



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0825 \$1.4625
Barrels +\$.0450 \$1.4175

CHICAGO AA BUTTER

Weekly Change +\$.0100 \$1.6150
Weekly Average +\$.0005 \$1.6115

NON-FAT DRY MILK

Week Ending 5/07 & 5/08

Calif. Plants \$1.0617 32,158,415
NASS Plants \$1.2389 14,208,861

Weekly Average

Blocks +\$.0320 \$1.4150
Barrels +\$.0215 \$1.3975

DRY WHEY

WEST MSTLY AVG w/e 5/07/10 \$.3963
NASS w/e 5/08/10 \$.3607

CHEESE MARKET COMMENTS: Despite record high cheese inventories, production continuing at least at normal seasonal levels, and sales about normal for this time of year, cheese prices on the CME moved up briskly this week. Trading activity was about average, with some of the price increases resulting from bids only. For the September class III futures price to hold (\$15.35 per cwt on Thursday, still the highest presently showing for any month this year) the NASS weighted average cheese price needs to average \$1.63 per lb in September, assuming a butter price of \$1.69 per lb and dry whey at \$.345 per lb. Based upon current supply/demand conditions for butter and dry whey, it looks like their futures prices are reasonable. Based upon current supply/demand conditions for cheese, some commentators are suggesting it may be a “reach” to reasonably expect cheese prices to average \$1.63 in September. Less milk production and higher cheese sales would do it, but please note USDA this week again revised their estimates for 2010 – more milk than expected earlier, more cheese production, and lower cheese prices. Those new and expanded cheese plants we’ve been reading about are not likely planning to operate on less than optimum levels of output. If they have to reach out for milk, \$1.63 cheese is possible, but what happens if milk is plentiful? USDA’s estimate of milk production in April, to be released on Tuesday, may help to clarify some important questions. CWT approved support for export of another 3 million lbs of American cheese last week, for shipment through the end of the year. Those sales are not guaranteed, somewhat like accounts receivable, but it’s nice to see them on the books.

BUTTER MARKET COMMENTS: Butter prices edged upward this week on the CME, with only one carload changing hands. *Dairy Market News* (DMN) notes that higher prices may be affecting retail sales, but food service orders continue to improve. Futures prices for butter for the rest of this year reflect confidence that current prices are well founded. Strong demand for cream, mainly from ice cream manufacturers, should help to keep butter production steady. DMN is finding that manufacturers, and some buyers, are holding butter stocks with confidence.

POWDER MARKET COMMENTS: Based upon the low average price reported for California for sales made last week, and the huge increase in volume from the prior week, it appears Dairy America may be closing out a contract for exports. The table above shows the spread between the California price average and the national average has widened to \$.175 per lb, which is equivalent to about \$1.70 per cwt of milk. Thank you Dairy America, and thank you CDFA, for allowing California producers to continue to get the short end of the stick. The California weighted average price for those sales is \$.23 per lb below the average of the West’s “mostly” range. Dairy America is supposedly giving the same kind of promise they gave in 2007 – that they will catch up and ultimately make up for these lower prices. It didn’t happen then, but they deserve a chance to do it now, with newly negotiated contracts. They have been given a clear guide to what buyers are willing to pay - the average prices Fonterra received in their open-market internet bids for shipments of skim milk powder for June, July and August - \$1.58 per lb, \$1.63 per lb, and \$1.68 per lb, respectively. Those are committed prices, widely publicized, for international shipments. Prices reported for dry buttermilk and dry whole milk are higher in a firm market. The premium for dry whole milk, compared to NFDM, is now about \$.25 per lb.

WHEY PRODUCTS MARKET COMMENTS: Sales of dry whey continue to be strong, bolstered by continuing increases in exports. The West's "mostly" average price was unchanged for the week, while the average price reported to NASS for sales made last week edged by slightly. The NASS weekly price has ranged from a high of \$.382 per lb six weeks ago to a low of \$.352 per lb three weeks later. It has since increased two weeks in a row. Demand, and prices, for whey protein concentrates and dry lactose continue to be strong. DMN reports that some urgency continues to complete shipments of product destined for China before the end of this month, even though there is belief the issue over "health certifications" will be resolved in time for face saving all around.

FRED DOUMA'S PRICE PROJECTIONS...

May 14 Est:	Quota cwt. \$ 14.64	Overbase cwt. \$12.94	Cls. 4a cwt. \$13.93	Cls. 4b cwt. \$12.32
Last Week:	Quota cwt. \$ 14.54	Overbase cwt. \$12.84	Cls. 4a cwt. \$14.06	Cls. 4b cwt. \$11.98

H.R. 5288, THE DAIRY PRICE STABILIZATION ACT OF 2010, HAS BEEN INTRODUCED IN THE HOUSE OF REPRESENTATIVES! (By Rob Vandenheuvel) This past week, Representative Jim Costa (Fresno) and four of his colleagues in the House of Representatives introduced H.R. 5288, the *Dairy Price Stabilization Act of 2010*. In short, the legislation would create a tangible financial incentive for all U.S. dairy farmers to better manage their growth in milk production. Also co-sponsoring the bill are Reps. Peter Welch (Vermont), Rick Larsen (Washington), Joe Courtney (Connecticut) and John Larson (Connecticut). The text of the bill and summaries can be found at www.stabledairies.com.

H.R. 5288 is the product of several years of work in developing a production management program that **allows our nation's producers to continue growing to meet our increasing demand for dairy products**, while at the same time creating **a financial incentive that will help ensure that not all 65,000 producers expand their production at the same time, collapsing the value of milk and dairy products every few years, as our producers have become painfully familiar with.**

The bill utilizes industry analysis that's been done over the past three years regarding the root causes of milk price (and farmer profit margin) volatility, which has continued to grow and become more violent with each "boom" and "bust." Multiple economic forums have been held over the past couple years to look at milk price volatility, and additional work has been done by Dr. Mark Stephenson (Cornell University) and Dr. Chuck Nicholson (Cal Poly University, San Luis Obispo) on the specific issue of finding the driver for this increased volatility. Those efforts have revealed that much of the volatility in the value of raw milk can be attributed to cyclical patterns, some of which result from government policies that mute direct market signals to individual dairy farmers. The goal of the H.R. 5288 is to create a direct economic signal to the dairies that will help individual farmers make more informed decisions when deciding on future growth of their individual milk production.

As a recap for anyone who isn't familiar with the details of the Dairy Price Stabilization Act, **here are the top five things you need to know about H.R. 5288:**

1. Each individual dairy is treated as its own entity, just as the MILC program treats dairy farms today.
2. Prior to each quarter, USDA will determine – *based on a set of triggers clearly outlined in the bill* - an "allowable year-over-year growth" in milk production that each dairy can produce without being considered an expansion. In most cases, this will be 3 percent annual year-over-year growth, allowing for every dairy to find efficiencies in their operation without be considered an "expansion." The set of triggers that would determine the allowable growth percentage utilizes the milk/feed ratio as an indication of the general economic condition of the dairy industry. Under the bill, as producer margins get tighter (indicating a supply of milk that is exceeding demand), the allowable year-over-year growth is adjusted

downward to zero, and can even be adjusted to negative three percent under extreme situations of low producer margins.

3. For dairies that choose to exceed this allowable growth (i.e., plan an expansion in milk production or start a dairy as a new entry), a market access fee is determined prior to each quarter by USDA. ***This fee is also based on a set of triggers outlined clearly in H.R. 5288.*** These triggers also utilize the milk/feed ratio as a general indication of the economic condition of the dairy industry. For example, as producer margins widen, demonstrating a higher level of demand and a need for additional milk, the market access fee is reduced to minimal levels.

There are two ways that expanding producers can pay these fees:

- Producers can choose to pay a fee ***only*** on the milk produced in excess of the dairy's "allowable year-over-year growth," which will range from \$0.15 - \$2.50 per hundredweight, depending on the economic conditions of the dairy industry, as determined by the milk/feed ratio.
 - Producers can also choose a separate option, which allows producers to pay a much lower fee, but pay that fee on ***all*** the milk produced by the dairy facility. This fee would range from \$0.03 - \$0.50 per hundredweight, depending on the economic conditions of the dairy industry, as determined by the milk/feed ratio.
 - *Note: The authors of the H.R. 5288 continue to explore the structure of these triggers, and while the best information available today indicates that the milk/feed ratio will be sufficient to adjust the program's parameters up and down to reflect general conditions in the dairy industry, the authors are open to alternative economic indicators, such as the income-over-feed-cost figure being developed by the National Milk Producers Federation.*
4. 100 percent of the funds collected as market access fees will be distributed to the dairies that did not exceed their allowable year-over-year growth in milk production. ***This is a key piece of the Dairy Price Stabilization Act, as these funds create the tangible financial incentive for dairies that are not in "expansion mode" to maintain their production within their allowable year-over-year growth.***
 5. A Producer Board would be established to oversee operation of the program. The Board would not be authorized to make any changes to the prescribed triggers in the bill unless a 2/3 majority of the Board approved such a recommendation. The composition of the Board would largely mirror the composition of the National Dairy Promotion and Research Board, with each dairy region of the country getting a base level of representation, and additional representation distributed based on milk volume.

So as you can see, H.R. 5288 is straight-forward and simple. It creates a tangible incentive that dairies would consider when planning their expansions in milk production. The bill, as structured, would not serve as a significant barrier for any dairy wishing to start operation or expand production. Rather, the bill is aimed at giving the remaining dairies – those that are not in "expansion mode" – a tangible incentive to maintain their year-over-year production within the three percent annual growth outlined in the bill.

Contrary to what is being said and written by some critics about the *Dairy Price Stabilization Act*, the program actually puts our industry in a much better position to grow in the long-term and meet an increasing demand for our products. Not only is the industry in a position to be a strong competitor in the world market, but this industry is also primed to delve into additional domestic markets. Dairy product processors are constantly finding additional ways to fractionalize milk and find additional domestic and international markets outside the traditional bottled, butter, powder and cheese markets. However, the violent boom/bust nature of the milk price makes it difficult-to-impossible to maximize these markets. H.R. 5288 can reduce those extreme booms and busts and allow our industry to maximize the domestic and international demand for American dairy products.

One of the most common questions that comes up when discussing the DPSA is how the bill would impact our ability to continue exporting dairy products, as well as minimize the products that are imported into the U.S. While the authors of the DPSA believe the program would not prevent us from participating in global markets

and competing with products that other nations want to import into the U.S, they felt it was important to include a “safety valve” that gave producers an opportunity to review the success of the DPSA after three years of operation before continuing the program further. If the data clearly shows that the program is not working as intended, either because volatility has not be reduced or because our import/export balance has been greatly impacted, producers will be able to eliminate the program, and the industry can re-evaluate the best long-term policy. This is an important distinction between the *Dairy Price Stabilization Act* and some of the other alternatives being floated around the industry. Some are proposing that the industry eliminate basic producer safety nets as part of their long-term plan. The authors of H.R. 5288 chose not to include that drastic measure, as a step like that truly takes the U.S. dairy industry down a path of no return.

More explanation on the “triggers” in the DPSA

In the bullets above, a set of triggers are mentioned as the drivers used to determine the allowable year-over-year growth and market access fees. The table below outlines those triggers. Existing dairies that are planning to expand would choose either the “new-milk” or “all-milk” market access fee, whichever is cheaper for their specific planned expansion. New dairies facilities would pay the “all-milk” market access fee, as this would be the cheapest option for them.

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

NOW IS THE TIME TO EDUCATE YOURSELVES AND RALLY BEHIND THIS PROPOSAL! For three years, Milk Producers Council and other supporters of this concept have traveled the country promoting the program. With very few exceptions, our groups found broad support amongst producers for the concept behind the DPSA. With the introduction of H.R. 5288 into the House of Representatives this week, we know have the ability to evaluate the details of the DPSA, and I urge all of you to take advantage of that. You can find all the current information on H.R. 5288 at: www.stabledairies.com. Spend a few minutes and check out the website, which includes the text of H.R. 5288 as well as summaries and frequently asked questions.

In the next few issues of this newsletter, we’ll be looking closer at some of the details of the DPSA, so stay tuned. If you have any questions, please don’t hesitate to contact MPC at (909) 628-6018 or shoot me an email at rob@milkproducers.org.