



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0850 \$1.6550
Barrels - \$.1400 \$1.5725

CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.6400
Weekly Average - \$.0125 \$1.6385

NON-FAT DRY MILK

Week Ending 12/2 & 12/3

Calif. Plants \$1.4497 11,725,227
NASS Plants \$1.4422 18,274,338

Weekly Average

Blocks - \$.0940 \$1.6865
Barrels - \$.1425 \$1.6135

DRY WHEY

DAIRY MKT NEWS w/e 12/09/11 \$.6575
NASS w/e 12/03/11 \$.6470

CHEESE MARKET COMMENTS: Does anyone out there still believe price changes on the CME represent changes in industry supply and demand? Prices for barrel cheese were ripped downward again this week on the CME. It appears a single seller may have accounted for virtually all of the 39 carloads sold this week and, with rare exceptions, initiated the lower prices. This week's average price for barrels is \$.38 per lb lower than it was three weeks ago, and is back down to where it was ten weeks ago. That fact, along with six bids on Friday that ended the day \$.0025 per lb higher than where it started, are possible indications barrel prices may have reached a point where other interested parties may be drawing a line. What happened – did the seller run out of barrel cheese to sell? Relative to barrel prices, blocks did better this week, falling only \$.085 per lb, with only four trades for the week. Manufacturers' prices for both styles of cheese continue to lag CME prices by about two weeks, which means current plant sales prices are significantly higher than CME's spot prices, which means most buyers are likely to wait a few more weeks before making major decisions. Class III milk futures, after increasing across the board last week in the face of lower cheese prices, apparently "got it right" this week with across the board decreases. The two weeks just about offset each other. The biggest increases last week and losses this week occurred in the nearby months. The resulting prices are virtually flat for the January-November period with a \$16.75 per cwt low in April and a \$17.15 high in August.

BUTTER MARKET COMMENTS: Butter production continues to increase in line with higher seasonal milk production and butterfat content. *Dairy Market News* says retail and food service sales leading into and over the holiday weekend have been good to very good, helped greatly by retailers' ads and promotions. Buyers who have not already placed orders for the next big wave of expected consumer demand are now taking advantage of the current lower prices to place those orders. All aspects of the butter manufacturing and marketing channel are very active – producing, shipping, converting and packaging. Trading on the CME was also active, again; 25 carloads moved this week. Prices eked out a \$.01 per lb increase and have now increased two weeks in a row, a possible indication that the long, but unsteady, fall which began the last week in August, totaling \$.48 per lb, may be at an end. *DMN* hears from butter exporters this week of possible growing interest as U.S. prices are now super competitive with Europe's prices, but major competition for those sales continues to be Oceania, where milk production is booming. It certainly was a grand time for butter manufacturers and exporters this year.

POWDER MARKET COMMENTS: Prices for nonfat dry milk sales made last week bounced back for California plants and for plants reporting to NASS. Volumes for both were lower than the previous week. *DMN* reports production of nonfat powders to be increasing seasonally and demand appears to be light to moderate. The "mostly" price range this week for the Western region, which produces more than 80% all U.S. nonfat powder, is \$1.37 to \$1.43 per lb, about \$.05 per lb below the range for the central region. Stocks are adequate. Production of buttermilk powder continues to follow butter production, current usage appears to be fairly strong, and prices are slightly higher. Stocks of whole milk powder, after a recent uptick in production are fully adequate and prices are steady.

WHEY PRODUCTS MARKET COMMENTS: “Western prices for dry whey are again higher in a firm market,” says *DMN*, and supplies are tight. Whey values for California’s cheese milk prices are presently “capped” well below where they are in surrounding states, and prices for all other “by-products” of cheese production are now and have been returning handsome profits to manufacturing plants. The western region produces about 25% of U.S. dry whey. Elsewhere, in the land of plenty, buyers are reported to be backing away from the market because of price levels, product shortages, or lack of timely shipments. Remember what happens when manufacturers put export business ahead of domestic customers? Surely, the export market for dry whey is extremely important but exploitation of short-term opportunities at the expense of long-term interests may not be the best business model in an industry with long memories and many alternatives. Prices for dry whey throughout the U.S. are currently about 70% higher than where they were last year at this time. (For the week, dry whey futures price were lower for all months next year except January.) November’s prices for lactose were 123% higher than a year ago, and prices for WPC-34 were 45% higher. U.S. users of WPC-34 are finding it hard to secure contracts for next year as more manufacturers shift some of their production to more concentrated products that command higher prices.

FRED DOUMA’S PRICE PROJECTIONS...

Dec 9 Est:	Quota cwt. \$18.07	Overbase cwt. \$16.38	Cls. 4a cwt. \$16.76	Cls. 4b cwt. \$15.53
Last Week:	Quota cwt. \$18.24	Overbase cwt. \$16.54	Cls. 4a cwt. \$16.45	Cls. 4b cwt. \$16.09

DAIRY FARMERS AND CHEESE MANUFACTURERS STAKING OUT THEIR POSITIONS ON THE POSSIBLE CDFA HEARING: *(By Rob Vandenheuvel)* Last week, we wrote an article about a hearing petition MPC is strongly supporting that asks the California Department of Food and Agriculture to hold a hearing to consider changes to our Class 4b minimum price formula (the formula that sets the minimum price a cheese plant must pay for the milk they buy). Specifically, CDFA is being asked to consider changes in how the formula accounts for the value of the whey stream that occurs as part of the cheese-making process.

As we noted in the article, our California Food and Agricultural Code includes a provision (Section 62062) that clearly states:

“If the [Secretary of Agriculture] adopts methods or formulas...for designation of prices, the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products.” (emphasis added)

In looking at the prices that have resulted from our Class 4b formula, the minimum prices paid by our cheese manufacturers for their milk supply has been significantly lower than the minimum price (Class III) used in the Federal Milk Marketing Orders (FMMO). For instance, in the past two years, our Class 4b price has averaged \$1.46 per hundredweight less than the FMMO Class III price, of which \$1.11 per hundredweight is a direct result of the differences in how the two formulas account for the value of the whey stream.

This week, MPC submitted a letter to CDFA outlining these facts. You can find MPC’s letter on CDFA’s website at <http://cdfa.ca.gov/dairy/pdf/hearings/2011/MPCCorrespondence12-6-2011.pdf>. Below are a few excerpts from that letter:

- Looking only at the three months since the new Class 4b formula was implemented (September – November), the announced Class 4b minimum price has averaged \$2.29 per hundredweight below the Federal Milk Marketing Order (FMMO) Class III minimum price. **Of that huge gap, \$1.79 per hundredweight is a direct result of the difference in how CDFA and the FMMOs determine a whey solids factor.**

- Given recent pool utilization data, \$1.79 per hundredweight on the Class 4b minimum price represents an estimated **\$80 million dollars over those three months alone!**
- This \$80 million discount is on the backs of financially-strapped dairy families that are still reeling from the 2009 devastation and facing some of the highest feed costs in the country.
- On behalf of the dairy families we represent that can no longer afford to sell heavily-discounted milk to our State's cheese manufacturers, we strongly urge you to call for a hearing on the Class 4b minimum price formula.

Other dairy organizations and individual dairy farmers have also added their voice to the debate:

- **California Dairy Campaign's** letter of support can be found at: http://cdfa.ca.gov/dairy/pdf/hearings/2011/CDC_Correspondence_12-8-2011.pdf
- **Dairy Farmers of America's** letter of support can be found at: http://cdfa.ca.gov/dairy/pdf/hearings/2011/DFA_Correspondence_12-8-2011.pdf
- **Individual emails from California dairy families** can be found at: <http://cdfa.ca.gov/dairy/pdf/hearings/2011/EmailCorrespondence.pdf>

Of course, not all the letters to CDFA have been in support of scheduling a hearing. Letters from the Dairy Institute of California (an advocacy group in Sacramento representing many of the State's processors), Hilmar Cheese Company and Farmdale Creamery urge CDFA to deny the request for a hearing. These letters can be found on CDFA's website at http://cdfa.ca.gov/dairy/dairy_hearings_matrix.html. Some of their reasons for denying the hearing include:

- "While we understand producers' desire for higher prices, we believe that increasing the Class 4b price, as proposed by Western United, would be detrimental to the industry." – **Dairy Institute**
- "The bottom line is that California prices for manufacturing milk classes must balance milk production and plant capacity *in California* and not be set at levels that **arbitrarily** reference regulated prices in other parts of the country with different supply and demand dynamics." – **Dairy Institute** (*Emphasis added. MPC Note: What exactly is "arbitrary" about the California Food and Agricultural Code section quoted above?*)
- "Given that neither the current nor the previous Class 4b formula has resulted in a rush of new cheese plant investment, it seems clear that the regulated price is not too low, but **might in fact be too high.**" – **Dairy Institute** (*Emphasis added. No additional commentary needed for this one.*)
- "On risk-taking: we do not understand why the producer community seems to feel entitled to tax the processor community on a revenue stream in which producers bear virtually no risk-of-loss, make no capital investments, and make no technological contributions nor expenditures for necessary marketing activities. This thinking continues to mystify." – **Farmdale Creamery** (*MPC Note: This misses the point of end-product pricing. The goal of the Class 4b formula is to establish a minimum value for the raw milk being sold, utilizing the value of the end products that can be made from that milk. There is no requirement that producers be active in that manufacturing process; this is simply a question of how we determine a value that is in a "reasonable and sound economic relationship with the national value of manufactured milk products."*)
- This changing business climate will do little to encourage or incentivize additional capacity growth in the state at a time when capacity has been leaving the state and growing in other regions." – **Hilmar Cheese Company** (*MPC Note: This comment comes from a company that chose to invest in a plant in Texas, where they must compete for a milk supply in a Federal Milk Marketing Order area that utilizes a Class III price \$2.00 per hundredweight higher than California's Class 4b price.*)

Folks that watch the California dairy industry from around the country have also taken note of the situation brewing in the Golden State. This week, MPC was asked to talk about the issue on Dairyline Radio. That interview can be found at http://dairybusiness.com/dairyline_archive.php (the 12/9/11 episode).

CDFA has 15 days from the time it received the original hearing petition (December 2nd) to either schedule a hearing or deny the request. Given the outrageous imbalance between the value of milk sold by our California dairy farmers and the value of similar milk sold to similar plants in the FMMOs, **we are hoping that CDFA will recognize that this serious issue must be rectified in short order.** So stay tuned...

COMMENTS ON OCTOBER EXPORTS, AND BEYOND: (by J. Kaczor) As most readers know, exports of major dairy commodities are of great and growing importance to the industry. Manufacturers and brokers are among those directly involved in making the contracts, selling themselves and the products they carry, negotiating competitive prices, providing the products, and establishing what is hoped to be long and lasting relationships with their international customers. Milk producers supply the high quality milk needed to produce the products, and expect to receive fair prices for their efforts. There are risks that must be taken into consideration and dealt with, and rewards for doing things right.

So far this year it seems to be working. Export volumes for nonfat powders, cheese, butter, and dry whey through October are approaching record highs for some product categories (nonfat powder and cheese) and are close to record volumes for the others. Better still, the prices for these exports, reported by USDA's Foreign Agricultural Service, have been tracking well with the commodity prices used by federal milk orders and by California to establish prices for milk producers. Export data for October was released today. The following table shows the monthly export volume for selected products, the percentage of October production those volumes represent, and the estimated average prices derived from values reported by FAS at points where the products leave the country.

The volume shown for the nonfat powder category includes 42 million lbs of skim milk powder and 34.1 million lbs of nonfat dry milk. The volume for October is slightly below the year-to-date monthly average volume but the year itself is headed for a record high. The monthly dry whey volume and percentage of production has been surprisingly steady through the year. Volume of all cheese will set a new record and cheddar volume appears to be improving. Butter volume started the year strongly, through June, but is 13.8 million lbs below last year's level for the July-October period. The percentages of production for cheese and butter stand out as potential huge opportunities.

Pertinent Data For October Dairy Product Exports			
Product	Volume	Pct of October Production	Average Price Per Pound
Nonfat Powders	76,060,900	53.3%	\$1.500
Dry Whey	43,623,300	57.4%	\$.579
All Cheese	37,270,900	4.2%	n/a
Cheddar Cheese	7,178,700	2.9%	\$2.00
Butter	5,512,200	3.8%	\$2.02

As impressive are the volumes, the prices also stand out. Compare the prices in the table to the average prices per lb used to establish minimum milk prices in federal order areas for October: nonfat dry milk, \$1.5109; dry whey, \$.6152; cheddar cheese, \$1.747; butter, \$1.789. Those comparisons are astounding. It has not always been that way but it shows what can be done when the right combination of opportunity and planning is followed up by timely performance. Part of the credit must go to the U.S. Dairy Export Council for its superb work in providing an immense amount of information needed for an earnest exporter to tread correctly through a maze of international requirements that is far from uniform from country to country.

The big question is will the kind of performance seen this year continue. Opportunity sometimes takes many forms. In the case of U.S. dairy exports, the weak U.S. currency relative to almost all other nations makes U.S. products more affordable to potential buyers than those from other major dairy exporters. The immense appetite for dairy products in North African and middle eastern countries, India, Russia, Asian nations generally and China particularly translate into a massive demand base which the U.S. industry may not yet be fully equipped to serve. The risks include possible fall off in international demand (some economists see this as a distinct possibility), global milk production out-pacing global demand (it appears to be happening right now, and Europe is only a few years away from eliminating their production quotas), and always being a step behind the world's leading dairy product exporter in terms of products, know how, and long term programs designed to cope with future uncertainties. Good luck to us all. May we learn from our mistakes. May we come together as an

industry with a workable plan rather than appear as a band of competitors thinking only of themselves. U.S. producers are doing their part, and so far have had to rely upon hope that export volumes and prices will not turn around and down from current levels, but in fact will continue to grow. Frankly, they deserve and need more than hope on this most important of all tasks they are being asked to perform.

CENTRAL VALLEY DAIRIES – KEEP AN EYE OUT FOR MAIL COMING FROM THE CENTRAL VALLEY AIR BOARD: *(By Kevin Abernathy)* Among the many Christmas cards you are undoubtedly receiving on a daily basis, you would be wise to keep a close eye out for anything you get from the **San Joaquin Valley Air Pollution Control District (SJVAPCD)**. Under the revised **Rule 4570**, the SJVAPCD is mailing out your new permits and conditions. As a note, there is a limited time to review those documents and correct any mistakes that are possibly there. You will then have one year from the date of receipt to customize your new monthly monitoring reports and implement those measures. MPC members looking for assistance or direction should immediately contact Kevin Abernathy at (209) 678-0666 upon receipt of these documents.

On a related note, the SJVAPCD is also mailing out forms to fill out to a select group of dairies that they consider to be “major sources” of emissions. If your dairy receives any paperwork from the SJVAPCD that references **Rule 3170**, **please immediately call Kevin**. If this issue with your dairy is not resolved, it can create major reporting requirements and a **substantial increase** in regulatory **fees**. There are possible ways to address this, but it needs to be discussed and handled quickly and correctly.

MONTHLY MPC BOARD MEETING TO BE HELD NEXT TUESDAY: *(By Rob Vandenheuvel)* MPC’s monthly board meeting will be held next Tuesday (December 13th). This month’s meeting will be held in Bakersfield, CA, in the board room of the Kern County Farm Bureau (801 S. Mount Vernon Avenue, Bakersfield). The meeting will start at 11 am. **All current and prospective MPC members and associate members are welcome to attend**. If you plan to attend, please RSVP by calling (909) 628-6018.