

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 +\$.0625 \$1.5000
Barrels +\$.0700 \$1.4925

Weekly Average

Blocks -\$.0060 \$1.4460
Barrels -\$.0330 \$1.4490

CHICAGO AA BUTTER

Weekly Change +\$.1075 \$1.3500
Weekly Average +\$.0640 \$1.3065

DRY WHEY

WEST MSTLY AVG w/e 10/22/09 \$.3425
NASS w/e 10/17/09 \$.3202

NON-FAT DRY MILK

Week Ending 10/16 & 10/17

Calif. Plants \$.9852 9,865,111
NASS Plants \$1.0460 9,269,411

CHEESE MARKET COMMENTS: Virtually all of last week's loss of \$.0725 per lb for blocks was recovered this week, and barrel prices came along for the ride. It looks like the offers that were made last week may in fact have been from a few plants wanting to adjust inventories. If so, they paid a dear price – four sales occurred on Tuesday at \$1.3975 per lb, and then rose \$.1025 per lb over the next three days. USDA's report on the amount of cheese in storage at the end of September, released yesterday, shows that recent cheese sales (June, July, August) have been increasing by slightly less than the amount produced, although the trend line in month-to-month inventory increases had flattened in August and turned downward in September. Still, there was 136 million more lbs of natural cheese in storage on September 30th than a year earlier. It appears that buyers and sellers may be looking beyond the immediate sales situation (which is fairly positive) and trying to see where cheese production may be three to six months from now.

BUTTER MARKET COMMENTS: It's beginning to look like the butter market is on fire. After falling to a base range of \$1.09 per lb to \$1.11 per lb from January 20th to February 20th, butter prices on the CME rose three times to the \$1.27 per lb level, and each time fell back to below \$1.20. Until this week, that is, when buyers wanting butter **now** pushed or pulled the price up to \$1.35 per lb, an increase of \$.1075 per lb for the week. It looks like what experts call a technical breakthrough, but it may be more than just that. The increases are probably a combination of lower butter production, steady overall domestic demand, the awareness that less milk will be available in the U.S. for all usages for some time, **and reports that European buyers are again asking around.** In other words, the reasons seem to be foresight and expectation of still higher prices. Yesterday's report on the amount of butterfat products in cold storage on September 30th didn't disappoint; it was about what was expected (44 million lbs higher than last September 30th; 19 million lbs less than on August 31st). The focus appears to have been on the change from August because prices rose \$.03 per lb today. CCC continues to approve subsidized exports, 9 million lbs of butterfat so far in October (for deliveries ranging out to next May). The report on how much butter was produced in September, due out on November 4th, could show that butter production decreased 6 consecutive months for the first time since 2003. The European interest in purchasing U.S. butter, first heard by *Dairy Market News* (DMN) analysts on Monday, apparently is forward thinking by the Europeans, for next year. This, despite a reported 480 million lbs of butter presently in storage in Europe.

POWDER MARKET COMMENTS: The good news is that prices for nonfat dry milk, whole milk powder, and buttermilk powder continue to increase as demand remains strong and supplies struggle to keep up. The bad news for California producers is that it appears they are again about to be thrown under the bus. For several weeks now, the **full range of prices** reported by DMN for the seven Western states has been 5 to 7 cents per lb above the weighted average reported by California plants, the latest report (for last week, reported above) has the California plant average a full 6 cents below the NASS prices. DMN also reported this week that the European Dairy Management Committee has terminated its subsidies for exports of skim milk powder, and reduced its

subsidies for butterfat products. That could influence USDA to suspend or cut back on DEIP allotments for nonfat dry milk exports.

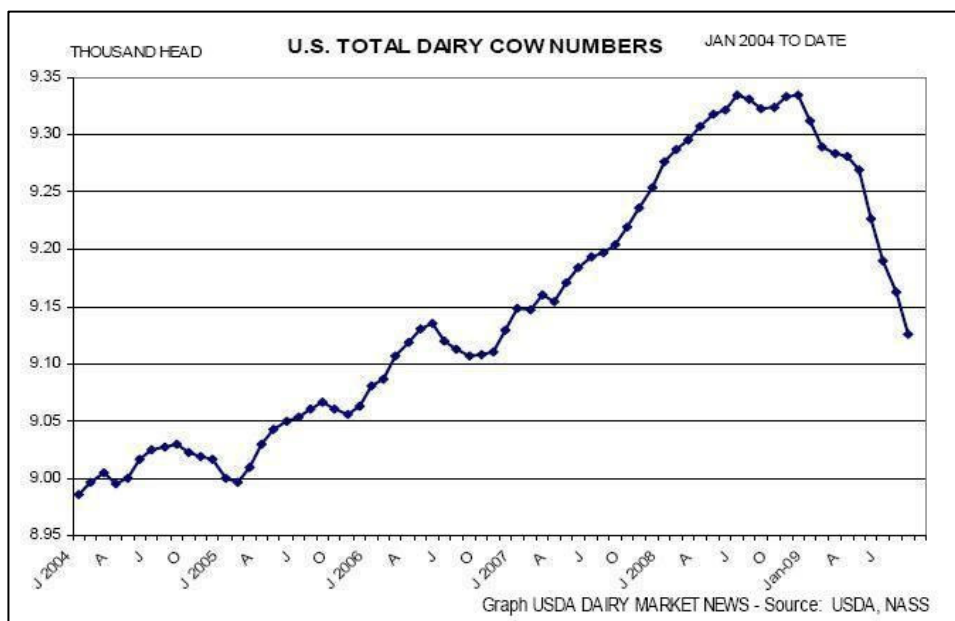
WHEY PRODUCTS MARKET COMMENTS: Prices for dry whey continue to advance; the West’s “mostly” price this week added 1 cent per lb. DMN reports that the price strength is influenced more by the remarkable rise in nonfat dry milk prices than by increased demand. In fact, production and sales for dry whey appear to be fairly well balanced and manufacturers may be helping to keep it there. Prices for whey protein concentrate also increased, partly because of prices for other U.S. dairy proteins, but also because of very strong international prices.

FRED DOUMA’S PRICE PROJECTIONS...

Oct 23 Final:	Quota cwt. \$ 13.60	Overbase cwt. \$11.90	Cls. 4a cwt. \$11.51	Cls. 4b cwt. \$12.69
Last week:	Quota cwt. \$ 13.56	Overbase cwt. \$11.86	Cls. 4a cwt. \$11.45	Cls. 4b cwt. \$12.64

USDA REPORTS FEWER COWS AND LESS MILK IN SEPTEMBER: (*J. Kaczor*) Tuesday’s USDA report on estimated September milk production had the number of cows producing milk in the U.S. decreasing for a ninth consecutive month. There were 197 thousand fewer cows in September than a year earlier (the number includes dry cows) producing an average of 24 more lbs of milk for the month. USDA’s quarterly adjustments to earlier reports, resulting from more complete data, resulted in some upward adjustments to production figures for April through August, but did not change the direction of the downward trend for those months. Milk production has now been lower than the same months a year ago since July. If four of the twenty-three largest producing states had not expanded their herds, cow numbers would have decreased by a total of 214 thousand head.

The total decrease in milk production is still not what many believe is needed to result in a sufficient tightening of U.S. supply relative to demand in order to generate milk price increases in the \$5 to \$7 per cwt range. The percentage decrease in production for September is 0.7%, while the percentage decrease in number of cows, compared to the previous September was three times as large, 2.1%. The increase in production per cow of 24 lbs amounted to 1.5% above last September and explains the lack of a direct connection between number of cows and milk production. Nonetheless, **there was 7 million lbs less milk per day available in September than in August.** If milk for fluid usages and “soft” manufactured products in September continued about where they have been in previous months, that 7 million lb per day shortfall should show up as a lot less cheese, powder, and butter production when USDA reports dairy product production for the month, on November 4th. Current market prices for these major dairy commodities, reported on page one of this *Update*, are well past that point and are reflecting the current tightening of supply resulting from a continuing reduction in “surplus” production.



The accompanying graph shows the dramatic reduction in cow numbers that has occurred since last December. Clearly, most of the credit for that reduction goes to CWT’s massive efforts to “shock” the system out of its

expansion mode. The September U.S. dairy herd was within 53 thousand of where it was in 2005. October is expected to be even closer to that goal, and once the current CWT herd removal program is completed in December, it's possible that a full five years of expansion, at least in terms of number of cows, will have been eliminated. Well done, but not easily done nor satisfactory, because of the financial losses and carnage that is reflected by cut backs of that magnitude in such a short period of time.

It shouldn't have to be that way. There is a program being readied for Congress to consider, which would provide the industry with the means to manage production in a way that invites individual producers to grow while at the same time rewards those who maintain their production within agreed upon limits. Here's hoping that National Milk Producers Federation sees the merits of a program like that, and realizes that the best long term role for CWT is not to kill cows but to use its resources and their knowledge to develop a program to facilitate dairy product exports worthy of this great industry.

CDFA ANNOUNCES HEARING ON ALL FIVE CLASS FORMULAS: *(By Rob Vandenheuvel)* This week, the California Department of Food and Agriculture (CDFA) **announced they will be holding a public hearing on Monday, November 9th to consider changes to the formulas for all five classes of milk.**

As I reported in the newsletter two weeks ago, this process began with the Alliance of Western Milk Producers (*which represents California Dairies, Inc. and Dairy Farmers of America's Western Area Council*) sent a petition to CDFA requesting a hearing to permanently increase the Class 1, 2 and 3 prices by \$0.50, \$0.26 and \$0.26 per hundredweight respectively. These are roughly the amounts that CDFA reduced these three class prices by in January 2009 after a public hearing last fall.

Last week, prior to CDFA calling for the hearing, Western United Dairymen submitted an additional hearing petition, asking for a temporary price increase of \$0.50 per hundredweight in the prices for all five classes of milk.

After receiving both these petitions, CDFA announced they would be holding a hearing to consider these two proposals, and "any other temporary or permanent changes to the Class 1, 2, 3, 4a, and 4b pricing formulas...that are raised by alternative proposals."

As always, MPC will be participating in this hearing on behalf of our members. More information on the hearing will be provided in upcoming issues of this newsletter, so stay tuned.