



# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks N/C \$2.1550  
Barrels +\$.0050 \$2.1300

### Weekly Average

Blocks +\$.0150 \$2.1550  
Barrels +\$.0115 \$2.1280

### CHICAGO AA BUTTER

Weekly Change +\$.0600 \$2.1000  
Weekly Average +\$.0400 \$2.0750

### DRY WHEY

**WEST MSTLY AVG** w/e 07/29/11 \$.5825  
**NASS** w/e 07/23/11 \$.5501

### NON-FAT DRY MILK

#### Week Ending 7/22 & 7/23

Calif. Plants \$1.5364 24,957,346  
NASS Plants \$1.5544 29,628,624

**CHEESE MARKET COMMENTS:** It looks like the current strength in the cheese market, as well as the butter market, is buoyed by what's happening with current U.S. milk production. The intensely hot and dry (or hot and humid) weather is one of those factors that could not be predicted and is beyond the industry's ability to control. We know the effect it is having on milk production in many parts of the country but questions still are unanswered about what its effect may be on feed supplies and their prices. USDA reports cheese sales continue to be doing well across all varieties. Inventories are about even with last year's levels. Most cheese plants are having to modify operating schedules and run their plants at less than optimum efficiency. There simply is not enough milk presently available, they say. For a week without any price change for blocks, there was certainly a lot of activity on the Exchange. Twenty-four carloads of blocks sold this week, most of them below the day's starting prices, but buyers stubbornly stuck to their business and prices finished unchanged each day. *Dairy Market News* says most current cheese exports require CWT's subsidies as domestic prices are higher than international prices. That may be so for cheddar, but it doesn't square with the volume of other cheese exports reported this year through May, which is four times larger than cheddar exports. CWT is still short of the level of membership that would permit them to assess members \$.02 per cwt of milk production. They say they still have funds carried over from last year for those subsidies.

**BUTTER MARKET COMMENTS:** Want to know what's on the minds of butter buyers these days? It's price volatility and product availability and cost of inventories. Here's why: butter prices have been at historic highs for the January to July period. There were, and perhaps still are, sound reasons for them to be that high – mainly global shortages of butterfat products. If prices remain about where they now are for another four weeks they will lower than they were a year ago when butter prices had risen to and remained at about \$2.20 per lb for ten weeks. With U.S. milk production being pummeled by the weather in many parts of the country, there is reasonable question whether current butter production plus stocks on hand will be sufficient to fully supply domestic and export demand. Heavy demand for cream for other uses is pulling product away from the churns. While butter stocks have risen sharply in the last two months, approaching levels of a year ago, they were not sufficient last year, and prices soared. Buyers are calculating the odds that butter production will be sufficient this fall to supply their customers' needs when those orders are received. If they wait and the market busts like last year, they win. If they stock up now, and the market busts, they lose. If they hold off buying, and the market remains tight, they may lose one way or another. The price swing last year was a drop of \$.56 per lb in four weeks followed by an increase of \$.60 per lb five weeks later.

**POWDER MARKET COMMENTS:** Last week's report of a small price adjustment downward for somewhat higher volumes of NFDMD shipped the previous week may have been the shot across the bow, warning of more of the same to come. This week, volumes of NFDMD jumped by about 75% above last week's levels and prices fell sharply – by 8 to 10 cents per lb. That pattern is all too familiar, and usually is tied to end of contract shipments for the export market. DMN notes that driers have had less milk available because of lower milk production and

increasing demand for condensed skim for other uses. That should help to bolster the market, but NFDM prices in the U.S. seem to defy logic and reason. Buyers are presently holding back, looking for more price weakness to occur, but also anticipating what should be a tight U.S. market this fall. DMN reports sales at discounted prices in the East, a bonus for those who step in now with orders. As the shift in production from NFDM to skim milk powder continues, look for more price volatility and more market surprises as the NFDM supply for domestic usage dwindles. Are those changes in the price for grade A powder on the CME being used to lower prices for extra grade product? Prices are lower to sharply lower for buttermilk powder, depending on location, reflecting the compatibility of end usage alternatives for buyers. Prices for whole milk powder, a product generally not considered suitable for substitution for nonfat and lowfat products, rose during the week. The full price range for the western region reported this week for NFDM is \$1.48 to \$1.69 per lb. Prices for shipments made last week are shown in the tables above.

**WHEY PRODUCTS MARKET COMMENTS:** Production of dry whey is generally slowing, in line with cheese production. Most sales continue to be under contract, although some spot loads are available from manufacturers, and product for re-sale is available for a price. Generally, prices for dry whey have held steady, although the west's "mostly" average edged upward once again. Production of whey protein concentrates also are slowing, for the same reason cited above. Prices are said to be under some pressure as some buyers believe whey product prices may follow the recent path taken by NFDM prices. Dry whey prices, except for California plants, are used in milk price formulas throughout the country. The big profits from the whey stream are in the more concentrated products – the latest monthly average price for WPC-34 has been very close to the record highs reached in 2007.

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

<b>July 29 Final:</b>	<b>Quota cwt. \$21.23</b>	<b>Overbase cwt. \$19.54</b>	<b>Cls. 4a cwt. \$20.05</b>	<b>Cls. 4b cwt. \$19.35</b>
<b>Last Week:</b>	<b>Quota cwt. \$21.30</b>	<b>Overbase cwt. \$19.60</b>	<b>Cls. 4a cwt. \$20.27</b>	<b>Cls. 4b cwt. \$19.35</b>

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**THE TIPPING POINT HAS BEEN REACHED:** *(By J. Kaczor)* An article this week, perhaps more than one, expressed the thought that the U.S. dairy industry has reached the point of no return with respect to exports. Depending on how it is calculated, somewhere between twelve and fourteen percent of current U.S. milk production is being exported. In a number of ways that is good news. That means dairy producers, it is hoped, can continue to plan for reasonable expansions because there is a wide enough line of products now being exported in sufficient volumes to provide reasonable assurance that the exporters have established satisfactory relationships with their buyers, which will last. Forecasters of all stripes see international demand for dairy products outstripping supply for the foreseeable future.

The references to a tipping point and a point of no return with respect to exports are clearly a warning. IDFA warns producers to not cut back on production because exports represent a commitment to the international community and a cut back on milk production could cause a loss of market and a subsequent collapse in prices. IDFA and others warn producers that, with or without a price collapse, price volatility is to be expected for dairy product prices and milk prices and appropriate measures should be taken to protect against sharp price decreases. IDFA warns producers to not expect to be paid prices that are unduly high. IDFA recommends the use of forward price contracting for producers. [The next such price crash, if it follows the timing of the last three, will occur sometime next year.]

The warnings being issued should be taken to heart. IDFA and producer cooperative plants want to maximize volumes, efficiencies, and profits. All producers need to do is to supply them milk under all conceivable market conditions. If you don't, someone else will. Frankly, the advice for producers to take appropriate measures to ensure future margins is very good advice, regardless of its source. Commodity brokers are ready and willing to help you develop a sound plan. Your lender is likely to require you to have one. USDA's LGM-Dairy insurance

program is expected to have funding available this fall to re-establish premium subsidies for that great program. Look into ways to lock in **minimum** amounts of income over feed costs twelve months into the future.

Up to this point, this discussion of tipping points and dire warnings is a bit one-sided. Starting now, all producers, whether they are independents or members of a cooperative, should be asking their buyers about what steps they have taken to protect their ability to maintain sales to domestic or international customers when price volatility occurs. High prices are as damaging to buyers as are low prices damaging to producers. Exporters should be questioned about how they will maintain sales when prices are low or high, rising or falling, under short term and long term arrangements. The same set of risk management tools available to producers are available to sellers. Demand verification that your milk will have a market and will generate fair prices. Otherwise, consider the tipping board.

### **MORE THAN TWO WEEKS IN...THE NAYSAYERS ARE CERTAINLY YELLING THE LOUDEST:**

*(By Rob Vandenheuvel)* It has been 16 days since Congressman Collin Peterson (D-Minnesota) unveiled legislative language outlining significant dairy policy reform that he intends to introduce in the U.S. House of Representatives in the near future. The legislation largely mirrors “Foundation for the Future,” the dairy policy reform proposal developed over the past two years by the National Milk Producers Federation (NMPF). Since Rep. Peterson unveiled the “discussion draft” of his bill, individual dairy farmers, producer organizations and cooperatives from around the country have been formally staking their positions on the proposed legislation. MPC has been part of that effort, as our board last week formally endorsed the legislation.

Having legislation written in the U.S. House of Representatives is an essential step in the process of making fundamental changes to our national dairy policies. Ultimately, any change to our Federal safety net programs will require an act of Congress. While the last few years have been a time of great debate among dairy farmers and our organizations over the best policy reform ideas to pursue, we are now at the next step of that process – evaluating what Congress is willing/able to approve. In essence, this debate has shifted from an ideological discussion among the dairy industry to a very real debate among the 535 members of the U.S. House and Senate – the only people in the country who actually have the ability to implement such change.

While this key shift represents a positive step forward for those supporting the legislation, it also motivates those who oppose the legislation to become more active and vocal. That has certainly been seen over the past two weeks. Even MPC has been the target of such vocal opposition. In the hours and days after announcing our board of directors had endorsed Rep. Peterson’s legislation, we received emails with messages such as, “Good luck with your hanging,” and “Your dairy farmer members might just as well throw in the towel now while they’ve got something left.” We’ve also seen general opposition from groups like the National Farmers Union, the Dairy Policy Action Coalition and Minnesota Milk Producers. Their opposition ranges from claims that Rep. Peterson’s proposal is not strong enough to claims that it is too strong (this may be the best evidence we have that Rep. Peterson has struck a pretty good balance in his legislation).

In any debate over fundamental policy changes – not just in the dairy industry – the loudest voices early on will be from those who oppose the change. That’s certainly the case here. But fortunately or unfortunately (depending on which side of this issue you fall on), this debate in Congress will be decided on the facts, not who screams the loudest. So in that light, let’s take a look at some of the facts.

First of all, there is one overriding fact that trumps all others: **unless Congress passes a reform package, the MILC and Price Support programs will continue to be our main “safety net” programs (comforting, huh?).** In other words, we know exactly what we’ll get if Congress does nothing. And because of budget constraints, starting in September 2012, even under current law, the MILC program will experience cuts: (1) the amount of milk that can be covered by the MILC program will be reduced from 2.985 million pounds to 2.4 million pounds (a 20% reduction); (2) the actual cash payment on your covered milk when the program triggers in will be reduced by 24%; and (3) the “feed cost adjuster” that was added in 2008 that increases both the frequency and amount of the MILC payouts when dairy feed costs increase would be scaled back dramatically

(by about 29%). In short, starting in September 2012 – even if Congress does nothing – the biggest safety net program we have, the MILC program, will trigger in less frequently and will provide significantly fewer dollars.

With that backdrop – knowing what the status quo will look like if nothing is passed – let’s briefly take a look at one of the pieces of the proposed legislation that has been garnering some of the loudest objection.

### **Dairy Market Stabilization Program.**

This is the part of Rep. Peterson’s proposed legislation that would allow all dairies across the country to unify and temporarily cut back milk production when dairy farmers are suffering from milk prices that won’t cover their costs. It is designed to be inactive for a vast majority of the time, and only activate on a temporary basis when we need quick cut-back in national milk production in order to bring supply and demand back into balance.

Of course, when reading the criticism of this particular piece of Rep. Peterson’s legislative draft, we get a very different picture of this program. Some have gone as far as to say that it would restrict dairies’ ability to grow their businesses. My question is, “How?” Most of the time, this program would have **ABSOLUTELY NO IMPACT** on your dairy. It would simply be on the shelf, inactive. Just as we have now, dairies could continue to grow if they choose. And even if it did in fact activate for a limited period of time (when we have more milk production than we can profitably market), the program would only create incentives to slightly cut back milk production (2, 3 or 4%) for a limited time period until we re-achieve balance in supply and demand.

In any industry, we know that a slight over-supply of product devalues not just those last few units, but the entire production. Dairy is no different. When we have even 1% more milk than markets can profitably absorb, our entire milk production is devalued. So why is the idea of implementing a program to quickly and temporarily address that financially devastating market imbalance so objectionable? I would argue that the objection we are hearing is much more philosophical than factual.

The other two pieces of Rep. Peterson’s proposed legislation have not been immune to criticism either. In future issues of this newsletter, we’ll take a closer look at these programs, and how the facts about how these pieces work stack up to the criticisms that are levied against them. So stay tuned...

**JULY DAIRY CARES REPORT PUBLISHED ON OUR WEBSITE:** *(By Rob Vandenheuvel)* The latest Dairy Cares Column has been published on our website at <http://www.milkproducerscouncil.org/cares.htm>. This month’s column focuses on the tremendous investment that Central Valley dairy families have made in improving water quality. Millions of dollars are spent each year by California dairy families to comply with water quality regulations, helping to protect our valuable water resources. It’s important that we continue to remind our regulators, politicians and the general public of this huge investment in the well-being of the communities we live and operate in.