



Milk Producers Council

13545 S. EUCLID AVENUE, UNIT B ~ ONTARIO, CA 91762 ~ (909) 628-6018
801 S. MOUNT VERNON AVENUE ~ BAKERSFIELD, CA 93307 ~ (661) 833-2549
Fax (909) 591-7328 ~ E-mail: mpc@milkproducers.org ~ Website: www.MilkProducers.org



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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.0300 \$1.3675
Barrels -\$.0175 \$1.3475

Weekly Average

Blocks -\$.0590 \$1.3705
Barrels -\$.0400 \$1.3480

CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.5700
Weekly Average +\$.0330 \$1.5700

DRY WHEY

WEST MSTLY AVG w/e 4/16/10 \$4.000
NASS w/e 4/17/10 \$3.648

NON-FAT DRY MILK

Week Ending 4/16 & 4/17

Calif. Plants \$1.1112 11,546,196
NASS Plants \$1.1428 17,480,718

CHEESE MARKET COMMENTS: The means chosen by the industry as the major determinant of milk price levels and changes, the CME cheddar cheese spot market, continues to flash rapidly changing signals to milk producers akin to those one might expect to get from a carnival rather than from a carefully regulated public market attended by a wide representation of interested and informed industry participants. It was another week of heavy trading; 82 truck loads of cheese were traded. The pattern of trading resembled a swarm of offers followed by a swarm of bids. Net changes for the week were not large; blocks lost \$.03 per lb and barrels lost \$.0175 per lb. Maybe this is normal activity at a point in time where the industry is anxious about its future direction. Stocks of cheese are very high. USDA reported yesterday on the amount of cheese in storage at the end of March; 1+ million lbs, the highest it's been since 1986. *Dairy Market News (DMN)* commented this week (again) that some manufacturers were slowing production because of concerns about inventory levels. That will work; it's hard to see how cheese prices can rise to levels needed to support milk prices sufficient for milk producers to survive if cheese manufacturers continue to produce more product than can be readily sold without throwing it to the wolves. Brian Gould's model, based on butter and dry whey futures prices, shows that in order for the September class III milk price to reach the level where today's class III milk futures price for that month has settled, \$15.23 per cwt (the highest price shown for the year), the NASS cheddar cheese price needs to be at \$1.6205 per lb. We're not there, and \$15.23 per cwt may not be all that profitable. And, when looking for alternatives, don't bet that IDFA's and NMPF's plan to de-regulate prices for manufacturing usages will be what works for milk producers.

BUTTER MARKET COMMENTS: USDA's report on the amount of butterfat products in cold storage at the end of March should provide solid support for current butter prices. The 196.6 million lbs in storage was about where it was in 2006 and 2007, and was lower than February's level for only the third time in the past 20 years. No trades occurred this week on the CME; the price rose \$.01 per lb on a single bid on Monday. DMN reports sales to be strong, with manufacturers and buyers equally concerned about possible tightness in supply later in the year. Production is increasing seasonally, but churning operations are having to compete for cream with growing demand from ice cream manufacturers.

POWDER MARKET COMMENTS: Nonfat dry milk prices continue to rise, supposedly in response to what is happening internationally (specifically, Fonterra's internet auctions). DMN reports the market is generally firm, with domestic demand increasing and export interest "strong" in the Midwest and at "expected levels" but "unaggressive in seeking additional product" in the West. DMN also reports that some of the powder exchanged by CCC for foods containing dairy products is still on the market and supposedly selling for about \$1.25 per lb. That's hard to believe, with the price for extra grade nfdm on the CME this week is \$1.25 per lb. Manufacturers' spot sales volumes are said to be little to none as contracted sales for domestic and export usages are reported to be taking virtually all of the current production manufacturers are releasing. The market tone is firm: buyers seem to expect future prices to be higher than now and are willing to order well ahead of their current needs. The major sales reports for last week moved up by about \$.04 per lb on average: NASS at \$1.143 and CWAP at \$1.111 per lb. The average price for nonfat powder exported during February was about \$1.19 per lb when the

California plant average price was \$1.07. California producers should hope no more than \$.12 per lb of the profits from exports slip away from them as export volume and prices increase. The opportunity for a substantial recovery in nfdm exports appears to be at hand as slumping milk production in New Zealand and Australia restricts their ability to produce enough skim milk powder to supply their regular customers with products of higher value.

WHEY PRODUCT MARKET COMMENTS: Prices for dry whey were reported to be steady throughout the country. Demand continues to be good for domestic and export purposes. DMN reports that some resistance to current prices from exporters is continuing, but export volumes are strong. The West's "mostly" price average continues to sit at \$.40 per lb. The NASS average price for sales last week edged up; that price series has ranged no more than \$.01 per lb over the past six weeks. The market for whey protein concentrates is reported to be good, but with some price resistance at the top of the price range. The increasing level of nfdm prices is helping to steady the market for whey products. Production of all whey-stream products is keeping pace with the increasing level of cheese production.

FRED DOUMA'S PRICE PROJECTIONS...

Apr 2010 Final:	Quota cwt. \$ 14.32	Overbase cwt. \$12.63	Cls. 4a cwt. \$13.48	Cls. 4b cwt. \$12.30
Last Week:	Quota cwt. \$ 14.28	Overbase cwt. \$12.58	Cls. 4a cwt. \$13.27	Cls. 4b cwt. \$12.37

INCREASE IN PRODUCTION PER COW IN MARCH POINTS THE WAY FOR MORE TO COME:

(By J. Kaczor) With this week's report on milk production in March, USDA revised the estimated number of cows and production per cow for January and February, resulting in a small decrease in the amount of milk produced for those months. Both months now show less milk produced in the U.S. than during the same months a year ago. (February had shown a small increase.) The number of cows was increased by 1,000 for January and by 2,000 for February. **March's numbers:** same number of cows as February (193,000 fewer than last March); production per cow was 48 lbs more than a year ago; milk production was 91 million lbs above last March, (+0.6%). **The estimated average production per cow, 1,824 lbs, is an all time high for the U.S.** Virtually all forecasters have now withdrawn their projections that cow numbers in 2010 will average below 9 million head. (The first quarter averaged 89,000 above that mark.)

Comparisons of production per cow this year compared to last year are impressive. Last year, the increase in production per cow averaged only 15 lbs per month, and would have been lower had not the summer weather in the Midwest been ideal for milk production. The average increase for the first three months in 2009 was only 8 lbs. This year, the average increase through March is 37 lbs. Lower feed costs, and the prospects for more of the same, may be what is influencing producers to maximize per cow production.

California's milk production, after a 4.1% lower monthly average for all of last year, was only 0.7% lower this March. There were 63,000 fewer cows in California in March than a year ago, but the rate of decrease is leveling off – a drop of only 11,000 over the past six months. Production per cow in March rose to 1,980 lbs, which is higher than where it was in March 2008 and 2009. California's pattern of cow numbers and production per cow – a leveling off of cow numbers and an increase in production per cow – is mirrored throughout the U.S. However, 13 of the 23 largest milk producing states increased production.

The questions that were mentioned a month ago, when reviewing February's milk production numbers and trying to see what lies ahead, are still the one's to consider: will production per cow continue to show huge increases over year ago levels; how many producers who took CWT's offer to sell whole herds are now back or are planning to come back; how much more cheese will be produced this year; how will dairy product exports fare; now that the U.S. recession has ended, will domestic consumption improve by appreciable amounts? In addition, now that signs of real price increases are evident (again), how will that affect lenders' decisions to restructure, renew, or extend additional loans to producers – and how do producers view those tantalizing signals? **Some answers:** reports on sales are somewhat positive: export volumes have recently improved and food away from home sales also are looking better. However, if milk production in the U.S. continues to increase, it is almost sure that our newly expanded, or expanding, cheese plants will use as much of the additional milk as they can.