

“\$20-Something/Cwt.” Milk Prices Ahead!

by Pete Hardin

Get ready for the highest farm milk prices anybody has ever seen.*

As predicted in the March 2007 issue of *The Milkweed*, dairy product prices are furiously surging. Most dairy commodity prices are rocketing into the stratosphere. Rising dairy commodity prices are pulling up farm milk prices. *The Milkweed* projects that Class III (cheese) and Class IV (butter-powder) prices in USDA's federal milk marketing order pricing system will rise into the \$20-22/cwt. range by mid-summer or early fall.

USDA's milk pricing system is fueled by dairy commodity prices—Cheddar cheese, Grade AA butter, nonfat dry milk, and whey. All of those prices are either way high, or moving up dramatically.

At press time (noon on Friday, May 11), the following dairy commodity prices were reported at the Chicago Mercantile Exchange (CME):

* 40-lb. Block Cheddar—\$1.6950/lb. That's an increase of 27.5 cents/lb. from the price on April

6, 2007, when this paper was last printed.

* 500-lb. Barrel Cheddar—\$1.6525/lb. That's up 23.75 cents/lb. from the CME price reported in the April 2007 issue of this paper.

* Grade AA butter —\$1.49/lb. That's a hike of 11.25/lb. since April 6, 2007.

* Nonfat dry milk—\$2.00/lb. Whew! Nonfat dry milk prices at CME bolted 35 cents per pound in the two days immediately following the annual meeting of the American Dairy Products Institute (ADPI) in Chicago, April 20-May 1. ADPI is the industry trade organization for domestic nonfat dry milk and whey powder interests.

These price increases follow already sky-high whey prices. Short-term, whey prices are slipping backwards a bit. That's because spring is the peak production season for cheese and its valuable by-product, whey. But a little price slippage on whey is nothing to worry about. Whey prices are two times as high as one year ago.

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The Milkweed

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Commodities higher, sparking milk prices!

On May 4, USDA announced the Class III and Class IV prices for April 2007. Class IV milk rose to \$16.12/cwt. (+\$2.41). Class III milk registered a price of \$16.09/cwt. (+\$1.09).

But those milk price increases represent only a small portion of the strengthening price factors already in the pipeline. For example: USDA used a monthly average nonfat dry milk price for the April 2007 Class IV price calculation that was far below current prices. By early May, the CME cash price for nonfat dry milk was \$2.00/lb. And in western Europe, USDA's Dairy Market News plugged the high end of Skim Milk Powder prices at \$2.19/lb.

USDA's farm milk pricing system uses monthly averages of weekly dairy commodity survey prices reported to the National Agricultural Statistics Service (NASS). Due to timing issues, USDA's milk pricing system lags behind sudden upswings in dairy commodity prices.

Much more farm milk price improvement lies directly ahead, as higher commodity values work through USDA's pricing system. In early May, Class III milk futures at the CME had climbed above the \$19.00/cwt. level for the months of June-September 2007. CME futures, if anything, have historically failed to capture the upside of a significant price movement. If accurate, a Class III price in the \$19/cwt. neighborhood would yield “statistical uniform prices” in the low \$20s/cwt. range ... a couple months from now.

These peak prices are no short-term blip

After having been burned so many times in the past, when milk prices climbed up dramatically ... only to retreat in short order ... many dairy farmers will take a “wait and see” attitude, before truly believing that these high milk prices are for real.

And it'll take a while for milk prices above the \$20/cwt. threshold, before some farmers accept the possibility that a new world of U.S. milk price levels has been achieved.

In fact: it's a scary new world of higher both of higher farm milk prices ... and higher costs. Why a “scary new world”? Because all that additional money represents more money to be pilfered and abused by the “usual suspects” in the dairy marketing system.

In this dramatic price run-up, the U.S. is finally awakening to the fact that global dairy marketers have known since the second half of 2005: there is a serious, deepening global shortage of dairy proteins. The shortage has been caused by adverse weather events affecting dairy output in several continents, as well as growing demand for improved diets in China and Asia. For the past year-plus, the U.S. has been a major source of dairy proteins in the global market. Trouble is: DairyAmerica literally “gave away” U.S. milk powder to New Zealand's Fonterra ... selling out the financial interests of U.S. dairy farmers to their most cut-throat competitor for global markets in the process. That's why USDA has embarked on a review of nonfat dry milk powder prices reported during the past year.

The global dairy system has ZERO dairy proteins in storage. At the ADPI meeting in Chicago on April 30, 2007, a dairy expert from Rabobank (the Netherlands-based global agricultural lender) projected that global dairy prices would be high for at least the next five years. In truth, it'll probably take at least that long to straighten out global grain and dairy products shortages.

Behind the scenes, what U.S. producers cannot appreciate in their skyrocketing milk price structure is that the U.S. dollar's weakness means that export customers for our dairy products are literally shopping in

a “bargain basement” environment. Where U.S. dairy farmers compete globally for inputs (fertilizer, fuel), they'll pay dearly, due to the weak dollar.
