



# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks N/C \$1.6025  
Barrels  $-.0025$  \$1.5575

### CHICAGO AA BUTTER

Weekly Change  $+.0150$  \$1.8150  
Weekly Average  $+.0130$  \$1.8040

### NON-FAT DRY MILK

#### Week Ending 7/23 & 7/24

Calif. Plants \$1.1556 13,735,158  
NASS Plants \$1.1865 18,424,867

### Weekly Average

Blocks  $+.0055$  \$1.6025  
Barrels  $+.0120$  \$1.5585

### DRY WHEY

WEST MSTLY AVG w/e 7/23/10 \$.3788  
NASS w/e 7/24/10 \$.3621

**CHEESE MARKET COMMENTS:** After six straight weeks of price increases, CME cheese traders essentially took a breather this week. Blocks were unchanged with six sales; barrels lost \$.0025 per lb with eight sales. A single sale of barrels on Wednesday at a fraction of a penny per lb lower apparently raised concerns about, well, just about everything that may have contributed to the increases that occurred over the previous six weeks. A single sale of barrel on Thursday, at Wednesday's price, apparently satisfied everyone about everything. The market ended the week with no sales, no bids, no offers, and no changes. The current price spread between the two styles is a bit more than normal and could be one source for the jitteriness. Is one too high or the other too low, someone may be asking. One thing remains clear: cheese makers want to continue to increase production. Many other things remain unclear: the lingering effects of the recession on consumer spending (so far, cheese sales are holding steady), will imports remain low and exports continue higher, how much more milk will be produced in the second half of the year. September again has the year's highest CME price for class III milk futures, \$15.40 per cwt, which requires NASS cheese sales prices to average \$1.63 per lb for that month (they averaged \$1.46 for July). That's not impossible, but may require CME cash prices to look solid and be solid from now to then.

**BUTTER MARKET COMMENTS:** Fundamentals – steady to good sales and lower production – are helping to keep butter prices rising. Nine loads changed hands this week, but the largest price increase occurred Friday with an unfilled bid. Buyers want butter. Adding to the potential for higher sales was CWT's announcement on Monday that they have added butter and anhydrous milkfat to the products eligible for export subsidies. The rationale (questionable?): U.S. butter prices have moved above the world price and CWT members need help to maintain their share of the export market. The decision apparently was in the making for some time because the CWT announcement of the new rules also included approved "bonuses" for 3.8 million lbs of butter and AMF for shipments **beginning this month**. Manufacturers are having to decide whether to sell cream at a nice markup or produce butter for fall sales. Buyers are having to decide whether to buy at current prices in the face of soft demand or wait until fall and possibly pay much higher prices. Dairy Market News (DMN) again this week notes that retail sales are being affected somewhat by the higher prices, but butter production is sure to move sharply downward through the summer. That spells strong fundamentals.

**POWDER MARKET COMMENTS:** Demand for buttermilk, dry and condensed, remains steady, but buyers continue to look for, and are possibly anticipating, lower prices. Production is dependent on butter production, which is trending lower, and usage of condensed BM seems to have increased. Therefore, stocks of dry BM should tighten through the summer. Whole milk powder already is tight, according to DMN. These comments suggest steady, if not strong, prices are in the offing for these products although BMP prices may ease downward, if prices for nonfat dry milk continue to weaken. The market for NFD, according to DMN, has a weak undertone. Their comments this week: "demand is limited;" "buyers seem reluctant to take...anything beyond near term needs." And why shouldn't they? That just seems like the smart thing to do – hold off – until that

major west coast seller learns how to better manage sales and inventory. Periodic large dumping of product at prices sharply lower than one week before generates huge increases in sales which, according to DMN, plague the market for many weeks. It's happening now. And it's hard to see how that practice builds good customer relations. Based upon sales reported by California plants for the past four weeks, about one half of July's production of NFDM (25-30 million lbs) went directly into storage.

**WHEY PRODUCTS MARKET COMMENTS:** The market for basic whey protein concentrate (34% protein) is currently steady, but may be on the verge of becoming stronger, according to DMN. They report some plants are stopping production of edible WPC, shorting the supply. Some buyers are concerned to the point where they are earnestly seeking assurances. The discussion suggests some WPC manufacturers are trying to sever the price per lb of protein connection that has caused basic WPC prices to be too sensitive to changes in prices for NFDM. (Producers of "value-added" WPC are apparently not affected or concerned.) **The market for dry whey is mixed.** Demand and prices in the Northeast and Midwest were steady, although some of the need for dry whey to blend with other products may be reduced as buyers for those end products indicate they have customers who want higher protein, not lower. While prices reported to NASS for sales of dry whey made last week were essentially unchanged, and this week's "mostly" prices in the central of eastern areas were unchanged, the west's "mostly" price this week lost \$.0062 per lb; the entire range was lower. The reasons given are responses to lower NFDM prices and lower prices for exported dry whey. It's beginning to look like the whey products market could be undergoing a change, or changes, which may not result in short-term betterment for milk prices.

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

**July 30 Final: Quota cwt. \$ 15.98 Overbase cwt. \$14.28 Cls. 4a cwt. \$15.62 Cls. 4b cwt. \$13.37**  
**Last week: Quota cwt. \$ 15.96 Overbase cwt. \$14.26 Cls. 4a cwt. \$15.68 Cls. 4b cwt. \$13.37**

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**THE FEE IS TEMPORARY; THE DIVIDEND IS PERMANENT. CONTINUING TO EXPLORE THE "DAIRY PRICE STABILIZATION ACT OF 2010":** (By Rob Vandenheuvel) As regular readers of this newsletter know, MPC continues to work hard to promote the "Dairy Price Stabilization Act of 2010," which has been introduced in the U.S. House and Senate as H.R. 5288 and S. 3531, respectively. We've written numerous articles about the details of these two bills (*all of which can be found on our website at [www.milkproducers.org](http://www.milkproducers.org)*). Yet I am constantly reminded that there are many folks that still don't fully understand the bill. Today, I want to focus on a basic premise in the bill: **"THE FEE IS TEMPORARY; THE DIVIDEND IS PERMANENT."**

What does this mean? Let's start with the first part: **"The Fee Is Temporary."** In short, under H.R. 5288/S. 3531, dairies that wish to expand their production beyond the 3% allowable year-over-year growth and grab a larger share of the market will have to pay a **temporary** "market access fee," which will be paid for a year following an expansion. Dairymen who will have to pay this temporary fee will have the choice to pay either a higher fee per-hundredweight that is only applied to the milk produced above your allowable year-over-year growth, or a lower fee per-hundredweight on all your facility's milk produced during that quarter – whatever amount is lower. This fee is clearly outlined in the legislation and a chart of those fees is below:

Milk/Feed Ratio	Allowable Year-Over-Year Growth	"New Milk" Market Access Fee	"All-Milk" Market Access Fee
> 3.00	3%	\$0.15 per cwt	\$0.03 per cwt
2.50 – 2.99	3%	\$0.65 per cwt	\$0.13 per cwt
2.00 – 2.49	3%	\$1.25 per cwt	\$0.25 per cwt
1.75 – 1.99	0%	\$2.50 per cwt	\$0.50 per cwt
< 1.75	-3%	\$2.50 per cwt	\$0.50 per cwt

It's important to note that in recent history, during periods of relative balance in supply and demand, the milk/feed ratio has largely been in the 2.00-2.99 range. So if H.R. 5288/S. 3531 is effective in helping to maintain that balance, we can reasonably expect that under most circumstances, the allowable year-over-year growth will be 3%, as noted in the chart above.

Now for the next part: **“The Dividend Is Permanent.”** *This is a point that often gets lost in this legislative proposal.* The knee-jerk reaction when examining H.R. 5288/S. 3531 is to focus on the fee that must be paid if/when you choose to expand your operation or get the next generation started on their own farm. **What is almost always overlooked is the other side of that equation – the actual check that your dairy will receive in any quarter you manage your production to less than the 3% allowable year-over-year growth.**

**In any given quarter, you will be in one of the two groups:** either you will be paying a temporary fee because you’re expanding your production beyond the 3% allowable year-over-year growth, or you will be receiving your share of those fees being paid. **It’s as simple as that.** Obviously, the amount of the dividend will be directly dependant on how many dairymen expand their production during any given quarter.

There are other programs being promoted that would authorize penalties aimed at balancing supply and demand. But H.R. 5288/S. 3531 is the only program that sends an additional signal: **an actual check** in your mailbox if you manage your production growth. That direct financial signal sent to individual dairies each quarter is exactly what we’re missing in our industry. Every incentive in the dairy industry sends the signal to grow, grow, and grow some more. **This is the only program being proposed that sends a positive incentive to manage your production growth.** Remember that as you evaluate the best long-term policy for our industry.

**LGM-DAIRY NOW AVAILABLE TO CALIFORNIA PRODUCERS:** *(By J. Kaczor)* In addition to the many ways California dairy producers already have available to protect against future drops in milk prices or increases in feed costs, another program has recently been added – Livestock Gross Margin-Dairy (LGM-Dairy), an insurance program offered by USDA’s Risk Management Agency. The LGM-Dairy program has just begun its third year, and USDA has decided to make the program available to those states which, until now, were not eligible. The program is now available to California producers. It was first mentioned in MPC’s Update in April 2008 (<http://www.milkproducerscouncil.org/updates/042508.pdf>), and again in September 2008 (<http://www.milkproducerscouncil.org/updates/092608.pdf>), in articles discussing ways to stabilize gross margins when everything else seemed unpredictable, unfair, unsustainable, and wrong.

Since then, the price calamity that occurred last year (which is still destructive) brought a lot of attention to ways producers have to protect themselves. Most of these use one or more of CME’s dairy futures products which provide “benchmarks” for where milk prices and feed costs may be as much as two years into the future. The LGM-Dairy program uses those same CME tools and, in my opinion, offers unique advantages that more conventional approaches do not. The “gross margin” protected in this insurance program is the difference between your monthly revenue from milk sales and your monthly feed costs. The premiums charged basically vary with the amount of coverage (milk volume and dollars per cwt) and futures volatility.

Three workshops have been scheduled for next month: August 11<sup>th</sup> in Petaluma, August 12<sup>th</sup> in Modesto, and August 13<sup>th</sup> in Tulare. The workshops should give everyone interested a basic understanding of LGM-Dairy. The workshop will be conducted by Brian Gould, associate professor, University of Wisconsin. Dr. Gould has developed a clear, comprehensive review of the program, and has presented it to many producer groups throughout the Midwest. His review is thorough. He is expected to be able to answer all questions about the program, some of which may be unique to California because of its differences from federal order milk price levels and patterns.

Those who wish to attend one of these workshops should contact the California Center for Cooperative Development by calling 530-297-1032, or you may register by going to [www.cccd.coop/events/LGMDairy](http://www.cccd.coop/events/LGMDairy). **The deadline for registering is August 6<sup>th</sup>.** The workshops begin at 10 am and are scheduled to end at 2 pm. The \$20 fee for registration includes lunch and a “hands-on” session where attendees can see how optimum margin protection can be balanced with minimum insurance premiums. Laptop computers are needed; they can be rented at the workshops.

**GOVERNOR SCHWARZENEGGER VETOES SENATOR FLOREZ’S “OVERTIME BILL”:** *(By Rob Vandenheuvel)* This past Wednesday, Governor Arnold Schwarzenegger officially vetoed SB 1121, a bill introduced by State Senator Dean Florez (Bakersfield) that would have mandated that all agricultural employees receive overtime pay when working more than 8 hours per day or 40 hours per week. In his veto statement, the Governor noted: “...*agricultural work is different from other industries: it is seasonal, subject to the unpredictability of Mother Nature, and requires the harvesting of perishable goods.*” The Governor went on to write that SB 1121 “*will not improve the lives of California’s agricultural workers and instead will result in additional burdens on California businesses, increased unemployment, and lower wages. In order to remain competitive against other states that do not have such wage requirements, businesses will simply avoid paying overtime. Instead of working 10-hour days, multiple crews will be hired to work shorter shifts, resulting in lower take home pay for all workers. Businesses trying to compete under the new wage rules may become unprofitable and go out of business, resulting in further damage to our already fragile economy.*”

A huge thank you is extended to all of you who did your part in urging the Governor to veto this bill. The Governor clearly heard your voice. The California Farm Bureau Federation should also be commended for their role in using their website to give farmers a simple process for sending their messages to the Governor’s office.

**THE LATEST “DAIRY CARES” COLUMN IS NOW ON OUR WEBSITE:** *(By Rob Vandenheuvel)* The July 2010 issue of the “Dairy Cares Report” can be found at: <http://www.milkproducerscouncil.org/cares.htm>. This month’s column, which is entitled, “**Court rulings – and common sense – confirm dairies are on track to protect water quality,**” starts out:

*“In two separate, important court rulings in June and July, a state judge upheld water quality regulations adopted three years ago for Central Valley dairies. Hopefully, these recent rulings in favor of Central Valley water quality officials and dairy groups will bring an end to another chapter of wasteful, misguided litigation by activist groups.”*

The rest of the article expands on the rigid requirements outlined in the “Waste Discharge Requirements” for Central Valley dairies, and the merit-less lawsuits filed by extreme environmentalists that have fortunately been rejected by the courts. Our Central Valley dairymen have had to devote an incredible amount of time and energy, as well as tens of millions of dollars per year, to implement these new regulations. The extreme environmentalists have shown that they have absolutely no shame by claiming to the courts that the regulations aren’t strong enough. I encourage you all to read the full column on our website. In an industry constantly under attack by extreme environmentalists, animal rights advocates and politicians like State Senator Dean Florez, it’s nice to get a win once in a while.

**ANIMAL WELFARE WORKSHOP SCHEDULED IN CHINO ON AUGUST 18 & 19:** *(By Rob Vandenheuvel)* Earlier this year, the California Dairy Quality Assurance Program (CDQAP) conducted workshops throughout the Central Valley to educate dairy farmers on a new national industry program called the National FARM (Farmers Assuring Responsible Management) Program. While the FARM program is a national initiative, California cooperatives and creameries have taken the lead in implementing the program here in our state. Later this year, the first step of the program will begin, with your co-op staff conducting a walk-thru of your dairy.

The point of the CDQAP workshops is to prepare dairymen for what the program will mean for your dairy. **I strongly encourage all dairies to send a representative to the meeting to learn more about this program.** A flyer is being mailed out to dairymen with the details of the workshop (*it’s posted at [www.milkproducerscouncil.org/aug10farm.pdf](http://www.milkproducerscouncil.org/aug10farm.pdf)*), but Part I of the workshop is scheduled for **1 – 4 pm on Wednesday, August 18<sup>th</sup>**, and Part II is scheduled for **9 am – 12 pm on Thursday, August 19<sup>th</sup>**. The meeting will be held in Brinderson Hall at the Chino Fairgrounds (5410 Edison Avenue, Chino, CA 91710).

**This is not just for Southern California dairymen.** If you are in the Central Valley, and missed your opportunity to go to a closer workshop, you’re encouraged to come attend this one. CDQAP would like to know how many folks are planning to attend, so **please RSVP for the meeting by calling the MPC office at (909) 628-6018 or send an email to [office@milkproducers.org](mailto:office@milkproducers.org).**