



Milk Producers Council

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TO: Directors & Members

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0025 \$1.4875
Barrels N/C \$1.4600

Weekly Average, Cheddar Cheese

Blocks - \$.0011 \$1.4894
Barrels +\$.0013 \$1.4613

CHICAGO AA BUTTER

Weekly Change - \$.0325 \$1.4300
Weekly Average - \$.0536 \$1.4444

DRY WHEY

Dairy Market News w/e 04/06/12 \$.5213
National Plants w/e 03/31/12 \$.5546

NON-FAT DRY MILK

Week Ending 3/30 & 3/31

Calif. Plants \$1.3180 13,479,968
Nat'l Plants \$1.2965 22,648,086

Prior Week Ending 3/23 & 3/24

Calif. Plants \$1.3013 26,432,626
Nat'l Plants \$1.3043 27,690,380

CHEESE MARKET COMMENTS: Cheese production during February, reported on Wednesday, was about even on daily basis with January. That, in conjunction with the earlier report on the amount of cheese in cold storage at the end of February, amounted to good news. Strong usage of milk and cream was also reported for cottage cheese, sour cream, frozen desserts, whipping cream, and cream cheese – but not fluid milk. Most traders likely took the week off; light trading and little price change occurred on the CME in this shortened, pre-Easter week. Milk production continues at higher than normal rates, according to *Dairy Market News*, and cheese plants are taking at least their fair share of what is available. Heavy retail ad activity is helping domestic sales, but export interest is apparently slower, at least for a time. Cheese and class III milk futures gave ground this week through September; cheese continues to sell at a premium to cash prices while milk continues to be discounted. Both rise through the course of the year.

BUTTER MARKET COMMENTS: Based on production and inventory numbers for January and February, the U.S. butter market may be in for lean times ahead. Production in these two months increased by a total of 35 million lbs over the previous year while the amount of butterfat in cold storage at the end of February rose by 100 million lbs over that time. The production increase, reported Wednesday, was no more than what was expected and should follow a normal seasonal pattern from here on, continuing a string of all-time records that began last October. But, based on how the market did not react this week, it looks like traders may believe current prices already have accounted for the record outputs and stock levels and are looking ahead to an expected cut back in milk production later this year. So lean times for the butter market may not mean much lower prices. Trading on the CME this week was light; only one carload moved and the week's average price was 5.36 cents per lb lower than last week's average, which should help buyers to shed some of their reluctance to place orders. *DMN* says export interest is growing, helped by CWT's assistance, but domestic sales are in that place where not much is happening. Butter futures prices this week rose slightly through July, then eased off a bit. Overall, it was a satisfactory week.

POWDER MARKET COMMENTS: The big question this week is what to make of the huge shift in California's February production from skim milk powder to nonfat dry milk. Likely answer was to keep production lines at maximum efficiency in order to handle the high levels of milk production currently available. Total U.S. NFDM production in February increased by 16.7 million lbs, with virtually all of the increase coming from California. *DMN* says domestic usage is steady but not keeping up with production. Stocks on hand at the end of February rose by 38 million lbs over January and were 73 million lbs higher than a year earlier. Part of the increase in NFDM stocks is accounted for by the shift in production. Prices in the eastern and central regions continued to move downward this week, with some sales reported as low as \$1.10 per lb. The "mostly" price series in the Western region remained unchanged, ranging from \$1.18 to \$1.32 per lb, reflecting continuing widespread usage of sizable discounts throughout the country. The California plant average price reported this week for last week's shipments increased by about \$.017 per lb and is about \$.02 per lb higher than the national

price reported this week by ERS. (No more NASS prices, folks.) The market for buttermilk powder is weak; production in February was 2 million lbs lower than in January but stocks on hand still increased by 1.3 million lbs. In a smart move, Cooperatives Working Together announced today they will add whole milk powder to the list of products to which they lend support for export purposes, effective by mid-April. WMP is by far the most internationally traded dairy product, but the U.S. presently has a very small part in that market, only producing an average of about 6 million lbs per month. Futures traders are more optimistic about prices than people engaged in daily transactions – prices range from \$1.25 per lb in May up to \$1.35 in December.

WHEY PRODUCTS MARKET COMMENTS: Changes in production of dry whey, whey protein concentrates, whey protein isolates, and lactose in February were about even with the change in production of cheese during the month, or slightly lower. End of month inventories compared to January showed some growth for all products and a fairly large uptick for lactose powder. *DMN* says current DW stocks are growing and prices are lower in the Eastern and Central regions and unchanged in the West. Prices for WPC-34 are steady to lower, averaging \$1.46 per lb this week. Sellers are finding a nice mix of ready buyers for traditional and new uses, says *DMN*. The market for non-pharmaceutical grade lactose continues to grow even as prices creep upward. This week’s average price is \$.905 per lb, about \$.03 per lb higher than what was bid in the first offering of the product in this week’s global auction for shipments in the July-September period. The whey protein market appears to reflect steady to strong demand for all products.

FRED DOUMA’S PRICE PROJECTIONS...

Apr 06 Est:	Quota cwt. \$15.87	Overbase cwt. \$14.17	Cls. 4a cwt. \$15.00	Cls. 4b cwt. \$13.35
Last Week:	Quota cwt. \$15.89	Overbase cwt. \$14.20	Cls. 4a cwt. \$15.06	Cls. 4b cwt. \$13.37

IDFA CONTINUES THEIR PROPAGANDA MACHINE IN WASHINGTON, DC; DAIRY FARMERS MUST SPEAK UP: (*By Rob Vandenheuvel*) Last week, we published an article outlining how our national dairy safety net policies would have triggered in if the “Dairy Security Act” (a.k.a. DSA or the “Peterson-Simpson Bill”) was the current law of the land. If you missed that article, I encourage you to check it out at: http://www.milkproducerscouncil.org/033012_petersonsimpson.htm.

The basic message of the article was to let our readers know that if the DSA were currently in place, the program would have met some key triggers and implemented the Dairy Market Stabilization Program (DMSP) – the part of the program that would create a financial incentive for dairies participating in the DSA to quickly and temporarily scale back their milk production by a couple percentage points, with the goal of bringing national milk supply into better balance with consumer demands for our milk. While this was a hypothetical analysis (since the DSA is *not* currently the law of the land), it was an important point to make, as the DSA is currently the leading dairy proposal being considered for inclusion in the 2012 Farm Bill that is being written in the U.S. Congress.

As we stand here in the reality of 2012, we are unfortunately faced with a much more sobering reality than this hypothetical discussion provides. We stand here today with a severely limited Milk Income Loss Contract (MILC) program that limits payments to less than 3 million pounds of milk produced per year, and a Dairy Product Price Support Program (DPPSP) that won’t even kick in unless prices fall another \$3-\$5 per hundredweight (a scary thought, huh?). Last week’s article was a glimpse into the future of what kinds of tools could be available to our nation’s dairy families if the DSA were in place. And fortunately for us, that glimpse could become a reality as our Farm Bill policies are in the process of being re-written in Congress.

However, it should come as no surprise that not everyone viewed this “glimpse into the future” as a good outlook for our industry. Most notably, the International Dairy Foods Association, or IDFA (the main lobbying organization in Washington, DC working on behalf of the nation’s dairy product processors), continued to take

direct aim at the Dairy Security Act and put their negative spin on how it would have been applied in 2012. Their key lobbyist – Jerry Slominski – took to the radio airwaves to disparage the DSA and how it would have responded to these current low/negative margins for dairies (<http://www.idfa.org/news--views/headline-news/details/7138/>).

In his radio interview, Mr. Slominski's closed his comments by making the case that we would be better off – as an industry – if we ditch the idea of the Dairy Market Stabilization Program and focus solely on a “margin insurance” program that would provide direct payments to dairy farmers during these times of low/negative on-the-farm margins.

As you know, the DSA includes this type of margin insurance program. However, the caveat included in the DSA is if you want the Federal government to provide this type of direct payment program, you must be willing to participate in a program that occasionally triggers in and creates a financial incentive to quickly scale back milk production. And while the readers of this newsletter already know this, IDFA conveniently fails to mention that the provisions of the DSA are completely voluntary. If a dairy farmer prefers to not be part of the Federal dairy safety net policies, it's 100% their option to stay completely out of the system.

These are two very different takes on a national dairy safety net. On the one hand, we have those who support the Dairy Security Act, which provides payments to dairy farmers during periods of low/negative margins, while at the same time establishing a program that is aimed at bringing national milk supply into better alignment with milk consumption, sending the industry on a quicker path to recovery (and thereby likely limiting the amount of direct payments that would be made under the “margin insurance” program, since we would be bringing our supply/demand into better balance more quickly). On the other hand, we have IDFA's idea of simply creating a margin insurance program with no tool aimed at bringing our industry back into supply/demand balance (which, by contrast, would conceivably result in longer “down periods” and therefore, more direct payments made by the government during those periods).

Amazingly, IDFA has convinced a few taxpayer advocacy groups to join their ranting against the DSA, despite the fact that the object of their ranting – the Dairy Market Stabilization Program – is designed to bring dairy markets back into equilibrium and greatly limit the dollars being spent under a margin insurance program. It makes me wonder whether or not those taxpayer groups truly understand how dairy policy works and why they decided to get so intimately involved with their limited knowledge/experience in this field.

Regardless, as the dairy farming sector of our industry sits here today, we need to be active participants in the process. IDFA is working the halls of Congress on a daily basis and is undoubtedly a regular participant at political fundraising events for our elected officials. **That means that we, as dairy farmers and dairy advocates, must step up to the plate and speak in a unified and loud voice in favor of the Dairy Security Act.**

The debate over dairy policy and the 2012 Farm Bill is poised to begin in the U.S. Senate in the coming weeks. Dairy organizations/cooperatives and individual dairy families must do everything at their disposal to make sure their Senators know that the Dairy Security Act is a policy that deserves to be part of the 2012 Farm Bill. If you're not sure who your two Senators are or how to get a hold of them, you can find a list of the 100 U.S. Senators and their contact information at http://www.senate.gov/general/contact_information/senators_cfm.cfm. You can also feel free to contact Milk Producers Council at (909) 628-6018 or office@milkproducers.org and we'll help. **Don't let IDFA speak for our entire industry. A simple call to your elected officials' offices will take just a couple minutes out of your day, but will pay huge dividends.**

And again, if you missed last week's article on how the Dairy Security Act would have given our industry some much-needed tools during this current downturn in the industry, you can find the article at: http://www.senate.gov/general/contact_information/senators_cfm.cfm.

GLOBAL AUCTION PRICES CONTINUE DOWNWARD TREND: (by J. Kaczor) It seems like the global dairy auction is becoming stranger and stranger as it grows. However strange, the results from recent weeks' auctions verify one of the dairy industry's truisms – prices for dairy products do fluctuate. Sometimes the changes are as expected, for all the usual reasons. But some seem erratic, contrary to changes in supply or demand for particular products, some appear to be an over-reaction to one thing or another, and some are simply unexplainable. The price changes for the “basket” of products in the global auction, now represented by eight product lines, offered by four different suppliers located on three different continents, fit into all four of these categories, ranging from the expected to the puzzling. That was not always the case back in the day when only whole milk powder was available.

One source of confusion is the reports of a **weighted average price** as well as a **weighted average price index**. This week gives a good example of the difference between the two. This week's WAP is \$1.486 per lb, \$.054 per lb lower than the previous WAP of \$1.540 per lb, which is a drop of 3.5%. At the same time the WAPI was reported to have increased by 1.5%. That raises the question whether prices have weakened or strengthened over the past two weeks. Since “Average Winning Price” is defined by GlobalDairyTrade as the “quantity-weighted average of winning prices at the trading event” it would seem that total revenue for all products sold was lower this week than two weeks ago regardless of what the price index, which was recently recalculated using monthly weights as of December 20, 2011, might otherwise indicate.

The inclusion of two new suppliers this week, Arla Foods and Murraray Goulburn, offering skim milk powder and lactose, respectively, will affect the WAP to the downside because they generally are lower priced items. The inclusion of Dairy America's and Arla Foods' skim milk powder prices pulls down the WAP for skim milk powder and therefore the WAP for all products. Their net effect can only be estimated because information on volumes sold is withheld for 90 days and then is only reported for the full product line, not by individual products. A guess on their effect to date is \$.10 per lb for SMP and \$.02 per lb for all products.

While the prices change from auction to auction the recent price trend has been downward. The table to the right recaps the fluctuation in prices for the six product lines offered in the most recent twelve auctions, along with the overall change in

Recap of Price Changes From Last Six Global Auctions				
	Starting Price	Increases	Decreases	Ending Price
Anhydrous MF	\$1.680	6	6	\$1.625
Cheddar Cheese	\$1.724	5	7	\$1.529
MPC-70	\$3.045	5	7	\$2.134
Rennet Casein	\$3.711	6	6	\$3.307
Skim Milk Pwdr	\$1.448	4	7	\$1.396
Whole Milk Pwdr	\$1.501	4	8	\$1.464
Six Products	\$1.605	5	7	\$1.486

prices over that time. The weakest showing is the 30% loss of value for MPC-70, with monthly volumes totaling only about one million lbs. (No MPC was purchased in the previous auction, resulting in a recorded price 15% lower than the previous price.) Prices for anhydrous milkfat changed the most over the past year; the current price is little more than half of what it was about a year ago. The milk powders have held up fairly well short-term but are as low as they have been in about a year and a half. (It appears had Dairy America not offered its SMP, the WAP for SMP would be slightly higher than the average price for whole milk powder.) The overall price trend for the past year is believed to be a reflection of the astounding increase in global milk supply, particularly the double-digit increases in the southern hemisphere, along with questions about the short-term viability of global demand. Fonterra's recent declaration of their intention to do essentially whatever is necessary to directly or indirectly increase their milk supply in order to at least maintain their leading share of global dairy trade adds uncertainty about the long-term market situation as well.

Another strange thing about the auction is how few of the growing number of qualified bidders actively participate by placing at least one “bid” in each event. This week there were 603 companies whose applications had been accepted by the auction's administrator, but only 139 actually indicated interest in buying. This apparent reticence may change once the contract periods are realigned into single-month categories, but it could also be an acknowledgement that personal relationships and old-fashioned bargaining is the preferred method of doing business, at least when there is an apparent global surplus of products.

A final question, about how representative are the winning prices, is highlighted by the price differentials bid for Dairy America’s skim milk powder from October through this week, and now includes Arla Foods’ offerings. The question about why a product supposedly meeting international standards of identity, composition, and quality receive much lower bids from international customers than are bid for Fonterra’s like products is troubling. It was believed that inclusion of two sellers located in the northern hemisphere would complement the substantial annual swing in product volumes coming from Fonterra. For that to work to everyone’s satisfaction, prices bid for all sellers of SMP may need to come closer together. For bidders, it is not a matter of not knowing what volumes are being offered or the starting prices – that information is available to all 603 qualified bidders simply by logging on to the event. The prices bid for Dairy America’s SMP appear to be on the low end of the estimated prices reported for all nonfat powders exported from the U.S. in December and January (\$1.45 per lb), and continue to fall, to \$1.25 per lb, for delivery to winning auction bidders in May, and are substantially lower than Fonterra’s prices.

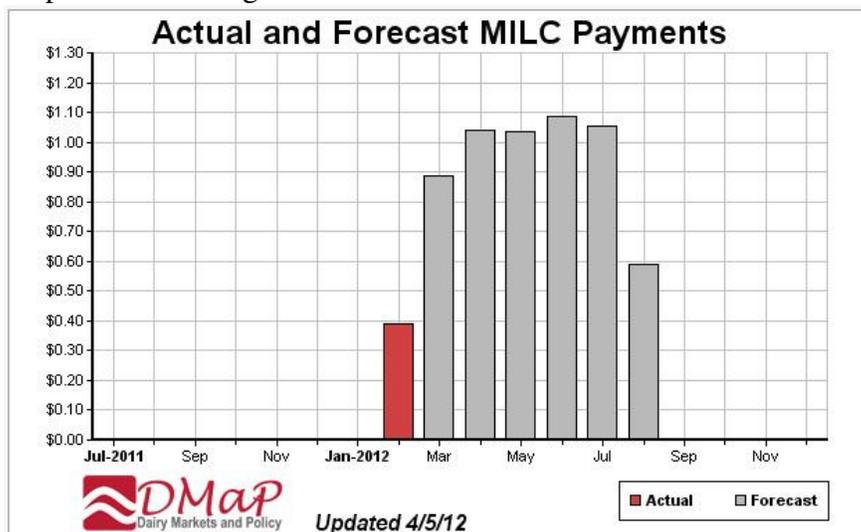
Perhaps weekly auctions would reduce the amount of the price swings, reduce fluctuations to flutters, help differentiate between a trend and an over-reaction, and result in fewer surprises. Stranger things have happened.

DEADLINE TO SIGN UP FOR MAY MILC “START MONTH” COMING UP: *(By Rob Vandenhoevel)*

Payments in the fiscal year 2011-12 under the Milk Income Loss Contract (MILC) program officially began in February 2012. As you can see from the chart below, the payments generated for those signed up to collect payments in February will be just short of \$0.40 per hundredweight.

Many dairies have already established their “start month” as February, March, April or maybe even earlier. But for those of you with a “start month” of May or later need to take a look at the latest estimates and make a decision for your dairy by April 14th.

As a reminder, the MILC program only makes payments on the first 2.985 million lbs of milk produced per dairy each year (which is only about one month of production for a 1,500 cow dairy, or two months of production for a 750 cow dairy, etc.). Therefore, the month each dairy selects as its “start month” will determine when that dairy will start collecting payments on its 2.985 million lbs.



Since dairies are forced to make decisions about future months in the Milk Income Loss Contract (MILC) ahead of time (changes to your dairy’s contract must be submitted by the 14th of the month prior to your “start month”), we’re left in the position of trying to guess where milk and feed prices are heading. Various organizations around the country publish projected MILC payouts in future months, which can be helpful for dairies hoping to sign up for optimal months (a chart from the University of Wisconsin-Madison with projected payment rates is above).

MPC members needing any assistance with their MILC paperwork should contact the MPC office at (909) 628-6018 or office@milkproducers.org.

MPC wishes all of you a blessed Easter weekend!