

# The Milkweed



Dairy's best information and insights

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## "Upper Teens" (Cwt.) U.S. Farm Milk Prices Ahead, IF ...

If current, fast-climbing global dairy commodity prices are reflected in U.S. markets, U.S. dairy farmers could see manufacturing milk prices approaching the "high teens" (per hundredweight) in coming months.

This most recent, sharp uptick in global dairy commodity prices raises an old question: will U.S. dairy farmers actually ever actually see these higher tier (and rising) dairy commodity prices reflected in the formulae used by federal and state (California) government milk pricing systems. Will U.S. dairy farmers, who are struggling through their worst financial year since the Great Depression, see the full and fair impact of rising global dairy demand and commodity prices?

Or will this nation's crooked, corrupt milk pricing system again deny legitimate income to dairy farmers ... just like back in 2006-2007 when documented misreporting of dairy commodity prices by DairyAmerica cost dairy farmers hundreds of millions of dollars in deserved milk income? (That estimated loss figure is *The Milkweed's* analysis.)

Global prices for Cheddar cheese, butter, skim milk powder, whole milk powder and whey are rising sharply, according to USDA's weekly market analysis in Dairy Market News. The latest Dairy Market News report, dated November 12, 2009, noted the following global price ranges (per metric ton – 2,204.6 pounds). **In bold face, *The Milkweed* presents the metric ton prices cited by Dairy Market News into prices per pound in U.S. dollars.**

### Cheddar Cheese:

Oceania—\$3750-\$4000  
**(U.S. equivalent: \$1.70-\$1.81 per lb.)**

### Whey:

(Western Europe) \$1025-\$1100  
**(U.S. equivalent: \$.45-\$.50 per lb.)**

### Skim Milk Powder: (1.25% butterfat)

Western Europe — \$3200-\$3400  
**U.S. equivalent: \$1.45-\$1.54 per pound**  
Oceania — \$3100-\$3600  
**(U.S. equivalent: \$1.41-\$1.63 per pound)**

### Butter (82% butterfat):

Western Europe — \$4700-\$5100  
**(U.S. equivalent: \$2.13-\$2.31 per pound)**  
Oceania — \$3250-\$4000  
**(U.S. equivalent: \$1.47-\$1.82 per pound)**  
Whole Milk Powder (26% butterfat)  
Western Europe — \$3775-\$3950  
**(U.S. equivalent: \$1.53-\$1.79 per pound)**  
Oceania — \$3400-\$3600  
**(U.S. equivalent: \$1.54-\$1.63 per pound)**

## October 2009 Class III Price \$12.82—October Class IV \$11.86

Once again both Class III and Class IV prices rose from the previous month's levels.

October 2009 Class III price was \$12.82, an increase of \$0.71 from September 2009. September's increase over August was \$0.91. Class IV price was \$11.86 for October 2009, up \$0.71 from September.

All monthly component prices gained except for butter.

	Aug.	Sept.	Oct.	Sept. Oct. Difference
<b>Butter</b>	\$1.203	\$1.1811	\$1.2245	+4.340¢/lb.
<b>Nonfat Dry Milk</b>	0.867	0.9664	1.0270	+6.060¢/lb.
<b>Cheese</b>	1.261	1.3522	1.4110	+5.880¢/lb.
<b>Dry Whey</b>	0.293	0.2979	0.3183	+2.040¢/lb.

When adjusted to U.S. dollars (per pound), these global dairy commodity prices are far higher than various current U.S. cash market prices and price estimates.

### Differences: NASS vs. Global prices

In mid-November 2009, the gaping differences between Dairy Market News' reported global prices, cash market prices at the Chicago Mercantile Exchange (CME) and the USDA's National Agricultural Statistics Service (NASS) weekly dairy commodity prices (reported for the first week of November 2009) were astronomical. Our best estimates of those current differences:

\* Oceania Cheddar is about 15-20 cents per pound higher than CME block Cheddar prices.

\* Mid-range Oceania butter prices are 15 cents per pound higher than current CME Grade AA butter prices.

\* SKIM MILK POWDER (34% PROTEIN) PRICES IN OCEANIA ARE ROUGHLY 45 TO 55 CENTS PER POUND HIGHER THAN EARLY NOVEMBER WEEKLY PRICES REPORTED TO NASS FOR U.S. NONFAT DRY MILK (36% PROTEIN).

\* Whey prices in Western Europe are approximately \$.50 cents per pound above corresponding whey prices cited by NASS in early November.

Using approximate current global prices, *The Milkweed* estimates that U.S. dairy farmers would see much higher Class III (cheese) and Class IV (butter-powder) prices, IF these global commodity price structures were to translate through to weekly/monthly prices used by federal/state milk pricing formulae. Those commodity prices would boost U.S. dairy farmers' milk prices by several dollars per cwt., up to the previously-mentioned "upper teens" (per cwt.).

### U.S. powder prices scandalous ... again!

As detailed in a story on pages 5-6 of this issue by writer John Bunting, U.S. weekly nonfat dry milk prices reported to USDA by marketers are suspiciously below both current U.S. spot market prices and global prices. This ugly, evolving milk pricing inequity looks like an exact replica of events in 2006-2007.

DairyAmerica – the "cartel" that prices/markets about 80% of all nonfat dry milk produced in the U.S. – has allowed prices from long-term contracts to depress prices of current sales. Has DairyAmerica, one more time, missed key combined signals of global and U.S. dairy supply/demand?

### Monthly component prices derived from NASS weekly surveys are:

**Butterfat price .....1.2752 per pound**  
**Nonfat solids price ...0.8506 per pound**  
**Protein price .....2.5584 per pound**  
**Other solids price .....0.1228 per pound**

Milk continues to be tight. The reasoning behind the prices at the CME is obscure. Perhaps the few players feel no more milk will come from a higher price.

Perhaps as much as anything the credit situation is putting a lid on any production increase. Grain prices are certain to rise. So much for the "efficient market theory."

### Weaker U.S. dollar driving global prices

One factor helping strengthen foreign dairy commodity prices is ever-weaker U.S. dollar. Sliding value of the U.S. dollar means our foreign customers see relatively "cheaper" prices, globally, for our dairy commodities. The money is in the global market place. Problem is: weekly dairy commodity sales prices reported to USDA's National Agricultural Statistics Service, in some instances, lag way behind current cash market prices at the Chicago Mercantile Exchange. And CME's cash market prices, in several instances, lag behind fast-climbing global dairy commodity prices.

### IMPORTANT TO NOTE:

\* **At press time, industry contacts report that some Oceania Cheddar cheese prices have increased up to the \$2.00 per pound level. That figure is significantly higher than the USDA price quote for Oceania.**

\* **European butter prices appear sky-high, but are now starting to downtrend. Both butter and whey have been very tight in Europe lately. (Maybe striking dairy farmers helped their own cause.)**

\* **The U.S. produces little Whole Milk Powder for export.**

### Milk-pricing: a game of "keep away"

Milk pricing in the United States has devolved to a game of "keep away" – specifically, keeping away from financially struggling dairy farmers a fair share of the real value that dairy products sell for. This scenario applies both to global commodity values, as well as the "farmer's share" of what U.S. consumers pay for dairy products at the supermarket.

Trouble is: "keep away" hasn't been working, and such games, played out into the future, will financially destroy much of the milk production capacity in the United States.

If the money is in the market place, the U.S. dairy farmers MUST receive their fair share. They pay globally-driven prices for key production inputs such as energy and fertilizer. Dairy farmers compete with everybody else for available credit. Continued "keep away" from farm milk prices of the values reflected by end-use values – foreign and domestic – is a guaranteed prescription for bankrupting rural economies in dairy country.

## The Milkweed <sup>11/09</sup>

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