

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$0.0800 \$1.9600
Barrels -\$2.0000 \$1.9500

Weekly Average

Blocks -\$0.0595 \$1.9960
Barrels -\$0.1600 \$1.9900

CHICAGO AA BUTTER

Weekly Change +\$.0250 \$1.5025
Weekly Average +\$.0205 \$1.4935

DRY WHEY

NASS w/e 6/14/08 \$.2781 WEST MSTLY AVG w/e 6/19/08 \$.2800

NON-FAT DRY MILK

Week Ending 6/13 & 6/14

Calif. Plants \$1.3318 12,082,817
NASS Plants \$1.3305 17,611,051

CHEESE MARKET COMMENTS: Following a pattern that is all too familiar, block cheese prices on the CME are now about 34 cents below their recent highs, and barrel prices are back to a normal differential. Cheese in cold storage at the end of May, reported today by NASS, is 1% below where it was a year ago – very welcome news, considering recent reports that cheese plants in most parts of the country have offers of milk at very attractive prices. Cheese exports are expected to continue at around recent volumes, at least through the summer, but do not represent a significant enough percentage of sales to influence prices. CWT this week has supported below-market priced sales for export, presumably as part of their strategy to establish the U.S. as a reliable supplier.

BUTTER MARKET COMMENTS: The average price on the CME this week increased by more than 2 cents, and ended the week again above \$1.50 per lb. Production is said to be heavy even though a lot of the cream from bottling plants is being used in those "seasonal" products. The **amount of butter in storage on May 31st was 3% lower** than a year ago, and sales are said to be steady. The only negative comment is about exports; Dairy Market News (DMN) reports that volume is lower than in recent months. The market is called strong by DMN, although there is no clear picture of how the summer resort orders are shaping up. The prospects of weaker sales this summer and fall may be offset by a general belief that milk production will weaken in the latter half of the year.

POWDER MARKET COMMENTS: The spot markets were marginally higher this week, but an offer on the CME moved the nfdm price **lower** by a penny, to \$.45 per lb. The California and national average sales prices for last week were each lower, with the NASS price falling by more than 3 cents per lb. Volumes were also lower. The **low end** of the weekly "mostly" Western spot market is now 5.5 cents above the prices reported by the manufacturing plants. DMN reports that there may be resistance to current prices from domestic users as well as for possible new export contracts. As the production of skim milk powder (the virtually identical twin to nonfat dry milk) increases at the expense of nfdm volume, the issue of price transparency, supposedly of great importance to all large buyers and users, continues to slip away. It's beginning to look like all they ever wanted is to know a little bit more than the next person.

WHEY MARKET COMMENTS: Prices are steady or slightly lower, depending on who is responding from what location, according to DMN. WPC prices continue to fall. The Western "mostly" spot price average for dry whey remains stuck at \$.28 per lb. Sales in the West are reported to be holding up, and inventories apparently are considered to be at reasonable levels.

FRED DOUMA'S PRICE PROJECTIONS...

June 20 Est.	Quota cwt. \$19.13	Overbase cwt. \$17.43	Cls. 4a cwt. \$15.64	Cls. 4b cwt. \$19.16
Last Week	Quota cwt. \$19.23	Overbase cwt. \$17.53	Cls. 4a cwt. \$15.62	Cls. 4b cwt. \$19.37

MAY MILK PRODUCTION; ANOTHER MONTH, ANOTHER RECORD: (By J. Kaczor) USDA's estimate of May's milk production was released this week and it included some surprises. Most recent comments and forecasts believed that because of producer uncertainty and rising feed costs, **milk production increases** should have begun to flatten. Instead, the number of cows being milked in May rose by 143,000 compared to last May, and production per cow was 25 lbs higher for the month. The total amount of milk produced was 487 million lbs greater than last May's output, a 3.0% increase. (Last year cow numbers and milk production was affected by CWT's Herd Retirement Program, which removed some cows and affected some production from the April-May period.) This year, March's herd size was 117,000 larger than a year earlier, and production was up by 2.0%. April's herd size was 138,000 larger than in 2007, and milk production was up by 2.2%. May's results certainly didn't show any signs of producer uncertainty.

The estimates for California were equally surprising, considering the reports about the production control programs that have been in effect for at least two months and cover close to 80% of the state's production. The number of cows in May was estimated to be only 2,000 more than in March, but still is 42,000 more than last May. California's milk production increased by 99 million lbs from a year ago, an increase of 2.8%. Production per cow also was positive in May, while decreases were reported for March and April.

The following table shows the numbers for the top ten milk producing states, and for the U.S. The number of cows represents thousands; the milk production represents millions of pounds.

	Number of Cows		Milk Production		
	2007	2008	2007	2008	Pct Change
Washington	233	244	472	494	4.7
Michigan	332	347	642	659	2.6
New Mexico	341	343	638	700	9.7
Texas	347	372	649	742	14.3
Minnesota	458	463	760	757	- 0.4
Pennsylvania	549	548	944	943	- 0.1
Idaho	506	550	977	1,067	9.2
New York	626	626	1,058	1,108	4.7
Wisconsin	1,247	1,251	1,710	2,101	1.8
California	1,806	1,848	3,477	3,576	2.8
U.S. Total	9,138	9,281	16,180	16,667	3.0

New Mexico, Texas, and New York had major increases in milk per cow; Idaho producers did it by adding 44,000 cows. California, Idaho, and Texas each added about 100 million lbs of milk for the month. These ten states added 147,000 cows and increased their percentage of U.S. milk production to 72.9% of the total, up from 70.0% last May.

Looking ahead, the floods that are covering broad areas in the Midwest this month caused many producers to lose at least some milk production, and they and many others will suffer major losses in the form of plant, equipment, feed, supplies, and clean up costs. The estimated loss of corn and soybean acreage and yields could amount to 20% of the combined anticipated crop. (USDA will have an initial updated estimate on June 30th and a final estimate in August. The net quantity of corn and soybeans available for U.S. consumption is

uncertain; USDA is now estimating a sharp reduction in the amount expected to be exported.) The sharp run-up in grain prices (cash and futures markets) means that those producers who do not grow much of their own feed, or who have not already taken a position on grain prices, may have lost out on being able to cover any but a small portion of the recent price increases. Speculators have taken the high ground and option premiums have spiked. The prospect of another jump in the cost of feed on top of what already has happened could increase producer interest in CWT's now very timely 2008 Herd Retirement Program. Milk production in June and July still could follow May's pattern, but most market watchers are betting on much lower rates of increase after that. And, one hopes, with less milk to have to peddle elsewhere, come higher prices.

CURRENT DAIRY COW SLAUGHTER REPORT: *(By J. Kaczor)* According to USDA, the number of dairy cows slaughtered during May was 24,000 fewer than April but 4,000 more than a year ago. These numbers are interesting in that during last April and May the slaughter count was 57,000 greater than the previous year, with much of that increase attributable to CWT's HRP that got underway in late March. (CWT reported that 53,000 dairy cows were removed by their program last year, about half of which would have been slaughtered in the normal course of events.) This April and May, on top of last year's "bubble," an additional 20,000 dairy cows were retired voluntarily, **and still the total milking herd is presently 143,000 larger than last year.** Holy cow! It appears that the quality of the nation's milking herd, as well as its size, is increasing.

CDFA HEARING PROCESS EXAMINED BY THE CALIFORNIA LEGISLATURE: *(By Rob VandenHeuvel)* This past Tuesday, the California Senate Ag Committee approved a bill – AB 2850 – that would begin to make much-needed improvements to the California Department of Food and Agriculture (CDFA) hearing process. For years, MPC has repeatedly expressed concerns about the way milk pricing hearings are conducted at CDFA, so it was refreshing to see the Legislature taking an interest in this broken system.

The California Food and Ag Code specifically states that the powers given to the Ag Secretary should be "liberally construed" – meaning that the Legislature has given him virtually unlimited latitude in overseeing the state's milk pricing regulations. The *only* thing the industry has in terms of limiting that power is the hearing process – making it vitally important that we ensure accountability within that process.

The main crux of AB 2850 is that it would clarify in the law that the Ag Secretary must base his hearing decisions on the testimony, data and evidence gathered through the hearing process, otherwise known as the "hearing record." While MPC supports the intent of AB 2850 and appreciates the Legislature's willingness to examine this long-standing problem, we believe that the bill is only a small first step. The hearing record that ultimately dictates the policy options available to the Secretary is hardly a limiting factor. Quite frankly, the hearing record developed under current CDFA practices is untested, unproved, and therefore far too broad to be considered a legitimate "check" on the Secretary's authority.

If you have ever attended a CDFA milk pricing hearing, you have seen witness after witness present their testimony to the hearing panel, which is made up of CDFA staff. Following the witness's oral testimony, there may be a question or two from the hearing panel in an attempt to clarify some technical aspect of the testimony. Then the witness returns to his or her seat, and the process starts over with the next witness. At no point is the testimony ever challenged. At no point are the claims of the witnesses open to cross-examination. Under the California Code, the only questions allowed are from the hearing panel – which is supposed to be the unbiased administrator of the hearing.

In addition to testimony, virtually any information can be entered into the record. The Department itself enters all previous hearing records into the current record – none of which has been tested or proved. This results in broadening the scope of the hearing record even further. With such a broad hearing record and no ability to challenge and test that record, the Secretary and the Department staff essentially have carte blanche in developing their hearing decisions. They can justify virtually any policy by pointing to some aspect of the untested and far-reaching hearing record. And with their powers "liberally construed" by the Legislature, there is little or nothing the industry can do reign in that power. **The legislature has allowed the Secretary and**

CDFR staff to become the judge, jury and executioners in charge of all milk pricing regulations in California. It begs the question of why do we even hold the hearings? They've practically become a "kangaroo court" where the outcome could easily be determined before even holding the hearing.

At the Senate Ag Committee meeting this past Tuesday, MPC proposed strengthening AB 2850 by adding two additional measures to the bill. First, we proposed that before any of the Secretary's hearing decisions are implemented, the public should have an opportunity to provide comments to the Department on the specific hearing decision. As it stands right now, once the Secretary announces a hearing decision, his decision can be implemented the next month, without any public comment or feedback. I'm not aware of any other government agency that operates this way – implementing major policy changes that affect thousands of California farmers and millions of dollars, not to mention the effect these decisions often have on the dairy industry throughout the U.S., without any opportunity to provide public comment on the newly announced regulations.

The second proposal made by MPC was to allow hearing witnesses to be cross-examined by members of the public. In milk pricing hearings under the Federal Orders, members of the public are allowed to cross-examine the hearing witnesses, resulting in a hearing record that has withstood public scrutiny and can therefore serve as a legitimate record on which to base the hearing decision.

Unfortunately, the Senate Ag Committee was unwilling to approve either of these proposals. While they saw merits in making the hearing process more transparent and fair, they opted to move forward with the bill as it was written, allowing us to make a first step in improving the hearing process, but leaving more work to be done.

As an industry, we owe many thanks to Assemblyman Mike Villines – the Republican Leader in the Assembly from Clovis, CA – who authored and pushed this bill through the Assembly and now to the Senate floor. A legislative review of the CDFR hearing process was long overdue and we sincerely appreciate this first step towards fixing the problems in the system. I also want to note that Western United Dairymen played a large role in pushing this bill. They should be commended for bringing this important issue to the attention of the Legislature. When producer groups are able to work hand-in-hand on issues like this, the entire industry benefits. We will continue to work with WUD and other industry groups as we seek ways to improve the regulations that govern us as an industry.

REMINDER – FIRST ANNUAL REPORT FOR THE CENTRAL VALLEY WATER BOARD DUE JULY 1ST: *(By Rob VandenHeuvel)* As every Central Valley dairymen knows by now, your first annual report to the Central Valley Regional Water Quality Control Board is due in less than two weeks. If you have any questions about your dairy's report or need help putting the appropriate paperwork together, please call Betsy Hunter, our Central Valley Representative, at (661) 205-6721.

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