



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks N/C \$1.7900
Barrels +\$.0375 \$1.7600

Weekly Average

Blocks N/C \$1.7900
Barrels - \$.0235 \$1.7275

CHICAGO AA BUTTER

Weekly Change - \$.0875 \$2.0050
Weekly Average - \$.0220 \$2.0695

DRY WHEY

WEST MSTLY AVG w/e 09/02/11 \$.6038
NASS w/e 08/27/11 \$.5794

NON-FAT DRY MILK

Week Ending 8/26 & 8/27

Calif. Plants \$1.5805 10,294,846
NASS Plants \$1.5698 15,177,375

CHEESE MARKET COMMENTS: Expectations for a mostly quiet week of cheese trading on the CME were mostly met. There appears to be a growing consensus that the market has fallen to a level of support where buyers may have sufficient assurance to look further ahead than when prices were above \$2.00 per lb. Supply and demand factors support that belief, and the futures markets for cheese and class III milk have again shifted upward to reflect support for current prices and optimism for further increases. Today's NASS report on prices for last week's shipments to primary buyers shows the average prices for blocks and barrels were \$2.09 and \$2.08 per lb, respectively, compared to CME's averages for the week of \$1.79 and \$1.75 – reflecting a structural lag of about two weeks between the two. Buyers should see the current prices as an opportunity to begin to build their stocks with substantially lower risk than four weeks ago. Reflecting seasonal decreases in milk volume and components, production of cheddar cheese in July was 10 million lbs lower than in June and production of all other cheeses fell sharply by 25 million lbs. Production in August is expected to resemble the July pattern. Disruptions to production and transportation in the northeastern part of the country from Hurricane Irene were about as bad as expected; except for continuing loss of electrical power in some areas, the recovery is reported to be well underway.

BUTTER MARKET COMMENTS: CME butter trading was also mostly quiet this week until Thursday, when an offer pushed the price down by \$.02 per lb, and Friday, when a carload was offered steadily lower until it sold \$.065 per lb lower for the day. Dairy Market News reports what looks like a normal late summer shift in production and buying patterns for butter, as surplus cream begins to develop, more schools begin to open, and ice cream production moves lower. The demand for cream for "other uses" will return in October. Butter production in July was 5 million lbs lower than in June, about normal for the season. Prices for export in Oceania were reported to be holding at about \$2.00 per lb through this week. CME's butter futures prices have been supporting the CME spot prices for some time; prices for September and October ended the week with a penny per lb premium to the spot market.

POWDER MARKET COMMENTS: Prices for shipments of nonfat dry milk last week were steady to higher, with lower volumes. The California average for shipments of NFDm last week was once again higher than the national price; both were higher than the week before. DMN reports supplies are tight in the East and adequate elsewhere. Manufacturers were beginning to offer various forms of discounts for current sales in the Midwest and West in order to stimulate movement of product from storage. CME futures prices for October are currently about \$.16 per lb below current price levels, and bottom out another \$.02 per lb lower for the November through February period. Production of NFDm in July was 13 million lbs lower than in June, while production of skim milk powder was 6 million lbs higher. DMN says export movements in the West appear to be more heavily focused on SMP than NFDm for near-term sales. Prices for buttermilk powder are slightly lower as manufacturers try to stimulate sales.

WHEY PRODUCTS MARKET COMMENTS: For dry whey, “tight spot supplies and good demand are combining to keep the market on an upward path,” says DMN this week. Even as export demand has slowed down a bit in reaction to lower price offerings from Europe, demand for spot loads in the U.S. appear to be more than making up for that, presumably short term, disturbance. However, it’s a different story for the whey protein concentrate-34 market as buyer resistance is causing manufacturers to reconsider current pricing benchmarks and are beginning to offer incentives for current purchases or at least for commitments. Prices reported for DW shipments last week rose by about \$.01 per lb and this week’s average for the West’s “mostly” price series rose by \$.0063 per lb.

FRED DOUMA’S PRICE PROJECTIONS...

Sept 2 Est:	Quota cwt. \$20.15	Overbase cwt. \$18.45	Cls. 4a cwt. \$19.75	Cls. 4b cwt. \$16.52
Aug ’11 Final:	Quota cwt. \$21.20	Overbase cwt. \$19.50	Cls. 4a cwt. \$20.23	Cls. 4b cwt. \$18.60

COMMENT ON JULY MILK USAGE: *(By J. Kaczor)* It appears that one of the few categories of milk usage that increased in absolute terms from June to July may be fluid milk sales. That is an assumption because USDA has not yet completed its report for July. Assuming average daily consumption of fluid milk merely remained the same for July as for June, total fluid milk consumption in July would have increased by 137 million pounds, which exceeds the additional 30 million pounds that was produced in July by 107 million pounds. That didn’t necessarily happen because there are several years in the recent past where July’s fluid milk sales were actually lower than June’s, but let’s assume it nonetheless.

Where else could the milk have gone? The list of primary dairy products included in USDA’s monthly recaps with lower average daily production in July compared to June is the longest in memory. Primary products do not include some important by-products such as dry whey, whey protein concentrates and isolates, and lactose that come from production of a source product such as cheese. Alphabetically, the list of primary products either with lower absolute or average daily production in July compared to June ranges from butter to yogurt, and includes dried products, canned products, bulk condensed products, cultured products, and frozen products. There is a single exception: production of skim milk powder increased by a total of 19.1 percent, or 15.3 percent if measured on an average daily basis. The report on July’s fluid sales should be released in about two weeks.

LAND O’LAKES ENDORSES THE PETERSON/SIMPSON DAIRY REFORM LEGISLATION: *(By Rob Vandenheuvel)* This week, Land O’Lakes, the 3rd largest dairy cooperative in the U.S. (based on the volume of milk marketed), announced that their board of directors voted to confirm their support of the draft legislation being put forward by Congressmen Collin Peterson (D-Minnesota) and Mike Simpson (R-Idaho). Below are excerpts from their press release:

Land O’Lakes Dairy Leaders Endorse Draft Legislation Based on “Foundation for the Future”

Leadership of Congressmen Peterson and Simpson Applauded by Land O’Lakes

<http://www.landolakesinc.com/utility/news/company/ECMP2-0152208>

The elected dairy leaders of Land O’Lakes, Inc., recently confirmed the cooperative’s support of discussion draft legislation put forward by House Agriculture Committee’s ranking democratic member, Collin Peterson (D-MN), and Congressman Mike Simpson (R-ID). The proposal is aimed at reforming U.S. dairy programs and is based on proposals developed by the dairy industry called Foundation for the Future.

Land O’Lakes is a national, farmer-owned food and agricultural cooperative, and a leading marketer of a full line of dairy-based consumer, foodservice and food ingredient products across the United States. Land O’Lakes membership includes 3,000 dairy producers. Delegates attending the cooperative’s Annual Meeting on March 1, 2011, passed a resolution endorsing Foundation for the Future as the framework for a new dairy program.

“Land O’Lakes Board, in consultation with the delegates, recognizes that the draft legislation is consistent with the resolution that was passed by our members. This bill will help ensure that America’s dairy producers – including Land O’Lakes members – are able to thrive in the future, after some very economically challenging years,” said Pete Kappelman, Chairman of the Land O’Lakes Board of Directors and a Wisconsin dairy producer.

Kappelman added: **“Foundation for the Future – and this draft legislation, which is based on it – has the potential to dramatically improve the traditional approach to dairy policy and foster a more economically-viable and secure future for dairy producers. It serves as a new roadmap for dairy policy by focusing on margin protection, rather than price. This strategic shift is essential to a producer’s profit potential. It also assures equitable treatment of producers, regardless of size or location.”**

Specifically, the approach includes:

- Replacing existing federal dairy support programs,
- Introducing a new margin protection program to protect producer equity,
- Reforming milk pricing regulations set by the Federal Milk Marketing Order system, and
- Implementing a program to address market imbalances.

According to Land O’Lakes President and CEO Chris Policinski, **“We applaud the leadership of Congressmen Peterson and Simpson in putting forward this proposal. Their efforts have the potential to significantly improve dairy policy, which impacts the ability of American dairy producers to continue providing consumers in the U.S. and abroad with products that contribute to good health and nutrition.”**

MANAGERS NOTE: (By Rob Vandenheuvel) Our appreciation goes to the Board of Directors of Land O’Lakes for their leadership in helping to shape and promote National Milk Producers Federation’s “Foundation for the Future,” which is the basis of the Peterson/Simpson legislative proposal. Land O’Lakes, Milk Producers Council, and many other around the country recognize that Reps. Peterson and Simpson are putting forth our best political opportunity to make much-needed reforms to our federal dairy policies.

As we watch our dairies’ feed costs continue at record highs and milk prices slipping back towards unprofitable levels for our dairymen, it is our hope that this legislation will be formally introduced in the very near future so that we can begin the legislative process of turning this idea into reality. This legislation is our best – strike that, our only – real shot at giving our nation’s dairy farmers a more market-oriented safety net in these times of crippling volatility.

REMINDER: TIME TO REVIEW YOUR MILC CONTRACT: (By Rob Vandenheuvel) We’ve been reminding our readers in recent weeks to review your Milk Income Loss Contract (MILC) that is currently on file with your local Farm Services Agency (FSA). In case you missed those reminders, if your dairy is currently signed up for the 2011/12 MILC program to start in October 2011, you have until September 14th to decide whether or not you would like to change that.

Why does this matter? If your dairy is enrolled in the MILC program and you’ve chosen October of each year as your “start month,” it’s possible that you’d benefit from changing that. If you keep your start month as October, and payments begin later in the fiscal year, you will have no choice but to begin collecting the subsidy payment as soon as it’s available, regardless of whether it’s an optimal month for your operation to do so. And if you’d like to change your month from October to a later month, you have only until September 14th to make that change. If you have any questions about the MILC program or your dairy’s specific MILC contract, feel free to contact either your local Farm Services Agency office or Milk Producers Council at (909) 628-6018.

MPC Wishes You and Your Family a Wonderful Labor Day!