

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-\$.3025$ $\$1.8500$
Barrels $-\$.1100$ $\$1.9800$

CHICAGO AA BUTTER

Weekly Change $+\$.0125$ $\$1.2300$
Weekly Average $-\$.0217$ $\$1.2175$

NON-FAT DRY MILK

Week Ending 1/04 & 1/05

Calif. Plants $\$1.7673$ 11,358,797
NASS Plants $\$1.7325$ 12,055,266

Weekly Average

Blocks $-\$.1328$ $\$1.9680$
Barrels $-\$.0123$ $\$2.0160$

DRY WHEY

NASS w/e 1/05/07 $\$.4410$ WEST MSTLY AVG w/e 01/10/08 $\$.3850$

CHEESE MARKET REPORT: This was one of the ugliest weeks for cheese sellers (and for some buyers) in recent memory. There doesn't appear to be any hot news to explain what happened to prices on the CME except perhaps the reports of strong increases in milk production across the country. Those reports may have some buyers thinking that cheese plants have been taking in extra milk to help with the growing milk surplus. On the other hand, there are some indications that cheese plants are merely correcting their stocks on hand to match expected post-holiday sales expectations. Regardless of the reasons, **this was one of the worst weeks for block cheese prices ever.** Even with a price increase of 4.25 cents on Tuesday, the net decrease for the week was 30.25 cents per lb. Prices for barrels fell by 11 cents and are still 13 cents above blocks. **This is not a stable market, and price changes like these cannot be explained by market fundamentals.** The CME cash markets for butter and cheese are thinly traded but have huge effects on the highly leveraged futures markets where speculators thrive on uncertainty. Block prices are now again down to a level where they received solid support 4 times in the last 6 months.

BUTTER MARKET COMMENTS: Here's one for the books: Dairy Market News (DMN) noted this week that **butter production in November was the most it has been in more than 70 years.** (Back then there were more than twice the number of cows currently being milked in the U.S., and they were producing less than half the milk presently being produced.) The market's response this week? Prices increased. Butter exports were strong in November, and CWT this week reported that they have again underwritten a sizeable sale. DMN reports that a number of plants are expecting continuing orders for export.

NONFAT DRY MILK: Last Friday the price for extra-grade nfdm on the CME was lowered 5 cents per lb, to $\$1.67$, and this week the prices reported by NASS and California's plants **increased** 8.7 and 13.2 cents, respectively. The CWAP is now 4.5 cents above the national prices. Yes, that means that the average prices for exported nfdm, at least for the week, were higher than domestic prices. A small pay-back for California producers for the debacle last Spring and Summer is better than nothing. (See the report on November exports, below.) DMN reports that nfdm production is now very strong, clearing away the surplus milk that is being produced throughout the U.S. The domestic market is weak, with buyers seemingly unwilling to make commitments on future prices. Be assured that the major U.S. manufacturers and brokers are working hard to find buyers anywhere in the world – but so are their competitors in Europe, New Zealand, and Australia.

WHEY MARKET COMMENTS: It was thought in September that whey prices, after having fallen 50% from their all-time highs earlier in the year, had bottomed out. Prices were then about 10 cents per lb above where they were a year-earlier. The good reasons for that belief included the moderate amount of cheese being produced in the U.S. (no cheese, no whey) and the sizable and continuing increase in the amount of whey being exported. However, short term, there still seems to be more whey products being produced than are being sold, and

inventories are rising. The latest report has the amount of dry whey in storage to be only 18 days worth of production – which should not be considered a burden. Nonetheless, DMN from their daily discussions with buyers and sellers describes it as a buyers' market and recent prices are now lower than where they were a year earlier. It doesn't make sense.

FRED DOUMA'S PRICE PROJECTIONS...

Jan 11 Est: Quota cwt. \$19.63 Overbase cwt. \$17.93 Cls. 4a cwt. \$16.68 Cls. 4b cwt. \$17.55
Last week: Quota cwt. \$20.44 Overbase cwt. \$18.74 Cls. 4a cwt. \$16.20 Cls. 4b cwt. \$19.44

TRACKING 2008'S MILK PRICE PROSPECTS: *(By J. Kaczor)* In the December 28th discussion in this *Update* of various projections of milk prices for 2008, the point was made that continuing strong dairy product exports was mentioned by all as a pre-condition for maintaining strong milk prices. I agree that strong exports can help to bolster prices and that was the reason so much space was given to that subject and why so much concern was shown about the prospects for those sales to develop and increase. In addition to exports, there are other things that can contribute to the goal. Less milk is the most logical one, which may also be the most attainable. Stronger domestic consumption is another. And of course the old standby: a combination of any of the above.

I have recently been asked to publish some kind of tracking of major "benchmarks" relating to supply of and demand for milk (meaning direction of milk prices) may be interesting, and even helpful in anticipating what may happen. Beginning today, and as time and space permits, and subject to data availability, I will provide one person's views on what is developing. Today's focus is on the report released this morning by USDA's Foreign Agricultural Service (FAS) on U.S. dairy product exports in November.

The 4 dairy products that are included in federal order and California price formulas are nonfat dry milk, butter, cheddar cheese, and dry whey. Following is a recap of the volumes of those products exported from the U.S. over the past 4 months and the percentage of production those exports represent for each of the reported periods. November is reported separately. The volumes denote millions of lbs.

	<u>Nonfat Dry Milk</u>	<u>Butter</u>	<u>Cheddar Cheese</u>	<u>Dry Whey</u>
Aug-Sep-Oct				
Export Volume	128,678	30,209	10,979	151,045
Pct of Production	37.2%	8.6%	1.5%	55.7%
November				
Export Volume	62,690	14,104	21,101	45,148
Pct of Production	53.1%	10.7%	8.4%	48.3%

All of the volumes for November are considered significantly large enough to influence prices. However, what is not shown in this table are the prices received (important for those price formulas) and the amount of product overhanging the market that is in storage. Those details and more will be covered next week. This is a work in progress.

ATTENTION SOUTHERN CALIFORNIA DAIRIES – NEW AQMD POLICY REGARDING YOUR EMERGENCY GENERATORS: *(By Rob VandenHeuvel)* AQMD has adjusted their policy on emergency-only generators at agricultural operations. For the past few years, dairies have been required to get a permit for their generators the same way they get a permit for their cows. AQMD has now removed that requirement for the emergency-only generators. *(AQMD plans to implement a "registration" process for these low-usage engines which would include a lower annual fee and more streamlined documentation, but that process has not been implemented yet).*

In the meantime, dairymen who currently have a permit for their emergency generators may still receive an annual

invoice with a \$250+ charge for the annual renewal of their generator permit. **YOU DO NOT NEED TO PAY THIS.** If you receive an AQMD invoice that includes a \$250+ fee to renew your permit on your emergency generator, cross out that line item, write: “**EXEMPT UNDER RULE 219(q)(1),**” and do not pay that portion of the invoice.

MPC will continue to work with AQMD as they develop their registration policy for these generators. If you have any questions, please feel free to call me on my cell at (909) 992-9529.

A CLOSER LOOK AT THE PEOPLE BEHIND MILK PRODUCERS COUNCIL: *(By Rob VandenHeuvel)*
MPC’s producers and associate members benefit from a team of talented individuals, some of whom you may know little about. This month, each *Friday Market Update* will feature a brief article about a different member of the team MPC has assembled. This week, we are featuring John Kaczor, editor of the *Update*.

A Little History on John Kaczor

By John Kaczor

My hands-on experience with dairy farming began and ended on a small farm in northern Wisconsin when I was 5 years old. My father asked me if I wanted to help milk one of our 16 cows. I agreed, but for some reason I wasn't asked again. (My family moved to Milwaukee the next year.) Fast forward to 1964. After completing 3 years in the U.S. Army and 6 years of college, I was hired as assistant to the manager of a number of local and regional milk processor trade associations in northern California and in 1975 became the economist for the Dairy Institute of California. 1964 puts me back to a time when the state was setting minimum prices for milk sold at all levels of sale in 12 separate marketing areas. Glass bottles and flat top quart containers were the norm and home delivery was about 35% of sales. The only wholesale service available to stores was full service and Class 1, 2, and 3 usage covered about 85% of milk production. And the statewide pooling plan was still only a dream for California producers. Things have changed.

In 1979 I started an 8 year period as economist with Formost Foods' Manufacturing District and later 14 years in a variety of positions with Super Store Industries. My responsibilities over that 36 year period included various economic, regulatory, legislative and legal matters related to all aspects of the dairy industry.

About a year ago I was asked if I would be interested in helping out with the editing of MPC's *Friday Market Update*. I accepted the challenge and the rest – as they say – is history. I have enjoyed this opportunity to be part of MPC and I strongly encourage any of you to shoot me an email whenever you have thoughts or feedback on the articles I write. My email address is: JohnDKaczor@aol.com.

MANAGER’S NOTE: John is an outstanding resource at MPC and our membership is extremely fortunate to have the benefit of his background and insight not only as Editor of our weekly newsletter, but also in his work and thoughts on a wide scope of dairy industry issues. There is very little original analysis addressing the California dairy outlook, and MPC is proud to publish John’s in-depth commentary on a weekly basis.

Next week, we’ll be featuring Betsy Hunter, MPC’s Central Valley Representative.

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