



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

DATE: May 07, 2010
TO: DIRECTORS & MEMBERS

PAGES: 3
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-.0075$ \$1.3800
Barrels $-.0075$ \$1.3725

CHICAGO AA BUTTER

Weekly Change $-.0150$ \$1.6050
Weekly Average $+.0210$ \$1.6110

NON-FAT DRY MILK

Week Ending 4/30 & 5/01

Calif. Plants \$1.1134 11,969,691
NASS Plants \$1.2174 14,415,673

Weekly Average

Blocks N.C. \$1.3830
Barrels $+.0070$ \$1.3760

DRY WHEY

WEST MSTLY AVG w/e 4/30/10 \$.3963
NASS w/e 5/01/10 \$.3574

CHEESE MARKET COMMENTS: According to USDA's report released Monday, production of all types of cheese in March was 20 million lbs higher than a year ago and 115 million lbs more than in February. Production of American style cheese was 2 million lbs less than a year ago and 42 million lbs more than in February. Cheddar production accounted for 36 of the 42 million lb increase in American cheese production. Stocks of cheese in storage continue to be historically high, but short term comparisons of changes in production vs. changes in the amounts in storage (March vs. February) show that sales of American style cheese were greater than production. (American cheese stocks at the end of March were 2 million lbs higher than at the end of February and total cheese stocks were 15 million lbs higher.) Current production is reported to be leveling off. Trading activity on the CME this week was relatively light, and prices for blocks and barrels each held about even. There is talk about cheese prices having reached – or nearing – a bottom. Milk producers are likely to have the final word on that; the amount of milk produced (and the amount of cheese sold) should be the main factors on what happens to cheese prices. The class III futures price for September, still the highest presently shown for this year, has slipped to \$15.06 per cwt. For that price to hold, cheese prices need to rise from where they now sit by about \$.22 per lb. CWT's export assistance program continues to help with sales, having approved export deals for 22 million lbs of American cheese through last week, for deliveries through this summer.

BUTTER MARKET COMMENTS: Production of butter in March was 4.3% lower than a year ago, and about the same as in February. That means production per day in March was 10% lower than in February – very good news. The amount of butterfat products in storage at the end of March was 7% below last March, and 3% below February's level. The supply/demand balance for butter continues to be tight. Trading on the CME this week was light; prices lost \$.015 per lb. A sharp drop on Wednesday was partially regained on Thursday and Friday. Sales of butter at retail are steady, and usage of cream is reported to be strong, according to *Dairy Market News (DMN)*.

POWDER MARKET COMMENTS: Production of nonfat dry milk and skim milk powder in the U.S. during March was 4 million lbs higher than a year ago, and 25 million lbs more than in February. However, the amount of nfdm held by manufacturers at the end of March was only about 4 million lbs less than a month earlier, indicating more shipments during the month than production. Current production is being affected by heavy demand for condensed skim by ice cream manufacturers. Prices for sales made last week were \$.03 per lb higher for California plants and \$.04 per lb higher for current sales reported to NASS. The difference between the two, shown in the table above, is now \$.104 per lb. The California prices are heavily affected by sales made by Dairy America, a good part of which is for the export market. (Although their website doesn't show it, DA has lost another two of its members; these from the East coast.) DMN reports manufacturers are content to hold on to product in expectation of higher future prices. Prices for extra grade powder on the CME this week added \$.05

per lb, ending at \$1.30 per lb. Prices for dry whole milk and dry buttermilk are higher and firm. Domestic nfdm sales are reported as light to fair, and export demand as fair to good. Note: CME group, which had announced plans to launch a futures and options market for **skim milk powder** by mid-year has posted a notice that the planned date is postponed to give the “marketplace further time to prepare.” [And perhaps, rethink?]

WHEY PRODUCTS MARKET COMMENTS: March production of dry whey, whey protein concentrates, and dry lactose each were higher than a year ago, and each were higher on a per day basis than in February. DMN reports the threat from China to terminate imports of dairy products from the U.S. because of insufficient “health” certifications continues to cause a sense of unease in U.S. exporters of whey protein products. China has extended the threatened cutoff to May 30th. Exporters are trying to expedite shipments to beat that cutoff, even though there are reports that a solution is being worked on. The acceleration of shipments (and the search for product to fill those shipments) is, surprisingly, not helping to boost prices but, not surprisingly, is causing some disruptions on the logistical level – trucks, containers, overtime pay, etc. The West’s “mostly” price lost a fraction of a cent per lb this week, while the lagging NASS price added a fraction. Prices for dry lactose and whey protein concentrate are reported to be steady.

FRED DOUMA’S PRICE PROJECTIONS...

May 7 Est:	Quota cwt. \$ 14.54	Overbase cwt. \$12.84	Cls. 4a cwt. \$14.06	Cls. 4b cwt. \$11.98
Last Week:	Quota cwt. \$ 14.51	Overbase cwt. \$12.81	Cls. 4a cwt. \$13.91	Cls. 4b cwt. \$12.03

CME’S FIRST EVER FUTURES MARKET FOR CHEDDAR CHEESE TO BEGIN ON JUNE 20TH: (By *J. Kaczor*) A Cheddar cheese futures market should give a direct price risk management tool for cheese buyers and sellers, who have had to rely on class III milk futures prices as a proxy for cheese prices in controlling risks of future increases or decreases in cheese prices. A futures market for Cheddar cheese doesn’t seem to make much sense because Cheddar production continues to become a smaller percentage of all cheese production in the U.S. But CME says cheese buyers and sellers of all kinds of cheese have been asking for it and likely will use it. The settlement price will be the NASS monthly weighted average price for blocks and barrels which is usually announced within five days after the month end. That time lag works okay for class III milk, which is not a cash product and whose price is “back-loaded” by NASS’s weekly sales reports for butter, whey, and cheese, which build up to monthly weighted averages. How it will work for cheese, which is a cash product, should be interesting. The Cheddar spot market is sensitive to a lot of trading, little trading, and even no trading (“it can turn on a dime,” is the phrase sometimes used). As the settlement day approaches for class III milk futures, differences between the apparent real class III price and the futures class III price are generally resolved by the futures price moving to the real price. How differences between the cash and futures Cheddar prices will be resolved as the settlement day approaches is to be determined. The futures period will cover 24 months. If successful, the use of Cheddar futures should reduce the volume of class III futures by a considerable amount, but not to the extent of affecting their liquidity.

PRICES ARE MIXED IN FONTERRA’S MAY 5TH AUCTION: (By *J. Kaczor*) Fonterra reports that 148 bidders participated in the May 5th auction for whole milk powder, skim milk powder, and anhydrous milkfat products. The bidding went on for ten rounds (bidders drop out or pull away part of their offers to buy product as each successive bidding round begins at a stepped up price). There were 76 successful bidders. Paul Grave, the manager of gDT, said the outlook remained positive. The auction’s results “reflected both strong demand and constrained supply in the short term.” [I ask: for them or for us?]

The “spot” month for this auction is July. All contracts must be completed in the specified month. Two additional contracts, each covering three months, follow the spot month. Prices for anhydrous milkfat were higher for all seven months. Prices for whole milk powder were up \$.02 per lb, down \$.08 per lb, and up \$.06 per lb for the respective contract periods. Prices for skim milk powder were down \$.12 per lb, up \$.04 per lb, and down \$.03 per lb, respectively. The price for regular grade whole milk powder for July is \$1.85 per lb. The

average price for low and medium heat skim milk powder for July is \$1.66 per lb. The price for regular grade anhydrous milkfat for July is \$2.50 per lb.

Fonterra's projections for supplies of these products to be offered over the next twelve months have been updated. They project offering 33% more anhydrous milkfat, 8.4% more whole milk powder, and 11.1% less skim milk powder. The total volume of all products expected to be offered over the next twelve months is an additional 5.5% from last month's projection.

APRIL "DAIRY CARES" REPORT POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The April 2010 Dairy Cares Report has been posted at: <http://www.milkproducerscouncil.org/cares/apr10.pdf>. This month's column focuses on a recent United Nations report on the "carbon footprint" of the dairy industry. The report confirms what many of us have been saying for several years: **that due to the increasing productivity of the U.S. dairy industry, our farms "have the lowest emissions of climate-changing 'greenhouse gasses' in the world."**

As the column points out, the U.S. milking herd has shrunk over the last 65 years from 25.6 million cows back then to about 9.3 million cows today, a reduction of more than 63 percent in the national herd. In that same period, our annual production has actually increased by more than 61 percent, from about 117 billion pounds annually to about 189 billion pounds last year. That increase in productivity is demonstrated by the production per cow, which has gone from an estimated 4,600 pounds per cow in 1944 to more than 20,500 pounds per cow in 2009.

It's about time for this kind of straight-talk. Too often, the environmental extremist movement is given a free-pass to paint agriculture in whatever negative light they see fit. I encourage all of you to take a look at the Dairy Cares column. We have a great story to tell, and we need to make sure it's told.

MPC'S MONTHLY BOARD MEETING NEXT TUESDAY: *(By Rob Vandenheuvel)* Next Tuesday, MPC's Board of Directors will meet for our monthly board meeting. **All members and prospective members are welcome and encouraged to attend.**

This month's meeting will be held at the conference room of City Broiler, which is located at 12959 Peyton Avenue in Chino Hills. The meeting starts at 11 am. If you plan on attending, please contact Debi at MPC's office (909-628-6018) so that she can make arrangements. Hope to see you next Tuesday.