



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0175 \$1.6200
Barrels +\$.0175 \$1.5850

CHICAGO AA BUTTER

Weekly Change +\$.0675 \$1.9175
Weekly Average +\$.0595 \$1.9045

NON-FAT DRY MILK

Week Ending 8/6 & 8/7

Calif. Plants \$1.1656 11,618,982
NASS Plants \$1.1766 18,803,839

Weekly Average

Blocks +\$.0155 \$1.6180
Barrels +\$.0210 \$1.5830

DRY WHEY

WEST MSTLY AVG w/e 8/6/10 \$.3788
NASS w/e 8/7/10 \$.3590

CHEESE MARKET COMMENTS: The lackluster pattern of cheese sales is continuing throughout the country, not surprising for a long summer amid continuing dismal economic reports including relatively weak restaurant activity and rising retail prices. The market's response: prices moved up on the CME as some buyers keep coming to the market for more cheese. Dairy Market News (DMN) reports cheese production and milk output in the Midwest continues to lag under normal and expected levels, the milk production affected mainly by the continuing higher than normal temperatures and high humidity. In the southwest and west, however, weather conditions have improved and production levels for milk and cheese are reported to be close to normal summer levels. Part of the demand increase is coming from buyers who are stocking up to serve school cafeterias, including USDA's great feeding programs. Cheese production is expected to be further affected once school sessions are fully open, increasing fluid milk usage by an expected 2 to 3% over summertime levels. Futures trading this week added more the \$.25 per cwt to the class III prices for the near-term months and prices reported to NASS for cheese sales made last week continue to move closer to the CME cash market. Current market prices for cheese, butter, and nonfat dry milk would generate a 4a price of \$15.88 per cwt (\$.26 higher than July) and a 4b price of \$14.37 per cwt (\$1.00 higher than July).

BUTTER MARKET COMMENTS: Futures trades continue to doubt the sustainability of current butter prices (January's price is \$1.60 per lb) but the real market continues to see a definite spread between demand and supply. The spot butter price this week on the CME showed another sizable increase, and DMN reports a growing belief among buyers and sellers that prices will climb above the \$2.00 per lb level before long. Unexpected help for sellers came from CWT; in the three weeks after announcing they will begin to subsidize exports of butter and anhydrous milkfat, sales of 24.8 million lbs were approved through the end of this year. How high will butter prices go? Recent notable peaks were \$2.21 in 2001, \$2.34 in 2004, and \$1.76 in 2008. They are now at \$1.92 and rising. Wonderful, but each of those peaks happened for different reasons and each was followed by sharp drops. Maybe this market needs a breather. Wouldn't a leveling off of prices in the mid \$1.90's be welcomed until a clearer picture of economic conditions in the industry, in the U.S., and globally, becomes available?

POWDER MARKET COMMENTS: Prices for buttermilk and whole milk powders continue to show nice premiums to those for nonfat powder, and the supply of both is being somewhat limited by availability of milk supplies. The market for nonfat dry milk continues to be somewhat weak. DMN notes that resales still plague the market but demand at the lower end of the price ranges continues to be strong. The low end of the full range of prices this week is \$1.12 per lb in the central region and \$1.00 per lb in the west. Sales volumes reported to NASS and to CDFA for shipments last week 30-40% lower than the week before; the average price reported by California plants was \$.022 per lb higher. Despite continuing strong export sales, DMN reports nfdm inventories continue to grow.

WHEY PRODUCTS MARKET COMMENTS: Production of dry whey and whey protein concentrates is steady, but lower than what is wanted because of the seasonal slowing in cheese production. Demand also is

steady, with the export market providing substantial support. Supplies of both product lines is reported to be declining, but “workable.” Prices are steady, but the average price reported to NASS for last week’s shipments slipped to the lowest level this year – it had been ranging within a \$.02 per lb range for about twenty weeks.

FRED DOUMA’S PRICE PROJECTIONS...

August 13 Est: Quota cwt. \$ 16.50 Overbase cwt. \$14.81 Cls. 4a cwt. \$15.57 Cls. 4b cwt. \$14.32

U.S. EXPORTS OF MAJOR DAIRY PRODUCTS CONTINUE TOWARD RECORD HIGHS: *(by J. Kaczor)* USDA’s Foreign Agricultural Service’s recap of exports through June was released this week. Major products are those used in formulas for pricing milk in California and in federal order areas. At this point, it looks like this year’s totals for all four of those products could be among the highest ever. Following is a recap for each product.

Nonfat Powders. After a slow start, exports of nonfat dry milk and skim milk powder have picked up and are now 112 million lbs higher than they were for the same period last year. That sounds somewhat better than it should because last year’s volume was the lowest of the past five years. The peak year was 2008, with exports of 862.3 million lbs, 45.5% of the year’s production. However, if the current trend continues (meaning the remaining monthly volumes equaling the average for the first six months), total exports this year of these products could be the second highest in the past six years. Exports so far represent 36.1% of the amount produced from January to June. Prices ranged from an estimated high of \$1.28 per lb in January, to a low of \$1.13 per lb in April and May, then rose to \$1.18 per lb in June.

Butter. Butter exports reached a peak in 2008, with a total of 199 million lbs, 11.3% of total production, then fell to 64 million lbs, 4% of total production, last year. For the first six months this year butter exports have totaled 46.8 million lbs, which is close to 6% of production. In addition to butter, a substantial volume of anhydrous milkfat is presently being exported, at a recent rate of 20% of the butter volume. Like the case for nonfat powders, if the current rate of exports continues for butter, the year’s total could become the second highest in six years.

Cheese. Like the case for butter and powder, cheese exports peaked in 2008, at 289 million lbs, about 3% of total production. Exports of cheddar cheese that year represented 19% of cheese exports. So far this year exports of all cheese total 171 million lbs, 3.3% of production; exports of cheddar total 36 million lbs, 21% of the total. Unlike the case for butter and powder, it looks like this year’s total exports of cheese could become the all time high. Much of CWT’s approved bids for subsidized cheese exports thus far are yet to be shipped, a fact that increases the possibility of a record.

Dry Whey. Exports of dry whey have been the biggest, brightest, star of these four products for some time. In the the peak year, 2007, a total of 582.7 million lbs was exported, 54.3% of the year’s production. Last year 454.8 million lbs of dry whey was exported, 47.8% of production. So far this year, 288.4 million lbs have been exported, 55.1% of the total produced. The record set in 2007 is in sight, but is not a sure bet.

The above results are certainly encouraging. It’s not clear why the numbers are as high as they are; it may be something similar to what happened in 2007-2008, when a then unique combination of factors regarding U.S. and international production of and demand for these products, along with currency values favorable to U.S. exporters, caused international buyers to come calling for products they didn’t normally buy from the U.S. That could well explain the numbers for the powders. However, a tip of the hat should go to CWT for their surprising re-activation of their export assistance program for cheese, which should at least partly explain the amazing “high wire” act being done at the CME with cheddar cheese prices.

SUPPORT CONTINUES TO BUILD FOR THE DAIRY PRICE STABILIZATION ACT: *(By Rob Vandenheuvel)* As regular readers of this newsletter know, MPC has been a strong advocate of H.R. 5288 and S. 3531, the Dairy Price Stabilization Act of 2010. Word is continuing to get out and support is continuing to build, not only in the industry, but in Washington, DC. This past month, the bill received another cosponsor in the U.S. House of Representatives – Representative Joe Baca of Ontario, CA. Rep. Baca is an influential leader in the

House Agriculture Committee, and on behalf of our members, **MPC sends its sincere thanks to the Congressman and his staff for their support in advancing common-sense legislation that would greatly improve the long-term outlook of our dairymen.**

CONTINUING TO DELVE INTO THE DETAILS OF THE DPSP: *(By Rob Vandenheuvel)* This newsletter continues to commit a lot of space looking at the details of H.R. 5288 and S. 3531. One of the criticisms of the bill is directed at the fact that it is a program that relies on government involvement. I can certainly relate to the anti-government sentiment behind these arguments. Our dairies already face strict government regulations – in how your milk is priced, how you treat your animals, and in how you manage your air and water resources. So the thought of any more government involvement is understandably enough to raise serious questions.

On that note, this article will take a look at what additional powers the government (USDA) would actually have if we were to implement H.R. 5288/S. 3531. If you want to see for yourself what the bill would and would not do (rather than letting the critics define the bill for you), the actual bill text can be found at www.stabledairies.com.

Determining how much milk you can produce on your dairy. *Nothing* in H.R. 5288/S. 3531 would tell you how much milk you can produce. Instead, the bill creates a structure where you will be entitled to an actual check in each quarter you manage your production to less than 3% over the same quarter last year. **The only time you wouldn't receive this check is during periods when your dairy decides to expand your share of the market and grow beyond 3%.** During these periods of growth, you would temporarily forfeit your share of those dividends for the next year while you are establishing your higher share of the market, and you will have to budget for a market access fee to be paid during that time. That fee will be used to fund the dividends that are paid to your colleagues who are holding their production growth to less than 3% in those quarters you are growing. H.R. 5288/S. 3531 is an agreement amongst the 65,000 dairies that at any given time, some dairies will be in "growth mode," and the rest will be receiving a financial benefit for managing their production. The USDA will have no say in how much milk you produce.

Setting the "market access fee" and the "allowable year-over-year growth." Under the bill, USDA would have no ability to affect these figures. The fees and allowable growth are automatically adjusted by a set of triggers clearly outlined in the legislation. These triggers move the fees and allowable growth up and down, depending on the general economic health of the dairy industry. The only opportunity to adjust how these triggers operate is if 2/3 of the producer board agree that a change is necessary – a very high threshold, considering what we've seen in our industry's ability (or inability) to agree on just about anything.

So what is that USDA would actually do under H.R. 5288/S. 3531? It's simple – they would serve as an escrow-type service, collecting the fees each quarter from the expanding dairies and distributing them to the rest of the dairies. That's what it boils down to. **So what's so scary about that?** If your cooperative or trade association is hiding behind this anti-government sentiment as a reason for staying on the sidelines in this debate, they need to hear from you and come up with a better excuse for not supporting this common-sense proposal.

LAST REMINDER – ANIMAL WELFARE WORKSHOP SCHEDULED FOR NEXT WEEK: *(By Rob Vandenheuvel)* Next Wednesday and Thursday (August 18th and 19th), the California Dairy Quality Assurance Program (CDQAP) will be conducting a workshop to educate dairy farmers on the National FARM (Farmers Assuring Responsible Management) Program. **I strongly encourage all dairies to send a representative to this workshop.** It's important that you know how the program works. This is perhaps your last chance to attend one of these workshops, and as early as this fall, you'll have coop staff visiting your dairy as part of this program.

The workshop will be held at Brinderson Hall at the Chino Fairgrounds (5410 Edison Avenue, Chino, CA) from **1-4 pm on August 18th and from 9 am-12 pm on August 19th.** As I have mentioned before, this workshop is **open to all dairymen** – whether you are in Southern California or if you missed your chance to attend a class in the Central Valley. A flyer about the workshop can be found at www.milkproducerscouncil.org/aug10farm.pdf. CDQAP would like to know how many folks are planning to attend, so **please RSVP for the meeting by calling the MPC office at (909) 628-6018 or send an email to office@milkproducers.org.**