

Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

E-mail: mpc@milproducers.org

Website: www.milkproducerscouncil.org

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TO: DIRECTORS & MEMBERS

HAPPY EASTER!

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$0.0100 \$1.8000
Barrels +\$.0350 \$1.7750

CHICAGO AA BUTTER

Weekly Change +\$.0350 \$1.3875
Weekly Average +\$.0273 \$1.3638

NON-FAT DRY MILK

Week Ending 3/14 & 3/15

Calif. Plants \$1.2483 17,985,337
NASS Plants \$1.2385 22,609,384

Weekly Average

Blocks -\$0.0565 \$1.7650
Barrels -\$0.0357 \$1.7313

DRY WHEY

NASS w/e 3/15/08 \$.2438 WEST MSTLY AVG w/e 3/20/08 \$.2465

CHEESE MARKET COMMENTS: The \$1.80 per lb support mentioned with hope last week for cheddar blocks didn't hold even a day. It fell 8 cents on Monday, with heavy trading. Barrels followed, but finished the week with a 3.5 cents gain. Blocks recovered 7 cents, and finished the week parked at \$1.80 per lb. Dairy Market News reported that some buyers moved in (not on the CME) when prices fell, which is a good sign. A big piece of good news came on Thursday, after the markets were closed. The amount of cheese in storage at the end of February was **70 million lbs lower** than it was a year earlier. That news is expected to put the fear-of-the-future-market in buyers' eyes. **Two-thirds of the total inventory decrease** was American cheese, and that means it was **cheddar**, and that means that the near term future market looks good. So far, since last June, cheese plants have continued to manage their production, which is the sole reason why this market has been so firm. There is pressure on some of the manufacturers, particularly in the West, to increase their intake of milk to help with the surplus. The payoff for doing that is very low prices for that distressed milk, and that is always worth considering.

BUTTER MARKET COMMENTS: Prices on the CME continue to move upward. The report on the amount of butter in storage on February 29th, which was published after the market closed for the week, is very bullish – an increase of only 13 million lbs from December, and only 16 million lbs above a year earlier. This information, following the report of the all-time record amount of butter that was produced in January, suggests that export sales are continuing at their recent high levels. Production numbers for February will be published on April 4th.

NONFAT DRY MILK: Sales reported by California plants and by NASS continue to be steady and strong. DMN reports that demand for domestic and export sales is good. Production is nearing record levels because of the milk supply. Prices are weak. That sums it up. The week to week drop in prices appears to be slowing; it's possible that prices may not dip below the \$1.20 per lb level, but that may depend on whether the monthly volume being exported will continue to close to the recent levels. Production of skim milk powder surged in December and January. SMP is nonfat dry milk adjusted for protein content. It is not reportable to CDFR or to NASS, and NASS does not report inventory levels. SMP is the major product that is traded by all major exporting countries, except the U.S. CDFR has stopped reporting production of SMP because they say there are fewer than 3 plants that are producing the product. It's beginning to have the feel of something not exactly right, doesn't it?

WHEY MARKET COMMENTS: There are signs that a price bottom may have been reached – 1 week ago. DMN reports that demand for dry whey is increasing, and the combination of relatively low production and increased buying appears to have brought the not-too-high inventories down to a point where manufacturers feel comfortable. **The west's "mostly" price** has increased by small amounts for the past 2 weeks – and **is now only 46 cents below where it was last year at this time**. The WPC market also is showing signs of stability; the bottom of the "mostly" price this week has firmed up a bit at \$1.12 per lb, 24 cents below a year ago. The reports of supply shortage internationally are encouraging.

FRED DOUMA'S PRICE PROJECTIONS...

March 21 EST: Quota cwt. \$17.85 Overbase cwt. \$16.15 Cls. 4a cwt. \$14.26 Cls. 4b cwt. \$16.94
Last Week: Quota cwt. \$17.88 Overbase cwt. \$16.18 Cls. 4a cwt. \$14.24 Cls. 4b cwt. \$17.01

USDA REPORTS RECORD HIGH MILK PRODUCTION FOR FEBRUARY: (By J. Kaczor) New modern day records were set for number of cows*, production per cow, and total milk production for the month of February, according to USDA's report released earlier this week. (In terms of number of cows, "modern day" refers to the period starting after the last major national herd slaughter program, in the early 1990's.) The table below shows the numbers for the top ten milk producing states for the last three Februaries. The number of cows represents thousands. The milk production figures are thousands of lbs per day.

	<u>Number of Cows</u>			<u>Milk Production</u>			<u>2008/2007</u>
	2006	2007	2008	2006	2007	2008	Pct Change
Washington	236	235	244	15,071.4	14,928.6	15,552.0	+4.2
Michigan	314	328	344	19,357.1	20,500.0	20,862.1	+1.5
New Mexico	344	353	339	20,892.9	19,357.1	20,931.0	+8.1
Texas	328	347	370	20,321.4	20,321.4	22,758.6	+12.0
Minnesota	450	455	463	23,464.3	24,142.9	24,344.8	+0.8
Pennsylvania	555	548	551	30,714.3	29,357.1	29,069.0	-1.0
Idaho	473	504	534	28,314.3	30,250.0	32,413.8	+7.2
New York	645	628	626	33,964.3	33,178.6	34,310.3	+3.4
Wisconsin	1,240	1,246	1,250	64,428.6	65,428.6	65,965.5	+0.8
California	1,779	1,795	1,849	108,642.9	112,500.0	114,586.2	+1.9
United States	9,088	9,136	9,248	508,500.0	511,464.3	520,931.0	+1.9

Eight of the top twenty-three milk producing states had lower daily production than last February. The increase in average production per cow for the month was only 10 lbs, which may partly reflect specific weather conditions as well as a reported reduction in the use of rbst in California and elsewhere.

The additional 9.5 million lbs of milk per day that was produced represents a combination of about 950,000 lbs of cheese or 400,000 lbs of butter and 780,000 lbs of nonfat dry milk that must be accounted for (disposed of) **per day** this year that did not exist last year. **California produced an additional 2 million lbs of milk per day**, which represents a combination of 200,000 lbs of cheese or 84,000 lbs of butter and 162,000 lbs of nfdm **per day**.

The best way to handle that additional supply, from the standpoint of producer income, would be to sell it in the form of fluid products, "soft" manufactured products, or frozen desserts. And, normally, we could expect sales of those products to increase by about 1% each year, in line with the increase in the U.S. population. That would take care of about half of the February milk production increase. But consumption of fluid products has been decreasing on a per-capita basis for more than two decades, and **these are not normal times**. (Usage of milk in January, which seems to verify weakening dairy product sales, is reviewed briefly in a following article.) Retail sales are down, consumer confidence is reported to be at a 10-year low, the consumer price index for food, transportation, and health care is rising at close to a 6% rate, the number of non-farm jobs was flat in December and January, and fell by 63,000 in February, and the "wealth effect" measured in part by home prices and increases in real wages has been declining for more than two years. Under current economic conditions a normal sales pattern would be a surprise.

So, the majority of the additional milk produced in February and beyond likely will wind up in the form of products in storage – or will be exported. A comparison of the volume of butter, powder, and cheese that was exported in December and January to the volumes exported a year earlier can be used as a basis for estimating how much is

needed to be exported currently in order to keep them from going into storage.

	Exported Last December-January (Monthly Average)	Exported This Last December-January (Monthly Average)
NFDM & SMP	37.0 million lbs	62.0 million lbs
Butter & Anhydrous BF	0.6 "	13.5 "
Cheeses	14.5 "	23.5 "

The months used for this comparison for butter, anhydrous milkfat, and cheeses fairly represent last year's increase in exports of those products, but are not representative for nfdm and smp because 2007 exports of nonfat powders were actually down by about 9%. But this table does suggest that **if recent export volumes in the above three product categories continue**, their inventories may not become burdensome. Then, **if** milk production down the road does not increase by more than 1.9% above year-earlier levels – and **if** sales of milk products in the higher usage categories remain at least close to year-earlier levels – and **if** production of all cheeses in the U.S. does not ratchet up in response to the many enticements to do so – there is a reasonable chance that milk prices this year can meet the projections made last Fall. This proposition contains four critical conditions, each of which is problematical. We will continue to watch and report.

WHAT HAPPENED TO JANUARY'S MILK PRODUCTION? *(By J. Kaczor)* The above discussion of how the additional milk (compared to a year earlier) that was produced in February may be used begs the question about how January's milk was used. **Total milk production in January was 10 million lbs per day greater than the previous January.** According to USDA sources, **fluid product sales** in January were 1.7% lower than a year earlier, production of all cheeses was 1.9% lower, cottage cheese production 3.0% lower, and production of mixes for frozen products 6.5% lower. While those figures are preliminary and subject to adjustment as the reports are reviewed for omissions, overlaps, and errors, they do suggest that a tremendous amount of January's milk went into butter and powder production – which it did. Daily production of butter in January was about 620,000 lbs above a year earlier and powder production was up by 1.3 million lbs per day. The right-hand column in the above table shows where this additional production went. Production of anhydrous milk fat is not published. The plusses and minuses for categories of January milk usage do not perfectly balance out, but they do verify that the entire amount of milk surplus was used to produce basic market clearing dairy commodities. We will find out how February's milk output was used on April 4th.

ANOTHER DISASTER RELIEF PROGRAM TO APPLY FOR: *(By Rob VandenHeuvel)* By now you have probably all received information in the mail regarding the latest disaster relief program offered by USDA. This program is in addition to the ongoing Livestock Indemnity Program (LIP), which is compensating farmers for livestock losses during certain designated disaster periods.

The Dairy Disaster Assistance Program III (DDAP-III) is compensating dairy producers for production losses experienced during extreme weather conditions in 2005, 2006, and 2007. There is a limited amount of money available nationwide (\$16 million), and payment rates will be adjusted based on the number of applicants, so USDA has set a May 5th deadline for dairies to submit their applications.

The San Bernardino County Farm Service Agency (FSA) is planning another workshop in Chino, similar to the workshop held last year on the LIP. The FSA workshop will be held sometime in early-to-mid April, depending on availability of facilities.

For our members in the Central Valley, or those unable to attend the April workshop in Chino, MPC staff will be able to assist you in filing the appropriate paperwork. If you need any help, please call the office at (909) 628-6018. You can also work directly with your local FSA office.

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