



Milk Producers Council

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TO: Directors & Members

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MPC FRIDAY MARKET UPDATE – **HAPPY NEW YEAR!**

CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$1.5625
Barrels	+\$0.0200	\$1.5800

Weekly Average, Cheddar Cheese

Blocks	N/C	\$1.5625
Barrels	+\$0.0200	\$1.5700

CHICAGO AA BUTTER

Weekly Change	N/C	\$1.5950
Weekly Average	-\$0.0015	\$1.5950

DRY WHEY

DAIRY MKT NEWS	w/e 12/30/11	\$0.6775
NASS	w/e 12/24/11	\$0.6599

NON-FAT DRY MILK

Week Ending 12/23 & 12/24		
Calif. Plants	\$1.3556	27,026,258
NASS Plants	\$1.3766	29,462,123

Prior Week Ending 12/16 & 12/17

Calif. Plants	\$1.4254	13,444,861
NASS Plants	\$1.4418	19,894,159

CHEESE MARKET COMMENTS: Trade news was limited this week, unlike last week’s double-header of neutral to good news about November’s milk production and cold storage holdings. Traders on the CME apparently were on holiday. After two months of turbulent, gut-wrenching type activity, where prices rose some and mostly fell, CME cheese trading ended the year with two quiet weeks – the sort of “soft landing” that many were hoping for. Block prices have not changed for nine trading days and barrel prices rose by \$.045 per lb. The pause in trading activity has allowed the prices paid to plants for cheese to get to within reasonable proximity to CME’s spot prices – NASS says prices paid last week for barrel cheese moved to within \$.065 per lb of this week’s CME average and blocks to within \$.135 per lb. Whether or not traders are signaling that supplies are no longer too large, CME’s current prices, relative to where they were earlier this year, are not so great; blocks are lower than any time since January and barrels are lower than any time since April. Cheese production is increasing seasonally and extra milk has been available for any plant that wants it. *Dairy Market News* says the responses to the offers are mixed, but the discounts offered make it hard to turn them down. The costs of disrupting optimal production and handling schedules, storage, and risk of lower prices vary by plants and buyers. The size of year-end inventories and current sales opportunities often are major considerations on whether more cheese is made or bought. Cheese sales have been very good and many cheese makers and buyers anticipate continuing heavy sales through the end of January. Class III futures prices moved up again this week for the January-June period and prices for all months next year average \$17.24 per cwt, virtually flat for the full year. A good part of their support comes from the strong prices for dry whey – and other whey protein products, plus the windfall from lactose sales. *Happy New Year* to California cheese makers, from the California Department of Food and Agriculture’s Dairy Marketing Branch!

BUTTER MARKET COMMENTS: Butter news, trading, and prices followed the same pattern as cheese this week. Production is heavy, as surplus milk and cream is currently abundant at discounted prices. NASS prices for butter have been in close alignment with CME prices for some time, which makes buying decisions easier than for cheese except for the question about the direction of future prices. Much of the current buying is to fill short-term needs, and to take advantage of the current low prices – the lowest they have been this year (but not as low as they were last December and the first four months last year). Few buyers are building stocks while manufacturers have little choice on that matter. Sales of print butter (retail trade) have been outstanding over the past half year, while export sales, critical to keeping butter stocks from rapidly rising, have weakened since mid-year. California plants have produced 63 million more lbs of butter so far this year through November than for the same period last year; the average increase over the last four months is 17%. CME’s butter futures prices were mixed this week. They begin 2012 at a small premium to the spot prices and rise to \$1.77 per lb in September.

POWDER MARKET COMMENTS: The big news for the powder market this week is a repeat of what may become a tradition – dumping deeply discounted product in order to reduce end of year inventories. California plants shipped twice the volume last week than the week before, at about \$.07 per lb lower price than the week

before. That affected the national average, in terms of volume and price, by similar amounts (see weekly changes in volumes and prices in the table above). This was a virtual carbon copy of what happened last year at the same time of year with the same result. Let us hope last year's pattern plays out the same this year because volumes and prices the following week last year reverted back to where they were before the dump occurred. Futures traders are not optimistic about U.S. nonfat dry milk prices next year, despite some nice increases shown in last week's global auction. CME's futures prices average \$1.40 per lb through June, then fall to \$1.36 per lb by October.

WHEY PRODUCTS MARKET COMMENTS: *DMN* says the interest of many whey market participants continues to be focused on finalizing next year's contracts; volumes and prices, surely, but commitments too because of the problems many domestic buyers had this year from apparently having to take a back seat to plants and brokers catering to the export trade. The export market for dry whey, whey protein concentrates, and lactose is certainly of critical importance to the strength of the entire cheese marketing channel, but should not be more so than the domestic market. Perhaps just a little more thoughtful planning for contingencies good and bad is all that is needed. Then again, perhaps not. *DMN* has commented several times this year about product shortages resulting from what seems to be important changes being made within the whey processing industry as to the mix of final products. That is one of the faults in the grand plan about the U.S. becoming a consistent major supplier of dairy products to the world – the absence of a common goal for the greater good of the entire industry, which really should not overlook long time valued customers right here in the U.S.A.

FRED DOUMA'S PRICE PROJECTIONS...

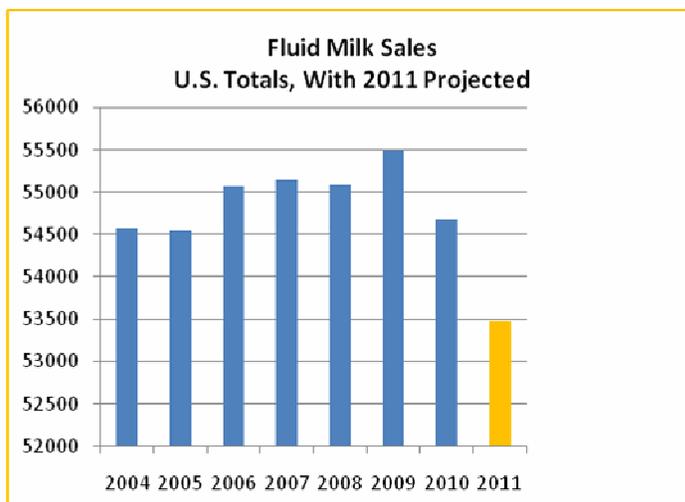
Jan '12 Est:	Quota cwt. \$17.31	Overbase cwt. \$15.62	Cls. 4a cwt. \$16.45	Cls. 4b cwt. \$14.20
Dec '11 Final:	Quota cwt. \$17.83	Overbase cwt. \$16.14	Cls. 4a cwt. \$16.59	Cls. 4b cwt. \$15.14

FLUID MILK SALES CONTINUE TOWARDS 25 YEAR LOW: *(by J. Kaczor)* This is not how the final story for this year should end, but the long, sad story about declining fluid milk sales in the U.S. simply has not changed as the year progressed. The monthly decline below the same month a year earlier that began with March, 2010, shows no sign of stopping. CDFA's November report for California (-2.7%) and preliminary numbers for fluid milk usage in federal milk orders (-3.3%) add up to a total decline in fluid milk sales for the month of 143 million lbs below last November. The total loss of Class 1 sales for the U.S. for this year, provided December's sales reflect November's pattern, will be close to 1.2 billion lbs.

The chart to the right shows total fluid sales (millions of lbs) for the seven years ending in 2010, along with a projection for 2011. The projection assumes December's sales will be 3.3% below last December.

It should be noted these figures include sales of organic milks, which based on data through October, will have increased by an estimated 250 million lbs for the year.

Various reasons have been offered for the drop in fluid milk sales. Most go against the conventional belief that food sales generally, and dairy product sales more specifically, are somewhat immune from the affects of economic downturns and price increases. The years included in this chart include two recessions, the last, longest and deepest, supposedly ended in June 2009. Prices from 2004 through the present have cycled through two periods of very low and two periods of very high prices, without responding as they might have. The



outstanding increases in organic milk sales in the latest four years also defies industry and economic theory. Consumer confidence in November has risen for a second straight month. Maybe some of that confidence will translate into more milk sales because what is happening simply does not make sense.

DECEMBER ‘DAIRY CARES’ COLUMN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The December 2011 “Dairy Cares Report” has been posted at: <http://www.milkproducerscouncil.org/cares.htm>. This month’s column takes a look at the tremendous value California dairy families provide for the state. This value comes in multiple forms – economic stimulus for the overall economy and environmental stewardship to name a couple. Despite the barrage of attacks that our nation’s dairy farmers are constantly under, our industry has a phenomenal story to tell. As we stare into the upcoming year, we should all be challenged to help share that story with those who aren’t so lucky to be a part of this industry. On the top of that list should be our elected officials and regulating agencies.

**ON BEHALF OF THE MPC BOARD OF DIRECTORS AND STAFF,
WE’D LIKE TO WISH YOU AND YOUR FAMILY A BLESSED NEW YEAR!**