

Milk Producers Council

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NO. OF PAGES 2
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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.1750 \$1.8150
Barrels -\$.1000 \$1.9000

Weekly Average

Blocks -\$.1925 \$1.9085
Barrels -\$.1595 \$1.9295

CHICAGO AA BUTTER

Weekly Change -\$.0025 \$1.3700
Weekly Average -\$.0115 \$1.3820

DRY WHEY

NASS w/e 9/15/07 \$.4719 WEST MSTLY AVG w/e 9/15/07 \$.4050

NON-FAT DRY MILK

California Weekly Average Price

Week Ending	Price	Volume
September 07	\$2.0549	8,358,378
September 14	\$2.0387	18,122,744

CHEESE MARKET COMMENTS: A mid-week semi-rally in prices on the CME turned into a Friday semi-disaster. The net decrease for the week for blocks was 17.5 cents, and 10 cents for barrels. The biggest piece of hope (a glimmer, really) is the inversion of prices between blocks and barrels. Blocks are now about 11.5 cents below where they are normally relative to barrels. Observations offered in prior weeks here bear repeating: cheese production is steady, demand is steady, and inventories are steady. USDA reports that buyers are in disagreement over where prices should be at this time. O.K., few if any would say the right price level should be above \$2.00 per lb, but to have 2 successive weeks show a double digit single-day price decrease has never happened before, and there is no accounting for it. This week's price drop means that buyers whose prices are tied to the market's weekly average price will again be on the sidelines next week. Longer term, that could be bullish; pent-up demand is good demand. The report of how much cheese was produced in August is due out on October 4th.

BUTTER MARKET COMMENTS: Prices on the CME this week began to show some stability. A small decrease on Monday was followed by a 2 cent **increase** on Tuesday, and then no movement until today's 2 cent decrease. The softness of this market still appears to reflect a concern about the level of inventories, and the understanding that more cream is available for churning. Buyers are understandably not willing to commit themselves to large purchases until something, perhaps only passage of a little time, changes the picture.

NONFAT DRY MILK: USDA reports that nfdm production is beginning to slow down simply because less milk is available for drying. School milk usage is fully back, and cheese production is beginning to pick up. Domestic prices are generally steady, and the low end of the price range in New Zealand (for the limited product that is available) is \$2.14 per lb. The latest NASS price (for last week) is \$2.0412 and the California average is \$2.0387. The sales volume reported by California plants is more than double the previous week. Indication of how much export volume is included in those sales may be gotten by what change shows up in the monthly average price for exports that is reported by U.S. Customs.

WHEY MARKET COMMENTS: Users of dry whey are still playing the waiting game by limiting their purchases to current needs, curtailing operations, and, in some cases, continuing to use non-dairy proteins instead of dry whey. The wait is for prices to bottom out. It's a dicey game, because of the huge amount of whey that is exported. The amount of whey available for domestic usage is less than half of what is produced; so one more sizable purchase for exporting could sharply and quickly change the supply-demand equation. Meanwhile, prices continue their slide downward. This week's average of the western "mostly" is 40.5 cents, down about 50% from its high just 2 months ago. Inventories of dry whey, MPC, and lactose held by manufacturers are said to continue to grow, and deals are being offered to clear some of the product.

FRED DOUMA'S PRICE PROJECTIONS...

Sept 21 EST: Quota cwt. \$21.61 Overbase cwt. \$19.91 Cls. 4a cwt. \$21.57 Cls. 4b cwt. \$19.30

USDA REPORTS AUGUST MILK PRODUCTION STATS: (by J. Kaczor) Which headline is most appropriate?

1. August milk production increases by 3.4% above last August; cow numbers increase by 54,000.
2. August milk production decreases by 1.1% below July; cow numbers increase by 11,000.

Both statements are correct, but number 2 is more relevant in terms of how the milk was used (which will be reported on October 4th by USDA), whether there was capacity to handle it, whether it was normal, and what those changes suggest for September and beyond. Plant capacity was tight and the production pattern was normal. The U.S. pattern, outlined in the above headlines, is mirrored by California, which added 47,000 cows from last August (with production up 4.9%), and 6,000 from July (with production unchanged). California's year-to-year increase in cow numbers is largely explained by last year's herd having been depleted by last July's extreme heat. Without that restocking, the U.S. milk production figure would have been only 1.2% above last year's level.

So? So, it's too soon to conclude that the recent record high milk prices are causing run-away increases in milk production. In fact, the production pattern is continuing to follow what was expected (with a few exceptions). Cow numbers increased above last August in 10 of the 13 largest milk-producing states and decreased in the other 3. The biggest surprise was New Mexico, which lost 27,000 cows. Another was the fact that cow numbers in Texas have been virtually unchanged since April, but reports from the north Texas area are assuring of more milk when it is needed for Hilmar's new production plant.

On a related note, the latest report of livestock slaughter was released today. During August there was 5,000 fewer dairy cows culled than last August, but over the 1st 7 months this year, 133,000 **more** were culled than during the same period last year. And yet, the milking herd in August was 54,000 **larger** than last August. That seems to mean there are improvements in both quantity **and** quality.

Lastly, USDA also reported today the amount of butter and cheese held in storage in August. Butter storage was 4% below July's figure but 21% above last August. The quantity in storage now represents about 2 months' production. Cheese storage was 2% below last August and July. The quantity in storage now represents about 28 days' production -- a very positive note.

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