

Dairy & Food Market Analyst

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Trends, analyses & forecasts by Jerry Dryer

Cheese lower for 5th consecutive week

After climbing up to above two bucks in mid-Nov, the block and the barrel cheese prices have each retraced nearly 50 cents. Only 32 loads of blocks have been sold during this time frame; 89 loads of barrels.

Holiday buying is history, and retailers won't get out their orders books again until after the first of the year; once they have totaled Christmas/Hanukkah sales and started to think about Super Bowl Sunday. Cheese makers will resist building inventory, so cheese will likely keep coming to Chicago, putting more downward pressure on cheese prices.

Class III and cheese futures; however, tell a different story. Today, the Jan and Feb Class III contracts marched sharply higher. Settlement prices for the two contracts translated into cheese at about \$1.60 with whey at 67 or 68 cents.

Should Class III participants be thinking whey at 72 cents, the Class III prices still dictate Jan and Feb cheese prices at or slightly above the current level. Cheese futures have monthly prices in low \$1.60s.

Meanwhile, the CME butter price ticked lower this week; while butter was trading at a premium out in the countryside as retailers and bakers scabbled to acquire some additional product. Churns and printers have been running at a breakneck pace to fill much delayed holiday orders.

As the butter price slowly moved from more than two bucks to about \$1.75 by the end of Sep, customers were reluctant to place orders. Butter buyers "kept waiting and waiting" for the price to give up a little more ground. Historically, the butter price has "crashed" by Thanksgiving as holiday orders wrapped up.

This year, several marketers told me, the week after Thanksgiving was by far the busiest order week of the year.

Retail cheese sales appear to be posting at least a modest recovery, albeit still below one year ago. Scanner data (including Wal-Mart) indicate that cheese sales were down 1.8% for the 12 weeks ending 26 Nov, after being down 2.1% for the back-to-back 12-week periods ending 29 Oct and 01 Oct, respectively.

Ditto for the retail yogurt sales trend: Down 1.8% for the period ending with Nov; down 2.7% for the Oct ending period and down 2.6% for the Sep ending period. Declines in frozen pizza sales; however, have accelerated over these time periods and were 4.9% lower for the Nov ending period.

Total fluid milk sales (across all channels), at 4.593 billion lbs, down 1.5% for the month of Oct, down 0.5% during the most recent three months and down 1.2% for the most recent 12 months, according to my analysis of USDA data posted this week. During the three months ending 29 Oct, retail milk sales were down 3.5% suggesting that foodservice sales (lattes, et al) were very strong.

16 Dec 2011

Current Cash Prices At-A-Glance...

Cash Cheese

Block.....\$156.25 (-9.25)

Barrel.....\$153.50 (-3.75)

Cash Butter

AA.....\$160.25 (-3.75)

Cash Nonfat Dry Milk

Extra Grade.....\$148.00 (NC)

Grade A.....\$145.00 (NC)

FMMO Class I Base Price

Dec.....\$18.47 (+0.02)

CA Class 1 (Jan)

Northern.....\$19.88 (-0.79)

Southern.....\$20.15 (-0.79)

Class II Price

Nov.....\$19.26 (-0.15)

Class III Price

Nov.....\$19.07(+1.04)

California 4b

Nov.....\$17.19 (+1.41)

Class IV Price

Nov.....\$17.87 (-0.54)

California 4a

Nov.....\$17.70 (-0.59)

(Numbers in parentheses are changes from previous week/month.)

Support Purchase Prices for Dairy

Barrels, \$1.10; Blocks, \$1.13;
Butter, 1.05; Nonfat Dry Milk, \$0.80

Retail milk sales, as reported from scanner data, apparently eroded further during Nov. Data for the three months ending 26 Nov indicate that retail milk sales were down 4.2% vs one year.

Back to the USDA data: Total conventional fluid milk product sales were down 2.1% during Oct while organic milk product sales were up 12.6%. Organic sales account for about 4% of the total. Why the increase in organic sales? Among other causes, relatively high conventional milk prices narrowed the spread between the two milks, making it easier for consumers to justify the added expense of organic.

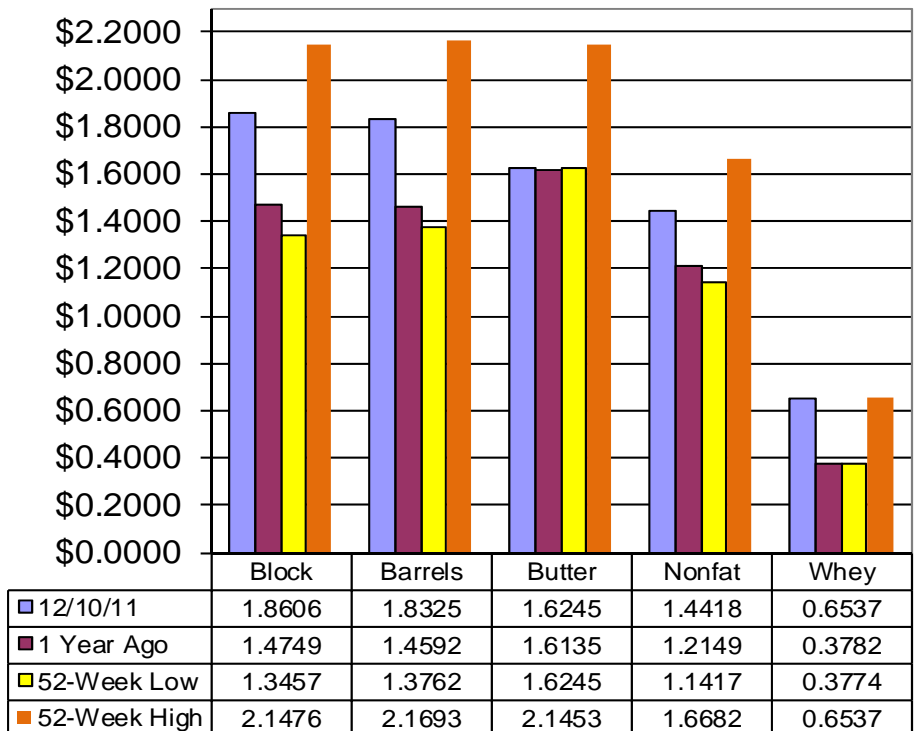
Meanwhile, higher conventional milk prices and sharply higher organic feed prices have prompted some organic milk producers to revert back to conventional production. End result: Very tight organic milk supplies for the foreseeable future.

Foodservice sales, on a same-store sales basis are forecast to increase between 2% and 3% during 2012, according to Fitch Ratings, while food and beverage costs are expected to rise by about 5% with labor costs flat.

Growth at limited-service (fast-food) restaurants will outpace category growth as low-end consumers begin spending more and middle-income consumers continue to curb spending by trading down to low-priced alternatives where menus tend to be what I call “cheese-friendly.” Think McDonald’s, Burger King...

Fonterra this week raised its forecast for the producer pay price for milk by 20 cents per kilogram of milk solids. In Oct, the cooperative had lowered the forecast 45 cents; the new price is \$6.50/kg. In an unrelated development, Fonterra, following a public outcry about high domestic milk prices, has announced “Milk for Kiwis”, a program to make milk “more readily available” in schools and other locations. The cooperative will launch a regional pilot for primary schools in Northland, covering 110 schools and

Nass Price Analysis



14,000 children. Media coverage referred to free milk, but the official announcement talked about a “plan to make milk more affordable and more available” to all New Zealanders. **New Zealand milk cow numbers** increased by 132,000 head to more than 4.5 million head during the 2010/2011 production year which ended 30 Jun 11. Production per cow was up about 5% to an average of 334kg of milk solids (190kg of fat and 144kg of protein) per cow. Total production for the year: 1.52 billion kg of milk solids or 17.3 billion liters of milk. This year plentiful rains have kept the pasture index elevated; 35% higher than the long-term average for this time of year. Milk production was up about 11% thru Sep, but the rate of gain has since slowed.

Arla, the large Scandinavian-based dairy cooperative, will begin offering skim milk powder on the GlobalDairyTrade auction platform 03 April 2012.

Australian dairy exports were lower during the Jul thru Oct period, according to Dairy Australia. Butter and but-teroil shipments were each about 40% lower than one year

	CME Cash	Chge From	CME Wkly	Chge From	NASS Wkly	Chge From
	Settlement	Last Wk	Ave	Last Wk	Ave	Last Wk
	12/16/11		12/16/11		12/10/11	
BLOCKS	156.25	(9.25)	159.10	(9.55)	1.8606	(0.0201)
BARRELS	153.50	(3.75)	154.80	(6.55)	1.8325	(0.0802)
BUTTER	160.25	(3.75)	160.50	(3.35)	1.6245	(0.0039)
NFDM Ex	148.00	0.00	148.00	0.00	***	***
NFDM A	145.00	0.00	145.00	0.00	***	***
NFDM NASS	***	***	***	***	1.4418	(0.0002)
Whey NASS	***	***	***	***	0.6537	0.0067
CWAP NFDM	***	***	***	***	1.4376	(0.0121)

Prices and changes in ¢/lb. Numbers in parentheses are changes from previous week. Changes reflect revised prices from previous week.

CME Futures Settling Prices (with changes from previous week)

Week ending	Class III Milk			Cheese			Dry Whey		
	Settle	Chge	O/I	Settle	Chge	O/I	Settle	Chge	O/I
12/16/11									
Oct-11	18.03			1.747			61.520		
Nov-11	19.07			1.842			63.800		
Dec-11	18.66	0.07	5,850	1.793	0.009	1,141	65.750	0.750	434
Jan-12	17.09	0.23	5,011	1.618	0.014	1,074	67.250	1.050	445
Feb-12	17.26	0.40	4,199	1.631	0.020	876	67.750	2.000	367
Mar-12	17.12	0.29	3,441	1.630	0.018	879	68.000	3.000	343
Apr-12	16.97	0.22	2,532	1.625	0.025	671	65.500	1.025	282
May-12	16.93	0.11	2,435	1.635	0.010	567	62.000	(0.150)	251
Jun-12	17.03	0.12	2,137	1.660	0.014	462	59.000	(2.000)	246
Jul-12	17.09	0.03	1,512	1.695	0.015	322	56.000	(1.500)	157
Aug-12	17.18	0.03	1,458	1.705	0.010	285	55.000	(1.500)	156
Sep-12	17.19	0.04	1,392	1.712	0.008	275	52.750	(2.550)	149
Oct-12	17.04	0.07	1,231	1.698	0.000	234	52.400	(0.975)	123
Nov-12	16.98	0.07	1,150	1.697	0.000	174	52.500	(0.875)	108
Dec-12	16.93	0.00	1,165	1.697	0.000	182	52.500	(0.800)	105
Jan-13	16.60	0.00	33	1.721	0.000		40.000	0.000	
Feb-13	16.35	0.00	25	1.750	0.000		38.500	0.000	
Mar-13	16.25	0.05	20	1.755	0.000		37.900	0.000	
Apr-13	16.35	0.04	21	1.760	0.000		37.950	0.000	
May-13	16.22	0.00	5	1.765	0.000		38.000	0.000	
Jun-13	16.00	0.00	4	1.770	0.000		38.050	0.000	
Jul-13	16.00	0.00	3	1.775	0.000		38.100	0.000	
Aug-13	16.25	0.00	2	1.780	0.000		38.150	0.000	
Sep-13	16.00	0.00	1	1.785	0.000		38.200	0.000	
Oct-13	15.75	0.00		1.790	0.000		38.250	0.000	
Nov-13	15.50	0.00		1.795	0.000		38.300	0.000	
Ttl O/I			33,627			7,142			3,166

ago; Cheddar cheese, down nearly 5%; skim milk powder down 27% and whey products, down nearly 30%. Draft water management plans for the Murray-Darling basin in northern Victoria, Australia, if implemented, would trigger the closure of about 500 dairy farms producing 700 million liters of milk annually. Davisco Foods and Cornelius, a UK-based distributor of food ingredients, have created a partnership to deliver high quality protein products into the UK market. Davisco produces 65% of the worldwide whey protein isolate supply and sells an estimated 10 million lbs annually.

NASS dairy reports being restored: A few weeks ago, NASS' budget axe landed on the *July Cattle* report and the *Farms, Land in Farms, and Livestock Operations* report. Following a request from National Milk Producers Federation, both have been restored.

My cow the wino: Supplementing the dairy ration with marc (grape stems, seeds and skin leftover from wine making) helped increase milk production 5% and reduce methane emissions by 20%, according to Australian scientists.

DAIRY DATA Calendar thru 31 Dec 2011:

NASS Milk Production, Mon, 19 Dec, 3:00 pm ET; gDT Trading Event, Tue, 20 Dec; NASS Cold Storage, Thu, 22 Dec, 3:00 pm ET; NASS Dairy Products Prices, Fri, 09 Dec, 8:30 am ET; NASS Livestock Slaughter, Fri, 23 Dec, 3:00 pm ET; Livestock, Dairy & Poultry Outlook tables posted to website, Tue, 27 Dec; NASS Dairy Products Prices, Fri, 30 Dec, 8:30 am ET; AMS Class & Component Prices, Fri, 30 Dec, 10:00 am ET and NASS Agricultural Prices, Fri, 30 Dec, 3:00 pm ET.

Dairy & Food Analyst will NOT be published 23 Dec or 30 Dec.

Very Happy Holidays to One and All!!! See you next year.

Kind regards,

Jerry Dryer

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