



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0125	\$1.4875
Barrels	-\$0.0050	\$1.4800

Weekly Average, Cheddar Cheese

Blocks	+\$0.0050	\$1.4820
Barrels	-\$0.0110	\$1.4780

CHICAGO AA BUTTER

Weekly Change	-\$0.0175	\$1.4150
Weekly Average	-\$0.0420	\$1.4005

DRY WHEY

DAIRY MKT NEWS	w/e 02/17/12	\$0.6713
NASS	w/e 02/11/12	\$0.6414

NON-FAT DRY MILK

Week Ending 2/10 & 2/11

Calif. Plants	\$1.3790	10,666,725
NASS Plants	\$1.4039	15,793,617

Prior Week Ending 2/3 & 2/4

Calif. Plants	\$1.3621	19,693,582
NASS Plants	\$1.3853	22,190,857

CHEESE MARKET COMMENTS: The pattern of trading on the CME this week again offers some hope for those wishing for higher, or at least stable, prices. Firstly, the price inversion between blocks and barrels that many market followers believe is a sign of unstableness was corrected this week, by blocks gaining 1.25 cents per lb and barrels losing 0.5 cents per lb. Secondly, the average prices reported to NASS for shipments of cheese last week are closer to (but still higher than) CME's spot prices than they have been for some time. Finally, there continues to be more buyers and sellers taking part in the actual trading on the exchange. While there is not a lot of substance in those signs, the pattern does show something positive could be going on. As for substance, CWT's export assistance program is getting considerably more requests from considerably more of its members for that little extra help to finalize what is hoped will be considerably more cheese shipments going to points of embarkation. *Dairy Market News* reports milk production across the country is moving up briskly, and many cheese plants are approaching the point where they may not want (or be able) to produce much more cheese. But deeply discounted loads of milk, cream, and condensed skim, reportedly still the norm in some parts of the country, are hard to pass up. Smart consumers can give those plants a reason to take the milk, and can benefit from the present favorable retail price cross-elasticity between cheese and meat by loading up on cheese and cutting back on meat. Except for March, CME class III futures prices this week were lower by an average of \$.27 per cwt for the next twelve months. The monthly prices range from April's \$15.63 to October's \$16.54. It is a dismal outlook.

BUTTER MARKET COMMENTS: Butter prices on the CME fell for a fifth straight week, but this week's drop was the lowest weekly change of the five. The losses came early from offers, pulling the price to below \$1.40 per lb, but today an aggressive bidder clawed back part of what was lost on Monday. The week ended with butter above \$1.40, but not so much higher as to comfort those who see \$1.40 as the last barrier from much lower prices. Butter production is heavy, spurred on by low prices for cream, and stocks continue to rise. Domestic sales are fair to good, according to *DMN*, and export interest, with U.S. prices well below anywhere else, and help coming from CWT, is increasing. *DMN's* observation this week that "butter is readily available" is a bit of an understatement. Fluid milk sales continue to be below expected levels, adding to the amount of milk looking for a home. The balance between what butter churns can handle and the increase in the amount of cream going into other products is beginning to ease the pressure overall, but huge losses are being incurred by having to haul surplus raw product long distances for lower than class prices. U.S. butter exporters lost a good part of their market share in the second half of last year; they need to find ways to get it back – now – by correcting their mistaking a gift for a right. CME butter futures prices this week were mixed, and continue to reflect premiums to the current cash price; example: July's price is \$.19 per lb above today's closing price.

POWDER MARKET COMMENTS: The U.S. market for nonfat powders appears to be weakening under the heavy increase in milk supply and lower domestic usage although prices reported for last week's shipments rose to \$1.4039 (NASS) and to \$1.379 (California plants). Exports should be holding up well, as *DMN* reports U.S. prices this week to be square with prices reported for New Zealand. The current heavy production and recent

inventory clearance sales in the U.S. appear to have clogged the marketing channel with more product than is wanted. Deals and re-sales abound, and end users continue to hold back from making long term commitments while waiting for signs that prices are stabilizing. One such sign – of strength – is the upward curve for milk powder prices in the twice monthly global auctions. Fonterra’s winning prices for medium heat skim milk powder for April deliveries (the Spot Month) is \$1.50 per lb, which is higher than their price for March’s deliveries, and is \$1.53 per lb for deliveries in the three months following. The picture on CME’s nonfat dry milk futures market is not nearly so bright; April is presently at \$1.313 and rises to \$1.37 per lb in November.

WHEY PRODUCTS MARKET COMMENTS: It was not too long ago when *DMN* was reporting complaints by domestic buyers about late shipments or shipments of half loads of dry whey. That began to change last month. Sizable increases in production, apparently out-pacing domestic and export demand, have resulted in lower current prices caused in part by an abundance of product hitting the re-sale market. NASS reports the average price for dry whey last week was \$.07 per lb lower than three weeks earlier. The sales volume is very good but the prices are falling. April’s futures price at the end of 2011 was \$.18 per lb higher than the current April price, which is \$.15 per lb lower than the price reported to NASS for last week’s sales (that is, \$67 per lb at year-end, \$.49 per lb today, and \$.64 per lb for last week’s shipments). *DMN* says the market for whey products reflects “uncertainty and uneasiness.” Reports of block sales at discounted prices in some regions are contributing to buyer uneasiness. Meanwhile the market for WPC-34 remains steady and the lactose market is reported to be strong to the point supply shortages are a concern.

FRED DOUMA’S PRICE PROJECTIONS...

Feb 17 Est:	Quota cwt. \$16.44	Overbase cwt. \$14.75	Cls. 4a cwt. \$15.56	Cls. 4b cwt. \$13.44
Last Week:	Quota cwt. \$16.44	Overbase cwt. \$14.74	Cls. 4a cwt. \$15.58	Cls. 4b cwt. \$13.39

POLITICAL RHETORIC HEATS UP IN WASHINGTON, DC: (*By Rob Vandenheuvel*) Since the “Supercommittee” efforts failed late last year, the public discussion about Federal dairy policy reform has been pretty quiet in our nation’s capitol. As the debate picks up again in 2012, it appears that quiet period has now ended and we are starting to see the political rhetoric starting up once again.

This week, Republicans serving on the House Small Business Committee hosted a “roundtable discussion” to delve into “The Interests of America’s Small Business in the Next Farm Bill.” Included on the panel of industry participants was Connie Tipton, CEO of the International Dairy Foods Association (IDFA) – the main lobbying organization for our nation’s dairy product processors.

Ms. Tipton (who’s opening comments can be found at: <http://www.idfa.org/news--views/news-releases/details/6968>) used her time before the Republicans on the Committee to paint a pretty negative picture of the legislation being promoted by numerous dairy cooperatives and trade associations around the country – the Dairy Security Act (a.k.a. H.R. 3062 or the “Peterson-Simpson Bill”). Instead, IDFA is promoting a bill called the “Dairy Pricing Deregulation Act” (H.R. 3372). The bill, in summary, would eliminate minimum pricing regulations for the manufactured classes of milk produced and sold in Federal Orders (Classes II, III, and IV), and would phase the “Class I differentials” (a regulated premium on milk sold to bottling plants) over the next five years.

So why do we have minimum pricing regulations in the dairy industry? Why do we allow the government to play a role as “referee” for the industry? According to IDFA’s testimony at this week’s roundtable, these regulations “were designed to address problems that existed nearly a century ago,” leaving the House Small Business Committee to believe that the regulations are no longer necessary.

I agree that our pricing system addresses a problem that existed many years ago. But I completely disagree with anyone that tries to argue that our fundamental problem no longer exists. The problem: **our dairy farmers are producing a highly-perishable product that must be sold every day to a group of buyers (the processors) that don't have to buy every day, and don't have to buy from any specific dairy.** That fundamental reality – which IDFA may want to sweep under the rug, but still impacts our dairy farms just as it did 100 years ago – puts our dairy farmers at an immediate disadvantage when coming to the negotiating table.

In response to this fundamental imbalance, our industry has enlisted the government – whether that's the Federal government (Federal Orders's) or a State government (such as California) – to act as a “referee” in establishing at least a minimum price that those buyers of milk (including IDFA's members) must pay for the milk they purchase. And it's that government function that IDFA is trying to eliminate.

To illustrate this further, let's look at a sporting event. We've all been to games when the referees or officials make a mistake. We stand up and holler and demand that they fix the mistake. That's natural. But what if there were no referee at all? Who would have the ultimate control in that situation? The strongest of course. Bringing that illustration to the reality of the dairy industry, who holds the strongest position in our industry, the buyers of milk who can buy at their leisure from whoever they want or the sellers who must find a home for their milk every day? I'll give you a hint: it's not the dairy farmers.

IDFA knows this. They are preying on the anti-government sentiment that exists in America today. Deregulation is a hot-button issue not only in Washington, DC but also throughout the U.S. It sounds so logical, doesn't it? Big government is bad, so throw them out. But before we throw the referee's out of the game, we need to understand why they are there, and IDFA conveniently fails to include those facts when they go to Capitol Hill testifying on behalf of the nation's processors. Should our pricing regulations be reformed? Absolutely. But to throw them out completely hands even more power and control in our industry to those who are buying our milk. **IDFA know that, and they hope Congress won't notice their ultimate plan until it's too late.**

MILK PRODUCTION SOARS IN JANUARY; PROBLEMS LOOM AHEAD: *(by J. Kaczor)* USDA's annual update and revision of number of milk cows and production per cow for the previous year was released today. An average of 3,000 fewer cows for 2011 was reported, producing an average of 10 more lbs of milk for the year. Total milk production was 29 million lbs greater than the previous total reported. The update has December ending with 9,223,000 milk cows, 2,000 more than were first reported. The number of milk cows in December was 63,000 more than were on hand at the beginning of the year.

For this January, the number of milk cows increased by 13,000 over December and by 76,000 over a year ago. Production per cow started the year with one of the largest monthly increases ever recorded – 45 lbs, second only to January 2006, which was 65 lbs. The estimated increase in total milk production for the month is 552 million lbs, an increase of 3.4%. All but one of the top 23 milk producing states had higher production than the same month a year before. Most of the patterns of production noted for the past two years continued in January. Western and southwestern states expanded and grew more and faster than most of the others. Only 5 of the 23 states had fewer cows than last January.

California, with 29,000 more cows than a year before, again led the nation with the largest monthly increase, 225 million lbs more than January 2011 (+6.6%). Eleven states had increases of 3% or more; seven of them are in the west or southwestern regions of the country. The states with the highest percentage increases are Utah (+8.6%), Colorado (+7.8%), Arizona (+7.0%), and California (+6.6%), reflecting a combination of more cows, great weather in the western region, and a drive to produce more milk during the month. Honorable mention goes to Indiana (+5.8%), also with more cows and very good weather. Increases of these amounts may be without precedent.

The amount of milk now being produced, in conjunction with the continuing weakness in fluid milk consumption, very likely will be taken as a negative sign for future milk prices. Inventories of most major dairy

commodities at the end of last year were growing or were showing signs of growth. Producers need to ask themselves if they believe the products produced from the additional 600 million lbs of milk each month can be readily sold at prices anywhere close to what is needed to generate milk prices high enough to cover costs of production. If those kinds of sales increases are not in the offing, and they are not, producer cooperatives and major milk plants around the country – yes, all of those who are proud members of the Innovation Center for U.S. Dairy, and others – need to immediately apply necessary self-controls to bring about a substantial slowing of milk output. Either that, or hope for a major natural catastrophe to occur that would do what the coops and major plants fail to do.

PRICES FOR MOST PRODUCTS CONTINUE TO FALL ON THE GLOBAL AUCTION: *(by J. Kaczor)*

The global dairy product auction continues to attract more interest. Since February 1st, seventeen more bidders qualified to participate. In this week's auction 144 of the 575 qualified to bid actively participated; 117 stayed in until they were awarded portions of the 71.3 million lbs of product that were sold. The weighted average price for all products by all sellers was \$1.608 per lb, which was \$.055 per lb lower than the average for the prior auction.

Prices for two of the six product lines offered in this auction increased. They are rennet casein and milk protein concentrate-70. The weighted average price for anhydrous milkfat was \$1.608, a drop of \$.180 per lb; the price for cheddar cheese was \$1.614, a drop of \$.082 per lb; the price for skim milk powder was \$1.478, a drop of \$.017 per lb; and the price for whole milk powder was \$1.552, a drop of \$.050 per lb. The price level for skim milk powder is skewed lower by Dairy America's sales of that product in contracts 1 and 2. The weighted average price for contract 1 was \$1.284, a drop of \$.081 per lb. Although substantial differences for like products in contract 2 were reported for Fonterra and Dairy America, necessary data on volumes would be needed to calculate the respective weighted average prices.