



# Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018  
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549  
Fax (909) 591-7328 ~ [office@milproducers.org](mailto:office@milproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



**DATE: September 10, 2010**  
**TO: DIRECTORS & MEMBERS**

**PAGES: 3**  
**FROM: John Kaczor**

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0150 \$1.7350  
Barrels +\$.0200 \$1.7050

### Weekly Average

Blocks +\$.0153 \$1.7263  
Barrels +\$.0205 \$1.6925

### CHICAGO AA BUTTER

Weekly Change - \$.0025 \$2.2225  
Weekly Average +\$.0098 \$2.2238

### DRY WHEY

**WEST MSTLY AVG** w/e 9/3/10 \$.3725  
**NASS** w/e 9/4/10 \$.3623

### NON-FAT DRY MILK

#### Week Ending 9/3 & 9/4

Calif. Plants \$1.1101 18,620,266  
NASS Plants \$1.1465 25,427,189

**CHEESE MARKET COMMENTS:** This week, prices on the CME moved up again for both styles of cheese. Trading was light in a week shortened by the Monday holiday. Buyers are now reviewing how they fared after handling the surge of demand from recent school re-openings and the holiday. Total cheese production is holding fairly steady and should continue to remain at about current levels on a per day basis through this month, after which more milk and higher components should begin to boost production. The sharp drop in cheddar production in July was a surprise; the reason for it could be plant-related, customer-related, or simply a reporting error. The 10 million lb drop from June was about the same that occurred in 2009, but the industry outlook this summer does not resemble last year's. Good news on exports: for a fifth straight month, cheese exports in July were the highest they've been in the last six years; cheddar volume is about 20% of the total. Total cheese exports so far this year are 50% higher than they were a year ago. It appears that total exports this year will set a record. Credit CWT's export assistance program for a fair share of the increase. Futures traders continue to be skeptics; this month's CME's class III milk futures price (\$16.28 per cwt) is presently is the year's highest, and decreases each month through February where it flattens out (the average for the February-May period is \$13.78 per cwt, \$2.50 per cwt lower than the current level).

**BUTTER MARKET COMMENTS:** Butter prices lost ¼¢ per lb this week, in light trading. This was the first price drop on the CME since late May. Could the termination of export subsidies last week be the reason? Dairy Market News (DMN) reports there currently is a bit less demand for cream and a bit more production of butter. That happens this time of year; butter production should continue to increase on a monthly basis through the end of the year, but sales (or at least "disappearances") increase at a faster pace than production, and stocks fall. If that pattern continues this year, the supply/demand ratio should be very tight. Export volume of butterfat products in July was the second highest it's been in the past six years; this year's butterfat exports already exceed last year's but will not likely reach 2008's all-time record. Speaking of records, this week's average butter price on the CME is in exclusive company – this year is one of only four in the last twenty years where the weekly average has been above \$2.20 per lb.

**POWDER MARKET COMMENTS:** The markets for whole milk and buttermilk powders are steady to firm. Most shipments continue to be contracted to regular customers. Few spot sales are occurring. Users of buttermilk continue to take increasing amounts in condensed form rather than dried. Prices are firm. Production of nonfat dry milk is reported to be steady to lower in the central region and somewhat higher in the west. DMN believes most of the re-saleable powder that has been depressing prices may finally have been sold; if so, average prices should start to reflect the "mostly" prices which have been rising. The full range of prices found by DMN this week in the west is \$1.12-\$1.24 per lb and a tight \$1.22-\$1.28 per lb in the central and eastern areas. The national average price for sales made last week rose \$.006 per lb and the California plant average fell by \$.015 per lb. Weekly sales volumes continue to be on a pace which should keep inventories from building. On the CME, daily offers of grade A powder have been made, with no takers; one sale occurred on Thursday at the

current price of \$1.23 per lb and was immediately followed by **bids for ten more truckloads at that price**, with no sellers. Exports of nonfat dry milk and skim milk powder in July were 66.5 million lbs, 13 million lbs lower than in June, but very close to the month's highs reached in 2006 and 2008.

**WHEY PRODUCTS MARKET COMMENTS:** The market for whey protein concentrate is tight, according to DMN. "Consistent buyer demand" for limited product availability moved prices higher in the eastern and central regions. A growing amount of sales in condensed form is keeping the spot market for WPC tight. Dry whey production is reported to be somewhat lower in the central region while demand is steady. Prices are firm. In the west, production is reported to be steady to higher so a growing demand hasn't yet affected prices. The export market for whey proteins continues to be strong. Exports of WPC and DW over the first seven months this year total 491 million lbs, 57.5% of the total produced during that period, and appears to be on a pace to exceed the previous record high set in 2007.

\*\*\*

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

<b>Sept 10 Est:</b>	<b>Quota cwt. \$ 17.32</b>	<b>Overbase cwt. \$15.62</b>	<b>Cls. 4a cwt. \$16.82</b>	<b>Cls. 4b cwt. \$15.45</b>
<b>Last Week:</b>	<b>Quota cwt. \$ 17.30</b>	<b>Overbase cwt. \$15.60</b>	<b>Cls. 4a cwt. \$16.87</b>	<b>Cls. 4b cwt. \$15.37</b>

\*\*\*

**PRICES RISE SHARPLY IN FONTERRA'S LATEST GLOBAL AUCTION:** *(by J. Kaczor)* After falling from May through August, prices abruptly changed direction and rose across the board in Fonterra's September 1<sup>st</sup> global internet auction. The official comments made by Mr. Paul Grave, *globalDairyTrade* manager, after prices began to move downward, first noted a general shift in buyers' interests from concern about possible product shortages (through April) to a sense that a slowing global economic recovery could affect sales, then to uncertainty, and now to merely note that possibly "a firmer tone has returned to the market." That all could be correct; uncertainty and concern, and hope, knows no geographic or political boundaries, and good information on a timely basis is not always available, or shared when it is available.

This auction was the first of two this month. From now on, the auction will be held twice each month, with the monthly product volumes divided evenly between the two. Fonterra noted this "will add more depth and credibility and even more transparency around pricing trends," and should give bidders more confidence their decisions will reflect current market conditions. Fonterra now has 294 qualified bidders signed on; 151 of them participated in the September 1<sup>st</sup> auction. The next auction is scheduled for next Wednesday, September 15<sup>th</sup>.

Following is a recap of price changes for the first contract delivery month (November) resulting from this auction. The comparisons are to winning prices bid in August for the delivery month of October:

- Whole milk powder: up \$.32 per lb, to \$1.64 per lb
- Skim milk powder: up \$.19 per lb, to \$1.42 per lb
- Buttermilk powder: up \$.15 per lb, to \$1.42 per lb
- Anhydrous milkfat: up \$.11 per lb, to \$2.15 per lb

The whole milk powder price is for regular grade product. The skim milk powder price is an average of the price for low heat and medium heat products. The buttermilk powder price is for UHT product, the only one presently being offered. The anhydrous milkfat price is for premium grade product in drums.

Winning prices for the three powder products for deliveries in the six months following November showed increases similar to the changes shown above, whereas the increases for AMF were progressively greater for the December-February and March-May delivery periods (+\$.19 per lb and +\$.34 per lb, respectively).

Fonterra projects the combined volume of the present products available for bidding over the next twelve months will total 1.2 billion lbs, which they estimate to be about 24% of its projected production for the year. Whole milk powder, with 769.4 million lbs is the largest offering, followed by skim milk powder (252.9 million lbs), anhydrous milkfat (139.3 million lbs), and buttermilk powder (17.2 million lbs). The month by month projections for product shipments generally follow the expected seasonal pattern of production in the southern hemisphere. Fonterra is yet to achieve an objective they mentioned when the auction was still in the planning stage – to get other suppliers to offer their products on the auction. “We remain hopeful that new sellers will be added to the platform sometime in 2011.” Other suppliers would be required to comply with “applicable regulatory regimes.”

Meanwhile, NZX, New Zealand’s national stock exchange, has announced October 8<sup>th</sup> as the date they will launch a cash-settled futures market for whole milk powder, using Fonterra’s spot month prices for settlement purposes. A recent press release adds they have previously earmarked cash-settled skim milk powder and anhydrous milkfat also for that market. The release takes an obvious swipe at Chicago’s CME Group for its apparent total failure with its skimmed milk powder futures contract program that involves physical delivery of product at six international locations at a uniform price: “The NZX contract will be cash settled, providing the market with a simple and efficient risk management tool that does not rely on complicated physical delivery methods.”

**ONLY A COUPLE DAYS LEFT TO CHECK ON YOUR MILC “START MONTH” SELECTION:** *(By Rob Vandenheuvel)* Various dairy economists have pointed out that payments under the Milk Income Loss Contract (MILC) program could resume next spring, based on projected milk prices and feed costs. For dairies that produce less than 2,985,000 lbs of milk per year (roughly 125 cow herd), you are likely already set up to collect payments for every month the program is triggered. But for larger dairies, the “start month” you select is important if you are trying to maximize the program’s impact.

For the MILC program, the fiscal year runs from October 2010 – September 2011. For those of you who have selected October 2010 as your “start month” (and you could have October 2010 by default if you selected October 2009 as your start month last year), your payments will begin as soon as a payment is available. However, this may not be the highest month for you to select. For instance, according to projections on the Cornell University website (<http://dairy.cornell.edu>), the payment in February 2011 could be \$0.12 per cwt, while the payment in July 2011 could be \$0.65 per cwt. For those dairies that only collect MILC payments for a short amount of time, it’s important that you have the flexibility to choose the optimal “start month.”

If you are not sure which month to select, the safest month to select is September 2011, the last month of the 2010-11 fiscal year. By selecting September 2011, you maintain the option of changing your start month to an earlier month once the dairy industry’s economic layout of 2011 becomes clearer.

Dairymen are urged to contact your local Farm Services Agency office and find out what your current start month is. If your current start month is October 2010 and you’d like to change your start month, **your modification must be RECEIVED by the FSA office no later than Tuesday, September 14, 2010 (note: received by then, NOT postmarked by then).**

MPC members can contact our office at (909) 628-6018 with any questions regarding changes to your MILC selection.