

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.1900 \$1.9900
Barrels +\$.1575 \$1.9375

CHICAGO AA BUTTER

Weekly Change -\$.0025 \$1.2200
Weekly Average -\$.0015 \$1.2215

NON-FAT DRY MILK

Week Ending 2/01 & 2/02

Calif. Plants \$1.4500 6,334,211
NASS Plants \$1.4030 15,802,834

Weekly Average

Blocks +\$.1915 \$1.9305
Barrels +\$.1575 \$1.8950

DRY WHEY

NASS w/e 2/02/08 \$.3248 WEST MSTLY AVG w/e 2/07/08 \$.2650

CHEESE MARKET COMMENTS: The comment made last week that "*all current commodity indicators point...lower*" needs to add the words "*except cheese.*" After having settled at a low of \$1.65 per lb just 2 weeks ago, blocks on the CME have increased an unbelievable \$.34 per lb, and barrels moved up \$.1875. These incredible price moves are not accompanied by any sensational data or report that one might expect. Maybe it was just more of the same that started to happen last May – U.S. cheese plants scaled down production to levels where their output could be readily sold, and buyers scaled down their purchases to avoid inventory buildups. Production data for December, published this past Monday, reported that cheese production increased moderately, and an earlier report on cheese in cold storage showed lower levels than a year earlier. That data, together with reports of less imports and more exports, are all we have and are all positive. The earlier huge price drop of \$.55 per lb from the record high? Maybe just another necessary adjustment to remove slack from the pipeline.

BUTTER MARKET COMMENTS: Prices are stable, but the butter market remains weak. Despite continuing "bonus" exports, a high volume of butter in storage continues to overhang the market. To the extent that surplus milk and cream has a use, that use is butter to storage. Sales are said to be fairly good, but not equal to the volumes being produced.

NONFAT DRY MILK: Production continues to outpace sales. Prices continue to edge downward. USDA reports that buying interest is starting to pick up in response to current prices. I guess. For the last 2 weeks, sales by California plants, domestic and export, long term and short term, continue well below year earlier levels, and prices generally continue to point downward. That huge slug of product that was sold 3 weeks ago has to be digested by someone, somehow, before the tone of this market has any reasonable chance to improve. December export numbers are expected to be published next week, although it has been suggested that the volumes and prices in that report do not always reflect current activity. There are indications that the export volume that slipped away last year may be recoverable one way or another, but not likely at last year's prices. A somewhat more positive report on the international market scene is expected.

WHEY MARKET COMMENTS: Prices continue to weaken. Buyers are said to be starting to show interest. Production continues to outpace sales. Exports this year should be fairly strong, but thoughts of much higher prices at this point are very weak.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 08 Est:	Quota cwt. \$18.82	Overbase cwt. \$17.12	Cls. 4a cwt. \$15.57	Cls. 4b cwt. \$17.35
Last Week:	Quota cwt. \$18.16	Overbase cwt. \$16.46	Cls. 4a cwt. \$15.58	Cls. 4b cwt. \$16.03

DIFFERENCES BETWEEN CALIFORNIA AND FEDERAL ORDER PRICES: (By J. Kaczor) A report last week compared California's milk prices for Class 4a and 4b usage under the amended formulas that became effective December 1st to what they would have been had the formulas not been changed. This week comparisons of California's prices will be made to prices in federal order areas for milk used for the same purposes. Because the price formulas for the California and federal order areas use prices for **identical dairy commodities** (butter, nonfat dry milk, cheddar cheese, and dry whey) it could be presumed that month-to-month price comparisons between the areas should remain fairly consistent. But they are not. The reasons for those differences are explained below. Comparisons are shown for October, November, December, and January. For this comparison, in order to focus on the price differences caused by the price formulas rather than changes to the formulas, California's prices for October and November in the following table reflect what they would have been under the new formula (the apples to apples approach).

	<u>October</u>	<u>November</u>	<u>December</u>	<u>January</u>
Butter/Powder				
California 4a	\$21.17	\$20.51	\$19.14	\$16.40
Fed. Order IV	21.21	20.40	19.18	16.29
<i>Cal/F.O.</i>	- .04	+ .11	- .04	+ .11
Cheese				
California 4b	\$16.91	\$18.85	\$18.58	\$16.91
Fed. Order III	18.70	19.22	20.60	19.32
<i>Cal/F.O.</i>	- 1.79	- .37	- 2.02	- 2.41

From down here, at this point, a federal order for California looks kind of interesting, doesn't it? But that's another story for another time. Following is an outline of the product price sources, time periods, and manufacturing allowances that are used to determine milk prices for manufacturing purposes in California and federal order areas.

Butter

California: for the current month, the simple average of grade AA butter prices on the CME from the 26th of the prior month to the 25th of the current month, less \$.1869, times 1.2.

Federal Orders: for the preceding month, the weighted average price for butter announced by NASS on or before the 5th of the month for all U.S. plants that sell more than 1 million lbs per month, less \$.1202, times 1.2. Sales whose prices were determined more than 30 days prior to sale are not to be included.

Nonfat Dry Milk

California: for the current month, the weighted average price for all nonfat dry milk sold by California plants during the period from the 26th of the prior month to the 25th of the current month, less \$.1698.

Federal Orders: for the preceding month, the weighted average price for nonfat dry milk announced by NASS on or before the 5th of the month for all U.S. plants that sell more than 1 million lbs per month, less \$.1570, times 0.99. Sales whose prices were determined more than 30 days prior to sale are not to be included.

Cheddar Cheese

California: for the current month, the simple average of cheddar cheese block prices on the CME from the 26th of the prior month to the 25th of the current month, less \$.2240.

Federal Orders: for the preceding month, the weighted average price for cheddar cheese blocks and cheddar cheese barrels plus \$.03 announced by NASS on or before the 5th of the month for all U.S. plants that sell more than 1 million lbs per month, less \$.1682. Sales whose prices were determined more than 30 days prior to sale are not to be included.

Dry Whey

California: for the current month, add \$.25 to the 4b cwt price.

Federal Orders: for the preceding month, the weighted average price for dry whey announced by NASS on or before the 5th of the month for all U.S. plants that sell more than 1 million lbs per month, less \$.1988, times 1.03. Sales whose prices were determined more than 30 days prior to sale are not to be included.

A glance at the above outline shows that the California price formulas have larger allowances than federal order formulas for each component, and therefore generate lower prices for producers. The purpose of this report is to explain **why the differences between the two approaches vary from month to month**. The following table shows **the net inputs that go into each price formula** for November, December, and January, because of the different sources, allowances, and time periods that apply.

	<u>November</u>	<u>December</u>	<u>January</u>
Butter, lb			
California	\$1.1602	\$1.1482	\$1.0451
Federal Orders	1.1731	1.1957	1.1099
Nonfat Dry Milk, lb			
California	\$1.7982	\$1.6453	\$1.3807
Federal Orders	1.7812	1.6296	1.3385
Cheddar Cheese, lb			
California	\$1.8409	\$1.8141	\$1.6940
Federal Orders	1.7970	1.9294	1.8316
Dry Whey (per cwt)			
California	\$.2500	\$.2500	\$.2500
Federal Orders	1.4001	1.5025	1.1940

The butter and cheese inputs for the California formulas are always more current than the NASS price surveys for 2 reasons: there is an approximate 2 week time lag for price surveys to be gathered and announced, and a portion of the reported sales may include indexed prices. The daily CME prices used in the California formulas can rise faster and fall faster than surveyed prices. Another reason for monthly differences is because the NASS time periods vary from 4 weeks to 5 weeks, depending on what is available on the 5th day of the month. Watch for a sharp change in the cheese price inputs for February – CME prices have moved sharply higher while the NASS survey of lagged prices is still moving lower.

The pattern for nonfat dry milk prices in the above table is not typical. Historically, the California plant average price has been a few cents below the NASS survey because long-term contract sales are permitted to be reported by California plants, and those prices are normally below current domestic prices. That pattern appears to have changed, at least for a time. And recent sales patterns of California plants suggest that the mix of domestic sales and export sales can change by large amounts from week to week, which can have significant effects on the weekly average price. This week prices moved lower again after last weeks advance.

The net price difference resulting from **California's fixed whey price contribution** and the variable price used in federal order areas is expected to continue to decrease until prices for dry whey level off. The difference for February may be as little as \$.55 per cwt. The combination of lower cheese and dry whey prices in the federal order Class III formula and higher cheese prices in the California 4b formula should bring those 2 prices closer together in February.

One lesson to be drawn from this review is that no single month should be considered to represent the future in terms of milk price relationships between California and federal order areas. The following month's prices will be different. Another is to expect California's prices to continue to be the lowest of all regulated areas in the U.S. even though USDA economists are considering what to recommend in the way of changes to the federal order formulas in response to the hearings that ended about 8 months ago.

CLASS 1 POOL USAGE IN DECEMBER INCREASES BY 8%: (By J. Kaczor) As the amount of bulk milk coming into California continues to decline (December's imports were 26 million lbs less than a year earlier), less Class 1 usage is being siphoned away from pool usage. While the total gallons of fluid sales in California by California plants in November and December was lower than the previous year's, **Class 1 usage of pool milk increased by 5% in November and by 8% in December.** The amount of Class 1 usage by California plants that is pro rated to out-of-state bulk milk has fallen by 36 million lbs per month from January to December. Chalk it up to increases in hauling costs and higher prices available to Arizona producers – and possibly, what?

REMINDER: NEW WATER QUALITY REGS FOR SOUTHERN CALIFORNIA DAIRIES: (By Rob VandenHeuvel) When it comes to new water quality regulations, the new WDR for our Central Valley dairy producers has certainly been the main focus over the past few months. But for the dairies in the Chino/Ontario and San Jacinto regions, there are also a few new regulations in 2008. Below are three of the main requirements that are new in 2008. Many of you are already doing one or more of these things, but for those who are not, please let me know and I can help you.

- **Every dairy must maintain an “inspection log” and record the findings of weekly inspections.** These logs will not be sent to the Regional Water Board, but they must be kept on the dairy for 5 years and made available to Water Board staff upon request. You can download a new log on our website: <http://www.MilkProducersCouncil.org/socalinspections.pdf>
- **If you have a wastewater pond, you must install a “marker” in each pond to easily determine the “freeboard”** (the difference between the current water level and the maximum water level). A weekly measurement of your freeboard for each pond must be recorded on your weekly inspection log.
- **If you have 700 or more mature cows (milking or dry) on your facility, you need to provide a “nutrient analysis” of your manure to anyone who takes the manure off your dairy.** You need to sample your manure once per year, and provide an analysis of that sample to anyone who hauls your manure. I have found a lab in Southern California that can provide this analysis for less than \$35. All you need to do is send a ziplock bag of dry manure along with a simple 1-page form (and a check of course), and they will email/fax/mail you the analysis in a couple weeks. MPC members can call Debi Clark (909-628-6018) to get the information for this lab.

In addition, dairies are still required to have an “engineered waste management plan” *approved* and *certified* by the engineer. The certification by your engineer that the waste management plan was implemented is a crucial step. If you aren't sure if your plan was approved and/or certified, or if you need help getting your plan approved and/or certified, please call me *immediately* at (909) 992-9529. **It's essential that every dairy have an approved and certified waste management plan in place.**

(NOTE: Later this year, some Southern California dairies will need to prepare a “nutrient management plan” for their dairy/cropland. Keep an eye on this newsletter to find out more details about this new requirement).

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