

Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.1300 \$1.8100
Barrels -\$.1600 \$1.7925

CHICAGO AA BUTTER

Weekly Change -\$.0025 \$1.7450
Weekly Average +\$.0185 \$1.7580

NON-FAT DRY MILK

Week Ending 9/26 & 9/27

Calif. Plants \$1.1537 10,169,087
NASS Plants \$1.1720 15,901,552

Weekly Average

Blocks -\$.1230 \$1.8450
Barrels -\$.1305 \$1.8180

DRY WHEY

NASS w/e 9/27/08 \$.2100 WEST MSTLY AVG w/e 10/2/08 \$.1850

CHEESE MARKET COMMENTS: The closing comment here last week was “looking good for cheese prices.” This week, solid market fundamentals were swamped by initial confusion and concern about the U.S. and world economies and the possibility that sources for credit could virtually vanish. Near record selling occurred on the CME Monday, followed by a ton of offers to sell at lower prices. That pattern repeated itself on Friday, but the block price stayed above \$1.80 per lb. Passage of the “bail out” bill by Congress today will give the market at least a weekend to reconsider premature conclusions about future cheese sales. Because the weekly average prices for blocks and barrels were higher than the closing prices on Friday, some buyers may sit out next week. Speculators just love situations like this.

BUTTER MARKET COMMENTS: The butter market had little activity and ended the week with virtually no change in price. Dairy Market News reports that butter churning is active as plants try to assure customers that their orders will be filled in full and on time. Current sales are said to be steady. CWT continues to help export volume by subsidizing lower prices. They have a plan: cut prices to get immediate sales in the hope that those customers will continue to buy when the discounts end. It hasn't worked for the last 5 years, but at least it's a plan.

NONFAT POWDER MARKETS: The West's “mostly” average price this week is \$1.115 per lb, which was \$.035 per lb lower than last week, and an offer today on the CME, at \$1.05 per lb, followed the cash market lower. The California plant average price for sales made last week was about \$1.15 per lb. Some sales in the Western region again were at the one buck level. There is hope that the travesty in China (“adulterated milk,” to be kind) will lead to a huge but short-term sales opportunity for nfdm, but don't count on that helping prices in the U.S. – too many hands in the pot; too many alternative routes for the product to take. DMN reports that cheese plants are beginning to stock nfdm for future vat fortification, which should help with volume, but not with prices.

WHEY MARKET COMMENTS: DMN reports that dry whey prices are showing signs of firmness, but it's not evident yet. Sellers are trying to get buyers to commit themselves for the next calendar quarter, but are meeting with studied indifference. That means there were few takers. But with production decreasing, and stocks lower, there does seem to be a change in the tone of the market. Prices for all other whey-based products continue to be weak and/or lower than last week.

FRED DOUMA'S PRICE PROJECTIONS...

Oct. 03 Est:	Quota cwt. \$17.26	Overbase cwt. \$15.56	Cls. 4a cwt. \$14.29	Cls. 4b cwt. \$16.45
Last Week:	Quota cwt. \$17.87	Overbase cwt. \$16.17	Cls. 4a cwt. \$15.47	Cls. 4b cwt. \$16.63

USAGE OF MILK IN AUGUST: (By J. Kaczor) Virtually the entire increase in August's milk production, 175 million lbs greater than August 2007, went to the lowest classes of usage. Here's a brief run down of usage, reported today by NASS.

Lower Usage: cottage cheese, sour cream, yogurt, ice cream and other frozen desserts, and fluid milk.

Higher Usage: butter, cheese, canned and evaporated milk, nonfat dry milk, and skim milk powder.

Did I say "virtually?" Make that the entire milk production increase, and probably some of the carry-over inventory, was used to manufacture or process market-clearing products. The lineup of products in the lower usage group reflects the weakening domestic economy and higher food prices in general, and it's beginning to look like there's more of that ahead. It's not just a political slogan; main street is suffering, unemployment is rising, wealth is evaporating.

Inventory changes are included with the report on usage. Following is a recap of **changes** in production and end-of-month inventories for August. The numbers reflect thousands of pounds.

	Production	Inventory
All Cheese	+24,000	+49,000
American Cheese	+27,000	+21,000
Butter	+ 5,000	-39,000
Nonfat Dry Milk	+14,000	+15,000
Skim Milk Powder	+9,000	-0-
Dry Whey	- 7,000	-10,000

Just a reminder: butter production includes butter only; butter inventories include butter oil and anhydrous butter fat.

California's production of cheese fell by 18 million lbs; production of cheddar cheese fell by 11 million lbs. Cheddar cheese production represented 16.4% of all cheese production for the month. Production of **block cheddar cheese** (the product that is used to price all cheese in California) is estimated to be about 8% of all cheese. What do you think about that, CDFA? Is the pricing system on sound footing? California's increase in nonfat dry milk production in August exceeded the increase reported for the entire industry.

FEEDBACK ON LAST WEEK'S ARTICLE: (By J. Kaczor) In the discussion last week about gross margins for milk producers, I mentioned again the USDA insurance program that just got underway. While California producers are not eligible for this program at the present time, it's possible that they could be in its second year. Meanwhile, an offer was received from Brian Gould, Associate Professor, Department of Agricultural and Applied Economics, University of Wisconsin, to answer questions about the program. Professor Gould's offer and contact information:

"Here in Wisconsin we have a significant programming effort underway centered on the LGM-Dairy insurance program. You may want to refer your members to an LGM-Dairy website we have going: http://future.aae.wisc.edu/lgm_dairy.html. I am always willing to answer any questions you or your members may have with respect to LGM-Dairy regardless of location."

Prof. Gould's contact info: Tel: (608) 263-3212. Fax: (608) 262-43376. Website: <http://future.aae.wisc.edu>.

CWT RESPONDS TO LETTER FROM MPC: (By Rob VandenHeuvel) Jerry Kozak, President and CEO of National Milk Producers Federation, responded this week to the letter sent by MPC to Charles Beckendorf, Chairman of the CWT Committee. In case you weren't able to read the letter sent by MPC, you can read it here: <http://www.milkproducerscouncil.org/091808cwt.pdf>.

To refresh your memory, MPC's letter requested two things: (1) that the CWT Committee authorize another

Herd Retirement Program in 2008, utilizing the more than \$100 million (and growing) remaining in their accounts; and (2) that they provide a detailed financial accounting of CWT's costs, including a breakdown of their administrative costs.

Rather than trying to characterize the response from Mr. Kozak, I'm just going to pass it along to our readers – many of whom are dairymen contributing to the more than \$10 million each month that is sent to CWT.

Letter addressed to Sybrand Vander Dussen (MPC President) and Robert VandenHeuvel (MPC General Manager):

Thank you for your letter of September 18, 2008 to Charles Beckendorf. Charles has asked that I respond on his behalf.

While we appreciate your efforts to make the CWT program as efficient and effective as possible, I find it necessary to clarify certain assumptions contained in your letter. First, it is important to understand that for specific legal and anti-trust reasons, the CWT Committee cannot be directly involved in the decision as to when a herd retirement program should be executed. As authorized by the CWT Committee, such decisions are made exclusively by the CWT management staff following careful analysis of economic benchmarks vetted by the CWT Committee.

Secondly, with respect to information concerning CWT's financial accounting, a posting on the CWT website contains the information you requested. It should be noted that only those costs directly associated with removing herds submitted by accepted bidders are included in the cost of each Herd Retirement program. Similarly, the Export Assistance expense category only includes payments of export assistance made directly to member cooperative bidders. As has been our practice since the onset of the program, the CWT committee and the NMPF Board of Directors will again review the breakdown of all program and administrative costs at the CWT meeting next month in Nashville. Should individual producers want more specific financial information, CWT staff believes they should obtain it through their cooperative or from the independent producer representatives on the CWT Committee.

Lastly, keeping in mind our common goal of making CWT as beneficial to producers as possible, I am curious as to whether all members of the Milk Producers Council are participating as members of CWT? One of the most important elements concerning the future of CWT is the elimination of free riders through full participation by all producers. While I know that you, Syp, are a strong supporter of CWT, I hope that both of you believe that all members of organizations such as yours should be full contributing members of CWT. To this end, please let us know how we can increase the overall participation rate in your region.

*Sincerely,
Jerry Kozak
President and CEO, NMPF*

A NOTE FOR OUR READERS: (By Rob VandenHeuvel) In the letter above, Mr. Kozak references a financial accounting of the CWT program posted on their website. For those of you who haven't seen it, you can find it at: http://www.cwt.coop/pdf/Financial_Report_2008.pdf. It is a one-page cash flow statement that only begins to paint the financial picture for a program that is expected to collect more than \$135 million from dairy producers in 2008. **I urge all dairymen that participate in the CWT program to take Mr. Kozak up on his offer and request the more specific financial information through your cooperative or the individual producer representatives on the CWT Committee.** The dairymen contributing to CWT are the "owners" of this program, and you deserve a full financial accounting – not a simple one-page summary that could be put together in an Accounting 101 class.

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