



Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
Fax (909) 591-7328 ~ office@milksproducers.org ~ www.MilkProducers.org



DATE: May 11, 2012
TO: Directors & Members

PAGES: 3
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0350 \$1.5000
Barrels - \$.0200 \$1.4500

Weekly Average, Cheddar Cheese

Blocks - \$.0325 \$1.5025
Barrels - \$.0115 \$1.4540

CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.3200
Weekly Average - \$.0355 \$1.3065

DRY WHEY

Dairy Market News w/e 05/11/12 \$.4963
National Plants w/e 05/05/12 \$.5697

NON-FAT DRY MILK

Week Ending 5/4 & 5/5

Calif. Plants \$1.2531 14,961,545
Nat'l Plants \$1.2169 21,910,537

Prior Week Ending 4/27 & 4/28

Calif. Plants \$1.2342 23,140,823
Nat'l Plants \$1.2180 27,309,819

CHEESE MARKET COMMENTS: CME cheese prices fell this week with light to moderate trading, although both styles regained on Friday a bit of what they lost earlier. It appears sellers and buyers may be close, or at least closer, to agreement about current values for cheese. The month is May; *Dairy Market News* says reports throughout the U.S. indicate the peak milk production point may have been reached and/or passed, along with the seasonal drop in milk component content. Just in time and right on schedule. Retail sales continue to be about normal for this time of year, reflecting the downdraft in usage that is associated with schools and academies closing for the summer. *DMN* says many buyers continue to wait and see what lies ahead in the way of price direction. Some retail ad activity is noted, but not enough to cause buyers to commit themselves. Prices reported to AMS for shipments last week are aligned with CME weekly averages. First quarter cheddar cheese exports were 17% higher than a year ago but production continues to outpace demand and inventories are reported to be moving higher. Class III milk futures prices this week increased by \$.20 to \$.80/cwt; the low price for the year is \$14.89 (July) and the high is \$15.70 (November). Cheese futures (blocks) added \$.031 per lb for June, to \$1.495 (the low month) and \$.009 per lb for December, \$1.635 per lb (the high).

BUTTER MARKET COMMENTS: As more of the current low butter prices get worked into the marketing chain and available to consumers, retail sales begin to pick up. There still is more being produced than sold, and inventories continue to rise, absolutely and compared to last year. Export volume through March was 25% lower than a year ago, although *DMN* cites CWT's continuing support activity and mentions improving export interest. The slight easing back in milk production and the more noticeable increase in cream usage for any number of other products is helping plants to cope better than at any time in the past five months. Prices reported to AMS for shipments last week finally responded to CME cash prices, dropping by more than \$.07 per lb this week, to \$1.342 per lb. The CME price this week gained one cent per lb after dropping a cent earlier in the week. Trading was a modest 5 loads. Futures prices for May today settled at \$1.335 per lb, up \$.005 per lb for the week. Prices increase steadily through December, to \$1.445 per lb.

POWDER MARKET COMMENTS: Markets for nonfat dry milk are weak and prices continue to move lower. This week's "mostly" prices bottom out at \$1.05 in the western region and \$1.09 in the other regions. *DMN* reports some sales in the western region occurred at \$1.00 per lb, as block sales with consideration continue to occasionally occur. Production continues to be heavy, although plant intakes have leveled off or even declined. Inventories continue to grow. Buyers remain uncommitted. Prices reported to AMS for shipments last week were about unchanged, at \$1.2169 per lb; prices reported to CDFA were \$.019 per lb higher and are now \$.036 per lb higher than the national (current) prices. Call that a bit of payback to California producers. Two carloads of grade A powder were bought on the CME today, at \$1.1225 per lb. The market and prices for buttermilk powder are weak – lower than NFD in the central region and a bit higher in the western region. Prices for whole milk powder are pressured lower by lower prices for milk components.

WHEY PRODUCTS MARKET COMMENTS: As cheese production levels off at the seasonal peak, and free of pressure for more and more, so does production of dry whey. Domestic usage is moving higher as class II usage demand rises seasonally. Export sales, which have apparently strengthened since March, are also helping to keep inventories from getting too high. *DMN* says some plants in the central region report stocks on hand as being satisfactory. Prices have moved slightly lower. Prices for WPC-34 are unchanged to lower; the market tone is “mixed,” says *DMN*, as buyers for human and animal uses review their needs. Demand for lactose is robust, as international end-user needs continues to out-pace production.

FRED DOUMA’S PRICE PROJECTIONS...

May 11 Est: **Quota cwt. \$15.55 Overbase cwt. \$13.85 Cls. 4a cwt. \$13.98 Cls. 4b cwt. \$13.52**
Last Week: **Quota cwt. \$15.61 Overbase cwt. \$13.91 Cls. 4a cwt. \$13.84 Cls. 4b cwt. \$13.76**

WHILE WE QUICKLY APPROACH THE UPCOMING CDFA HEARING, CALIFORNIA’S CHEESE MANUFACTURERS CONTINUE TO GET A STATE-SPONSORED DISCOUNT ON THEIR MILK:

(By Rob Vandenheuvel) We’re rapidly approaching the May 31st hearing at the California Department of Food and Agriculture (CDFA) focused on considering changes to the Class 4b minimum price formula (the price that applies to milk sold to our State’s cheese manufacturers).

For regular readers of this newsletter, you are well aware of the issues. Last summer, CDFA held a hearing on this same issue and implemented a new Class 4b formula, effective September 1, 2011. While that new formula has resulted in a \$0.30-\$0.40 per hundredweight increase in the Class 4b minimum price in the past six months (depending on the month), it was clear from the outset that the changes would still fall woefully short of keeping up with the Federal Order Class III price – the minimum price that applies to cheese manufacturers that operate within the Federal Milk Marketing Orders that regulate much of the milk production throughout the U.S.

Last week, we were reminded once again of exactly how inadequate our Class 4b formula continues to be, as the minimum price that applies to California’s cheesemakers was announced at \$13.43 per hundredweight for April,

while the Federal Order Class III price was \$15.72 per hundredweight – a difference of \$2.29 per hundredweight. The table to the right shows exactly how our price has stacked up against the Class III price in the eight months since CDFA last “fixed” the formula. As a reminder, to put these prices in perspective, California’s cheese manufacturers buy more than 1.3 billion lbs of milk per month. **So just in the last eight months alone, we can conservatively estimate that our California cheese manufacturers have gotten a state-sponsored discount of at least \$260 million!**

	California Class 4b Price	Federal Order Class III Price	Difference
September 2011	\$16.33	\$19.07	(\$2.74)
October 2011	\$15.78	\$18.03	(\$2.25)
November 2011	\$17.19	\$19.07	(\$1.88)
December 2011	\$15.14	\$18.77	(\$3.63)
January 2012	\$14.23	\$17.05	(\$2.82)
February 2012	\$13.42	\$16.06	(\$2.64)
March 2012	\$13.67	\$15.72	(\$2.05)
April 2012	\$13.43	\$15.72	(\$2.29)
Average	\$14.90	\$17.44	(\$2.54)

At a time when our dairies are feeding top-dollar hay and grains to their cows, that’s \$260 million we can’t afford to simply give away.

May 31 and June 1 represent our best opportunity to fix this. Starting a 9 a.m. at CDFA’s Auditorium (1220 N Street, Sacramento, CA 95814), a two-day administrative hearing will be held to debate this important issue. It’s expected that any changes to the Class 4b formula coming out of this hearing could be implemented in August. As most of you already know, the dairy producer side of our industry is coming into this hearing with a collective, unified voice that this outrageous inequity must be fixed. A coalition made up of California Dairies,

Inc., Dairy Farmers of America, Land O'Lakes, Security Milk Producers Association, California Dairy Campaign, Alliance of Western Milk Producers and Milk Producers Council has been working hard to present the best case possible on behalf of the dairy families we represent. So stay tuned...

MARCH EXPORTS REMAIN MOSTLY STRONG IN THE FACE OF A GLOBAL MILK SURPLUS:

(by J. Kaczor) Exports of the four major dairy commodities used in milk price setting formulas throughout the country for the first quarter of this year mostly compare well to last year with respect to volumes and average prices. Last year, exports of nonfat powders and cheddar cheese set new records, and so far this year their volumes are even higher. The experience with dry whey and butter is not quite as good. Dry whey export volume last year was high, the third highest, and cleared 54.6% of production, but so far this year is about 8% below last year. Butter export volume last year was the second highest, but cleared only 6.4% of production, and so far this year is 25% below last year.

Average prices for last year's exports were extraordinary. Nonfat powders averaged about \$1.49 per lb. Dry whey prices averaged \$.54 per lb. Cheddar cheese prices averaged \$1.845 per lb. Butter exports averaged \$1.99 per lb. All were higher than the year before. Average prices for exports for this year's first quarter are mostly lower than last year's annual averages, but compare well to last year's first quarter prices. Prices for nonfat powders are averaging \$.10 per lb higher than last year's first quarter. Dry whey is averaging \$.19 per lb higher. Cheddar cheese is averaging \$.18 per lb higher. Butter is averaging \$.16 per lb lower. Monthly prices for the three primary products are trending lower, while prices for dry whey are steady so far.

Because of the surge in milk production in the five major global dairy product exporting countries, competition for export sales is intense. International market conditions received a lot of attention at USDEC's spring meeting last week. Concern about possible loss of existing export volume was evident. USDEC's press release this week said near-term market conditions are challenging. USDEC president Tom Suber "urged" U.S. suppliers to protect volume and market share gains accrued over the past two years. A Rabobank analyst at the meeting pointed out the obvious: "International demand has proved insufficient to soak up all the increased surplus generated in export regions." Mr. Suber's take on that was right on point: "We can't take the hit and balance the world market through our own inventories every time supply and demand run into an imbalance." Amen to that.

However, even if the U.S. loses none of the export volume it gained, the consequence of New Zealand's success in exporting all of the products produced from its 11.4% increase in milk production over the past twelve months is stagnant sales and growing inventories for Europe and the U.S. Butter removed from the market and placed into private storage in Europe was recently reported to have risen to 120 million lbs. U.S. inventory of nonfat powders in March was 60 million lbs higher than a year ago, and butter in cold storage rose to the same level it reached in March 2009.

A Business Plan for the next three years apparently is being put together for USDEC members, to be reviewed and approved in October. It does not bode well for U.S. dairy farmers. A number of key assumptions being made to help guide them with the development of the Plan include lower dairy demand, heavy inventories overhanging the market into 2013, and continuing pressure on prices. Not specifically mentioned was another likely development – milk production cutbacks in the U.S. in response to dwindling margins and continuing milk production expansion by Fonterra in New Zealand and elsewhere.

A HEAD'S UP FOR MPC MEMBERS: *(By Kevin Abernathy, MPC's Director of Regulatory Affairs)* There are many agencies and groups looking to conduct on-farm dairy research. Please let MPC – either myself or Betsy Hunter-Binns – know if you are asked to have research conducted on your farm. MPC is here to ensure that research done on-farm is in the best interest of the individual farm as well as the entire dairy community. You can reach me at (209) 250-1801 or Betsy at (661) 205-6721.