



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
Fax (909) 591-7328 ~ E-mail: mpc@milkproducers.org ~ Website: www.MilkProducers.org



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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-.0350$ \$1.4650
Barrels $-.0475$ \$1.4300

Weekly Average

Blocks $+.0090$ \$1.4895
Barrels $+.0105$ \$1.4575

CHICAGO AA BUTTER

Weekly Change $-.0225$ \$1.5575
Weekly Average $-.0310$ \$1.5525

DRY WHEY

WEST MSTLY AVG w/e 5/21/10 \$1.3963
NASS w/e 5/22/10 \$1.3646

NON-FAT DRY MILK

Week Ending 5/21 & 5/22

Calif. Plants \$1.2350 6,320,323
NASS Plants \$1.2722 11,793,936

CHEESE MARKET COMMENTS: Light trading and lots of uncertainty describes this week's CME cheese market. After two weeks of price increases that brought blocks back up to \$1.50 last Friday, sellers returned and prices moved downward. Most of the activity, and the price drops, occurred today, the day after CWT's surprise announcement of what was thought to be a market booster – their 10th herd retirement program. Other good news this week was CWT's notice that their approved exports of American cheese passed the 34 million lb mark, with a good portion of that volume expected to be physically shipped sooner rather than later. So, why the price weakness? It could be the realization that market fundamentals simply can't change immediately, so more cows, more milk, and more cheese through August may be the determining factors affecting traders. What else is there? Sales are steady (about 2% higher on a per day basis than last year) and although cheese stocks rose to record highs last month, the gap between this year's level and last year's has narrowed by 20 million lbs from where it was in January to where it was in April. Class III futures traders also are uncertain and prices are bouncing around; the September price fell to \$14.49 per cwt today and is no longer the highest for the year. December's price is now the highest, at \$14.61, only \$1.26 per cwt above the current May price. There's not much encouragement for increased milk production on that board. The NASS report on production of dairy products in April will be released next week. It, and the one for May, is expected to show consecutive record high production for cheese.

BUTTER MARKET COMMENTS: The butter price fell for a second week in a row on the CME and is now \$.085 per lb below this year's high reached about three weeks ago. Since then, much of the news in the butter world has been positive (falling inventories, rising exports) but this week *Dairy Market News (DMN)* noted the strengthening U.S. dollar may be having a negative effect on exports. It's hard to believe that strength is anything but relative to the financial turmoil in Europe, and European countries are reported to be presently exporting little butter. The release of 112 million lbs of butter from government warehouses in Europe could be a factor, but DMN notes current butter supplies in Europe are tight and most observers believe this butter will be used inside the EU. Butter supplies in the U.S. are relatively tight and production is expected to continue to fall for the next several months. The market fundamentals appear to be solid.

POWDER MARKET COMMENTS: Great news for California producers this week: the California average price for nfdm vaulted up by about \$.17 per lb on very light volume. That followed two weeks of close to record high sales with low prices, an apparent signal of what is hoped to be the end of the fixed price contracts negotiated as much as nine months ago. The NASS price increased by about \$.02 per lb, also with low volume. The question now is what lies ahead? There's concern about how the 143 million lbs of skim milk powder being released from government storage in Europe may affect international prices. Prices there have been weakening, and milk production is reported to be about where it was a year ago when huge surpluses were the norm. The weak Euro should make exports from European countries more competitive relative to the U.S. and Oceania, and could dampen prospects of price increases much beyond present levels. Fonterra's internet auction on Tuesday

should give us the first indication what that affect may be. CME's new futures market for skimmed milk powder is, as expected, off to a slow start. As of yesterday, no bids or offers were showing on the tally board. Questions about the "physical delivery, no cash settlement" aspect of the program are explained by the fact that no usable market price is available for traders to settle against when the delivery month is reached.

WHEY PRODUCTS MARKET COMMENTS: Demand for dry whey is reported to be fair to good, and prices have held steady. Production is steady. DMN reports some buyers are having to search around to find product for spot purchases. The export market is reported to continue to be strong (no note of a strong U.S. dollar when selling product to Asian countries). The response by various U.S. governmental agencies to China's "missing health certificates" issue has been impressive; an apparent immense amount of work has been done to help resolve the issue. The silence on the matter, it is hoped, is a sign that a resolution is at hand. Prices for dry whey, whey protein concentrate, and dry lactose were mostly steady, according to DMN. Possible price differences on a per lb of protein basis, according to DMN, are causing some WPC buyers to switch to the basic product, in cases where substitution is suitable.

FRED DOUMA'S PRICE PROJECTIONS...

May 2010 Final:	Quota cwt. \$ 14.64	Overbase cwt. \$12.95	Cls. 4a cwt. \$13.89	Cls. 4b cwt. \$12.40
Last Week:	Quota cwt. \$ 14.63	Overbase cwt. \$12.94	Cls. 4a cwt. \$13.83	Cls. 4b cwt. \$12.40

JUST IN TIME? ANOTHER WHOLE HERD BUY-OUT BY CWT: *(By J. Kaczor)* Yesterday's announcement by National Milk Producers Federation that their Cooperatives Working Together organization will launch another herd retirement program was surprising, and was welcomed by almost all who have commented thus far. Bids will be accepted from May 28th through June 25th. The only change from recent HRPs is the removal of the option to offer bred heifers for a fixed price. Producers will receive a maximum of the difference between the current value of all cows in the herd and what they are worth at the slaughter house. CWT has calculated that amount to be about \$3.75 per cwt of all milk produced by a herd over the year ending April 30, 2010. Whether that is fair or not, who knows?

This one looks like it will be relatively inexpensive for CWT, but of questionable effectiveness. A fair evaluation of this HRP is that it won't hurt anything, but it may help. Who are the producers most likely to participate? The payoff will not be great, because the ultimate payment is never more than present value of the entire herd, and replacement prices are far below their peaks. Producers who are able to continue producing, and want to, will likely do so. Producers who are burdened with too much debt, or who are simply tired of the constant battle with known costs and unknown prices are the ones who may consider filling out the forms and then wait a few weeks before deciding what to do. Some lenders who are really close to their customers may even come calling to see what they may recover from a whole herd disposal.

This HRP has the look and feel of a compromise within the CWT organization, just as the termination of the export assistance program for the entire year of 2009 was said to be a compromise, as well as the activation of the present EAP which was first limited to Cheddar cheese and then expanded to include American cheeses. The third HRP last year, announced on October 1st, was a dud in terms of the number of cows removed. The sequence was 101,000 for the first, 74,000 for the second, and about 21,000 for the third. I guess we will never know how the money spent on this HRP, if used as part of a re-activated full-blown EAP, would have helped to recover more of the export volume that was ripped away from the industry in 2009, only because other suppliers replenished their stores. Strange, isn't it; all that talk about the reason for 2009's price crash was loss of export volume, and so little done to recover more of it? USDA's Dairy Export Assistance Program last year showed how effective the use of relatively little money can be if offered to the right people at the right time in the right program. Instead, NMPF, apparently really believes that money is better used to pick off a few more dairy producers. Well, like they say, it's their money, isn't it?

DEEPLY DISTURBING VIDEO OF ANIMAL ABUSE RELEASED THIS WEEK: *(By Rob Vandenheuvel)*

This week, an undercover video was released with deeply disturbing footage of workers on an Ohio dairy farm. The video was captured by an undercover agent working with Mercy For Animals, an organization that seeks to publicize what they believe to be cruel practices in animal agriculture, in an effort to promote a vegan lifestyle. You may have seen this video on the news or the internet, but for those of who you haven't seen it, the video captures numerous incidents of a farm employee abusing (to put it lightly) the dairy cows and calves.

This video has undoubtedly struck anger in the hearts of dairymen all across this country. Dairy farmers take pride in providing the best care possible for their cows, and evidence of this unconscionable animal abuse are unfairly used to paint the entire industry in the public's eyes. MPC is encouraged by reports that law enforcement has stepped in quickly and taken drastic steps to ensure that the parties involved in the abuse captured by the video are held accountable.

While the individual who decided to keep video taping the abuse in advancing his vegan agenda rather than stop the abhorrent actions of the farm worker should certainly be held accountable as well, our focus going forward needs to be condemning the actions seen in the video, and continuing the work we've always done as an industry in providing our cows with the best environment we can. Our dairymen invest countless time and resources in proper care for our animals, and the public needs to know that. To that end, California dairy families are among the leaders in implementing the National FARM Program, which is designed to promote the best practices in animal care, which the consumers of our dairy products have come to expect from our industry.

REMINDER: INDUSTRY TOWN HALL MEETING NEXT WEDNESDAY TO DISCUSS H.R. 5288, THE DAIRY PRICE STABILIZATION ACT OF 2010: *(By Rob Vandenheuvel)* This is a reminder for all dairy producers and allied industry to come to the Tulare town hall meeting **next Wednesday (June 2nd) at 1 p.m. at the Tulare Ag Center's Heritage Hall** to discuss H.R. 5288, the *Dairy Price Stabilization Act of 2010*. Flyers about the town hall meeting were sent out on by allied industry partners, but if you didn't get one, you can download it at: www.milkproducerscouncil.org/tularetownhall.pdf.

For those that don't already know, H.R. 5288 was introduced earlier this month in the U.S. House of Representatives by Rep. Jim Costa (Fresno) and four of his fellow Congressmen from around the country. **This is an important meeting for producers to attend, as details about the bill will be explained, and questions that folks have about the bill will be answered.**

In the last two issues of this newsletter, I've included a series of articles delving into the details of H.R. 5288. If you missed either of these articles, you can find them on our homepage at www.milkproducers.org. You can also find summaries and more details on the bill at www.stabledairies.com. This series of articles will continue in next week's issue.

I strongly urge all dairy producers and other allied industry members to attend this town hall meeting.

We are at a crossroads in our industry, and every producer needs to equip him or herself with accurate information on what is actually being proposed H.R. 5288. If you have any questions, please feel free to contact us at (909) 628-6018.