



# Milk Producers Council

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DATE: September 27, 2013  
 TO: Directors & Members

PAGES: 5  
 FROM: Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0450 \$1.7500  
 Barrels - \$.0475 \$1.7200

### Weekly Average, Cheddar Cheese

Blocks - \$.0340 \$1.7670  
 Barrels - \$.0420 \$1.7300

### CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.6100  
 Weekly Average +\$.0680 \$1.6080

### DRY WHEY

Dairy Market News w/e 09/27/13 \$.5638  
 National Plants w/e 09/21/13 \$.5823

### NON-FAT DRY MILK

#### Week Ending 9/20 & 9/21

Calif. Plants \$1.7933 8,230,406  
 Nat'l Plants \$1.8149 16,354,336

#### Prior Week Ending 9/13 & 9/14

Calif. Plants \$1.7847 9,359,797  
 Nat'l Plants \$1.8048 16,899,598

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## FRED DOUMA'S PRICE PROJECTIONS...

Sept 27 Final: Quota cwt. \$19.44 Overbase cwt. \$17.74 Cls. 4a cwt. \$19.46 Cls. 4b cwt. \$16.65  
 Last Week: Quota cwt. \$19.42 Overbase cwt. \$17.72 Cls. 4a cwt. \$19.36 Cls. 4b cwt. \$16.68

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## MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

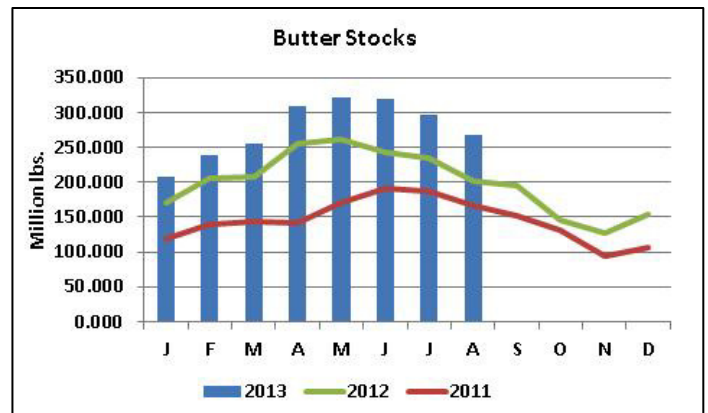
### Milk & Dairy Markets

Domestic dairy product prices were relatively quiet this week. Class III prices settled mixed compared to last Friday, and in general prices were little changed. Class IV futures were also mixed, but leaned higher. Most contracts posted double-digit gains. Butter was the only product to close higher at the CME spot market this week. It added a penny and settled at \$1.61/lb. after 28 trades. Cheddar blocks and barrels shed 4.5¢ and 4.75¢, respectively, and Grade A nonfat dry milk (NDM) closed 1.5¢ lower.

The National Dairy Products Sales Report posted higher average prices for all products. The California Weighted Average Price for NDM rose to \$1.7933/lb., up 0.86¢ in the past week to the highest level since December 2007. Sales volume moderated. While California's NDM price continued to climb, *Dairy Market News* reported signs of weakness amidst milk powder prices both here and abroad.

Cheese and butter processors continue to limit production schedules based on the availability of milk and cream. Some driers are completely idle. Demand for cream ahead of the holiday baking season is strong, and fluid milk demand in the Southeast is firm. The region has imported more milk over the past few weeks than at any time since 2006.

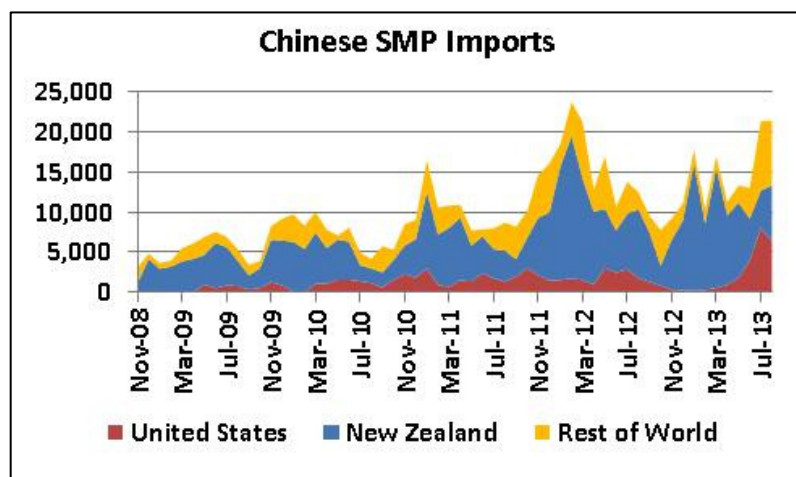
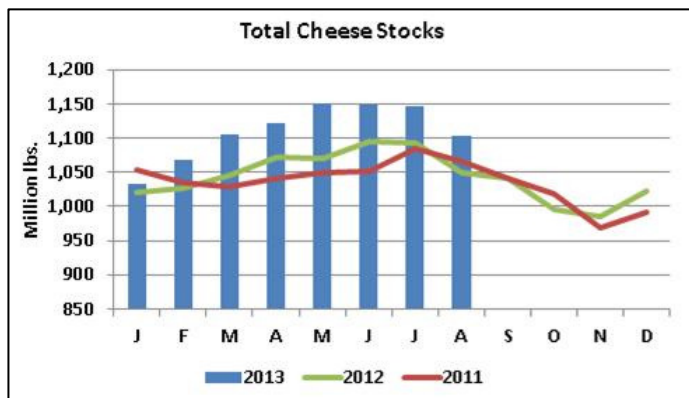
With limited milk available for processing and firm demand overseas, it is no surprise that cheese and butter stocks declined in August. Butter inventories totaled 268.5 million lbs. at the end of August, down 9% from



July which is typical for this time of year. Stocks remain 34% higher than last year. Much of the butter in storage does not meet export market demands for fat and salt content, so it will have to go to the domestic market.

The volume of butter in storage in Europe remains well below that of a year ago, so despite the large year-over-year increase in domestic butter supplies, combined U.S. and EU stocks are only 0.8% higher than they were at this time last year. Global butter prices continued to rise over the past two weeks. Prices jumped 2.6% in Oceania, according to *Dairy Market News*. Processors are actively churning butter to capture the premium offered in the export market, which may allow further declines in U.S. butter stocks in the months to come.

August cheese stocks totaled 1.013 billion lbs., 3.8% lower than July's stock figures, which were revised 0.5% lower than USDA's previous estimate. The month-to-month drawdown was in line with historical averages, which is a little surprising given firm export demand throughout the month. August cheese stocks are 5% higher than at this time last year. American cheese stocks fell to a six-month low of 670 million lbs. The 31.5 million lb. drawdown in American cheese inventories was the largest July-to-August drawdown since 2004.



China imported 21,805 metric tons (MT) of whole milk powder (WMP) and 21,421 MT of skim milk powder (SMP) in August. The U.S. accounted for 30% of China's SMP imports in August. While Chinese imports of SMP were the second highest on record, WMP imports were less than half as large as in August 2012. It seems unlikely that Chinese demand for WMP has slowed dramatically. Rather, China may have slackened its purchases of WMP due to limited supplies from New Zealand and Europe. Milk production in both regions is picking up, and Chinese WMP imports may return to recent altitudes once supplies from its preferred suppliers are more readily available.

Fonterra, for one, seems confident in continued Chinese dairy product demand. For the third time in only two months, the cooperative has raised its payout forecast. This time it is promising a record-high \$8.30/kg of milk solids. Including dividends, Fonterra will be paying New Zealand's dairy producers well over \$21/cwt.

Weekly dairy cow slaughter totaled 65,939 head, the highest total since March. This was 3.9% higher than the same week a year ago. Year-to-date slaughter remains 2.5% higher than last year.

Live cattle prices have climbed for eight consecutive sessions. The slow, steady rise has pushed December futures to their highest level since February. Meanwhile, feed prices have

**MANAGER'S NOTE:** (By Rob Vandenheuvel)  
*In a recent article by Marketplace publication, the Dairy Institute of California was cited as stating that, "...cheese processors agree pricing needs to change. But they now sell throughout the world and have to stay competitive." One has to wonder how they justify that rationale when the Class 4b price in California has averaged about \$16/cwt in 2013, with nothing in the futures market indicating that those prices are headed higher, while one of our prominent global competitors – Fonterra – is promising a pay price of more than \$21/cwt going forward. Exactly how much of a discount do our state's cheesemakers need to "stay competitive"?*

moderated. This has allowed feeder cattle prices to reach record highs, and dairy steer calf prices are following suit. At the monthly Overland Stockyard video auction, the price of Holstein steer calves at 325 lbs. ranged from \$147/cwt. to \$160/cwt., up \$15-\$20/cwt. from the August auction.

### Grain and Hay Markets

The grain and oilseed markets were also pretty quiet this week. Both corn and soybean futures closed a few cents higher than last Friday. Yield reports are pouring in and they continue to point to a sizeable corn crop. Some analysts speculate that USDA may increase its corn yield estimate on the next Crop Production report by more than enough to offset any acreage declines. Soybean yields are more variable, but in the aggregate they imply that the crop weathered the dry spell better than was feared. There is no threat of frost, and harvest is progressing smoothly.

USDA will issue its quarterly grain stocks report next week. This will likely be a non-event for corn and soybeans, as it is well known that old crop supplies are minimal and new crop supplies are already hitting the market. But there may be a story in the wheat market. Wheat feeding was heavy this summer and exports have been impressive. The stocks report may help to quantify that demand and influence grain prices accordingly.

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**FARM BILL UPDATE: WHAT IS “PERMANENT LAW” AND WHY DOES IT MATTER?** *(By Rob Vandenheuvel)* Over the past month, the U.S. Congress has certainly had its hands full. The media has been keeping busy covering the Syria debate, the possibility of a government shutdown, the upcoming implementation of Obamacare and the approaching debt limit. In the midst of these issues is the effort to renew the Farm Bill; a topic that you may not find on the front page of the paper, but certainly a critical issue for many, including our nation’s dairy farmers.

We’ve written countless articles in this newsletter about the Farm Bill, and the important effort to reform the dairy safety net programs. We’ve talked about the need to replace the current safety net (MILC and Price Support programs) with a more equitable system of margin insurance, tied to a market stabilization program that will empower our dairies with the tools to better respond to supply/demand imbalances.

Today, we’re going to look at another issue – one that is often misunderstood, yet one that seems to get headlines every time a Farm Bill is about to expire. The issue is “permanent law.” **Congressman Collin Peterson (D-Minnesota) recently made headlines when he announced he had suggested that U.S. Department of Agriculture (USDA) Secretary Tom Vilsack begin preparing to implement “permanent law,” in the event that a new Farm Bill is not agreed to.**

**What is “permanent law”?** There are two bills – one from 1938 and another from 1949 – that are collectively referred to as agriculture’s “permanent law.” The 1949 law – approved by Congress as the “Agriculture Act of 1949” – is where we find the permanent law for milk. These laws are still on the books; the only reason they are not enforced today is because the current Farm Bill (and previous Farm Bills before it) temporarily supersedes permanent law. However, if the Farm Bill were to expire (which looks like it will likely happen next week), permanent law would once again be in effect. *(It’s important to note, however, that while the Farm Bill may expire next week, the provisions described below impacting dairy farmers wouldn’t start until January 1, 2014).*

Specific to the dairy industry, the Agriculture Act of 1949 states that:

*“...the price of milk shall be supported at such level not in excess of 90 per centum nor less than 75 per centum of the parity price therefore as the Secretary determines necessary in order to assure an adequate supply of pure and wholesome milk to meet current needs, reflect changes in the cost of production, and assure a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs. Such price support shall be provided through the purchase of milk and the products of milk.”*  
-- (7 USC § 1446)

What this means is that **under permanent law, the U.S. Secretary of Agriculture is required purchase milk and milk products in an effort to support a milk price that is at least at 75 percent of the “parity price” (and up to 90% of parity, based on the Secretary’s discretion).** The parity price, which is calculated monthly by USDA, is essentially a measure of the historical relationship between the value of an agriculture commodity and the costs associated with making that commodity. In the case of milk, the parity price is based on a historical relationship between the price of milk and the various input costs associated with dairy farming. The base period used to define that historical relationship is 1910-1914 – a period that USDA claims was considered a relatively normal period when price relationships were generally stable across all sectors of agriculture and non-farm industries.

The September 2013 announced “parity price” for U.S. milk was \$49.50 per hundredweight. **So under permanent law, the Secretary of Agriculture would be required to purchase milk and milk products in an effort to support U.S. milk prices at no less than \$37.13 per hundredweight.** Compare that to the September 2013 announced “All-Milk Price” of \$19.40 per hundredweight (*and of course, an even lower price in California*).

So like it or not, that is the law of the land. Yes, it is a very old policy based on what the dairy industry looked like about 100 years ago, and most in the industry would say that there are better ways of providing a safety net for U.S. dairy farmers. **But the fact remains that this permanent law is what becomes effective if the Farm Bill expires. Rep. Peterson was absolutely right to point out that U.S. dairy farmers should be able to count on the government enforcing the laws that are in place.**

This is obviously not the first time the issue has come up. Dubbed as the “Milk Cliff” last year, the issue comes up anytime a Farm Bill is about to expire. And in the past, the dairy community has largely tried to minimize the issue; instead, urging Congress to complete their work on the Farm Bill.

**So what is different this time? Why is Congressman Peterson recommending that Secretary Vilsack prepare for the implementation of this permanent law? And why should we as an industry be thankful that he did?**

Well for starters, there are numerous steps that must be taken before USDA can effectively start purchasing dairy products. It’s been many, many years since any cheese has been sold to USDA through the Support Price program, and so product specifications, grading inspectors, warehousing, and undoubtedly many other issues must be considered in advance.

But secondly – and most importantly – **Rep. Peterson knows that our dairy farmers cannot afford to continue with the status quo.** The current Farm Bill – approved in 2008 – provides *no real safety net for U.S. dairy farmers* – as evidenced by the 2009 collapse of the industry – and any kind of extension of that failed policy should not be an option.

The dairy industry – through the efforts National Milk Producers Federation and Rep. Peterson – has developed an alternative safety net program, one that is vastly superior to the status quo. MPC and dairy organizations/cooperatives from around the country have stood up and supported the Dairy Security Act as the safety net policy we support for the next Farm Bill. However, up until now, Congress has been unable to agree on an overall Farm Bill that can be signed into law. So here we sit.

Congressman Peterson has correctly recognized that we have only two acceptable options: let the Farm Bill expire and permanent law to resume, or approve a new dairy safety net program. Permanent law is admittedly a harsh way to support the industry, but it does provide real protection that “reflects changes in the cost of production” and “assures a level of farm income adequate to maintain productive capacity sufficient to meet anticipated future needs” (excerpts from 1949 law; wouldn’t it be great if these virtues drove the 2013

Congress?!?). The other option – the one preferred by dairy organizations/cooperatives around the country – is to implement the Dairy Security Act as part of any Farm Bill legislation that is approved this fall.

Of course, not everyone sees it this way. In a press release last week, the International Dairy Foods Association (IDFA), on behalf of the processors they represent, stated that “...the U.S. Department of Agriculture should not move quickly to enforce the 1949 law...” Instead, IDFA points out that, “The Obama administration enjoys ample legal authority to delay the enforcement of the 1949 act should Congress fail to pass a new farm bill prior to December 31.” (press release can be found at <http://goo.gl/8d72Wr>).

It’s not difficult to see the priorities of our “partners” in the industry. The thought of not having a dairy safety net doesn’t seem to faze them one bit. And why should it? Through end-product pricing and cost-based make allowances, U.S. dairy farmers have gone to great lengths to protect these processors from economic harm, providing opportunities for processor profits regardless of whether the price of dairy products is high or low. So why in the world would they care if dairy farmers have a safety net program? The statement they put out answers that question: they’re ultimately fine with the status quo.

Fortunately, Congressman Peterson understands the issues faced by our dairy farmers, and while we hope Congress can complete its work on a Farm Bill that includes the Dairy Security Act, we are thankful that someone in Washington is making sure that dairy farmers aren’t just thrown under the bus.

**FUNDING OPPORTUNITY FOR IRRIGATION PUMP UPGRADES – BUT YOU’LL NEED TO ACT QUICKLY:** *(By Kevin Abernathy, MPC’s Director of Regulatory Affairs)* Time is running out to receive grant funding for agricultural irrigation pumps! The San Joaquin Valley Air Pollution Control District will be accepting applications to replace Tier 1 or Tier 2 diesel engines with a new Tier 4 diesel until September 30, 2013 due to Rule 4702 compliance schedules. Additional time may be available for projects replacing diesel engines with new electric motors. Projects are funded on a first come, first serve basis and funding amounts are based on a dollar per horsepower table as determined by the advertised horsepower of the engine in the new engine, not to exceed 85% of the eligible costs. For a full list of program eligibility criteria and funding tables please visit <http://valleyair.org/grants/aggpump.htm> or contact me at [kevin@milkproducers.org](mailto:kevin@milkproducers.org).

**ALSO, A FUNDING OPPORTUNITY FOR YOUR TRACTORS AND OTHER OFF-ROAD MOBILE EQUIPMENT:** *(By Kevin Abernathy)* The SJVAPCD’s Agricultural Tractor/Mobile Equipment Replacement Program provides incentives to reduce emissions from agricultural equipment that are widely used in the Valley, and are essentially uncontrolled and unregulated. Equipment that is eligible for this program must be off-road and self-propelled, have an uncontrolled (Tier 0) or Tier 1 engine, and operate at least 75 percent of the time in California and 50 percent of the time in the District. Projects are funded on a first come, first serve basis and funding amounts are based on a dollar per horsepower table as determined by the advertised horsepower of the engine in the new tractor, not to exceed 80% of the eligible costs. For a full list of program eligibility criteria and funding tables please visit <http://valleyair.org/grants/tractorreplacement.htm> or contact me at [kevin@milkproducers.org](mailto:kevin@milkproducers.org).