



# Dairy Market Report



July 2007 - Vol. 10, No. 6

by Roger Cryan

## ➤ Executive Summary:

- May **cheese** output and July 1 stocks were even with last year. July 30 blocks were \$1.87/lb., up 1½¢ from our last report; barrels were \$1.85, down ¾¢.
- May **butter** output was down 3%, July 1 stocks were up 5%, from year ago. On July 30, butter was \$1.51½/lb., down 2½¢ from our last report.
- May output of **nonfat dry milk** and **skim milk powders** was down 16% from last year. Prices:
  - spot is near \$2.10 per lb., latest NASS is \$2.02.
  - June **milk production** in all states was up 1.0%.
  - **Milk prices per cwt.:**

	Class III	Class IV	All-milk
May	\$17.60	\$18.48	\$18.00
June	\$20.17	\$20.76	\$20.00

## ➤ Market Outlook

*Every few years, dairy prices get exceptionally high and optimists say that there is a “new paradigm” that will keep milk prices high for good. The simple economic truth is that high prices will always bring on more milk and, sooner or later, lower prices. However, the current market may be a new thing for the dairy industry, and “sooner or later” may be later than the cynics have come to expect.*

*U.S. dairy prices are peaking very high this summer, but we expect only modest declines this fall. This is partly because domestic demand remains healthy and production has increased only modestly (thanks in part to the recent CWT herd retirement). However, the most important factor in our expectation of continued high milk prices is probably the booming world market for U.S. skim milk solids. It is worth reviewing today’s world dairy market situation.*

*On the demand side, countries like India and China are growing wealthier, with many of their people reaching income levels that allow regular consumption of dairy products. In particular, China has launched a major campaign to improve health, quality of life, and productivity through increased dairy consumption.*

*The CWT export program has had success helping move U.S. dairy products into these new markets.*

*The European Union is in a long-term transition to a more unregulated dairy market. The EU has suspended its dairy export subsidies and eliminated its subsidy for using skim milk powders in feed. The EU holds no intervention stocks of butter for the first time in over 30 years; the end of that drawdown has shocked EU supply like the end of the US powder drawdown shocked US supply. As a result, the U.S. has new opportunities to export butterfat to Europe. Meanwhile, European production remains limited, for now, by the EU-wide system of production quotas.*

*South American exporters haven’t taken off, like they once promised to, constrained by limited infrastructure and processing investment; recent high international grain prices also are bidding land away from potential dairy expansion. These same high grain prices are raising the cost of U.S. milk production by \$1.50 to \$2.00 per cwt., but it also has affected farmers around the world. Australian milk production has been hit by a long dry period in its weather cycle. New Zealand’s production is beginning to recover from poor weather, but their long-term expansion is constrained by land availability. A weak U.S. dollar, especially against the Australian and New Zealand dollars, have made U.S. products a relatively better buy.*

*As a result of these supply and demand factors, 10% of the skim solids and 7% of the protein in U.S. milk protein is now exported, making the U.S. dairy market heavily dependent upon the world market, especially for skim demand.*

*So, what’s new about this peak is the world’s growing dependence on U.S. exports. Overseas demand shows few signs of slowing down. This means that neither a boost in U.S. milk production nor cheap imports will overwhelm demand as easily as in the past. In theory, a growing and diverse world dairy market should become less volatile, perhaps to the point that the export market could consistently reduce our domestic price volatility, especially if U.S. processors can keep up with the requirements of overseas buyers.*

*Another key number to date has been the modest U.S. milk production increase: if it continues to drag along at 1%, international demand will keep markets tight. U.S. commercial disappearance (including exports) in the three months ending with May was up 3.6% for skim solids and up 2.3% for butterfat, from a year ago. These healthy spring numbers were driven partly by users building inventory to hedge against the current high prices. We will look for new inventory replenishment and increased consumer demand, once the current price peak has passed. This could drive a significant fall price rebound in September or October.*

## ⇒ Cheese and Whey

In May, total [U.S. cheese production](#) (excluding cottage cheese) was 820 million pounds, about even with a year ago. Of this, American types totaled 332 million pounds, down 4.2% from a year ago, and Italian types were up 3.3% to 349 million pounds. For the year to date, total cheese production was up 2.5%, to 4.0 billion pounds.

USDA/NASS estimated natural American [cheese stocks](#) at 564 million pounds at the beginning of July, down 2% from June and down 7% from a year ago. Stocks of other cheese, including Swiss, began July at 312 million pounds, up 2% from June and up 14% from last year.

For the three months ending May 2007, [commercial disappearance](#) of American cheese was 1.00 billion pounds, up 1.1% from a year ago; other cheese was 1.54 billion pounds, up 6.4% from last year. The total was up 4.3%.

On July 30, [CME prices](#) 40-lb. blocks were up 1½¢ from our last report, at \$1.87 per pound, after peaking at \$2.10 in late June; 500-lb. barrels were down ¾¢ to \$1.85, after peaking at \$2.05 in mid-June. **Futures markets project a cheddar cheese price averaging \$1.65 in 2007, and \$1.74 in the six months ending in January. World prices for cheddar cheese are approaching \$2.00 per pound.**

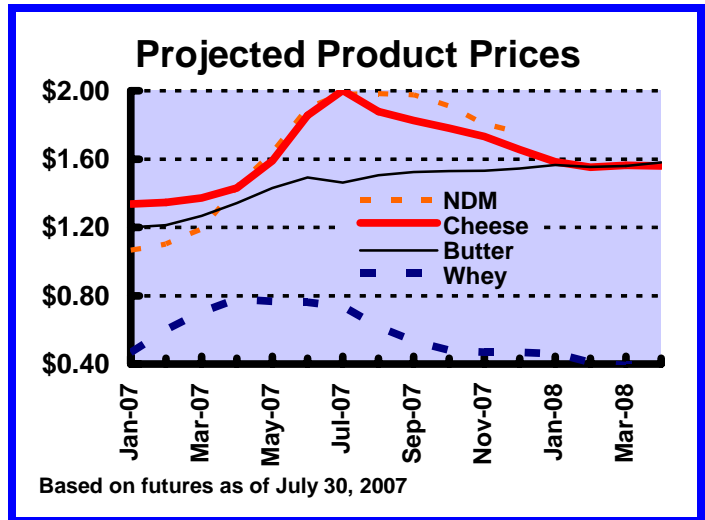
The [retail prices](#) in June 2007 were \$3.98 per pound for cheddar cheese (down 25¢ from last year, even with May); and \$3.63 per pound for American processed cheese (up 10¢ from 2006, down 11¢ from May).

[U.S. production of dry whey](#) for food was 95 million pounds in May, up 3% from a year ago, and up 2% for the year to date. Manufacturers' stocks at the start of June were 44 million pounds, down 3% from last year, and down 4½% from May.

In May, production of whey protein concentrates (for food and feed) with 25% to 50% protein was 22½ million pounds, down 15% from a year ago; production of whey protein concentrates from 50% to 90% protein was 11 million pounds, down ½% from a year ago; and production of whey protein isolates (over 90% protein) was 3.1 million pounds, up 34% from a year earlier.

The manufacturers' [price of whey](#) was 72½¢ per pound the week of July 21, according to NASS' survey. **WPC-34 prices were up to about \$1.63 and sweet whey was down to about 69¢, per Dairy Market News. This price ratio of 2.4 to 1 moves them closer to their historical protein price parity relationship of 2.6 to 1. For 14 months, they have been near 2 to 1.**

The [CME dry whey futures contract](#) projects whey prices to fall below 50¢ in the fall, as demand pushes back against historically high prices. **Total open interest in this contract is 73 million pounds, which would price the "other solids" in about 1.2 billion pounds of Class III milk. The international whey price is about 76¢ per pound.**



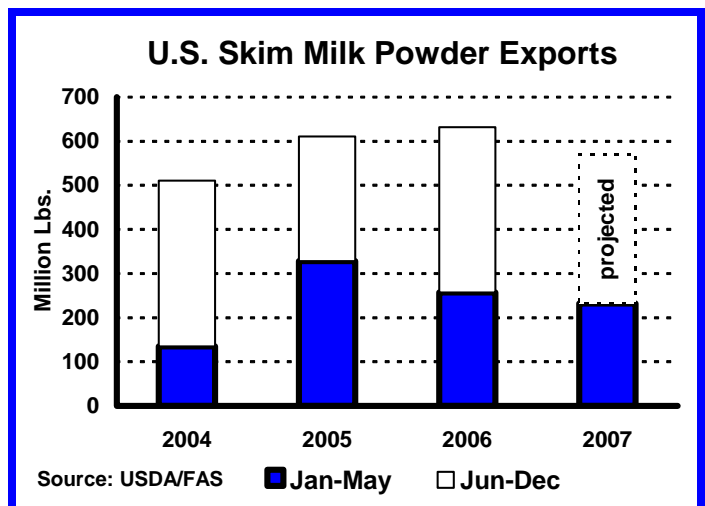
## ⇒ Butter

[May U.S. butter production](#) was 125 million pounds, down 3% from a year ago; year-to-date production was down ⅓%.

July's starting [butter stocks](#) were 275 million pounds, up 5% from a year ago **and the largest July stocks since 2003. Commercial disappearance** of butter in the quarter ending with May was 325 million pounds, up 4% from a year ago.

The CME butter price was down 2½¢ to \$1.51½ on July 30. **The futures markets expect butter prices to average about \$1.42 in 2007, and \$1.53 in the six months ending with January; open interest totals over 90 million pounds. World butter prices have rapidly risen to over \$1.50 per pound, creating new export opportunities for U.S. processors.**

The [retail butter price](#) averaged \$3.08 per pound in June, up 18¢ from a year ago and down 2¢ from April.



## ⇒ Nonfat Dry Milk

[U.S. nonfat dry milk production](#) was 116 million pounds in May, down 13% from a year ago. Including modified "skim milk powders", total skim powder production was 129 million pounds in May,

down 16% from a year ago; and down 14% for the year to date, to 624 million pounds.

USDA's Commodity Credit Corporation held 8 million pounds of [nonfat dry milk](#) on July 1. June 1 manufacturers' stocks of nonfat dry milk (*per se*) were 91 million pounds, down 37% from a year ago.

[The CME prices of extra grade and grade A nonfat dry milk](#) were \$1.93 and \$2.11 on July 30, unchanged and up 5¢, respectively, from last month's report. According to USDA's weekly [survey](#), the average U.S. manufacturers' price was \$2.02 the week of July 21. ***This has brought the NASS price close to spot prices, while overseas powder prices are near \$2.20, and U.S. exports continue at high levels.*** [Commercial disappearance](#) of nonfat dry milk (including exports, but excluding protein-standardized "skim milk powders") in the three months ending May was 342 million pounds, up 7% from a year ago.

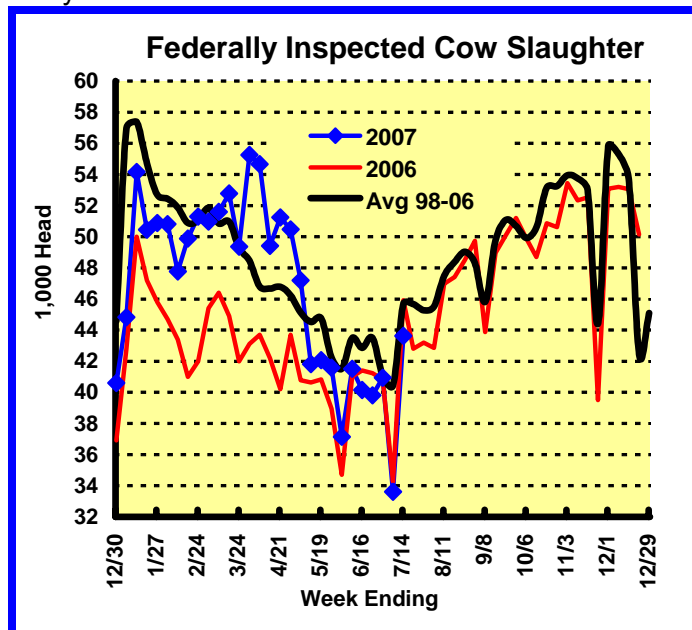
### ➤ **Yogurt & Ice Cream & Fluid Milk**

[U.S. yogurt production](#) was 297 million pounds in May, up 5% from a year ago, up 7% for the year to date. ***Yogurt production has averaged 10% annual growth over the last 7 years.***

[U.S. ice cream production](#) was 129 million gallons in May, up 6% from a year ago. April ice cream mix production was 48 million gallons, up 3%. For the year through May, ice cream and ice cream mix production is up 4%. The [retail ice cream price](#) was \$3.88 per ½-gallon in June, even with May, and up 2¢ from a year ago.

[Fluid milk sales](#) for May were down 1.6%, and down 0.9% after adjusting for the calendar.

The [retail whole milk price](#) was \$3.43 per gallon in June, up 17¢ from May, and up 43¢ from last year.



## U.S. Fluid Milk Sales

Product	April 2007		May 2007	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,301	-0.9	1,322	-4.5
Flavored Whole Milk	56	1.9	57	-6.7
Organic Whole Milk	24	27.2	24	10.7
Reduced Fat Milk (2%)	1,448	2.8	1,474	-1.6
Low Fat Milk (1%)	540	4.8	556	2.0
Fat-Free Milk (Skim)	664	2.8	675	-0.9
Flavored Fat-Reduced	341	8.1	351	0.9
Organic Fat-Reduced	84	35.8	86	18.2
Buttermilk	42	5.3	43	-1.6
Total (including "Other")	4,511	2.8	4,599	-1.6
Total (calendar adjusted)	4,586	2.2	4,587	-0.9

Source: USDA/AMS, Dairy Market News

### ➤ **U.S. Milk Production**

NASS estimated total May [U.S. milk production](#) at 15.47 billion pounds, up 1.0% from a year ago. ***The herd is down very slightly, and milk per cow is up 1.1%.*** USDA reports monthly production for 23 states. Eleven of these showed year-over-year growth in May, including Colorado (6.0%), Arizona (up 5.9%), and Michigan and Ohio (both up 4.2%). Eleven had lower production, including New Mexico (-9.9%), Missouri (-9.0%), and Oregon (-5.2%). Texas was too close to call. California production was up 4.1%, on 3.1% higher milk per cow from 1.0% more cows. Wisconsin production was up 2.2%.

***Production growth now seems to be lagging, in the face of high prices. However, dairy heifer numbers on July 1 were up modestly (3%) from a year ago, reflecting some potential production growth.***

***USDA's projects 2007 growth at 1.4%. We now project annual production growth of about 1%.***

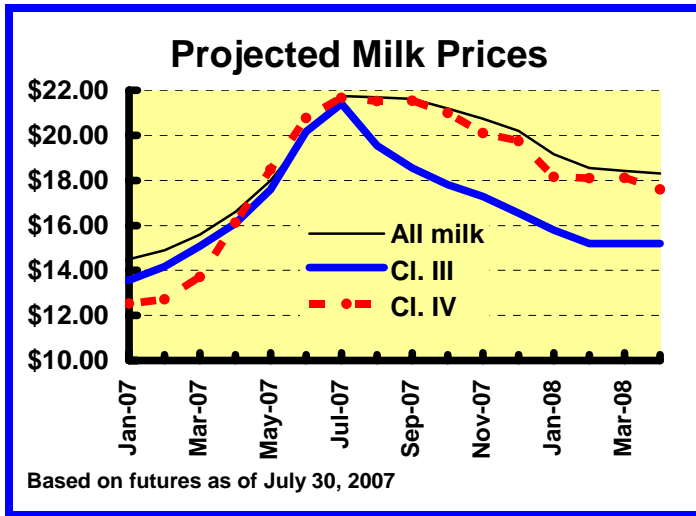
### ➤ **Milk and Component Prices**

The [June Class III price](#) was (re-)announced at \$20.17 per hundredweight, up \$2.57 from May and ***up \$8.88*** from last June. ***July Class III will be announced near \$20.35 on August 3.***

Class III [futures prices](#) for the next six months averaged \$17.59 per hundredweight on July 30, and project an average of \$17.32 for all of 2007. USDA forecasts an average of \$18.15. Volume and open interest in the [Class III milk futures and options markets](#) was 13.2 billion pounds.

The Class III price is the minimum price processors pay for milk (with 3.5% butterfat) pooled on a Federal order and used to produce cheese.

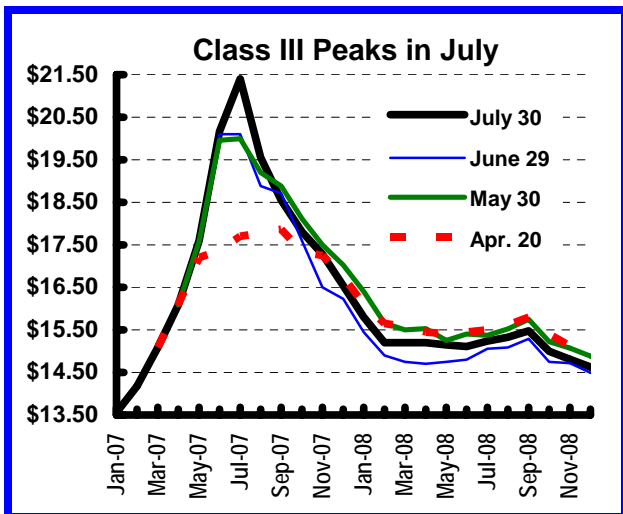
The [June Class IV price](#) rose \$2.28 to \$20.76 per hundredweight, ***more than double last June's price. July's Class IV will be near \$21.70.***



Cash-settled butter [futures](#) prices and nonfat dry milk price expectations suggest that the Class IV price will average about **\$20.30** for the six months ending January, and about \$18.30 for all of 2007. USDA forecasts the Class IV price to average \$18.35 in 2007. The Class IV price is the minimum price processors pay for milk (also at 3.5% butterfat test) pooled on a Federal order and used to produce butter or milk powder.

[June component prices](#) were as follows: \$1.6457 per pound (up 7½¢ from May) for butterfat in Class III, Class IV, and producer milk; \$3.7059 (up 76¢) for protein in Class III and producer milk; \$1.7268 (up 23¢) for total nonfat solids in Class IV milk; and \$0.5831 (up ½¢) for other solids in Class III and producer milk.

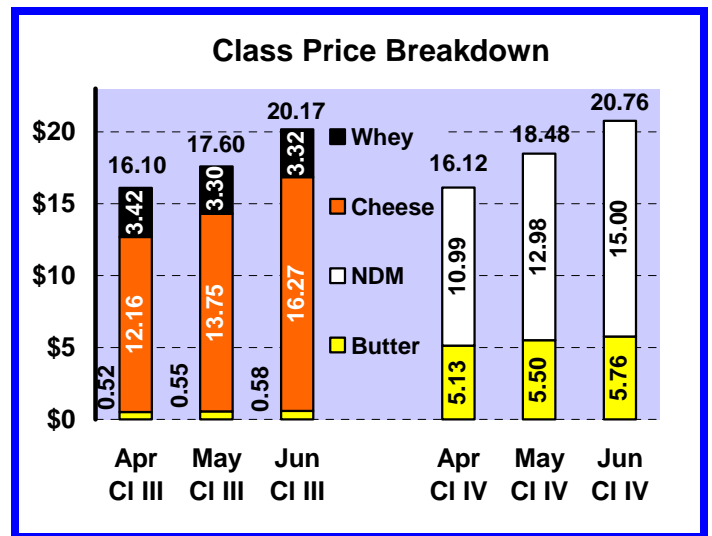
The [June Class II price](#) was up \$2.27 to \$18.89 per hundredweight. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. **July's Class II price will be announced near \$20.75 on August 3.**



The [August Class I base price](#) was up 85¢ from July, and **up \$10.79** from last year, to \$21.76, **based on butter/powder values. The futures markets now project that the Class IV (cheese price) formula will set the Class I price indefinitely.** The Class I base price plus the Class I location differential is the minimum price processors pay (at the plant) for milk pooled on a Federal order and bottled for beverage use.

The [announced cooperative Class I milk price](#) for major cities averaged \$26.08 per hundredweight (\$2.25 per gallon) in August, \$1.79 (15¢) above the Federal order minimum, \$10.66 (92¢) higher than a year ago, and 83¢ (7¢) higher than June.

The [announced cooperative Class I milk price](#) for major cities averaged \$25.25 per hundredweight (\$2.17 per gallon) in July, \$1.81 (16¢) above the Federal order minimum, \$9.47 (81¢) higher than a year ago, and \$3.04 (26¢) higher than June.



USDA estimates June's all-milk price at \$20.00, up \$2.00 from May's revised figure, and up \$7.90 from a year ago. **We project the all-milk price to peak at about \$21.70 in July and August. Based on futures prices, the following six months are projected at about \$20.70; for all of 2007, futures project an all-milk price of \$18.80.** USDA raised its 2007 all-milk price forecast again to \$19.15.

**No more payments are projected for the USDA's [MILC program](#) through FY 2007, based on current futures prices.**

This report is produced for [Dairy Management Inc.](#), by [National Milk Producers Federation](#). Please direct questions, comments, and subscription requests to [Roger Cryan \(rcryan@nmpf.org\)](mailto:rcryan@nmpf.org)

**On-line Sources** Much of the information for this report is from the World Wide Web. To make the most up-to-date numbers available to you, the text above contains hyperlinks to some of the following sites:

**USDA's National Agricultural Statistics Service:**

Milk production:

<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1103>

Dairy product production:

<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1052>

Dairy product inventories:

<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1034>

Dairy product prices:

<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1450>

U.S. and Canadian cattle:

<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1464>

U.S. livestock operations:

<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1259>

**USDA's Economic Research Service:**

Commercial disappearance, price projections, etc.:

<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1350>

**USDA's AMS Dairy Programs, Fed. Order Prices, and Dairy Market News:**

AMS has changed its website, and its pages now have addresses that are hundreds of characters long. The following address will redirect you to the AMS Dairy Programs home page, from which Federal order prices and price formulas and the *Dairy Market News* may be found: <http://www.ams.usda.gov/dairy>

**USDA's Farm Service Agency:**

Information on the MILC program:

<http://www.fsa.usda.gov/FSA/webapp?area=home&subject=prsu&topic=mpp-mi>

Information on the price support program:

<http://www.fsa.usda.gov/daco>

**USDA's Foreign Agricultural Service:**

Agricultural trade data:

<http://www.fas.usda.gov/ustrade/>

**Bureau of Labor Statistics:** Retail prices: [www.bls.gov/](http://www.bls.gov/) or paste the following codes:

APU0000709112 for whole milk;

APU0000710111 for butter;

APU0000710211 for processed cheese;

APU0000710212 for cheddar cheese; and

APU0000710411 for ice cream

into this page: <http://146.142.4.24/cgi-bin/srgate>

**Federal Register:** Formal notice of regulatory actions:

<http://www.gpoaccess.gov/fr/index.html>

**Chicago Mercantile Exchange Daily Prices:**

Cash cheese & butter; milk, butter, & whey futures:

[www.cme.com/dta/hist/daily\\_settlement\\_prices.html?type=com](http://www.cme.com/dta/hist/daily_settlement_prices.html?type=com)

Daily Dairy Report: [www.dailydairyreport.com/](http://www.dailydairyreport.com/)

**Dairy Market Report Archive:**

<http://www.nmpf.org/meData/dairyMarket.cfm>

**U.S. Dairy Markets and Outlook Archive:**

[www.nmpf.org/meData/outlook.cfm](http://www.nmpf.org/meData/outlook.cfm)

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