



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@milproducers.org ~ www.MilkProducers.org



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TO: Directors & Members

FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0650 \$1.8450
Barrels - \$.0075 \$1.7225

Weekly Average, Cheddar Cheese

Blocks - \$.0240 \$1.8695
Barrels +\$.0450 \$1.7300

CHICAGO AA BUTTER

Weekly Change - \$.0400 \$1.6100
Weekly Average - \$.0530 \$1.6280

DRY WHEY

Dairy Market News w/e 05/10/13 \$.5825
National Plants w/e 05/04/13 \$.5809

NON-FAT DRY MILK

Week Ending 5/3 & 5/4

Calif. Plants \$1.5542 15,242,919
Nat'l Plants \$1.6049 21,574,926

Prior Week Ending 4/26 & 4/27

Calif. Plants \$1.5440 10,708,743
Nat'l Plants \$1.6015 19,620,870

MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

The bears ruled the dairy complex this week, and CME spot markets drifted a little lower each day. By Friday, butter lost 4¢/lb., settling at \$1.61. Cheddar blocks dropped 6.5¢ and barrels shed 0.75¢, narrowing the block-barrel spread to 12.25¢. The barrel market remains well supplied, while blocks are a little harder to come by. Grade A nonfat dry milk (NDM) lost 4.75¢, closing at \$1.70, even with Extra Grade NDM. Class III futures also moved lower. The June contract was particularly hard hit, losing 83¢/cwt. this week. Class IV futures dropped roughly 20¢.

Domestic dairy markets were likely pressured by waning bullish enthusiasm overseas. The drought in New Zealand and lingering winter in Europe are old news, and conditions are improving. Dairy product prices moved lower in both regions over the past two weeks, according to USDA's International Dairy Market News Price Summary. Declines in milk powder prices in Oceania were particularly notable. Skim and whole milk powder prices dropped 10% and 16%, respectively. Butter prices declined 5%, while Cheddar held steady. Price declines in Europe were more moderate, ranging from 1-4%.

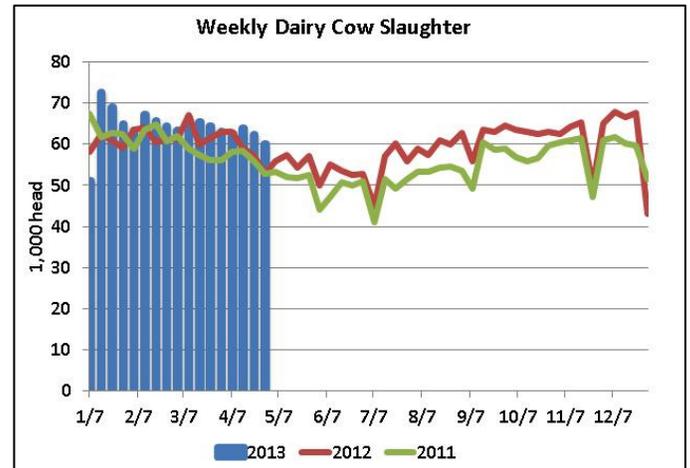
There are further indications that the New Zealand dairy situation is far from a crisis. This week Fonterra increased its offerings of SMP, WMP and buttermilk powder for the next three Global Dairy Trade auctions, noting that "recent climatic conditions in New Zealand have improved the volume outlook for May, June and July for some products sold on [the Global Dairy Trade auction]."

Meanwhile, while there was no new data this week to highlight heavy U.S. dairy product stocks, the tone of the butter and Cheddar barrel markets likely served as a constant reminder. Meanwhile, much of the country is cold and rainy. Ice cream demand is likely suffering and there is plenty of cream moving into butter churns. Schools will be letting out soon, and fluid milk demand will wane accordingly. Still, while the dairy markets seem to have lost some of their fire, the issue of global supply is still smoldering. Production in South American, Oceania and Europe is below year ago levels, and global demand remains strong.

The California Weighted Average Price for NDM in the week ended May 3 was \$1.5542, up 1.02¢ from last week. Sales volume rebounded to a respectable 15.2 million lbs. National Dairy Product Sales Report prices were mixed. Butter and Cheddar barrels moved lower, while Cheddar blocks and NDM continued their upward trend. Dry whey also moved higher.

Weekly dairy cow slaughter totaled 59,940 head in the week ending April 27. This was the first time since August that weekly slaughter fell below 60,000 cows in a non-holiday week. Still, slaughter was up 13.7% from a year ago. Year to date slaughter is up 5.1%.

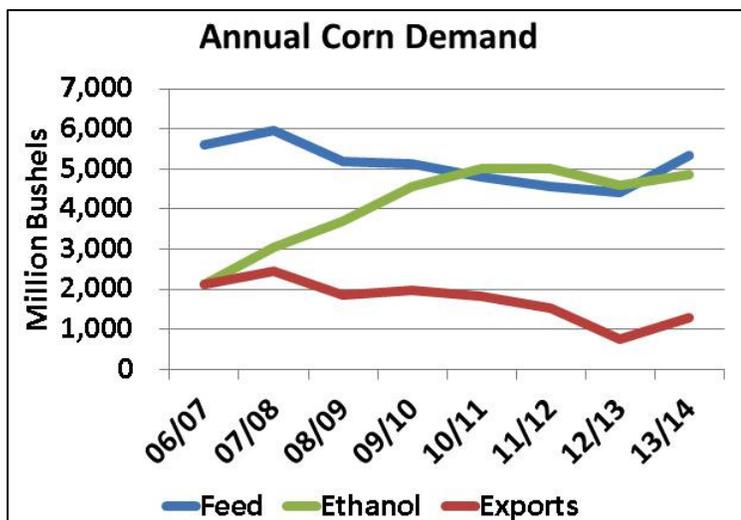
Slaughter rates typically decline during May and June, as the spring flush elevates milk production and fieldwork takes priority for dairy producers who also farm. This year, slaughter rates could fall more than is seasonally typical as they are starting from very high levels, and profit margins have improved notably. After nearly a year of high beef prices, dairy producers have had plenty of incentive to clean up their herds. The national milk cow herd is young and healthy. Because dairy producers have been able to replace cull cows at a low net cost, the high cull rate has resulted in very little change to the size of the milk cow herd. Instead, the supply of available heifers has likely been reduced. Similarly, the size of the milk cow herd may remain near current levels even with slower cull rates. Under this scenario, heifer supplies would likely rebound.



Grain and Hay Markets

Farmers in the Eastern Corn Belt planted corn this week, but their brethren to the West and South were not so fortunate. Still, the forecast is mostly clear, which pressured corn prices this week. Temperatures outside of California remain colder than normal, and conditions are less than ideal for drying out fields. If farmers are kept out of the fields for much longer, reductions in acreage and yield potential are possible.

Indeed, USDA lowered its national average corn yield forecast to 158 bushels per acre a decline of 5.6 bushels from the Outlook Forum in February. If farmers are not able to make considerable progress over the next few weeks, the yield forecast on next month's World Agricultural Supply and Demand Estimates may be lower still. USDA currently forecasts corn production at a record large 14.14 billion bushels. Given normal weather, ending stocks will be more than adequate and corn prices could move much lower.



USDA expects new crop corn for feed demand to exceed 5.3 billion bushels. This would be a 21% increase from the current crop year, and the largest usage since the 2007-2008 crop year. Some rebound in feed demand is likely, as plentiful corn would encourage a switch away from wheat and byproducts back to corn. However, the national livestock herd is much smaller than it was only a few years ago. Beef cattle producers are already feeding cattle to record weights, leaving little room for increased feed demand. While the forecasted increase in feed demand is curious, it may not be an issue. With plentiful corn supplies, ascertaining exactly how much corn each industry will use becomes less important in determining price direction. If the corn

crop is indeed record large, prices will move lower despite rebounding demand.

USDA made very little changes to its old crop corn, soybean and wheat balance sheets. Projections of ending stocks for new crop were within the range of estimates, leaning toward the high side. USDA's projections of global crop production in the 2013-2014 crop year were notably higher than in the current season, indicative of increased acreage and improved growing weather compared to the adverse conditions that prevailed in many key growing regions this year. Indications of strong global production pushed new crop prices lower on Friday.

FRED DOUMA'S PRICE PROJECTIONS...

May 10 Est:	Quota cwt. \$19.33	Overbase cwt. \$17.63	Cls. 4a cwt. \$18.23	Cls. 4b cwt. \$17.57
Last Week:	Quota cwt. \$19.35	Overbase cwt. \$17.66	Cls. 4a cwt. \$18.02	Cls. 4b cwt. \$17.80

2013 FARM BILL: WHY THE “GOODLATTE-SCOTT AMENDMENT” IS THE WRONG POLICY FOR OUR DAIRY INDUSTRY: *(By Rob Vandenheuvel)* Next week, both the Senate and House Agriculture Committees are scheduled to hold “markups” of the 2013 Farm Bill. During the markups, both Committees will be debating the Farm Bill, considering proposed amendments and ultimately voting on what language should be included in the Farm Bill that is sent to the full Senate and House of Representatives for a vote.

Both of the Committees have released their initial versions of the Farm Bill, and while the overall bills have differences, the dairy portions of the bills are very similar. Both include provisions from the Dairy Security Act, which is supported by dairy organizations and cooperatives around the country. As a reminder:

- The Dairy Security Act would replace our current “safety net” programs of the Milk Income Loss Contract (MILC) and Dairy Product Price Support Program (DPPSP).
- The Dairy Security Act includes two main pieces: (1) the Dairy Producer Margin Protection Program (DPMPP) and the Dairy Market Stabilization Program (DMSP). Participation in these programs is **voluntary**.
- The DPMPP – often referred to as the “margin insurance program” – would provide dairies that sign up with direct payments when national “milk-price-over-feed-cost” margins fall below certain thresholds. Dairy farmers could sign up for the basic program or opt for an enhanced program that requires producer premiums, but provides more frequent and larger payments.
- The DMSP is a standby program that would only be triggered in during periods of low-margins and would incentivize dairies to temporarily cut back milk production in order to restore milk and dairy product supply/demand balance in the marketplace. **The DMSP only applies to dairies that opt to enroll in the taxpayer-funded DPMPP.**

While you can never be exactly sure what amendments are brought up for debate and vote during these markups, it is a certainty that in the House Agriculture Committee, an amendment – known as the Goodlatte-Scott Amendment – will be brought up that would fundamentally change the dairy provisions in the Farm Bill. For those who are unfamiliar with the Goodlatte-Scott Amendment (which was brought up during last year’s Farm Bill debate, but rejected by the House Agriculture Committee), it would replace the Dairy Security Act with a stand-alone margin insurance program, with higher premiums paid by dairy farmers, but no Dairy Market Stabilization Program.

Milk Producers Council, along with dairy organizations and cooperatives around the country, has supported the inclusion of the Dairy Security Act in the 2013 Farm Bill and asked that the House Agriculture Committee reject the Goodlatte-Scott Amendment. A letter signed by our coalition of supporters can be found at: <http://www.nmpf.org/files/Coalition-of-Dairy-Organizations-Supporting-DSA-050813.pdf>. On the other hand, the Goodlatte-Scott Amendment is being supported by the nation’s processors – represented by the International Dairy Foods Association (IDFA).

Why is Milk Producers Council so supportive of the Dairy Security Act and so opposed to the Goodlatte-Scott Amendment? It’s actually quite simple. **MPC supports programs that result in MARKET-BASED profitability for U.S. dairy farmers, which is what the Dairy Security Act represents. The Goodlatte-Scott Amendment does not prioritize market-based profitability, but rather represents a taxpayer-funded corporate welfare system for dairy farmers.**

So what do I mean by that? The U.S. dairy industry has long struggled with a fundamental problem of trying to balance our milk supply with the demand. The reason is simple to understand. It’s a combination of our constant advances in herd health / milk production and the fact that a dairy cow produces milk every day, whether or not

there is actually a profitable market for that milk. When our industry produces more milk than profitable demand can absorb, our milk prices drop, sending the basic “Econ 101” signal that less milk is needed. However, for a variety of reasons, it is difficult to get that economic signal to the individual dairy farmers in a timely manner. Those reasons include: (1) the fact that dairy cows cannot be “turned off” like a machine at a manufacturing plant; (2) dairy farmers are paid a “blend price” for all their milk, so there’s not direct incentive to produce less milk, since dairy farmers are paid the same price for every pound of milk they produce; and (3) our tax code makes it advantageous to grow our dairies, not contract them, even if only temporarily during a period of oversupply.

So what happens is that even though the market price for milk may drop below what it costs to produce that milk, **each individual dairy farmer still wants to produce as much milk as possible in order to maximize their operation’s revenue stream.** While that makes perfect sense to an individual dairy farmer, it is devastating for the dairy farming community as a whole, since we don’t get a supply reduction, even though the market is trying to send a signal – through lower prices – that less milk is needed.

The Federal Government feels an obligation to try and “protect” our U.S. dairy farmers through programs like the MILC and Price Support program, but as we’ve experienced in recent years, those programs fail miserably to provide any real “protection” for farmers. That is why in the 2013 Farm Bill, Congress is trying to reform our dairy program to provide better protection for our dairy farmers.

The Dairy Security Act represents a new way of thinking. It provides a level of protection in the form of “margin insurance,” but at the same time, **introduces a new idea that we need a direct economic signal during unprofitable periods of time for the dairy farmers that will address the fundamental problem discussed above.** Rather than continuing to produce as much milk as possible, even when the market price for milk is trying to tell our industry that less milk is needed at that moment, the Dairy Security Act would send a signal for dairy farmers to temporarily cut back 2-4% of their milk production in order to eliminate the overproduction, restoring market balance in our industry. While the government would be providing taxpayer-funded margin insurance payments to the dairies that enroll in the program, the temporary cutback in milk production will help restore healthy market-based margins in our industry, which in turn will eliminate the need for those insurance payments to continue. **And remember, the program is entirely VOLUNTARY. Dairy farmers that choose not to have the government provide a margin insurance program are fully exempt from the Dairy Market Stabilization Program. Another market-based concept embedded in the program.**

On the other hand, the Goodlatte-Scott Amendment continues our fundamental problem of encouraging maximum milk production even during periods of oversupply. **Think about the signal individual dairy farmers would receive under this program during a period of oversupply.** The market price for milk would fall below what it costs to produce the milk. That’s the market’s way of saying that milk production needs to be temporarily reduced. However, the Goodlatte-Scott margin insurance program would be making payments during that time – which tells dairy farmers there is no need to reduce production – and there is no Dairy Market Stabilization Program to incentivize dairy farmers to temporarily cut back production at all.

The result? **We would have an industry that is producing more milk than we can profitably sell, and yet there would be no direct signal to actually do anything about it.** So what would cause the market to regain supply/demand balance and bring market prices back to a profitable level? **NOTHING.** And in the meantime, U.S. taxpayers would be footing the bill for more and more margin insurance payments to dairy farmers while we *wait* for a recovery – which again, won’t happen until we actually restore market balance.

This sets up a fantastic situation for those who are buying our milk – the processors. Think about it: during periods of oversupply, these processors would get the benefit of buying milk at prices **BELOW** what it costs to produce that milk, while taxpayers are asked to make up the difference through margin insurance payments. **And because those payments are intended – by design – to hide the fact that we are overproducing the profitable demand, what hope do we have that the supply/demand balance will be restored in the short term?** Does that sound like a market-based program for the dairy industry? Is that really the “free-market”

approach to dairy policy? Or could it be better described as corporate welfare?

MPC wants a federal dairy program that results in the MARKET providing a profitable price – which is only possible when we take the steps to bring supply and demand into better balance. That’s what the Dairy Security Act does, and that’s why we support that proposal as the only reasonable policy to be included in the 2013 Farm Bill.

While neither of the California U.S. Senators are on the Senate Agriculture Committee, there are six Californians on the House Agriculture Committee, giving California a significant voice in how the Farm Bill is crafted by the Committee. Those California members of the Committee are:

- **Rep. Jim Costa** (D-Merced) – 202-225-3341
- **Rep. Jeff Denham** (R-Modesto) – 202-225-4540
- **Rep. John Garamendi** (D-Sacramento) – 202-225-1880
- **Rep. Doug LaMalfa** (R-Redding) – 202-225-3076
- **Rep. Gloria Negrete-McLeod** (D-Ontario) – 202-225-6161
- **Rep. Juan Vargas** (D-El Centro) – 202-225-8045

California dairy representatives have been staking their positions with these six California Congressmen over the past weeks/months/years. Unfortunately, their offices have heard different positions, as is all-too-often the case in the dairy industry. MPC has joined California cooperatives Dairy Farmers of America and Land O’Lakes in supporting the Dairy Security Act. California Dairies Inc., on the other hand, is advocating for the Goodlatte-Scott Amendment. **With the Committee markups scheduled for next week, there is still time for your voice as a dairy farmer to be heard.** The vote on the Goodlatte-Scott amendment is expected to be close, so every vote matters. **If you prefer a market-based solution like the one explained above, please call the Committee members above and urge them to support the Dairy Security Act and oppose the Goodlatte-Scott Amendment.** We need a program that addresses our fundamental problem, not one that puts dairy farmers in a constant state of government dependence and corporate welfare.

CALIFORNIA FEDERAL ORDER LANGUAGE INCLUDED IN HOUSE AG COMMITTEE DRAFT BILL: *(By Rob Vandenheuvel)* While the discussion in the article above focused on the primary dairy provisions in the Farm Bill, another California-specific provision was also included which has the support of every dairy organization and cooperative in the state. The language – which was introduced by Congressman David Valadao (R-Hanford) as H.R. 1396 and cosponsored by nine of his fellow California colleagues – would allow the U.S. Department of Food and Agriculture (USDA) to consider a proposal that would create a Federal Milk Marketing Order in California that recognizes our state-run “quota program.” Nothing in the bill requires California’s dairy industry to do anything, it merely would provide us with options as we explore the opportunities a California Federal Order could bring. We greatly appreciate the leadership shown by Rep. Valadao and his fellow Representatives that have signed onto this bill, and we hope that this language, in addition to the Dairy Security Act, is maintained in the Committee-approved bill next week.

MAY 20TH HEARING AT CDFA TO CONSIDER TEMPORARY PRICE INCREASES: *(By Rob Vandenheuvel)* Last December, the California Department of Food and Agriculture (CDFA) held a hearing to consider temporary, emergency milk price relief in California. The result of that hearing was a four-month (February – May 2013) increase in the Class 1 (\$0.05/cwt), Class 2 (\$0.10/cwt), Class 3 (\$0.10/cwt), Class 4a (\$0.30/cwt) and Class 4b (\$0.30/cwt) prices. Overall, the state Overbase price was increased by about \$0.25/cwt through these changes. On May 20th, CDFA will conduct another hearing to consider temporary, emergency milk price relief beyond the initial four month period. Of course, our readers are well-aware that MPC has joined with all the California dairy farmer organizations and cooperatives in advocating for longer-term changes to our Class 4b formula in order to maintain better alignment with the prices paid for comparable milk around the country. But while we continue to work on those changes – which are the focus of AB 31 in the California legislature – we look forward to the opportunity to demonstrate to CDFA why on-the-farm price relief is needed for our dairies.