

The Milkweed

Dairy's best marketing info and insight

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Huge Exports 'Short' U.S. Milk Powder Supply

by Pete Hardin

Extremely tight global supplies of dairy proteins, coupled with a dramatically weaker U.S. dollar, have caused a tremendous outflow of nonfat dry milk from this nation.

U.S. dairy cooperatives exported so much nonfat dry milk powder in recent months that shortages now exist for this basic, important dairy protein ingredient. Firms using nonfat dry milk are running out. The cupboard is bare. Current production is reduced. Large volumes are going to Cuba!

"There are no supplies of milk powder anywhere in the world except the U.S.," concludes Steve Schneeberger, an international dairy market analyst with USDA's Dairy Market News office in Madison, Wisconsin. Schneeberger prepares a global dairy analysis every other week for USDA's *Dairy Market News* weekly bulletin.

Big increases in 2004's U.S. milk powder export volume coincided with a significant decline in milk powder production last year. U.S. exports of nonfat dry milk in 2004—231.7 million lbs.—virtually doubled 2003 export totals.

But U.S. milk powder production in 2004 totaled only 1.411 billion lbs.—a decline of 11.2% from 2003's total.

December 2004 data for U.S. milk powder production and exports are shocking. USDA reported that 107 million lbs. of nonfat dry milk were produced in the U.S. in the last month of 2004. But data from the Commerce Department shows exports of nonfat dry milk were 79.6 million lbs. in December. That figure is the greatest single monthly milk powder export total in U.S. history.

Thus, at a time when U.S. nonfat dry milk supplies were already stretched tight, dairy cooperatives exported an amount greater than three-quarters of the nation's monthly production in December.

DairyAmerica—the marketing agency for major cooperatives that controls about 80% of the nation's nonfat dry milk production—coordinates pricing and sales of the commodity for member cooperatives. In mid-2001, however, DairyAmerica turned over exclusive export rights to New Zealand dairy interests. (See related article, page 6.) Fonterra,

New Zealand's virtual export monopoly, controls all milk powder exports from the U.S. Fonterra also oversees sales of several other nation's dairy exports. Fonterra, the successor organization to the New Zealand Dairy Board, controls the pricing and sale of a large percentage of dairy products traded globally (other than those produced in Europe).

The powder cupboard is empty

Food and dairy processors in the United States are finding in early 2005 that supplies of nonfat dry milk are impossibly tight. Scarcity of nonfat dry milk is beginning to disrupt normal operations of food and dairy processors.

"My customers are running out of milk powder and DairyAmerica won't even return my phone calls," griped one established dairy commodity sales person.

Nonfat dry milk is a key ingredient for cheese manufacturers, who add nonfat to cheese vats to standardize fat/protein ratios and boost cheese yields. Nonfat dry milk is also widely used in the baking industry. Shortages of nonfat dry milk create widespread problems. For many uses, substitute products simply do not exist because of problems involving taste, texture and/or functionality.

That massive 79.6 million lb. figure for December 2004 nonfat dry milk exports totaled just under 50% of all U.S. milk powder exports during the second half of last year. December 2004 nonfat milk powder exports totaled more than one-third of all U.S. powder exports for the entire year! Talk about "shorting" the market.

Viva Fidel!

Dramatic increases of U.S. nonfat dry milk sales were registered to many parts of the globe during 2004, compared to 2003 export data. Cuba is a surprising new listing on the list of nations receiving U.S. milk powder. In 2004, Cuba acquired about 28.4 million lbs. of U.S. milk powder—12.3% of our total exports. (See related article, page 6.) Exports to Cuba continue, despite efforts by the Bush administration to constrict agricultural trade with that neighboring island nation.

On February 19, 2005, in comments in Vermont at the annual meeting of the St. Albans Cooperative, Gary Hanman, President/CEO of Dairy Farmers of America, told of new export deals with Cuba total-

ing 8200 metric tons—over 18 million pounds. That's nearly a week's worth of U.S. milk powder production at a time when U.S. supplies are not available.

The "Big Picture" behind these massive exports and sudden domestic shortages? There is a global shortage of human dietary protein. Virtually no nonfat dry milk is available on the world market, and the U.S. is about the only source for exports. The weakened U.S. dollar means "bargain basement" prices for nations shopping here with strong currencies. Unprecedented scarce global dairy protein supplies ... coupled with a weak U.S. dollar ... create a dramatic outflow of nonfat dry milk that finds domestic users unable to obtain needed product.

Eighteen months ago, USDA had about 1.2 billion pounds of surplus nonfat dry milk in storage. Today, USDA has about 300 million pounds in storage, but the government won't sell back any of that aged milk powder, claiming that it's all committed.

Large volumes of nonfat dry milk continue to move offshore, despite domestic shortages. Tight global dairy protein supplies and a weak U.S. dollar leave this nation's dairy and food processors in a bind, the likes of which no one has previously witnessed.

February Class III \$14.70; Yo-Yo Pricing Prevails

USDA announced the February federal order Class III (cheese milk) price at \$14.70/cwt., up 56 cents from January.

It's very tough to get a read on Class III trends, as the key cash Cheddar markets at the Chicago Mercantile Exchange have remained in a yo-yo pattern since last November. CME traders keep sending cash prices skyward at the end of each month, and then send them plummeting when the monthly calendar changes (see page 9).

Overall, however, dairy's supply/demand situation is so tight that cheese prices can't stay low for very long.

USDA said the February federal order Class IV (butter-powder) price had been placed at \$12.74/cwt., up 22 cents from the January Class IV.

—Most Ridiculous Week Yet: February 28-March 4

Cheddar Price Gyration Shatters CME's Credibility

by Pete Hardin

The faith of those few defending the integrity of dairy cash commodity trading at the Chicago Mercantile Exchange (CME) had to have been shattered during the week of February 28-March 4, 2005. Call it a very bad week at CME.

The manipulated, up-and-down cash Cheddar price movements at CME that week defy any rational explanation, unless greed has been elevated to rationality. Apart from the real insiders, only educated speculation can guess what alternate forces drive up—and then knock down—cash Cheddar markets ... all in the same few days!

The upside—February 28 & March 1

Both Monday and Tuesday saw sharp upward movements in the price per pound for both blocks (+7.25 cents and 4.75 cents) and barrels (+8 cents and +2.75 cents). Tuesday, March 1 finished cash Cheddar trading with blocks and barrels priced at \$1.70/lb. and \$1.62/lb., respectively.

Industry speculation was intense about those sharp price gains at the end of February and the first day of March. Some sources reported that Dairy Farmers of America was back buying Cheddar aggressively at CME, helping drive up prices. Others

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