



# Milk Producers Council

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**TO:** Directors & Members

**PAGES:** 3  
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## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0875 \$1.4950  
Barrels - \$.1225 \$1.4600

### Weekly Average, Cheddar Cheese

Blocks +\$.0555 \$1.5900  
Barrels +\$.0275 \$1.5830

### CHICAGO AA BUTTER

Weekly Change +\$.0075 \$1.5225  
Weekly Average +\$.0220 \$1.5225

### DRY WHEY

DAIRY MKT NEWS w/e 03/23/12 \$.5325  
NASS w/e 03/17/12 \$.6044

### NON-FAT DRY MILK

#### Week Ending 3/16 & 3/17

Calif. Plants \$1.3439 16,578,307  
NASS Plants \$1.3261 23,438,045

#### Prior Week Ending 3/9 & 3/10

Calif. Plants \$1.3445 13,976,893  
NASS Plants \$1.3410 22,506,938

**CHEESE MARKET COMMENTS:** After posting gains through Wednesday with little or no actual trading this week, Thursday was a day of calm – no bids, offers, or sales. That was the calm before Friday’s storm. Friday follies again? Not this time. It was more like slash and burn; barrel prices fell \$.165 per lb with 11 carloads traded and blocks fell \$.15 per lb with no trades. The session ended with apparent agreement from buyers and sellers that prices could not move any further that day. Since little cheese was bought or sold at the higher prices this week and no prices likely were changed, one might say “no harm, no foul.” In fact, the weekly average prices increased so milk prices will get a little boost from that higher average, but may not last long. With prices back down to a familiar level (of two weeks ago) buyers may hold off for another week or so, but why would they wait because domestic and export sales appear to be strong? What likely happened is some people either made a lot of money this week or else cut their losses. Futures traders had not bought into the belief that cheese prices would hold, or even increase. For them, the question was not if, but when, prices would fall. Monday’s report on February average daily milk production (+4.6% over a year ago; California production was +7.1% while Class 1 pool usage was 2.0% lower) strengthened that belief, while cash prices continued to be bid higher in the days following. Yesterday’s very positive report that stocks of American cheese at the end of February were lower than the month and year before, reflecting strong sales despite the increase in milk output and cheese production during the month, apparently was filed under “we will see.” Class III milk futures prices responded almost instantly to today’s cash cheese market; the largest drop was \$.63 per cwt, to \$15.68 for April; the low price for the year is \$15.11 per cwt (May); the high price is \$16.66 per cwt (September). Cheese futures range from \$1.521 per lb for April to \$1.730 per lb for October.

**BUTTER MARKET COMMENTS:** Butter traders were either oblivious to the negative reports this week on milk production and butterfat cold storage, have access to market information not generally available, are in denial, or have calculated the cost of storage against expected price levels later this year. Butterfat in storage at the end of February was 34 million lbs higher than at the end of January and 67 million lbs higher than February 2011. Production is booming; so are sales, but not at the pace of production. Four carloads were sold this week; the price edged up by \$.0075 per lb from a bid on Monday, survived four sales on Tuesday (three at higher prices, one at Monday’s price), and did not change from that point. *Dairy Market News* says a great deal of cream is being used for seasonal and holiday products other than butter, which is helping butter plants to keep on top of their supplies of raw product. Exports of butter either are increasing, or are expected to do so. Despite the increase in the cash price this week, CME futures fell by varying amounts from April through October; the low is \$1.45 per lb (April) and the high is \$1.62 per lb (November).

**POWDER MARKET COMMENTS:** Production of nonfat dry milk continues at high levels, leading to increasing stocks. Buyers, according to *DMN*, continue to take only what is needed for immediate usage or sales; prices continue to slip lower. Except for sales to established accounts, export demand for U.S. product is not what was expected; in the central region it is “weak.” (Without Mexico’s 51% increase in purchases in January, U.S. exports of nonfat powders would have been 21% lower than January 2011.) *DMN* says there presently is

more than sufficient supplies of NFDM available from a wide variety of sources at a wide range of prices. Contractual sales (NASS and California plants) were slightly lower for last week's shipments but are now at the high end of the "mostly" pricing series. Dairy America's simple average winning price for skim milk powder in this week's global auction, for shipments in April and May, bucked the trend by increasing \$.021 per lb (to \$1.268) over the previous auction. Increased demand for condensed milk and skim is helping to keep the milk supply from becoming overly burdensome for drying plants.

**WHEY PRODUCTS MARKET COMMENTS:** Although the news on the dry whey market is positive for a second week in a row, the "mostly" price range in the west fell by about \$.02 per lb and the low end of that range is now \$.1825 per lb below the low end of the range in the northeastern region. The consensus viewpoint, mentioned last week, that current price levels are internationally competitive and appropriate for domestic markets was repeated by *DMN* this week. That view does not hold for the futures market which took back more than half of last week's gains. The largest losses occurred in the May-August months, with July and August now averaging \$.44 per lb. Increasing usage of dry whey by ice cream manufacturers, along with continuing strong export demand, is helping to keep dry whey inventories at manageable levels. However, pressure from NFDM prices is weighing on whey protein concentrate-34 prices. (For many usages the two products are interchangeable with little modification of formulas.) Lactose prices are steady to higher. Lactose manufactured in Australia will be offered in the global auction next month.

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**FRED DOUMA'S PRICE PROJECTIONS...**

**March 23 Final: Quota cwt. \$16.33 Overbase cwt. \$14.63 Cls. 4a cwt. \$15.49 Cls. 4b cwt. \$13.67**  
**Last Week: Quota cwt. \$16.32 Overbase cwt. \$14.63 Cls. 4a cwt. \$15.50 Cls. 4b cwt. \$13.65**

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**FEBRUARY MILK PRODUCTION IS 4.3% PER DAY ABOVE YEAR AGO:** (By *J. Kaczor*) USDA's February revisions of the monthly milk production report, based on additional administrative data, go all the way back to January of the previous year. This month, changes were made for every month in 2011 in number of cows and total milk production, and for all but two months for production per cow. These changes have no practical effect on anyone's current dairy-related decisions, but are important to those who construct industry models which are designed to track, and forecast, decisions, actions, and behaviors. For the record, the average number of cows for 2011 was decreased by 3,000, the average production per cow was increased by 10 pounds, and the annual production was increased by 29 million pounds. Let the models be duly refined.

Closer to hand, January's cow numbers were increased by 5,000 and average production per cow was increased by 1 lb for the month. Milk production was increased by 35 million lbs. That changed the percentage increase in milk production for January to 3.52% from 3.37% over January 2011. The table shown here records the estimates for February. (\* The percentage change is on an average daily basis in order to account for the extra day this year.) That increase is the largest, in percentage terms, since January-March 2006.

	Number of Cows (1,000)		Milk Production (Million lbs)		
	2011	2012	2011	2012	Pct Change*
<b>Top Ten</b>	6,582	6,654	11,094	12,039	4.78%
<b>Next 13</b>	1,826	1,856	2,903	3,123	3.87%
<b>Next 27</b>	755	740	1,080	1,118	0.00%
<b>50 States</b>	9,163	9,250	15,077	16,280	4.26%

The size of the increase is not surprising considering the outstanding weather during the month. That, and what may be some kind of wrong-headed belief that a "race for base" is in the cards. The familiar regional patterns of increase are seen, but some of the increases in production per cow throughout the Midwest are truly spectacular. Maybe it is plain old common sense – enough producers with sufficient feed and cattle, hearing that prices early in the year are likely to be as high as they get. Milk producers doing what they do better than any of their contemporaries anywhere in the world – producing high quality milk, in volumes not even imagined twenty years ago. Nor should it be surprising if the March through May numbers look a lot like February's. Replacements, or heifers for expansion, are said to be readily available, but watch for those base plans that are being dusted off, and watch for those who stand ready to take advantage of those situations.

## PRICES FALL AGAIN IN GLOBAL AUCTION AS SUPPLY OUTPACES DEMAND: *(by J. Kaczor)*

Winning prices this week in the Global Dairy Auction moved sharply lower as the total amount of milk available for export continues to grow faster than demand. Recent projections of global demand for tradable dairy products over the next ten years were for annual increases of about 2.4%. Recent reports on milk production of major exporters located in the southern hemisphere suggest this year's increases will be in the 8 to 10 percent range, after last year's increases of 10 to 12 percent. Milk production in the northern part of the globe was not so robust – the U.S. and European Union last year averaged 1.8% above 2010 and early indications for this year are for somewhat larger increases, although far lower than those projected from down below.

In addition to the burst in milk production, stories circulating from New Zealand raise questions about current demand from the major importers. It is "softer," "but still pretty strong" some of them say, caused by reaction to recent price volatility and the strong New Zealand currency. Concern about European financial problems have also contributed to general uneasiness, but appears to have been mollified. Populations of major importing countries are increasing as expected and their taste for western style diets has not abated, but expectations for continuous growth in per capita income at recent high rates is not a sure thing. Fonterra has been the major beneficiary of that demand. Clearly, without the huge increase in dairy product demand from China, (whose imports of dairy products have increased by 10 million tons per year for the last three years) international prices for dairy products would be much lower than now.

The reports noted this week's winning prices were at a 19 month low. The chart shown here tracks the winning prices for the three major products for that period of time, which goes back to when the auction began the present twice a month sessions. Prices for all products fell in this week's auction, by 4.5%, below the March 6<sup>th</sup> auction, and are now 35% lower, on average, than a year ago. The line showing the prices for Dairy America's skim milk powder is a simple average of winning prices for contracts 1 and 2.

The prices bid for anhydrous milkfat continue to be a mystery. Except for the relatively brief times they were at or near their peaks the prices per pound of butterfat in AMF were, and are now, well below what should be their counterpart price per pound of butterfat in butter. In fact, it is more costly to manufacture AMF than butter, and the product has characteristics that are superior to butter for many of its usages. It, along with Dairy America's SMP, appears to represent huge bargains for buyers.

Next up, on April 3<sup>rd</sup>, are two more sellers: Arla Foods will be offering skim milk powder in contract 2, and Murray Goulburn will be offering lactose. And, possibly by May 1<sup>st</sup>, the existing structure of contracts and delivery periods will be converted to six single month contract/delivery periods strung out beyond the bid month. Contract number two will continue to be the Spot Month for settlement of NZX's futures contracts.

## ONE MORE WEEK TO SUBMIT UPDATED INFORMATION ON YOUR DIESEL-POWERED TRUCKS: *(by Rob Vandenheuvel)*

Over the past couple years, most of the dairies in California registered their heavy-duty diesel engine trucks with the California Air Resources Board (CARB). With CARB in the process of requiring equipment upgrades to these vehicles to reduce emissions, dairies and other agricultural interests were able to enroll in a temporary exemption program that delayed implementation of these upgrades until 2017 or later. As part of that process, the owners of these agricultural trucks must report annual odometer readings on CARB's website.

The deadline to report the 2011 annual odometer reading is next Friday, March 30, 2012. More information can be found on CARB's website at <http://www.arb.ca.gov/msprog/onrdiesel/reportinginfo.htm>. MPC members that have any questions about their dairy's compliance can contact Rob Vandenheuvel at (909) 628-6018, Betsy Hunter-Binns at (661) 205-6721 or Kevin Abernathy at (209) 250-1801.

