



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
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org



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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0150 \$2.1100
Barrels +\$.0050 \$2.1025

CHICAGO AA BUTTER

Weekly Change - \$.0100 \$2.0300
Weekly Average +\$.0710 \$2.0363

NON-FAT DRY MILK

Week Ending 7/1 & 7/2
Calif. Plants \$1.5992 17,104,751
NASS Plants \$1.6638 20,782,770

Weekly Average

Blocks - \$.0159 \$2.1131
Barrels +\$.0164 \$2.1019

DRY WHEY

WEST MSTLY AVG w/e 07/08/11 \$\$.5650
NASS w/e 07/02/11 \$\$.5476

CHEESE MARKET COMMENTS: After holiday markets can sometimes send a message to sellers and buyers about what's to come. A three-part message regarding cheese appears to have arrived this week in support for prices not too much different from those of the recent past. The first part of the message came from USDA's report on the amount of cheese produced during the month of May – a 34 million lb increase over April, 20 million of which was cheddar. But the cold storage report for May, released two weeks ago, showed American cheese stocks had fallen by 1 million lbs during the month; that's a pretty good chunk of cheese that had to go somewhere. Exports through April have been going well, higher than the year before. That indicates domestic cheddar sales continued strong at least through the Memorial Day weekend. The second part of the message is that the market didn't over-react to last week's bullish report on the size of the corn crop, which could have spooked the dairy futures markets. It didn't; instead, class III milk futures this week increased by about \$.30 per cwt from July through December. Finally, while 19 carloads traded hands on Wednesday and Thursday, buyers and sellers were about equal in number and the trading appeared to be need-related – sellers with more cheese on hand than was wanted and buyers wanting it. On the other hand, there still is a decidedly negative tone for cheese futures – prices this ended the week \$.20 per lb below the spot price for August and \$.30 per lb for October.

BUTTER MARKET COMMENTS: Less butter was produced in May than in April but the amount of butter (and anhydrous milkfat) in cold storage at the end of May was 29 million lbs more than at the end of April. It appears that export volume, after rising by about 4.5 million lbs in March, has no more than held steady at that level since and domestic usage has decreased. If so, the markets for butter and cheese have reversed – domestic butter sales are down and cheese sales are up. It is also possible the industry may be shifting some production from butter to anhydrous milkfat, which is a preferred product for the export market but AMF is not a reportable product so we will await next week's report on exports to look for a change in mix of product in the butter and milkfat category. Another possibility is that the global shortage of butterfat may be somewhat less tight than it has been for the better part of a year. Prices for AMF in Fonterra's auction this week again were lower across the board, back about to where they were in December, equivalent to about \$2.90 per lb of butter. As the spot prices edged downward on the CME so too did the prices for cash-settled butter futures, with the December price finally dropping below the \$2.00 per lb level, to \$1.95 per lb. Perhaps a U.S. seller can offer AMF in Fonterra's auction; wouldn't that be grand?

POWDER MARKET COMMENTS: Production of nonfat dry milk in May was 1.4 million lbs more than in April, while production of skim milk powder was up by 8.6 million lbs. End of month stocks of NFDm were 17 million lbs higher than April's levels. Buyers and sellers apparently have opposite views on what's happening and on what's likely to happen. DMN has been told by some major producers that the growing inventories are planned, needed to fill future commitments, while buyers simply expect prices to come down, in line with the CME futures prices (October fell \$.03 per lb this week, to \$1.41 per lb). This week's NASS price, for shipments

of NFDM made last week increased to \$1.664 per lb; the California plant average price dropped to \$1.60 per lb. Volumes for both series were higher for the week.

WHEY PRODUCTS MARKET COMMENTS: USDA's report on production of whey products in May appear to confirm the comments DMN had been getting regarding a shift of production from dry whey to higher concentrated products, although the numbers don't balance out. Production of dry whey, human food, was off just a bit on a per day basis and production of WPC's and WPI's increased by 7.4% and 9.9%, respectively. DMN reports the market for DW is firm, with prices moving up sharply particularly in the East and West this week. The NASS price for shipments made last week increased by 1.7 cents per lb. The west "mostly" mid-range price added 0.8 cents. DMN says the higher production of WPC's may be a bit more than the market can efficiently handle, as some resale product is being offered. However, end of month inventories of DW and WPC's are lower than the month before.

FRED DOUMA'S PRICE PROJECTIONS...

July 8 Est:	Quota cwt. \$21.30	Overbase cwt. \$19.60	Cls. 4a cwt. \$20.19	Cls. 4b cwt. \$19.40
Last Week:	Quota cwt. \$21.36	Overbase cwt. \$19.66	Cls. 4a cwt. \$20.22	Cls. 4b cwt. \$19.51

PRICES MOVE LOWER IN FONTERRA'S AUCTION; QUESTIONS ARISE ABOUT COMING CHANGES: (By J. Kaczor) The number of approved bidders for Fonterra's global dairy product auction continues to grow as the number of products offered by Fonterra increases and the prospect of additional suppliers lingers. The auction on July 5th drew 136 bidders, 104 of which wound up with one or more of the products. A total of 347 bidders were eligible.

The products offered included whole milk powder, skim milk powder, anhydrous milkfat, rennet casein, milk protein concentrate (70% protein), and a small quantity of buttermilk powder. A cheese product is scheduled to be offered next month.

Average winning prices for all products were lower than the average winning prices in the auction held two weeks ago. The average price decrease was about 6.7%. The only higher price this time around was for anhydrous milkfat for delivery in the January-March period (contract #3). Weighted average winning prices for this auction (for all styles and all delivery periods): WMP, \$1.65 per lb, -\$.114; SMP, \$1.68 per lb, -\$.132; AMF, \$2.394 per lb, -\$.058; MPC, \$2.80. -\$.107.

The ridiculously high and non-representative prices for skim milk powder in June's auctions are closer to correction. The winning price for SMP for contract 1 (September delivery) fell by \$.30 per lb from the June 15th auction (the bidding began and ended where it started, at the maximum 15% drop from the previous winning price) but is still about a cent per lb above the price for WMP for that month, and three to four cents per lb higher for contracts 2 and 3. The Surveillance Department of NZX, Australia's major commodities exchange, is aware of those prices, the pattern of changes and, presumably, the identity of the bidders and why they bid so high.

At this point, it appears to me that the only products in this auction that provide anything close to a usable representation of true market values are whole milk powder and anhydrous milkfat, neither of which presently is a major U.S. product. It's hard to see how the situation can improve if more sellers begin to offer products. More sellers from different countries add variables such as product quality differences, effects of currency valuations and changes (including speculation about possible changes), differences in transportation costs from sellers to buyers, and tariffs, tariff rate quotas, and the existence or absence of Free Trade Agreements – all of which likely affect what bidders are willing to pay. The International Desk at Dairy Market News, which has followed the auction since it began, offers the following comment in today's edition: *"Traders and handlers continue to use the gDT auction platform as a component when determining commercial prices....but most are not adjusting their prices as sharply as the percentage changes from the previous auction event...."*

Unfortunately, what began as a noble but self-serving tool intended to provide an important improvement in international price transparency, may be approaching an entirely different stage. Should we say “buyer beware?”

LAST WEEK’S CDFA HEARING ON THE CLASS 4A/4B MINIMUM PRICE FORMULAS: *(By Rob Vandenheuvel)* Last week, the California Department of Food and Agriculture (CDFA) held a hearing to consider amending the minimum price formulas for milk sold to Class 4a (butter powder) and Class 4b (cheese/whey) manufacturing plants. More than 20 producer and processor organizations/individuals provided testimony at the hearing, including MPC, who testified on behalf of our members.

As a reminder, the hearing was called as a result of two industry requests for consideration (more information on these two proposals can be found at <http://www.milkproducerscouncil.org/updates/052711.pdf>).

- California Dairies, Inc. (CDI) requested that CDFA consider making changes that would reduce Class 2, 3 and 4a minimum prices by about \$0.43 per cwt.
- Land O’Lakes (LOL) requested that CDFA consider making changes that would increase the Class 4b minimum price by almost \$1.00 per cwt this month (*the largest part of this increase – the new proposed “dry whey factor” in the Class 4b price, would be a variable factor that moves up and down as dry whey prices move up and down, so the impact could change from month to month*).

After the hearing had been announced by CDFA, two additional “alternative proposals” were submitted for consideration at the hearing:

- Western United Dairymen (WUD) proposed that CDFA replace the current \$0.25 per cwt dry whey factor very a formula very similar to the dry whey calculation in the Federal Order Class III formula. Simply put, the formula would be 80% of the Federal Order Class III dry whey factor.
- The Dairy Institute of California – the main lobbying organization for the State’s processors – proposed a variable dry whey factor that was “capped” at \$0.75 per cwt and “floored” at \$0.25 per cwt.

MPC testified in support of the WUD and LOL proposals on the dry whey factor. Our board believes the California Class 4b formula should include a dry whey calculation that more closely follows the Federal Order valuation for dry whey in their Class III formula.

MPC also testified at the hearing in opposition to any make allowance adjustments at this time. The requested adjustments to the make allowances were based on CDFA data on operating costs of our state’s manufacturing plants in calendar year 2009. Given the extreme financial stress on the state’s dairy farmers in that exact same time period, the MPC board took the position that there was no justification for CDFA to place a higher priority on considering manufacturing costs than their duty to consider producer profitability as well.

If CDFA determines that any adjustments to the Class 4a or 4b formulas are warranted, an announcement will be made within 52 days of the date of the hearing, with implementation of the updated formulas occurring at least 10 days after that. Therefore, it’s possible that updated formulas could be implemented on September 1.

NATIONAL MILK PRODUCERS FEDERATION PLANNING TO TAKE THEIR PLAN TO THE GRASSROOTS: *(By Rob Vandenheuvel)* National Milk Producers Federation (NMPF) will be hitting the road next week for a 12-stop “Summer Grassroots Tour” to meet with dairy families around the country and talk about their “Foundation for the Future” (FFTF) dairy policy reform package. **The tour will be at the Visalia Holiday Inn next Wednesday (July 13th).** There will be two sessions: a 9:30 am – 12:30 pm session and a 1:30 – 4:30 pm session. More information can be found on their website (www.futurefordairy.com), and space is limited, so NMPF is asking that individuals interested in attending pre-register on their website.

MONTHLY MPC BOARD MEETING TO BE HELD NEXT TUESDAY: *(By Rob Vandenheuvel)* MPC’s monthly board meeting will be held next Tuesday (July 12th). This month’s meeting will be at Centro Basco Restaurant in Chino, CA. The meeting will start at 11 am. All current and prospective MPC members and associate members are welcome to attend. If you plan to attend, please RSVP by calling (909) 628-6018.