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TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0100*	$1.6400
Barrels	*N/C*	$1.6750
Weekly Average, Cheddar Cheese		
Blocks	*- $.0090*	$1.6400
Barrels	*+$.0030*	$1.6750

CHICAGO AA BUTTER		
Weekly Change	*+$.0050*	$1.5325
Weekly Average	*+$.0073*	$1.5288
DRY WHEY		
Dairy Market News	w/e 07/06/12	$.4900
National Plants	w/e 06/30/12	$.4868

NON-FAT DRY MILK		
Week Ending 6/29 & 6/30		
Calif. Plants	$1.0282	40,078,216
Nat'l Plants	$1.0977	35,647,215
Prior Week Ending 6/22 & 6/23		
Calif. Plants	*$1.0755*	*18,977,806*
Nat'l Plants	*$1.1090*	*35,599,624*

CHEESE MARKET COMMENTS: Befitting a week dissected by a major summer holiday, cheese trading on the CME was almost non-existent. Two carloads of blocks sold on Monday, lowering the price by $.01 per lb where it stayed put. Barrels were left alone. Several offers throughout the week tried to entice a sale or a price increase, to no avail. Cheese manufacturers showed their interest in managing inventories in May by producing less cheese per day for most varieties than was produced in April. The exceptions were specialty cheeses – Blue, Muenster, Gouda, Parmesan, and a catch all category "others." Cheddar production was 1.5% lower on a per day basis and 2% lower than last May. Total cheese production was close to 2% lower on a per day basis and 0.4% higher than last May. Where did all the extra milk go, certainly not into fluid milk cartons or containers. Yes, lower components accounts for some of the slack, but maybe there wasn't as much milk produced as was reported for the month. We will find out on the 19th if adjustments to May's numbers were made. Currently, with a few pocket exceptions, hot and sometimes hot and humid weather is affecting milk output and components. One report this week called the weather situation in the Midwest "the worst in a decade." Cheese sales remain on the strong side, led by food service operations associated with vacation locations and resorts. Exports, according to *Dairy Market News*, are bucking the headwinds of lower competitive prices, despite continuing support from CWT. Class III milk futures were up slightly this week; the high for the next six months is September's $17.87 per cwt. Cheese futures were more optimistic, rising by an average of $.0325 per lb, with September's $1.777 the six month high.

BUTTER MARKET COMMENTS: Butter sales are reported to be doing well throughout the country, and butter production is trending downward. Less milk, lower butterfat tests, and more cream going into other seasonal products accounts for this normal trend. Butter production in May was a surprisingly 7.1% lower than in April on a per day basis but close to 5% higher than last May. Production of butter oil and anhydrous milkfat may be growing, although not likely for export because of price level indications gotten from the global auction which reflects a cost base for those products quite different than for U.S. manufacturers. Production this week was at its usual holiday hectic level, with more milk and cream being diverted to churns from various other heavy users of cream. Activity on the CME this week was light; three carloads were sold on Tuesday, beginning lower and ending unchanged for the day. Today, a lone bid, unfilled, added $.005 to the week's price. Elsewhere, after lagging far behind the CME, prices reported to AMS for shipments last week got $.07 per lb closer to the trading level. Butter futures were mixed ranging from no change to losses of $.01 per lb. The six month high is $1.6025 in January.

POWDER MARKET COMMENTS: Production of nonfat dry milk in May set a 47 year record at 195 million lbs. With 40 million lbs of nonfat dry milk shipped last week by California plants, at an average price of $1.0282 per lb, it is likely a significant portion of those shipments were included in the report issued by AMS, the "national price." AMS reported shipments of 35.6 million lbs, at an average price of $1.0977 per lb. Questions were asked as to the lowest price among the California plant shipments and was Fonterra the beneficiary. Only

CDFA and the sellers know the answers, but the relative prices suggest the lowest price was about $1.00 per lb, and Fonterra has big pockets and a ready international market for the product. The buyer benefits from the discount but assumes the storage cost for the product. California plants produced 97.8 million lbs of NFDM in May and shipped just over 100 million lbs in June, each sets a record but still leaves a huge amount in storage. CDFA reports June's average price, $1.0891, is a 26 month low – the lowest price reported for the month anywhere in the world. *DMN* reports prices firming up in the East and Central regions and steady but unsettled in the West. The low ends of the "mostly" price ranges are $1.185 per lb in the Central and Eastern regions and $1.14 per lb in the West.

WHEY PRODUCTS MARKET COMMENTS: May's production of whey protein products was generally lower on a per day basis than in April and about equal to volumes produced a year ago. Stocks for dry whey and isolates were slightly lower than at the end of April, while stocks of of WPC and lactose were slightly higher. The "mostly" prices this week varied from slightly lower in the East, steady in the Central region, and marginally higher in the West. The market tone in all regions is good to firm, based on lower production levels and steady demand. Some buyers and sellers are considering what the market may look like later this year and few believe milk and milk products will be long. Despite that sentiment, weekly prices reported by manufacturers continue to move lower, almost without exception, since the first week in April; total loss so far is $.13 per lb. Interest in WPC-34 is increasing as the price continues to be more competitive with that for NFDM. WPC prices have fallen from January's $1.527 per lb to June's $1.197 per lb, and are now at about $1.168 per lb. The six month average dry whey futures price this week is $.5335 per lb.

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FRED DOUMA'S PRICE PROJECTIONS…

July 6 Est:	**Quota cwt. $15.87**	**Overbase cwt. $14.17**	**Cls. 4a cwt. $13.29**	**Cls. 4b cwt. $14.85**
June '12 Final:	**Quota cwt. $15.66**	**Overbase cwt. $13.96**	**Cls. 4a cwt. $13.17**	**Cls. 4b cwt. $14.65**

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BIG WEEK COMING UP IN THE HOUSE AG COMMITTEE: *(By Rob Vandenheuvel)* The U.S. House Committee on Agriculture is scheduled to meet at 10 am this coming Wednesday (July 11th) to begin their process of debating, amending and approving the official House of Representatives' version of the 2012 Farm Bill. In our industry's effort to implement much-needed reforms to our Federal safety net policies, this is a huge step forward in the process. The initial draft of the House Farm Bill was released this week, and like the Senate-approved Farm Bill, it includes the major provisions from the Dairy Security Act. Regular readers of this newsletter are well aware of that package of policy reforms: a two-pronged proposal made up of a voluntary "margin insurance" program coupled with a "Dairy Market Stabilization Program," or DMSP, that gives the nation's dairy producers a tool to make quick, temporary adjustments to our national milk production in an effort to maintain better supply/demand balance.

You'll notice that I purposely wrote that only the "initial draft" of the bill is known at this point. There will undoubtedly be efforts to amend the initial draft of the bill, and specific to the dairy provisions, reports indicate that the nation's processors, through their lobbyists at the International Dairy Foods Association (IDFA), have been working on a specific amendment to strip the DMSP out of the bill. We've dedicated countless articles in this newsletter to the DMSP and why IDFA is so adamantly opposed. Their arguments are extremely transparent *(they are scared to death of a producer sector that actually has the ability to temporarily scale back production when needed)*. But it seems that there are still some of our legislators that buy into IDFA's arguments that the only way we can participate in the global marketplace is to have a constant surplus of milk production aimed at keeping our prices below the rest of the world. Not only is this argument based purely on fiction, but it also carries with it the "between-the-lines" argument that dairies somehow have a patriotic duty to sell our milk at a loss so that our dairy product manufacturers can offer their products to the rest of the world. So while you continue to sell your milk month-after-month for significantly less than it costs you to produce that milk, and while you watch your neighboring dairies shut down their operations because they simply cannot afford to sustain the massive losses any longer, maybe you can take some solace in the fact that IDFA and their processor members taking that under-priced milk, turning it into a product and "feeding the world" – at a profit, no less. **Perhaps at next week's House Ag Committee markup, one of the Committee members can ask the IDFA lobbyists that will certainly be sitting in the room whether the processors they represent are joining the**

dairy producers in realizing a financial loss on all those "global" sales we're acquiring with our "competitive" prices overseas.

MPC has been and will continue to be working with our fellow dairy organizations and cooperatives to maintain the current two-pronged dairy program in the House version of the Farm Bill. **We have a rare, national, unified coalition of support for the proposed reforms; let's hope that effort isn't torpedoed by IDFA's transparent attempts to protect the status quo.**

PRICES ON THE GLOBAL AUCTION HEAD BACK TOWARDS THE BOTTOM: *(by J. Kaczor)* After rising in the two June auctions from the May 15th recent low, average winning price prices for all eight products that were offered again turned lower in this week's GlobalDairyTrade auction. There were 168 bidders actively participating; 132 were among the winners of 83.9 million lbs of products scheduled for shipment over the next six months. The total volume of products sold this week was within 22 million lbs of the highest volume in an auction, held last September. The volume offered is expected to continue to rise as the heavy milk production seasons in Australia and New Zealand run from September through February.

Reports and comments from down under were generally upbeat with the recent increases but virtually all noted concerns about the growing global milk supply and possible near-term weakness in global demand. Fonterra's CEO said in May they were "seeing the bottom" but to expect continuing price volatility as global dairy product supply and demand adjusts to weather variables, currency exchange rate changes, European financial issues, and competition. However, it is not likely they expected what happened this week.

Except for lactose, which Murray Goulburn so far offers only once a month, this week's average prices wiped out all of June's increases, but settled above the low points reached in mid-May. The biggest hit by far was taken by Fonterra which offered 40 million lbs of whole milk powder and 16 million lbs of skim milk powder as well as all of the anhydrous milkfat, casein, cheese, and milk protein concentrate that was sold (volumes of skim milk powder offered by Dairy America and Arla Foods are not available until 90 days after the auctions). The average price for whole milk powder dropped $.057 per lb to $1.242 per lb but prices rose somewhat from contract #2's low of $1.234 per lb. The story for skim milk powder, however, is not as good. The weighted average price for all SMP fell by $.106 per lb, but all prices for Dairy America's and Arla Foods' SMP for which comparisons can be made ended this auction above the mid-May lows and higher than Fonterra's like products in this auction. The price for Fonterra's medium heat SMP, contract #2, fell by the maximum amount, 15%, for a second straight auction – meaning no bidder who opted for Fonterra's SMP, MH, for September shipments responded to even the first step-up in price in round #2. Remember that $.45 per lb difference between Arla Foods' and Fonterra's SMP four weeks ago? It is gone, but speculation about how it came about are still being heard.

Rather than reflect true international product values, the auction's winning prices have lately looked more like our own Chicago Mercantile Exchange – erratic, unpredictable, volatile, and overly reactive. Would weekly auctions help to reduce absurd price dips and bounces? However, regardless of what those prices for Fonterra's products reflect, they do represent, beginning with this week's activity because of the increased volume, and over the course of a year, a substantial portion of Fonterra's international sales and therefore, over a year's time, do impact Fonterra's ultimate price paid to its members.

Fonterra plays checkers with competitors. Fonterra has recently adopted a business strategy that focuses on Asia. Asia represents the world's largest population region, consumes relatively low levels of dairy products, and offers the greatest opportunity for growth over the next ten or so years. However, projections of Asian growth exceed what Fonterra believes can be matched by milk production in Australia and New Zealand. They apparently believe they can shut out competition for Chinese sales from other exporters by building dairies in that country. They have two very large dairies there; their plan is for twenty. In a question and answer session recently reported, a Fonterra executive was asked by one of their members if that major investment would be profitable. The answer was equivocal; those farms will provide the high quality milk Chinese milk factories need to supply the products Fonterra cannot, meaning other exporters need not bother. Fonterra is also floating a story that their intake of milk in the twelve months that began this June is expected to be about 2% lower than last year's record output. That is one way to try to push prices higher. We will see if it works.