Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328
801 S. MOUNT VERNON AVENUE – BAKERSFIELD, CA 93306 – (661) 833-2549
E-mail: mpc@milkproducers.org Website: www.MilkProducersCouncil.org

DATE: December 04, 2009 **PAGES: 4**
TO: DIRECTORS & MEMBERS **FROM: John Kaczor**

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.0675*	$1.7175
Barrels	*-$.0500*	$1.4600

Weekly Average

Blocks	*+$.0692*	$1.6975
Barrels	*-$.0282*	$1.4785

CHICAGO AA BUTTER

Weekly Change	*-$.0750*	$1.4500
Weekly Average	*-$.0300*	$1.4950

DRY WHEY

WEST MSTLY AVG	w/e 12/03/09	$.3775
NASS	w/e 11/28/09	$.3535

NON-FAT DRY MILK
Week Ending 11/27 & 11/28

Calif. Plants	$1.1991	6,530,076
NASS Plants	$1.2048	8,332,549

CHEESE MARKET COMMENTS: The $1.70 per lb level for block cheese on the CME, forecast by an industry leader earlier this year when it appeared to be out of the question, arrived this Wednesday. Blocks closed the week up by 6.75 cents per lb; barrels lost a nickel per lb. The price spread between blocks and barrels ended the week at 25.75 cents per lb, and the price spread for the week averaged 21.90 cents per lb. Spreads of this size on a daily basis are not unheard of, but it is uncommon for them to last at this level for an entire week, much less for so many weeks in a row. The spread four weeks ago averaged 9.7 cents, rose to 13.2 cents, then fell to 12.07 cents, and now jumped to 21.9 cents. A weekly spread greater than 12 cents per lb occurred only three times in the past three years, none were greater than 13 cents, none lasted more than two weeks, and all were followed by sharp corrections. Wholesale prices for current sales reported to NASS are lagging further behind than normal, or else sellers have departed from typical margins for barrel cheese, because the average spread between blocks and barrels reported this week for last week's sales climbed only to 5.9 cents per lb, up 2 cents from the week before. It looks like the price increase for blocks this week, while barrels were losing ground, is a strong statement supporting block prices. Today's report by USDA on production of cheese shows that a little less cheese per day was produced in October than was produced in September – a positive sign.

BUTTER MARKET COMMENTS: Heavy trading in butter continued this week on the CME, with prices giving way from Wednesday on. *Dairy Market News (DMN)* market analysts found what was expected – buyers are assessing their holiday sales, which were strong, and hoping for some price weakness before having to restock. Bulk sales are reported to be lower. Those international brokers apparently took the week off, as no mention was made of them this week by DMN. The report on October's butter production shows it was 14% (19 million lbs) below last October, but 16 million lbs more than was produced in September. That seems to be a natural response to the strong domestic demand as shown by the activity on the Exchange.

POWDER MARKET COMMENTS: Production of nonfat dry milk and skim milk powder in October was 37 million lbs lower than a year ago (-27%), and about even on a per day basis with the amount produced in September. Average weekly prices reported to the two major reporting agencies for sales of nonfat dry milk last week were higher, on lower volume. Both series showed a total increase of more than 10 cents per lb over a two week period. The reports by California plants over the past four weeks reflected the lowest total volume of sales in three years. Both price series fell just short of making it into the Central or West "mostly" range. Supplies are on the tight side in the East and Midwest, and in balance in the West. Some product continues to move from Western plants to Midwest brokers. Manufacturers' stocks at the end of October for NFDM and dry buttermilk were sharply lower than at the end of September, as well as last October. Prices for dry buttermilk and whole milk powder also advanced; DMN reports some whole milk powder is coming in from Australia at prices competitive with local prices. Now why would they do that?

WHEY PRODUCTS MARKET COMMENTS: Stocks of dry whey and whey protein concentrate at the end of October were lower than a month earlier, and prices for both products continued to edge higher. DMN reports some price resistance for dry whey, but current sales are clearing away current production.

***

FRED DOUMA'S PRICE PROJECTIONS…

Dec 4 EST:	**Quota cwt. $ 16.14**	**Overbase cwt. $14.44**	**Cls. 4a cwt. $14.24**	**Cls. 4b cwt. $15.30**
Nov 25 FINAL:	**Quota cwt. $ 14.77**	**Overbase cwt. $13.07**	**Cls. 4a cwt. $13.16**	**Cls. 4b cwt. $13.76**

***

ANOTHER SUCCESSFUL INTERNET AUCTION, AND RELATED COMMENTS: *(By J. Kaczor)* Fonterra's eighteenth monthly internet auction (globalDairyTrade) for whole milk powder was completed this week and the bid prices increased from their July lows for the fifth straight month. The average price for commodity grade regular powder almost doubled over that period, reaching a fifteen month high. The average price bid in July (for deliveries from September through March) was $.82 per lb. The average price bid this week for deliveries from February through August was $1.62 per lb. The auction offers instantized and UHT whole milk powder in addition to the higher volume regular powder, and prices for all three styles increased at about the same rate over this period.

In August, Fonterra added some of its Australian WMP to the auction, and added a second commodity, anhydrous milkfat, two months ago. Prices for the Australian powder have been averaging somewhat below the New Zealand powder because of a number of factors affecting its demand, relative to the NZ product. Two grades of anhydrous milkfat are offered; the quantity of premium grade AMF is much greater than that for regular grade, so that's the one to be followed. The November winning average price for premium AMF (for deliveries about two months forward) was $2.17 per lb, 31% higher than what Fonterra had figured the current price to be at the time, but it fell by 8.5% this week to $1.98 per lb. The big increase in November was attributed to a short supply, according to Fonterra.

Fonterra was rightly pleased by the auction's results, saying the prices reflect "firm market conditions." However, the tone of the comments in the press release, as well as other comments by the GDT manager, were more cautious. The rate of the price increase in this round of bidding for WMP was much smaller than in the four prior months, and could mean they are topping out. Even if strong consumer demand continues, according to the manager, future price volatility could be expected "as a result of supply and demand responses" to the near doubling of prices. That reference to possible supply responses is pointed at Western Europe and the U.S. dairy industry's expected turn-around in milk production sometime next year, and to the possible U.S. interest in ramping up production of the dairy commodity that is the most traded internationally.

Based upon previous statements and current higher quantities of WMP that are being offered, it looks like Fonterra will still be selling about 20% to 25% of its production of WMP through the auction. They still have not included supplies from non-Fonterra sources, for which they initially had expressed interest. Expect to see skim milk powder and/or butter added to the line of products sometime next year.

You may ask why all this space is devoted to Fonterra's auction. There are two reasons. The first is that the auction has become the monthly "eagerly awaited" report that is widely considered to be the best and most transparent indicator of current and foreseeable prices for two major internationally-traded dairy commodities. Its management is impeccable. It's being considered by some to be a barometer for prices for other major dairy commodities. It can only get better as other products are added and other suppliers join Fonterra in offering their products in an open and fair international venue. There are substantial reasons for other suppliers to not join – competition, product characteristics, long term relationships, trade agreements, and others – but Fonterra has shown that its vision of an open and fair bidding process is much better for them and for their customers than negotiating and being held to fixed-priced long-term contracts in a very unpredictable world.

That brings me to the second reason for talking so much about the auction. It's also a symbol of a difference in leadership between the U.S. dairy industry and Oceania. Fonterra, as did everyone else, got caught in the unexpected, unprecedented, surge in dairy commodity prices in 2006-2007, and decided there must be a better way to operate than to be caught with fixed-priced commitments in a volatile world. Fonterra saw the losses, looked at possible solutions, selected the most promising of them, found a way to do it, convinced its customers to give it a try, and successfully launched their solution in what may have been less than a twelve month period.

The U.S. dairy industry, on the other hand, has National Milk Producers Federation, IDFA, and Dairy America. What have they accomplished while Fonterra was crafting a solution? IDFA seems to be leaning towards less public regulation, more private regulation, and wanting the marketplace to be the decider. National Milk put together a committee two years ago to review needed improvements to federal order milk regulations, something that was encouraged in the 2007 Farm Bill. Two years later, this year, they put together a special task force to review everything dairy, including those needed but elusive improvements to federal order milk regulations. They claim to have a comprehensive plan for the industry, but have failed to provide any serious level of detail for the industry to consider, and their recently reported timeline to get it done is about two years from now when the next Farm Bill will be debated. Dairy America? Who knows? They may have renewed their contract to have Fonterra continue to act as their agent for international sales of nonfat dry milk, which is something of great value to Fonterra.

Of course, the U.S. dairy industry is much larger and more diverse than the Australian and New Zealand dairy industries, and we need Congress to make some of the changes that are needed. Of course it takes more time to get things done. But this financial crisis – the one that finally may be nearing its end – was clearly foreseen by everyone; it could not have been overlooked. The next crisis is on schedule to arrive just about when National Milk plans to ride in to save the industry – not from the next crisis (because our time to address the next crisis is now), but from the one that is sure to follow. A recent report by the editor of *Dairy Today,* on NMPF's plans, said they are "taking a slow and deliberate approach" in pulling together a package of comprehensive changes to dairy policy issues and procedures. "We want to anticipate all the questions we'll get on our proposals," says NMPF. Well, they should anticipate being reminded that U.S. milk producers appear to have suffered much more than their fellow producers have, anywhere in the world, and they don't want to relive that experience. U.S. producers are thankful to also have USDA working on their behalf, but the apparent time line for Secretary Vilsack's Dairy Advisory Committee also appears to be focused on the next Farm Bill. That's simply too late. Perhaps he and the committee members can be persuaded to look at measures designed to alleviate price volatility before it happens again, and figure out what needs to be done with federal order milk regulations later. NMPF is reported to have said they are not interested **in any type** of supply management or growth management program at this time. It's just a matter of their interpretation of leadership after all, isn't it?

NOVEMBER "DAIRY CARES" COLUMN POSTED TO OUR WEBSITE: *(By Rob Vandenheuvel)* The issue of carbon emissions and "climate change" are back in the headlines. The buzz word around the Halls of Congress lately has been "ClimateGate," a reference to recent revelations that some of the scientific data surrounding "climate change" may have been manipulated in an effort to strengthen the case for "global warming."

While this month's Dairy Cares column doesn't discuss this particular news item, it does look at the environmental sustainability of the American dairy industry and the lack of balance in the debate over the dairy industry's role in carbon emissions. You can find the November Dairy Cares column at: http://www.milkproducerscouncil.org/cares.htm.

MARK YOUR CALENDARS: A "WEBINAR" ON THE DAIRY PRICE STABILIZATION PROGRAM: *(By Rob Vandenheuvel)* On Tuesday, December 15th at 8:00 am Pacific Time, MPC will be participating in a "webinar" on the Dairy Price Stabilization Program (DPSP). This webinar was set up by Dairy Farmers Working Together, a group of dairies in Vermont that we've been working with in promoting the DPSP across the country.

This webinar is designed to build more awareness of the DPSP across the country and help us build more grassroots support for the program amongst dairy farmers. Since our industry "leaders" in Washington, DC and around the country seem content to let this boom/bust milk price continue until the 2012 Farm Bill, it is up to the dairy farmers to rise up and demand action now. The time to take action and avoid the next "bust" in our growingly volatile milk price is now. I can understand why Congress would take the position of waiting until 2012 – they have many items on their agenda. **But why on earth would the industry be content with waiting another two+ years to deal with number one issue in our world: the price volatility that has absolutely devastated the producer sector for the past year? Can you think of a more important priority?**

That's why you all need to participate in the upcoming webinar. For those of you interested in listening in, please visit https://www1.gotomeeting.com/register/709795880 and register. And then mark your calendar for December 15th at 8:00 am to listen in and participate in the webinar.

DAIRY RISK MANAGEMENT SEMINAR, DECEMBER 15th and 16th: *(By Rob Vandenheuvel)* MPC has focused much of our efforts on how we – as an industry – can address the extreme booms and busts in the milk price. While MPC continues to believe that we need any industry solution, there may also be opportunities for individual dairies to take advantage of risk management tools.

Western United Dairymen has put together a seminar on dairy risk management. The seminar will be held twice; first on Tuesday, December 15th in Modesto *(Stanislaus County Ag Center)* and then again on Wednesday, December 16th in Tulare *(Tulare Ag Center)*. The seminar will run from 9:00 a.m. – 3:00 p.m. If you register for the event by December 9th, the cost to attend is $30. Registration after December 9th will cost $50. To download a registration form, please visit: http://www.westernuniteddairymen.com/RiskManagementSeminarsFlyer.pdf.