

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks + \$.0425 \$1.2925
Barrels - \$.0200 \$1.2975

Weekly Average

Blocks + \$.0365 \$1.2775
Barrels + \$.0545 \$1.3345

CHICAGO AA BUTTER

Weekly Change -\$.0025 \$1.1825
Weekly Average +\$.0050 \$1.1835

DRY WHEY

WEST MSTLY AVG w/e 03/20/09 \$.1900
NASS w/e 03/14/09 \$.1649

NON-FAT DRY MILK

Week Ending 3/13 & 3/14

Calif. Plants \$.8054 15,134,400
NASS Plants \$.8156 24,248,844

CHEESE MARKET COMMENTS: The price inversion between barrels and blocks was mostly taken care of today, when barrel prices on the CME fell by more than 7 cents, and now sits just above the block price. The next big question is how the market will react to the cold storage report for February that was released today, after the market had closed. Total cheese in storage increased by about 92 million lbs, with Cheddar and Mozzarella stocks both up sharply. The Cheddar increase may have been strategic, buy low and store for aging, but the overall increase simply was not good news for future prices. "March madness" may help – who can watch a good basketball game without nachos or a cheese dip?

BUTTER MARKET COMMENTS: Sales of butter at retail are reported to be excellent for this time of year, but food service sales continue to lag behind. No surprises here. Production is easing back, as more milk and cream is being used to build ice cream inventories. Prices on the CME held fairly steady this week, and today's report on the amount of butter and butterfat products in storage at the end of February (about even with a year earlier) should be helpful in at least holding prices close to present levels.

POWDER MARKET COMMENTS: Last week, *Dairy Market News* (DMN) reported that domestic buyers were showing more interest in taking on product, and prices were beginning to move upward. Production was easing off as bottling plant volumes increased. This week prices in the central region moved up, reflecting some supply shortages and heavier orders, and in the West the \$.77 powder of a week or so ago is now \$.79 powder. However, this week most of the truck lot sales of nfdm in the West were still at the support price level or a penny above. Sales to the CCC are tailing off, with purchases now just above the 199 million lb mark. The definite increase in domestic usage of nfdm so far has had minimal effect on prices, at least in the West.

WHEY MARKET COMMENTS: Orders from domestic buyers and for export are increasing, inventories are generally moving lower, and prices are edging up. The average price for the West's "mostly" moved up another cent this week. No specific reasons are offered by DMN for any of this. The increase in exports in January is particularly interesting considering exports of whey protein concentrate decreased during the month. DMN reports that some of the WPC currently on the market may have aged a bit too long, and buyers are definitely resisting attempts by sellers to move prices higher.

FRED DOUMA'S PRICE PROJECTIONS...

March 20 Est:	Quota cwt. \$ 11.55	Overbase cwt. \$ 9.85	Cls. 4a cwt. \$ 9.66	Cls. 4b cwt. \$10.49
Last week:	Quota cwt. \$ 11.49	Overbase cwt. \$ 9.79	Cls. 4a cwt. \$ 9.65	Cls. 4b cwt. \$10.35

MILK PRODUCERS: CWT FEELS YOUR PAIN: (By J. Kaczor) Jim Tillison, CEO of Cooperatives Working Together, was quoted yesterday that they are “*moving forward with finalizing arrangements for the line of credit we’re seeking and are taking a hard look at what needs to be done to get something going as quickly as possible.*” He added “*If we can get a significant herd retirement underway, relatively soon, we can shorten the time period that dairy farmers are suffering.*” That’s exactly right, but why the use of the word “if?” According to CWT’s latest report of income and expenses, they should have about \$82 million in cash on hand at the end of February. It may help to point out that the industry’s present situation is eerily similar to what it was exactly two years ago: butter and cheese prices on the CME had moved up from lower levels without much improvement in the supply/demand balance – in other words, on little more than hope – before CWT announced a herd retirement program. That announcement provided the support for the current prices and a foundation for further increases. Is the current situation really similar to what it was two years ago? **No, it’s so much worse now that it’s almost incomprehensible.** CWT, please drop the “if” and do something now. How about “*We can get a significant herd retirement underway, relatively soon, to shorten the time period that dairy producers are suffering.*” You’re welcome.

PRICES TURN UP ON RECENT INTERNATIONAL AUCTION: (By J. Kaczor) On March 4th, Fonterra, the world’s largest exporter of dairy products, issued a press release with the headline reading “PRICES RISE IN GLOBALDAIRYTRADE EVENT ON STRONGER DEMAND.” That led to questions: was that a sign that powder prices may soon recover, and what is *globalDairyTrade*?

About whether it’s a sign of recovery: Fonterra thinks it may be a good sign – that the supply and demand for **whole milk powder (WMP)**, the product prices referred to in the press release, may have stabilized and could continue moving up. (Prices had fallen from \$2.01 per lb to \$.83 in the prior eight months before moving up to \$.95 in March’s auction.) But Fonterra’s, and the world’s, supply/demand situation for skim milk powder and nonfat dry milk is not at all like that for WMP, and the products are not usable as substitutes for each other, even though their price patterns over the past two years are very similar. However, maybe by coincidence or because that pent-up demand for skim milk powder can’t be held back any longer, ***Dairy Market News* this week reports that domestic interest in nonfat dry milk has definitely improved over the past two weeks** to the point where the market tone is optimistic. A discussion of prospects and problems for nonfat dry milk sales in the U.S. is in the following article.

About *globalDairyTrade*: a little less than a year ago, Fonterra decided to do something that initially confounded many of their customers, fellow suppliers, and competitors. They announced they were departing from traditional contracting practices for one of their major product lines, whole milk powder (WMP), by starting an internet based auction program, called *globalDairyTrade*. The traditional method was to negotiate fixed-price long term contracts for as much of the year’s output as could be done. They said the move to **a monthly auction** was in response to a fundamental change that began in late 2006 in the marketplace for most dairy products – which led to unpredictable **price volatility**. Fonterra says they believe the program will greatly improve price transparency by publishing current and future competitive prices for real sales of substantial volumes of the world’s major dairy powder, thereby reducing the risk of unexpected price changes for them and their customers, and eliminating the need to negotiate prices.

The auction program was designed by CRA International, an experienced and respected international consulting firm. A clear and fairly complete description of the program can be found on the internet at www.globaldairytrade.com It’s definitely a break from tradition, and **Fonterra seems committed to expanding it by adding products and by bringing in co-suppliers.** Following is a brief summary of what it is and how it works.

It’s a monthly auction, managed by CRAI, that typically lasts from one to two hours, depending on the volume available, how many bidders participate, and the strength of the demand. Only “qualified bidders” may participate. To qualify, they must first register with the website and sign a participation agreement with Fonterra. The products include regular whole milk powder, instantized whole milk powder, and UHT whole milk powder. The auction is divided into three contract periods. The first period is a single month that begins two months after

the auction month – May, for March’s auction, for example. The next two contracts cover separate three month periods that immediately follow the first month. Fonterra commits specific volumes of each of the three products for each of the three contract periods. Bidders enter the volumes they want for each contract period. Successful bidders are required to purchase the products in the months designated by the contract. The volumes awarded for the second and third contract periods must be purchased in even amounts over the three months in the period.

The auction is called an “ascending price clock auction,” in which bidders enter desired volumes and remain in the auction until they withdraw their offers to buy. They may reduce volumes but not increase them or move them from one period to another. Each auction starts with a price for each of the products for each of the contract periods, believed to be low enough to clear all of the available volume. Once all bidders have had a chance to decide (withdraw, reduce volume, or remain fully committed), the prices are increased by the auction manager and another round of “bidding” occurs. This process is repeated until the bidders’ volumes are whittled down to equal the volume available. All successful bidders pay the same price for like products for like contract periods.

The table below lists the winning prices for regular WMP only for the first nine auctions. Prices are bid in U.S. dollars per metric ton and are f.o.b docks in New Zealand. The prices in the table are rounded to the nearest penny per lb. The first auction was last July; the most recent one was March 3rd; the next one will be April 1st. A winning bidder is notified of the price, the volume, and the period in which the shipments will occur, and is assured that all winning bidders pay the same price. No single bidder knows who else was bidding or who got what volume.

Sales Month	Auction Month									
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
July	--									
Aug	--									
Sep	1.96									
Oct	1.96	1.68								
Nov	1.96	1.79	1.43							
Dec	1.96	1.79	1.52	1.28						
Jan	1.99	1.79	1.52	1.30	1.09					
Feb	1.99	1.69	1.52	1.30	1.19	.93				
Mar	1.99	1.69	1.49	1.30	1.19	1.01	.95			
Apr		1.69	1.49	1.33	1.19	1.01	.87	.83		
May			1.49	1.33	1.15	1.01	.87	.83	.95	
Jun				1.33	1.15	1.05	.87	.83	1.00	--
Jul					1.15	1.05	.91	.83	1.00	--
Aug						1.05	.91	.82	1.00	--
Sep							.91	.82	.97	--
Oct								.82	.97	--
Nov									.97	--
Dec										--

Close to 360 million lbs of WMP has been traded in these nine auctions. This table shows that the price range for some months (February and March) exceeds a dollar per lb, but has steadily narrowed as the month-to-month price decreases became smaller. Is the program doing what Fonterra hopes it will? That question will be discussed in a follow-up article, along with some complaints, criticisms, concerns, and support the program has attracted.

WHAT’S AHEAD FOR MILK PRICES? (By J. Kaczor) Maybe it’s just a mental breakdown of some kind that explains USDA’s Livestock, Dairy, & Poultry Outlook updated forecast for 2009 dairy prices that was published two days ago. The entire Outlook report is 11 pages long and dairy issues got almost one full page. The discussion in the report of what’s happening in the industry shows that the writers appear to be at least aware

(fewer cows, less milk, higher domestic consumption), but their forecast of 2009 prices appears to have been taken from 2006's files. Their forecast for average cheese prices for the year is \$1.215 to \$1.275 per lb; for butter \$1.105 to \$1.195 per lb; for dry whey \$.16 to \$.19 per lb, and for nonfat dry milk \$.805 to \$.855 per lb. The forecasted range for the cheese milk price in federal orders, Class III, was raised slightly to \$10.05 to \$10.65 per cwt. Granted, these projections were made assuming there would not be another CWT herd retirement program, but they did project fewer cows and less milk this year. Perhaps the Economic Research Service (ERS) hired some of those NASS employees who had been monitoring nonfat dry milk sales reports.

Compare the above projections to yesterday's prices on the CME futures board: Class III ranging from \$10.95 in March to \$16.09 in December; butter ranging from \$1.13 to \$1.41; dry whey \$.153 to \$.290. And consider the significant change in tone in the two most recent weekly reports by *Dairy Market News* (DMN) on various dairy product supply and demand situations (usually incorporated into MPC's weekly Commodity Comments section). Wednesday's report on milk production in February (only +0.6% per day above a year earlier, and the smallest dairy herd in 11 months) confirmed the tightening on the supply side. Nobody really knows what's going to happen this year, but the ERS is doing itself a disservice by treating U.S. dairy industry issues as an apparent after thought.

Unfortunately, the one projection that they may have inadvertently gotten right is the forecast for nonfat dry milk prices – the high end of the forecasted average being \$.855 per lb. There is **a very big problem blocking significant increases in nonfat dry milk prices** even if domestic demand substantially increases. **About 200 million lbs** (more than 4,000 truck loads, just under two months worth of production) are **sitting in California warehouses** leased by the Commodity Credit Corporation. **This product is owned by CCC and is presently available for resale back to the trade at a mandated minimum price of \$.88 per lb.** The latest reported commercial prices are less than \$.81 per lb. The worst case scenario is that, so long as that stock of product remains uncommitted, it will almost certainly delay price increases beyond \$.88 per lb that would otherwise have occurred. USDA's Farm Service Agency (FSA) has the responsibility for this stock, and current laws provide several ways for FSA to use it, including sales, grants, or donations to other countries to support economic development and for humanitarian purposes, use in domestic feeding programs, and sales to the trade.

National Milk Producers has discussed with U.S. Secretary of Agriculture Vilsack the need for USDA to use all possible resources to help improve the current dire financial situation facing U.S. dairy producers. NMPF's latest effort, this week, was a letter to President Obama, urging his personal attention to the matter. Certainly the most effective disposal of the current stock of surplus powder is to get it into the hands of those countries who desperately need it to feed their people. For those who are interested in expressing your views to FSA, an e-mail may be sent to Dennis.Taitano@fsa.usda.gov. Mr. Taitano is the acting administrator of the agency. His mailing address is 1400 Independence Ave, SW, Washington DC, 20250.

SIGNING UP FOR MARCH'S MILC PAYMENT – THE DEADLINE IS FAST APPROACHING: *(By Rob Vandenheuvel)* If you've already signed up for this year's MILC program, you can disregard this message. But for those dairies who haven't signed up yet, all indications are that March will be the optimal start month. According to Cornell University's estimates (<http://dairy.cornell.edu>), the payment on March production under the MILC will be around \$1.92 per cwt, with a lower payment expected in April and beyond. For those who need to still sign up for the MILC payment in March, you have until Tuesday, March 31st to have your paperwork filed with your local Farm Services Agency office. If you'd like any help in submitting this paperwork, please call MPC at (909) 628-6018.

ATTENTION CHINO/ONTARIO/SAN JACINTO DAIRIES – AQMD ANNUAL REPORT DUE APRIL 2ND: *(By Rob Vandenheuvel)* For dairies that have an air permit with the South Coast Air Quality Management District (AQMD), the deadline to file your Annual Emissions Report (AER) is Thursday, April 2nd. As I've mentioned before, the process for filing this year's AER is new and can be confusing. If you have any questions, please call MPC at (909) 628-6018. A mistake in filing this report can result in an overpayment, so please let MPC help.

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