



# 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@milproducers.org](mailto:office@milproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)

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FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0475 \$1.7400  
Barrels - \$.0875 \$1.7125

### Weekly Average

Blocks - \$.0353 \$1.7805  
Barrels - \$.0840 \$1.7560

### CHICAGO AA BUTTER

Weekly Change +\$.0200 \$1.6300  
Weekly Average +\$.0343 \$1.6510

### DRY WHEY

DAIRY MKT NEWS w/e 12/2/11 \$.6525  
NASS w/e 11/26/11 \$.6429

### NON-FAT DRY MILK

#### Week Ending 11/25 & 11/26

Calif. Plants \$1.3894 16,437,488  
NASS Plants \$1.4094 22,051,505

**CHEESE MARKET COMMENTS:** At a time when the world's financial markets saw a momentary bright spot of hope for Europe's currency on Wednesday, and global stock markets virtually skyrocketed, two among several possible lessons offered from this week's cheese trading activity on the CME stand out. The first is a reminder of how relatively unimportant are daily dairy activities on the CME to the financial world. The second is a reminder that any diversion is a good diversion for certain traders ready to do whatever it takes to use the exchange to move prices to their advantage. This week's cheese trading and price movements were similar to what happened two weeks ago; price increases early in the week followed by sharp downward movements from a series of offers to sell lower and lower. Those actions did not and do not describe what a rational cheese plant with more product on hand than is wanted would do to sell it. Regarding supply, more milk with higher solids is leading to more cheese. NASS reported total cheese production in October was 15 million lbs higher than a year ago, about in line with the additional milk produced during the month. However, cheddar production was 15.3 million lbs lower than last October, about equal to September's production. Cheese disappearance in September and October exceeded the amount produced during those months. Class III futures prices for all months through next November moved higher for the week. December's price, at \$18.66 per cwt, is the high; January falls by \$1.35 per cwt; April has the low for the next year, at \$17.04 per cwt.

**BUTTER MARKET COMMENTS:** A total of 56 carloads of butter traded this week, a record high. The action was spread fairly evenly over the full week. Trading began with bids to buy at a higher price, followed by offers to sell higher, followed by more bids. The net change in price was a gain of \$.02 per lb; the largest single move was an increase of \$.05 per lb on Monday. According to *Dairy Market News*, much of the buying interest was in response to recent very good retail sales. Despite the upbeat spot market trading, butter futures lost ground for all months except November, which closed today. The low futures price for the next 12 months is January's \$1.63 per lb. Butter production continues to be strongly higher than last year; through October; 215 million more lbs were produced than for the same period a year ago, but stocks in cold storage at the end of October were only 20 million lbs higher than a year ago. Through September, butter exports were only about 20 million lbs higher than the year before so the domestic market accounts for the great majority of the increased usage.

**POWDER MARKET COMMENTS:** With production of skim milk powder increasing at a greater rate (and volume) than the decrease in production of nonfat dry milk, the percentage of nonfat dry milk sales falling into the reportable category for NASS continues to grow. Thirty percent of nonfat powder production in October was SMP. It appears reportable sales of NFD in October was equal to about 80% of NFD production. As most, if not all, of the SMP is exported and if domestic demand for NFD continues at about where it has been the supply/demand relationship for NFD should be tightening by an appreciable degree. Econ 101 tells us to expect higher prices to result from a change like that, but we'll see. Prices reported for last week's shipments of NFD were sharply lower, with higher volumes. The NASS price fell 4.3 cents per lb and the California plant average price fell 7.7 cents per lb. Futures prices for December and January dropped to about where the NASS

price was, and were unchanged for the February-June period. The low price for next year is \$1.35, for June. Prices for buttermilk powder were about steady for the week, ending \$.02 per lb below the low end of the “mostly” range in the West and \$.10 below in the central and eastern regions.

**WHEY PRODUCTS MARKET COMMENTS:** Every week it seems like more of the same positive news for dry whey. The West’s “mostly” average price moved up by \$.0037 per lb and the NASS price for shipments last week added \$.0014 per lb. Supplies continue to be tight, with most sales controlled by existing contracts. The market for whey protein concentrate appears to be undergoing a fundamental change; less production of the lower protein content products (25-49% protein) in favor of more concentrated products. *DMN* reports some buyers of WPC-34, possibly tired of current high prices and intermittent shipments, are already planning to cut back by shifting to alternative ingredients. WPC-34 prices for the week were steady.

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**FRED DOUMA’S PRICE PROJECTIONS...**

**Dec 2 Est:**            **Quota cwt. \$18.24    Overbase cwt. \$16.54    Cls. 4a cwt. \$16.45    Cls. 4b cwt. \$16.09**  
**Nov Final:**           **Quota cwt. \$19.30    Overbase cwt. \$17.61    Cls. 4a cwt. \$17.70    Cls. 4b cwt. \$17.19**

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**CALIFORNIA’S CHEESE MANUFACTURERS CONTINUE TO BUY MILK ON THE CHEAP; CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE HAS A CHANCE TO FIX IT:** *(By Rob Vandenheuvel)*

Last month, an article was written in this newsletter analyzing how our California Class 4b minimum price (milk sold to cheese plants) formula accounts for the value of the whey stream being generated by our State’s cheese manufacturers. **(If you missed that article or want to refresh your memory, I strongly encourage you to check it out at: [http://www.milkproducerscouncil.org/110411\\_DryWhey.htm](http://www.milkproducerscouncil.org/110411_DryWhey.htm).)** Specifically, we looked at how our Class 4b formula compares to the comparable Class III minimum price formula used in Federal Milk Marketing Orders (FMMO).

Over the past 24 months (December 2009 – November 2011), **our Class 4b minimum price has averaged \$1.46 per hundredweight below the FMMO Class III minimum price.** While some of that gap can be attributed to differences in how the two formulas are structured (such as differences in make allowances, adjusters, price discovery mechanisms for cheese and overall formula construction), **a vast majority of the gap can be directly attributed to the different approaches these two formulas take in valuing the whey stream.**

This issue was brought before the California Department of Food and Agriculture (CDFA) in a hearing this Summer. As a result of that hearing, the California Class 4b formula was modified as of September 2011 to allow the dry whey factor to move with the market values for dry whey, within a range of \$.25 - \$.65 per hundredweight (the factor was previously set at a fixed \$.25 per hundredweight). While the ability to increase the dry whey factor to \$.65 per hundredweight was certainly a welcome change, it has not been even close to keeping up with how the FMMO Class III formula accounts for dry whey. **This past month (November), the dry whey markets were directly responsible for \$2.57 per hundredweight being added to the Class III price (vs. the \$.65 per hundredweight dry whey factor that was added to the Class 4b price).** For more detail on how our Class 4b minimum price has compared to the FMMO Class III minimum price in the three months since CDFA changed our formulas, take a look at the table below:

	<b>September 2011</b>	<b>October 2011</b>	<b>November 2011</b>
FMMO Class III Minimum Price	\$19.07	\$18.03	\$19.07
Difference in Commodity Values and Make Allowances	(\$1.08)	(\$0.46)	\$0.04
Difference in Dry Whey Factors	<b>(\$1.66)</b>	<b>(\$1.79)</b>	<b>(\$1.92)</b>
California Class 4b Minimum Price	\$16.33	\$15.78	\$17.19

As you can see, while there are differences in commodity values that result in variances between the two formulas (California uses the Chicago Mercantile Exchange to determine a cheese value and the FMMO's use a U.S. Department of Agriculture survey), the difference in the dry whey factors is a steady (and growing) driver of the huge disparity between the California and FMMO prices for milk sold to cheese plants.

So what does this mean in real dollars? Over last 24 months, our existing dry whey factor was directly responsible for about **\$98.4 million** being paid into the pool by our State's cheese manufacturers. Had our dry whey factor mirrored the FMMO dry whey factor, our State's cheese manufacturers would have contributed almost **\$457.4 million** – a difference of almost **\$362 million over the past 24 months!** For a 1,000 cow dairy producing 65 lbs. of milk per cow per day, that would have resulted in **more than \$219,000 in additional revenue over the past 24 months, or about \$.46 per hundredweight.** As our State's dairy farmers attempt to recover from the devastation of 2009, while at the same time paying record-high feed costs, **that's \$362 million our dairies greatly needed.** Further, it's worth reminding our readers that this additional money merely brings us into parity with the formula that exists for comparable out-of-state cheese plants that operate in FMMO areas (which includes some of our California cheese manufacturers who have out-of-state operations, such as Leprino, Hilmar and Saputo).

Fortunately, the dairy producer side of our industry is gearing up to demand that CDFA close this gap. A hearing petition was sent to CDFA today by Western United Dairymen (WUD) that proposes to modify our Class 4b formula to allow for a higher dry whey factor during these times of strong dry whey markets. MPC and other producer groups/cooperatives will undoubtedly be strongly supporting this hearing petition and working side-by-side with WUD as we urge CDFA to adhere to the California Food and Agricultural Code (Section 62062), which is where our State Legislators clearly state that:

*“If the [Secretary of Agriculture] adopts methods or formulas...for designation of prices, the methods or formulas **shall be** reasonably calculated to result in prices that are **in a reasonable and sound economic relationship with the national value of manufactured milk products.**” (emphasis added)*

CDFA now has 15 days to decide whether or not a hearing on this issue is warranted. Every dairy should urge the Secretary of Agriculture to grant this hearing request. You can contact CDFA at [dairy@cdfa.ca.gov](mailto:dairy@cdfa.ca.gov). This is about the very survival of our State's dairy farmers. **We simply cannot afford to sell our milk for substantially less than what cheese manufacturers outside of California are paying for their milk supply. This has to end now.**

**BUTTER PRODUCTION CONTINUES TO SOAR; WHAT HAPPENS NEXT?** (By J. Kaczor) Butter production in the U.S. from January through October this year has reached levels not seen since the mid 1960's. The average monthly percentage increase over the previous year for the ten months is 16.8%. Manufacturers have been chasing prices and opportunities. Milk producers have been chasing a combination of break-even objectives and opportunities, helping to make it happen. Nothing is broken yet, but the monthly rates increase as the months roll on. The increases for first five months averaged 12.4% while the next five averaged 22.4%. Butter production in 2010 was 0.6% below the year before so some of this year's increases could be compensation for last year's set back.

Questions arise about future butter production and about how all the additional butter produced this year may be used. Here is what happened to the additional 215 million lbs produced so far this year. An increase in exports over last year accounted for 18 million lbs, and 48 million lbs wound up in cold storage. The rest of it, 149 million lbs, “disappeared” into the domestic marketing channel, to retail or food service sales, or for other food preparations.

Regarding future butter production, so long as enough milk and cream is available there is little reason to believe there will be much change from recent levels. The churns are up and running at high levels of efficiency and there appears to be continuing strong domestic demand for butter. However, at some point, cheese manufacturers will take back some of the supply of raw milk they have given up, a leveling off in the drop in fluid milk

consumption is not beyond reason, and butter prices could plummet. Each of these factors could occur, as they have in the past, which could have an effect on butter output.

The increase in exports of butter through June was 27 million lbs but the volume for the last three months was 9.2 million lbs lower than the same months last year. That points up a major question about the extent to which producers can and should view exporters as a reliable outlet for a major market-clearing product such as butter. The short recent history is enlightening and not too reassuring. While this year's butter exports should be the second highest on record, the year to year pattern over the past six years is ragged. Annual exports of butter from 2006 through a projected total for 2011 are as follows, in millions of lbs: 19, 76, 171, 57, 100, 115. That period begins when U.S. exporters served as standby suppliers to the present, where there is a concerted effort underway to transition to the status of a reliable, competitive supply source for international buyers.

The amount of butterfat in storage at the end of October is 129.8 million lbs, equivalent to about 25 days worth of production. That is well short of being burdensome. It is towards the low end of where stocks have been over the past six years in October. The reason for that is the low production last year, the higher exports last year and this year, and fairly strong domestic demand. That could change quickly. April's butter stocks were 65 million lbs lower than last April's, but stocks five months later, at the end of September and October, were about 20 million lbs higher than last year. If butter production continues to draw about the same percentage of U.S. butterfat production it has over the past six months, and milk production continues to expand at about the rate it recently has, butter stocks will rise. If fluid milk sales continue to clock in well below where they were as little as one year ago, butter stocks will rise more. If the recent three-month slump in export volume does not turn around very soon butter stocks will rise still more. That may be the view futures traders are taking because what is outlined above is the path of least resistance: simply continue doing what has been done.

Here is a final note about the difficulty faced by those who are pursuing status of a consistent, reliable exporter. A recent comment by an economist with a major bank in New Zealand advised to expect continuing price volatility, and to be prepared for what appears to be a "race for base" among major international exporting nations. More than sizable milk production increases in Argentina, New Zealand, some countries in Europe, Australia, and the U.S. are outstripping the international demand for dairy products. U.S. milk producers need to know who is in charge in the U.S., and where is the security that has been promised them.