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@milkproducers.org ~ www.MilkProducers.org

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

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*+$.0125*	$1.4925
Barrels	*+$.0225*	$1.5025
Weekly Average, Cheddar Cheese		
Blocks	*- $.0025*	$1.4765
Barrels	*- $.0120*	$1.4725

CHICAGO AA BUTTER		
Weekly Change	*N/C*	$1.4500
Weekly Average	*+$.0295*	$1.4500
DRY WHEY		
DAIRY MKT NEWS	w/e 03/09/12	$.5400
NASS	w/e 03/03/12	$.6059

NON-FAT DRY MILK		
Week Ending 3/2 & 3/3		
Calif. Plants	$1.3558	10,516,808
NASS Plants	$1.3647	18,988,823
Prior Week Ending 2/24 & 2/25		
Calif. Plants	*$1.3521*	*14,551,213*
NASS Plants	*$1.3681*	*18,743,944*

CHEESE MARKET COMMENTS: Was Monday's "run for the door" trading on the CME, a reaction to Friday's report on January cheese production – another of those mindless "shoot first, think later" trading rules? It was followed by what resembled rational action by traders, a rare commodity of late. Prices per lb for both cheese styles fell by $.02 or more on Monday. Then a day of rest, followed by buyers bidding higher, another day of rest, followed by today's trading which brought prices for both styles to more than a cent per lb higher than where they were last Friday. That is another pleasant surprise – the Friday "follies," where sellers unload excess cheese on the market, also was given a pass, at least for a week. Class III milk futures prices this week recovered last week's losses or added to the small gains; the nearby months are now about where they were two weeks ago while months further out are higher. The January production report was technically neutral; production of American cheese was unchanged from December and production of all cheese was 18 million lbs lower than in December. News from the market, compliments of *Dairy Market News*, has cheese production continuing to increase in response to heavy milk production and steady, static, or sluggish fluid milk sales, but with sales of American cheese continuing to more than keep up with production. Domestic sales remain steady to strong with the help of retailer ads and seasonal sales opportunities. Exports also are doing very well; last year set a new record, and January's report came in higher than last January. Low prices, the weak U.S. currency valuation, and CWT's welcome assistance to cooperative exporters, combine to attract international cheese buyers. Also in the news this week is the announcement of February's prices for cheese milk: the minimum price for California plants was $2.64 per cwt less than that for plants in federal order areas, yes, even those right next to California. On the matter of prices, a prominent California cheese manufacturer sent a letter to Secretary Ross urging denial of a petition for an adjustment to California's cheese milk prices to be set at levels closer to those set for UDA, Tillamook, and Dari-Gold by federal orders. Major points made in the letter included the question of why don't producers go to their customers for higher prices, and why do producers seemingly feel entitled to a greater proportion of revenue from cheese sales while they bear virtually no risk of loss. Huh? With all due respect to the letter writer (who is respected highly) the points he made reflect a bit of "tone deafness." The petition is an attempt to have their customers raise their minimum prices uniformly (so that question is answered), and the petitioners probably can make a fair case in the hearing of their having incurred a more than fair share of market place risk over the past several years in terms of prices received and costs incurred. Let us have a hearing.

BUTTER MARKET COMMENTS: After tacking on small increases the past two weeks, the CME butter market has been eerily inactive this week. There were no sales, and no bids or offers at other than the current price. Butter production in January was 14 million lbs greater than last January and 15 million lbs greater than December, reasonable numbers when compared to the monthly increases from March through November of last year. However, the amount of butterfat products in cold storage at the end of January increased by about 64 million lbs over December's stocks and by about 53 million lbs over last January (about 20 million lbs of those buildups is accounted for by weakening exports in the latter half of last year). The increase from last January may actually be helping to hold butter prices from falling more than they have over recent months because U.S. butter production in 2011 was 241 million lbs more than the year before, showing butter "disappearance" to have increased by about 190 million lbs during the year. *DMN* reports that some butter makers do not seem disturbed by current inventories and are content to produce more for expected later sales. Current production is reported to be steady, higher, and heavy, respectively, as you look from the east to the west. Exporters and those who supply them, welcome to the global market place; a report this week shows New Zealand's butter exports in January were up by 44% over the previous January while your exports were lower. Domestic sales are doing well, and an increase in exports, helped in part by CWT's assistance, are expected. Futures prices continue to slip lower for the next 12 months, but continue to reflect various premiums (+$.175 per lb for November) to current cash prices.

POWDER MARKET COMMENTS: The market for nonfat dry milk continues to be weak and prices continue to slip lower. Little change was reported to the two major reporting agencies for shipments made last week. Winning prices in the global auction this week were lower than the prior auction by an average of about 2% for all months April through November. Production of NFDM and SMP in January was about 6 million lbs more than for December but end-of-month stocks were about 6 million lbs lower than at the end of December. Still, *DMN* says buyers are holding back, waiting for a sign that the market is stabilizing. How low can it go? Meanwhile, production continues to be heavy and stocks are expected to grow despite some increase in usage by ice cream manufacturers and others. The weakening market for buttermilk powder continues to be affected by prices for NFDM.

WHEY PRODUCTS MARKET COMMENTS: Production of dry whey in January was 12 million lbs higher than in December; stocks rose by 4 million lbs. So far so good, but prices continue to edge downward and the western market is described as "very unsettled," with a range of prices in the "mostly" category spanning $.19 per lb. The full range of prices reported this week goes from $.30 per lb to $.635 per lb. That makes it pretty difficult to determine a true value for that product, and buyers, as one would expect, are always looking for the best price. A possible benchmark, reported by *DMN*, is $.50 per lb, f.o.b. Netherlands ports. CME's futures prices were mostly higher this week; ranging from a low of $.43 per lb in August to a high of $.515 in April. Domestic buyers with contracts so much coveted eight to ten weeks ago are now doing what they can to delay or even cancel shipments. The export market continues to be fairly active, but the domestic spot market has all but dried up, according to *DMN*. Meanwhile, production continues to grow, about in line with cheese production. Buoyed by the steady demand from manufacturers of infant formulas, cream cheese, and process cheese, prices for whey protein concentrate-34 are holding up remarkably well. Demand for WPC-34 from animal feed formulators is weakening and prices are moving lower.

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FRED DOUMA'S PRICE PROJECTIONS…

March 09 Est:	**Quota cwt. $16.14**	**Overbase cwt. $14.44**	**Cls. 4a cwt. $15.39**	**Cls. 4b cwt. $13.31**
Last Week:	**Quota cwt. $16.11**	**Overbase cwt. $14.41**	**Cls. 4a cwt. $15.38**	**Cls. 4b cwt. $13.26**

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WITH THE HEARING PETITION UNDER CONSIDERATION, THE PROCESSORS GET MORE ACTIVE: *(By Rob Vandenheuvel)* Last week, we wrote about a coalition of California dairy producer organizations and cooperatives that has come together for the purposes of facilitating much-needed and much-overdue changes to the California Class 4b minimum price formula. As a reminder (and as a whole-hearted thank you on behalf of MPC's members, who along with the rest of the California producer community are in great need of this level of unity and coordination), the organizations – which represent nearly 80% of the milk produced in California – that have come together for this endeavor are:

- **Alliance of Western Milk Producers**
- **California Dairies, Inc.**
- **California Dairy Campaign**
- **Dairy Farmers of America – Western Area Council**
- **Land O'Lakes, Inc.**
- **Milk Producers Council**
- **Security Milk Producers Association**

The coalition's petition for a hearing can be found on CDFA's website at:
http://cdfa.ca.gov/dairy/uploader/postings/petitions.

With the issue now squarely on the desk of the California Secretary of Agriculture Karen Ross, we've already begun to see the State's cheese manufacturers and their representatives speak up. It's been fascinating to read their comments as they try to explain why it's perfectly reasonable and rational to establish a regulated minimum price in California that is ***more than $2.00 per hundredweight*** below the benchmark price for similar milk sold to cheese manufacturers around the country. Let's take a closer look at some of the things that are being said.

Last month, as word began to spread that dairy farmers were getting restless (yes, that's a huge understatement) over the government-supported discounting of milk sold to the state's cheesemakers, the Dairy Institute (the main lobbying organization in Sacramento for the State's processors) lodged a pre-emptive strike, sending a letter to CDFA Secretary Ross aimed at muffling the efforts being promoted by *"agitators within certain producer organizations"* (their words, not mine) to modify our Class 4b price. Their full letter has been posted on our website and can be found at: http://www.milkproducerscouncil.org/021612dairyinstitute.pdf. I encourage our readers to take a look at this letter. In my limited experience at MPC, it's the first time in my recollection that an organization sent a pre-emptive letter to the Secretary of Agriculture attacking a segment of the industry before any hearing petition had even been filed (unless the use of the term "agitator" was intended as a term of endearment). Unfortunately for the Dairy Institute, this is not about a few agitators. This is about a systematic fleecing of the entire California dairy producer community, which is now abundantly clear when looking at the broad coalition listed above that has united to defend the rights of the State's dairy farmers.

In taking a closer look at the letter, the basic message from the Dairy Institute is that due to a variety of conditions in California (including a growing milk supply and a structure that has differences from the Federal Order structure), it's "both reasonable and economically sound" to discount our milk price for cheese plants by more than $2.00 per hundredweight. In fact, the letter specifically states that it would be "unreasonable…to increase regulated prices as producer groups suggest…" **It takes some real courage (one could even say "chutzpah") to tell the Secretary of Agriculture that the dairy farmers in her State are being "unreasonable" because we're tired of the system setting a minimum price at levels ($13.42/cwt last month) that even CDFA's own cost-of-production numbers say is several dollars per hundredweight below the break-even line, while cheese manufacturers throughout the country are paying significantly more for the same quality of milk (the Class III price was $16.06/cwt last month).**

Fast forward to this week and we see a couple more letters submitted to CDFA on behalf of two specific cheese manufacturers. The plants that submitted letters are Farmdale Creamery in San Bernardino, CA and Rizo Lopez Foods in Riverbank, CA (those letters can be found at: http://cdfa.ca.gov/dairy/uploader/postings/petitions).

The submission of these letters and their content is entirely predictable. Most of the Class 4b milk in California is sold to large-scale cheese processors, some of whom operate not only in California, but also in Federal Order areas that require a much higher price to secure a stable milk supply. Yet, when this issue comes up before CDFA, it's the smaller specialty-style cheese plants that are the public faces of the cheese processing side of our industry. Good public relations move? Sure. But when it comes to the underlying facts of how CDFA is supposed to apply the law, the points made in the letters fall woefully short on compelling arguments.

Here's a fact that rarely – if ever – gets mentioned in these letters. We have a system that assigns a minimum value for the milk produced on our dairies based primarily on the price of **40-lb blocks of commodity-grade cheddar cheese, as traded on the Chicago Mercantile Exchange (CME) in large volume sales (40,000-44,000 lbs)**. Our formula even adjusts that CME price downward in an attempt to "localize" the price to California. It also includes a "make allowance" that carves out a general manufacturing "cost-of-production-plus-a-return." But here's the catch: whether you make commodity-grade cheddar cheese and sell it at high-volume prices on the CME (hardly a place where premiums are found), or you make a specialty cheese that attracts a higher value from the marketplace – or anything in between – you are subjected to the same Class 4b minimum price (the price that uses the CME cheddar price as its main driver). That type of structure allows a cheese manufacturer – big or small – to capture additional value for their products in the marketplace without having to pass that added value on to dairy producers through the Class 4b price. This fact is certainly not news to the cheese makers. And for those small cheese plants that operate in Federal Order areas around the country and must pay significantly higher prices to secure a milk supply, it's certainly not news to them either. But too often in this debate over how to value the raw milk produced on California dairies, it's ignored in an effort to keep the regulated price as low as possible.

I could go further into the individual letters and their arguments, but that's what a hearing is for. In short, as compelling as our State's cheese manufacturers may feel their arguments are, they fail to answer the fundamental question of why milk produced on California dairies and sold to California cheese plants should be systematically discounted by CDFA. I was recently reminded that of all the states in the Union, California is certainly not known for low-priced anything – we have some of the highest taxes, $4+ gas, expensive housing and it costs me $15 just to park my car at Dodger Stadium. **But when it comes to what the dairymen get paid for milk, we're the low-price leader!** Given what it costs to feed our cows in 2012 in the Golden State, that's not a sustainable system. **Let's hope the Secretary of Agriculture recognizes that and starts to level out the playing field by at least granting the proposed changes made by the unified dairy coalition in our hearing petition.**

PRICES CONTINUE TO FALL IN THE GLOBAL AUCTION; CHANGES TO THE NUMBER AND LENGTH OF THE DELIVERY CONTRACT PERIODS ARE PROPOSED: *(by J. Kaczor)* It is possible the maximum number of potential bidders on Fonterra's global auction for various dairy products is being approached. Only five new bidders were certified in the past two weeks. The total is now 580 certified bidders spread throughout the world. On the other hand, as more products are added, and possibly more sellers, others may come forward. How many can there be out there? Is the auction "platform" capable of handling two or three times the number that recently have been actively participating? In this week's auction 145 bidders were active; 112 wound up with some of the 54.4 million lbs sold. The weighted average price was $1.622 per lb for the six product categories that were offered.

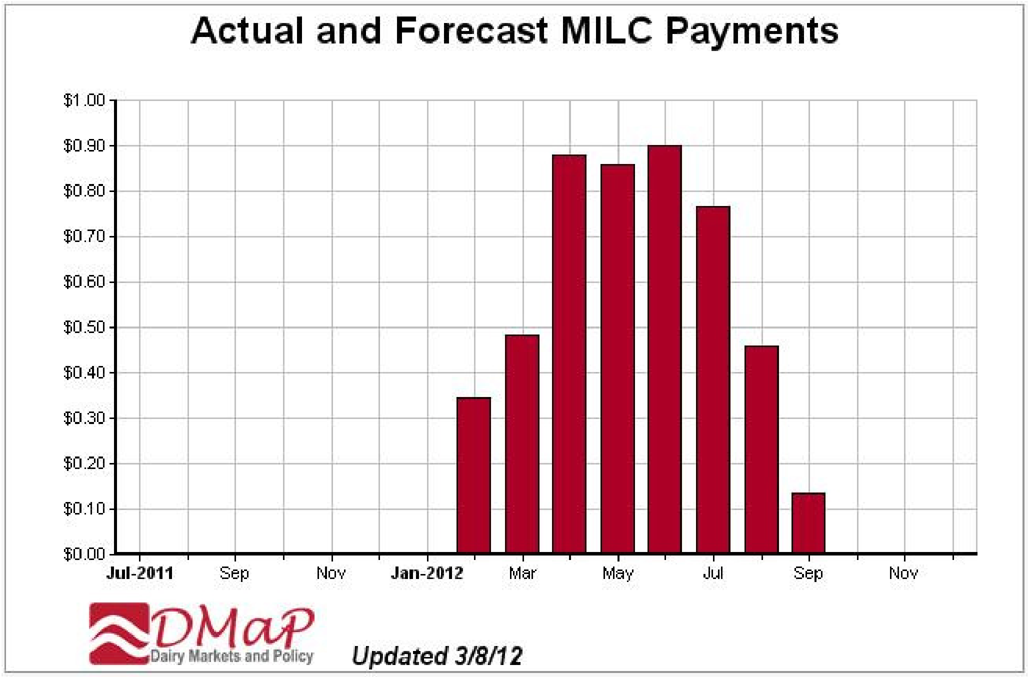
A change in the structure of the auction is being proposed. The present set up encompasses a total of nine months – the bid month and four contract periods covering a total of eight delivery months. The proposed structure will consist of a bid month and six separate single month delivery periods beginning with the first contract month to follow the bid month; the second contract will cover deliveries two months after the bidding; and so forth, out to the sixth month following the bidding. Sellers may select the contracts they wish to offer products, and the volumes to be offered. It was explained the present structure is no longer appropriate for buyers or sellers because of the complexity of overlapping delivery periods and the inefficiencies resulting from winning bidders asking to shift the timing of their shipments within the existing three-month contract periods. Under the proposal, contract periods one and two will remain unchanged. After feedback is received from bidders and sellers, a formal proposal will be published for comment. There is hope the proposed change can take place in time for it to be effective for the May 1st auction.

The results from this week's auction follow the pattern of negative results that began with the June 1, 2011 auction. Prices have now fallen in 14 of the last 19 auctions, and are well below the highs reached just about one year ago. The table shown here records the winning prices for the six categories of products offered in this week's auction, and the weighted average change per pound in their prices.

Global Dairy Trade Auction – March 6, 2012 Weighted Average Prices Per Pound and Changes From Prior Auction		
Anhydrous Milkfat	$1.647	+$.039
Cheddar Cheese	$1.586	- $.028
Milk Protein Conc.	$2.327	- $.200
Rennet Casein	$3.411	- $.096
Skim Milk Powder	$1.449	- $.029
Whole Milk Powder	$1.546	- $.005
All Products	***$1.622***	***- $.017***

The losses range from a low of 0.3% for whole milk powder to a high of 7.6% for milk protein concentrate. The single price increase is for anhydrous milkfat, 3.7%. The average price reported for skim milk powder is influenced by prices bid for Dairy America's powder in contract 1 and 2. A comparison of like products for the same contract shows Dairy America low heat SMP selling for about $.24 per lb lower than Fonterra's low heat product. In this auction, Dairy America offered only low heat powder. The April 3rd auction will include Arla Foods' SMP in contract 2 and Murray Goulburn's lactose.

5 MORE DAYS UNTIL THE NEXT MILC DEADLINE: *(By Rob Vandenheuvel)* We are rapidly approaching the March 14th filing deadline for any dairy wishing to make April 2012 their dairy's "start month" for the Milk Income Loss Contract (MILC) program.



As a reminder, the MILC program only makes payments on the first 2.985 million lbs of milk produced per dairy each year (which is only about one month of production for a 1,500 cow dairy, or two months of production for a 750 cow dairy, etc.). Therefore, the month each dairy selects as its "start month" will determine when that dairy will start collecting payments on its 2.985 million lbs.

Since dairies are forced to make decisions about future months in the Milk Income Loss Contract (MILC) ahead of time (changes to your dairy's contract must be submitted by the 14th of the month prior to your "start month"), we're left in the position of trying to guess where milk and feed prices are heading. Various organizations around the country publish projected MILC payouts in future months, which can be helpful for dairies hoping to sign up for optimal months (a chart from the University of Wisconsin-Madison with projected payment rates is above).

MPC members needing any assistance with their MILC paperwork should contact the MPC office at (909) 628-6018 or office@milkproducers.org.