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

DATE: November 19, 2010 **PAGES: 4**
TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	+*$.0350*	$1.4450
Barrels	+*$.0600*	$1.4300

Weekly Average

Blocks	+*$.0245*	$1.4285
Barrels	- *$.0155*	$1.3895

CHICAGO AA BUTTER

Weekly Change	- *$.1000*	$1.8900
Weekly Average	- *$.0500*	$1.9480

DRY WHEY

WEST MSTLY AVG	w/e 11/12/10	$.3900
NASS	w/e 11/13/10	$.3713

NON-FAT DRY MILK
Week Ending 11/12 & 11/13

Calif. Plants	$1.1697	12,241,357
NASS Plants	$1.1921	13,936,464

CHEESE MARKET COMMENTS: After falling $.36 per lb in four weeks, block prices on the CME this week bounced up by $.035 per lb and barrels by $.06 per lb. Let's hope those cats were not dead; we would like to see more bounce on the exchange. Trading was active again, as it has been; prices for barrels changed daily; blocks changed every day except today. More buyers are showing up than three and four weeks ago – a good thing. Cheese production and packaging operations are in typical high-sales season activity mode and the recent price drops add a measure of uncertainty to most major decisions at every stage along the way from the plant to the retailer or food service operator. Dairy Market News reports that most major buying decisions have already been made, at least those for this year. Then comes New Years, Super Bowl, and March Madness. Yesterday's report on milk production in October came in lower than expected; the report on cheese and butter in cold storage will be available on Monday. The market's reaction to the two, more often than not, is to ignore them.

BUTTER MARKET COMMENTS: A look at a chart of weekly butter prices on the CME shows that the recent highs were reached two other times in the past ten years. That shows how rare those levels are, but also shows a pattern that producers can only hope is not repeated in 2010 – sharp price drops of $.80 and $.90 per lb. Price drops from other highs reached during that decade were in the $.50 to $.60 per lb range. The most recent of those occurred in 2008 when the weekly average price dropped by $.60 per lb, down to $1.15 per lb. DMN commentators continue to report anxiousness among manufacturers (and possibly everyone else) about possible further price declines. This week butter lost $.10 per lb, the weekly average lost $.05 per lb, and the NASS average price reported by manufacturers for sales made last week is about $.12 per lb lower than three weeks earlier but is still $.16 per lb above today's closing price. Butter prices do follow a pattern that seems inevitable – rising through the year, reaching peak levels at various times during the year, and falling in November and December. The same path was followed this year, only to an extreme on the high side. There is no precedent for prices to stay anywhere near those levels, but we can certainly hope that the landing is near and soft. The winning prices for anhydrous milkfat in this week's internet auction, for deliveries in the January through July period were a solid $2.43 per lb for all seven months. Indicative, isn't that, of continuing concern about supplies?

POWDER MARKET COMMENTS: Buttermilk powder prices are holding steady, although demand appears to have at least temporarily softened and production is edging upward as butter production continues to increase. Whole milk powder prices, averaging $1.69 per lb, are $.14 per lb above the winning price in this week's internet auction for January shipments of product f.o.b. New Zealand ports. DMN says the market for WMP is tight. For nonfat dry milk, the pattern of prices, stabilized by heavy export volume, is beginning to take a new shape. After falling from the high $1.20's per lb, weekly prices reported by California plants had been averaging around $1.10 per lb for a dozen or so weeks but are averaging about $.07 per lb higher over the past three weeks. DMN commented again on the widely changing price forecasts put out by a leading powder seller, noting that buyers are wanting usable market information, are not getting it, and are reluctant to make significant commitments until a trend can be determined. Absent usable market information, recent price patterns appear to be rounding into support for sustainable price increases for this very important product.

WHEY PRODUCTS MARKET COMMENTS: The markets for dry whey and whey protein concentrates are strong. Producers of the two are competing for raw supplies. Buyers are being told to expect little in the way of product that has not been contracted beforehand. Supplies for both products, compared to domestic and export demand, is limited. DMN offers this observation: "A few manufacturers report projected 2011 WPC 34% production is sold out." Possibly in response to that comment, or comments like it, CME futures prices for dry whey have been moving up sharply, up $.03 per lb this week, and now are flat at $.40 per lb from January through June. It appears the world is coming to the U.S. for their whey protein products.

***

FRED DOUMA'S PRICE PROJECTIONS…

Nov 19 Est:	**Quota cwt. $16.48**	**Overbase cwt. $14.79**	**Cls. 4a cwt. $16.22**	**Cls. 4b cwt. $13.07**
Last week:	**Quota cwt. $16.45**	**Overbase cwt. $14.75**	**Cls. 4a cwt. $16.24**	**Cls. 4b cwt. $12.97**

***

THE WORD OF THE WEEK IS "ETHANOL;" AN OPPORTUNITY NEXT MONTH TO ADD RATIONAL DISCUSSION TO THE CONGRESSIONAL DEBATE: *(By Rob Vandenheuvel)* Last year, the U.S. produced 13.2 billion bushels of corn – a record year. This year is on pace to be the third-highest annual production. This should be great news for dairy and other livestock industries, as corn is a major component of our animals' diets. Yet, here we are – with December corn currently trading at more than $5.22 per bushel (which has actually come down from almost $6 per bushel earlier this month). The current price is almost 50% higher than it was just six months ago and almost **three times higher** than it was just five years ago! So why the disconnect?

The issue of how our nation utilizes our corn supply is something that has a profound impact on our industry, yet so often, we get caught up in the price we receive for our milk that we forget about the factors that drive our input costs. Corn is a major component in the diets of our cows. It's such a major component that as corn has risen about $2 per bushel over the past six months (and with soybean meal following suit with a $90 per ton increase in that time period as soybeans fight with corn for available land), we've seen our cost of production rise almost $4 per hundredweight, according to a recent analysis by Dr. Bruce Babcock from Iowa State University. As every dairyman and his accountant knows, that is having a huge impact on your dairy's current bottom line, to say the least.

A number of factors drive the value of corn, but a significant amount of that influence comes from something that should be completely unrelated to food: our nation's energy policy. Corn-based ethanol is certainly not new, but current government policies have made it the key talking point in the renewable energy discussion in recent years. Through a government mandate that forces oil and gas companies to blend a specified volume of ethanol with our gas (12.6 billion gallons in 2011), these ethanol plants have a guaranteed "market" for their production. And as if it wasn't enough to force this demand, Congress also provides these oil and gas companies with a $0.45 tax credit for every gallon of ethanol they blend (which amounts to about $6 billion per year in tax credits). Lastly, to ensure that these oil and gas companies don't fulfill their needs with foreign ethanol (such as Brazilian sugar-based ethanol), Congress instituted a $0.54 per gallon tariff on imported ethanol. In short, Congress has done more than its part to ensure that corn-based ethanol finds a home.

So how is our nation benefiting from this policy? Are we less reliant on foreign oil? Nope. For starters, the diesel-burning farming equipment needed to grow, harvest and transport the corn certainly offsets any reduction ethanol brings. Well how about environmental benefits? Nope. Again, since corn doesn't magically grow without farming equipment, we still need to use diesel-powered engines to grow, harvest and transport the corn. So what is the reasoning behind our national efforts to prop up this industry? Two reports were published this month that help us get a glimpse into this question. The first was a report by the Environmental Working Group – a well-known environmental organization in Washington, DC. That report can be found at:

http://static.ewg.org.s3.amazonaws.com/reports/2010/ethanol/EWG-ethanol-report.pdf. The second was an analysis by Dr. Bruce Babcock from Iowa State University on the impact of these ethanol subsidies on livestock agriculture. That report can be found at: http://www.card.iastate.edu/publications/DBS/PDFFiles/10pb3.pdf. Both of these reports are well-worth your time to read.

So why is this issue coming up now? While the federal mandate forcing ethanol to be blended with fuel is in place for years to come, the tax credit available to oil and gas companies that blend ethanol with their fuel and the tariff on imported ethanol expire on December 31st of this year. Undoubtedly, there will be an push in Congress to extend these provisions before the end of the year, and the ethanol and corn lobbies are ramping up their efforts. The question is: will there be a strong opposing voice that will add rational arguments to the debate, and hopefully convince Congress not to extend these provisions?

Last week, the board of directors for Milk Producers Council discussed this issue at length and voted unanimously to participate in the efforts to stop the extension of these subsidies. To that end, MPC has reached out to the Environmental Working Group (which published the report linked above) to see what political efforts exist for opposing the extension of these subsidies. To our delight, a coalition has been developing, made up of very diverse interest groups. These groups include: livestock agriculture organizations, food processors and retailers, environmental organizations, and taxpayer advocates. MPC has joined this coalition and will be co-signing a letter to the Senate and House of Representatives, signed by all the groups, and urging Congress to let the ethanol subsidies expire. We've also urged our fellow dairy farmer trade associations – particularly in the western United States – to join this coalition in sending a unified message to Congress.

As I said, the ethanol and corn lobbies are strong and motivated. It will take a coordinated effort by a broad coalition of groups to get through to Congress and convince them to look at the facts, rather than simply the politics. While some might find it odd for a dairy organization to work with environmental advocacy groups, we'd be foolish not to take this opportunity to join forces on a common-sense issue that we're all on the same side on.

So how much more support can we get from the dairy industry? IDFA – the lobbying organization for the nation's dairy processors – has also joined this effort. So has the Idaho Dairymen's Association. That's a great start, but we need the dairy industry groups from all over the country to add their voice to this debate. Every state's dairy association should be a part of this coalition. If your trade association or cooperative isn't active in this debate, you need to ask them why. And if they want to know how they can join this effort, they can contact Sheila Korth at the Environmental Working Group at (202) 667-6982 or they can call Milk Producers Council at (909) 628-6018.

This could be one of the best opportunities we'll have to slow down this irrational fuel-before-food policy. Rarely, are we able to have such a huge impact on a major policy by simply asking Congress to do **<u>nothing</u>**. Let's not let this opportunity pass us by.

PRICES ARE STEADY TO SOMEWHAT LOWER IN THIS WEEK'S FONTERRA AUCTION: *(By J. Kaczor)* One of the interesting aspects of Fonterra's internet auction is how the volumes of each of the product lines offered each month change. Before each auction, Fonterra updates the expected volumes for the following twelve months and then lists the volumes that are available for each grade or style of product for each of the three contract periods covered by the next auction. These updates are part of the "transparency principle" that Fonterra mentioned was among the reasons for developing the auction more than two years ago.

The monthly volumes generally follow the expected annual pattern of milk production Fonterra expects to receive in their Australian and New Zealand plants, but are divided into product categories, presumably based upon Fonterra's projections of demand, competition, profitability and, possibly, prior commitment. The following table shows the monthly volumes that were announced for June, July, and August, and the twice a month volumes for September, October, and November.

Volumes Of Products Offered For Auctions By Fonterra From June Through November, 2010 (Millions of Pounds)									
Product	**June**	**July**	**August**	**9/2**	**9/15**	**10/5**	**10/19**	**11/2**	**11/16**
Whole Milk Powder	47.4	81.6	83.8	41.9	41.9	48.5	52.9	48.5	48.5
Skim Milk Powder	22.2	30.9	30.9	14.0	14.0	18.4	18.7	13.2	13.2
Buttermilk Powder	--	--	2.9	2.2	2.2	2.2	2.2	1.5	1.5
Anhydrous Milkfat	9.0	13.2	14.6	6.7	6.7	4.9	6.2	5.5	5.5

You can see that, starting with September, the monthly volumes essentially have been divided in half for each of the two bidding sessions each month thereafter. The volumes for each month are divided into three contracts, representing separate delivery periods; the first contract, which covers a single month, usually is allotted a third or more of the total volume available for the auction; the other two contracts cover a total of three months each, and the volumes allotted to each of those contracts is divided equally over those months. The **delivery months** for the months in the above table run all the way from August 2010 through July 2011. One of the interesting things about the monthly variations in this table is how relatively little there is of it over this period of time. The November auctions cover delivery months from January through July, 2011, the period which includes much of the lowest milk production season in those countries. The volumes should be falling soon.

The prices were mixed again, but mostly lower. The following table compares the winning prices for this week's auction to the winning prices in the previous auction (November 2nd) and to the average prices from the two auctions in October. The products chosen for this comparison are regular grade whole milk powder, the averages for low and medium heat skim milk powder, UHT buttermilk powder, and premium grade anhydrous milkfat in drums. The prices shown are per lb of product. Dashes reflect periods when no product was offered or sold. "n/a" indicates periods where no price comparisons are available.

Fonterra Auction Prices: November 16th, With Comparisons			
Products	**1st Contract**	**2nd Contract**	**3rd Contract**
Whole Milk Powder	**$1.556**	**$1.547**	**$1.542**
Nov 2nd	*-$.027*	*-$.034*	*+$.047*
Oct Avg	*-$.027*	*-$.023*	*-$.065*
Skim Milk Powder	**$1.338**	**$1.402**	**---**
Nov 2nd	*+$.018*	*+$.046*	*n/a*
Oct Avg	*-$.025*	*-$.080*	*n/a*
Buttermilk Powder	**$1.413**	**$1.411**	**---**
Nov 2nd	*+$.098*	*-$.022*	*n/a*
Oct Avg	*+$.052*	*-$.038*	*n/a*
Anhydrous Milkfat	**$2.434**	**$2.434**	**$2.434**
Nov 2nd	*-$.047*	*-$.047*	*n/a*
Oct Avg	*+$.035*	*+$.076*	*-$.010*

Prices bid for whole milk powder were steady over the seven auction months, well above where they were in July and August, but somewhat lower than September and October levels. Skim milk powder prices were bid higher over the first four months of the auction, and bids for UHT SMP won out over bids for low and medium heat product in the last three month period, so no low or medium heat SMP was available for 3rd period bidding. Buttermilk powder prices were strong for deliveries in January (the 1st contract) and held steady for the next three months, but were off the highs reached in September and October bidding. Prices for AMF were steady as can be for all three periods, and mostly higher than October's levels.

There doesn't seem to be any surprises here, which presently is welcome. The overall scoring for this time around is "steady." Fonterra calculates the weighted average price for all products in this round of bidding to be (0.1%), and follows a "no change" result from the previous one. Fewer than one third of the qualified bidders participated this time, the lowest rate since that statistic was first reported in March. Some bidders may be tiring of having to step up twice a month to bid for the same amount of product that had been available once a month. The trade offs for that inconvenience is greater transparency and a better take on what's happening to demand for these important products. We certainly don't want another "thin" market, with fewer and fewer traders to develop, do we? That would increase the number of questions about how representative the bidding results really are. Fonterra had hopes – and perhaps still has – for other suppliers of these products to join the auction. That seems so unlikely at this point, even for companies located in New Zealand and Australia. Too much distrust and not enough need for that to happen, but it would be interesting.