



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0600 \$2.1100
Barrels +\$.1075 \$2.0675

CHICAGO AA BUTTER

Weekly Change - \$.0125 \$2.1300
Weekly Average - \$.0400 \$2.1175

NON-FAT DRY MILK

Week Ending 6/3 & 6/4
Calif. Plants \$1.6288 11,081,945
NASS Plants \$1.6381 14,831,362

Weekly Average

Blocks +\$.1667 \$2.1105
Barrels +\$.1630 \$2.0605

DRY WHEY

WEST MSTLY AVG w/e 06/10/11 \$.5350
NASS w/e 06/04/11 \$.5156

CHEESE MARKET COMMENTS: The biggest price movements this week happened on Monday – presumably a carry-over response to the temporary shortage announced last week caused by a “hold” put on about three weeks of production by a major cheese plant because of potential contamination with some plastic material. Prices for blocks have increased by 48 cents per lb in 4 weeks; prices for barrels increased by 41 cents per lb. The “hold” notice was dated May 29th, so the increases in the latest two weeks may well be fully in response to that notice. The large price increases this week and last week on the CME leaves the commercial market prices (reported to NASS) well behind the spot market – \$.40 per lb for blocks and \$.30 per lb for barrels. Seven carloads of blocks were bought this week, indicating a real short term need by someone. Also needed is some time to pass while supply catches up to demand, buyers find ways to get through a period of temporary shortages, and buyers and sellers remind each other about how sound their relationships are. It’s unclear what the real net short term shortage is. Buyers are said to be placing multiple orders just in case, and many plants have emptied their shelves in response to the extra calls. Brokers are speculating about where the fair market price should be, as they should. *Dairy Market News* says they hear the high prices are affecting new orders for exports, although CWT continues to report more approved subsidies for shipments through August. How about the other cheeses? Orders for mozzarella have jumped in the northeast after last week’s holiday, says DMN, while slowing in the west because schools have closed. Don’t schools close in the NE? California is in 2nd place in April production of all cheese, is 5th or 6th for cheddar production, and is 1st for production of mozzarella. The futures market for cheese doesn’t support current prices: June’s price is \$1.88 per lb; the July price is the highest for the year, at \$1.96 per lb; from there prices move steadily lower to February’s low of \$1.65 per lb. Not so bad, but the wide range in prices makes it very hard to reach sound buying decisions.

BUTTER MARKET COMMENTS: Butter prices lost 1.25 cents per lb this week on the CME, in fairly heavy trading. Thursday’s trading recovered 3 cents per lb, and ended with the price straddled with uncovered offers and unfilled bids. Butter makers are having to compete for milk against cheese plants and, finally, ice cream producers, as temperatures have soared throughout most of the nation. With retail prices now almost all well above \$3.00 per lb, butter sales are expected to be affected. Exports of butter in April were strong, but price increases are said to be affecting new orders. Confirmation of anticipated continuing tightness in butterfat supplies came last week from Fonterra’s auction for anhydrous milkfat. And cash-settled futures prices on the CME solidly support current spot prices through November, with December’s level still above \$2.00 per lb. After that, they just don’t know. For people dealing with butter, changes in butter inventories, in conjunction with butter production levels, will likely be the most watched data point over the next several months.

POWDER MARKET COMMENTS: “Mostly” prices for nonfat dry milk in the central and eastern regions of the country are in the high \$1.60’s this week and in the low \$1.60’s in the west. DMN says some manufacturers are apprehensive about whether they will have enough product on hand towards year end. Milk supplies are still readily available throughout the country, and school closings for the summer should help keep supplies sufficient.

Exports of SMP and NFDM continue to be doing well. Prices reported for shipments of NFDM last week for California plants rose 3.6 cents per lb, to \$1.62. Prices reported to NASS rose 1.2 cents per lb, to \$1.638 per lb. Volumes were moderate. Futures prices for June and July support current sales prices, but fall steadily all the way to \$1.21 per lb for next April. Usage of dry buttermilk is uneven in all areas. Prices are running 13 to 15 cents per lb below nonfat powder prices. DMN reports whole milk prices edged upward this week in response to increased domestic *and international* interest. I doubt the latter, as U.S. prices are reported to be above \$1.90 per lb, well above those in Fonterra's auction.

WHEY PRODUCTS MARKET COMMENTS: *“Solid domestic demand from ice cream makers and bakeries along with good export interest and tight supplies gives the dry whey market a firm undertone,”* says DMN for the northeastern region. Ditto, I think, for the rest of the country. Supplies are reported to be tight, but enough production is happening to have reduced the back orders to virtually zero. Demand for whey protein concentrates continues to be active. Prices are dancing around, with buyers closely comparing the price per lb of protein for various competing products, taking into consideration appropriate product characteristics. The average of the west's “mostly” price moved up again this week, by .87 cents per lb.

FRED DOUMA'S PRICE PROJECTIONS...

June 10 Est:	Quota cwt. \$21.04	Overbase cwt. \$19.34	Cls. 4a cwt. \$20.67	Cls. 4b cwt. \$18.72
Last Week:	Quota cwt. \$20.87	Overbase cwt. \$19.17	Cls. 4a cwt. \$20.60	Cls. 4b cwt. \$18.29

NATIONAL MILK PRODUCERS FEDERATION PLANNING TO TAKE THEIR PLAN TO THE GRASSROOTS: *(By Rob Vandenheuvel)* As we noted in last weeks newsletter, the National Milk Producers Federation (NMPF) will be hitting the road next month 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 2nd stop on this tour will be right here in California, at the Visalia Holiday Inn on 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.

A COUPLE THOUGHTS ON THE DAIRY DEBATE HEATING UP IN WASHINGTON, DC: *(By Rob Vandenheuvel)* This past week, news out of Washington, DC indicated that we are getting closer to seeing NMPF's Foundation for the Future introduced in the U.S. House of Representatives as a legislative proposal. According to an article published this week on FarmFutures.com, Congressman Colin Peterson (D-MN), the highest ranking Democrat on the House Agriculture Committee, stated that “a just-completed Congressional Budget Office scoring shows the proposal would cost taxpayers less than existing dairy policy and therefore would not add to the budget deficit, thus satisfying a key demand of House Republican leaders.” Rep. Peterson went on to say that if things continue to progress as planned, “...we [will] introduce the bill here within the next week or two.”

This news comes on the heels of other reports that the International Dairy Foods Association (IDFA) – the main lobbying organization in Washington, DC for the nation's dairy product processors – is ramping up its efforts to stop progress being made by NMPF. In addition to meetings with House and Senate staff aimed at attacking Foundation for the Future, IDFA has published several documents and reports outlining all the things they don't like about the proposal. In these documents, they point to concerns about how it would work in the global marketplace, how it would “tax” the dairy industry, how it would “jeopardize industry growth” and how it would “create regional disparities.” Anyone interested in reading their critiques of FFTF can find the information on their website at www.idfa.org.

But if you really want to understand why IDFA is so opposed to NMPF's proposal, I can save you some time. The real reason why many of our nation's processors oppose Foundation for the Future is much

simpler than what you'll read in those documents. And their real reason will never show up in those documents anyway. It all boils down to two things in FFTF that scares them:

- The plan would shift more *control to the producer* side of our industry; and
- The plan would spread our industry's *price risk throughout the industry*.

So what do I mean by this?

Foundation for the Future would shift control to the producer side of our industry: If you peel away much of the detail in Foundation for the Future, what do you have? A simple concept: **Pay our dairy farmers a profitable price, or we'll produce less milk.** While this is a concept that exists in most industries today (*how long do you think Hewlett-Packard would make computers for a loss? Or how long would Coca-Cola be willing to make their soft drinks at a loss?*), it's a concept that is completely foreign to the U.S. dairy industry. Sure, each individual dairy has the ability to expand and shrink their production, but without the ability to collectively act as a nation of roughly 60,000 dairy farmers, we're left with individual dairy farmers that have little choice but produce as much milk as you can, regardless of what you are paid for it (gotta keep the cash flowing...). That's a dynamic that would change under Foundation for the Future. For most of the time, we would continue to operate as we do now, with every dairy producing as much milk they like. But when we get into (hopefully seldom) situations when there is more milk on the market than consumers need, and milk prices move below what our dairies need to pay our bills, we'll have the ability to temporarily cut back milk production to regain the market balance we need to provide a profitable price for dairy farmers. **For a dairy processor community that has gotten very spoiled with a virtually unlimited supply of milk regardless of they pay for it, the idea that producers could unite in this way is terrifying.**

Foundation for the Future would spread the price risk throughout the industry. This is the other area where our nation's processors have been spoiled. Whether milk prices are at \$20 or \$10 per hundredweight, our nation's processors have the opportunity to profitably operate. There is very little price risk on their side of the industry. **When the value of dairy products like cheese and butter collapse, it's the dairy farmers – not the processors – that bear the brunt of that collapse.** Because of make allowances, their direct access to consumers (and the ability to pass their costs on to those consumers), and the ample supply of milk our dairies provide them (regardless of whether the price they pay for that milk is profitable or not), our processors are in an outstanding position to be profitable year-in-year-out. **Life has certainly been good for our processors.** However, if Foundation for the Future were in place, these processors would have to start worrying if the milk price started falling, since that could result in a cut-back in their milk supply. **Very little seems to scare a processor as much as not having enough milk to run through their plant.** By exposing our processors to this kind of risk, **suddenly dairy farmers are not alone in worrying about milk price collapses.**

So as we move into the coming months and this debate continues to heat up, I challenge dairy farmers to keep an eye on what IDFA is saying. Take note when they write talking points and reports about how Foundation for the Future would be "bad" for dairy farmers. And as you read those statements, keep in mind that **these same processing companies sat back in 2009 and month-in-month-out, paid your dairy a price for your milk that failed to cover your costs and forced you to sacrifice decades-worth of hard earned equity in your dairy. That's the system they like, and that's the system they'll spend millions of dollars defending in Washington, DC.**

The million dollar question is whether **dairy farmers will unite to oppose them?** They betting that we won't.

U.S. EXPORTS CONTINUE TO BE STRONG; ARE THEY SUSTAINABLE; ARE WE RELIABLE?

(By J. Kaczor) U.S. exports of key dairy products in April continued to help keep product inventories at manageable levels. U.S. Dairy Export Council says 13.0% of total milk solids produced in the U.S. in the first four months this year was exported, up from 12.6% a year ago. Those are historically high percentages for the U.S. industry. Exports of cheddar cheese more than doubled from a year ago, increasing to 3.7% of production from 1.7%. Exports of butter also more than doubled, increasing to 7.9% of production. Exports of nonfat

powders were 80% higher than for the same period a year ago, and appear to be on the way to setting an all time record. Exports of dry whey were up slightly from last year, also maybe on the way to a record high.

Exports of nonfat powders were one-third skim milk powder and two-thirds nonfat dry milk. In addition to what looks like a record high volume in this category, the monthly progression in prices this year is also very welcome: April's average price, estimated to be \$1.54 per lb, was \$.21 per lb higher than January's. So far this year, through April, production of nonfat dry milk is 40 million lbs lower than for the same period last year and production of skim milk powder is 60 million lbs higher. Expect to see that trend to continue, and wonder about un-intended consequences and potential regulatory changes needed to correct them.

Doubtless, some economists will be offering up their estimates of the effect on U.S. milk prices from the strong export volumes and some will be sure to underscore the dubious point that the U.S. is well on its way to becoming a consistent reliable dairy product exporter. To the extent that inventories are not growing, prices for the important products used in the industry's milk price setting formulas are surely higher than they would be if the opposite were true. But U.S. claims to having succeeded in becoming a sought after source by international buyers, except for whey protein products, may be premature. Circumstances suggest that the current high and growing export volumes from the U.S. are still more like a gift that occasionally arrives than a prize that is fairly won.

The circumstances currently helping U.S. exporters are well known. Principal among them is what seems to be the ever present very weak U.S. currency which makes U.S. products more affordable for all countries that do not peg their currencies to the USD (and makes U.S. imports more costly). We could stop right there, but other factors include growing populations and improvements in the economies of a number of Asian countries with a taste for western type diets, and demand from others made wealthy from oil sales. Above all, clearly explaining most of the recent extreme tightening in global dairy product supply and demand, are the extra-ordinary needs stemming from various natural and man-made causes in a few very large countries, which are believed to be relatively short term. Also questionable are conclusions that without the current volume of exports the U.S. would be left with huge product stockpiles and low prices resulting from surplus milk production. Let's leave those "static" analyses to IDFA's paid minions.

Other requirements identified by the *Innovation Center for U.S. Dairy* for a chair at the Consistent and Reliable table is an abundant supply of milk and less price volatility. IDFA has recently come clean with an answer for that too. They propose to prohibit all restrictions on milk production, do away with all price-setting regulations except for protection against milk prices going too high, and enact forward contracting provisions on all usages of milk. Most adults may think those "regulatory" provisions are a bit one-sided. (An interesting part of IDFA's very great concern about a provision that would signal milk producers that too much milk is being produced because margins have collapsed is their convenient overlooking of the most obvious solution for a company facing a potential shortage of milk supply for a specific use – simply offer more money. Isn't a fair market price defined as one reached by a willing seller and a willing buyer? And, by the way, don't supply contracts cover such basic provisions as, well, actual supplies? Poor IDFA; what will they think of next?)

THE MAY DAIRY CARES COLUMN IS AVAILABLE ON OUR WEBSITE: (By Rob Vandenheuvel) The latest "Dairy Cares Report" has been posted at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the National Dairy FARM (Farmers Assuring Responsible Management) Program, an initiative that began last year and is aimed at providing the consumers of our dairy products the assurance that our nation's dairies are operating in the best interests of our animals' welfare.

MPC'S JUNE BOARD MEETING TO BE HELD NEXT TUESDAY: (By Rob Vandenheuvel) Our June Board of Directors meeting is scheduled for next Tuesday (June 14th) at 11 a.m. in the Kern County Farm Bureau Board Room. The address is 801 S. Mount Vernon Avenue in Bakersfield. All current and prospective MPC members (both regular and associate) are welcome to attend. Lunch is provided, so please RSVP to office@milkproducers.org.