

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0150 \$1.9400
Barrels +\$.0500 \$1.9300

CHICAGO AA BUTTER

Weekly Change +\$.0275 \$1.4400
Weekly Average +\$.0250 \$1.4280

NON-FAT DRY MILK

Week Ending 4/25 & 4/26

Calif. Plants \$1.2455 17,212,492
NASS Plants \$1.2623 24,810,789

Weekly Average

Blocks +\$.0095 \$1.9510
Barrels +\$.0420 \$1.9140

DRY WHEY

NASS w/e 4/26/08 \$.2615 WEST MSTLY AVG w/e 5/01/08 \$.2825

CHEESE MARKET COMMENTS: The cheese market continues to post solid numbers. Cheddar production continues to edge lower, at least until someone chooses to fill the gap, and supply and demand appears to be fairly tight. Inventories are clearing smoothly. Demand for blocks and barrels appear to be in sync. "Opportunistic" exports appear to be an important consideration for buyers who need to be assured of sufficient supplies at competitive prices. What can go wrong?

BUTTER MARKET COMMENTS: Prices on the CME continue to edge upward, on an almost identical pattern to last year's prices. Production continues to be seasonally heavy, but domestic demand and continuing export sales, are clearing most of the increases. Dairy Market News reports that buyers show concern about just how much butter will continue to leave the country, and for how long. This concern, along with thoughts of a possible slowing in milk production because of rising feed costs, is said to be contributing to much of the continuing market strength. Watch those exports!

POWDER MARKET COMMENTS: California and national sales continue at very high levels. The national sales figures, which include little of the fixed-priced contracted sales (which are mostly for export markets), has been at a monthly average rate of more than 100 million lbs. This figure does not include the substantial volume of **skim milk powder** that is produced and sold in competition with nfdm for off-shore customers. The latest weekly NASS price moved up by about 1.5 cents per lb. The California plant average, supported by heavy sales volumes, moved down again. Recent volumes appear to be keeping up with production, although the CDEA has cleverly concealed just how much non fat powder is being produced. The current international supply appears to be limited, so export volume should continue to be strong, with the U.S. leading the way with the lowest prices in town.

WHEY MARKET COMMENTS: Prices for dry whey appear to be edging up every so slightly. DMN tells us that inventories do not appear to be excessive. Production should be in line with cheese production, which means that we should see only moderate increases. The latest average price reported by NASS is about 1 cent higher than the average price for the past 4 weeks. Prices for other whey products are said to be steady to firm, in line with the demand for dry whey.

FRED DOUMA'S PRICE PROJECTIONS...

May 02 Est:	Quota cwt. \$18.03	Overbase cwt. \$16.33	Cls. 4a cwt. \$14.65	Cls. 4b cwt. \$17.63
April Final:	Quota cwt. \$17.70	Overbase cwt. \$16.00	Cls. 4a cwt. \$14.37	Cls. 4b cwt. \$16.79

CALIFORNIA'S USAGE OF THE MARCH MILK PRODUCTION INCREASE GOES TO BUTTER AND POWDER: (By J. Kaczor) The total amount of milk available for processing in California in March increased by 1.6 million lbs per day. The amount pooled for the month increased by 145 million lbs. Pool usage for Class 1 increased by a small amount over March 2007, Class 2 and 3 usage was about unchanged, and Class 4b usage (cheese milk) fell by about 10%. The rest of the milk was used to produce Class 4a products. **Class 4a usage of pooled butterfat increased by 17% and solids-not-fat increased by 33%.** In addition to the milk produced in California, 63.3 million lbs of bulk milk was imported while 44.1 million lbs was shipped out. The national report on usage of March milk production will be published next week. The usage of 4a solids in the pool increased to 34.3% (from 27.0%) and the usage of 4b solids decreased to 43.7% (from 50.6%).

OUTLOOK FOR CALIFORNIA MILK PRICES: (By J. Kaczor) The following table recaps the Class 1, 4a, 4b, and Overbase prices for the year 2007 and year-to-date for 2008.

	2007				2008			
	Class 1	Class 4a	Class 4b	Overbase	Class 1	Class 4a	Class 4b	Overbase
January	\$14.00	\$11.92	\$12.47	\$12.00	\$23.23	\$16.40	\$16.91	\$17.44
February	15.37	12.34	13.20	12.75	21.98	14.28	17.54	16.72
March	16.01	13.24	14.13	13.58	19.17	14.36	16.94	16.01
April	16.71	14.53	15.20	14.63	20.19	14.31	16.79	16.09
May	17.71	16.00	18.05	16.59	19.05			
June	20.28	17.03	21.18	19.00				
July	23.26	19.84	20.54	19.90				
August	23.76	21.21	19.41	20.04				
September	23.10	21.62	19.34	19.99				
October	23.81	21.32	17.65	19.46				
November	23.43	20.66	19.75	20.23				
December	23.26	19.14	18.58	19.09				

So far this year the comparisons look great. The Overbase price (with quota \$1.70 per cwt higher) is the benchmark for comparison purposes. However, the downward progression of net increases over 2007 levels from January through April may soon turn negative. Considering present market prices and future prospects for the products that determine minimum milk prices in California, it looks like Overbase price levels for the rest of the year may be consistently lower than last year and, at times, much lower. **This is not a price forecast; it's merely an outlook of what could happen if present market conditions continue.**

The reason for last year's strong milk prices was the across the board strength in prices for butter, nonfat dry milk, dry whey, and cheese. Of the four, the butter and cheese markets are currently showing consistent signs of strength. The butter price closed the week at \$1.44 per lb, and is tracking well with the pattern for last year. Cheddar blocks closed the week at \$1.94 per lb, and the underlying fundamentals for cheese continue to appear to be solid. On the other hand, nfdm prices this year are currently a bit below where they were last year and are expected to soon be well below last year, despite the opportunities for continuing high volumes for export. Regarding dry whey, last year's prices contributed substantial amounts to the 4b price level, whereas this year the whey contribution is fixed at \$.25 per cwt.

The sharp decrease in cheese production in California, with the milk moving to the lower-priced Class 4a usages, causes an immediate reduction in the state's blend price. If current price levels for butter, nfdm, and cheese were in effect for the rest of the year, the Overbase price would be about where Fred Douma currently projects them to be. The outlook for producers in California, with the possibility of lower milk prices and the prospects for continuing increases in feed costs, does not look very bright at the moment.

CDI PETITIONS FOR A REVIEW OF TRANSPORTATION ALLOWANCES: *(By J. Kaczor)* On May 1st, CDI sent a letter to CDFA requesting that the July 1st hearing that was scheduled to consider technical amendments to the pooling plan be broadened to consider amendments to transportation allowances and transportation credits, to reflect increases in the cost of fuel.

INTERESTED IN GETTING EMAIL UPDATES FROM THE CENTRAL VALLEY WATER BOARD? *(By Rob VandenHeuvel)* For our members in the San Joaquin Valley who use email, the Central Valley Regional Water Quality Control Board (CVRWQCB) is compiling an email distribution list for updates specific to the dairy regulations. If you're interested in joining this email list, you can sign up at: http://www.waterboards.ca.gov/lyrisforms/reg5_subscribe.html.

Also, with the July 1st due date for the first "annual report" to the Central Valley Water Board fast approaching, the California Dairy Quality Assurance Program (CDQAP) will be hosting Q&A workshops throughout the San Joaquin Valley on May 12th – 21st. Every Central Valley dairy should be receiving a mailer in the next few days with more information. You can also find the flyer on our website at: <http://www.MilkProducersCouncil.org/0501CDQAP.pdf>. If you don't receive any of this information, or have any questions, please feel free to contact the MPC office at (909) 628-6018.

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