



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0900 \$1.5825
Barrels +\$.0800 \$1.5825

Weekly Average, Cheddar Cheese

Blocks +\$.0580 \$1.5345
Barrels +\$.0830 \$1.5555

CHICAGO AA BUTTER

Weekly Change +\$.0650 \$1.5150
Weekly Average +\$.0505 \$1.5005

DRY WHEY

DAIRY MKT NEWS w/e 03/16/12 \$1.5550
NASS w/e 03/10/12 \$1.6193

NON-FAT DRY MILK

Week Ending 3/9 & 3/10
Calif. Plants \$1.3445 13,976,893
NASS Plants \$1.3410 22,506,938

Prior Week Ending 3/2 & 3/3

Calif. Plants \$1.3558 10,516,808
NASS Plants \$1.3647 18,988,823

CHEESE MARKET COMMENTS: Helped by very good weather throughout most of the country, milk production continues to be heavier than normal and is expected to continue to grow through May, the peak month for national production per cow. Cheese production in March is usually about as high as it gets, but this year's pattern could mirror last year's with production in May and December besting March's output. While cheese is not considered a market-clearing product, cheese plants do take advantage of some of the offers of cut-price milk or condensed skim, and make more cheese than they had planned. It is chancy; end-product pricing formulas can snag those who hold more product in inventory than can be readily sold. It can also be de-stabilizing, because some cheese makers seem to make a habit of throwing carload after carload of their excess cheese into the CME trading pit. *Dairy Market News* says inventories are growing, but not all manufacturers are expressing concern at this time so they are likely to continue to grow. Next week's report on cold storage may be interesting. Domestic and export sales remain strong. Trading this week on the CME was strange, and welcome. Apparently no sellers were allowed in; bidders handled everything. CME prices increased sharply for both styles. *DMN* says some of the extra cheese is moving into storage for aging. For a 3rd week in a row class III milk futures moved higher. April gained the most, \$.58 per cwt. The price for September is currently the year's highest, at \$16.79 per cwt.

BUTTER MARKET COMMENTS: Butter is a market-clearing product, and much of the increase in milk production shows up in one form or another at butter plants. The supply is certainly more than they would like but, for the right price, the plants are agreeable. Ice cream production is picking up some of the extra cream and condensed skim, and domestic butter sales leading up to Easter week are outpacing production. Export sales began the year where they ended last year – lower than the same month the year before – but appear to have strengthened since with welcome help from CWT's export assistance program. CME butter prices increased by \$.065 per lb this week, with 26 carloads changing hands. *DMN* says some buyers believe the higher prices will be gone after Easter sales end. That may be but this week's trading was impressive. Domestic sales are very good, supported by an array of retail features. Optimism was expressed regarding domestic sales this year because of the low level of prices.

POWDER MARKET COMMENTS: Buttermilk powder prices are lower this week; the "mostly" prices edged downward in line with prices for NFD, maintaining a \$.02 per lb differential. Usage is increasing but buyers continue to search for the best prices; production and stocks are growing. For nonfat dry milk, the demand is soft, prices continue to edge lower, and production continues to increase. Virtually the full amount of the skim portion of the additional nation-wide increase in milk production is showing up at drying plants. *DMN* says manufacturers generally are not deeply discounting prices but continue to offer large buyers appropriate consideration. Most buyers are deferring large purchases, expecting to see prices continue to slip lower. Stocks continue to rise. The West's "mostly" price this week averages \$1.28 per lb, with a 12 cent range from top to bottom, and some sales as low as \$1.20 per lb. The California plant average price reported this week fell by 1.1 cents, but is above the high end of the "mostly" price range; the NASS price fell by 2.32 cents per lb.

WHEY PRODUCTS MARKET COMMENTS: According to *DMN*, production and sales of whey protein concentrate-34 is about evenly balanced. Some manufacturers reported light inventories; others not so light. January exports were 47% lower than January 2011. This week's prices were mostly unchanged and averaged about \$1.52 per lb, although there was some pressure from buyers switching from wpc-34 to NFDM. In contrast, the market for dry whey appears to have found its bottom and bounced nicely. Last week, *DMN's* description of the market for western dry whey as "very unsettled" is now less so. Some buyers in all regions find supplies, demand, and prices about where they should be. The general sentiment seems to be that the recent price weakness was a needed adjustment, and has ended. The West's "mostly" price range this week narrowed to \$.11 per lb (from \$.19 per lb last week), with the average rising \$.025 per lb as a result. January exports were 11% higher than January 2011. Production continues to be about in line with cheese production. The NASS price turned around, increasing by 1.28 cents per lb. Futures prices were sharply higher this week; increases for the April-August period ranged from 3.75 cents to 6.50 cents per lb.

FRED DOUMA'S PRICE PROJECTIONS...

March 16 Est:	Quota cwt. \$16.32	Overbase cwt. \$14.63	Cls. 4a cwt. \$15.50	Cls. 4b cwt. \$13.65
Last Week:	Quota cwt. \$16.14	Overbase cwt. \$14.44	Cls. 4a cwt. \$15.39	Cls. 4b cwt. \$13.31

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE SCHEDULES HEARING ON CLASS 4B FORMULA: *(By Rob Vandenheuvel)* Today, the California Department of Food and Agriculture (CDFA) announced they will be holding a hearing on May 31-June 1 to consider amending the California Class 4b minimum price formula. As we've been reporting in this newsletter, a coalition of dairy producer organizations and cooperatives (representing nearly 80% of the milk produced in California) made a request on March 2nd for CDFA to hold a hearing on the issue. That coalition includes: Alliance of Western Milk Producers, California Dairies, Inc., California Dairy Campaign, Dairy Farmers of America (Western Area Council), Land O'Lakes, Milk Producers Council and Security Milk Producers Association. A separate request for a hearing was also made by Western United Dairymen, although that request was identical to the formula changes requested by the coalition.

The issues surrounding this upcoming hearing are well known and have been thoroughly documented in this newsletter. California law requires CDFA to announce a Class 4b price that is in a "reasonable and sound economic relationship" with the national value of manufactured milk products. Sifting through all the discussion over whey factors, make allowances, f.o.b. adjusters, CME vs. NASS and other issues, the practical reality is that we currently have a Class 4b formula that is structurally incapable of staying in a "reasonable and sound economic relationship" with what cheese manufacturers must pay around the country to secure a reliable milk supply. **As was noted earlier this month (<http://www.milkproducerscouncil.org/updates/030212.pdf>), the California Class 4b price has averaged \$2.66 per hundredweight below the Federal Order Class III price over the past six months (which was when CDFA last updated our pricing formula). That difference has resulted in a systematic discounting of California-produced milk to the tune of more than \$220,000,000 (yes, that's \$220 million) over those six months alone!** Producers and their representatives look forward to the opportunity to make the case for why this needs to be fixed immediately, and listening to the cheese manufacturers explain why it's perfectly reasonable for California's pricing structure to result in deeply-discounted milk prices. So stay tuned...

MILK PRICE FORECASTS ARE ALIGNED; FOCUS IS ON MILK PRODUCTION AND EXPORTS:

(By J. Kaczor) Some excellent models of the U.S. dairy industry have been constructed over the past eight or so years. They are based mainly on known relationships between various factors that directly or indirectly affect supply and demand for milk and milk products. The use of empirical data and assumptions that producers, manufacturers, and consumers mostly make rational decisions but not always with adequate, accurate, or timely

information is the basis for those models. Looking back over the past ten years, with appropriate fine-tuning to reflect all that happened during that time, the models trace fairly well the increases and decreases in U.S. milk production and milk prices that have occurred, with low pricing points occurring in 2000, 2003, 2006, and 2009. Looking forward from 2007, some forecast the 2009 crash in milk prices with what seemed uncanny foresight. More recently, as part of the “discussion” over possible reform of federal order pricing provisions and ways to reduce future milk price volatility, some of these same models in 2010 forecast a continuation of what had become a three-year price cycle – with another crash to occur sometime this year and another three years later.

Through February, milk prices this year averaged higher than last year, and CME’s class III milk futures prices for the balance of the year average about \$2.50 per cwt below last year’s class III prices for the same period. Those comparisons are consistent with the consensus of virtually all the recent forecasts reported by major Universities, USDA agencies, and various brokers and banks, which project the all milk price to be below last year’s very good levels by somewhere from \$1.50 per cwt to \$2.70 per cwt. That may be as good as it gets this year in terms of prices, but there are no guarantees those levels will happen. It depends on a number of factors and contradicts what the industry models foretell.

Feed costs are forecast to remain high. Just how high depends in part on U.S. output and domestic usage but also on how much of the major crops are exported in competition with other major exporters. Those projections change almost daily, as facts compete with rumors. It also depends on importers’ continuing needs and ability to buy these commodities. That portion of U.S. crop production available for sale will go to the highest bidders regardless of who or where they are. The United Nations food agency this week said weather in the major producing countries will be one of the main drivers for farm commodities in the next few months, with corn and soybeans “firmly underpinned by bad crop weather.” Countries in play either as crop suppliers or buyers include the U.S., China, India, Russia, the Ukraine, and several major South American countries.

It should be noted that, in order to avoid a collapse in dairy commodity prices this year, U.S. exports will likely need to at least keep pace with changes in U.S. milk production. While the U.S. economy finally appears to be on a sustainable path to recovery, fluid milk sales continue to lag behind last year (January’s U.S. sales were 2.7% lower; California’s was 5.8% lower) which means more of the national milk output must be converted to other products, some of which are already going exclusively to butter, powder, and cheese. A milk production increase of 3% over last year would mean the volume of exports must increase by about 23% to avoid a rapid rise in stocks of butter, powder, and cheese. A production increase of 1.8% for the year, which is the latest projection from USDA, would require an increase in exports of about 15%. Since most forecasters believe U.S. exports this year may be somewhat lower than last year, attention turns to the projected decrease in U.S. milk production over the latter part of the year. Will it happen? Will it be great enough to offset the earlier increases? Regardless of the amount of milk produced, exporters are expected to fulfill their side of the bargain.

The sign posts for milk price direction are not presently aligned in any particular pattern. They point in virtually all directions. Most of the forecasts reduce a wide variety of factors down to a simple formula: over the course of the year, sales of milk and milk products will be about even with milk production and feed costs will not be much changed from present levels. Because of the sizable milk production increase in January, paramount among the milk price presumptions is a sizable decrease in number of dairy cows in the U.S. in response to lower milk prices and continuing high feed and operating costs. If that does not happen, watch out. Most of the forecasts also include the presumption that global demand for dairy commodities will increase by at least the amount of the increase in global milk production, which should keep international prices fairly steady. Most forecasts include the presumption that Europe will avoid falling into a general recession (several of the EU’s countries are already there but the largest of them are not) and the economies of developing countries in Asia and southeast Asia will continue to grow.

It may be telling that New Zealand’s exports of butter, milk powders, and cheese in January were up by more than 25% over January 2011, while U.S. exports of those products, aided by CWT’s assistance and a weak U.S. currency which makes U.S. products more affordable compared to New Zealand’s, decreased by 3%. We are already behind our goal for this critical sales outlet. Information published over the next six weeks should either

confirm present forecasts or cause them to be reset. A better indication on milk supply and usage comes next week when NASS reports February's milk production and storage levels of cheese and butter at the end of the month, and an even better one comes when the same reports for March are published in April, along with February's export data.

It is somewhat reassuring that the opinions offered about this year's milk prices are so close together. However, the dairy industry has not often been accused of acting in its own best interests. The presumption that any over supply will be taken care of through rational decisions made by tens of thousands of milk producers on a timely basis in response to market signals is really asking a lot. The alternative, presuming exporters are ready and able to handle a surplus under any conditions, may be asking even more. Perhaps this time through the cycle, those producers who have not protected themselves against unforeseen increases in feed costs or unreasonable decreases in milk prices will understand those steps have become a necessary part of effective management, and provide invaluable peace of mind from the fact that a true business plan is in place. Lenders are likely to require such protection even for secured loans or lines of credit; they would rather be repaid with interest than any alternative.

DEADLINE TO SUBMIT UPDATED INFORMATION ON YOUR DIESEL-POWERED TRUCKS IS APPROACHING: *(by Rob Vandenheuvel)* Over the past couple years, most of the dairies in California registered their heavy-duty diesel engine trucks with the California Air Resources Board (CARB). With CARB in the process of requiring equipment upgrades to these vehicles to reduce emissions, dairies and other agricultural interests were able to enroll in a temporary exemption program that delayed implementation of these upgrades until 2017 or later. As part of that process, the owners of these agricultural trucks must report annual odometer readings on CARB's website.

The deadline to report the 2011 annual odometer reading is March 30, 2012. More information can be found on CARB's website at <http://www.arb.ca.gov/msprog/onrdiesel/reportinginfo.htm>. MPC members that have any questions about their dairy's compliance can contact Rob Vandenheuvel at (909) 628-6018, Betsy Hunter-Binns at (661) 205-6721 or Kevin Abernathy at (209) 250-1801.