

Milk Producers Council

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TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$0.0125 \$1.7900
Barrels -\$0.0425 \$1.7475

CHICAGO AA BUTTER

Weekly Change -\$0.2425 \$1.2575
Weekly Average -\$0.2447 \$1.2895

NON-FAT DRY MILK

Week Ending 11/28 & 11/29

Calif. Plants \$0.9027 11,623,184
NASS Plants \$0.8734 18,043,479

Weekly Average

Blocks -\$0.0082 \$1.7860
Barrels +\$0.0020 \$1.7695

DRY WHEY

NASS w/e 11/29/08 \$0.1861 WEST MSTLY AVG w/e 12/03/08 \$0.1600

CHEESE MARKET COMMENTS: This week, spot prices for cheese on the Chicago Mercantile Exchange moved slightly lower. Dairy Market News recently recapped cheese sales through October: American cheese sales to all sources were up 1.9% from last year, but sales of all other varieties (principally Mozzarella) were lower by 1.6%. All cheese in storage at the end of October was 2% higher than last October, but American cheese (principally Cheddar) was up by 3%. Manufacturing plants are telling DMN that, generally, they are trying to maintain production at levels about equal to anticipated customer demand. That production discipline, which began somewhere around May 2007, is what helped cheese prices to rise to record high prices, and has kept them relatively high since June 2007. That discipline may be tested by the availability of nonfat dry milk for vat fortification purposes, priced below \$.90 per lb.

BUTTER MARKET COMMENTS: Last week's closing price for butter on the CME was \$.12 per lb **above** what the futures market on the CME was showing for February and March. This week, starting with a \$.16 per lb drop on Monday, spot prices demolished the futures "floor" by falling more than \$.24 per lb. Except for a drop of \$.0025 per lb today, the rest of the price decreases resulted from offers to sell at consistently lower prices. The action on Monday was someone's **strong declaration that butter demand has weakened** and prices are much higher than can be sustained. That's somewhat surprising because of the report on November 21st that butterfat in cold storage at the end of October was 47 million lbs lower than October 2007, a drop of 24%. This week's average price is about where it was the same week in 2006, which makes it the lowest it has been for the week in more than five years. Looking for something good to happen out of this price collapse is the hope that consumer demand will increase **as the nation officially enters its 13th month of a major economic recession**. The CME futures market has adjusted downward to match the current weekly average price.

NONFAT POWDER MARKET: According to DMN, nfdm sales at support prices from California plants this year has now reached 85.5 million lbs, which is equivalent to about 3 weeks of production. Despite the sales to the CCC which began in October, the amount of nfdm in storage at the end of the month was 20 million lbs higher than a year earlier. International prices for nfdm and skim milk powder in the past few weeks have dropped to the U.S. price level, and sales have apparently shrunk in response to what DMN correctly describes "*the general world economic and credit problems*" affecting demand for all dairy products. The full price range reported by DMN for carlot-sized sales of nfdm last week for plants in the West was \$.80 to \$.90 per lb.

WHEY MARKET COMMENTS: With prices sitting at levels well below what most people understand to be what it costs to produce the product, DMN reports prices to be steady, but apparently with growing interest from buyers for domestic usage as inventories continue to edge lower. Presently, sellers and buyers are each trying to look beyond the current muddled market situation in order to try to work through to reasonable agreements, but right now it's not an even match. On the other hand, there is encouraging news regarding

prices for whey protein concentrates, partly because of orders from Asian countries. The western “mostly” price average for dry whey was again unchanged.

FRED DOUMA’S PRICE PROJECTIONS...

Dec 5 Est:	Quota cwt. \$15.52	Overbase cwt. \$13.82	Cls. 4a cwt. \$10.74	Cls. 4b cwt. \$16.08
Nov Final:	Quota cwt. \$16.09	Overbase cwt. \$14.39	Cls. 4a cwt. \$12.10	Cls. 4b cwt. \$15.14

CURRENCY VALUATIONS AND INTERNATIONAL ECONOMIC CRISES – BRIEFLY: (By J. Kaczor) Considering the severity of the current U.S. economic crisis (monumental job losses, home mortgage foreclosures, business cutbacks and closures, “freezing” of the credit markets, and very low consumer optimism resulting in cutbacks in purchases of all kinds), **it’s almost ironic that the U.S. dollar has not only recently strengthened – it has strengthened sharply.** Examples include +20% vs the Euro since June, +24% vs the Mexican Peso since August, and +34% vs the New Zealand Dollar since March. Changes in relative currency values have various effects and, in terms of international dairy trade, the general effect is to increase or decrease the quantity of a product that can be purchased at a given price (depending on which side you are on of the gain or loss). For the U.S., it **could** mean more imports of product from Europe (because a dollar can now buy more product) and fewer exports of products to any nation whose currency has recently fallen relative to the U.S. dollar (because their currency can now buy less product). **It’s less clear on how currency reevaluations affect prices for exportable products** because of competitive responses by other major exporting countries to the value of their currencies relative to the U.S. dollar and relative to the value of currencies of their major customers.

Even in the best of situations, it takes time for prices to adjust to a complex change in supply/demand relationships, but this is not the best of situations, and no single country is in a position to direct the results. The short term response expected by U.S. dairy product exporters is to accept generally lower prices and fewer sales. That’s one hundred and eighty degrees opposite of what was expected last Fall when the U.S. Dollar was weak and falling, milk production was falling in Australia and New Zealand, milk supply in Europe was being absorbed by Europeans, and many countries in South America, Asia, and Africa were enjoying the fruits of high oil prices, growing middle classes, and expanding economies. That was then. The current situation was summed up nicely by Dairy Market News this week: *“The general world economies and credit problems are plaguing finished dairy product markets.”* The DMN reports were riddled with the following descriptors: *“weak,” “slow,” “declining,” “lower prices,” “devaluations,”* and *“under pressure.”* Regardless of the ultimate cause for world wide economic plague, perhaps a good response by the U.S. dairy industry would be to look to its self-interest – to revert to its customary role in the international arena; to be the seller of last resort; to leave to others the chore of satisfying the varying and unique dairy product demands of more than a hundred countries with their two billion inhabitants. In other words, cut back on milk production to the point where the U.S. is barely self sufficient with respect to milk and dairy product demand. It won’t happen, and perhaps it shouldn’t, but it’s interesting to contemplate.

INVENTORIES OF DRY WHEY AND BUTTERFAT FALL IN OCTOBER: (By J. Kaczor) USDA updated its reports on the amount of manufactured dairy products on hand in manufacturers’ warehouses at the end of October. Following is a recap of the principal products.

- The amount of butter, butteroil, and anhydrous milk fat in storage was 149.4 million lbs, 47.2 million lbs (24%) less than a year earlier.
- The amount of Dry Whey on hand was 60.6 million lbs, 2.8 million lbs (4.4%) lower than in 2007. The amount in storage represents about 20 days of production.
- The amount of all varieties of cheese was 823.5 million lbs, up 13 million lbs (2.0%) from 2007. The amount in storage represents 30 days of production.
- The amount of American cheese was 540.4 million lbs, up 16 million lbs (3%) from 2007. The amount in storage represents 45 days of production.

- The amount of whey protein concentrate was 31.5 million lbs, up 3.7 million lbs (13%) from 2007. The amount in storage represents 27 days of production.
- The amount of nonfat dry milk was 144.5 million lbs, up 20 million lbs (16%) from 2007. The amount in storage represents 35 days of production.

Because USDA's number for "butter" in storage includes an unknown quantity of the other two major butterfat products, it's not possible to estimate the number of days of butter production that is in storage. The American cheese category is mostly Cheddar, and the greater number of days of production than for all cheese is explained by the fact that a portion of Cheddar is held for aging. Production of nfdm in October increased by 21% over the amount in October 2007, and the production of **skim milk powder** fell by 18%. This combination suggests that the export market for dry milk in October was considerably lower than a year earlier.

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