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DATE: June 17, 2011 **PAGES: 4**
TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	+*$.0100*	$2.1200
Barrels	*N/C*	$2.0675

Weekly Average

Blocks	+*$.0020*	$2.1125
Barrels	+*$.0120*	$2.0725

CHICAGO AA BUTTER

Weekly Change	+*$.0100*	$2.1400
Weekly Average	+*$.0225*	$2.1400

DRY WHEY

WEST MSTLY AVG	w/e 06/17/11	$.5425
NASS	w/e 06/11/11	$.5239

NON-FAT DRY MILK
Week Ending 6/10 & 6/11

Calif. Plants	$1.6370	13,467,999
NASS Plants	$1.6524	19,584,647

CHEESE MARKET COMMENTS: The big run up in cheese prices on the CME in the last three weeks was a surprise, was questioned, and was welcomed. The reason given most often for the increases was the May 29th report of a "hold" put on a substantial quantity of potentially contaminated cheese. This week, the company involved said the amount of cheese in the initial reports was greatly overstated, all of the questionable cheese was located, and the "hold" on all of the rest of the cheese was withdrawn. That information leads to the next obvious question – if the recent cheese price increases resulted from that kerfuffle, why haven't prices fallen back? It's not as if traders are not paying attention; six carloads traded this week and a number of bids and offers moved prices around a bit. It's the general feeling that milk production is lagging, or that cheese exports are doing well, or that domestic consumption for unknown reasons remains fairly strong, or that the amount of cheese in cold storage is about where it should be – or something else. Maybe it's just that we are eating more cheese but drinking less milk? That's an unwelcome trade-off that hurts milk producers long-term. One thing for sure, according to prices reported to NASS for shipments of cheese last week, buyers are benefiting from bargain prices: block prices averaged $.30 per lb lower than the CME average and barrels averaged $.20 per lb lower. Those who base prices on monthly averages are doing much, much, better than that. *Dairy Market News* is hearing some buyers are taking advantage of the fortuitous price alignments to clear away profitable inventories and fill available space with bargain-priced replacements. On the downside, the futures markets for Class III milk and cheddar cheese continue to discount the current cheese prices, from $.22 per lb in August to $.38 per lb in October.

BUTTER MARKET COMMENTS: Butter prices rose by a penny per lb this week and the market reflects continuing confidence that the butterfat supply is tight. Production of butter should continue to run at about normal for this time of year – schools closing, cheese plants again reaching out for milk, and demand for cream for other uses rising as summer approaches. Regarding demand, a recent survey by the National Restaurant Association indicates store traffic and sales are on a slight upswing. However, it's getting harder to believe that retail sales will continue to be as strong as they have been with consumers, with their low confidence in the economy, having to more carefully calculate their food purchases with fewer dollars available after buying other necessities.

POWDER MARKET COMMENTS: Prices for sales of nonfat dry milk continue to rise, according to reports for last week's shipments. The increases range from $.008 per lb in California to $.014 per lb nationally. (See prices and volumes in the table above.) DMN reports prices are generally firm, with domestic demand steady at best and export demand possibly building. Futures traders apparently don't think current prices will hold after August – prices were as much as $.045 per lb lower for September and October. Buyers, says DMN, are becoming more reluctant to make sizable commitments for the latter part of the year. They apparently don't believe the funny prices for skim milk powder that showed up in Fonterra's auction earlier this month. Buttermilk powder continues to be a good and cost-efficient alternative to nonfat dry milk. Prices are ranging about $.10 per lb below those for NFDM. Greater usage of condensed buttermilk in the central region, and a plant with electrical problems in the East, is limiting current production. Whole milk powder prices have risen to an average of $2.00 per lb, and production is increasing even as non-competitive exports of the product decrease.

WHEY PRODUCTS MARKET COMMENTS: The markets for dry whey and whey protein concentrates continue to be tight and prices continue to edge upward. DMN reports that some shipments (for domestic buyers) for both products are again falling behind and prices on the resale market are garnering premiums of up to $.15 per lb. There appears to be wide spread competition throughout the U.S. for NFDM, BMP, DW, and WPC, as users shop for reliable supplies, reasonable prices, functionality, and competitive prices. In many cases, products in condensed form are more readily available and lower in price than their dry counterparts.

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FRED DOUMA'S PRICE PROJECTIONS…

June 17 Est:	**Quota cwt. $21.08**	**Overbase cwt. $19.38**	**Cls. 4a cwt. $20.76**	**Cls. 4b cwt. $18.75**
Last Week:	**Quota cwt. $21.04**	**Overbase cwt. $19.34**	**Cls. 4a cwt. $20.67**	**Cls. 4b cwt. $18.72**

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U.S. SENATE VOTES OVERWHELMINGLY TO IMMEDIATELY REPEAL THE ETHANOL TAX/TARIFF SUBSIDIES: *(By Rob Vandenheuvel)* Yesterday, by a vote of 73 – 27, the U.S. Senate voted overwhelmingly to **immediately repeal** both the Ethanol Blender's Tax Credit and the tariff on imported ethanol.

As a reminder, the Ethanol Blender's Tax Credit (also known as the Volumetric Ethanol Excise Tax Credit, or VEETC) is a $.45 per gallon tax credit available to the oil/gas companies *(let me repeat that: a tax credit available to the* ***oil/gas companies, NOT the ethanol plants****)* for every gallon of ethanol they blend with their fuel. The tariff is a $.54 per gallon import tariff on ethanol imported into the U.S. *[The third major government assistance program for the ethanol industry – and the largest of the three – is the Renewable Fuels Standard, also known as the "ethanol mandate." This mandate requires that 12.6 billion gallons of ethanol be blended with our nation's fuel in 2011. It's estimated that almost 40% of our national corn supply is needed to fill this government-mandated demand.]*

The Ethanol Blender's Tax Credit – which provides a tax "incentive" to the oil/gas companies for an activity (the blending of ethanol with their fuel) that is largely already mandated by law – is estimated to cost the Federal Government $5-6 billion per year in lost tax revenue.

The vote yesterday was on an amendment offered by Senators Dianne Feinstein (D-CA) and Tom Coburn (R-OK). MPC expresses great appreciation to these two Senators for their tireless work in bringing this issue to the U.S. Senate. We also greatly appreciate the other 71 Senators from around the country who took a public stand against this unwise public policy of providing billions of dollars in government subsidies for an activity that is already mandated by law. For a complete breakdown of the vote yesterday in the Senate, you can check out: http://senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=112&session=1&vote=00090.

This is obviously not the end of the story. The bill that this amendment was attached to – the "Economic Development Revitalization Act" – has not yet been approved by the Senate, and must also get approval from the House and the President to become law. But whether or not this actual bill is what ends up repealing the ethanol tax/tariff subsidies, it's now clear that in an up-or-down vote, there are 73 of the 100 U.S. Senators (a veto-proof majority) that support the immediate repeal of these subsidies. The tides are certainly turning in Washington, DC on this important issue.

DAIRIES ENCOURAGED TO CONTACT GOVERNOR BROWN'S OFFICE TO URGE THE VETO OF THE "CARD CHECK BILL": *(By Rob Vandenheuvel)* This week, SB 104 (a bill changing the way agricultural labor/union elections are held) was delivered to California Governor Jerry Brown's desk for signature/veto. Governor Brown now has 12 days (starting on June 14th) to decide whether to sign the bill, veto it, or do nothing (which will result in the bill becoming law). Similar legislation has been approved by the California legislature in recent years, but has each time been vetoed by then-Governor Arnold Schwarzenegger.

SB 104 would amend the California labor laws to allow elections that determine whether a business's labor force will unionize to be conducted by having workers sign union cards in public view of the union officials and their fellow workers. Currently, these elections are held by secret ballot. Obviously, this bill would create the opportunity for workers to be pressured/intimidated by not only union officials but also their colleagues.

MPC and others in the dairy industry are strongly opposed to this legislation, and are urging Governor Brown to veto SB 104, but he needs to hear from as many people as possible! **Please take a few minutes to contact Governor Brown and urge him to veto this legislation. You can contact the Governors office by fax (916-558-3160) or by sending an electronic message through the Governors website (http://www.gov.ca.gov/m_contact.php).** *(If you are using the Governor's website to submit comments, please select the "Food & Ag issues/concerns" as the subject of your comments so that your message is sent to the appropriate folks in the Governor's office.)*

PRICES ARE MIXED IN FONTERRA'S LATEST AUCTION: *(By J. Kaczor)* A statement in one of the introductory sections on the GlobalDairyTrade website, *What is GDT?,* asserts it has become "*the leading price reference indicator for the products traded.*" That may have been so before New Zealand's Securities Exchange, NZX, started offering futures contracts for some of GDT's products, using the average of the Spot month prices as the basis for cash-settlement for their futures contracts. The Spot month is the first contract in each auction – the first full month after the auction month (e.g., August, for June's auctions). Recently, something came amiss.

For whatever the reason, the winning prices bid for skim milk powder in May and June rose to levels that were not supported by comparable prices reported at ports in Western Europe and the U.S., or by any known market comments about significant or unusual supply shortages or demand increases. For example, the winning price for **skim milk powder** in the June 1st auction for deliveries in August was $2.06 per lb, whereas the winning price for **whole milk powder** was $.36 per lb lower. At the same time, *Dairy Market News* reported the high end of the price range then available for skim milk powder in Western Europe was $1.65 per lb and the current prices for nonfat dry milk reported to NASS was $1.64 per lb and the California plant average price was $1.63 per lb.

The sharp price inversion between the two major internationally traded dairy products apparently did not get much attention from Fonterra or NZX, but the combination of a spot market with relatively small volumes used to settle futures contracts creates opportunities for price manipulation that traders should be concerned about. The maximum volume of skim milk powder GDT reported as available for 1st contract bidding was 1.1 million lbs for each of the most recent six auctions.

Winning Prices for June 15th, and Changes from Previous Auction

	Whole Milk Pwdr		Skim Milk Pwdr		Anhydrous MF		Milk Protein Conc	
	Per lb	Change	Per lb	Change	Per lb	Change	Per lb	Change
All	$1.764	+$.058	$1.812	-$.171	$2.425	-$.147	$2.907	-$.010
1st	$1.763	+$057	$1.979	-$.083	$2.433	-$.171	$2.946	-$.007
2nd	$1.767	+$.033	$1.854	-$.212	$2.424	-$.126	$2.869	-$.029
3rd	$1.758	+$.069	$1.691	-$.126	$2.411	-$.163	--	--

The table shown here reports the winning prices and price changes from the latest auction for four products. The price inversion for the milk powders for the 1st contract period narrowed by a net $.14 per lb, by $.245 per lb for the 2nd contract, and are gone for December deliveries. About 3% of the forecasted volume for WMP for the next twelve months was available in this auction. Percentages made available for the other products in the table were 2% for SMP, 5.5% for AMF, and 4% for MPC.

As the numbers of products offered in the auction increases, more bidders sign up, more bidders participate, and the length of time covered by the auction increases. Supposedly the auction will become more relevant and a better source for information of current and future supply and demand. However, the information provided in the current Summary of Results becomes close to meaningless. The SOR reports the minimum and maximum **combined** volumes for all products offered, the total volume sold, and a single weighted average price for all sales. The SOR is already no more meaningful or enlightening than would be a similarly constructed summary for, say, a combination of marsh mellows, marbles, and fish food [or "shoes and ships and sealing wax, and cabbages and kings" – Lewis Carroll.] If additional sellers join in, maybe less information in the present form used, rather than more, would be helpful.

MAY MILK PRODUCTION CONTINUES TO REFLECT WESTERN BIAS: *(By J. Kaczor)* USDA reports there were 13,000 more dairy cows in May than in April (81,000 more than a year ago), and production per cow edged upward by a mere 8 pounds compared to last May. Total milk production increased by 230 million lbs, or 1.3%. Production per cow and total milk production was virtually unchanged on a per day basis compared to April. The twenty-three largest milk producing states did somewhat better – they added 15,000 cows from a month ago, which brought the increase over a year ago to 103,000, but production per cow increased by only 6 pounds per cow. Total production in these states rose by 1.5%, and represents 92.9% of total U.S. production.

The biggest point to take from this report is how much production per cow has slowed down from last year's rate of increase. Reasons for this vary. Producer decisions likely include the continuing freshening of the herd (86,000 more dairy cows were culled this year from January through May 28th than for the same period last year but the number of dairy cows increased by only 59,000 so far this year) and changes in feed rations. Add to that some very notable unpleasant weather in some parts of the country (meaning wet or hot or humid).

Higher milk prices and the prospect for more of the same to come, receiving average prices for marginally costed production, and the likelihood that some producers acted in time to secure protection from higher current feed costs, help to explain the continuing growth in the milking herd. Geography and climate continues to weigh in on explaining a decidedly split industry. While the largest increase in production over last May occurred in Texas (+8.8%), the next six states with the greatest percentage increases were in the West. The increases in those six ranged from 3.7% (California) up to 6.7% (Colorado). California added 3,000 cows during May (17,000 more than a year ago); production per cow increased by 55 lbs, to 2,075 lbs (only Arizona and New Mexico were higher), and had the highest volume increase in milk production, 132 million lbs.