



# Milk Producers Council

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**PAGES:** 4  
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## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks +\$.0425 \$1.8725  
Barrels +\$.0525 \$1.8275

### Weekly Average, Cheddar Cheese

Blocks +\$.0180 \$1.8455  
Barrels +\$.0207 \$1.7970

### CHICAGO AA BUTTER

Weekly Change - \$.0150 \$1.8500  
Weekly Average - \$.0243 \$1.8420

### DRY WHEY

**Dairy Market News** w/e 09/14/12 \$.5925  
**National Plants** w/e 09/08/12 \$.5745

### NON-FAT DRY MILK

#### Week Ending 9/7 & 9/8

Calif. Plants \$1.2874 7,500,804  
Nat'l Plants \$1.3622 15,515,911

#### Prior Week Ending 8/31 & 9/1

Calif. Plants \$1.2647 8,700,856  
Nat'l Plants \$1.3263 13,326,460

**CHEESE MARKET COMMENTS:** Cheese production is limited in the eastern region because of lower milk supply, is steady to growing in the Midwest because of sufficient milk supply, and is mostly steady, and adequate, in the west. Considering what seems to be an overall reasonable balance between cheese production, inventories, and shipments to domestic buyers the continuing weekly price increases reported to AMS at levels consistently higher than the CME weekly averages in recent weeks is impressive, but somewhat puzzling. CME trading was fairly active this week; blocks gained \$.0425 per lb and barrels gained \$.0525 per lb. The weekly averages for each were about \$.02 per lb higher. Three carloads of blocks were purchased today, raising the price by \$.025 per lb, and was followed by an uncovered offer to sell ten carloads for \$.0075 per lb less. Very strange. Something similar happened for barrels: six carloads were traded, followed by an unfilled bid to buy five more at \$.0025 per lb higher. The trading was unbalanced with one seller and four buyers. Domestic sales continue to be very good. There is a short term tightness in milk supply in the east due to greater than anticipated fluid milk usage from schools reopening, and temporary shortages of Mozzarella, but everywhere else "adequate," seems to describe the cheese market situation. There is some interest in building inventories, but *Dairy Market News* says cheese makers are not presently willing to pay extra for additional milk for that purpose. The October-December Class III milk and cheddar cheese futures prices this week rose sharply. November and December milk is again above \$20/cwt; cheddar cheese averages \$1.95 per lb for that period and April is sitting right where the spot price ended this week, at \$1.87 per lb. U.S. cheese prices are presently above prices reported f.o.b. ports in New Zealand, which could begin to affect strong U.S. exports. Cheese imports trail last year's levels through July but still amount to 28% of the volume exported.

**BUTTER MARKET COMMENTS:** Despite very weak exports so far this year, the outlook for current U.S. butter sales continue to impress market participants. Domestic sales are strong. *DMN* says the market is currently fairly balanced and, based on normal sales patterns, some participants foresee a tight supply situation for the coming major year-end holidays. Butter production is at the point where it normally increases with more cream from bottling plants and lower needs for other major butterfat usages, mainly ice cream. The important unknown at this point is what will happen to the U.S. milk supply. Prices this week moved down (Monday and Tuesday) then up over the rest of the week on the CME; the net change was a loss of \$.015 per lb for the week and \$.024 per lb for the weekly average. The October CME butter futures price is \$.02 per lb above today's spot price of \$1.85 per lb; November's price is at about parity; prices for all months following are selling at various discounts.

**POWDER MARKET COMMENTS:** The price ranges reported the past few weeks for nonfat dry milk likely reflect rapid, unexpected, and in some cases unexplainable marketplace changes. [The one I like the best is shipments that are not really shipments.] The full range of prices reported by *DMN* this week for low heat and medium heat powder for the Central and Eastern regions was \$.4025 per lb and the "mostly" price range was \$.25

per lb. The West's full price range was \$.425 per lb and the "mostly" was \$.33 per lb. The weighted average prices reported for shipments of NFDN last week managed to fit in at the low end of the full ranges. A price board looking more like a scatter gram than a record of sales transactions reflects anything other than an orderly market. Skim milk powder at \$1.57 to \$1.66 per lb for export in September and October? Nonetheless, the movement of prices is upward and who is to say the pace of the increases should be more rapid? Prices reported to AMS over the past eight weeks increased by just under \$.21 per lb. Prices reported by California plants to CDFA increased by just under \$.15 per lb. *DMN* believes the reason why the weighted average changes lag so far behind the spot market is because the few spot market sales that occur are insufficient to move the index-based sales prices by more than tiny increments. Because NFDN production could continue to decrease through October, market watchers should not expect to see a much tighter or more recognizable price pattern to emerge from what could be a very tight market later this year.

**WHEY PRODUCTS MARKET COMMENTS:** The market tone for dry whey is firm. Prices for dry whey continued to move upward this week in all areas and by all measures. The largest increase was that for last week's shipments reported by manufacturers to AMS, +\$.0141 per lb, to \$.5745; this indicator has increased by a full \$.08 per lb over the past eight weeks. The averages of the "mostly" prices have moved up to \$.5675 in the central region and to \$.5925 in the west. Except for the northeastern region, which is experiencing low cheese production, there does not appear to be a shortage of supply, according to *DMN*. WPC-34 prices also advanced this week but still lag those for NFDN by substantial amounts. End users of NFDN who can use WPC-34 in their products continue to move in that direction. Dry whey futures prices were generally higher this week, at \$.60 per lb or higher from October through February.

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**MARKET COMMENT:** In its discussion of milk supply this week, *Dairy Market News*, while generally commenting on difficulties faced by milk producers, apparently is not finding the U.S. milk supply to be falling, or at least not falling as fast as some stories suggest, or in all areas, or on average. Perhaps enough producers who are major net buyers of feed took positions on crop prices last spring to afford to pay current prices with their milk checks. They would be in the large producer category and their steady or higher milk production could offset the continuing very heavy dairy cow cull rate that began in May and which is continuing through the latest week reported, ending August 25<sup>th</sup>.

Moving from the east to the west, the situation for current milk supplies appears to change from very tight to almost normal for this time of year. That is, according to *Dairy Market News* this week. In the eastern region, milk, cream, and condensed skim currently are in high demand but there is not enough milk being produced locally even though the eastern seaboard has received close to its normal amount of rain this spring and summer. Clearly the nationwide milk price slump since February along with the realization of ever increasing feed costs sapped the will of many milk producers to continue the battle. Parts of the north central region and the southeast also appear to have gotten sufficient rainfall to support reasonable crop growth, and producers there and elsewhere may well be sustaining something close to a normal pattern of milk production.

Federal Order class III and IV prices fell from their January and February levels all the way through July and finally, in August, began to move upward. California's 4a and 4b price pattern followed the same pattern only, of course, at a lower level than the F.O. comparable prices. If *DMN's* observation of what perhaps could reflect an unexpected early resurgence of U.S. milk production is correct, watch for futures prices to weaken and physical prices to fall, speculators to schedule lavish vacations, and market participants to be scratching their heads. On the other hand, if the change in number of milk cows in next week's report on August milk production is large enough to convince doubters that a true correction is occurring the relatively weak price forecast in this week's WASDE report can rightly be filed and forgotten.

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**FRED DOUMA'S PRICE PROJECTIONS...**

<b>Sep 14 Est:</b>	<b>Quota cwt. \$18.22</b>	<b>Overbase cwt. \$16.52</b>	<b>Cls. 4a cwt. \$16.45</b>	<b>Cls. 4b cwt. \$17.17</b>
<b>Last Week:</b>	<b>Quota cwt. \$18.10</b>	<b>Overbase cwt. \$16.41</b>	<b>Cls. 4a cwt. \$16.34</b>	<b>Cls. 4b cwt. \$16.99</b>

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**CALIFORNIA DAIRY FARMERS RALLY IN SACRAMENTO FOR A FAIR MILK PRICE:** *(By Rob Vandenheuvel)* Yesterday, a group of 300-400 individuals from dairy farms throughout California gathered in Sacramento to rally in support of a fair milk price. The rally was the result of a grassroots effort launched by a few individual dairymen in the Central Valley. The speakers at the rally included:

- State Senator Anthony Cannella, Chairman of the Senate Agriculture Committee
- State Assemblywoman Cathleen Galgiani, Chairwoman of the Assembly Agriculture Committee
- State Assemblyman David Valadao, Dairyman and Assemblyman from Hanford, CA
- State Assemblyman Jim Nielsen, Former dairyman and Assemblyman from Redding, CA
- Jim Wilson, Owner of J&D Wilson and Sons Dairy, Riverdale, CA
- Barbara Borges-Martin, Owner of Tony Martin Dairy, Lemoore, CA
- Syp Vander Dussen, Dairyman and President of Milk Producers Council
- Rob Vandenheuvel, General Manager of Milk Producers Council
- Lynne McBride, Executive Director, California Dairy Campaign
- Fresno State Dairy Club
- Antoinette Duarte, Owner of Duarte Family Dairy, Elk Grove, CA



The speakers at the rally urged the Secretary of the California Department of Food and Agriculture, Karen Ross, to use her authority to establish a fair price for milk sold by California dairy families. As the speakers pointed out, Secretary Ross has a legal responsibility to establish minimum prices for milk produced and sold in California that are in a “reasonable and sound economic relationship” with what comparable milk is being sold for around the United States. It’s no secret to the readers of this newsletter how our California prices compare to prices being paid for milk around the country. Our

California Class 4b price – which applies to milk sold to California’s cheese manufacturers, or about 40 percent of our milk production – has been significantly below the benchmark price for milk sold to cheese manufacturers around the country – the Federal Order Class III price. **That gap has resulted in our cheese manufacturers getting a regulated, State-sponsored discount compared to their out-of-state colleagues to the tune of \$590 Million on the milk they’ve bought since January 2010.** That’s a “reasonable and sound economic relationship?”

After rallying in front of the California Capitol Building, the group marched to CDFA’s Sacramento office to bring their message directly to the Department. While no one from CDFA came out to discuss the points raised by the rallying dairymen and their families, Secretary Ross did release a statement on CDFA’s website stating, *“When considering changes to the formulas used to calculate the minimum [milk] price, the Department is obligated to balance the economic impacts on producers, processors and consumers to ensure there is sufficient milk to meet demand, and that demand remains consistent.”*



Let’s assume for a moment that Secretary Ross’ statement encapsulates her legal responsibilities with respect to establishing monthly minimum prices to be paid for milk produced in our State. Even the Department’s own data shows that California dairy farmers have been subjected to devastating economic conditions at a time when most of agriculture is flourishing. **The Department’s own data shows that an average-sized California dairy (1,000 milk cows) was expected to lose about \$1.5 Million since 2009, given the CDFA-reported cost of production and the average milk price paid for that milk!** That’s **\$2.4 Billion** collectively for the State’s dairy families! Is that “balancing the economic impacts” for producers, processors and consumers?

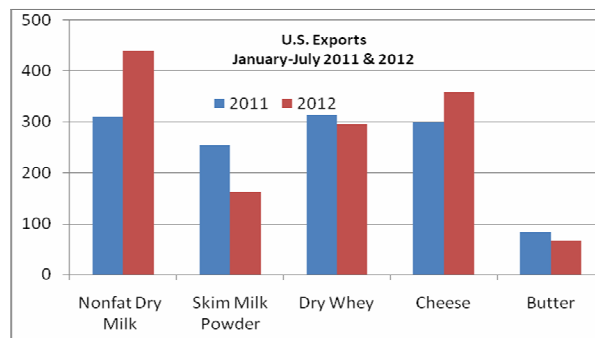
Beyond that, Secretary Ross’ comments once again indicate that the Department’s interpretation of their legal responsibilities is significantly different from the language included in the California Food and Agricultural Code – the law of the land. As we’ve pointed out in previous issues of this newsletter, the “Code” is very clear that

whatever “considerations” the Secretary must make in establishing monthly minimum prices for milk, she ultimately must set those minimum prices within a “reasonable and sound economic relationship” with the prices being paid for milk sold around the country. Clearly, Secretary Ross and CDFA have conveniently ignored that mandate in the law. MPC has joined with Dairy Farmers of America, Security Milk Producers Association and California Dairy Campaign in filing legal action in California Superior Court to get the court’s interpretation of that legal statute. We will continue to keep our readers up to speed on the status of that process.

California’s dairy farmers owe a debt of gratitude to the dairy families who came out to Sacramento yesterday to stand up for your rights and for your industry. As one of the signs at the rally stated, “Don’t let our patience be confused with ignorance.” The current situation has gone on too long, and it’s time for the folks at CDFA to do their job, as the law requires! The law demands that our milk receive a price that is in a reasonable and sound economic relationship with what our out-of-state colleagues are getting paid for their milk, and we cannot give up on our efforts until that is accomplished.

**JULY EXPORTS FARE WELL IN UNUSUAL TIME:** (by J. Kaczor) The score card for July dairy product exports should be given a handicap because, let us say, it was a very unusual time, characterized by very unusual happenings. Weaker global demand, meet record high milk production and exports by New Zealand. Major economic problems faced by U.S. dairy farmers, meet the great drought. Slump in global dairy product prices, meet growing price volatility and extraordinary price relationships. Global dairy trade, meet international political problems. There really is no other way to describe what the U.S. dairy industry – indeed the global dairy industry – has experienced this year other than to say it is unusual.

The chart shown here compares year-to-date export volumes of the four major price-setting dairy commodities for this year and last year, in millions of pounds. A following table reports the percentage of production represented by these exports. Nonfat powder exports include nonfat dry milk and skim milk powder; it is presumed that all skim milk powder that is produced is exported. The cheese category includes all types and styles of cheese. The butter category excludes small volumes of various spreads containing oils or butterfat; only bulk butter is reported.



Cheese exports in July continued to set new records, a 35% increase over last July’s volume and a 20% increase for the first seven months this year. July exports of nonfat powders was lower by 13% compared to last July but was 7% higher for the full 7-month period. July exports of dry whey were lower by 16% but only off 6% for the full period, and represents a huge percentage of what is produced. Bringing up the rear for reasons not entirely clear are butter exports, 18% below last July and 19% lower over the seven months. Another product worth mentioning, although it does not have a direct price-setting role in the U.S., is whey protein concentrate. Exports were lagging early for this fine product but began to exceed last year’s volumes by April; July’s exports were 72% higher than a year ago, and 13% higher for the full period.

The table records the volume of these products produced during the January to July period, the volumes exported during that period, and the percentage of production represented by the exports. Nonfat dry milk

	Produced		Exported		Percent of Prod'n	
	2011	2012	2011	2012	2011	2012
<b>Nonfat dry milk</b>	924.5	1,219.80	310	439.8	33.50%	36.10%
<b>Cheese</b>	6,141	6,303	299.6	359.5	5.50%	6.30%
<b>Dry Whey</b>	615.4	619.2	314	296.3	51%	47.90%
<b>Skim Milk Powder</b>	253.6	163.2	253.6	163.2	100%	100%
<b>Butter</b>	1,074	1,129	82.7	67	7.70%	5.90%

production this year increased in response to the heavy milk production from January through May and skim milk powder production, because of extra steps required, decreased correspondingly for powder plants to handle the milk volumes. Together, exports of the two nonfat powders represent 43.6% their combined production. The U.S. Dairy Export Council reports July’s exports as accounting for 13.4% of total milk solids production, up from 13.3% last July, and 13.5% of the year-to-date production, up from 13.1% last year. All in all, a very good showing under difficult competitive conditions.