



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0100 \$2.1300
Barrels +\$.0100 \$2.0775

CHICAGO AA BUTTER

Weekly Change - \$.0800 \$2.0600
Weekly Average - \$.0390 \$2.1010

NON-FAT DRY MILK

Week Ending 6/17 & 6/18

Calif. Plants \$1.6033 10,388,936
NASS Plants \$1.6562 16,033,290

Weekly Average

Blocks +\$.0175 \$2.1300
Barrels - \$.0030 \$2.0695

DRY WHEY

WEST MSTLY AVG w/e 06/24/11 \$.5525
NASS w/e 06/18/11 \$.5256

CHEESE MARKET COMMENTS: Cheese prices did well this week: blocks picked up a penny per lb on Monday and held steady for the rest of the week; barrels held steady through Thursday, then picked up a penny per lb today. Very little trading activity occurred on the spot market this week, despite some anxiety on Wednesday about what May's cold storage report may show. The report was good for cheese, showing a small decrease in the amount of American cheese in storage at the end of May, compared to a month before. Italian cheese stocks increased by a small amount. Very satisfactory. The quiet market and favorable cold storage report didn't impress those who have interests in Class III milk or cheddar cheese futures. There's a lot of disbelief among them about cheese prices holding up over \$2.00 per lb from August onward; prices for August through December range from \$1.89 down to \$1.71 per lb. Part of the concern is about this fall's milk production in New Zealand and Australia, which is looking strong, and about the level of international cheese prices, the most recent of which was at about \$2.00 per lb. Things could change. The pattern of national cheese production is being influenced by widely variable weather which has been affecting milk production. *Dairy Market News* reports both domestic and export sales continue to clear current production.

BUTTER MARKET COMMENTS: Considering the edginess of the market, butter prices held up remarkably well this week. Apparent concern on Wednesday about the cold storage report to be released after trading closed for the day led to a short sell off, with prices dropping 5.5 cents per lb from a total of 6 sales. The trading was orderly, as were the sales and an offer on the two following days. For the week, butter prices lost 8 cents per lb. Buyers and sellers of butter seem to be showing more concern about the amount of product they have in stock. There is no precedent for what has been happening with butter prices this year (so high for so long), so smart people expect the unexpected and prepare for surprises. One such action is to take a position in the butter futures market. That market has been supportive of the spot prices for nearby months, but is becoming less supportive for the latter part of the year, where the butter futures prices gave up 9 to 11 cents per lb. The December price is still above \$2.00 per lb, showing substantial belief that supply and demand will be in somewhat close balance at that point. The cold storage report for May 31st (see story below) suggests that current production is exceeding current sales – which could have resulted from weak cream demand principally from ice cream manufacturers. That has since changed.

POWDER MARKET COMMENTS: Volumes of nonfat dry milk shipped last week were about 3 million lbs lower than the week before, and prices were mixed for the two reporting agencies. California plant prices are again about 5 cents per lb below national prices. Production appears to be steady, although also limited in some cases by milk supplies that are affected by hot and humid weather throughout the south. DMN also reports differing views as to future prices, with sellers apparently believing international demand for whole milk powder will continue to limit production of skim milk powder in New Zealand, while buyers appear to expect, or at least would like, prices to fall. The CME futures market has the price in December at \$1.42 per lb. Some manufacturers are telling DMN of their concern about having a milk supply this fall sufficient to allow them to meet contractual commitments. Now that's something to ponder, isn't it?

WHEY PRODUCTS MARKET COMMENTS: The whey products market continues to dazzle. Supplies of dry whey and whey protein concentrate are tight to very tight, depending on where you look. Competition for spot loads is active and rarely satisfied. Higher output of dry whey is reported to be only keeping up with contractual commitments. Prices for dry whey in the west bounced up a full cent per lb this week. Nonetheless, DMN reports that prices for WPC (34% protein) at the upper end of the price range are, for a variety of reasons, being resisted or rejected. After all, there are alternatives. CME futures prices for dry whey were somewhat higher for July and August but weakened after September; October through December prices are at 47 cents per lb.

FRED DOUMA'S PRICE PROJECTIONS...

June 24 Final:	Quota cwt. \$21.09	Overbase cwt. \$19.39	Cls. 4a cwt. \$20.74	Cls. 4b cwt. \$18.77
Last Week:	Quota cwt. \$21.08	Overbase cwt. \$19.38	Cls. 4a cwt. \$20.76	Cls. 4b cwt. \$18.75

MAY'S COLD STORAGE REPORT SHOWS SHARPLY HIGHER BUTTER STOCKS: *(By J. Kaczor)*

This week's report by USDA on the amount of cheese and butter in cold storage at the end of May provided welcome support for cheese prices and a surprise for the butter market. The amount of **American cheese** in cold storage at the end of May was about 1 million lbs below where it was a month before, but 5.5 million lbs more than a year ago. **The total amount of cheese** in cold storage was 9 million lbs above April's level, an increase of less than one percent, and was 22 million lbs higher than a year ago. The amount of butter in cold storage jumped by 29 million lbs over April's level, an increase of 20 percent, but was still 42 million lbs below last May's level. What do these numbers indicate?

May's data for production, imports, and exports is not yet available. Until those reports are published, the best point of reference for May's cold storage numbers is what happened in the prior month and the prior year (they are reported above). Imports for both product lines are likely to have remained low, and comments on exports have noted a possible slowing as U.S. prices rise up to and, in some cases, above what is reported to be competitive international levels. Neither of those are likely able to explain the increase in butter stocks. The important short-term question for dairy producers is how much more cheese and butter was produced and sold in May than in April.

May's milk production was 605 million lbs higher than April's production, essentially unchanged when calculated on a per day basis. That's one more day of production and one more day for sales. A look at price levels and price changes for cheese and butter during the month may help explain what may be happening. Cheese prices didn't begin their sharp rise until the end of May, so price levels or price changes shouldn't have affected sales during the month. However, butter prices have been plowing new high ground since the 2nd week in January and retail prices, according to the U.S. Department of Labor, have finally risen to above \$3.50 per lb. It would be a pleasant surprise if we find consumers didn't cut back on butter usage when confronted with the higher prices.

Butter production in March and April ratcheted up from last year's levels by about 19 percent (25 million lbs each month) and it's expected to have continued at or near that higher rate in May. Why wouldn't it? That means 100 million more lbs of butter will have been produced in the U.S. this year through May than last year. Exports of butter for the January-April period were twice what they were a year ago. Even if we presume that boost in sales continued in May, it would account for about 40 million lbs, less than half of the increase in production that is anticipated from January through May. U.S. butter production is up sharply; U.S. sales are not keeping pace; U.S. inventories are rising.

The situation for cheese appears to be different. An interesting article, entitled *A Closer Look at Cheese Stocks*, was published in the April edition of The Market Administrator's Bulletin for the Northeast Marketing Area federal order. The article reported on a study of cheese stocks and cheese production. It took the long view, and showed that, once the huge cheese surplus that had accumulated through 1984 was eliminated by 1988, total cheese stocks averaged 96 percent of production since that time. Over that 23 year period the annual averages ranged from 80% to 116%. The study looked only at the month of January, which partially accounts for that wide range; use of all months reduces the range by about 10 percentage points. The report concludes "*For the*

past two decades, the industry has held the equivalent of a month's production in stock....In relative terms, 1984's billion pounds of cheese in cold storage is not the same as today's billion pounds in a market that is three times bigger." We remember reading something like that earlier this year in this *Update*. The percentage of stocks to production for the first four months this year has risen to 119% – the equivalent of a month and 6 days. Too much, perhaps, but May's production report is expected to pull that number down.

DAIRIES ENCOURAGED TO CONTACT GOVERNOR BROWN'S OFFICE TO URGE THE VETO OF THE "CARD CHECK BILL": *(By Rob Vandenheuvel)* As we noted last week, SB 104 (a bill changing the way agricultural labor/union elections are held) has been delivered to California Governor Jerry Brown's desk for signature/veto. Governor Brown now has 12 days (starting on June 16th) to decide whether to sign the bill, veto it, or do nothing (which will result in the bill becoming law). Similar legislation has been approved by the California legislature in recent years, but has each time been vetoed by then-Governor Arnold Schwarzenegger.

SB 104 would amend the California labor laws to allow elections that determine whether a business's labor force will unionize to be conducted by having workers sign union cards in public view of the union officials and their fellow workers. Currently, these elections are held by secret ballot. Obviously, this bill would create the opportunity for workers to be pressured/intimidated by not only union officials but also their colleagues.

MPC and others in the dairy industry are strongly opposed to this legislation, and are urging Governor Brown to veto SB 104, but he needs to hear from as many people as possible! **Please take a few minutes to contact Governor Brown and urge him to veto this legislation.** You can contact the Governors office by fax (916-558-3160) or by sending an electronic message through the Governors website (http://www.gov.ca.gov/m_contact.php). *(If you are using the Governor's website to submit comments, please select the "Food & Ag issues/concerns" as the subject of your comments so that your message is sent to the appropriate folks in the Governor's office.)*

REMINDER – CDFA TO HOLD HEARING ON CALIFORNIA CLASS 4A AND 4B MINIMUM PRICE FORMULAS: *(By Rob Vandenheuvel)* Next Thursday and Friday (June 30 – July 1), the California Department of Food and Agriculture will hold a hearing to consider amending the minimum price formulas for milk sold to Class 4a (butter powder) and Class 4b (cheese/whey) manufacturing plants. The hearing will begin on Thursday at 9 a.m. at the CDFA Auditorium located at 1220 N Street, Sacramento, CA 95814. I would encourage anyone interested in attending this public hearing to do so.

As you may recall from prior articles in this newsletter, this hearing was originally requested by California Dairies, Inc. (<http://www.milkproducerscouncil.org/updates/051311.pdf>). In their request, CDI asked CDFA to conduct a hearing to consider raising the make allowances for butter and nonfat dry milk, as well as the f.o.b. price adjuster for butter. The impact of those requested changes would be a **reduction** each month in the Class 2, 3 and 4a minimum prices of almost \$0.43 per hundredweight *(As I noted in the article linked above, so far in 2011, about 40-45% of our pooled milk solids have been used by Class 2, 3 and 4a plants).*

After that initial request by CDI, Land O'Lakes (LOL) also submitted a request that CDFA consider changes to how CDFA calculates the "dry whey value" in our Class 4b formula. This has been a major issue amongst California's producers and processors in recent years, and is sure to be an interesting debate at next week's hearing *(see article on this issue at <http://www.milkproducerscouncil.org/updates/060311.pdf>)*. In addition, LOL asked CDFA to consider lowering the make allowances and f.o.b. price adjuster for cheese. All together, LOL's requested changes would result in an increased Class 4b minimum price, although the amount of the increase would vary from month to month as the whey market varies. In the most recent month – May – the LOL requests would have increased the Class 4b minimum price by about \$1.00 per hundredweight *(As I noted in the article linked above, so far in 2011, about 40-45% of our pooled milk solids have been used by Class 4b plants).*

Earlier this month, two additional alternative proposals were submitted for consideration at this hearing – one by Western United Dairymen and one by the Dairy Institute of California (the California lobbying organization for the State's processors). Both of these alternative proposals address the issue of how the whey solids are valued in our Class 4b formula. For more information, you can check out CDFA's website at: <http://cdfa.ca.gov/dairy/uploader/postings/hearings>.