



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0125 \$1.6125
Barrels +\$.0225 \$1.6025

Weekly Average

Blocks - \$.0074 \$1.6045
Barrels +\$.0040 \$1.5915

CHICAGO AA BUTTER

Weekly Change +\$.0750 \$2.0750
Weekly Average +\$.0290 \$2.0290

DRY WHEY

WEST MSTLY AVG w/e 04/29/11 \$.4850
NASS w/e 04/23/11 \$.4807

NON-FAT DRY MILK

Week Ending 4/22 & 4/23

Calif. Plants \$1.5270 12,637,731
NASS Plants \$1.5716 17,337,763

CHEESE MARKET COMMENTS: It's beginning to look like most people directly involved in the cheese business are close to agreeing that recent price levels and supplies and usage are about right. Trading this week on the CME was relatively active; more bids than offers, more buyers than sellers; more attention to barrel prices than to blocks; increased prices for both. Helping to keep things relatively steady is the alignment of current selling prices (NASS weekly averages) with the supposed price setting market (CME) – quite unlike what had been happening when CME prices rose sharply then fell even more sharply over a three month period which ended early this month. Sales are reported to be steady, helped along with what appears to be continuing interest from the export market. Futures traders, however, are edgy. The class III milk and cheese futures markets for months from May through September anticipate cheese prices that range from \$.12 per lb to \$.20 per lb higher than today's closing prices – and those traders are quick to read each day's market price move as a correction to their opinions. Part of the optimism in those prices is carryover from the excitement from the spot market price increases that began in mid January and part may be the belief that the recent differences between milk prices for cheese making and prices for butter/powder manufacture need to narrow.

BUTTER MARKET COMMENTS: The butter market continues to perplex those who need to make daily decisions. The numbers on butter stocks seem to clearly call for more butter production but manufacturers are rightly concerned about adding to their current stocks when it's been so long since current prices (and their raw product costs) are so much higher than normal for this time of year. Experience has shown that price eruptions don't usually, if ever, hold up for very long. But, history, if not experience, also shows that the current and prospective supply/demand balance for butterfat is not normal because of some very unusual things that are happening in other parts of the world. The current combined extra-ordinary dairy commodity needs of China, India, South Korea, and Japan should continue to challenge their regular suppliers, which creates some big voids for others to fill. That imbalance won't last forever, but for a time it's like a much needed gift to the U.S. dairy industry. CME's futures traders added about \$.05 per lb this week to the premiums for cash settled butter, for through October.

POWDER MARKET COMMENTS: Prices for nonfat dry milk this week are steady in the central part of the country and slightly higher in the west. *Dairy Market News* reports western product is moving eastward to fill shortages all the way to the east coast. The overall market for powders seems to be leveling out. A major issue, which should determine future price direction, is how much more milk will be produced this year worldwide to fill the unpredictable worldwide demand. An indication should be gotten by September, but that means a lot of decisions need to be made before then, based on not much more than guesswork. That means, of course, as many as can be will be put off for as long as they can. Fonterra's auction next week may provide guidance through the end of the year. This week prices were mixed: the price for grade A NFDM on the CME moved up by \$.035 per lb, to \$1.645 per lb, the west's "mostly" prices reflected a very narrow range, averaging \$1.59 per lb, and the two major price series were lower. CME's futures prices for NFDM moved higher through October. The average

price reported to NASS has now been above \$1.55 per lb for four weeks. The California plant average continues to trail, and this week is about \$.045 per lb lower than the NASS price. It appears production of nonfat powders in California may be shifting to more skim milk powder and milk protein concentrates, and less nonfat dry milk. The markets for buttermilk powder and whole milk powder appear to be improving; prices for both moved higher this week.

WHEY PRODUCTS MARKET COMMENTS: The increase in cheese production is providing manufacturers of dry whey and whey protein concentrates an opportunity to catch up with contracted orders, and even to have some extra for spot sales. However, the market for dry whey is still tight to very tight, depending on area, says DMN. Prices are steady to slightly higher.

FRED DOUMA'S PRICE PROJECTIONS...

April 29 Final:	Quota cwt. \$18.88	Overbase cwt. \$17.18	Cls. 4a cwt. \$19.40	Cls. 4b cwt. \$14.34
Last Week:	Quota cwt. \$18.84	Overbase cwt. \$17.14	Cls. 4a cwt. \$19.29	Cls. 4b cwt. \$14.34

CALIFORNIA MILK PRODUCERS RECLAIM A POSITION AMONG LEADERS BUT PRICES CONTINUE TO SUFFER FROM LOW CLASS 1 SALES: (By J. Kaczor) This week USDA published its recap of milk production for 2010, along with a revision to 2009's numbers. For the U.S., the average number of cows decreased by 86,000 head in 2010; the average production per cow increased by 576 lbs for the year. California producers shed 42,000 cows in 2010; production per cow increased by 1,025 lbs for the year. In 2009, fifteen states had average production per cow higher than California. In 2010, only five states bettered California in that category. The recent report on milk production in the first quarter of 2011 indicated production per cow in California to be second highest; only Arizona was higher.

The amount of milk produced notwithstanding, milk sales and milk prices are what's really important to producers. In recent years, California, along with just about every other state, has lost ground in the most important sales category, fluid milk sales. Assurance of a supply of fluid milk for consumers is the specific reason state and federal regulatory programs were established. Recent experience with fluid milk sales brings to mind to adage "you can bring someone to water but you can't make them drink." Certainly, there is no shortage of fluid milk. Our regulatory programs have not failed us in that sense. If anything, at times they have encouraged an over-supply because of how milk is priced in pooling systems. The problem is we cannot make them drink what is by far the most nutritious beverage to be found on a grocer's shelves.

Per capita consumption of fluid milk has been decreasing at a rate of about one percent per year for the past thirty-five years. The U.S. population has been increasing at a rate of about one percent per year over that same period. Until recently, the result of the two long-term trends had been an even level of fluid milk sales. All other available product or source options to U.S. consumers for essential fluid consumption have captured a full one-third of fluid milk usage since the early 1970's. Apparently, this result is accepted by the industry – by processors and producers alike. State and national generic promotional programs have resorted to using a stock phrase to their constituents: "*you have benefitted from our activities; in other words sales would have been "x" percent lower without your money and our efforts.*"

Actually, they could be right. All those programs are trying their best. Some of the programs are more imaginative than others; various approaches are used; numerous studies costing many millions of dollars have been made, and more of the same is coming even as this is written; some programs are divisive; some are negative without realizing it; most are not harmful. They could be right; milk sales could be lower if those programs did not exist.

The impact on recent milk consumption could be a result from the immense harm created by the economic crisis in the U.S., which began when property values started to plunge in 2006, led to the deep recession in December 2007, the global fiscal crisis in September 2008, and to a wide and continuing loss of wealth, income, property, and jobs. Milk sales held up relatively well in the early months of the recession in 2008, then actually rose in 2009, and then began to fall rather abruptly last March and April. The reason for the recent drop in milk consumption is believed to have resulted from the cumulative effects of the recession. A loss of confidence, or optimism, is a major reason why consumers change their buying habits. A **major** loss of confidence, and the more practical things that led to that mindset, is what can cause consumers to buy less of what is considered to be an essential food item.

Milk sales in January 2009, the thirteenth month of the deep recession, rose above the surprisingly good sales levels in 2008 and held there for a full year. The reason for that increase is rather obvious: milk prices fell precipitously from their all time highs down to less than half of where they had been just a few months earlier. [The strong sales in 2008, when milk prices were high, support the theory that milk sales are price-inelastic, meaning sales, generally, are not affected by price changes. However, the increase in sales in 2009, believed to be in response to much lower prices, belies that theory. That should send the economists back to their consumer models.] Milk sales in January 2010 were at about where they were a year earlier but soon began to fall well below where they were in anytime in the previous three years, where they now are.

Class 1 prices in California spiked in January 2010 then fell lower until mid-year when they began to rise steadily. Class 1 sales began to fall below 2009's levels in February 2010 and continued at levels below at least the year before, through this March. California was among the states that were impacted the hardest by the recession, by what preceded the recession, and by what has followed. The U.S. rate of unemployment in March was 8.8%; California's was 12.2%, second only to Nevada. Much of the other detritus from the recession still weighs heavily on the state. The index of U.S. consumer confidence in March was 63.8 (90 is considered to indicate a healthy economy; it had fallen to 25.3 in the middle of the recession). Where could California be? First quarter Class 1 pool usage of milkfat and solids-not-fat was 1.5% below a year ago. The total amount of milk processed and sold in California in the first quarter was 0.6% below a year ago. Both comparisons included sales of organic milk which were up by 19.6% over the same period a year earlier, and which raises a whole new set of questions about what is going on with milk sales. [Note: as a matter of fact, the U.S. pattern of fluid milk sales over the past four years is very similar to California's. It's not just us.]

USDA REPORTS THAT BOVINE TUBERCULOSIS FOUND IN SOUTHERN CALIFORNIA: *(By Rob Vandenheuvel)* As many of you have seen in news reports and USDA/CDFA press releases, bovine tuberculosis was found in a Southern California dairy cow. While the dairy, their veterinarian, USDA and CDFA are working hard to resolve this issue, it's vitally important that all of us remind our consuming public that this discovery does **nothing** to diminish the safety of the dairy products and beef we produce. As CDFA noted in their press release on the issue, pasteurization "destroys organisms that could be harmful to humans, including TB organisms." In addition, CDFA noted that "All cattle processed for meat are inspected for signs of TB infection and rejected for consumption if they show signs of the disease." Unfortunately, all too often, these important facts don't make it into the opening paragraph of the articles that are written, and our industry takes a hit because of it. Let's hope that isn't the case here.

APRIL DAIRY CARES REPORT POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The latest "Dairy Cares Report" has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the hard work being done by the dairy industry to provide solid scientific research on air quality and the dairy industry. Earlier this month, the Western U.S. dairy industry sponsored the Western Dairy Air Quality Symposium – a 2-day conference where scientists, government regulators and the dairy industry gathered to discuss the latest scientific research on dairy impacts on air quality. In this era of government regulators constantly ratcheting up expensive regulations on the dairy industry (and none of it being enough to appease the environmental extremists), developing sound science is one of our best defenses.