Milk Producers Council

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TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.0375*	$1.6275
Barrels	*+$.0850*	$1.6250

Weekly Average

Blocks	*+$.0425*	$1.6220
Barrels	*+$.0675*	$1.5970

CHICAGO AA BUTTER

Weekly Change	*+$.0275*	$2.0000
Weekly Average	*+$.0180*	$1.9895

DRY WHEY

WEST MSTLY AVG	w/e 04/15/11	$.4875
NASS	w/e 04/09/11	$.4666

NON-FAT DRY MILK
Week Ending 4/8 & 4/9

Calif. Plants	$1.5170	12,532,456
NASS Plants	$1.5617	17,286,487

CHEESE MARKET COMMENTS: The cheese trading activity on the CME this week was very interesting – and very different from what had been happening in previous weeks. First, the week's prices increased for the first time since the week ending March 4th. Second, after several weeks of near record high trading volumes for blocks and barrels, mostly from offers to sell fresh cheese at lower prices, bidders initiated all activity this week except for an offer for barrels on Friday. Third, the daily bids to buy at higher prices for both styles of cheese coaxed out only one seller, for one carload of barrel cheese. The need for barrel cheese was evident from the aggressive bids placed Tuesday through Thursday. The weekly weighted average prices for cheese reported last week to NASS are finally close enough to CME's indexes to relieve buyers from having to include that factor in their buying plans. Two weeks ago the prices were almost $.40 apart and moving in opposite directions. Actually, a fourth interesting thing about this week's activity was the lack of relevant market related information to explain the turnabout in mindset of traders. Maybe the report on strong increases in cheese exports, issued on Tuesday, did the trick. Exports of all cheese in the most recent three months (through February) were more than twice the amount exported in those months in 2010, and represented 5.0% of the amount that was produced during that period; exports of cheddar showed a similar percentage increase, and represented 2.7% of production. Another possible source of optimism could be the upbeat reports this week from New Zealand about their belief that global demand for dairy products should well exceed current demand; Fonterra affirmed its belief that current prices for dairy commodities is well supported. Traders of CME class III milk futures held prices about steady for the week for all remaining months this year. U.S. milk production is increasing as expected for this time of year, despite the dreadfully high level of current feed inputs, and cheese plants are trying to attract their fair share of the increase.

BUTTER MARKET COMMENTS: After having lost a total of $.175 per lb over the past three weeks, butter prices also turned upward this week but, unlike the cheese market, were supported by continuing heavy trading. Twenty-five carloads were sold this week. It's interesting that prices were raised three straight days this week by accepted offers to sell at prices higher than those prevailing at the time of the offer. That's a strong move for a market that had people thinking about how far butter prices may fall. The lesson from that may be that it's not a bluff if you can support what you're saying. Production continues to exceed current sales, which are off a bit as they normally are after the heavy sales period that ran all the way from November through mid-April. Stocks are growing at expected rates, but March's level should still be the lowest it's been in the past many years. *Dairy Market News* reports that retail sales have held up very well over the recent period of record high prices for this time of year. Recent exports of butter and butterfat products were almost twice that of a year ago. Support for current price levels comes from DMN's report that international prices for butter were about unchanged from two weeks earlier (at levels above CME's spot prices), despite recent price weakness for anhydrous milkfat in the past month in Fonterra's internet auctions.

POWDER MARKET COMMENTS: Usage of whole milk and buttermilk powders continue to be steady to strong. Production of WMP is reported to be lower in order to make time for production of nonfat powders. Stocks are lower; prices are steady. Usage of buttermilk is steady, in dry or condensed form. Production of nonfat powders, mainly nonfat dry milk, is steadily increasing in line with milk production. Export demand is strong; more than half of all nonfat powder produced so far this year was purchased for use in other countries, and the outlook for continuing strong demand from that sector is expected to continue at least through mid year. The average price for nonfat powder exports in February rose to about $1.30 per lb, which is still about $.30 per lb lower than prices reported for current sales from competitors around the world, and $.40 per lb lower than the latest "spot month" price from Fonterra's internet auction. U.S. manufacturers' prices for sales made last week are $1.5617 per lb for "current" sales and $1.5170 for California plants. Volumes were about average. Prices for nonfat powders on the CME have the experts scratching their heads about why the price for grade A powder, at $1.62 per lb, is so much lower than the price for extra grade powder, at $1.80 per lb. Differences like that speak to the meaninglessness of that supposed spot market. Butter/powder plants are certainly not having to look for milk these days; they offer the best price for milk to be had. Stocks of NFDM were steady through February, running at just about a month's worth of production, and about one-third lower than they were a year earlier.

WHEY PRODUCTS MARKET COMMENTS: Demand for dry whey and whey protein concentrates continues to be at least equal to what is currently being produced. Stocks for WPC at the end of February were equal to about one month's production; stocks for dry whey were equal to little more than two week's production. DMN reports there is little of either product available to any except those who have secure contracts, and those buyers are asking for additional product. Instead of extra shipments, DMN is finding delays in regularly scheduled shipments. The NASS price for dry whey shipments last week fell by about two cents per lb, from an artificially high "spike" the previous week. The price trend lines for DW and WPC are level. The market tone for both continues to be very strong.

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FRED DOUMA'S PRICE PROJECTIONS…

April 15 Est:	**Quota cwt. $18.84**	**Overbase cwt. $17.14**	**Cls. 4a cwt. $19.23**	**Cls. 4b cwt. $14.39**
Last Week:	**Quota cwt. $18.74**	**Overbase cwt. $17.04**	**Cls. 4a cwt. $19.15**	**Cls. 4b cwt. $14.20**

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U.S. DAIRY PRODUCT EXPORTS: A BRIEF LOOK BACK, AND A LOOK TO THE PRESENT AND THE FUTURE: *(By J. Kaczor)* USDA's report this week on U.S. exports of dairy products also coincides with a number of recent comments from New Zealand and elsewhere about the international market for dairy products. Generally, the outlook for international sales and price levels appears to be very bright. The immediate reason for the optimism is the tightness between international dairy product supply and demand that has recent supplies coming in lower than expected and demand coming in higher than expected.

The current tightness is somewhat like what began in 2006 and which extended through 2007 and into 2008. Back then, dairy product demand began to increase faster than expected, and was not acknowledged until the international market was swamped with orders, some of which could not be filled. That imbalance resulted in prices for all dairy commodities rising to record high levels in 2007, where they stayed until buyers reacted to prices that had more than doubled, to an increasing supply, and eventually to the global economic crisis that stifled domestic and international commerce. The U.S. role during that exciting time was much like its recent, and present, role – being a source of products with very favorable exchange rates, and competitive prices, for those who could not get all of their supplies from their current sources.

The differences between then and now are mainly on the demand side. Many of the emerging nations fared relatively well through the global recession, and prices fell well below their levels reached in 2007 and 2008. That part of global demand is back to where it was and is growing. Bloomberg recently reported Fonterra's CEO said, at a recent conference in New Zealand, they estimate that dairy product demand will increase by more than

180 billion pounds within eight years in only two countries – China and India. Rising incomes, expanding populations, and interest in protein-rich foods throughout Asia and North Africa, which do not have the natural resources to produce milk in amounts anywhere close to their growing demand for it, will add to that total. Shorter term, problems in Russia, South Korea, and Japan will likely lead to their increasing imports of dairy products, as well.

Unlike the situation in 2006 and 2007, this increase in demand is a known factor, and potential suppliers are beginning to gear up for it. The European Union is within three years of eliminating its quotas on milk supplies, and is increasing their members' annual quotas as that date approaches. New Zealand and Australia are expected to expand the number and size of their dairies. New Zealand has announced plans to build or buy dairy farms in China, India, and South America to supply part of which they presently supply from their homeland. Argentina, one of the five largest dairy product exporters, is growing its milk supply by more than ten percent.

The U.S. industry has benefited, and learned, from the past. Recent exports of major dairy commodities have set record highs, or are approaching those levels. Given the current international situation, U.S. dairy exports should continue to grow for a time. However, the U.S. does not yet have a coordinated approach to developing a robust, sustainable, dairy product export program, which may be needed if, or when, the present situation becomes less accommodating. The supply side of the industry is hampered by high feed costs caused by unnatural circumstances, and by a pricing system that results in increasingly volatile and unpredictable prices. That is not a proper platform on which to build a sustainable export program. The manufacturing side is impaired by lack of a practical means to coordinate its immense production potential, by an unpredictable pricing system, and by lack of a coherent marketing plan. In other words, at present, the U.S. exporting industry somewhat resembles a scrummage, where a number of uncontrollable proprietary and cooperative plants are maneuvering for position or advantage. Let's see: if that 180 billion lbs of additional dairy demand is pounds of dairy product, it will require about **1.5 trillion lbs of milk**. Surely there's a way for this industry to follow a path which leads to a fair share of that business, isn't there? Unfortunately, it may be eighteen months before we even have a new Farm Bill that could pave at least a few of the first steps needed to get to there from here.

REMINDER – MAKE SURE TO UPDATE YOUR DIESEL TRUCK INFO WITH CARB BY APRIL 29TH: *(By Rob Vandenheuvel)* By now, all the California dairymen who registered their diesel trucks for the "Agriculture Exemption" with the California Air Resources Board (CARB) should have received a letter requesting updated information on those trucks. As noted in the letter, CARB is requesting updated information, such as an updated odometer reading and any information they felt was missing on the application filed last year. The deadline for receiving the paperwork is April 29th. MPC members wanting assistance in this matter can contact the MPC office (909-628-6018) or our Central Valley Representative Betsy Hunter (661-205-6721).