



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0700 \$1.9500
Barrels +\$.0600 \$1.9800

CHICAGO AA BUTTER

Weekly Change - \$.0925 \$1.7400
Weekly Average - \$.0815 \$1.7485

NON-FAT DRY MILK

Week Ending 11/4 & 11/5

Calif. Plants \$1.4908 12,792,420
NASS Plants \$1.4723 19,993,608

Weekly Average

Blocks +\$.0920 \$1.9025
Barrels +\$.1105 \$1.9400

DRY WHEY

DAIRY MKT NEWS w/e 11/11/11 \$.6388
NASS w/e 11/05/11 \$.6322

CHEESE MARKET COMMENTS: “Barrel supplies for processing are described as tight,” says *Dairy Market News* this week. That still does not answer the question whether the tightness is from a supply decrease or from an unexpected increase in demand. Yes, supplies are tight. Supplies for some other natural cheeses are also tight, which is good to know because the price inversion between blocks and barrels, which is persisting through recent market ups and downs, sometimes portends sharp price corrections. We do know domestic demand for all kinds of cheese appears to be strong leading into what has become the heaviest yearly four months for sales, and cheese production, through September, had slackened. Prices on the CME for both styles increased this week. The barrel price moved up the \$.06 per lb without any sales. Seven carloads of blocks sold; the full price change for blocks for the week was \$.08 per lb, netting \$.07 per lb, after some offers lowered the price by a cent per lb on Wednesday. Blocks are now valued \$.19 per lb higher than they were three weeks ago and barrels are valued \$.22 per lb higher. Futures traders continue to be unimpressed about current cash prices; they know they are marginal prices and, except for the current month, do not necessarily reflect a correct reading of supply and demand. The class III milk price for December was the only month moving about in tandem with cash; January through March also gained some, but all others through next October were lower for the week. Lower increases in milk production and continuing strong sales could be what futures traders need to see more clearly.

BUTTER MARKET COMMENTS: Wholesalers have mostly completed their part in filling orders for the first of three major upcoming holidays and are getting ready for the next round, expected to begin after a final accounting is made after Thanksgiving. *DMN* says sales are doing well in all regions, helped by promotional prices and feature ads for store and national brands, and food service sales are doing better than expected. The industry has reached the point of year where concerns about international prices combine with what has become an annual pre- or post-Thanksgiving happening – butter orders fall off, some plants get caught with too much inventory, and prices drop. That is an open secret; everyone knows and acts to his own best interests. Most major buyers are at or are nearing fully stocked status, which means a good portion of the normal increase in production from October through January could end up in cold storage. Short term increases for milk and cream for other uses is helping to keep a lid on current butter production. CME prices fell by \$.0925 per lb this week, with losses occurring each day. Futures prices moved lower, but by far less than cash prices. Futures butter traders staked out their position some weeks ago when the February price dropped to around \$.14 per lb below the current cash price, seemingly bundling all their concerns about a possible butter surplus into a number in the mid \$1.60 per lb range – the low price for the next year. This week February butter futures, at \$1.635 per lb, gave up only \$.005 per lb.

POWDER MARKET COMMENTS: Hello? What is this about prices for nonfat powders in the West moving higher? Okay, through fewer deeply discounted sales by manufacturers and less volume offered by re-sellers. Still, it could be a sign that the higher production of skim milk powder (therefore less NFDM) may be tilting the supply/demand balance in favor of the product whose prices are reportable to NASS and CDFA. Two weeks ago all signs pointed to lower prices for NFDM but that may be changing. Prices for NFDM in the central and eastern

regions are lower and the markets are “unsettled” or “sluggish,” according to DMN this week, and prices reported by manufacturers for shipments last week continued to edge downward. However, the average spot price for the western region increased this week, and the winning price last week for Dairy America’s SMP offerings in the global auction for delivery in December was \$.07 per lb higher than what they got for November’s shipments, and Fonterra’s prices for shipments in January and beyond also were higher. As to supply, production for the year bottomed out in September. How much it will increase in the October-December quarter is uncertain – it simply depends on how much milk shows up at the country’s drying plants – the same question facing butter manufacturers and buyers. Prices for buttermilk powder are mixed – higher in the West and lower elsewhere; the net difference still favors western products. Prices for whole milk powder continue to move lower; DMN says imported WMP into the eastern part of the country is affecting prices. CME’s NFDM futures prices moved up by \$.01 per lb this week, to \$1.42 per lb and bump all the way down to \$1.34 per lb for July.

WHEY PRODUCTS MARKET COMMENTS: The market for dry whey continues to amaze. Domestic demand is “very good,” according to DMN, and supplies are tight. Demand for export is outstanding. Very little in the way of spot sales is happening as manufacturers concentrate of filling contractual orders. Production does not seem to be keeping up with demand, in part because cheese production is lagging and in part because a greater share of liquid whey is being shunted off for higher concentrated products – 50% protein and higher. An example of the intensity of export buyers was given this week by DMN which passes along more than one inquiry about locking up a plant’s entire production. WPC-34 producers are said to be having the same difficulty securing sufficient supplies of raw product than DW producers are having. WPC-34 prices adjusted downward this week by about \$.05 per lb. The average price reported to NASS for shipments of DW last week rose again, by about \$.008 per lb, to \$.6322 per lb. The West’s “mostly” price ranges from \$.6225 to \$.6550 per lb, up \$.0038 per lb for the week.

FRED DOUMA’S PRICE PROJECTIONS...

Nov 11 Est:	Quota cwt. \$19.52	Overbase cwt. \$17.83	Cls. 4a cwt. \$18.03	Cls. 4b cwt. \$17.44
Last Week:	Quota cwt. \$19.42	Overbase cwt. \$17.72	Cls. 4a cwt. \$18.22	Cls. 4b cwt. \$17.08

MPC ANNOUNCES A KEY ADDITION TO THE TEAM: KEVIN ABERNATHY: *(By Rob Vandenheuvel)*

In case you missed our press release, (http://www.milkproducerscouncil.org/110811_kevinabernathy.htm), the MPC Board of Directors announced this week that we have hired Kevin Abernathy to serve as our Director of Regulatory Affairs. Kevin – who will be working out of a Turlock office MPC is setting up – is the former Executive Director of the California Dairy Campaign and is a well-known producer-advocate in the world of environmental regulations as they apply to California’s dairy families.

As many of you know, MPC is a producer-funded, producer-driven trade association representing the interests of California dairy farmers. In our 60+ year history as an organization, MPC has been a leader on important issues such as milk pricing policy, environmental regulations, and many other issues that come up when our state’s dairy farmers intersect with local, state and Federal governments.

Regular readers of our newsletter are certainly familiar with the important issues that MPC is currently involved in. We have been a leading force in recent years as our industry contemplates taking a new approach to structuring our Federal safety net policies. Our work on the Costa-Sanders legislation in 2010 has played a key role in helping to shape the current Dairy Security Act (a.k.a. the “Peterson-Simpson Bill”) – a widely-supported dairy policy reform package currently being considered by Congress, and a bill MPC strongly supports. We’ve also been able to align ourselves with fellow livestock agriculture groups and other interested organizations in a coalition working hard to eliminate federal supports for the long-time-sacred corn-based ethanol industry (California Dairies, Inc., California Dairy Campaign and the Alliance of Western Milk Producers have also joined us in this national coalition).

On state issues, MPC has a long and well-known reputation for defending dairy farmer interests in our State Order that sets monthly milk prices paid to California dairy farmers. We continue to fight vigorously to take the steps needed to help dairy farmers get a fair share of the monies paid for the dairy products our milk is used to produce. MPC has also been able to represent our members on the increasingly-important issue of state and local

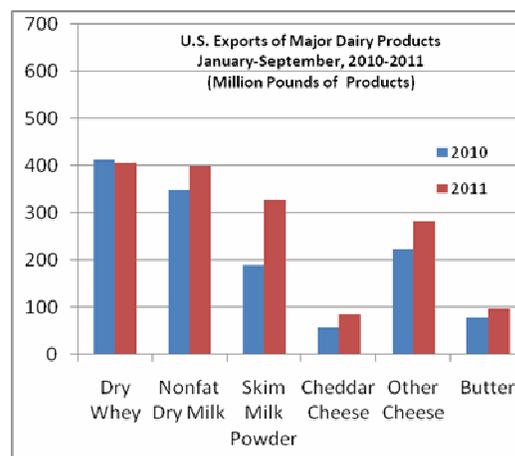
environmental regulations – not only assisting our members in complying with the current regulations, but fighting for our members’ interests as those regulations are developed. This week’s addition of Kevin to MPC’s team will greatly strengthen the representation our members receive in this key area.

As a pro-producer organization that is fully-funded by our members, we rely on a robust and committed membership. **MPC is providing strong leadership on behalf of California’s dairy families and we’re actively seeking to grow our membership.** We are asking dairymen and women throughout California, as well as our important allied industry partners who support the California dairy industry, to seriously consider a membership with MPC. If you are interested in being a part of this exciting statewide organization representing our valued California dairy farmers, you can find a membership form on our website (www.milkproducers.org). Or if you’d like to contact us directly or if you have any questions, please don’t hesitate to give us a call (909-628-6018) or shoot us an email (office@milkproducers.org). We look forward to working hard on your behalf.

U.S. EXPORTS CONTINUE STRONG THROUGH SEPTEMBER:

(by J. Kaczor) Exports of record or near record volumes of major dairy commodities was reported this week for the first three quarters of the year. Volumes were higher for three of the four commodities used in milk pricing formulas used in California and federal orders.

The chart shown here compares this year’s exports through September to the volumes for 2010. The U.S. Dairy Export Council estimates the milk solids in all U.S. exports so far this year totals 13.3% of production, up from 12.4% for the same period last year. Dry whey volume represents the largest single exported product, representing 52.5% of the amount produced this year. The nonfat powder category (skim milk powder and nonfat dry milk) totals 212 million more pounds than dry whey, but represents a lower percentage of their combined production, 45.2%. [100% of SMP production is assumed to be exported.] Exports of butter represent 8.0% of production; exports of cheese other than cheddar represent 5.5% of production; exports of cheddar cheese represent 3.8% of production.



The good news does not end with the stellar volumes. This year, prices for exported products have also been exceptionally strong. Export prices for nonfat powders averaged about \$1.33 per lb in the 1st quarter and rose to about \$1.58 per lb for the next six months. The average price for butter exported in the 1st quarter was close to \$1.91 per lb and rose steadily to \$2.09 per lb in the quarter just ended. Cheddar cheese export prices rose from \$1.66 per lb to \$1.98 per lb. Dry whey export prices began the year averaging \$.454 per lb and reached \$.57 per lb in the last three months covered by this report. These prices are astounding, and show a markedly improved correlation to domestic prices for those products than was the case in the not so distant past. May that pattern continue.

At this point it appears that all six product categories shown could set record highs for exports this year. Exports of dry whey suffered from a very weak 2nd quarter but regained momentum in the 3rd quarter and have a fair chance to exceed 2008’s total. The assessment given this April by Rabobank for the leap in exports from 2002 to 2010 – good luck and good planning – continues at least in part to explain the strong showing for U.S. dairy exports. The part about luck for the U.S. this year includes Russia’s voracious appetite for Western Europe’s dairy products, China’s appetite for New Zealand’s powders, and the ready markets in South America that opened up for Argentina’s strong increase in milk and dairy product production. The headwinds facing U.S. exporters without these very nice buyer-seller developments would be so much greater than anything now confronting them.

The U.S. greenback, because of its wide swings from relative strength to relative weakness, probably is presently more of a hindrance to good planning for continuing strong dairy exports than it was when there was more clarity in global economic matters. But good planning is evident from the numbers themselves. That, and diligent marketing programs and improvements in customer relations were among the prescriptions offered by Rabobank and others. Let us presume these fundamental steps are being taken and hope those efforts continue.