

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0450 \$1.2350
Barrels - \$.0900 \$1.1700

Weekly Average

Blocks - \$.0304 \$1.2556
Barrels - \$.0777 \$1.2063

CHICAGO AA BUTTER

Weekly Change +\$.0250 \$1.2050
Weekly Average +\$.0156 \$1.1956

DRY WHEY

WEST MSTLY AVG w/e 04/09/09 \$.2200
NASS w/e 04/04/09 \$.1778

NON-FAT DRY MILK

Week Ending 4/03 & 4/04

Calif. Plants \$.8072 22,033,511
NASS Plants \$.8059 27,268,846

CHEESE MARKET COMMENTS: Cheese market prices were mixed and generally lower this week. Last week's report of higher cheese output in February may have influenced sellers, or it could merely be the usual holiday confusion that occurs after reasonably good sales, the need to replenish inventories, and to measure the market. The production report showed that Cheddar cheese was more than 4% lower than last February and 12% below January's output. That should have given a boost to the market, but barrel and block prices fell, with barrels moving below the customary \$.02 below blocks. Let's hope the long weekend helps to sort things out.

BUTTER MARKET COMMENTS: Prices reversed course again this week, moving up in fairly heavy trading on the CME. Last Friday's report that butter production in February was 17% lower than January's output may have helped. More cream is moving into ice cream operations, which is helping butter plants to handle the seasonally heavy milk production. Retail sales are reported to be good, with pre-holiday ad activity helping.

POWDER MARKET COMMENTS: Production of skim milk powder increased sharply in February – a sign that export activity may be increasing after recent dismal sales. Nonfat dry milk production was slightly higher than a year earlier, and about even with January's. The “mostly” prices in the West and Central regions continue to edge up, but the major price series remain just above support. Despite the recent heavy sales to the CCC, inventories of nfdm remain higher than a year ago.

WHEY MARKET COMMENTS: Supplies of dry whey continue to improve relative to demand, and prices continue to increase. The overall market tone is described as firm. Exports of dry whey in February were higher than a year earlier, continuing to show growing interest in this superior product, now selling at bargain prices. The whey protein concentrate market continued to be steady.

FRED DOUMA'S PRICE PROJECTIONS...

April 10 Est: Quota cwt. \$ 11.67 Overbase cwt. \$ 9.97 Cls. 4a cwt. \$ 8.77 Cls. 4b cwt. \$10.67
Last Week: Quota cwt. \$ 11.75 Overbase cwt. \$10.05 Cls. 4a cwt. \$ 9.70 Cls. 4b cwt. \$10.94

U.S. MILK PRODUCTION CONTINUES TO CONTRACT: (By J. Kaczor) Cows make milk and fewer cows make less milk. That's what is needed and that's what has been happening since last July, according to the latest USDA reports, which are current through the month of February. The following table shows the number of dairy cows in the U.S. and California for the past twelve months, with comparisons to the year before. The cow numbers represent thousands; the milk numbers represent millions of lbs. The percentage changes shown for February reflect differences on a per day basis to allow for 2008's extra day.

	California				U.S.			
	Cows	Change	Milk	Change	Cows	Change	Milk	Change
Mar-2008	1,842	+43	3,636.6	+2.4%	9,293	+151	17,458	+2.0%
April	1,845	+44	3,508.9	+1.8	9,307	+175	16,125	+2.2
May	1,847	+41	3,581.2	+3.1	9,318	+180	16,707	+3.3
June	1,847	+36	3,413.6	+2.3	9,321	+177	15,942	+3.0
July	1,847	+31	3,411.8	-1.1	9,335	+182	15,995	+1.8
August	1,846	+27	3,397.4	-1.6	9,331	+172	15,757	+1.5
September	1,845	+23	3,272.0	+0.7	9,323	+157	15,129	+1.7
October	1,845	+19	3,381.6	-0.9	9,324	+143	15,615	+1.6
November	1,845	+15	3,306.0	-0.1	9,333	+137	15,212	+1.3
December	1,840	+5	3,438.3	-0.6	9,334	+117	15,900	+1.8
Jan-2009	1,830	-8	3,448.7	-1.3	9,316	+40	16,105	+0.8
February	1,824	-16	3,137.2	-2.3	9,298	+11	14,745	+0.6

The numbers of cows in the U.S. in December, January, and February show the combined effects of CWT's herd retirement program (51 thousand cows, beginning in mid-December and ending in mid-February) and the response producers were making to rising costs and falling prices. In addition, California's numbers reflect the production management programs that began to kick in by mid-year.

Based upon the numbers of cows reported to have been culled so far in March, compared to a year earlier, it looks like the U.S. herd in March should be lower than it was in 2008. That's not a victory, but it's a good start. In order to make up for the loss of exports, reported below, the industry's target should be at least another 100 thousand cows lower; 200 thousand would be better. The current CWT herd removal program will help somewhat but, clearly, much more of what has been going on over the last eight months, in terms of eliminating cows and controlling production per cow, needs to continue in order to establish a good foundation for necessary price increases. And, yes, that means that some of those good looking opportunities for expansion should be set aside for the duration.

FEBRUARY EXPORTS ALSO CONTINUE TO CONTRACT: *(By J. Kaczor)* Remember those fist-pumping, chest pounding reports last year about how great our industry's exporters were doing? Following is a summary of how they're doing this year. The summary compares exports during the months of January and February to a year earlier.

- Dry whey: volume up by 16.3%, which is 11.2 million lbs
- Whey protein concentrates: volume down by 8.2%, which is 2.4 million lbs
- All cheese: volume down by 22%, which is 10.5 million lbs
- Cheddar cheese: volume down by 40%, which is 3.4 million lbs
- Nonfat dry milk and skim milk powder: volume is down by 50.4%, which is 77.5 million lbs
- Butter and butterfat products: volume is down by 72.9%, which is 22.2 million lbs

The exporters will point to the weakened global economy as the reason for these decreases. That is part of the reason, and it has affected Western Europe as well. The other side of the story is that Australia and New Zealand's exports haven't been doing too badly at all. They have the products, the knowledge, and the established business contacts to enable them to keep most of their output moving to international buyers, including U.S. buyers. That 77 million lb shortfall in two months of exports of nonfat powders represents the production of about 200,000 cows. So, what's it going to be? Keep on running those dryers and churns and hope for the best? That doesn't sound like much of a plan. That's business as usual, with patchwork remedies to partially solve occasional problems. However, there are policy and program alternatives that appear to provide the means to avoid this disgusting and harmful cycle of boom and bust. Are your industry leaders really looking for solutions, or are they satisfied with offering excuses?

SOUTH COAST AQMD REQUIRING “REGISTRATION” OF EMERGENCY GENERATORS: *(By Rob Vandenheuvel)* South Coast Air Quality Management District (AQMD) has begun notifying Southern California dairies of a new requirement to “register” your emergency generators. If you recall, last year I reported that AQMD no longer requires permits for your generators. That is still the case. But due to state regulations, dairies are still required to “register” those engines with AQMD. In addition to the registration, AQMD is levying a \$163.71 filing fee (more fees – big shocker).

For dairies that received a permit on their emergency generators back in 2005 and 2006, that permit requirement was repealed in 2006 (as I reported last year). You are entitled to a refund of all the permit fees you’ve paid since 2006, and I’ve been told by the AQMD staff that those refunds are being processed. And before anyone asks, they will not allow those refunds to be applied to the filing fees they are now requiring (another shocker). If anyone has any questions about this new registration, please contact MPC at 909-628-6028.

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