

# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks    -\$ .0100 \$1.7025  
Barrels   -\$ .0300 \$1.6325

### CHICAGO AA BUTTER

Weekly Change   +\$ .0025 \$1.6125  
Weekly Average   -\$ .0155 \$1.6075

### NON-FAT DRY MILK

Week Ending 8/22 & 8/23

Calif. Plants    \$1.3427   11,266,074  
NASS Plants     \$1.3971   12,057,137

### Weekly Average

Blocks   -\$ .0090 \$1.7065  
Barrels   -\$ .0155 \$1.6540

### DRY WHEY

NASS w/e 8/23/08 \$.2428   WEST MSTLY AVG w/e 8/28/08 \$.2550

**CHEESE MARKET COMMENTS:** The general feeling about the cheese market this week is that there is still a bit more cheese available for sale than what is being sold through regular channels. However, the surplus is easily clearing through the CME, and prices for blocks seem to be holding at about the \$1.70 per lb level. That's not bad at all for blocks, but barrel prices fell 2.25 cents today and are now an unsustainable 7 cents per lb below block prices. Buyers are stepping in to sweep up the product that's offered, and production volume and inventories should be falling as normal late summer weather leads to less milk production and more demand from bottling plants. It appears that there is good support for cheese prices at current levels.

**BUTTER MARKET COMMENTS:** Prices for butter were steady this week on the CME and so, presumably, was production and sales. The pre-holiday sales period and the ramp up for the resumption of school usage was absorbed without a hitch. Whether butter prices can hold at above \$1.60 per lb is likely to be determined by the amount of butterfat that is exported in July, August, and beyond.

**NONFAT POWDER MARKETS:** The average price reported by California plants for sales last week held steady and the national price rose by about 3 cents per lb, but Dairy Market News' comments about the nonfat powder market are definitely negative. "Unsettled," "weak" "little buyer interest," are the descriptors used this week. Export volume may also be weakening, which should not be surprising considering the record high volumes that have been shipped out over the past five months. DMN says inventories are rising, which leads buyers to hold back, looking for lower prices to be offered. The low end of the West "mostly" price range this week is now almost 3 cents per lb **above** the California plant average, and some sales again were reported as low as \$1.30 per lb. Once again California milk producers are paying a price, but we don't quite know for what purpose; **the California plant average price is now 5.44 cents per lb below the national average price. That's a lot of dollars and cents that doesn't make any sense.**

**WHEY MARKET COMMENTS:** "Western whey prices are beginning to fall at a faster rate as more sellers try to stay ahead of growing inventories," says DMN this week. Nonetheless, stocks continue to grow even as production is holding about steady. DMN notes that prices are now about where it costs manufacturers to produce the stuff. That is expected to halt that steady downward price trend, but no one is forecasting strength in this market. Whey protein concentrate prices show signs of bottoming out, as more domestic and international buyers begin to see a bargain. These two developments, while not offering hope for strengthening milk prices, can be considered a positive sign that sanity may be returning to this market.

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## FRED DOUMA'S PRICE PROJECTIONS...

Aug. 29Final: Quota cwt. \$17.99	Overbase cwt. \$16.29	Cls. 4a cwt. \$16.27	Cls. 4b cwt. \$16.14
Last week: Quota cwt. \$18.00	Overbase cwt. \$16.30	Cls. 4a cwt. \$16.29	Cls. 4b cwt. \$16.14

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**INTERNATIONAL DAIRY SITUATION UPDATE:** (By J. Kaczor) Dairy Market News technicians review milk production and dairy product sales activity and prices for the Western and Eastern European regions and for New Zealand and Australia on a bi-weekly basis. Following is a brief summary of developments they found over the past two weeks in those areas.

- **Milk Production:** Good weather and sufficient rainfall this Spring and Summer, along with the increase of 2% in the milk production quota allotted to EU countries, has resulted in somewhat more milk production so far this year, despite complaints about low milk prices and the same kind of cost increases incurred by U.S. milk producers. At the other end of the world, the two year drought in Australia may be at an end, but the milking herd has been somewhat depleted, there is little water in storage, and feed costs are very high. Australian dairy producers expect milk output to be higher than last year's output, but still a bit lower than what it was three years ago. New Zealand's November-December drought was short and severe and unexpected, and it's over. What they need now, as their heavy milk production season begins, is sunshine. They are optimistic. DMN reports that milk production has gotten off to a slow start, but an article in New Zealand's *Southland Times*, published by Dairyline.com last week, was headed "**Flood of Milk Approaching**". That article discussed the expansion of dairy farms that is underway in New Zealand, and forecast **a net increase in milk production this year of four percent**, which makes up for last year's five percent drought impact and adds a flood of milk to it.
- **Dairy Products:** The price forecasts for the full line of dairy products that are traded internationally are not promising. Clearly, more product will be available for export this year than was available last year. Buyers expect that, and are holding back on making major commitments. Prices for the full line of products have been weakening for several months, and the latest reports on milk production only add to that weakness. The common theme in Europe and Oceania is that "the other guy" (they mean U.S. exporters, including CWT's recent rash of subsidized sales) is causing the lower prices. Both regions have the flexibility to funnel milk to those products that return the highest prices, so it's expected that cheese production will increase the most, then whole milk powder (a product that is highest in demand internationally but which is almost ignored by U.S. manufacturers), then butter, then skim milk powder. Dry whey is expected to increase in line with cheese production.

As more products enter the marketing channels of U.S. competitors, we should expect to see affects on prices, and possibly volumes that are exported from the U.S. The ability of U.S. exporters to hold on to the windfall business that came their way over the past two years will be tested. Regardless of what happens, it looks like 2007's historic high milk and dairy commodity prices won't be seen again for some time.

**RECOMMENDED READING:** (By J. Kaczor) I've mentioned this before, but here it is again. Ken Bailey's monthly "*Dairy Outlook*" is **a must read** for those who want a comprehensive look at current issues that affect U.S. dairy prices. In the current August issue, Bailey questions the accuracy of the herd size vs. production per cow numbers that were used in USDA's monthly milk production report, and offers reasons for being cautious about future prices. He believes that the estimated of number of cows in last week's report was too high, and forecasts a reduction in herd size, with a corresponding increase in the production per cow number. (The estimate of total milk output would be about right.) His discussion of future dairy product and milk prices includes two comments worth quoting:

- *If the market can teach us anything it is that they always correct themselves and prices never stay high forever.*
- *Thus any assumptions that milk prices will remain high from now on is misplaced.*

The "they" in the first quote refers to milk and dairy product prices, feed costs, currency values, oil prices, and other factors affecting milk production and dairy product sales. Bailey's Dairy Outlook can be accessed at <http://dairyoutlook.aers.psu.edu>

**CORRECTION TO LAST WEEK’S REPORT ON MILK PRODUCTION:** *(By J. Kaczor)* The table that listed the top ten milk producing states, included in last week’s report on July milk production, contained incorrect numbers for milk production for Idaho and Wisconsin. The correct figures are: Idaho, 1,017 million lbs for 2007 and 1,095 million lbs for 2008; Wisconsin, 2,090 million lbs for 2007 and 2,097 million lbs for 2008.

**“CARES REPORT” FOR AUGUST POSTED ON MPC’S WEBSITE:** *(By Rob VandenHeuvel)* As always, the monthly column published by the Community Alliance for Responsible Environmental Stewardship (Dairy CARES) can be read on our website at <http://www.MilkProducersCouncil.org/cares/aug08.pdf>. This month’s column summarizes a new report that CARES has published accentuating some of the positive things that California dairy families bring to our communities.

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