



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.1025 \$1.8100
Barrels +\$.1075 \$1.8175

Weekly Average

Blocks +\$.0960 \$1.7660
Barrels +\$.0910 \$1.7630

CHICAGO AA BUTTER

Weekly Change +\$.1100 \$2.1800
Weekly Average +\$.0785 \$2.1355

DRY WHEY

WEST MSTLY AVG w/e 05/27/11 \$.5213
NASS w/e 05/21/11 \$.5046

NON-FAT DRY MILK

Week Ending 5/20 & 5/21

Calif. Plants \$1.6077 11,158,773
NASS Plants \$1.6171 19,298,445

CHEESE MARKET COMMENTS: The weekly news on cheese sales continues to be positive. USDA's estimate of cheese "disappearance" for the first quarter this year was 145 million lbs higher than last year. Disappearance is the net difference in amounts available at the beginning of a period and the end of a period, after adding production and imports. Year to year relationships are merely comparisons of those net differences. The increase this year included a 62 million lb increase in exports. Cheese production is almost certain to continue to increase; how can it not, considering the reports of plant upgrades, expansions, and new construction? So much for higher volumes; prices also increased every day this week for both styles of cheese – all originating with bids. Only one sale occurred. The week's price increases were the biggest since the first week in February. Through it all, domestic sales appear to be steady to strong despite the less than stellar performance of the U.S. economy. Prices have now increased 11 days straight for both styles. On the down side, *Dairy Market News* said some of their contacts believe the higher prices could begin to affect exports. Cheese buyers and manufacturers are conflicted. Sales are good, but prices are rising, production is expected increase over the next few months, and stocks are as high as they've ever been. This week's jump in prices leaves the NASS average prices a little more than 10 cents below the CME average, which gives buyers a small window in which to place orders for future needs, including an apparent shortage of cheese for aging. The immediate outlook for the milk supply is mixed; cold and wet weather is slowing the development of pastures in the Midwest, heat and humidity in the southeast, and high feed costs everywhere are making it hard for producers to respond to what are otherwise shaping up to be attractive milk prices. Milkfat and protein content of milk in federal order areas are well above last year's levels, which should help with price levels and cheese output. Class III futures prices increased across the board this week, but didn't quite keep pace with cheese prices. July's price, the year's highest, rose to \$19.12 per cwt, which carries a premium of about a dime per lb of cheese. The premium is gone two months later.

BUTTER MARKET COMMENTS: Butter prices have risen to a new high for the year and are within range of reaching last year's high of \$2.235 per lb, reached in October. Prices have risen 37.6 cents per lb in the past three weeks. First quarter's butter disappearance was 32 million lbs above last year (two-thirds from higher exports), and butter stocks late this year are looking to be very low and perhaps very costly. That, along with the uncertain milk supply and increased seasonal demand for cream for other uses, leaves most buyers struggling to develop a reliable plan for the rest of the year. Retail sales are steady, but some exporters tell DMN they expect high and rising prices to affect sales. The questions most makers and buyers of butter have about prices are how they may go and how long may they stay high. Buyers also may be wondering about adequacy of supplies. Except for the sharp, deep drop from last year's peak, which quickly reversed and formed the base for the current levels, history shows that butter prices do not stay high for very long. That thought, along with recent projections of higher milk production this fall in New Zealand, the recent weakening in international prices for anhydrous milkfat for deliveries later this year, and the growing competitiveness of U.S. cheese plants for milk, make a delightful market for speculators but something closer to a nightmare for everyone else.

POWDER MARKET COMMENTS: Despite very nice increases reported for the average prices for shipments of nonfat dry milk last week (both price series are now above \$1.60 per lb and within a penny of each other), there doesn't seem to be many believers among CME's futures traders that nonfat powder prices will remain strong. The price this week for June is right where the current sales prices landed, and prices for all months through January lost ground and fall steadily down to \$1.34 per lb. DMN's report that export interest is currently "light to moderate" for future orders shouldn't be surprising considering how high exports of nonfat powders have been so far this year. The domestic market is reported to be firm or firming, and prices are steady to higher. So what may be spooking the futures traders is a bit of a mystery. Maybe it's just the smoke from pre-holiday ribs that's obscuring their views. Powder production is expected to remain fairly steady, although the shift from producing NFDM to producing skim milk powder, which is the virtual twin to NFDM, may be causing some confusion. USDA's report of nonfat dry milk disappearance obviously does not include SMP, so that report is skewed and is, in fact, misleading to those who use NFDM data. **Note to USDA:** before the matter gets away from us, skim milk powder should be added to the list of products reported weekly to NASS, co-mingled with NFDM, of course, to avoid disclosing identities of manufacturers and sellers. You know it needs doing. The market situation for other major powders is mixed. Prices for buttermilk powder are surprisingly low, while the demand for buttermilk solids is about steady. DMN reports an increase in sales of condensed BM, at discounted prices for some reason, to compete with NFDM. Prices for whole milk powder are averaging \$1.95 per lb, much higher than prices for that product in Fonterra's latest auction. The cost base for U.S. produced WMP is higher than that for New Zealand's, so meaningful comparisons of the two are not possible.

WHEY PRODUCTS MARKET COMMENTS: The markets for dry whey and whey protein concentrates continue to be strong. Supplies are reported to be tight. The west's "mostly" average price increased by .75 cents per lb this week. DMN reports most carload sales continue to be under contract, although a growing volume of product at less than carload quantities, at premium prices, appears to be growing. Buyers are said to be already looking ahead for a secured supply for next year.

FRED DOUMA'S PRICE PROJECTIONS...

May 27 Final:	Quota cwt. \$19.14	Overbase cwt. \$17.44	Cls. 4a cwt. \$19.97	Cls. 4b cwt. \$14.74
Last Week:	Quota cwt. \$19.05	Overbase cwt. \$17.35	Cls. 4a cwt. \$19.78	Cls. 4b cwt. \$14.68

CDFA SCHEDULES HEARING TO CONSIDER CHANGES TO CLASS 4A AND 4B MINIMUM PRICE FORMULAS: *(By Rob Vandenheuvel)* The California Department of Food and Agriculture (CDFA) has announced that a hearing will be held on **June 30 - July 1** to consider changes to the Class 4a (butter/powder) and 4b (cheese) minimum price formulas *(and indirectly the Class 2 and 3 minimum prices)*.

What prompted the hearing:

A couple weeks ago, we reported on a petition sent to the CDFA by California Dairies, Inc. (CDI). In case you missed that article (<http://www.milkproducerscouncil.org/updates/051311.pdf>), the petition asked CDFA to consider raising the "make allowances" for butter and nonfat dry milk (nfdm), as well as raising the "f.o.b. price adjuster" for butter. The net result of these changes, if implemented, would be a **reduction** in the Class 2 (yogurt, sour cream, etc.), Class 3 (frozen products) and Class 4a (butter/nfdm) minimum prices of **\$.4281 per hundredweight** *(As I noted in that article, so far in 2011, about 40-45% of our pooled milk solids have been used by Class 2, 3 and 4a plants)*.

This past week, Land O'Lakes (LOL) submitted a petition as well. The LOL petition requests a hearing to consider three changes to the Class 4b (cheese) formula. You can read LOL's petition at: <http://cdfa.ca.gov/dairy/uploader/postings/hearings>. The three parts of the LOL petition (and their impact on producer prices) are:

- Reducing the make allowance for cheese from \$.1988 per lb to \$.1966 per lb
 - *This would permanently increase the Class 4b price by \$.0222 per hundredweight*
- Reduce the f.o.b. price adjuster for cheese from \$.0252 per lb to \$.0018 per lb
 - *This would permanently increase the Class 4b price by \$.236 per hundredweight*
- Update the whey portion of the Class 4b formula, which is currently fixed at a 25-cent value
 - *This is a proposal and an issue we will examine in depth in future issues of this newsletter. In short, the LOL proposal would have resulted in a \$0.7415 per hundredweight increase in the Class 4b minimum price this past month. Depending on the value of dry whey each month, that figure could change.*

So all together, LOL's proposal, if implemented, would result in a **\$.9997 per hundredweight increase** in the current Class 4b minimum price (*So far in 2011, about 40-45% of our pooled milk solids have been used by Class 4b plants*).

In preparation for the hearing, next week we'll look closer at the issue of how our Class 4b formula incorporates the value of whey products being manufactured by our State's cheese makers. So stay tuned...

MPC wishes our readers a wonderful Memorial Day weekend!