Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

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TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.2100*	$1.7350
Barrels	*+$.1950*	$1.7050

Weekly Average

Blocks	*+$.1610*	$1.6735
Barrels	*+$.1589*	$1.6445

CHICAGO AA BUTTER

Weekly Change	*N/C*	$2.1000
Weekly Average	*N/C*	$2.1000

DRY WHEY

WEST MSTLY AVG	w/e 01/21/11	$.4163
NASS	w/e 01/22/11	$.3953

NON-FAT DRY MILK
Week Ending 1/21 & 1/22

Calif. Plants	$1.2309	13,369,086
NASS Plants	$1.2598	19,740,519

CHEESE MARKET COMMENTS: Another week of amazing cheese price increases on the CME followed four earlier weeks of solid increases. In addition to the obvious about what has been happening – the much welcomed higher prices – it's worth taking a look at where prices were not so long ago, and how they got to where they presently are. Block prices had been at or above $1.70 per lb for the eight weeks ending with 10/22/10, and barrels were there for the six weeks. Prices for both then fell by about $.40 per lb over the next eight weeks. Forecasts for milk prices made in December by public and private agencies were not encouraging. Cheese stocks were setting the wrong kind of records, cow numbers were increasing, feed costs were rising, and the U.S. economy was (and still is) more reflective of the long recession that ended eighteen months earlier than a recovery. Cheese sellers outnumbered buyers. A fairly steady drum beat of offers to sell cheese at lower prices through mid-December began to change, with a growing number of buyers, and then bidders, showing strong interest in getting more cheese. During the week ending 1/14/11 bids for block cheese drew the price up by $.16 per lb. This week, the block price rose by $.21 per lb and barrels rose by $.195 per lb, all from bids. These price increases translate into substantially higher milk prices. Class III milk futures prices for the February-April period average $16.98 per cwt, up by almost $3.00 per cwt from four weeks ago. The rationale for the run on cheese is not very clear at this point, although domestic sales are reported to be going well and the prospects for export volume to increase is apparent. The market is best described as unsettled. Dairy Market News says they are being told prices are increasing in order for manufacturers to retain milk supplies, but that's not how it works. **Bidders and buyers** have been moving the prices; manufacturers should not want to add to the record amount of cheese held in long term storage.

BUTTER MARKET COMMENTS: Butter prices remained unchanged on the CME, at $2.10 per lb, for a third straight week. Last week eleven loads were sold; this week there were no bids, offers, or sales. Butter prices have followed a pattern similar to cheese prices. The weekly average price on the CME was at or above $2.10 per lb for eleven weeks ending with 11/05/09, and from there fell to $1.5575 per lb by the first week in December. But the news across the board was positive for higher prices, mostly from real or anticipated shortages: low U.S. stocks and global shortages of butterfat caused by a combination of weather impacts on milk production in Europe and New Zealand and heavy milk usage to fill demand for cheese and whole milk powder. International prices were at or above $2.00 per lb and U.S. traders wanting butter bid the price back up on the CME by $.43 per lb the first week in January, to $2.10 per lb, where it has since held unchanged. Concern about the single week contra-seasonal increase of $.43 per lb appears to have been resolved by a belief that the price level in September and October was supported by a number of market indicators and should not have fallen. However, from a production and marketing standpoint, high prices for butterfat early in the year is not something that promotes demand; butter manufacturers may not want to build stocks with $2.00 butter, and ice cream manufacturers may want to postpone early starts on building their inventories. Yes, despite the steady CME price, the butter market appears to reflect more uncertainty than anything else.

POWDER MARKET COMMENTS: DMN says production of dairy powders is steady at best, inventories are considered to be satisfactory and are being held with confidence, and not much product is being made available to those who want some. The "mostly" prices in the central and western regions moved higher again this week, and sellers, buyers, and potential buyers on the CME continue to astound market watchers with their daily activities. Eight trades of grade A powder occurred this week, moving the price up by $.135 per lb, to $1.6575 per lb; supporters of extra grade powder saw to it that prices for that product increased by $.11 per lb, to $1.60 per lb. Futures prices for NFDM are tracking the increases in spot prices fairly well; they now average about $1.57 per lb for the Spring months. It's understandable that companies are pleased to sell grade A powder on the CME at a huge premium to the cash market but it is not clear why anyone would pay that price, and is even more puzzling why bids to buy extra grade powder at $1.60 per lb are not filled. Prices reported for shipments of NFDM last week are lagging under this week's CME spot market by $.34 to $.37 per lb. The full range of prices this week in the western region for sales of grade A and extra grade powder is $1.24 to $1.51 per lb.

WHEY PRODUCTS MARKET COMMENTS: Futures prices for the March to August months for dry whey ended the week at $.50 per lb or higher. The NASS average price this week is $.3953, about $.02 higher than two months ago, but all of the increase is profit. Production of DW and WPC is only keeping up with demand, which is being fueled by export buyers. Manufacturers simply do not have enough product available to supply spot buyers. It's good to have a contract these days, and more buyers of all sizes and types are expected to make the required commitments to acquire that kind of protection.

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FRED DOUMA'S PRICE PROJECTIONS…

Jan 28 Final:	**Quota cwt. $16.22**	**Overbase cwt. $14.52**	**Cls. 4a cwt. $16.48**	**Cls. 4b cwt. $12.49**
Last Week:	**Quota cwt. $16.20**	**Overbase cwt. $14.51**	**Cls. 4a cwt. $16.54**	**Cls. 4b cwt. $12.40**

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SIFTING THROUGH THE PROCESSORS' RHETORIC…IT'S ALL ABOUT CONTROL: *(By Rob Vandenheuvel)* As the dairy industry continues to discuss and debate options for fundamental reforms to our dairy policies, the International Dairy Foods Association (IDFA), the primary lobbying organization of the nation's dairy processors, spent this past week spewing out a healthy amount of rhetoric, specifically aimed at a legislative proposal being developed by the National Milk Producers Federation (NMPF).

First, a little background: NMPF, which is the main lobbying organization representing our nation's dairy cooperatives, is in the process of putting together a legislative proposal that addresses several areas of our national dairy policy. That proposal is known as "Foundation for the Future," or FFTF. In crafting FFTF, NMPF is including key legislative priorities from different sectors and regions of the industry, in an effort to make it a package that can garner support from a majority of dairy farmers.

This week, IDFA tried, as they have before, to break up that package and strip out the provisions creating a market management plan for dairy farmers. That specific piece of FFTF, which would temporarily trigger in only when dairy farmer margins are small and a reduction in surplus milk production is needed, is a key priority for many in the industry. Stripping it out would make it highly-unlikely that FFTF could garner a majority support amongst the nation's dairy farmers, and IDFA knows that.

On January 24th, Connie Tipton, the CEO of IDFA, gave an eloquent speech at their annual Dairy Forum in Miami, FL (the text of the speech is at: http://www.idfa.org/files/IDFA_Tipton_Dairy_Forum_2011_Speech.pdf). In her speech, which is entitled, "Capturing our Greatest Potential," Ms. Tipton brought up names like Ronald Reagan, Winston Churchill, Franklin Delano Roosevelt and even Jimmy Carter to emphasize the importance of how today's decisions affect tomorrow's results. As dairy farmers, we couldn't agree with her more.

Where we differ with Ms. Tipton is what we want our industry's "tomorrow" to look like. In the debate over dairy policy reforms, dairy farmers know that we need to be looking for how to get farmers more control over our industry. In 2009, it became painfully obvious that of all the groups along the dairy supply chain, it was ***only*** the dairy farmers that carried real market risk. Processors have successfully insolated themselves from risk, largely through government policies that create great opportunity for profits regardless of how high or low the value of milk is.

When the value of milk dropped to government-support-levels and feed costs remained historically high, it was the dairy farmers – not the processors – that bore the cost of that collapse. Dairy farmers shed **billions of dollars** in equity during 2009 and 2010, while our dairy policies continued to allow our nation's processors generate profits. We need to remember that obvious imbalance of market risk as we consider policy reform this year.

For IDFA, this isn't about sympathy for dairy farmers. That sympathy, even if there were a hint of truth in it, is about two years too late. And this isn't about following the path of wise men like Ronald Reagan. This is about one thing: **control over the dairy industry**.

In a report on Ms. Tipton's comments, Dave Natzke, editor of *Dairy Profit Weekly,* noted in his weekly newsletter that "[Tipton] said private supply management – through processor/producer contracts based on milk volume – was appropriate." So to be clear, the concept of better aligning the production of milk with the demand for that milk is a sound economic principle, **just as long as it's the processors that control the process**?

We've seen what happens once the control over production of a livestock agriculture product moves to the processors. The examples of poultry and pork have been mentioned many times in policy discussions, and the concern over following their example is extremely real. In an *Associated Press* article published last year on the U.S. Department of Agriculture/Department of Justice joint hearings exploring competition in agriculture (http://abcnews.go.com/Business/wireStory?id=10713632&page=2), a former poultry farmer from North Carolina, Kay Doby, was quoted as saying, *"This system takes hardworking farmers and makes them indentured servants on their own land. I can't tell you how many times I've heard that our contract would be canceled if we did such and such."* This is the dangerous path that becomes possible for dairy farmers once we fully hand the control over our milk production to the processing side of our industry.

In the near future, NMPF will be unveiling the detailed legislative text of "Foundation for the Future" that will be introduced in Congress. While MPC and many organizations across the country will reserve final judgment on FFTF until we see those details, we all need to be prepared to quickly and seriously consider whether that package of reforms moves our dairy farmers into a better position of controlling our own destiny. We absolutely must ensure that any policy reform empowers our producers to make the necessary adjustments in periods of surplus production, while at the same time allowing our farmers to meet increasing demand for our products when it's profitable to do so.

We should all be hoping and praying that our leaders, both in the dairy industry and in Congress, hold to their guns in the face of IDFA pressure and craft policies that ensure that producers will no longer be carrying 100% of the risk in this increasingly volatile industry.

I leave the readers with this ending thought: **With our nation's processors so adamantly opposed to producers having more control over our own production, they must be terrified that it might actually work to the advantage of dairy farmers.**