

Milk Producers Council

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PAGES: 3

TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0575 \$1.9975
Barrels +\$.0500 \$1.9800

Weekly Average

Blocks +\$.0170 \$1.9680
Barrels +\$.0460 \$1.9600

CHICAGO AA BUTTER

Weekly Change +\$.0300 \$1.4700
Weekly Average +\$.0290 \$1.4570

DRY WHEY

NASS w/e 5/03/08 \$.2663 WEST MSTLY AVG w/e 5/08/08 \$.2825

NON-FAT DRY MILK

Week Ending 5/01 & 5/02

Calif. Plants	\$1.2796	15,017,471
NASS Plants	\$1.2759	19,875,448

CHEESE MARKET COMMENTS: The supply/demand balance for Cheddar cheese continues to tighten as production and imports of this price-sensitive product remain lower than last year's levels and exports continue higher. Most forecasters believe that cheese prices through the end of this year will generally be above the \$1.80 per lb level. Retail prices are about 10% above where they were last year, and the U.S. economy and consumer sentiment currently is very weak. These negatives are off-set by a general belief that U.S. milk production later this year could drop close to last year's levels and cheese exports will continue to be fairly strong. Class III milk price futures are now at the \$20.00 per cwt level from July through the end of the year, which is a good thought but is not something to take to the bank.

BUTTER MARKET COMMENTS: Butter prices continue to rise despite record production and higher inventories. The recent pattern of weekly prices on the CME is virtually identical to last year's, where prices reached the mid \$1.50 range by mid-year before they slipped back to the \$1.30 range by year-end and to \$1.20 just three months ago. Retail prices so far this year are about where they were last year, which is helping to support domestic sales. Orders for the export market are a definite plus. The futures market, which involves a lot of guess work, speculation, and competitive strategy, is projecting prices to reach \$1.50 per lb by June and to remain at that level through the end of the year. The speculation includes the same expectations that apply to future cheese prices.

POWDER MARKET COMMENTS: Weekly average prices edged up last week. Sales volumes continue to be heavy. Exports through March are well above last year, and the average value for exports in March was \$1.71 per lb. The last time the California average price was at that level was December. Does that mean that there is a three month lag between the time a sale is reported by a plant and the time it is recorded as having been exported? Or is there some kind of dis-connect between domestic sales and export sales? Export sales appear to be made up one-half nonfat dry milk (whose sales must be reported) and one-half skim milk powder (whose sales are confidential). The pleas for "transparency" in the price discovery business appears to be no more than distant memories.

WHEY MARKET COMMENTS: Dry whey production in March edged downward in line with cheese production although whey protein concentrate showed a small increase. March inventories increased by close to 50% but still represent only 3 weeks of production. Traders on the CME are pricing dry whey for the Fall months at about a dime higher than current prices, although the pattern of the month-to-month changes suggest that there is little conviction for the increases. The average price of whey that was exported in March was \$.53 per lb. The last time domestic prices were at that level was September. Lag time or dis-connect? Regardless, there seems to be a lot of profit in exports that does not get reflected in domestic prices.

FRED DOUMA'S PRICE PROJECTIONS...

Numbers unavailable this week.

Last Week: Quota cwt. \$18.03 Overbase cwt. \$16.33 Cls. 4a cwt. \$14.65 Cls. 4b cwt. \$17.63

USAGE OF MARCH MILK PRODUCTION GOES TO LOWEST PRICED PRODUCTS; EXPORTS CONTINUE TO HELP CLEAR EXCESS PRODUCTION: (*By J. Kaczor*) U.S. milk production in March was 2.0% higher than a year ago. That amounted to an increase of 332 million lbs of milk for the month, or 10.7 million lbs per day. Usage of the total production generally followed the pattern of the past several months. The "soft" manufactured category (sour cream, cottage cheese, yogurt, frozen desserts) was somewhat lower than a year ago. Beverage milk sales, which accounts for about 40% of national usage, are still not available, although they are expected to be lower by about 2%. Cheese production was 0.7% lower; Cheddar production was -1.7%. Butter production was +11.5%, nonfat dry milk +18.9%, whole milk powder +127%, and skim milk powder was +301%. **This combination of usages (which also reflects the pattern in California) points to a lowering in the blend price for all milk as usage shifts from the higher priced beverage and cheese categories to butter and powder.** Higher retail prices and the weak economy are believed to be the causes for the slower sales.

Except for dry whey, exports of major dairy commodities during March continued at levels well above year earlier levels. Nonfat dry milk and skim milk powder exports totaled 77.4 million lbs, up 62%, Cheddar cheese exports totaled 6.5 million lbs, up 245%, and butter exports totaled 18.1 million lbs, up 7 times above last March. Dry whey export volume was 36.1 million lbs, a decrease of 27%.

To get a sense of what these exports mean in regard to potential effect on dairy product prices, they need to be considered in relationship to how much was produced and how much was sold domestically.

- Exports of Cheddar cheese in March amounted to 2.4% of the amount that was produced in March. The total amount of American cheese in storage at the end of March was more than 40 million lbs **lower** than a year earlier, so the practical effect of these cheddar cheese exports was negligible.
- Exports of butter in March amounted to 12% of the March's record high production and yet the amount in storage at the end of the month was 33 million lbs higher than last March. That should signal weakness. Butter exports at this level are considered to contribute significant support to butter prices, although much of the support appears to be based upon speculation that U.S. milk production will ease by Fall, and exports will continue at current levels. Butter prices on the CME are again defying basic market indicators.
- Exports of nonfat dry milk and skim milk powder amounted to 46% of the amount that was produced. It is estimated that about one half of these exports was skim milk powder. The amount of nonfat dry milk in storage at the end of the month more than doubled from a year earlier, and now represents about 5 weeks worth of production. Plants and brokers are doing what can be done to trim inventories but, under current conditions, it looks like a losing battle.
- Exports of dry whey amounted to 37% of March production. End of month inventories increased by 18 million lbs. Nonetheless, Dairy Market News reports this market as being steady to firm.

The U.S. dairy industry continues to benefit from a combination of factors that contribute to the current levels of dairy product exports. The droughts in New Zealand and Australia have caused production of milk in those countries to be sharply lower and has affected their ability to fill existing export commitments. The New Zealand drought, particularly, has created an unexpected opportunity for U.S. exporters, at least over the next 5 or 6 months. International demand has come calling, and the weakness in the U.S. dollar has given U.S. exporters a huge advantage over Western Europe exporters.

MPC URGES LOCAL LEGISLATORS TO REMOVE ETHANOL MANDATE: (By Rob VandenHeuvel) Yesterday, MPC sent a letter (<http://www.MilkProducersCouncil.org/050908ethanol.pdf>) to eight U.S. Congressmen that represent dairies in Southern and Central California, as well as Senators Dianne Feinstein and Barbara Boxer. The letter addresses the dairy industry's strong support for removing the mandated usage of ethanol, which has forced nearly a quarter of our domestic corn supply into fuel production this year, rather than for food or feed. These mandates, along with subsidies and tariffs that significantly hinder the import of ethanol, have caused a dramatic rise in the price of corn. In May of 2006, corn was \$2.39 per bushel; today that price is \$6.13 per bushel – a 156 percent jump!

The fact is that we simply cannot grow enough corn in this country to provide both our food and fuel supply, and politicians appear to be finally realizing this. An effort has begun to either partially or fully waive the ethanol mandates, with both Texas Governor Rick Perry and Connecticut Governor M. Jodi Rell asking the Environmental Protection Agency (EPA) to waive these mandates. This week, MPC also joined many of the major California livestock groups in asking Governor Arnold Schwarzenegger to make a similar request. That letter can be found at <http://www.MilkProducersCouncil.org/CAethanol.pdf>.

So there appears to be momentum, but the politicians need to hear from you! I urge everyone in the dairy industry to contact your Congressman and Senators. Give their offices a call, write them a letter, or send them an email – whatever you can do. If you need contact information, you can call the MPC office at (909) 628-6018.

The board and staff of Milk Producers Council express our condolences to the family of Simon Sybrandy. Simon was a long-time member of the California dairy industry, serving on the MPC board of directors for 26 years. Our thoughts and prayers go out to his family.

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