



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@milksproducers.org ~ www.MilkProducers.org



DATE: August 27, 2010
TO: DIRECTORS & MEMBERS

PAGES: 3
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0475 \$1.6950
Barrels +\$.0500 \$1.6650

CHICAGO AA BUTTER

Weekly Change +\$.1400 \$2.1800
Weekly Average +\$.1815 \$2.1545

NON-FAT DRY MILK

Week Ending 8/20 & 8/21

Calif. Plants \$1.1411 18,795,417
NASS Plants \$1.1493 19,987,746

Weekly Average

Blocks +\$.0380 \$1.6690
Barrels +\$.0415 \$1.6365

DRY WHEY

WEST MSTLY AVG w/e 8/20/10 \$.3725
NASS w/e 8/21/10 \$.3553

CHEESE MARKET COMMENTS: Another week with few trades but another string of almost daily price increases on the CME for blocks and barrels. Dairy Market News (DMN) says cheese supplies in the Midwest are tight, but are in balance with demand in the west. Generally speaking, the cheese market is unsettled – steady price increases, rising inventories, retched U.S. economy, consumers saving rather than spending, and now Mexico steps up with substantial tariffs on U.S. cheeses. Cheese production is steady; vat fortification with nonfat dry milk or condensed skim would seem to be cost-effective, except the high cost of butterfat cancels out much, if not all, of the benefit. The issue with Mexico is about their trucks having access for long hauls in the U.S. Fair is fair, it would seem. Do their trucks meet U.S. safety and emission control standards, and/or does Mexico present any barriers of any kind to U.S. trucks moving freely and safely throughout their country? Ah, national pride, you’ve got to love it. So far this year, exports of cheese to Mexico represent about 30% of all cheese exports (last year, about 40%). USDEC, along with appropriate U.S. State and Agricultural Department representatives, are working towards a resolution. Let it be a fair one. CME’s class III milk futures prices have been bouncing around, but continue to move higher in step with, and supportive of, the spot market cheese prices.

BUTTER MARKET COMMENTS: The recent increase in butter prices on the CME is great news for dairy farmers, who presently need all of that they can get. A reassuring point is that the price increases reflect a current real tightness in supply of butterfat relative to all possible uses, not speculation which can disappear overnight. How high will prices go, and how long they will stay high are questions being asked by everyone with a stake in the answer. The answer really does depend on supply and demand changes. Retail sales are reported to be already affected, and once the current CME prices get fully reflected into wholesale and retail prices, further weakness should be expected. (Retail prices at full margins, reflecting current CME prices, are projected to be \$2.99 per lb.) With the rapid CME price increases, last week’s average price reported by manufacturers was lagging by \$.26 per lb. The timing for high butter prices is fortunate: ice cream manufacturers should continue to be heavy users of cream at least through September and the approaching holiday season and school openings should help to keep cream usage strong through the end of the year. **Comment about exports of butter:** DMN noted this week that exports have slowed, except for sales supported by CWT’s subsidies. Why should that be? Exporters have now, and have had, very attractive cash-settled future butter prices available to hedge against the kind of price increases that have occurred. CWT’s assistance in this case seems to be too much too soon, and maybe not wise and too friendly.

POWDER MARKET COMMENTS: The market for whole milk powder is firm. Prices held steady this week, at a nice premium to nonfat powders. Production of buttermilk powder is affected by lower butter production and increased usage of condensed buttermilk. Prices for BMP have held steady this week, with small premiums to NFDM in the central and western regions, respectively. Sales volumes reported for NFDM last week were slightly higher in the west and slightly lower nationally. Prices for each series were slightly higher than the week before. DMN is finding that some buyers say they believe this market is showing signs of stabilizing, although

there still is some old product competing with current production. Some lucky buyers in the west continue to pay only \$1.05 per lb, likely for some of the 70 million lbs that was dumped on the market by Dairy America in January and April. Looking hard for something positive, here's one: the latest sales report for California plants (for the week ending August 20th) had higher volume and a higher price than the week before – the first time that combination happened since early April. Another positive: the huge government-held inventory of skim milk powder in Europe is becoming less of a concern as it ages. The European Union has held to its pledge to not have disposal of that product disrupt the international marketplace.

WHEY PRODUCTS MARKET COMMENTS: The market for commodity grade whey protein concentrate remains firm, with prices steady and production reported to be rising. Some manufacturers are telling DMN reporters their inventories are tighter than desired. Export demand continues to be strong. The domestic and export markets for dry whey are steady to firm. DMN says orders from customers in the Far East are rising but domestic prices continue to ease lower; the prices reported to NASS are now a full cent per lb lower than four weeks ago; this week's midpoint of the West's "mostly" price range was again marginally lower. Futures prices for September and October DW are at slight premiums to current sales prices.

FRED DOUMA'S PRICE PROJECTIONS...

August Final:	Quota cwt. \$ 16.58	Overbase cwt. \$14.88	Cls. 4a cwt. \$15.71	Cls. 4b cwt. \$14.39
Last Week:	Quota cwt. \$ 16.55	Overbase cwt. \$14.85	Cls. 4a cwt. \$15.63	Cls. 4b cwt. \$14.38

FELLOW PRODUCERS, "HOW'S IT GOING"? *(By Syp Vander Dussen, MPC President)* Milk prices are up, but feed costs are also up. Although we are not really profitable yet, the loss is not as great as it has been. Are things looking up? Not even close. In spite of the hot weather in the East, and lately in the West, milk production is up. Up? Yes. With gender specific semen generating more heifers, low or negative margins demanding more milk production in order to cash flow, no one should be surprised. Einstein said, "The definition of stupid is doing things the same way and expecting different results."

Let's role play. You be the milk procurer person for any of the huge national milk buyers. You sit in your office, contemplating the overview of the production side of the industry. You see that in spite of all the dire news about producers losing money, getting out of the business, CWT buying cows, etc., the tide of the milk ocean is still rising. You read about a large co-op manager saying prices should be flat the rest of the year. You get calls every day asking you to take additional loads of milk. You've paid the lowest relative prices in history and you got all the milk you wanted.

So what do you do? Because of your past success, probably the same as you've always done. Don't pay a penny more than the pricing formula demands. Do you feel sorry for the producers? Want to pay more to help out? If you do, two things will probably happen: 1. Additional funds will come out of the healthy profits of your company; and 2. You'll be fired. Producers have proven and guaranteed that there will always be plenty of milk regardless of price. They always try to put as much milk in the tank as possible. Why? Because it's the only thing they have known. Even with low prices? Of course! Read again Einstein's quote above.

The production of virtually any product, whether it's widgets or milk, if left uncontrolled, can bring enormous price swings. You can slow down or stop the production of widgets to maintain a more stable and profitable price. But with milk, it must be harvested or produced every day. In fact, with the "magic of pooling" that exists in our industry, those that actually reduce production are punished. Hence, with our ever-expanding production, these low prices – with zero relationship to costs – are a given.

After 50 years of uncontrolled production, we have eliminated over **a million producers**, reduced the cow population by approximately **12 million cows** (all while increasing annual production from 116 billion lbs to 190 billion lbs) and brought this industry not only to its knees (both to our lenders and to the Creator), but to the brink of economic devastation. A wise man once said, "Change only happens when it's time for change." For the last 3 years, Milk Producers Council has worked with a broad coalition of reality-based industry leaders who believe that time for change is **now!**

The plan for affecting production (notice the word “affect” – it’s not “control”) is known by various names, such as the Growth Management Plan (GMP) or the Dairy Price Stabilization Program (DPSP). For this article, we’ll call it by another name – the Costa/Sanders Bill, named after the House and Senate Sponsors of this legislative proposal, Representative Jim Costa (Fresno, CA) and Senator Bernie Sanders (Vermont). Here are the highlights of the Costa/Sanders Bill.

1. Each quarter, USDA will announce – ***based on a set of “triggers” clearly outlined in the legislation*** – two numbers: (1) an allowable year-over-year growth rate and (2) a market access fee.
2. The allowable year-over-year growth rate is the amount that any farmer is allowed to increase production from the same quarter of the previous year without being considered an “expansion” (under the bill, this will normally be 3% year-over-year growth in milk production).
3. The “market access fee” is a fee that **only dairies wishing to expand beyond the allowable year-over-year growth rate** would **temporarily** pay for the first year after an expansion.
4. Each quarter, the market access fees paid by expanding dairies **would be distributed as a dividend among everyone else** (all the farmers who kept their growth within the allowable growth rate). **This is a key feature of the Costa/Sanders Bill. It’s the only proposal being discussed seriously that provides an actual incentive for dairy farmers to manage their production growth.**
5. Three years after this program is established, there will be a dairy farmer referendum vote on whether to continue it. **This ensures that dairymen – not the government – decide whether or not the program is working.**
6. The program will be overseen by an industry board. This board will be made up of 80% dairy farmers and 20% consumer/processor representatives. Only in cases where the board can find broad support (a two-thirds majority) will they be able to make adjustments to the parameters laid out in the legislation. The existence of this board is important, as the industry does not want to go through Congress for any modifications to this program. It needs to be a producer-controlled program.

It’s that simple. An incentive – no, scratch that – **an actual check in mail** for every quarter a dairy maintains their current share of the market. And that check is funded by a temporary market access fee paid by those dairies that want to expand their share of the market. What can be simpler? What part of this does not make sense? The Holy Grail of dairymen to be able to produce how much we want, when we want, is unaffected. The economically-savaged production side of the milk industry is not told what to do. Go ahead and produce whatever amount you want, whenever you want; just be mindful that when you make the decision to expand your share of the market, you’ll have to temporarily compensate your fellow dairymen while they hold their production in line, providing you with the opportunity to take advantage of continued growth in our markets. As this newsletter has pointed out many times in the past three years – **we need continued growth in our production** – we’re just not able to have everyone grow at the same time without crashing our price. **We need to be strategic.**

So, you’ve read nothing new here. You’ve heard it all before, yet after these 3 years we still do not have the program in place. We’ve come a long ways, with the Costa/Sanders Bills introduced in the House and Senate. But it takes more than just getting a bill introduced. **We need producers to weigh in on this.** Some of you have already talked to your cooperative or called your local Congressman. **We need more of that.** We also need to continue developing our grassroots support, so I’m asking that for those of you tired of watching industry leaders sit on the sidelines, send them a message by **signing your name as a supporter of the Costa/Sanders Bill** and joining our coalition of support.

No one outside our producer “family” can even come close to understanding what we’ve gone through the past two years. Don’t rely on anyone else to speak for your dairy – you need to be part of the solution. The Holstein Association USA has built a solid list of supporters, and **we need your name to be added to that list.** Please visit: <http://holstein.com/association/dpsp.html>.