



Milk Producers Council

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TO: Directors & Members

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0700 \$1.5700
Barrels +\$.0100 \$1.4700

Weekly Average, Cheddar Cheese

Blocks +\$.0145 \$1.5145
Barrels +\$.0100 \$1.4660

CHICAGO AA BUTTER

Weekly Change +\$.0325 \$1.3875
Weekly Average +\$.0345 \$1.3860

DRY WHEY

Dairy Market News w/e 05/25/12 \$.4888
National Plants w/e 05/19/12 \$.5436

NON-FAT DRY MILK

Week Ending 5/18 & 5/19

Calif. Plants \$1.1440 20,970,560
Nat'l Plants \$1.1449 32,735,694

Prior Week Ending 5/11 & 5/12

Calif. Plants \$1.1574 20,520,221
Nat'l Plants \$1.1467 26,874,383

CHEESE MARKET COMMENTS: Tuesday's report on a relatively small increase in American cheese in cold storage during April did not dissuade cheese buyers this week. Four carloads of block cheese were sold the first three days of trading this week without a change in price, and a bid moved the barrel price up by \$.01/lb on Wednesday. A single bid for blocks on Thursday moved the price up by \$.0025/lb and another bid on Friday added a surprising \$.0625/lb. The price spread between the two now sits at an unsustainable \$.10/lb. *Dairy Market News* says cheese production remains at seasonally high levels, still higher than total usage. What happens next is the question everyone should be asking. Futures trading had been on an up and down pattern until about two weeks ago when a clear move to the upside added more than a \$1.00/cwt to the class III milk prices for June and July, and \$.50/cwt to the months following. This week's trading activity, particularly today's surprise in the cash price, pushed the futures prices up further with July gaining \$1.09/cwt, to \$16.35/cwt, the highest price for the year at this point.

BUTTER MARKET COMMENTS: USDA reported on Tuesday that the amount of butterfat in cold storage at the end of April was 112 million lbs higher than last April and 45.5 million lbs higher than at the end of March. Increases like those support the likelihood that the Spring flush for U.S. milk production arrived a month early. However, the strong negative tone of that report had no apparent affect on the market for butter. On the contrary, the apparent change of heart regarding the strength of the butter market, when the CME cash price touched \$1.31/lb three weeks ago, continued this week. Only two carloads changed hands but buyers indicated interest and sellers did not object. In fact, *DMN* this week reports an apparent tightening in the nation's cream supply – still plenty of milk but the butterfat content is lower and there is less cream being spun away by bottling plants. Domestic butter sales going into the Memorial Day weekend were strong and export sales are said to be doing well. Stories of cream looking for a home were last seen four weeks ago, as other seasonal uses are climbing. Still, butter production continues at a high level, higher than total sales, and inventories continue to move higher, perhaps for another month or two. Butter futures prices this week increased by about \$.03/lb; the average for the July-December period is presently about \$.10/lb above today's cash price and \$.15/lb higher than last week's average price reported to AMS.

POWDER MARKET COMMENTS: Prices for nonfat dry milk were weaker this week in the Eastern region and steady to firming elsewhere. Prices reported to AMS and CDFA for shipments last week were about equal to each other, lower than the week before, but appear to be leveling out. The volume shipped the last two weeks appears to be close to 80 million lbs, indicating continuing strong export sales. In addition, 15 carloads of grade A NFDM were bought this week on the CME, raising the price by \$.03/lb, to \$1.155/lb. *DMN* says powder production is steady in the central region, with some help from western condensed skim, and heavy in the West. Users of buttermilk powder and NFDM appear to continue defer making commitments until they detect a price bottom has been reached.

WHEY PRODUCTS MARKET COMMENTS: Usage of cheese whey continues to shift ever so steadily to the more concentrated whey products. That obviously tends to affect the supply/demand balance for products on both ends of the product range. However, the export market for dry whey continues to be excellent, although with prices coming down a bit. In the middle, the market for WPC-34 appears to be weakening as inventories are growing and re-sale product is still available. The premium market, WPC-70+ and whey isolates, apparently is the preferred segment of the market, along with non-pharmaceutical grade lactose. The average of the West's "mostly" price for dry whey this week is \$.4888/lb, about \$.055/lb lower than the national average price reported to AMS for shipments made last week.

FRED DOUMA'S PRICE PROJECTIONS...

May 25 Final:	Quota cwt. \$15.41	Overbase cwt. \$13.72	Cls. 4a cwt. \$13.53	Cls. 4b cwt. \$13.56
Last Week:	Quota cwt. \$15.46	Overbase cwt. \$13.77	Cls. 4a cwt. \$13.73	Cls. 4b cwt. \$13.52

CDFA HEARING ON CLASS 4B FORMULA FINALLY HERE: *(By Rob Vandenheuvel)* After many months of watching our California Class 4b price – the minimum price that must be paid for the milk purchased by our state's cheese manufactures – consistently lag (to say the least) behind comparable prices reported around the country, we are finally able to make our case to the California Department of Food and Agriculture (CDFA) next Thursday/Friday. The administrative hearing, which will exclusively focus on modifying the state's Class 4b formula, will be held at CDFA's main office at 1220 N Street in Sacramento.

Regular readers of this newsletter are very familiar with the issues surrounding this upcoming hearing. In case you missed it, a couple weeks ago we published an article updating our readers on the financial impact of having a Class 4b price that is substantially lower than the Federal Order Class III price – the price that applies to cheese plants operating within the Federal Milk Marketing Orders that regulate much of the dairy regions outside of California (<http://www.milkproducerscouncil.org/updates/051112.pdf>).

As we mentioned in last week's newsletter, it has been confirmed that for those wishing to participate in the hearing, there will be opportunities to provide testimony on **both** May 31st and June 1st (*in other words, regardless of how much time the hearing takes on May 31st, the hearing will definitely be opened on June 1st for those interested in giving testimony that day*). **So producers interested in participating can make plans to attend the hearing on either of these days.** It was also announced that on the afternoon of May 31st, there will be an opportunity carved out in the schedule for anyone interested in providing brief testimony (less than 3 minutes).

If anyone has any questions about the upcoming hearing, please feel free to contact MPC at (909) 628-6018.

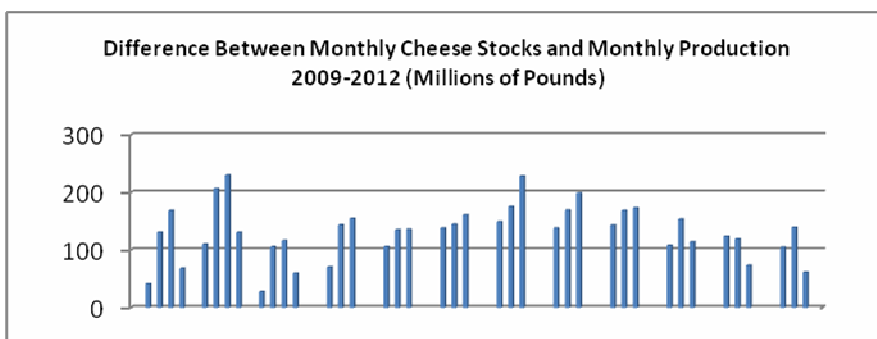
A BRIEF RE-VISIT TO THE CHEESE SURPLUS ISSUE: *(by J. Kaczor)* There is rightful concern about the size of monthly carry-over stocks of major dairy commodities. Carry-over stocks represent one of the clearest indications of how well supply is balanced with demand. If a sharp increase in end-of-month stocks of a product is reported it is often considered a sign that a surplus may be developing and prices may be softening. The opposite is true when sharp decreases are reported. The calculation for each month is simple and straightforward. Simply total the monthly reports submitted by designated "warehouses" to USDA's National Agricultural Statistics Service and compare the total to monthly production. (This is only part of the calculations needed to measure "disappearance.")

NASS sends out questionnaires on about the 24th of each month to approximately 1,400 public and private cold storage warehouses whose products are normally stored for 30 days or longer. The report calls for only the volume of products on hand on the last day of the month. Dairy manufacturing plants are included in the list. All

firms storing butter or cheese are required to complete the monthly Cold Storage Report. Excluded from the report are stocks held by wholesalers, jobbers, distributors, chain stores, and locker plants. NASS explains monthly data can vary due to different firms reporting month to month and is also subject to various non-sampling errors such as omissions and mistakes in reporting and in processing the data. NASS notes increased coverage of American and other natural cheeses resulted in upward revisions for 2010, which are carried forward and reflected in all subsequent reports.

The amount of cheese in cold storage first exceeded the one billion pound level in March 2010, causing concern about possible surplus production or falling demand. It stayed above the 1 billion level for 20 months, dropped below it for 4 months, and was again back above it in March and April. There are various reasons why stocks rise and fall. One of the more plausible reasons for increases is the increasing size and complexity of the U.S. cheese industry. As more cheese is produced, shipped, and processed in volumes not before seen, at locations not before thought of as major sources for cheese, it is reasonable to conclude that the competitive marketing chain itself becomes more diverse. Presently about 35% more cheese is produced in the U.S. than seven years ago. So far this year, about 11% more cheese was produced than just four years ago.

The chart shown here records the difference between monthly cheese stocks and monthly production of all cheese from January 2009 to March 2012. (April's stock of all cheese was reported this week, 1.039 billion lbs, but production data will not be available until next Friday.) Each cluster of bars in the chart represents a single month. January through March contains four years of data. April through December contains only three months of data. (It is interesting to note that cheese stocks in the last 3 months of 2008 were lower than the monthly production for the same months.)



In addition to what appears to be an increase in “surplus” production is an apparent seasonal pattern to the differences. After all, cheese production is seasonal. Each of the four years in the chart was transitional – from 2008’s strong sales to 2009’s debacle, to 2010’s recovery and expanding exports, to 2011’s slowing milk production, to where we are today. It is interesting, but what does it show?

As we observe Memorial Day this coming Monday, the MPC board of directors and staff extends our deepest gratitude to all those who sacrificed their lives defending this great country of ours.