

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0025 \$1.1500
Barrels -\$.0075 \$1.0925

CHICAGO AA BUTTER

Weekly Change -\$.0250 \$1.2275
Weekly Average -\$.0320 \$1.2295

NON-FAT DRY MILK

Week Ending 6/05 & 6/06

Calif. Plants \$.8170 17,011,630
NASS Plants \$.8384 25,167,280

Weekly Average

Blocks N/C \$1.1495
Barrels - \$.0040 \$1.0970

DRY WHEY

WEST MSTLY AVG w/e 06/11/09 \$.3000
NASS w/e 06/06/09 \$.2639

CHEESE MARKET COMMENTS: It looks like it's still a buyers market for cheese, and they don't seem to want to do anything but nibble around the edges until they get the sign they are waiting for – that U.S. supply and demand is better balanced than it has been. That sign is getting nearer each month. It may come in more than one form, including: completion of the CWT cow removal program, USDA's Dairy Export Incentive Program (DEIP) bonuses for exports of cheese (the first approved sale happened this week), continuing improvement in consumer sentiment, slowing of Cheddar cheese production (up only 0.2% for the first four months of the year), and, finally, lower end-of-month inventories. How soon will the cheese market turn, and how high will it go? While there's little agreement on those answers, all who are watching agree that significant improvement is on its way. Participants in the CME futures market for Class III prices (cheese milk) seem to have lost confidence for immediate term cheese buyer action, but still see cheese prices up \$.17 per lb by August and \$.28 per lb by September. And a major U.S. cooperative this week said it expects the Class III price to reach \$16.00 by late summer or early fall. That looks like September to me, by which time CWT should have scheduled its next herd removal, perhaps with some of the discouraging limitations removed to invite even greater producer response.

BUTTER MARKET COMMENTS: The CME butter price fell by 2.5 cents per lb this week, and is now almost 4 cents below its high for the year that was reached about three weeks ago. Production, month-by-month, has been falling at an increasing rate and the amount of butterfat products in storage at the end of April was 9 million lbs lower than a year earlier. Those trends are very positive, particularly considering how little is being exported at the present time, and should continue as the flush milk production season winds down and CWT clears away more unwanted dairy cows. Domestic usage is holding up nicely, and cream usage for other products is increasing seasonally, as expected. However, butter buyers seem unwilling to buy more than is needed to cover their rate of current sales. The DEIP bonus for butter exports is 20.4 cents per lb and 29.5 cents for anhydrous butterfat.

POWDER MARKET COMMENTS: Despite a drop of a half-cent per lb last week, the national average price for nonfat dry milk is still a penny per lb higher than it was four weeks ago. The California plant average this week has fallen more than two cents below the national average. The overall price trend for both price series is pointing upward, but the rate of increase is small. A disappointing note is the fact that, instead of falling away to nothing, as was expected several weeks ago, sales volume to the CCC by Dairy America's California plants has again turned upward. That's disappointing but maybe should not be surprising when we look at CCC sales and U.S. exports from last October through this April. Exports were 163 million lbs lower than the prior year and sales to the CCC were 210 million lbs higher (there were none the year before). The latest report by *Dairy Market News* on the amount held or being shipped by manufacturers at the end of April was only 34 million lbs more than a year earlier. DEIP sales bonuses are now being approved, which should trim something from that too high inventory number.

WHEY MARKET COMMENTS: The demand for dry whey from domestic buyers and for export purposes continues to be strong. The average of the West's "mostly" price series added another penny per lb this week. Prices also edged up for whey protein concentrate. Lactose prices were low and unchanged. Inventories of dry whey and whey protein concentrate at the end of April were lower than a year earlier. Some sellers of dry whey are concerned about reactions to too much too soon, and are said to be wary of the pace of recent price increases.

FRED DOUMA'S PRICE PROJECTIONS...

June 12 Est:	Quota cwt. \$ 11.36	Overbase cwt. \$ 9.66	Cls. 4a cwt. \$10.07	Cls. 4b cwt. \$ 9.61
Last week:	Quota cwt. \$ 11.37	Overbase cwt. \$ 9.68	Cls. 4a cwt. \$10.13	Cls. 4b cwt. \$ 9.60

A GUEST EDITORIAL FROM A PRODUCER: *(By Harvey Boschma, Producer and Member of California Dairies, Inc.)* What started as a grass-roots, rabble-rousing dumping of milk has evolved into a drive to bring milk production in line with what we need to supply higher value milk uses, and less powder, a last-resort disposition of milk, which at today's prices, is foolish.

This grass-roots effort is an example of the extreme frustration producers have over the dire financial situation we are in.

In the past, we dairymen simply demanded our coops just pick up any amount of milk we produced, and we expected to make a profit, never considering what demand there is for that milk.

Dairymen need to work together to develop a new mindset and curb the amount of milk presented to the market, so as to achieve a sensible price. By oversupplying the market, we set ourselves up to receive "salvage price", the lowest of all prices, the support price. Buyers of milk know that they really don't have to pay more than what they are doing, because our alternative is to make more powder – at \$.80/lb, or \$9.90 per cwt. Our money is not made from dividend checks from our coops.

Other states, such as Colorado, are watching California to see if we can finally be business-like, sensible and realize that "just produce more milk" has negative consequences. Hopefully, California can be the leader, and other states' coops will be inclined to follow our lead, if we show it can be done. I support the planned actions by our coops; they are talking, and we must support them in finishing the job so we can again be profitable and receive a fair price for our product.

PRODUCER-HANDLERS RESPOND TO LAST WEEK'S MPC ARTICLE: *(By Rob Vandenheuvell)* Last week, I published an article in this newsletter about SB 362 (Florez), a bill that would lift the cap on the producer-handler exemption in California and allow producer-handlers to exempt all the milk they produce and process into Class 1 products from pool requirements. If you missed that article, I'd encourage you to go back and read it: <http://www.milkproducerscouncil.org/updates/060509.pdf>.

As you saw in my article last week, the issue of the producer-handler exemption will now be debated in the California Assembly, with SB 362 making its next stop at the Assembly Agriculture Committee. While MPC is opposing the legislation, I thought our readers would benefit from hearing both points of view – not only MPC, but from the producer-handlers as well. I've invited the California Producer-Handler Association to submit a response to my article, which you can read below.

California Producer-Handler Association Response to MPC's June 5th article entitled, "California State Senate Approves a Large Expansion of the Producer-Handler Exemption":

When milk pooling began in 1969 there were 49 partially exempt producer-handlers. Forty years later there are only five remaining. In that same time period the number of pounds exempted from the pool decreased 32% (from 32,802 to 24,875 lb. fat). In 1969 this exemption represented 4.5% of the pool and today it

represents less than .7%. Things have changed dramatically in the last 40 years.

The five remaining Producer-Handlers are some of the only surviving independent fluid milk processors in this state. National owned milk processors and retail owned milk processors have grown to dominate the fluid milk market. In 2008 14 Class 1 milk plants in California purchased milk from out-of-state. These processors enjoyed an exemption totaling 2.1% of the pool, more than three times the amount of the producer-handlers. This does not include competition from packaged milk coming into California from surrounding states. The future survival for producer-handlers is based on finding ways to compete with these growing threats.

It is estimated that if the balance of Producer-Handler production had been exempted in March 2009, their portion of exempt milk would have increased from .7% of the pool to only 1.2% of the pool. This increase would have cost the pool approximately \$.0069 per cwt or roughly \$.15 per cow (for the month). This is dramatically less than the cost of out-of-state milk and transportation allowances that other milk processors are enjoying at the expense of the pool. Further it keeps the milk, jobs and money in California.

Bottom line is that the market has changed in the last 40 years. Producer-Handlers represent a small portion and a small cost to the pool, however to them it is the key to their survival.

Please note: As noted in the MPC article, there has been a lot of “misinformation” floating around; the fact given in this response are based on information provided by the CDFA Milk Pooling Department.

SOUTHERN CALIFORNIA DAIRYMEN ARE REMINDED TO REGISTER THEIR EMERGENCY GENERATORS WITH AQMD: *(By Rob Vandenheuvel)* Many of you should have received a letter from South Coast AQMD letting you know that they are now requiring dairies to “register” their emergency generators. If you recall, AQMD used to require a permit for those generators, but since the engines run only on rare occasions, they decided that a full operating permit was not necessary. However, under state law, AQMD is required to, at a minimum, have the engines registered.

The announced due date to register those engines was June 4th, although AQMD is still accepting registration forms (and the registration fee of \$163.71) without any penalty. The registration form can be found at: <http://www.milkproducerscouncil.org/222Ag.pdf>. If any of our members needs any help filling out this paperwork, please give me a call at (909) 628-6018.

MAY CARES COLUMN IS NOW POSTED ON THE MPC WEBSITE: *(By Rob Vandenheuvel)* A newly-formed University of California Animal Welfare Advisory Council held their first meeting this week at UC Davis. This Council is designed to provide a science-based examination of modern-day industry practices, without the rhetoric and harsh messages that inevitably take over when this issue is brought up in campaign advertisements or in speeches in the legislature. You can read more about the UC Animal Welfare Advisory Council in the latest Dairy CARES newsletter, which can be found on our website: www.milkproducerscouncil.org/cares/may09.pdf.

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