



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0050 \$1.5100
Barrels - \$.0075 \$1.4950

Weekly Average, Cheddar Cheese

Blocks - \$.0440 \$1.5060
Barrels - \$.0330 \$1.4870

CHICAGO AA BUTTER

Weekly Change - \$.0200 \$1.5500
Weekly Average - \$.0220 \$1.5580

DRY WHEY

DAIRY MKT NEWS w/e 01/27/12 \$1.7175
NASS w/e 01/21/12 \$1.7113

NON-FAT DRY MILK

Week Ending 1/20 & 1/21

Calif. Plants \$1.3337 26,862,877
NASS Plants \$1.3654 27,125,986

Prior Week Ending 1/13 & 1/14

Calif. Plants \$1.3975 13,834,310
NASS Plants \$1.4151 18,315,630

CHEESE MARKET COMMENTS: Current milk production throughout the country is reported to be stronger than expected, continuing the trend that began strengthening last October. (See related article below.) *Dairy Market News* is hearing some buyers reacted strongly to last week's price drops on the CME and are delaying further purchases until they believe prices have stabilized. Buyers who purchase on a monthly index basis are simply waiting for February to arrive. Those who use weekly indexes may show up in the next two weeks. *DMN* says some cheese manufacturers have adjusted production schedules down to levels they believe will not cause inventories to rise. This week CME was a picture of "correctness" – offers of barrels corrected the price on Monday (-\$.0175 per lb), offers on Tuesday confirmed the correctness of Monday's price, and offers of blocks on Wednesday confirmed the correctness of that price. Today, a massive number of carloads changed hands -- 20 loads of barrels and 6 loads of blocks. Prices for both styles ended the week about where they began, but the final actions on Friday, bids to buy at prices slightly lower than the last trade went unfilled, a possible sign that prices may finally be stabilizing. Prices reported to NASS for shipments last week for both styles were virtually the same as they have been for the previous two weeks, which means they are again quite higher than the weekly averages, and well worth waiting for. January's cheese futures ended at \$1.61 per lb; February's price presently is \$.065 per lb higher than today's closing spot price, and the monthly prices increase by about \$.05 per lb for each month through May, and continue on up to \$1.75 per lb by September. January's class III milk futures price ended at \$17.10 per cwt; a month ago it was at \$18.77 per cwt. 2012 prices range from a low of \$16.64 in February to a high of \$17.25 in September.

BUTTER MARKET COMMENTS: Butter plants are about as busy as they ever have been, handling seasonally heavy milk production, surplus cream from bottling plants, and additional loads unwanted by cheese plants. CME prices lost \$.02 per lb this week, all from offers to sell on four separate days. Only one carload was sold. Sales are sluggish, slow, or fair, depending on the region. Export sales continue to be slow, and for the past six months have dropped by about 20 million lbs below the same period a year earlier. It looks like inventories are going to shoot up in January, and CME butter futures traders, possibly because of that, slammed prices downward this week; April-October months fell by an average of \$.06 per lb; June dropped \$.08 per lb. The March through December prices are still above the current cash price. Money, money, money, makes the world go round.

POWDER MARKET COMMENTS: The other half of the milk market clearing business is milk powders. Production is heavy. Prices are falling. This week saw another periodic inventory clearance by California powder plants, benefiting some buyers and causing others to hold off until prices settle down. It would be worse except for some good usage of condensed skim for early ice cream production and other class 2 usages. U.S. prices for nonfat dry milk are going in the opposite direction of skim milk powder prices in Fonterra's twice monthly global auction; Fonterra's prices for low and medium heat SMP for January shipments averaged about \$1.49 per lb and stepped up to about \$1.54 per lb for March shipments. Dairy America's auction prices for like products for those months are lower and appear to be moving lower rather than rising. A spokesman for Dairy

America said their auction sales are skim milk powder, for export, and declined to comment on their results so far, saying four months and eight auctions is insufficient time and gives too little data to draw any conclusions.

WHEY PRODUCTS MARKET COMMENTS: While prices for dry whey generally edged up again this week and were unchanged for WPC-34, comments this week from all regions in the U.S. seem to suggest that international demand for U.S. sellers, and possibly domestic demand as well, is slowing, at least for a time. Complaints about unavailable spot loads and delays on shipments of contracted loads that were common over the past month or so are no longer mentioned. Instead, *DMN* says multiple offers are sometimes available and buyers “guard” against committing themselves when CME futures prices suggest major price adjustments are coming later this year. Futures prices this week fell by \$.03 to \$.055 per lb from March through September; April’s price is now below \$.60 per lb and July’s price is below \$.50 per lb. The apparent additional supply of DW and WPC is surprising because cheese production in January is usually lower than in December (less cheese, less whey). Exports are lower; some sales have been lost to European sellers. The issue of how much WPC-34 will be available continues to be of concern. *DMN* says some 1st quarter short-term contracts, which need to be renewed or re-negotiated within a few weeks could upset some buyers and result in product reformulations. The whey products market does not look very stable at the moment.

FRED DOUMA’S PRICE PROJECTIONS...

| | | | | |
|----------------------|---------------------------|------------------------------|-----------------------------|-----------------------------|
| Jan 27 Final: | Quota cwt. \$17.24 | Overbase cwt. \$15.55 | Cls. 4a cwt. \$16.19 | Cls. 4b cwt. \$14.23 |
| Last Week: | Quota cwt. \$17.31 | Overbase cwt. \$15.61 | Cls. 4a cwt. \$16.40 | Cls. 4b cwt. \$14.23 |

2011 MILK PRODUCTION ENDS ON A HIGH NOTE: (by *J. Kaczor*) In this month’s estimate of December milk production, USDA reached back and made some adjustments to their estimates on number of milk cows for November and to production per cow for October and November, resulting in more milk being reported for those months. For December 80,000 more cows were on hand than a year before, production per cow rose by a strong 29 lbs for the month, and milk production rose by 409 million lbs, an increase of 2.5%. The tonnage and the percentage increase were the highest reported for the year. Western and southwestern states continued to be among those with the biggest increases although Indiana, Iowa, Illinois, Michigan, Wisconsin, and Virginia had increases at or above 2.6%. Production gains in New Mexico and Texas were lower than they have been. California again was reported to have the biggest increase, 129 million lbs more than last December, from 30,000 more cows, with average monthly production up by 40 lbs.

2011 began with a strong increase in milk production, weakened mid-year, then turned sharply upward over the last quarter of the year. According to USDA’s report this week, the total increase in U.S. milk production for 2011 was 1.8% above the previous year. The average number of milk cows for the year, including dry cows, increased by 80,000, and the average amount of milk per cow during the year increased by a little less than a half pint per day. What is going on here? How dare the U.S. dairy industry screw with something so important to so many other international dairy product exporting nations? It would have been so much better for those others had the number of U.S. milk cows stayed at 9,208,000, the average for the June-August period, but instead, producers went right ahead and added 13,000 more over the next four months. The effrontery of that, some say, is beyond belief.

Well folks, that was U.S. dairy farmers doing what they do better than any of their peers do anywhere else in the world – produce milk efficiently and proficiently. According to a recent report by USDA’s Foreign Agricultural Service (FAS), milk production per cow in the U.S. for the past two years was higher than any other country or region covered in the report. Japan was a close second, followed by Canada. Then came Australia, Argentina and the European Union (their 27-nation average), at about two-thirds the U.S. rate. Towards the bottom, China and New Zealand were clocked in at less than half of the U.S. output per cow. [That is not to imply that New Zealanders are not excellent milk producers; their low annual output per cow is a function of the extreme seasonal milk production pattern down there and their almost exclusive use of pasture for feed. Their production “year” essentially covers about nine and a half months. A better comparison would be monthly peak production per cow: NZ’s is estimated to be about 1,250 pounds in October, which is about 65% of the U.S. peak production in May.]

The fact of the matter is, despite high efficiency and more cows, milk production in the U.S. is not keeping pace with some of its most important international competitors. The table here compares recent percentage changes in milk production from year to year for the U.S. and four other major exporting nations or regions.

| Percentage Change in Milk Production From The Preceding Year | | | |
|---|-------------|-------------|-------------|
| | 2010 | 2011 | 2012 |
| United States | 1.8% | 1.8% | 1.1% |
| European Union | 1.3% | 1.7% | 0.8% |
| Argentina | 2.4% | 13.1% | 3.8% |
| Australia | 0.0% | 2.4% | 2.5% |
| New Zealand | 1.1% | 10.2% | 3.5% |

The figures for 2012 are based on projections made by FAS. The increases shown for the first four entries in the table partially reflect recoveries from reductions in milk cow numbers in years either leading up to or following the recent global downturn. The weak increases for Australia and New Zealand in 2010 were weather related, and contributed to a growth in U.S. exports that year. New Zealand producers did not have to recover from a reduction in cow numbers. They added 37,000 cows in 2008, 397,000 in 2009, 83,000 in 2010, and 140,000 in 2011. FAS is projecting another 100,000 cows will be added to New Zealand herds this year. Over the same period, the U.S. milking herd for 2012 is projected to be smaller than it was in 2007, 2008, 2009, and 2011 – but should still manage to set a new record high this year.

The table reflects what appears to be a “race for share of the future international market” between New Zealand and everyone else. Yes, there is a point beyond which New Zealand will be unable to convert woodland and sheepland to dairy farms and to expand existing herds but they have not yet gotten there. They also can decide to use purchased grains for feeding (raising production costs, of course) which would enable much more production to occur during those quiet months in which very little milk presently is produced. Fonterra has already taken several strategic steps to develop milk supplies in other countries and to enter into joint ventures in customer countries for production of dairy products for sale there or to fill contracts for export to other countries. Fonterra is capable now and appears to be readying itself to operate on an even higher level to service the growing global dairy product demand.

U.S. exporters have had an outline of a comprehensive plan since 2009. Small but significant steps have been made, but the two reforms considered to have the highest priority for a successful program have not been made. Under the auspices of DMI, major U.S. dairy companies and the two national trade associations are focusing in on what needs to be done as an industry, at the pre-competitive stage, to provide assurance to importing nations that their long-term needs will be fully met by U.S. suppliers. The plan includes regulatory reform and control over price volatility (the top two priority items), product development, quality assurance, and market development. The regulatory reform step implies practical assurance to U.S. milk producers that they will have a ready market for milk produced above domestic needs, or a sufficiently robust margin insurance program to carry them through periods of low prices or losses of export sales, or sufficient affordable risk management tools to avoid catastrophic price events. Regulatory reform also called for federal and state pricing systems to be more flexible and responsive to market signals, meaning milk should be attracted to the highest and best usage first. Instead, the gamesters at CME continue to set most of U.S. milk prices.

The impressive success with dairy product exports last year and the year before carried over to IDFA’s Dairy Forum last week. Reports say attendees were enthralled by experts’ consensus that global demand for dairy products should continue to rise faster over the next several years than the ability to fill the demand. Population increases, rising incomes, improving appetites for western style foods, the presumption that Europe will not fall into another recession, and the current U.S. policy to keep interest rates low all combine to paint a favorable picture for possible future U.S. dairy exports. However, the FAS projection in the report referred to above is for fewer exports from the U.S. this year. Other public and private forecasts say milk prices should be lower this year than last year. That, and the continuing weakness in U.S. fluid milk usage (more than a billion pounds lower than two years ago) suggests the short-term milk supply/demand picture for the U.S. may not be all that great. Here is the rub – if prices weaken and costs remain high, will U.S. producers cut back on production to the point where exporters can no longer assure their current and potential customers of a steady supply?

Development of the comprehensive plan for the U.S. dairy industry to become a substantial, reliable, and consistent exporter, instead of little more than a reliable standby for all the others, is immensely important but progress seems to have stalled. Accomplishments to date include passage of some Free Trade Agreements, increased attention by producers and plants to the need to provide products of the highest quality and safety, and the opening of some new export markets. But the U.S. dairy industry is still more in the good luck and good fortune stage in terms of exports than in control. The latest number from National Milk Producers Federation for exports of total milk solids as a percentage of production for the January-November period in 2011 is 13.3%, up from 12.7% a year earlier. The volume of market-clearing and other long-life dairy products represented by those percentages is almost beyond comprehension. Those sales cannot continue to be left to chance.

There is no clear time line for the grand plan to be completed. It is likely the two top priority reforms will be addressed in the upcoming Farm Bill hearings. Won't that be fun to watch. Meanwhile, producers and exporters need to avail themselves of hedging tools and other risk management schemes to offset the price volatility we are told will continue. Call it stealth reform – achieving the results without changing the system. Maybe the best overall measure of progress will be whether the recent volume of exports is at least maintained with price levels no lower than those of our competitors.

KNOW ANYONE INTERESTED IN A CONGRESSIONAL INTERNSHIP? *(By Rob Vandenheuvel)* Last week, U.S. Congressman Devin Nunes (R-Visalia) sent out a notice that they are looking for interns in their Washington, DC and local California offices. If you or anyone you know is interested in this outstanding opportunity, I strongly urge you to pass this information along. More information can be found on Rep. Nunes' website at: <http://nunes.house.gov/ConstituentServices/Internships.htm>.

For those of our readers who don't already know, I personally had the pleasure of serving as a Congressional intern in 2002 after I graduated from college. While I was not a public policy or political science major (I graduated with a degree in Business/Accounting), my internship was an amazing opportunity to see first-hand how our Federal system of government works. *(Consequently, I enjoyed my experience so much I stayed on as a full-time Congressional staff for more than 4½ years.)* That time in Washington, DC gave me the experience that I not only still utilize today in my role at Milk Producers Council, but that I will benefit from my entire professional career. If you or anyone you know is interested in exploring this unique and worth-while opportunity, please take a look at the website above or call your local Congressman or Senator and ask about opportunities in their offices.

REMINDER: RISK MANAGEMENT WORKSHOPS START NEXT WEEK: *(By Rob Vandenheuvel)* As we wrote last week, the California Dairy Quality Assurance Program (CDQAP) – the same folks that have helped dairies comply with environmental regulations and become environmentally certified – has secured some grant funding to hold four workshops throughout the State on the issue of reducing farm risk. You should have received a flyer in the mail on the upcoming sessions, but if you didn't, you can find it on our website at: www.milkproducerscouncil.org/2012riskmgmt.pdf. On that flyer, you can read about the agenda for the workshops.

The four workshops will be held on:

- **Wednesday, February 1st from 1 – 4 pm;** Hampton Inn & Suites Conference Room (3105 Chino Avenue, Chino Hills, CA)
- **Thursday, February 2nd from 9:30 am – 12:30 pm;** Tulare County Ag Center Classroom (4437 Laspina Street, Tulare, CA)
- **Monday February 6th from 10 am – 3 pm;** Glenn County Farm Bureau Office (831 Fifth Street, Orland, CA)
- **Thursday, February 9th from 9:30 am – 12:30 pm;** Stanislaus County Ag Center, DE Room (3800 Cornucopia Way, Modesto, CA)