



# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0275 \$1.6400  
Barrels - \$.0150 \$1.6650

### Weekly Average

Blocks - \$.0450 \$1.6580  
Barrels - \$.0280 \$1.6740

### CHICAGO AA BUTTER

Weekly Change N/C \$2.1850  
Weekly Average N/C \$2.1850

### DRY WHEY

**WEST MSTLY AVG** w/e 10/22/10 \$.3863  
**NASS** w/e 10/23/10 \$.3703

### NON-FAT DRY MILK

#### Week Ending 10/22 & 10/23

Calif. Plants \$1.0973 26,224,241  
NASS Plants \$1.1414 19,776,869

**CHEESE MARKET COMMENTS:** Signs of possible weakness continue to crop up for future cheese prices. According to Dairy Market News analysts, buyers (presumably those who already have their needs for the immediate future) still are holding back to see where and when cheese prices may stabilize. The market, DMN says, is “unsettled to weak,” with less apparent cutting and wrapping activity happening at this time than in past years. Meanwhile, sellers continue to come to the CME with offers of both styles of cheddar cheese. Twelve more carloads traded this week. Prices on the exchange continue to edge lower while prices reported to NASS for shipments made last week continued to rise (the block and barrel prices are about \$.07 per lb higher than last week’s CME prices). Cheese production is steady in the central and eastern regions and rising in the west as more milk containing higher components becomes available, although DMN says not many plants are producing cheese for which there are no sure sales. Class III milk futures prices continue to sell at sizable discounts to present prices, steadily falling to February’s level of \$14.12 per cwt.

**BUTTER MARKET COMMENTS:** This week, butter prices on the CME remained right where they have been for the past four weeks – \$.05 per lb lower than the \$2.235 per lb peak that was reached five weeks ago. That relatively small price decrease shouldn’t be taken as a sign of weakness; reports from everywhere continue to refer to a shortage of butterfat despite high prices which should have generated more butter production. More butter is coming; milk production is on the rise in Europe and the U.S. (normal for this time of year), but butter plants still have to compete for milk and cream against the other heavy seasonal demands for the same supply. DMN reports steady growth in butter orders for year-end holiday usage – except from the food service industry. Near-month futures prices on the CME continue move closer to the spot prices, and the February price that had been sitting at \$1.60 per lb for several months is now at \$1.665 per lb, and rising. While there seems to be consensus that butter prices surely will fall, manufacturers have different time frames in mind, and are apparently taking different actions to accommodate the inevitable. DMN says some plants are discounting prices in order to get rid of higher cost product before prices fall (does that make sense?) while Eric Meyer and Dave Kurzawski, brokers at Downes-O’Neill in Chicago, say the longer prices hold at these levels, the stronger incentive manufacturers will have to make more product over the next few months (won’t they do that anyway?). The NASS price report, which shows average prices for butter dropping for the last several weeks, seems to verify DMN’s report about price discounts. Another possible price pattern is for the past to repeat itself – the longer prices hold where they are, the faster they may fall.

**POWDER MARKET COMMENTS:** DMN reports that the market for buttermilk powder has weakened in this heavy usage period – possibly because of lower nonfat powder prices; the price premium in the central/eastern region is no longer there, but remains at about \$.05 per lb in the west. Production has slowed, in line with butter production. The market for wholemilk powder is tight, says DMN. If that is so, it’s a big mystery why. There’s plenty of milk and plenty of unused plant capacity. DMN says some WMP buyers may believe U.S. prices are

adequately higher than international prices to consider buying imported product. Kind of foolish, isn't it? Maybe they should just schedule a meeting with their current suppliers and talk things over. For nonfat dry milk and its close cousin, skim milk powder, production is reported to be steady to lower in the Midwest and rising in the west. Exports continue to be high, although DMN says "export interruptions to Russia have added to manufacturers' wariness...." Maybe someone had big plans afoot, because exports of nonfat powders to Russia to date have been virtually nonexistent: a total of only 505,000 lbs so far this year. California plants reported sales of 26.2 million lbs of NFDM last week, at \$1.0973 per lb – very good volume, presumably mostly for the export market at the very best price they could manage, but more than \$.05 per lb below the low end of the full range of prices reported for western spot market sales, and for sales by all other powder plants for the week.

**WHEY PRODUCTS MARKET COMMENTS:** The market for whey protein concentrates is firm and prices continue to rise. Supplies are limited and some orders are reported to be delayed for as much as two weeks in order to accumulate enough product to ship. Some plants are reported to be holding back on finalizing agreements for 2011 quarters because they foresee higher prices in the offing. The market for dry whey is also firm; prices are steady in the west and are rising in the central region. Demand for domestic and export shipments is strong. Product availability is reported to be tight throughout the U.S. and manufacturers are having to compete for fluid supply from cheese plants.

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**FRED DOUMA'S PRICE PROJECTIONS...**

<b>Oct 29 Final:</b>	<b>Quota cwt. \$ 17.64</b>	<b>Overbase cwt. \$15.95</b>	<b>Cls. 4a cwt. \$16.62</b>	<b>Cls. 4b cwt. \$15.66</b>
<b>Last Week:</b>	<b>Quota cwt. \$ 17.65</b>	<b>Overbase cwt. \$15.96</b>	<b>Cls. 4a cwt. \$16.65</b>	<b>Cls. 4b cwt. \$15.66</b>

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**A GLIMPSE AT INTERNATIONAL DAIRY INDUSTRY NEWS COVERAGE AND ITS LIMITATIONS:** *(By J. Kaczor)* Among the many reporting services provided by USDA's Dairy Market News market analysts, located in Madison, Wisconsin, is a bi-weekly report on international milk supplies and dairy product supply, demand, and prices. From time to time, these figures are referred to and commented on in this newsletter. The principal markets they cover are Western Europe and Australia and New Zealand (called Oceania). The reasons for covering those regions are because they are the two largest milk and dairy products producing regions in the world (other than the U.S.) and because New Zealand in far and away the largest exporter of dairy products, and Australia and Western European countries usually are ranked number two and number three in those categories. From time to time (such as 2008 and this year) the U.S. moves into that prestigious group, somewhere below New Zealand.

Through international agreement reached more than fifty years ago, prices for internationally traded dairy products (and most other major commodities) are expressed in terms of U.S. dollars. (Thanks for that.) Buyers have to convert their currencies into dollars to determine how much product can be purchased with a given amount of their currency. Sellers go through the same procedure to determine how much of their currency they will receive from selling a given amount of product. Quantities are expressed in metric tons; a metric ton is 2,204.62 lbs. (The conversion of local currencies to dollars are merely computations made in the routine course of entering into a contract for a purchase or sale. Everyone pays or gets paid in their own currency.)

DMN's sources for information on international prices include U.S. buyers and sellers, international buyers and sellers, governmental agencies, and occasionally news sources. The quality of the information depends on the source and the degree to which a particular matter is looked into. It's important to note that there is no international equivalent to the amount and quality of dairy industry data that is compiled and reported about and on the U.S. dairy industry by the U.S. Department of Agriculture. Australia does a fairly good job of reporting milk and dairy product production as well as export volumes and prices. However, because New Zealand's dairy industry is dominated by Fonterra (making up about 90% of the total NZ industry), little in the way of national data on production or prices, other than that coming from Fonterra, is reported. And although the European

Union is an official economic and political entity, the EU appears to operate much like the thirteen original colonies operated before they became the European Union, some years ago.

In addition to the important and useful commentary on weather, milk production, general supply and demand relationships affecting the EU and Oceania, and global economic conditions, the most watched part of DMN's international coverage are the specific product price ranges that are reported. The prices are identified as those currently effective, f.o.b. ports where the product is loaded onto ships. The U.S. equivalent to those prices are DMN's weekly reports of spot prices in various regions in the U.S., f.o.b. manufacturing plants. Levels of prices reported, changes in those prices from one report to the next, and comparisons of what is happening throughout the world to what is happening in the U.S. are, to varying degrees, taken into account by individuals and agencies throughout the world. Anyone wanting or needing to use the information provided in these reports, should realize there's a lot to be taken into consideration, in terms of volumes, local trends, product quality, level of related services, plus some intangibles, before reaching a conclusion or deciding on an action. Consider, therefore, the immense advantage any particular major dairy buyer or seller may have, because of the knowledge they have from their own experiences, compared to anyone else who may rely upon third-hand information, no matter how reliable. Transparency of data and perfect communication, at least in regard to international dairy matters, is available only to the chosen few.

**KEY MESSAGE THROUGHOUT THE NATIONAL DAIRY MEETINGS IS "UNITY"** *(By Rob Vandenheuvel)* This past week, the National Milk Producers Federation (NMPF) held their annual meeting in Reno, NV. The key message from NMPF was the importance of unity amongst the industry as we go into the next Congress with hopes of making significant reforms to dairy policy. Their proposed reforms, known as the "Foundation for the Future" ([www.futurefordairy.com](http://www.futurefordairy.com)) is a collection of proposals aimed at reforming several different government policies surrounding our industry. For those of you interested in reading the keynote address from NMPF's Chairman Randy Mooney and President/CEO Jerry Kozak, you can find a transcript at: <http://nmpf.org/latest-news/ceo-corner/nov-2010/2010-nmpf-annual-meeting-presentation>.

Regular readers of this newsletter are well-aware of the efforts of MPC and other groups around the country in promoting the Costa-Sanders Bill (a.k.a. the "Dairy Price Stabilization Act," or H.R. 5288/S. 3531). These bills are the results of several years of work in crafting an effective production management program that will allow our industry to continue growing to meet new demand, while at the same time sending real-time signals to dairy farmers to better manage future milk production growth. MPC continues to advocate for this legislation as it is still the only dairy reform bill that is introduced in Congress and has garnered support from Congressmen and Senators from coast-to-coast.

With that said, at the end of the day, the only chance we have for successfully making positive change for our industry is if the producer side of the industry is unified behind a single legislative proposal. We've documented the predictable, yet disappointing, opposition by the nation's processors (IDFA) towards any effort to implement a production management strategy as part of our solution. Given this inevitable opposition, the producer sector, which has been engaged in a healthy debate for the past couple years over the direction of our industry, doesn't have the luxury of bickering amongst ourselves once we are ready to go to Congress with a proposal for reform. And we are rapidly approaching that point; hence, the need for unity in the ranks.

To that end, NMPF needs to develop the legislative language necessary to implement the Foundation for the Future (which sources have indicated is already happening). That language will include the details of the proposal, many of which are already available on their website. When those details are in place, every dairy association, cooperative and other interested producers across the country will need to make a decision about whether or not the policy proposal improves our position from the status quo.

As I mentioned, the past two years has been a time of great debate amongst producers. Many issues have been raised, and numerous proposed solutions have been discussed. While I certainly cannot address each and every one of these issues, a few major points come to mind:

- The need to address the boom/bust volatility in our milk price.
- The unfairness and inadequacy of the current safety net programs (MILC and Price Support Program).
- The need to take a dairyman's cost of production into account when establishing future dairy policy.

Let's look at each of these issues, and how NMPF has addressed them in the Foundation for the Future.

### **The Need to Address the Boom/Bust Volatility in Our Milk Price**

This is perhaps the biggest driving force behind the development of current dairy policy proposals. The economic devastation for dairy farmers in 2009 and 2010 has highlighted the inadequacy of our current regulatory structure. It is clear to virtually every producer that we currently lack the tools necessary to maintain better balance between milk production and dairy product consumption, which has resulted in chronic imbalances in supply and demand, and extended periods (to say the least) of devastating losses as the market tells our industry to cut back milk production to meet demand.

NMPF's Foundation for the Future has vastly improved in this area over the past year. In early drafts of the proposal, the CWT program was heralded as an adequate tool for better balancing our industry. Since then, NMPF has wisely adopted pieces of other proposals (such as the Costa/Sanders Bill and a "Marginal Milk Pricing" proposal made by Agri-Mark Cooperative in the Northeast) to create the "Dairy Market Stabilization Program," an essential piece of Foundation for the Future. Under this program, during periods of diminishing margins for dairy producers, a direct and strong signal will be sent to dairy farmers to cut back short term milk production in an effort to better align national production with demand. For those dairies that choose not to cut back milk production, they will contribute to a fund established to spur demand for dairy products, helping the supply/demand balance on the other side of the ledger. While those of us who have been working on this issue for several years may have alternative ideas on how exactly such a program is structured, there is no doubt that a program structured this way is a vastly superior option to what we have now. If you don't believe that just based on reading the policy, you can also check out economic analysis demonstrating how this program compares to the status quo (<http://dairy.wisc.edu>).

### **The Unfairness and Inadequacy of the Current Safety Net Programs (MILC and Price Support Program)**

This issue has been raised in all forums, whether amongst the industry, in Congressional hearings, or anywhere else dairy policy has been discussed. It has become painfully clear that a Price Support Program that "supports" an on-farm price of \$9.90 per hundredweight (and that's if the program actually bought cheese, which it hasn't done in years) is not a sufficient "support program." Further, it has become clear that the structure of the Support Price Program, in buying only specific commodity-grade products has sent an inappropriate signal to develop processing capacity for these products that can be sold to the government, even if other similar products enjoy stronger market demand. And lastly, it has been pointed out by those who engage in the world markets that a price support program for exportable dairy products has resulted in the U.S. "supporting" the global market as well, a heavy burden to carry.

On the issue of the Milk Income Loss Contract (MILC) program, it is no secret that the structure of the program greatly disadvantages "larger" producers (with a 2.985 million pound cap on payments, a "larger" producer can be a 200 cow dairy). And while the 2008 Farm Bill added a feed cost adjustor to the program, it is still woefully inadequate for protecting the margins of our nation's dairy farmers.

NMPF's Foundation for the Future has recognized these realities and has taken a bold step – eliminating these programs and putting in its place a bold "Margin Protection Program" that aims to provide dairy farmers with a more adequate safety net than either of these two programs are capable of providing (more on the Margin Protection Program in the next section).

### **The Need to Take a Dairyman's Cost of Production into Account When Establishing Future Dairy Policy**

This has been a rallying cry of many dairymen throughout the past two years of devastating negative margins on the farm. It's an immensely important point – after all, if our dairies can't operate profitably, who will be around to supply the U.S. and the world with nutritious dairy products?

NMPF's Foundation for the Future has outlined the "Margin Protection Program" as a way of better protecting dairy farmers' equity. The program utilizes a national "milk-feed margin" (or in other words, the difference between the all-milk price and the average cost of feeding your cows) to drive a direct subsidy program for dairy farmers. Foundation for the Future relies on the Dairy Market Stabilization Program to help keep supply and demand in closer balance (which is the key to maintaining a market that will pay a profitable price to dairy farmers), but in periods of imbalance, whether that's due to a falling milk price or an escalation in feed costs (sound familiar?), this program would provide a safety net payment to dairy farms, giving our dairies better protection against catastrophic attacks on farmer equity.

Further, the Margin Protection Program is customizable for each dairy farmer, with a "base" level of protection available for free, and additional protection available at a subsidized premium. For a better understanding of that part of the program, I strongly encourage our readers to check out the "Margin Protection Calculator" at [www.futurefordairy.com](http://www.futurefordairy.com). For instance, under this program, in addition to the \$4 per hundredweight margin protection available in the "base" plan, a dairyman could purchase an additional \$2 per hundredweight in "supplemental coverage" (for a total of \$6 per hundredweight coverage) for about \$0.15 per hundredweight in premiums (about what you pay for advertising).

While some will say that this is well-short of a government guarantee that producers' "cost of production" is constantly protected, it is undeniable that the Margin Protection Program is a new and interesting concept that would protect farmers from catastrophic economic conditions, while at the same time keeping the government from interfering with domestic and international sales of dairy products. What I mean by that is under this program, if the market fundamentals call for milk to be sold for devastatingly low prices, those sales can still be made, and those markets can still be maintained, all the while having the equity in our nation's dairy farms largely protected.

**In conclusion**, we can all find reasons to disagree and debate various aspects of all the proposals out there, including NMPF's Foundation for the Future. But the reality we face as the producer sector is that **we cannot afford to miss this opportunity for fundamental change in the dairy industry**. We must make every effort to rally dairy producers behind a common proposal, and with NMPF's broad reach and political influence, I'm hard-pressed to find a better starting point than their proposal. It's come a long way since this whole debate began, and we still need to see the final details in legislative language (as well as the reforms to Federal Milk Marketing Orders, which are reportedly still in flux). But I strongly urge each of you to take time out of your day to explore the program as it's been presented. Spend some time on [www.futurefordairy.com](http://www.futurefordairy.com). Come up with a list of questions, and send them to NMPF. We've got two months before the new Congress is sworn in, and regardless of which party is in control, we need to make the best effort possible to come to Congress with producers across the country united behind a single proposal. There are innumerable other issues that we will need to work on in years to come, but let's see what kind of progress we can make on these immediate issues now.

**AND DON'T FORGET TO VOTE THIS UPCOMING TUESDAY!**