

Milk Producers Council

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PAGES: 3

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.2325 \$1.8350
Barrels -\$.1700 \$1.8000

CHICAGO AA BUTTER

Weekly Change +\$.0350 \$1.5750
Weekly Average +\$.0110 \$1.5470

NON-FAT DRY MILK

Week Ending 7/25 & 7/26

Calif. Plants \$1.3627 10,999,035
NASS Plants \$1.4153 11,356,419

Weekly Average

Blocks -\$.0865 \$1.9605
Barrels -\$.0980 \$1.8405

DRY WHEY

NASS w/e 7/26/08 \$.2635 WEST MSTLY AVG w/e 7/31/08 \$.2800

CHEESE MARKET COMMENTS: Prices on the CME this week were careening around like (a) a cat on a hot tin roof, (b) a squash or racquet ball in mid-point, or (c) commodity prices traded by a very few people on a very thin market. The answer is all of the above. Last week block and barrel prices ended the week with increases on Thursday and Friday, but with a wider than normal spread between the two styles. This week, apparently in response to a report that cheese sales for the March-May period were almost 3% below the same period a year ago, sellers started to unload barrel cheese and blocks soon followed. The price difference between blocks and barrels reached 32 cents per lb on Wednesday, a record spread, but narrowed to 3.75 cents the next day. Alan Levitt, in his Daily Dairy Report, saw these ripping price changes as an over-reaction to the sales report. Blocks ended the week 24.5 cents lower than last Friday and barrels were within normal range. It would seem so. This extreme volatility with no predictability is one result from using an extremely thin market for price setting purposes. Milk producers can be thankful that they have some protection from this kind of craziness because minimum prices are determined on a monthly basis. Buyers and sellers on the wrong side of this week's chaos may be got what they deserve.

BUTTER MARKET COMMENTS: Butter prices on the CME are traded within minutes of cheese trading, but were unaffected by what happened in cheese this week, and finished with a 3.5 cent increase today. Butter sales during the March-May period were reported to be sharply higher than last year, in pace with sharply higher production. Looking forward, lower seasonal milk production with lower butterfat, and continuing good demand for the other typical summer season usages of cream, is now causing butter production to ease off a bit. Domestic usage of butter is said to be surprisingly good considering the weakness in the U.S. economy, and export demand appears to be holding. Butter prices so far this year continue to follow last year's pattern, which anticipates a normal move downward this month. Looking further ahead, DMN reports that there is now more than 290 million lbs of butter in storage in Western Europe, 33% more than last year, some of which can be released for sale by end of this month.

NONFAT POWDER MARKET: Prices are holding fairly steady, domestic sales are a bit on the slow side, but export activity is said to be still fairly strong. Something not often seen in the West: the price spread for all sales and for spot sales are virtually identical this week, with a range of about 8 cents per lb. A good sign, perhaps.

WHEY MARKET COMMENTS: The market is weak, prices lower, and Dairy Market News reports that some buyers are "pushing back" on previously contracted sales. It seems that everyone involved in this market is expecting prices to drop further. In the Central region some dry whey was sold as low as \$.20 per lb, and in the West at \$.23 per lb. Some whey protein concentrate went for \$.51 per lb. DMN sees a bit more competition from other countries. Someday, perhaps soon, smart buyers may begin to realize the bargain prices that are available for whey products and act accordingly, but quietly.

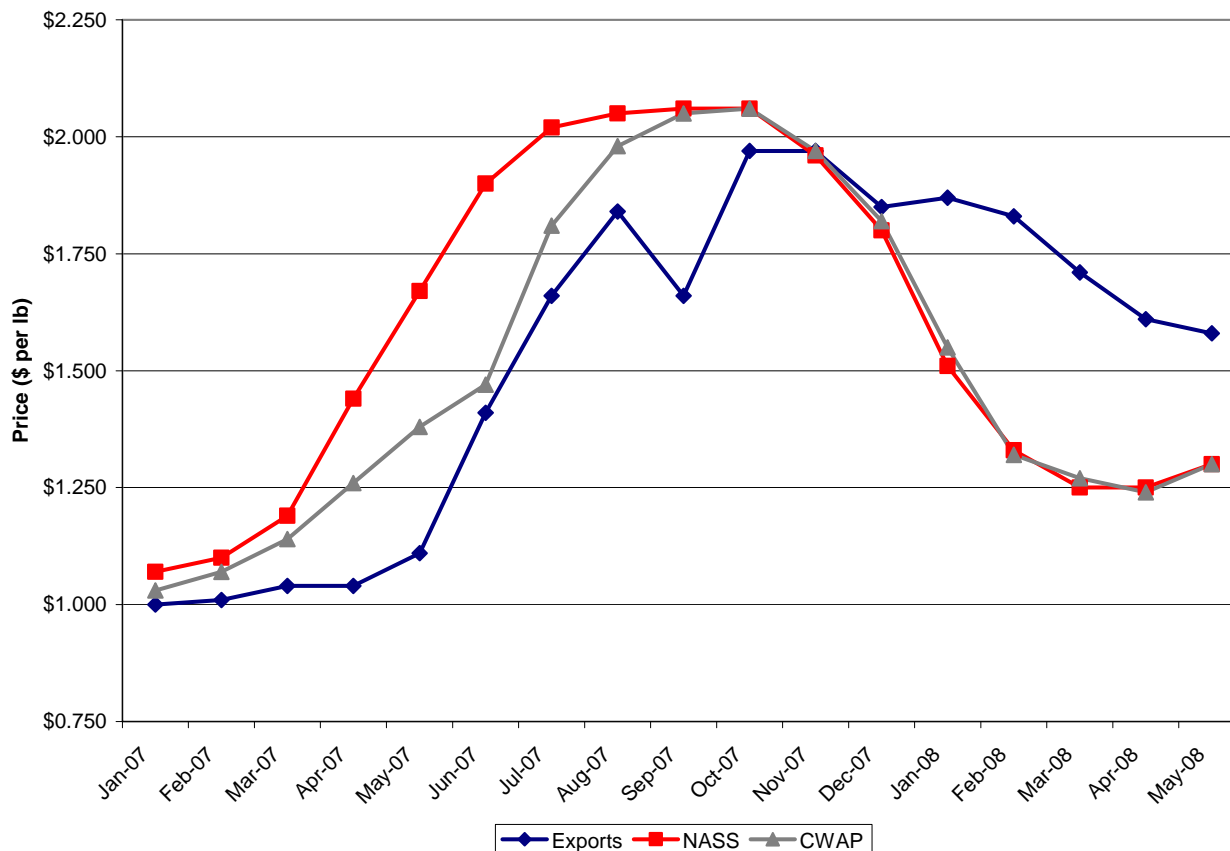
FRED DOUMA'S PRICE PROJECTIONS...

August 1 Est. Quota cwt. \$18.28	Overbase cwt. \$16.58	Cls. 4a cwt. \$16.02	Cls. 4b cwt. \$16.85
July 25 Final Quota cwt. \$18.91	Overbase cwt. \$17.21	Cls. 4a cwt. \$16.02	Cls. 4b cwt. \$17.77

QUESTIONS ABOUT NONFAT DRY MILK PRICES: *(By John Kaczor)* Since last October, the monthly average prices for sales of nonfat dry milk reported by California plants (CWAP) to CDFA and by all U.S. plants reported to the National Agricultural Statistics Service (NASS) have been very close to each other. In one sense that is good because California producers would not want a repeat of what happened last year when the NASS prices rose far above California's prices, which caused milk prices in federal order areas affected by nonfat dry milk prices to be at times more than \$3.00 per cwt higher than comparable prices in California. Those differences over a six month period resulted in a net loss of revenue to California producers of more than \$195 million dollars.

The differences were caused by California plants reporting sales made under long-term fixed price contracts to CDFA, but were not permitted to include them in their reports to NASS. (Since at least the middle of 2006 California plants have been handling more than half of all export sales.) CWAP prices for the nine months since September 2007 have been virtually identical to those in federal order areas. And therein lies a puzzle. California producers were assured a number of times last year that when prices started downward (and if the reporting differences between CDFA and NASS continued), CWAP would be above the NASS prices and last year's losses would turn into this year's gains. The graph below shows that isn't happening.

Comparing the NFDM Prices



The graph covers prices over a seventeen month period, ending this May which is the latest month export prices are available. A major reason given to explain why California prices lagged the NASS prices last year was the “old” fixed priced sales being reported by California plants were set well before the spot market prices began to rise in response to rising demand for product. On average, that looks like a net two month lag effect (which would reflect a combination of old and new prices under old and new contracts), and can be seen if you picture the line for the CWAP prices in this graph moved about two months to the left. That visual transformation of the graph would show the CWAP and NASS prices almost overlapping from January 2007 through September 2007. **It would also show NASS prices to be much lower than the California prices for the period from October 2007 through May 2008 – which they should be just as California producers were assured last year would happen because of the price/sell time lag.**

The graph also shows the national average prices for exports over the seventeen month period. Because of the large percentage of exports of nonfat dry milk made by California plants, the CWAP line was and should still be fairly close to the average price for exports. It was through December 2007, but has since fallen far below the export price average, along with the NASS prices. Not shown on this graph is the fact that the recent prices shown for U.S. exports are very close to what USDA reports being charged for skim milk powder in Western Europe and New Zealand.

Something to think about. How can we reconcile the fact that more than one-half of U.S. production of nonfat dry milk this year is exported at prices that have been averaging \$.37 to \$.50 per lb higher than domestic prices, and yet domestic prices have been reflecting spot prices reported by Dairy Market News? It just doesn't compute. Could non-reporting of higher priced export sales be happening? Could the first sale be made to a broker at prices reflective of the recent NASS and CWAP and then resold for export after a significant markup? Could the fact that almost one-half of all exports of nonfat powders from the U.S. are now skim milk powder whose prices are not reported to NASS or CDFA have an effect on average export prices? Any other questions?

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