



# Milk Producers Council

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DATE: August 2, 2013  
TO: Directors & Members

PAGES: 5  
FROM: Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks +\$.0125 \$1.7750  
Barrels +\$.0125 \$1.7725

### Weekly Average, Cheddar Cheese

Blocks +\$.0160 \$1.7705  
Barrels +\$.0340 \$1.7625

### CHICAGO AA BUTTER

Weekly Change +\$.0075 \$14400  
Weekly Average - \$.0065 \$1.4320

### DRY WHEY

Dairy Market News w/e 08/02/13 \$.5900  
National Plants w/e 07/27/13 \$.5791

### NON-FAT DRY MILK

#### Week Ending 7/26 & 7/27

Calif. Plants \$1.7219 6,547,295  
Nat'l Plants \$1.7479 16,409,740

#### Prior Week Ending 7/19 & 7/20

Calif. Plants \$1.7085 7,238,119  
Nat'l Plants \$1.7357 15,170,835

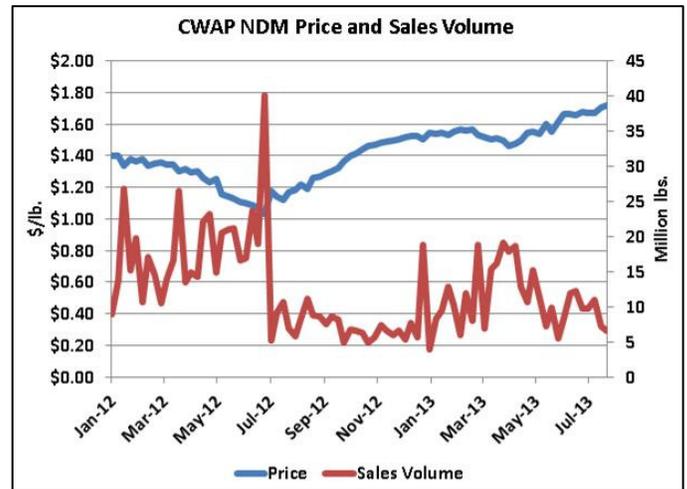
**MARKET COMMENTARY:** (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

August through October Class III futures ended the week slightly higher than where they began it, but later contracts were in the red. Class IV contracts were mixed, and most changed little over the course of the week. The thinly traded April through June Class IV futures added 50-70¢/cwt. Trading activity at the CME was muted this week, and spot dairy product prices moved incrementally higher. Butter was up 0.75¢/lb. Cheddar blocks and barrels added 1.25¢ each. Grade A nonfat dry milk (NDM) closed 0.25¢ higher.

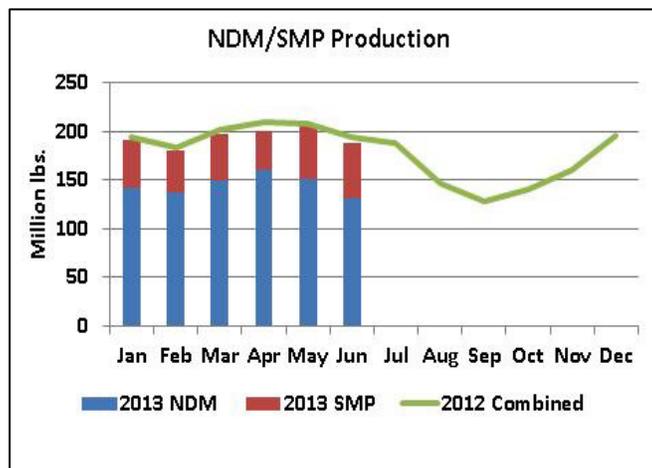
By nearly every measure, milk powder prices continue their upward trek. According to *Dairy Market News*, prices held steady in Oceania over the past two weeks, but skim and whole milk powder (SMP & WMP) prices in Western Europe rose 1.8% and 2.9%, respectively. For the week ending July 27, NDM prices averaged \$1.7479/lb. according to the National Dairy Products Sales Report, marking the highest weekly price since December 2007. The California Weighted Average Price for NDM was \$1.7219, up 1.34¢ to the highest level since January 2008.

But there is evidence that the air is thinning at these altitudes. CWAP sales volume fell to 6.55 million lbs., its lowest level since late May. Manufacturers' stocks of NDM rose in June to 230.4 million lbs. Inventories were 60% higher than a year ago and 503 thousand lbs. larger than May even after USDA revised its estimate of May inventories upward by 3.1 million lbs. Furthermore, daily average NDM production was 10% lower in June than in May and 22% lower than a year ago. USDA overstated May NDM production on its previous report by nearly 17 million lbs. Inventories are growing from already high levels even as production slows. For the moment, supply is outpacing demand – at least domestically.



Fonterra, for one, seems to expect tight supplies and higher prices to continue. They have lowered the forecasted volume of product they will offer at the Global Dairy Trade auction for the next 12 months by 5%. This week the cooperative raised its full-season price forecast to \$7.50/kg of milk solids. Fonterra had promised a \$7.00 price in

May, expecting dairy product prices to hold at May levels through the end of the year. But prices have since risen about 3%, and Fonterra seems confident that the price gains will be sustained.

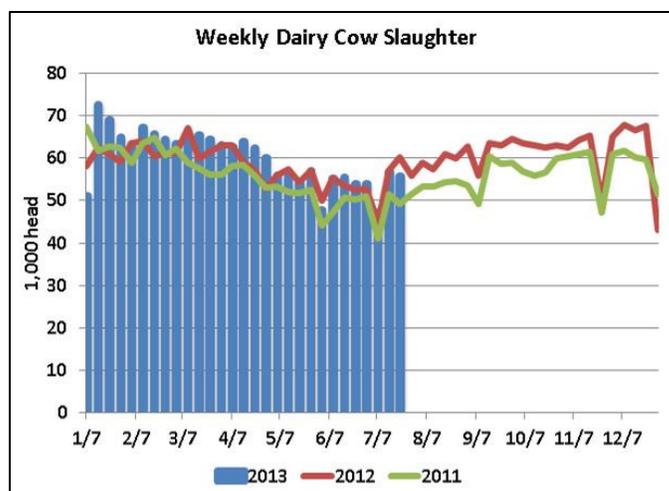


U.S. dairy product production slowed seasonally in June. The exception was SMP production, which reached a new record high of 58.2 million lbs., up 10% from May and more than double year ago volumes. Manufacturers are shifting capacity from NDM to SMP in order to meet export demand. Combined NDM/SMP production was 2.6% lower than in June 2012 and 5% lower than May. U.S. butter production was 2.7% higher than a year ago, and down 11% from May. California butter production was 6.1% lower than last year. Total U.S. cheese production was 1.4% higher than a year ago but slightly lower than May. Dry whey production was 2.9% higher than May but down 5.1% from a year ago. Whey stocks increased incrementally.

Declines in the Class III and 4b milk prices exceeded gains in Class IV and 4a in July, resulting in smaller milk checks on average. The California July 4a milk price was announced at \$18.61/cwt., up 22¢ from last month. The 4b price was \$15.65, down 26¢. This compares to Class III and IV milk prices of \$17.38 and \$18.90, respectively. The Class III price dropped 64¢ last month. The Class IV price was down 2¢ from June, but was \$4.45 higher than a year ago.

The above prices resulted in a national average All Milk price of \$19.10, down 40¢ from June but \$2.20 higher than last year. The national income over feed margin averaged \$6.54/cwt. in June, a level which typically signals industry expansion. In California, the income over feed margin averaged \$4.90, its lowest level since March. Lower feed prices should help dairy profit margins improve nationwide in the months to come.

Weekly dairy cow slaughter totaled 55,553 head, down 7.8% from the same week a year ago. Year to date slaughter is 3% higher than a year ago.



### Grain and Hay Markets

December corn prices settled at their lowest level in years, dropping 12.25¢ this week. The crop is another week closer to harvest, and the weather risk premium is fading. Rains – or the lack thereof – have disappointed farmers in the Plains and northwest Corn Belt, including parts of Iowa. However, cooler than normal temperatures and heavy dews have reduced water intakes and prevented substantial yield declines. The crop is expected to be record large, near 14 billion bushels.

November soybeans settled at their lowest level since June 2012, falling 47¢. Private estimates of soybean yields are generally a couple bushels per acre lower than USDA’s most recent 44.5 bushel per acre forecast. The crop is still lagging and vulnerable to frost, but as the price action shows, those concerns are abating.

Since last week’s meltdown, basis values for spot corn and soybeans have been creeping higher. Processors and exporters have had to raise bids to entice farmers to part with their remaining supplies as futures prices have fallen. While the promise of plentiful feed looms, the spot market remains volatile. Old crop stocks are dwindling, and new crop supplies are not yet available outside of the small, early harvest in southern areas. Regional supply shortages ahead of harvest are possible, which could cause temporary but severe spikes in spot feed prices.

## FRED DOUMA'S PRICE PROJECTIONS...

Aug 2 Est:	Quota cwt. \$19.05	Overbase cwt. \$17.36	Cls. 4a cwt. \$18.55	Cls. 4b cwt. \$16.51
July '13 Final:	Quota cwt. \$18.66	Overbase cwt. \$16.96	Cls. 4a cwt. \$18.61	Cls. 4b cwt. \$15.65

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**CALIFORNIA DAIRY FARMERS: WATCH YOUR BLOOD PRESSURE AS YOU READ THIS PRESS RELEASE FROM THE PROCESSORS:** *(By Rob Vandenheuvel)* As producers and their organizations navigate the political process in both Sacramento and Washington, DC, we expect a certain amount of rhetoric and political posturing. But this week, a press release from the Dairy Institute of California really took it to a new level. If you're a California dairy farmer reading this for the first time, please make sure you're in a calm state-of-mind, because this one is going to test every one of your last nerves:

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*Dairy Institute of California  
July 30, 2013*

### ***California Dairy Farm Income Up Dramatically***

*Market demand fuels \$400 million revenue increase, lower feed costs add to improved outlook.*

*SACRAMENTO — California cheese makers and other dairy processors have paid the state's dairy farmers over \$400 million more in the first six months of 2013 than for the same period last year, according to data released by the California Department of Food and Agriculture.*

*"That \$400 million in additional revenue translates to about \$250,000 more per dairy farm this year," said Rachel Kaldor, Executive Director of the Dairy Institute of California, noting that the trend was expected to continue for the rest of the year due to strong global demand for dairy products.*

*Kaldor said dairy farm margins are also improving.*

*"One of the most common ways to gauge dairy farm profitability is to measure farm income over feed costs," said Kaldor. "For the most recent two quarters reported, dairy farmers are enjoying an average 57 percent improvement in their margins over the middle of last year."*

*Kaldor said feed costs have moderated this year and are expected to decline dramatically over the remainder of the year — down about 40 percent from last year's drought-driven highs.*

*"All of these trends are very good news for California's dairy farmers," said Kaldor.*

*Kaldor said processors supported the California Department of Food and Agriculture last year when it temporarily increased the price of milk that processors pay dairy farmers.*

*"Those temporary price hikes will add about \$62 million to dairy farmer income this year," said Kaldor. "But compared to the \$400 million more processors have already paid, it's very clear that vibrant dairy markets are far better at improving dairy farm income than reliance on regulated government-imposed price adjustments."*

*Kaldor warned that the state's complex regulatory pricing system needs to change if California dairy farmers and processors are to compete in the new global market.*

*"Our current regulatory system was not designed for today's marketplace," said Kaldor. "Dairy farmers need to join us in understanding that competition builds markets for their milk, which leads to more farm income for them."*

*“We need to create a market-driven system with high levels of investment, vigorous competition and growing global demand for our products,” said Kaldor. “We’re partners in this, and we should be working together to make it happen.”*

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California dairy families, take a few deep breaths. Let your blood pressure go back to normal levels. After the devastation you all have endured for the past several years, “shameless” doesn’t even begin to describe this press release. In a system that does everything to protect the processors at the expense of producers, it’s truly shocking that we even have to read this garbage.

But since it’s out there, let’s look at a couple lines from the release:

*Dairy Institute: “California cheese makers and other dairy processors have paid the state’s dairy farmers over \$400 million more in the first six months of 2013 than for the same period last year...”*

A couple notes:

- It’s important to remember that California’s dairy families are paid for their milk based on the market value of end-use dairy products (cheddar cheese, nonfat dry milk, butter and dry whey). The reason California’s milk prices were higher in January-June 2013 (vs. January-June 2012) is because the market prices for those products were higher.
- That additional \$400 million was paid because the manufacturers were selling their products for a higher price. So it’s not as if the manufacturers were digging deeper in their pockets out of charity; the consumers were paying more for their dairy products, and under our system, the manufacturers therefore had to pay more for the milk they needed to make those dairy products.
- Secondly, what Dairy Institute fails to mention is that out of the \$400 million in additional revenue for producers, about \$150 million of it came from higher prices paid by butter/power manufacturers – which are dairy farmer owned plants! (More on that below)
- Third, the larger question is, “OK Dairy Institute, so what’s your point?” California’s dairy farmers have been arguing that California’s cheese manufacturers should be paying a price close or equal to what cheese plants around the country are paying for the same quality of milk. Plants all over the country have paid more for their milk in 2013 vs. 2012, but the gap that has existed since 2010 remains. In the first six months of 2013, the California Class 4b price lagged below the Federal Order Class III price by \$1.69/cwt. That’s about \$130 million discount in just six months given to our California cheese manufacturers. **Is the Dairy Institute just hoping we’re all so dumb that if they throw out big numbers, we’ll forget about the actual facts?**

*Dairy Institute: “[Dairy Institute Executive Director Rachel] Kaldor said dairy farm margins are also improving.”*

Without providing any specific data (but rather unproven guesses about the future), this statement seems to gloss over the reality of what’s been happening to California dairy farmers:

- Using CDFA’s own numbers, the cost of producing milk in California has exceeded the price paid for that milk in four out of the last five years.
- In fact, CDFA’s data indicates that an average sized California dairy (1,000 cows) with average milk production (65 pounds/cow/day) should have lost about \$2,200,000 since the start of 2008. **Think about that number for a minute. To the general public, that’s just a number on a page. But for our 1,500 California dairy families, that’s number represents the devastating pain of watching decades worth of hard-earned equity turned into massive amounts of debt!**

- In the most recent available data (first quarter of 2013), the estimated cost of producing milk in California was \$19.16 per hundredweight. The average milk price paid in that quarter was \$17.71 per hundredweight. So while the Dairy Institute is busy patting their members on the back for all the additional monies they paid for their milk, the dairymen lost \$1.45 per hundredweight. For an average sized dairy, that was another \$85,000 of losses. **I guess the Dairy Institute figures, “What’s another \$85,000 when you’re sitting on a \$2 million mountain of debt? You dairymen should consider that ‘improvement’!”**

*Dairy Institute: “Kaldor said feed costs have moderated this year and expected to decline dramatically over the remainder of the year – down about 40 percent from last year’s drought-driven highs.”*

I’m sure every dairyman appreciates the opinions of the Dairy Institute in forecasting the future of input costs on your dairy (yes, this is sarcasm). However, dairy farmers live in the real world, where your profits (remember those?) or losses are based on reality, not projections. If the corn crop comes in as expected, and prices do in fact moderate later this year, great for the dairymen. But **why does this have anything to do with California cheese manufacturers getting a state-sponsored discount on their milk?**

**It appears that according to the Dairy Institute’s logic, California’s dairy farmers are not entitled to a profit. If a dairyman’s costs go down, it is their duty – according to the Dairy Institute – to bestow those savings upon the milk plants, via discounted milk prices. When did this become an acceptable logic?**

*Dairy Institute: “Dairy farmers need to join us in understanding that competition builds markets for their milk, which leads to more farm income for them.”*

California’s farmer-owned cooperatives have invested hundreds of millions of dollars in building manufacturing plants that produce butter and powdered milk products. Those plants have paid an average of **\$1.50 per hundredweight MORE for their milk supply than the cheese plants since 2010**. In fact, when you look at the way milk pooling operates (and we’ve written about this in previous issues of this newsletter), those farmer-owned processing plants are subsidizing – to the tune of hundreds of millions of dollars – the state’s cheese manufacturers.

What we have been unable to overcome and understand is a CDFA-driven policy that gives our cheesemakers a huge and arbitrary discount on the milk they buy.

Dairy farmers have been working tirelessly in the past couple years to fix this unjustified State-sponsored discount on milk sold to California’s cheese manufacturers. After the most recent effort in the California Legislature (AB 31) was unsuccessful, Dr. Richard Pan (Assemblyman from Lodi, CA) approached the Dairy Institute to try and come up with a short term agreement that would provide much-needed price relief for California’s dairy families. What the Dairy Institute came up with was a price increase of about \$0.65-0.70 per hundredweight on Class 4b, representing an increase of about \$0.30 per hundredweight to the Overbase price. While this was significantly less than what dairy farmers have been advocating for, our organizations nonetheless agreed to the Dairy Institute’s proposal in an effort to provide much-needed short term relief.

A letter from the Dairy Institute, outlining their offer, was sent to Dr. Pan on July 8<sup>th</sup> (<http://www.milkproducerscouncil.org/070813dairyinstitute.pdf>). A hearing petition to implement that agreement was submitted to CDFA last week, and we are awaiting a response from the Secretary. Should we assume that this week’s press release from the Dairy Institute is some sort of message that they are backing out of the agreement? What on earth has changed since July 8<sup>th</sup> to warrant that kind of turnaround? Let’s hope this was just a momentary lapse of judgment. After all, they can’t really look at the financial devastation that our dairy farmers have gone through and argue that everything is just fine, can they?