

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.0025 \$2.0700
Barrels -\$.0500 \$1.9700

CHICAGO AA BUTTER

Weekly Change +\$.0725 \$1.2500
Weekly Average +\$.0317 \$1.2180

NON-FAT DRY MILK

Week Ending 2/22 & 2/23

Calif. Plants \$1.2784 15,839,313
NASS Plants \$1.2748 23,170,203

Weekly Average

Blocks +\$.0034 \$2.0640
Barrels -\$.0115 \$2.0085

DRY WHEY

NASS w/e 2/23/08 \$.2492 WEST MSTLY AVG w/e 2/28/08 \$.2350

CHEESE MARKET COMMENTS: The wild, unpredictable changes in cheese prices on the CME continue to baffle the experts. Inventory levels are believed to be a critical measure of the strength of the market, and have consistently been positive. The market is described as firm, with little cheese being produced that does not already have a buyer. It looks like cheese plants are as stubborn as cheese buyers. That suits producers just fine so long a cheese prices remain firm. But the day-to-day **price volatility** is scary. It's another reminder that activity on the CME is dominated by a very few buyers and sellers and speculators who do not necessarily have the best interests of the dairy industry in mind. With butter and powder prices in the tank, cheese plants are being offered milk and condensed at attractive prices, and the value of nonfat dry milk for vat fortification purposes could stimulate additional production.

BUTTER MARKET COMMENTS: Butter buyers may be influenced by the possibility of additional orders for export. There doesn't appear to be any other explanation for the unexpected price increases this week on the CME. Butter production continues to exceed sales, and inventories continue to grow. Butter sales reported to NASS over the past four weeks totaled about one half of what was produced during that period. As inventories continue to increase, butter prices are expected to respond. The January export report is not yet out but those who are engaged in the business have a good idea of what has transpired. It feels like it may be good news.

NONFAT DRY MILK: There is no good news regarding nfdm **prices** this week. Recent sales volumes reported to NASS have been strong, which suggests that exports are picking up. January production by California plants was about 6 million lbs **lower** than last January, which means that sales could have actually been a bit more than what was produced. The negative part about additional export sales, if any, is that the U.S. export prices are reported to be **under** international prices. What else is not new?

WHEY MARKET COMMENTS: Prices for all whey related products continue to be weak if not continuing to fall. Export demand continues to be strong, but prices are very low. Dairy Market News reporters tell of a possible price bottom in sight.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 29, 2008 Final: Quota cwt. \$18.65 Overbase cwt. \$16.95 Cls. 4a cwt. \$14.63 Cls. 4b cwt. \$17.54
Last Week: Quota cwt. \$18.64 Overbase cwt. \$16.94 Cls. 4a cwt. \$14.57 Cls. 4b cwt. \$17.53

FEBRUARY'S PRICES FOR BUTTER, POWDER, AND CHEESE IN FEDERAL ORDER AREAS: (By J. Kaczor) Prices for milk used to produce basic dairy products continue their paths downward. USDA published February's prices today. Class III (cheese milk) fell \$2.29 per cwt, to \$17.03. Class IV (butter/powder) fell \$1.62, to \$14.67. These Class prices are now comparable to last year's March and April prices. California's official prices will be available next week, but Fred Douma's estimates, reported above, has Class 4a at \$14.63 (-\$1.77) and Class 4b at \$17.54 (+\$.63). How can Class 3 prices in federal orders decrease by \$2.29 in February while California's 4b prices increase? It's complicated. We tried to explain the relationships in our February 8th *Update* and will try to explain further next week.

UPDATE ON FEDERAL ORDER HEARINGS: (By J. Kaczor) USDA is pondering decisions from three hearings that were completed last year. All three are critically important to producers who sell their milk in federal order areas. One could have a large, possibly beneficial, effect on California producers.

The first hearing began in December 2006. It was requested by National Milk Producers Federation, to consider changes to the price formulas for Class I and II usages in all areas. NMPF asked that the hearing be considered under emergency rules, which are supposed to eliminate at least one time-consuming step in the process towards a final decision. Two basic proposals were offered. The first was to increase the level of Class I prices by about \$.70 per cwt. The other was to "decouple" Class I and II prices from butter/powder price levels by removing the effects of the make allowances for butter and powder but continue to use the prices for butter and powder to determine monthly price changes. Class I and II usage of milk pooled in federal orders in January was 49% of all usage. Class I usage was 38 %. While you might think that a proposal to increase price levels for a large percentage of producer milk would receive unanimous support from producers, it did not. The reason for the opposition from some regions is because Class I usage varies widely among the federal orders -- from a low of about 16% in the Upper Midwest to a high of about 83% in Florida. Over the fourteen months since this hearing ended, milk prices have almost completed a full cycle: from very low in December 2006, to all-time highs last Fall, and are now screaming back down. A recommended decision is and has been expected at any time.

The second hearing began in February 2007. This hearing invited comments on all aspects of the price formulas for Class III and IV usages in federal orders. This hearing was requested even before the decision on a previous hearing on make allowances was completed. The start of the hearing included a first for federal order proceedings. A pre-hearing conference was held, similar to the California practice, to preview all proposals for the purpose of qualifying them for inclusion in the hearing. That may have helped, but a total of eighteen separate proposals were ultimately included. The hearing was held in three stages, which spanned **seven months** and included **thirteen days of testimony**. The reason for the large number of proposals stemmed in part from the differing interests among the federal order areas and the frustration in having what was considered to be out-dated price formulas. Key issues included sources for product prices, product yields, and the need to use current representative manufacturing costs. Extensive and detailed testimony and evidence was presented by all sides. The hearing was contentious. Last December, two months after final briefs were filed, there were written requests for the hearing officer to take official notice of the plant cost studies that were included in California's October hearing. Will this hearing never end?

The third hearing was a request by USDA for written comments on the interim rules that were published last July regarding mandatory reporting on sales of dairy commodities (the NASS reports). Initially a sixty-day period was granted for comments. A second thirty days for additional comments ended on December 3rd. **A final rule is scheduled to become effective this July**. While a wide number of issues were addressed regarding sales reports, the key question was should sales of products whose prices were set and not adjusted thirty days prior to sale continue to be excluded from the weekly NASS reports. Last Summer, after California producers had rung up a total loss of about \$192 million because long-term fixed priced sales of nonfat dry milk to exporters were permitted in a rising price market, CDFA scheduled a sham hearing in late August, which resulted in an official endorsement of that practice. The written comments to USDA on rules for the NASS reports ranged from solid defense for prohibiting reports of those sales to solid support for permitting them. Milk Producers Council and other producer and handler organizations strongly argued in last Summer's hearing that the California Food and Agricultural Code

specifically required the reporting of only current prices, but the CDFA hearing panel had other ideas. **It was hoped at the time of that hearing that California's reporting conditions would be tightened and would be used to support a change in the rules for reporting sales to NASS. But now that hope has turned to concern.** Even though the purpose for the NASS reports of dairy product sales is to provide "*timely, accurate, and reliable market information*," it now appears that, because of the position taken in California, **the argument for including long-term fixed priced sales to NASS is the stronger one.** Many commentators made the point that the different approaches between California plants and all other plants is untenable. If the decision is to permit the inclusion of those sales, the pressure to have California plants carry a disproportionate amount of exports may be reduced. California producers should be pleased to share the benefits of those sales with producers throughout the country. At least we won't have to wait much longer for this decision.

A comment on differences between hearings in California and in Federal Orders: The two approaches stand in stark contrast to each other. The California approach emphasizes timely hearings and timely decisions, with a minimum of input from interested parties, restrictions on time for testimony, no cross-examination of witnesses from the audience, little or no questions from the hearing panel, and the assumption of almost infinite latitude in the hearing panel's interpretation of legislative standards. The approach in federal order hearings is determined by the Agricultural Marketing Act and is just the opposite of what happens in California hearings. There is and has been for some time strong interest in reforming the federal procedure, principally to greatly shorten the time between a hearing and a finding. Some changes have already been made and more are expected. But there is one benefit from the federal order approach that is not presently available to California – a thorough review of the issues being reviewed. A thorough review of issues in California hearings is probably too much to hope for. But there is one thing that could be done to create confidence that CDFA officials do have a sufficient understanding of the issues. It's a modest proposal. **Require members of the hearing panel and all others who have input regarding hearing decisions to read the complete transcript of the latest relevant federal order hearing and pass a test to show that they understand all sides of the issues.** It's a start.

A HEADS UP TO CHINO/ONTARIO DAIRYMEN: *(By Rob VandenHeuvel)* Officials from the City of Ontario have noticed a growing number of illegally dumped dead cows and calves in recent weeks. While this is obviously being done by individuals outside of our local dairy industry (*i.e., urban residents who are raising animals in their backyards, etc.*), it is our industry's reputation that is hurt when the public sees this. If you notice any illegal dumping going on, please call the Ontario Department of Public Works at (909) 395-2605.

THE FEBRUARY "DAIRY CARES REPORT" WAS SENT OUT THIS WEEK: *(By Rob VandenHeuvel)* You can read the report at <http://www.milkproducerscouncil.org/cares.htm>. This month, the focus of the report is the recent lawsuit filed by environmental extremists targeting the new Central Valley "Waste Discharge Requirements." This lawsuit, which was reported at length in the February 15th MPC *Update*, shows the true anti-dairy motives of these extremist groups. I encourage you all to read the latest CARES Report.

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