



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



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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0050 \$1.4900
Barrels N/C \$1.4600

Weekly Average, Cheddar Cheese

Blocks - \$.0995 \$1.4905
Barrels - \$.1230 \$1.4600

CHICAGO AA BUTTER

Weekly Change - \$.0600 \$1.4625
Weekly Average - \$.0245 \$1.4980

DRY WHEY

DAIRY MKT NEWS w/e 03/30/12 \$.5213
NASS w/e 03/24/12 \$.6113

NON-FAT DRY MILK

Week Ending 3/23 & 3/24

Calif. Plants \$1.3013 26,432,626
NASS Plants \$1.3043 27,690,380

Prior Week Ending 3/16 & 3/17

Calif. Plants \$1.3445 13,976,893
NASS Plants \$1.3410 22,506,938

CHEESE MARKET COMMENTS: U.S. milk production continues to increase on a daily basis and should continue to do so through May. Much of the extra production is being offered to cheese plants, some at substantial price discounts. \$4.00 per cwt pays for a lot of storage, and most of those who produce the extra cheese are simply making smart business decisions. Cheese production in March could exceed January's output by more than 50 million lbs but sales at the retail and food service levels are reported to be doing well, and exports continue to slough substantial volumes away from cold storage. Unlike its program for butter, CWT's export assistance for cheese appears to be accomplishing what the program intended – increased sales, additional customers, and establishment of lasting relationships. CME – after little or no price changes through Wednesday, whatever anxiety may have existed about another possible end-of-week surprise was wiped away on Thursday when 4 carloads of blocks and 3 of barrels were offered at current prices and were quickly purchased. This week's CME averages for blocks fell by \$.10 per lb, back fairly close to last week's average prices reported to NASS. The average for barrels fell by \$.12 per lb, about \$.09 per lb below last week's NASS average. That should bring out buyers for barrels and cause speculators to speculate. A week or two or three at about where prices are now would give the market a chance to process important information about February (product production, inventories, and exports), March (milk production), and April (two more global auctions), in addition to today's report on the projected short-term tightness in supply of corn and wheat. CME's cheese and class III milk futures prices, apparently responding to stable cash prices, were higher for the week, with May and June making the largest moves. Near-term contracts for milk sell at a discount to the market while cheese carries five cents per lb or more premiums. Both rise over the next twelve months – milk by less than a dollar per cwt; cheese by the equivalent of about one and a half times that amount.

BUTTER MARKET COMMENTS: The butter market is transitioning from its high demand period (Nov-Mar) to a slower demand period and the case for lower butter prices is strong. Some of the extra milk and cream production this Spring may be used for the soft and frozen products market and some may be used to make extra cheese but the vast majority of the cream is expected to move to butter plants. Butter production in March should be around 20 million lbs higher than last March and stocks are pointed to keep rising above last year's level at an increasing rate at least through May, and possibly beyond. (California's February butter production increased by 9.5 million lbs, an increase of 15.5% on a daily average basis.) Domestic butter sales have been very good so far this year and export demand has picked up with the help of CWT's assistance but much more from both is needed to keep U.S. inventories from setting a new ten-year high sometime this year. (On the matter of exports, one should ask why butter exporters cannot seem to compete unless their prices are lower than all others, enhanced as they are by the weak U.S. currency which makes U.S. exports more affordable than all their major competitors. To be clear, recent butter exports – 2007 through this year – is less a success story than one huge puzzle. Why, why, why?) Butter futures prices this week fell sharply, apparently in response to the weakness in cash prices, but could be spun around by the least little bit of favorable news, such as higher prices on the global auction, more announcements of milk production bases in the U.S. or, dare we hope, a huge increase in exports.

POWDER MARKET COMMENTS: Except for the references to demand seasonality and what seems to be inept export expertise, the preceding comments for butter also apply to dairy powder markets. *Dairy Market News* says drying plants throughout the country are full or nearly so, and more raw supply is coming in their direction. Prices for the “mostly” sales categories are unusually wide – \$.14 per lb in the West, \$.12 per lb elsewhere; the low end in the West is \$1.18 per lb – and reflects widespread usage of sizable discounts. Prices reported for last week’s shipments fell for both series (California plants and NASS), with increased volumes. *DMN* says domestic demand is weak but steady. California production of nonfat dry milk in February increased by 61.5% on a daily average basis (36 million lbs), reflecting in part a downward shift in skim milk powder production of about 17.5 million lbs. *DMN* says exports of nonfat powders is about steady, with little interest shown by new buyers. Futures prices this week were unchanged to slightly lower; the low price for the year is April’s \$1.268 per lb; the high is November’s \$1.36 per lb – not a rosy outlook.

WHEY PRODUCTS MARKET COMMENTS: While the cups of lactose producers appear to be runneth over – steady prices (\$.86 per lb average), firm market tone, volumes fully committed – the West’s “mostly” price for dry whey slipped lower this week. The low end of that series is now \$.09 per lb lower than in the Midwest. *DMN* comments about dry whey seem to be that little bit less positive than it has been the past two weeks. Stories abound about cautious buyers looking for better dry whey deals, while manufacturers do what they can to keep inventories from rising too much. DW futures prices this week increased across the board, although they show a steady downward trend for the full year. Exports are doing well and domestic usage is somewhat higher due to ice cream production increases, but production is still causing inventories to grow. The “mostly” price this week for whey protein concentrate-34 was slightly lower than last week’s price, affected by heavy production. Possible new interest for U.S. WPC was noted by attendees at a recent Southeast Asian dairy ingredient show, although the timeline was not clear. WPC exports have been “choppy” over the past year or so; new interest could be very good news.

FRED DOUMA’S PRICE PROJECTIONS...

Apr '12 Est:	Quota cwt. \$15.89	Overbase cwt. \$14.20	Cls. 4a cwt. \$15.06	Cls. 4b cwt. \$13.37
Mar '12 Final*:	Quota cwt. \$16.28	Overbase cwt. \$14.58	Cls. 4a cwt. \$15.33	Cls. 4b cwt. \$13.67

* March 2012 final projection is updated from last week to reflect latest report on NFDMS sales.

WHERE WOULD WE BE IF THE PETERSON-SIMPSON BILL WAS LAW?: *(By Rob Vandenheuvel)*

There’s been an increasing amount of chatter about U.S. farm policy coming out of Washington, DC. The 2012 Farm Bill discussions are in full gear, with both the Senate and House of Representatives wrapping up their hearings on the upcoming 5-year reauthorization of our nation’s farm bill policies.

While much of the discussion in the media has been over non-dairy parts of the Farm Bill discussions, we are obviously closely watching the development of the dairy title of the bill. The National Milk Producers Federation (NMPF) and those of us who are supporting their efforts to implement the “Dairy Security Act” (a.k.a. the “Peterson-Simpson Bill”) as the dairy portion of the Farm Bill are working with our Senators and Representatives to support the inclusion of these provisions in the Farm Bill package. Of course at the same time, there is strong pressure by groups such as the International Dairy Food Association (IDFA, which is the main lobbying organization for the nation’s dairy processors) to prevent any policy change that would empower the nation’s dairy farmers to collectively respond to low margins by taking quick steps to restore supply/demand balance in the production of milk.

It’s been a few months since we’ve reviewed what’s in the Dairy Security Act, so here’s a quick reminder. There are two main pieces:

- **Dairy Producer Margin Protection Program (DPMPP)** – This is commonly referred to as the “insurance” part of the bill. Under the DPMPP, a producer could choose to enroll in a direct-payment program run by the U.S. Department of Agriculture. The basic program (which would come at no cost to individual dairies) would provide cash payments directly to dairy farmers when the national “margin” between milk prices and feed costs dropped below \$4.00 per hundredweight. In other words, when the average milk price across the country drops to less than \$4.00 per hundredweight over the “feed cost calculation” (a formula that incorporates national values of corn, soybean meal and alfalfa), a payment would be made to all dairymen enrolled in the program. Unlike the MILC program, this insurance program would not be capped at a specific volume of milk – instead it would cover 80% of the “historical production” of each dairy facility (which would be determined by the highest annual production for each dairy over the past three years). In addition, a supplemental program would be available for dairies that wish to generate payments from the program at higher margin levels. In other words, an individual dairyman could choose to customize the program so that a payment is generated whenever the price of milk is less than \$5.00 per hundredweight above the feed cost calculation. Or \$6.00. Or \$7.00. This additional coverage would include an annual premium paid by the dairy farmer. The supplemental program could be customized to cover up to 90% of a dairy’s annual production.
- **Dairy Market Stabilization Program (DMSP)** – This is commonly referred to as the “market management” part of the bill. *The DMSP would only apply to dairies that choose to enroll in the insurance program outlined above (the DPMPP).* If a dairy is enrolled in the DPMPP, they would be automatically part of the DMSP. Under the DMSP, when the margin falls below \$6.00 per hundredweight for two consecutive months (the national average price of milk falls to less than \$6.00 per hundredweight above the feed cost calculation), USDA would notify the dairies enrolled in the DMSP that in the following month, they would only be paid for 98% of their “base production” (which can be determined by either the dairy’s production three months leading up to that point, or the production in the same month the prior year). Milk produced above that level by a dairy enrolled in the DMSP would still be paid for by the milk handler, but these dollars would be diverted to a fund used to buy excess dairy products to be donated to food banks and feeding programs. If the margin continues to fall below \$5.00 or \$4.00 per hundredweight, the DMSP would adjust to only pay enrolled dairy farmers for 97% and 96% of their “base production.” At no point would the DMSP authorize payments below 96% of a dairy’s base production. Once the margin recovers to above \$6.00 per hundredweight for two consecutive months, the DMSP is de-activated and all calculations of “base production” are eliminated. If the DMSP re-activates at a later time, the calculations will re-start from scratch.

As we have watched the milk price erode in recent months as the feed costs remain strong, the obvious question many in the industry have is, **“Would the provisions of this new safety net program be active right now if it were currently in law?”** In short, the answer is a resounding **YES**.

The “margin” calculation under the program would have been **\$4.85 per hundredweight in February**. Looking at March, the information we have (which is the March price for milk, corn and alfalfa) indicates we will be in the \$4.00-\$4.40 per hundredweight range (we’re still waiting on the final March figure for soybean meal).

So what does that mean? Simply put, it means the Dairy Market Stabilization Program (DMSP) would have met its trigger – two consecutive months of calculated “margins” below \$6.00 per hundredweight. Those dairies that are part of the safety net programs listed above (because remember, dairies have the option to opt-out of the programs if they choose) would receive a notification in the next several weeks letting them know that the program was activated and that starting May 1st, they would be paid only for 97% of their “base” production (which can be calculated as the average production over the past three months – January through March – or the same month last year – May 2011; it’s the dairy’s choice).

Further, if a dairy chose to enroll in the Dairy Producer Margin Protection Program (DPMPP), and opted to participate in the “supplemental program” that triggers in at margins above \$4.50 per hundredweight, payments under that program should be available in the near future.

So why is this important? After all, this is a hypothetical exercise since the 2012 Farm Bill and the Peterson-Simpson Bill are still not the law of the land. **It's important because as the dairy producer community looks out over the horizon, we see a lot of reasons to be pessimistic.** Dairy commodity prices have been weakening (which in turn results in milk prices that are weakening), feed prices continue to be strong, and the mild winter has resulted in production gains that may be great for the individual dairies, but are devastating to us as an industry. And with all these negative forces working against us, the Federal Government currently has only severely-limited safety net policies for the dairy industry: the Dairy Product Price Support Program (DPPSP), which doesn't kick in until we're looking at about \$10 per hundredweight milk prices, and the Milk Income Loss Contract (MILC), which forces many dairies throughout the country to choose an optimal "start month" because they produce more than the 2.985 million pounds per year that the MILC program will make payments on.

In short, we have a very weak safety net policy in this industry, and what is being proposed by Congressmen Collin Peterson (D-Minnesota) and Mike Simpson (R-Idaho) is a chance to make fundamental reforms that will give us vastly-improved tools to combat situations like the one facing us right now.

MPC and others who support this much-needed reform to our national safety net policies need to continue pressing our elected officials in Washington, DC to demand that these reforms be included in the 2012 Farm Bill. Absent reform, we are destined to continue repeating history, which in the case of the dairy industry is an apparently chronic three-year cycle of short highs followed by extended, equity-burning lows that we simply cannot afford to sustain in this post-2009 era.