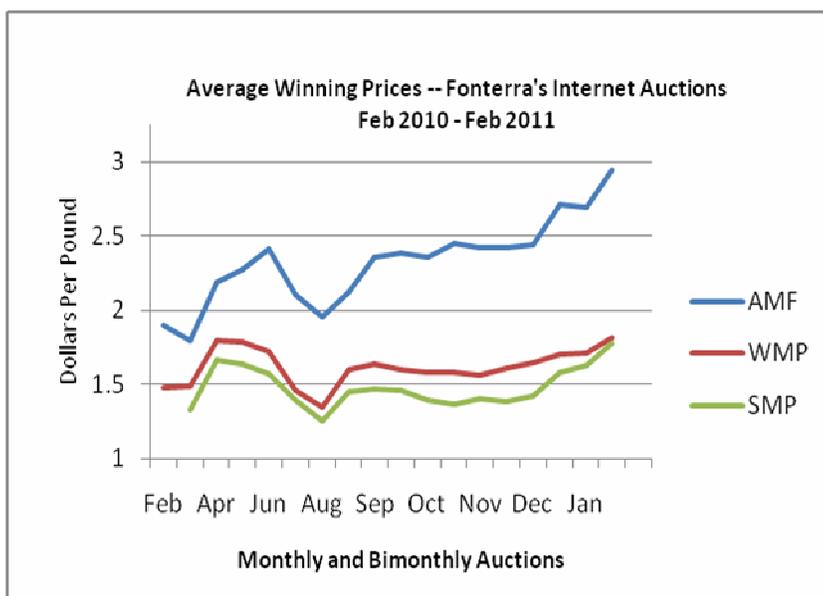
**Feb 04 Est:**        **Quota cwt. \$17.94**    **Overbase cwt. \$16.24**    **Cls. 4a cwt. \$17.47**    **Cls. 4b cwt. \$16.12**  
**Jan '11 Final:**    **Quota cwt. \$16.22**    **Overbase cwt. \$14.52**    **Cls. 4a cwt. \$16.49**    **Cls. 4b cwt. \$12.49**

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**PRICES ADVANCE SHARPLY IN FONTERRA’S LATEST INTERNET AUCTION; ARE THEY REAL AND SUSTAINABLE?** (By J. Kaczor) The latest forecasts of total milk production for 2011 in the major dairy product exporting countries appears to be centering on an increase of about 2% over 2010. Production in New Zealand and Australia, for the year ending in June, now looks like it may be about 1.5% higher than the previous year, and production in the U.S. and Western Europe for the full year looks like it may be about 2.5% higher. Based upon what’s happening to prices for internationally traded dairy products, a 2% increase in total milk production may not be enough to satisfy total global demand for those products. The latest bit of data supporting that belief comes from this week’s *globalDairyTrade* auction.

Winning prices in Fonterra’s internet auction came in sharply higher than those two weeks ago. The bidding was active. 112 bidders participated; 51 were successful. Most had to stay active through ten rounds of successively higher prices in order to secure the volume they wanted. Prices for the 1<sup>st</sup> contract, **for deliveries in April**, which covers about one half the total volume available for each of the product categories, were \$1.80 per lb for WMP (up \$.12), \$1.72 per lb for SMP (up \$.08), and \$2.89 per lb for AMF (up \$.05). The weighted average price increases for the seven months covered by this auction were 5.7% for whole milk powders, 9.3% for skim milk powders, and 9.1% for anhydrous milkfat. [Demand for AMF is rightly considered to be indicative of demand for butter.]

The graph to the right shows what’s been happening to the weighted average prices in this auction over the past thirteen months. It’s important to understand these prices are current transactions that are forward looking, in that this week’s auction is for deliveries of products for the period running from April through October. It’s encouraging to note the \$1.72 per lb winning price for deliveries of SMP in April is only slightly higher than this week’s CME closing spot prices for extra grade NFDM (\$1.69 per lb). Even more encouraging is the fact that the winning prices for SMP for the May-July and August-October delivery periods increased by greater amounts than the increase for April – 12% and



14%, respectively. The concern about product availability for AMF and SMP later this year is clearly evident from the prices bid. In fact, the SMP price for the 3<sup>rd</sup> contract period is \$1.86 per lb, \$.05 per lb higher than the price for WMP for that period, and the AMF price is at a record high.

To the extent **the auction reflects international buyers' current decisions to accept future deliveries at committed prices**, they perhaps could be considered one of the more reliable indications of international supply and demand. Despite some continuing objections to the contrary about whether these auction prices represent a fair picture of product value, their fairness and reliability is supported by the New Zealand's stock exchange's decision to use the auction's WMP spot month prices as the basis to cash-settle their recently established WMP futures contracts, and to use the SMP and AMF spot prices to cash-settle futures contracts for those products beginning this month. NZX reports options for all three products will also be introduced later this year.

But the price rises do raise questions. There is concern that history may repeat itself. Dairy commodity prices are approaching levels that were reached in 2007 and 2008, which were not sustained. The price for AMF is now above the peak price reached three years ago. The weighted average auction prices for the two powders shown in the graph (which include the effects of the greater increases for deliveries through October) are about double where they were two years ago, but still have not reached the 2007-2008 levels. So it's right to be concerned. Prices did and will again respond to factors which cannot be forecast and over which there is little or no control. But the two situations are different for a number of reasons. Perhaps the most important of them is the fact that a global recession and financial crisis began back then; now, the recovery is underway, but slowly. Other differences include the surprise factor back then, which spurred speculation and over reaction at all levels in the industry. Now, surprises continue and questions are rightly being asked. Is butter over-priced at \$2.10? Is grade A powder on the CME right-priced at \$1.72? How can cheese prices continue to increase when record high stocks continue month after month? Will milk prices reach high enough levels and stay there long enough for producers to balance their books, retire some debt, and to again see a worthwhile future?

**DECEMBER'S ADDITIONAL MILK PRODUCTION IS CLEARED TO BUTTER, POWDER, AND CHEESE PLANTS:** *(By J. Kaczor)* Milk production in December increased by 670 million lbs over November, and class 1 usage is expected to be come in at about the same as November, but lower on a per day basis. As expected, it looks like the entire amount of the additional milk produced was used to make cheese, butter, and powder. The system works, even when the weather doesn't cooperate.

Cheese production increased by 21.4 million lbs in December, which used about one third of the additional milk produced during the month. American cheese production accounted for 91% of that increase, 19.5 million lbs, most of which was Cheddar. The rest of the additional milk was separated into cream and skim, and was converted into 24.8 million lbs of butter and 33.7 million lbs of nonfat powders.

Here's the good news: sales (or "disappearance") during the month for Cheddar cheese, butter, and nonfat dry milk each exceeded production during the month. Changes in end of month stocks, reported earlier for cheese and butter, and this week for NFDM, when compared to changes in December production show that American cheese sales outpaced production by more than 12 million lbs, sales of butter by about 13 million lbs, and sales of NFDM by about 7 million lbs. Small successes, those, but very welcome nonetheless. However, total cheese stocks increased by more than the increase in total production. That likely means Mozzarella production was geared up to handle normal winter holiday and super bowl pizza usage, which is certainly good news for most of us.

**LATEST "DAIRY CARES REPORT" POSTED ON OUR WEBSITE:** *(By Rob Vandenheuvel)* The January 2011 "Dairy Cares Report" has been posted at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the efforts in the Central Valley to establish the Central Valley Dairy Representative Monitoring Program (CVDRMP). Signup for this cost-effective regional approach to groundwater monitoring has been very successful, with more than 880 dairies enrolled in the effort to date. I encourage you to check out the January Dairy Cares Report to learn more about next steps for this program.