



Milk Producers Council



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DATE: May 21, 2010
TO: DIRECTORS & MEMBERS

PAGES: 5
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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0375 \$1.5000
Barrels +\$.0600 \$1.4775

CHICAGO AA BUTTER

Weekly Change -\$.0350 \$1.5800
Weekly Average -\$.0280 \$1.5835

NON-FAT DRY MILK

Week Ending 5/14 & 5/15
Calif. Plants \$1.0702 25,511,322
NASS Plants \$1.2530 15,003,040

Weekly Average

Blocks +\$.0655 \$1.4805
Barrels +\$.0495 \$1.4470

DRY WHEY

WEST MSTLY AVG w/e 5/14/10 \$.3963
NASS w/e 5/15/10 \$.3653

CHEESE MARKET COMMENTS: For whatever the reason, or reasons, prices for cheddar cheese on the CME continued to increase this week. The trading for blocks was active. USDA's Tuesday report on April's increase in milk production should have had a depressing effect on prices, but the opposite occurred, with most of the price increases happening from Wednesday on. *Dairy Market News (DMN)* reports that manufacturers seem willing to hold on to product rather than sell now. News supporting that bullishness includes increases in export volumes so far this year (assisted by CWT's continuing approval of bids for subsidies for their members), strong prices internationally, and an early end to New Zealand's milk production season because of a lack of rain and pasture – but little else. Today NASS reported the amount of cheese in cold storage at the end of April: an increase above March's levels of 12 million lbs of American cheese and 6 million lbs of other natural cheeses. Last month's report of 1+ billion lbs in storage was lowered by 6 million lbs, but restated for April at 1.012 billion lbs. That's nothing to be proud of, but is of no apparent concern to the marketplace. As cheese prices edge upward, class III futures prices edge downward; the September price is now \$14.85 per cwt, still the highest presently shown for the year, and \$1.46 per cwt above the current level.

BUTTER MARKET COMMENTS: Butter prices fell by 3.5 cents per lb this week on the CME. The price weakness may be explained by the European Union's notice that a substantial portion of the butter purchased a year ago by the government will be offered to local buyers. *DMN* reports that some retailers believe sales were somewhat lower than expected. Offsetting that, demand for cream for other usages remains strong – and offsetting that is the report on April's increase in milk production. The EU had given assurances that the handling of its stocks of dairy products would be done in a way to not disrupt market prices. Let's presume that will be the case, but the apparent concern that the time has come is understandable. Overall, the supply/demand situation for cream appears to be well balanced. Export volume so far this year is above last year's level. The amount of butterfat products in cold storage at the end of April was about 12 million lbs more than a month before, but 33 million lbs lower than last April.

POWDER MARKET COMMENTS: The EU's announcement that products purchased a year ago would be sold to local buyers included a substantial quantity of skim milk powder. Assurances notwithstanding, U.S. prices were affected, at least for the week. Prices for grade A and extra grade powder on the CME were lower, and NFDM futures prices fell by \$.01 to \$.04 per lb for various months this year. The spread between NFDM prices reported to NASS (for current sales) and prices reported by California plants (for all sales) continued to widen. (See the table of prices and volumes, listed above.) The California volumes have been huge the past two weeks, apparently signaling the closing out of fixed price contracts negotiated months before. This spread between California prices and national prices is not new and comes as no surprise – but is disappointing. Disappointing and so costly to California producers, but not at all costly to the California plants that make and sell the NFDM (and skim milk powder) because the price they receive cycles back to become their cost of the raw milk used to produce those products. Practically speaking, Dairy America has no incentive to seek out long

term contracts that would allow them to adjust prices based upon reasonable economic benchmarks. Is it unreasonable to expect the next round of Dairy America's contracts to begin to reflect the real prices (\$1.60 per lb and higher) that are promptly and publicly reported by Fonterra coming from their monthly internet auctions which cover a period extending eight months beyond the date of the auction? On a related front, CME has confirmed their launch date for an international futures market for skim milk powder – May 24th! What, if any, effect that will have on NFDM prices, export prices, or Fonterra's monthly internet auction prices for skim milk powder, is to be seen.

WHEY PRODUCTS MARKET COMMENTS: The market for dry whey and whey protein concentrates continues to be strong. The average of the West's "mostly" price remained unchanged for the week, and the prices reported to NASS again edged upward for the fourth week in a row. Exports of these products remain strong, although the issue about health certifications with China is still to be fully resolved. Sales overall remain steady, and production is generally keeping pace with cheese production, although "repairs and maintenance" in several plants, affecting production, caught DMN's attention, as did the increasing strength of the U.S. dollar relative to the Euro.

FRED DOUMA'S PRICE PROJECTIONS...

May 21 Est:	Quota cwt. \$ 14.63	Overbase cwt. \$12.94	Cls. 4a cwt. \$13.83	Cls. 4b cwt. \$12.40
Last Week:	Quota cwt. \$ 14.64	Overbase cwt. \$12.94	Cls. 4a cwt. \$13.93	Cls. 4b cwt. \$12.32

USDA'S REPORTS APRIL MILK PRODUCTION 1.5% ABOVE LAST YEAR; MILK PRICES SEEN TO BE WEAKENING: (By J. Kaczor) This week's estimate by USDA on the amount of milk produced in April may have helped to clarify what's in store for milk producers for the rest of the year. Seven consecutive months with less milk being produced than the year before (August, 2009 through February, 2010) have been followed by two months with increased production. Twelve months with consecutive decreases in number of dairy cows (January through December, 2009) have been followed by four months of consecutive increases. That wasn't what was expected, planned for, and needed by most producers to help them to recover from the huge losses resulting from very low milk prices and continuing high costs that existed last year.

Last year, prices from January through September for market grade milk in California averaged \$10.60 per cwt for milk testing 3.7% BF and 8.9% SNF. Then, prices began to increase; \$12.71 in October, \$14.13 in November, and \$15.56 in December. (December's price was significantly affected by the CME block cheese price vaulting up to \$1.70 per lb for a three week period.) Producers rightly anticipated recovery; forecasters of all stripe projected continuing decreases in numbers of cows, less milk, and higher prices. But the cutback in cow numbers ended in December, milk production began to increase in March, and prices began to decrease in January. March's average price was \$2.41 per cwt lower than December's peak, but still \$2.68 per cwt higher than a year earlier.

Until a week or so ago, CME's class III milk futures market was still expecting what most milk producers were expecting last fall – higher prices, brought about mainly by higher cheese prices which were expected to result from less cheese being produced from the expected lower milk output. Those expectations are gradually changing as the reality of more cows, more production per cow, more milk, and the inevitability of more cheese being produced becomes clearer each month. That's far from a guarantee – there are still some "optimists" who foresee the issue of producer debt and the withholding of additional credit as critical factors which could result in many producers with no reasonable alternative but to simply shut down their operations. There are others who see the current strength in U.S. exports of dairy products and an eventual end to the economic gloom that currently prevails throughout most of the world as sufficient reason for believing prices will again turn upward even with increases in milk production.

For April, USDA estimates there were 186,000 fewer dairy cows than last April, but production per cow increased by 61 lbs during the month, resulting in an increase of 1.5%, or 237 million lbs more milk for plants to handle. The PPC increase was 3.5%, which is more than twice the historical trend. Since December, the last month cow numbers were lower than the month before, USDA estimates a total of 14,000 cows have been added to the U.S. herd. That's a modest average of 3,500 per month. But if that trend continues for another five months, guess what results – there will be almost the same number of cows being milked this year as the same month last year. That may make some manufacturers and processors very happy (they love surpluses) but is not something that suggests price recovery for producers.

California's production was reported to be even with a year earlier, with 69,000 fewer cows. Comparison of the number of cows in five western states to six Midwestern states over the last seven months shows virtually no differences: in April the western states (Arizona, California, Idaho, New Mexico, and Texas) had 1,000 fewer dairy cows whereas the six Midwestern states (Illinois, Indiana, Iowa, Michigan, Minnesota, and Wisconsin) had 3,000 more cows. The major down-sizing in the west was completed by September.

PART TWO OF A SERIES DELVING INTO H.R. 5288, THE DAIRY PRICE STABILIZATION ACT:

(By Rob Vandenheuvel) Last week in this newsletter, you were all introduced to a new piece of legislation, H.R. 5288, the *Dairy Price Stabilization Act of 2010*. This bill was introduced by Rep. Jim Costa (Fresno) and four of his fellow Congressmen from around the country, and would implement a program we've been talking about for quite some time, the Dairy Price Stabilization Program. If you missed last week's issue, you can find the article at: http://www.milkproducerscouncil.org/051410_dpsa.htm.

While last week's article summarized what the bill *IS*, this week's article is aimed at explaining what this bill *IS NOT*. In this political era, where buzzwords like “amnesty” and “socialism” are used to shape the debate on various legislative proposals, H.R. 5288 is no exception. One of the most frequent claims by critics of the legislation is that it's akin to the Canadian quota system – a program that aims to maintain a high value of milk by severely limiting any growth in their milk production. In that system, dairy farmers are assigned a quota, and the only method of increasing your share of the market is to purchase additional quota from a fellow dairymen, which has resulted in extremely high values being attached to that quota; the current cost of buying that quota is reportedly around \$30,000 per cow. Not only does that type of program create a huge barrier to any kind of real growth in the industry, but it also locks up a tremendous amount of money in the value of their quota, preventing that money from being invested in improvements and developments in the industry. It essentially puts the Canadian dairy industry in a “straightjacket.”

Clearly, a system structured like that would have tremendous opposition in the United States, including opposition from Milk Producers Council. For years, that type of system has been the de facto definition of “supply management” in the dairy industry, and regardless of the economics of the dairy industry, there has always been (and continues to be) broad objection for putting our industry in a straitjacket like that.

Before explaining how H.R. 5288 is *NOT* comparable to the Canadian quota system, let me first remind the readers what H.R. 5288 does:

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.”
3. For dairies that choose to exceed this allowable growth (i.e., plan an expansion in milk production or start a dairy), 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.*** This fee will range from \$0.03 - \$0.50 per hundredweight on

all a facility's milk, or \$0.15 - \$2.50 per hundredweight on only the expansion, whatever is cheaper for the dairy.

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.

(For those of you who want more details on what H.R. 5288 does, you can check out the article from last week's newsletter - http://www.milkproducerscouncil.org/051410_dpsa.htm - or you can find more information on the bill at <http://www.stabledairies.com>.)

So what makes H.R. 5288 different from the kind of supply management we've always been familiar with, i.e., the Canadian quota system?

1. H.R. 5288 gives EVERY dairy an opportunity to grow their production and grab a share of future market growth

Under the Dairy Price Stabilization Act, ***NOTHING*** prevents any dairy farmer from expanding their production and securing a larger share of the market demand. Let me repeat that, ***NOTHING*** in H.R. 5288 prevents any dairy farmer from expanding their production and securing a larger share of the market demand. H.R. 5288 is about creating a real financial incentive for the dairies that are not in "growth mode" to manage their production. For those that want to grow or start a dairy in any given year, the cost of the market access fee would usually be \$0.25 per hundredweight or less. That's a fee that can be budgeted for the first year on your new dairy or your expansion. But since 100% of the fees that are paid are distributed as a dividend each quarter to the dairies that did not expand, those dairies have a real incentive to actually manage their production growth and the 3 percent allowable year-over-year growth outlined in the bill.

That's the beauty of H.R. 5288. It is a uniquely-American method of aligning future growth in production more closely with future growth in demand. It's not about stopping our industry's ability to grow. It's about creating a system that lets us rationally grow – rather than all 65,000 dairies growing at the same time, inevitably resulting in an oversupply of milk. (*Want an example of irrational growth? See John Kaczor's article above*).

2. H.R. 5288 does not rely on purchasing expensive quota from your fellow dairymen

Under H.R. 5288, any dairy farmer can expand whenever they want. There's no need to find another dairy farm willing to sell you their quota. The cost of increasing your share of the market is both knowable and budgetable. And the money you are spending on the market access fees aren't leaving the industry – instead, they are compensating current dairymen who are holding their production in line to allow the market to absorb your increase in production.

3. H.R. 5288 doesn't lock billions of dollars in the value of any quota

Under H.R. 5288, once you've established your increased share of the market by paying the market access fee, your facility is then eligible to receive the market access fee dividends. You're not buying an expensive asset. Instead, for a limited amount of time, you're paying your fellow dairymen to hold their production in

line, allowing the market to absorb your increased production. And as stated above, once you've established your new share of the market, you'll be on the receiving end of the dividends as an incentive to manage your new increased share of the market.

As you can see, H.R. 5288 creates an "agreement" amongst the family of dairy farmers. The program recognizes that we need continued growth in production to meet the future growth in demand. We are increasingly feeding more of the world, and all indications are that the world market will continue to want more American dairy products. But H.R. 5288 also recognizes that it is completely irrational to have all 65,000 dairies trying to grab more market share at the same time. So the program creates this agreement that allows every dairy who wishes to grow an opportunity to grab that additional market share, simply by paying a budgetable fee that will compensate those dairies that are not in "growth mode" and are willing to hold their production that year to 3 percent growth or less.

I urge you all to read the bill. Read how the program would work. Those who would paint this as a government take-over of the dairy industry or a Canadian-style quota system have either never read the bill or simply don't understand it. The bill is about empowering dairy farmers, with **the only role of government to ensure that everyone plays by the same set of rules**. As we've seen with the CWT program, it's simply not possible to expect every dairy to play by the same rule voluntarily.

As MPC and other producer groups around the country have presented this idea to producers, we've seen tremendous support. But **YOUR CONGRESSMEN NEED TO HEAR FROM YOU!** Many dairy farmer groups from the east coast to the west coast have examined H.R. 5288 and have recognized the value in the proposal, but we can't rely on them to do this alone. Your Congressman need to hear from you today! If you don't know who your Congressman is or how to get a hold of him/her, please call (202) 224-3121. That number gets you to the Clerk of the House of Representatives, who can direct your call to your local Congressman. **Everyone needs to do their part, so please, call your Congressman today and urge them to support H.R. 5288.**

Next week, I'll continue this series of articles, delving into another facet of H.R. 5288, the *Dairy Price Stabilization Act*. And as always, if you have any questions, please give us a call (909-628-6018) or visit www.stabledairies.com or MPC's website at www.milkproducers.org.

DAIRY FARMER TOWN HALL MEETING TO BE HELD IN TULARE ON WEDNESDAY, JUNE 2ND: (By Rob Vandenheuvel) All California dairy farmers should mark their calendars and plan to be at the **Tulare Agri-Center's Heritage Complex on Wednesday, June 2nd at 1 p.m.** for a **town hall meeting to discuss H.R. 5288, the Dairy Price Stabilization Act**. As you can see from the previous article, this bill was introduced in Congress last week and would provide a national program aimed at giving dairies a financial incentive to manage their growth in milk production. The town hall meeting is aimed at providing more information on the bill, as well as answering any questions dairy farmers might have. More details on the meeting will be forthcoming, but I urge all producers to plan on attending this important event.