

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.1200 \$2.0400
Barrels N.C. \$2.1500

Weekly Average

Blocks -\$.1305 \$2.0555
Barrels -\$.0260 \$2.1500

CHICAGO AA BUTTER

Weekly Change -\$.0025 \$1.4775
Weekly Average -\$.0195 \$1.4730

DRY WHEY

NASS w/e 6/07/08 \$.2761 WEST MSTLY AVG w/e 6/12/08 \$.2800

NON-FAT DRY MILK

Week Ending 6/06 & 6/07

Calif. Plants \$1.3421 18,390,035
NASS Plants \$1.3613 21,757,918

CHEESE MARKET COMMENTS: Weather related issues in the Midwest have been affecting efficient movement and usage of milk, but no significant shortages or disruptions of cheese production are being reported. The current pricing pattern on the CME looks a lot like a ritual that has been repeated several times over the past year – record or near record high prices, followed by buyer resistance and uncertainty, followed by significant price corrections. Prices for Cheddar blocks ended this week 24.5 cents per lb lower than the peak reached on May 23rd. The current inversion of block/barrel prices concerns many market followers because barrel prices are used in the federal order price formulas (after 3 cents is added to the actual price). These price inversions affect inter-area milk prices used for cheese, but it's not clear what effect, if any, the difference in the cost of milk has on competing plants. The price inversion will get corrected one way or another, but will keep buyers antsy until it happens. Dairy Market News again notes that export interest falls as prices reach the \$2.00 per lb level.

BUTTER MARKET COMMENTS: The point in the year is nearing when butter production begins to decline and buyers begin to worry about future supplies and prices. DMN reports that, as expected, a bit more milk and cream is moving to other seasonal usages, and increases in hauling costs are starting to limit the distance surplus cream is moving to where it can get the best price. The butter price on the CME is holding nicely just below \$1.50 per lb. The huge amount of butter in storage in Europe will start hitting the market in August.

POWDER MARKET COMMENTS: April exports of nonfat dry milk and skim milk powder, at almost twice the volume of a year ago, continue to be the bright spot in an otherwise dismal surplus situation. Supplies are limited in the other major exporting countries, and are not expected to increase in Western Europe at all this year or in New Zealand until late Summer, and only if normal rainfall returns to the region. The Western "mostly" price this week averages \$1.4225 per lb, about 6 cents above last week's national average and 8 cents above the California plant average. Drying plants continue to shift production from nfdm to skim milk powder in order to satisfy the wishes of the export market.

WHEY MARKET COMMENTS: Prices for dry whey and whey protein concentrates continue very weak. U.S. production is about where it was a year ago, keeping pace with the moderate rate of cheese production. But world-wide demand seems to have almost dried up. It's probably still there; contracted sales are being filled, but buyers are waiting until better prices become available. They shouldn't have to wait very long. The average price for dry whey exported in April was \$.51 per lb. The U.S. spot market was in the high 20's then and is still in the high 20's now.

FRED DOUMA'S PRICE PROJECTIONS...

June 13 Est **Quota cwt. \$19.23** **Overbase cwt. \$17.53** **Cls. 4a cwt. \$15.62** **Cls. 4b cwt. \$19.37**
Last Week **Quota cwt. \$19.53** **Overbase cwt. \$17.83** **Cls. 4a cwt. \$15.63** **Cls. 4b cwt. \$20.03**

DAIRY PRODUCT EXPORTS THROUGH APRIL CONTINUE STRONG: *(By J. Kaczor)* With the exception of dry whey, exported volumes of major dairy commodities continue well above 2007's levels. The following table compares this year's exports for April and year-to-date to last year's numbers. All numbers represent one million lbs of product.

	2007	2008
April		
Nonfat dry milk/skim milk powder	43,906	82,444
Butter	3,125	16,375
All Cheese	18,732	28,998
Cheddar Cheese	3,240	6,686
Dry Whey	51,710	31,934
January-April		
Nonfat dry milk/skim milk powder	177,149	313,590
Butter	7,696	63,322
All Cheese	66,146	102,209
Cheddar Cheese	8,694	21,709
Dry Whey	178,326	125,286

Except for dry whey, the increases shown thus far this year generally represent the shortage of these products caused by sharply lower milk production in Australia and New Zealand, and strong dairy product sales within the European Union. The reduction in dry whey exports is generally believed to be a reflection of international buyers' remorse to last year's record high prices, and a conversion by final users to alternative ingredients.

The increases in the volumes of butter and powder exports are very significant. For the last five months, dairy product sales in the U.S. have not kept up with the increase in the amount of milk production. That extra milk has been converted into the industry's traditional market-clearing products, butter and powder, and would have wound up in storage had they not been shipped out. Even after the huge increase in exports of nonfat milk powders (48% of total production for the year) the amount of nonfat dry milk in storage has grown to 136 million lbs by the end of April, an increase of 46% from a year earlier. The total amount of butter exported in the last four months represents a full 10% of the total amount produced, also significant, and is perhaps the single most important reason why butter prices have been as strong as they have been. The increase in the amount of cheese that is being exported is not considered to be having a practical effect on prices; the increase in Cheddar exports represents about 1% of the total amount produced.

Strong exports continue to be one of the requirements for continuing strong milk prices this year. The combination of the weak dollar and unexpected product shortages elsewhere is expected to last for a time. The alternative is dreadful to even consider.

WHAT I LEARNED ABOUT FORECASTING MILK PRICES: *(By J. Kaczor)* The 15th annual national workshop for those interested in the latest theories and methods for forecasting milk prices, sponsored by the Extension Education Committee of the Cornell Program on Dairy Markets & Policy, was held in Chicago on

April 24th and 25th. Close to a hundred people attended this interesting forum. It seems that most large buyers and users of milk products, and all lenders, want to be able to see into the future. The “tools” that are now available in the way of complex computer models, masses of historical data, and the means to test any combination of possible future events against the past, is amazing.

In addition to seeing what they could do and how it was done, it was interesting to hear most of the people who made presentations acknowledge that reality almost always trumps theory. By that, I mean most acknowledge that their forecasts almost always contain errors. A fairly common note that was included in one way or another was the comment that in order to rely on a forecast, the underlying assumptions should be tested with common sense and industry knowledge and a sense of expectations held by those whose actions are being forecast. In other words, the best of them always look for the unexpected and are willing to incorporate changes as needed.

The one presentation that is most memorable was an attempt to identify how milk supply and changes in supply, affect milk prices. It was agonizing to look and listen. Almost every conceivable test was applied to the question, but no clear answer was found. It turned out that he had the question turned around from how it should have been asked. I wondered if he ever heard the phrase “money makes milk, and more money makes more milk.” It’s elementary.

On behalf of the board and staff of MPC, we’d like to extend our sympathies to the family of Ray Veldhuis, who passed away two weeks ago in a tragic tractor accident. Ray was a longtime prominent figure in the California dairy industry, serving on and chairing numerous boards including Western United Dairymen and DFA’s Western Area Council. Our thoughts and prayers go out to Ray’s family.

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