



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@milproducers.org ~ www.MilkProducers.org



DATE: November 5, 2010
TO: Directors & Members

PAGES: 4
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.1600 \$1.4800
Barrels - \$.1550 \$1.5100

CHICAGO AA BUTTER

Weekly Change - \$.3050 \$1.8800
Weekly Average - \$.0750 \$2.1100

NON-FAT DRY MILK

Week Ending 10/29 & 10/30
Calif. Plants \$1.1381 11,321,308
NASS Plants \$1.1925 13,094,731

Weekly Average

Blocks - \$.1270 \$1.5310
Barrels - \$.1105 \$1.5635

DRY WHEY

WEST MSTLY AVG w/e 10/29/10 \$3.888
NASS w/e 10/30/10 \$3.772

CHEESE MARKET COMMENTS: Last week's signs of weakness for cheese prices became reality this week. Forty-five carloads were sold this week. Prices for blocks lost \$.16 per lb and barrels lost \$.155 per lb. Prices for both styles fell Monday through Wednesday but signs of strength appeared on Thursday (in the form of closing bids) which brought blocks to even for the day and barrels a half-cent higher. But heavy selling returned today, and prices resumed falling. Dairy Market News reports milk production is beginning to increase seasonally, and cheese production and sales are reported to be steady. However, last week's CME price benchmark weekly average price, widely used to guide manufacturer and wholesale price levels, was moving counter to market prices; this week they got really far apart. Manufacturers' NASS reports last week averaged \$1.75 per lb for blocks and \$1.74 per lb for barrels; each was slightly lower than the week before, at about \$.10 per lb higher than the CME average. This week's CME average prices fell by more than \$.10 per lb, which is sure to cause buyers who don't have immediate needs to wait for the CME prices to stabilize. The Friday block closing price, used in some pricing formulas, is \$.26 per lb below where it was four weeks ago. Futures traders this week sold heavily; the December class III milk futures price fell \$.73 per today, to \$13.56 per cwt. CWT continues to report good usage of their export subsidy program; shipments are scheduled through next April.

BUTTER MARKET COMMENTS: It was worse for butter. For three weeks the CME butter price was sitting quietly at \$2.185 per lb. High, but apparently well-supported by reports from all over of butterfat shortages. DMN reports this week noted steady, even strong butter sales over the past two weeks. On Tuesday, NASS reported September's butter production was 9 million lbs higher than in August, with less milk having been produced during the month. That certainly should not have been a surprise, but it may have been the reason why an offer to sell at \$.035 per lb below the rock-steady of \$2.185 per lb was made; it dropped the price. Today, after the cheese trading ended, a single carload traded at \$1.88 per lb. Butter futures traded down the \$.05 per lb limit; the February price is now back down close to the \$1.60 per lb level that had prevailed for more than a month. [Please note Fred's estimates of what the cheese and butter price changes do to milk prices.]

POWDER MARKET COMMENTS: In contrast to the above two hurtful reports, the news for milk powders is somewhat reassuring. The market and prices for buttermilk and whole milk powders is steady, although DMN reports some buyers wondering if current prices are where they should be. Production for both products is keeping pace with sales. Inventories at the end of September for both are steady. Prices reported for nonfat dry milk, for shipments made last week, were higher for current sales (NASS) and for California plants, both up by more than \$.05 per lb, but on much lower volume. The California average once again failed to fit into the full range of prices reported for all sales in the western region. How do they do that? Production of nonfat dry milk and skim milk powder in September was 8.6 million lbs lower than in August, and the end of month inventory of NFDM was 25.1 million lbs lower than a month earlier, but 17 million lbs higher than last September. Usage is report to be steady; exports remain strong.

WHEY PRODUCTS MARKET COMMENTS: The very good news continues to come about whey products demand and prices. Export volume continues to use the majority of production. Inventories for whey protein concentrates and dry whey at the end of September are lower than August's. Buyers are having to be patient for deliveries. CME futures traders continue to bid up the price for dry whey, which averages \$.38 per lb for the 1st quarter next year.

FRED DOUMA'S PRICE PROJECTIONS...

Nov 6 Est:	Quota cwt. \$16.47	Overbase cwt. \$14.77	Cls. 4a cwt. \$15.73	Cls. 4b cwt. \$13.41
Oct 2010 Final:	Quota cwt. \$17.64	Overbase cwt. \$15.95	Cls. 4a cwt. \$16.65	Cls. 4b cwt. \$15.66

ELECTIONS CHANGE THE POLITICAL LANDSCAPE IN WASHINGTON: *(By Rob Vandenheuvel)*

This past Tuesday, a national voter sentiment for change resulted in Republicans taking control of the U.S. House of Representatives. This gives the Republican leaders the power to set the House's agenda and control the Congressional committees. While Republicans fell short of gaining a majority of the members in the U.S. Senate, the balance of power is much closer now, and Democrats hold nowhere near the 60 votes needed to overcome a filibuster. So in short, we've achieved some significant checks-and-balances in Washington: a Democrat President, a Republican House and a closely divided Senate. The next two years should be very interesting.

In the world of dairy, this past Tuesday's election results will certainly have an impact, as our industry wrestles with big issues such as potential **dairy policy reform, immigration reform, and trying to reverse the pattern of devastating (and indefensible) energy policy that has driven up the price of corn and other feed commodities with absolutely no environmental, economic or national security benefit.** Exactly what that impact will be, however, is anyone's guess.

One thing is for sure: regardless of who is in power, the dairy industry needs to be an early priority in 2011. The light at the end of the tunnel that we all thought we saw this fall appears to be another train about to smack us in the face once again. Rising grain prices and collapsing milk prices are guaranteeing negative dairy farmer margins for months to come. No one else in the supply chain is feeling this pain – it is entirely resting on the dairy farmers. Progress for change is being made, and there is reason to be hopeful that the industry will have a package of reforms that we can rally behind in the near future. But producers need to stand ready and willing to join together and support a common proposal. So be ready, and stay tuned.

As for California state politics, the wave of Republican support apparently stopped at the border. California Democrats has a strong showing in the election, grabbing virtually every major statewide position, such as Governor, Lieutenant Governor, Secretary of State, Controller, etc. The State Legislature also maintained a strong Democrat majority.

Specific to the dairy industry, a significant victory was won in the Central Valley as David Valadao, a familiar dairy farmer to many of us, soundly defeated Fran Florez (the mother of outgoing State Senator Dean Florez) in the 30th Assembly District. Congratulations David!

Also of note in California politics was the defeat of Proposition 23. This proposition, which was written about in this newsletter, would have suspended the burdensome provisions of AB 32 (California's "Global Warming" regulations) until the state's unemployment figures were below 5.5%. Unfortunately, the voters – who were inundated with advertisements about "Big Oil" support for the initiative – did not recognize the threat these regulations pose to businesses and jobs, and chose to keep them in place. Gotta love California.

PRICES ARE MIXED IN FONTERRA'S LATEST INTERNET AUCTION: *(By J. Kaczor)* Part of Fonterra's management of their globalDairyTrade auction program is a forecast of the quantity of each product available to auction participants over the next twelve months. The forecasts are updated prior to each auction. Fonterra says the forecasts are maximum quantities of each product available for supply, "determined by

availability of milk and the types of manufacturing facilities available, both of which vary month to month.” When the auction was in the development stage, two years ago, Fonterra said the volumes to be made available would be in the “commodity” category: basic products with minimal service support. Sales to customers who had special needs in the way of customization of products or services would be handled outside the auction.

Based upon data that was available two years ago, it appeared that about 40% of Fonterra’s output of whole milk powder would be offered for auction; a recent update indicates that percentage may now be closer to 50% of whole milk powder production. The updated projected volumes, announced immediately before this week’s auction, were: 15.4 million lbs of buttermilk powder, 131.8 million lbs of anhydrous milkfat, 269.2 million lbs of skim milk powder, and 859.8 million lbs of whole milk powder. The current projected volume for WMP is 12.3% higher than the projection made a year ago. The current projected volume for AMF is 56.5% higher than the projection made a year ago. The projected volumes are listed by month in two categories: the auction month and the shipping month, and follow the pattern of seasonal milk production for Australia and New Zealand.

Prices were higher for AMF, and mixed for the three powders. Following is a recap of the prices and price changes for the four products. The changes recapped below compare current prices to the winning prices bid in the previous auction, on October 19th. The prices relate to regular grade whole milk powder, the average price for low heat and medium heat skim milk powder, UHT buttermilk powder, and premium grade AMF in drums.

Spot Month Prices for shipments in December, compared to prices bid two weeks ago for shipments in November:

- Whole milk powder: \$1.583 per lb, UP \$.016 per lb from 10/19;
- Skim milk powder: \$1.320 per lb, DOWN \$.002 per lb from 10/19;
- Buttermilk powder: \$1.315 per lb, DOWN \$.046 per lb from 10/19;
- Anhydrous milkfat: \$2.481 per lb, UP \$.120 per lb from 10/19.

Prices for shipments in the second and third contract periods (February-April and May-July):

- Whole milk powder: \$1.581 per lb, UP \$.013 per lb for the 2nd period, and \$1.495 per lb, DOWN \$.104 per lb for the 3rd period;
- Skim milk powder: \$1.356 per lb, DOWN \$.042 per lb for the 2nd period, and \$1.508 per lb, UP \$.049 per lb for the 3rd period;
- Buttermilk powder: \$1.433 per lb, UP \$.016 per lb for the 2nd period (no product was offered for the 3rd period);
- Anhydrous milkfat: \$2.481 per lb, UP \$.140 per lb for the 2nd period (no product was sold for 3rd period deliveries).

Why WMP prices for deliveries in the May-July period fell by so much while prices for SMP rose sharply is something only Fonterra and its customers can explain. Prices for AMF continue to keep climbing from the low point of \$1.88 per lb in March.

INFORMATION OVERLOAD, OR ESSENTIAL DAIRY INDUSTRY DATA; IT’S A DAILY OCCURENCE: *(By J. Kaczor)* For many things in many ways it often makes sense to look behind in order to verify or explain what is happening currently and to look ahead. That’s certainly a way of life in the dairy industry, with its wealth of current, recent past, and historical data from which to choose. Interpretation of current dairy industry events and forecasting future changes are important for all segments of the industry, for various reasons. Dairy producers need to deal with current management issues as well consider future prices and costs in deciding what is appropriate or necessary for their operations a year or two (or three) ahead. Manufacturers, processors, and wholesalers sometimes have to make major decisions which rely upon current and future supplies at prices which are seldom completely predictable. Because there is little any one segment of the industry can do in the short run to affect the whole, each must rely upon reasonable assumptions about what others may do, as well as consider the effects of the unexpected. Safe havens are few to be found; all participants, or at least most, are eventually affected in one way or another by others’ judgments and decisions.

Industry data is abundant. There is a lot to choose from in helping decide on what to do in almost any circumstance. Important current activity on the Chicago Mercantile Exchange is reported daily. Among the most important are bids, offers, and trades for bulk butter and cheddar cheese, and futures contracts for cheese, butter, class III milk futures, and other dairy related products. Weekly data on sales volumes and prices for the major products used in formulas for pricing milk in California and federal order areas is available within days. Weekly information is gathered and reported by Dairy Market News (DMN) analysts on local, regional, and national market activity and price changes for wide range of dairy products. Bi-weekly reports on the international dairy industry situation by DMN, and Fonterra's internet auction results, provide important perspective and insight.

Also useful but necessarily less timely are monthly reports on milk production, cold storage holdings for butter and cheese, dairy product manufacturing activity, and dairy product imports and exports. Finally, a recap of Class 1 sales is assembled by USDA from a variety of sources. And occasionally, like what happened in last month's report on September milk production, an unusually large update to past data is made which requires reconsideration of previous calculations. Additional important contributions, which can range widely in their reliability and purpose, come from individual companies, cooperatives, trade associations, and segments of the service industry such as brokers, lenders, and academic researchers and economists. It is certainly not a matter of "use it or lose it." Taken all together, industry data comes in a steady stream. Choose what makes sense; avoid the rest.

OCTOBER CARES COLUMN PUBLISHED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The October 2010 "Dairy Cares Report" has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the Central Valley Air Board's recent decision to amend and update Rule 4570, the main rule that applies to dairy farms. This updated rule has some differences from the previous version, most notably increasing the number of dairies that are subject to the rule (500+ cow dairies in the new rule vs. 1,000+ cow dairies in the old rule) and adding more focus on the emissions from feed, which scientists have said is a source of emissions. I encourage our readers to check out the Cares Column, and if any of our members have questions about these new rules, please contact MPC at (909) 628-6018.

NEW REGIONAL GROUNDWATER MONITORING APPROACH COULD GIVE HUGE SAVINGS TO CENTRAL VALLEY DAIRIES: *(By Rob Vandenheuvel)* As dairymen in the Central Valley know very well, under the 2007 General Order approved by the Central Valley Regional Water Board, dairies will be required to install groundwater monitoring wells. This requirement, which would cost the dairies tens of thousands of dollars in installation costs (not to mention the thousands of dollars in ongoing sampling and reporting costs), is in the process of being phased in, with dozens of dairies already required to install them.

However, through industry efforts in working with the Central Valley Water Board, an alternative option has been made available. Central Valley dairies should have received a packet of information in the mail by now providing information on the new "Central Valley Dairy Representative Monitoring Program." This program provides the opportunity for dairies to participate in a regional groundwater monitoring program in lieu of installing multiple groundwater wells on each individual dairy. Participation in the program is completely optional, but for the many dairies that have not had to install a groundwater monitoring well yet, this program is an affordable alternative.

A document with "frequently asked questions" has been included in the packet, and is also available on our website at: <http://www.milkproducerscouncil.org/cvdrmpfaq.pdf>. There will also be a series of workshops for dairymen to attend, starting with a **workshop next Friday (November 12th) from 10-11 am at the Kern County UC Cooperative Extension (1031 S. Mt. Vernon Avenue, Bakersfield)**. And if any of our members have further questions, please contact MPC at (909) 628-6018.

MPC'S NOVEMBER BOARD MEETING SCHEDULED FOR NEXT TUESDAY: *(By Rob Vandenheuvel)* The November board meeting for MPC will be held next Tuesday (November 9th) at 11 am in the board room of the Kern Country Farm Bureau (801 S. Mount Vernon Avenue, Bakersfield). All MPC members, associate members and prospective members are welcome and encouraged to join us at these meetings. Please contact the MPC office at (909) 628-6018 to let us know if you plan to attend.