

Milk Producers Council

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DATE: April 25, 2008

TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0200 \$1.9250
Barrels +\$.0400 \$1.8800

Weekly Average

Blocks +\$.0730 \$1.9415
Barrels +\$.0940 \$1.8720

CHICAGO AA BUTTER

Weekly Change +\$.0200 \$1.4125
Weekly Average +\$.0140 \$1.4030

DRY WHEY

NASS w/e 4/19/08 \$.2582 WEST MSTLY AVG w/e 4/24/08 \$.2825

NON-FAT DRY MILK

Week Ending 4/18 & 4/19

Calif. Plants \$1.2460 15,927,193
NASS Plants \$1.2574 25,663,887

John Kaczor is unavailable to write his commodity comments for this week's report. He will be back next week.

FRED DOUMA'S PRICE PROJECTIONS...

April 25 Est:	Quota cwt. \$17.70	Overbase cwt. \$16.00	Cl. 4a cwt. \$14.37	Cl. 4b cwt. \$16.79
Last Week:	Quota cwt. \$17.66	Overbase cwt. \$15.96	Cl. 4a cwt. \$14.37	Cl. 4b cwt. \$16.71

ARE THERE WAYS TO STABILIZE GROSS MARGINS WHEN PRICES AND COSTS ARE GOING CRAZY? (By J. Kaczor) There seems to be. Consider, first, the outrageous-sounding statement made by Dr. Ken Bailey in a paper published last September: "*dairy producers control milk prices and feed costs.*" Dr. Bailey is Associate Professor of Agricultural Economics and Rural Sociology at Penn State University. He and an associate, Virginia Ishler, published a report entitled "Tracking Milk Prices and Feed Costs" in which a case is made that the **futures markets** for Class III milk prices on the CME and for grain prices on the Chicago Board of Trade, along with good records, good management, and careful planning by milk producers, can achieve the equivalent of prescribed gross margins for milk twelve months out. The report can be accessed at <http://dairyoutlook.aers.psu.edu/reports/Pub2007/TrackMilkPrice.pdf>. It seems that the key for a producer to succeed with this program is to be sure about what is wanted, to find a commodities broker who can explain **very clearly** what needs to be done, what costs will be incurred, and what risks are involved. Noted below is an observation that there may be no reliable milk price for California producers to use for the purpose of calculating a projected margin, although your broker should be able to discuss what is available.

Another program, which will be available to producers later this year in Arizona, Nevada, Texas, and thirty-two other states, **but not California**, is called the Livestock Gross Margin for Dairy Program (LGM-Dairy). It was developed by Dr. Bruce Babcock, Director of Iowa State University's Center for Agricultural and Rural Development. It differs from Bailey's approach, in that it is "pre-packaged" as **bundles of monthly futures contracts**. It has been tested against actual market prices, requires little in the way of producer computations, and appears to **guarantee a producer's pre-selected gross margin** for any or all of an eleven month period, for any or all of the milk the producer elects to cover.

The program is state-specific because the average milk price which is used in the calculation of the "basis" for the gross margin is different for each state. ("Basis" is the difference between the local average milk price and the Class III milk price in federal orders.) USDA reviewed the extensive research that was submitted, verified the assumptions underlying the program's structure, and the Federal Crop Insurance Corporation accepted the program. That's right, **the LGM-Dairy is a USDA insurance program**, and it sounds like it could be just what is needed, considering the current volatility of milk prices and escalating feed costs. It's not free; it's an insurance program,

with premiums to be determined. Premiums will be determined at time of sign up, reflecting current market conditions and the amount of milk and percentage of gross margin that a producer elects to insure. Sign ups are scheduled to begin July 31st. The first month for coverage is September. **This program appears to be suited for producers who want to spend a little money for gross margin protection in an unpredictable market.**

It will be interesting to see how many producers elect to participate, and how much of their milk they choose to insure. The possible reason why California is not included could be because there is no longer a reliable relationship between California's 4b price and the federal order Class III price. The federal order Class III price has an established futures price program on the CME; the California 4b price does not. An attempt to use a **projected** Class III price instead of a projected Class 4b price as a basis to identify a future price target for California would be more like gambling than insuring. Lately, the federal order Class III and California Class 4b prices have lost whatever reasonable relationship they may have had in the past. Although the average difference between the two price series over a year's time averages about only \$.60 per cwt, the successive **month-to-month net changes between the two since October** were +\$1.58 per cwt, -\$2.55 per cwt, -\$39 per cwt, +\$2.92 per cwt, and -\$1.57 per cwt. Can inter-state price relationships be more screwed up than that?

USDA REPORTS END-OF-MARCH COLD STORAGE FOR BUTTER AND CHEESE: (*By J. Kaczor*) Earlier this week USDA reported the amount of butter and cheese in cold storage on March 31st. The following table lists the latest four months, with comparisons to the same periods a year earlier. All numbers represent millions of lbs of product.

	American Cheese		Butter	
	Latest	Year Earlier	Latest	Year Earlier
December	508,659	534,208	155,162	108,605
January	493,744	546,650	187,934	148,703
February	513,073	565,129	210,422	185,426
March	529,067	571,942	226,480	193,104

The situation on American cheese inventories can be described in one word: "outstanding." Cheddar represents about 80% of American cheese production, and a good portion of the amount in cold storage is for aging. The amount in storage in January represented 45 days of production of the product. March's number is expected to be about the same. The combination of moderate production, lower imports, and a continuing good amount of exports creates what should be solid support for cheese prices, near term.

Butter inventories are increasing despite the sizable volumes that are being exported. A year ago, January's butter in storage represented 22 days of production. This January, 35 days of production is in storage, and the number for March is projected to be close to 48 days. Traders on the CME gave a figurative shrug of their shoulders at what could be considered a strongly negative report, possibly in anticipation of a slow-down in the amount of milk expected to be produced later this year.

ONLY ONE MORE WEEK TO SIGN UP FOR PRODUCTION LOSS PAYMENTS: (*By Rob VandenHeuvel*) Next week is the last week to submit applications for the Dairy Disaster Assistance Program (DDAP). The deadline for submitting applications is May 5th. (Note - this is a different program than the Livestock Indemnity Program, which compensates dairies for animal deaths during disaster periods - that program is still available and no application deadline has been announced).

The DDAP application requires annual milk production and herd inventory figures for 2003 - 2007. The average milk produced **per cow** in 2003 and 2004 becomes your "base" production, and if your production per cow drops more than 5 percent below your "base" in 2005, 2006 and/or 2007, you are compensated. For example, if in 2003/04, your average production was 60 lbs per cow, and in 2005, 2006 and/or 2007, your average annual production dropped to less than 57 lbs per cow (for the entire year), you would receive a payment for the losses in excess of the 5 percent - or 3 lb - adjustment.

End