



Milk Producers Council

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TO: Directors & Members

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0250 \$1.4850
Barrels N/C \$1.4950

Weekly Average, Cheddar Cheese

Blocks - \$.0095 \$1.4965
Barrels +\$.0055 \$1.4925

CHICAGO AA BUTTER

Weekly Change - \$.0575 \$1.4925
Weekly Average - \$.0600 \$1.4980

DRY WHEY

DAIRY MKT NEWS w/e 02/03/12 \$1.6900
NASS w/e 01/28/12 \$1.6753

NON-FAT DRY MILK

Week Ending 1/27 & 1/28

Calif. Plants \$1.3779 15,187,647
NASS Plants \$1.3936 22,583,767

Prior Week Ending 1/20 & 1/21

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

CHEESE MARKET COMMENTS: Weather favorable for milk production in most parts of the U.S., along with a continuing slump in fluid milk sales, is causing more milk to be produced than is wanted. There is no place for it to be hidden. The occasional comments made over the past month or so about cheese plants turning milk away were probably true, but enough of the milk was taken in to push December's cheese production to an all time high for a day, for a week, for a month, forever. December production of all cheese increased by 2.4% over a year earlier, but total cheese production for the full year, on a percentage basis, ended slightly lower than the increase in milk production for the year. The good news: for the month and the year, cheese usage exceeded production. Production of cheddar, the price-setting cheese, ended 2.6% lower than the year before; December production was about equal to the year before. More good news: exports of cheese set a new record and U.S. per capita consumption is rising. The problem with current prices is the realization that virtually all Super Bowl related sales were completed weeks ago so stocks are expected to continue to rise rather sharply in January and February. There are uncertainties – about prices for cheese by-products, expected further increases in milk production in the face of stubbornly high feed costs, and the worst of them all, the expectation that cheese prices could move lower. CME barrel prices this week were unchanged after losing \$.0075 per lb earlier in the week; blocks lost \$.025 per lb. CME class III milk futures prices this week reverted to full retreat mode after increasing a bit last week, with the March-April average price falling below \$16 per cwt. The year's high now is September's \$17.08 per cwt.

BUTTER MARKET COMMENTS: 2011 was a great year for butter prices. It began with January's report that butterfat in cold storage was at a six year low. That created the market tone that caused prices to rise to levels not seen before for that time of year. The stock levels held their position until August, when the combination of large production increases and a slowdown in exports caused end of month stocks to rise above 2010's levels. Production had been 16.6% above the year before, but eased in December back to an increase of only 5.2%. Somewhere along the way the consensus viewpoint about a global shortage of butterfat was put aside, and butter prices began to fall. Current U.S. butter production is very high. As for CME prices, they lost \$.0575 per lb this week, the third straight week with losses. The futures prices also fell sharply, again, but continue to sell at premiums to the current cash price over the next twelve months, although from a much lower base than not too long ago (September's \$1.80 per lb is now \$1.68).

POWDER MARKET COMMENTS: Production of nonfat powders in December was about 20 million lbs higher than a year before, an increase of about 10%. NFDM production was 30 million lbs higher but December's NFDM inventory increased by only 20 million lbs (stocks of SMP are not reported). Prices for shipments of NFDM last week bounced back a bit from the week before and are now almost back to where they were at year end. Global auction prices for shipments during January (which were bid in November) averaged about \$1.46 per lb for SMP. Fonterra's prices for February rose to above \$1.50 per lb but Dairy America's fell to the high \$1.30's per lb. *Dairy Market News* this week reports a current wide price range for internationally traded SMP – \$1.38 per lb in western Europe to \$1.49 per lb in Oceania. The "mostly" price this week in the U.S.

western region ranges from \$1.335 to \$1.375 per lb, the lowest of them all. *DMN* describes the markets for NFDM and buttermilk powder as unsettled to weak.

WHEY PRODUCTS MARKET COMMENTS: For the first time in quite a while the weekly average price for dry whey reported to NASS was lower than the week before. The weekly volume was unusually high, apparently DW sellers' version of inventory clearance. *DMN* believes a good part of the increased volume last week was to the export market. The run up in dry whey prices has been astounding – from a low of \$.355 per lb in August 2010 to above \$.70 per lb this January. Strong exports underpin much of the strength over this time, but domestic usage, along with competition for raw product for more concentrated products, was also very strong during this period. December dry whey production decreased by 6.3 million lbs compared to a year before, while WPC production increased by 2.2 million lbs. Most of the WPC increase was in the 50%+ category of protein, continuing a trend that began sometime last year.

FRED DOUMA'S PRICE PROJECTIONS...

Feb 03 Est: **Quota cwt. \$16.52** **Overbase cwt. \$14.83** **Cls. 4a cwt. \$15.74** **Cls. 4b cwt. \$13.46**
Jan '12 Final: **Quota cwt. \$17.24** **Overbase cwt. \$15.55** **Cls. 4a cwt. \$16.18** **Cls. 4b cwt. \$14.23**

ANOTHER MONTH OF STATE-SPONSORED MILK DISCOUNTING: (*By Rob Vandenheuvel*) Well we knew it was coming, but this week's announcement of the final January 2012 minimum prices for both the California Class 4b and the Federal Milk Marketing Order (FMMO) Class III (both for milk sold to cheese plants) once again reminds us of how deeply flawed our California Class 4b formula is. In a pricing structure that is mandated – **by law** – to provide a minimum price to be paid by our state's cheese manufacturers that is in a "reasonable and sound economic relationship with the national value of manufactured milk products," California's formula is resulting in a price that last month was **\$2.82 per hundredweight below** the price announced as the FMMO Class III minimum price.

In the five months since the California Department of Food and Agriculture (CDFA) announced revisions to the Class 4b formula aimed at "addressing" this disparity, our California formula has trailed the FMMO formula by an eye-popping average of **\$2.66 per hundredweight!** While a portion of this disparity can be attributed to differences in how the two formulas track the value of Cheddar cheese and differences in the make allowances, more than 72% of the difference (or \$1.92 per hundredweight) is a direct result of the differences in how the two formulas calculate a "dry whey factor."

	November 2011	December 2011	January 2012
FMMO Class III Minimum Price	\$19.07	\$18.77	\$17.05
Difference in Commodity Values and Make Allowances	\$0.04	(\$1.61)	(\$0.61)
Difference in Dry Whey Factors	(\$1.92)	(\$2.02)	(\$2.21)
California Class 4b Minimum Price	\$17.19	\$15.14	\$14.23

As our State's dairy farmers continue to be subjected to record-level feed costs, we simply cannot afford to sell our milk to the roughly 60 cheese manufacturers in California at these steeply-discounted prices. **Producers and their trade associations/cooperatives must stand up and unite to correct this fleecing of the California dairy families!**

PRICES ON GLOBAL AUCTION SLUMP; DIFFERENCES BETWEEN SELLERS WIDEN: (*by J. Kaczor*) The global auction continues to grow and to become more complex as more bidders are certified and data on volumes offered and sold in auctions three months ago begin to show up on the screen. The three month blackout period on reporting volume data relates to a second seller, Dairy America, signing on. That concession was given to all major sellers who were invited to enter the ring. [The exception to this rule is NZX, New Zealand's major stock market. NZX made the publication of volumes offered by Fonterra a condition for establishing futures contracts for various auctioned products]. Since the previous auction held in mid-January, thirty-five more bidders submitted their bona fides and have been added to a growing list which now totals 558.

This week, 155 bidders were active; 118 wound up with various pieces of the 61.8 million lbs of product that were sold. The weighted average price for all products was \$1.663 per lb, \$.016 per lb lower than two weeks ago. Prices for all products offered this week were off. Fonterra's volume of products also was lower, and will stay lower through June – their high volume months are August through January. How big are those high volume months? December was a record-breaking month for Fonterra, with 543 million lbs of dairy products exported, only partly accounted for by filling orders from China that had been postponed in order to not count as having been received until January – a tariff consideration. A follow up report said January exports could be even bigger, likely for the same reason. Most of the prices for those exports were determined 60 to 90 days before shipment, either through the global auction or by contract prices reached through negotiations.

The volume data reported for Dairy America showed about 1.1 million lbs of skim milk powder was offered for sale in each of its first three auctions for their contract #1, which calls for shipments to be made the month immediately following the auction (November shipments for October's contract bids, for example). DA's contract #2 offerings, which began in November, are larger in volume than those for contract #1, and compete directly with Fonterra's offerings for shipment to occur two months after the auction month.

One of the benefits for buyers who use the auction from having two northern hemisphere sellers enter (Dairy America and, in April, Arla Foods) is an expected reduction in the heavy seasonal pattern of available products that has existed since the auction began. Both of these new sellers will be offering skim milk powder in the auction's Spot Month contract #2 alongside Fonterra's product. That combined volume with greatly reduced seasonality effects should also add substantial credence to the resulting prices for all users of nonfat powders.

Through the global auction Dairy America was reported to say they expect to increase their end user customer base, increase sales volumes, and to move away from selling to traders at low prices while “establishing the market price discovery venue for exported milk powders.” For Arla Foods “joining an online dairy commodity trading platform like GlobalDairyTrade marks the opening up to a so far unused source of potential export growth.” For Fonterra, “Arla's involvement means three sellers on GDT will offer SMP, further deepening liquidity and price transparency for that product.”

While it may be too early for Dairy America to evaluate their venture into the global auction business, others are interested in finding out what is happening in the early stages of the program. Dairy America has completed nine auctions covering their contract #1 and seven auctions covering contract #2. Various comparisons can be made, the most straightforward of which is to compare prices for like products for shipments in a same month, using data reported by GDT. Overall, the results so far do not look encouraging. Winning prices for Dairy America low heat and medium heat skim milk powder for shipments made in November and December were lower than prices bid for Fonterra's like products, but the pattern of differences was not regular. Since then the differences established for shipments in January through April are consistently below Fonterra's prices and have widened to the point where Dairy America must be concerned. For example, Dairy America's prices for the last two auctions for low heat powders were \$.209 and \$.269 per lb, respectively, below Fonterra's, and prices for medium heat powders were \$.188 and \$.135 per lb below. So far, except for a single auction, the second in November, winning prices bid for Dairy America's products in contracts 1 and 2 for delivery in a common month were very close to each other even though the bids were submitted a month apart and reflected different volumes offered. It is very strange and hard to determine why differences of these magnitudes are happening.

11 DAYS UNTIL MILC “START MONTH” CHANGES TO MARCH MUST BE SUBMITTED: *(By Rob Vandenheuvel)* Looking at the commodity prices above, it's quite possible that we are on the verge of payments being available under the Milk Income Loss Contract (MILC) program. If March 2012 turns out to be a month that your dairy would like to select as your “start month,” you will have until February 14th to submit that paperwork. Keep that in mind over the next week or so as we get closer to that deadline. MPC members looking for help in gathering the right documents to have ready for a possible submission to the Farm Service Agency can contact the MPC office at (909) 628-6018.