



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@milksproducers.org ~ www.MilkProducers.org



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TO: Directors & Members

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0575 \$1.6275
Barrels - \$.0600 \$1.6400

Weekly Average

Blocks - \$.1230 \$1.6355
Barrels - \$.1075 \$1.6730

CHICAGO AA BUTTER

Weekly Change +\$.0050 \$2.0750
Weekly Average - \$.0440 \$2.0650

DRY WHEY

WEST MSTLY AVG w/e 03/25/11 \$.4850
NASS w/e 03/19/11 \$.4431

NON-FAT DRY MILK

Week Ending 3/18 & 3/19

Calif. Plants \$1.4694 13,649,133
NASS Plants \$1.5147 16,029,311

CHEESE MARKET COMMENTS: A week with near record daily volume for blocks on two separate days this week ended on a relatively quiet note. Blocks lost 5.75 cents per lb; barrels lost 6 cents. The block/barrel price inversion which had risen to 6 cents mid-week, ended the week about where it began, at 1.25 cents. Price inversions usually don't last long, but they provide important information about temporary imbalances between supply and demand for one or both styles of cheese. What's not known immediately is which is which, how great the difference is, and whether both cheeses are affected. Answers to those questions usually (or once did) come from the direct contacts between buyers and sellers: who's calling who, what do they want, what quantity, how soon, does price matter, f.o.b. points, and the like. Supposedly, the CME is the market of last resort for those who can't get satisfaction from the marketplace but maybe that's changing. After this week's price movements, the major cheese pricing points (CME weekly average and NASS weekly sales) are wide apart, and are moving in opposite directions. Prices reported to NASS for shipments made last week rose by about 2 cents per lb for blocks and barrels (both are at about \$2.00 per lb) and the CME averages fell by about an average of 11 cents per lb, to about \$1.65 per lb, and their closing prices today are below the week's averages. Buyers are holding back from using regular suppliers as much as they can until the two averages come closer together (using the CME as a low price source instead) – and sellers are pushing for as many sales as they can get. It's not smooth going right now. The cheese market got some good news after the market closed on Tuesday: the report on the amount of American cheese in cold storage at the end of February was 15.5 million lbs lower than a month earlier – very unusual; it's the first time February's stocks were lower than January's since 2001. How did traders react? Prices fell over the next three days. However, class III milk futures prices reacted positively to the week's activity and news; prices for the May-June period rose by about 75 cents per cwt and prices for July-September rose by about 40 cents.

BUTTER MARKET COMMENTS: Butter trading this week also was active, with buyers clearing 31 carloads, and the price was up by a half cent per lb. Butter production is reported to be steady, with some cream offers being turned down by butter makers. Cream cheese and ice cream manufacturers have the most immediate needs for what's available. *Dairy Market News* this week says butter makers are somewhat cautious because of the unusually high butter prices for this time of year. This week's cold storage report, which shows butterfat stocks in February increasing at the slowest rate in five years, should alleviate some of the concern. Domestic sales are reported to be holding up well even with wholesale prices fully reflecting current CME price levels, and export shipments are continuing. How about later this year? There really doesn't seem to be much indication that the tightness in global butterfat supplies will change by a substantial degree. Futures traders seem to agree – cash settled futures prices continue to strongly support current spot prices.

POWDER MARKET COMMENTS: The only downward movement in milk powder prices this week occurred on the CME when the spot price for grade A nonfat dry milk fell by 4 cents, to \$1.75 per lb; the price for extra grade was unchanged at \$1.80 per lb. The "mostly" prices reported by *DMN* for all areas were higher, as were

the two major price series for last week's shipments. The NASS price is now above \$1.50 per lb for the first time since January 2008. The California plant average price made a good upward move of 6.85 cents per lb. Both reports continued to reflect above average volumes. NFDN supplies are reported to be tight; buyers with contracted commitments appear to be doing fine; those without contracts are having to find product wherever they can, with some of it coming from the resale market at a premium price. Production of NFDN is reflecting seasonal milk production trends plus some extra condensed skim that is said to be unwanted by cheese manufacturers. Prices for buttermilk powder also are higher. Production is reported to be rising (with butter), but current stocks are reported to be tight. Production of whole milk powder also is moving up, but not at a steady pace; current orders are being filled, but not much else. **Side note on the source of fundamental demand for milk powders:** this morning, Dave Kurzawski, broker at FC Stone in Chicago, passed along interesting data reported by New Zealand's NZX: China purchased 176 million lbs of whole milk powder in the past two months, an increase of 50% from a year earlier, with more than 90% of it coming from New Zealand. Total purchases by China in 2010 were 718 million lbs, 88% of which came from NZ. A recent report from New Zealand said that Fonterra is using almost all of its current end of year milk supply to produce WMP. The problems China continues to have with its local milk production, which must be replaced with imported finished products, creates a significant worldwide supply shortage for all kinds of powder. U.S. exporters have been getting their fair share of that business.

WHEY PRODUCTS MARKET COMMENTS: Although prices reported for shipments of dry whey last week dipped by close to 2 cents per lb, U.S. supplies of dry whey and whey protein concentrate are reported to be tight in all regions. The regional price ranges are steady to slightly higher, and resales are continuing to occur for both products above the reported price ranges. *DMN* is hearing there may be some voids occurring in the domestic downstream dry whey supply channel because of the limited amount of product that's available. The price range reported for WPC (34% protein), \$1.18-\$1.45 per lb, makes one wonder about the real price. If a competitive price per lb of protein is a fair basis, it appears the upper end of that price range may be where to look. *DMN* also has been getting reports which make it think production of WPC at the lower end of the protein content range for that product may be decreasing. If that is so, that likely means more higher-value WPC and whey isolates are being produced for a growing domestic and international. Exports continue to fuel demand for whey proteins.

FRED DOUMA'S PRICE PROJECTIONS...

Mar 25 Final:	Quota cwt. \$18.90	Overbase cwt. \$17.21	Cls. 4a cwt. \$18.84	Cls. 4b cwt. \$16.76
Last Week:	Quota cwt. \$18.92	Overbase cwt. \$17.23	Cls. 4a cwt. \$18.74	Cls. 4b cwt. \$16.88

ATTENTION DAIRYMEN: MARK YOUR CALENDARS...IMPORTANT DAIRY INDUSTRY MEETING IN TULARE ON APRIL 5: *(By Rob Vandenheuvel)* On **Tuesday, April 5th from 1 – 3 pm in Visalia**, MPC will be co-hosting an industry meeting with the California Dairy Campaign (CDC) to get a closer look into the details of a dairy policy reform proposal we are all becoming more familiar with: National Milk Producers Federation's "Foundation for the Future" (FFTF). As you know, FFTF is a topic of industry conversations all over the country, as it is the most prominent industry reform proposal out there. Many of the details about FFTF have been published on www.futurefordairy.com, and I encourage every dairyman to learn as much as you can about what's being proposed. But in short, FFTF includes:

1. A "Dairy Market Stabilization Program" that will empower dairy farmers to collectively respond to supply/demand imbalances by temporarily cutting back milk production when needed.
2. A "Dairy Producer Margin Protection Program" that will replace the MILC and Dairy Price Support Program as our industry safety net to protect dairy farmer equity in the limited periods when the market stabilization program cannot act fast enough to bring balance back to our industry.
3. Fundamental reforms of our nation's Federal Milk Marketing Orders.

While dairy groups around the country continue to evaluate the details of FFTF, the time is right for grassroots dairy farmers to closely examine the plan and hear what the varying arguments are in favor or in opposition to the pieces of the plan. This April 5th meeting will not only include an update on what exactly is being proposed in FFTF, but will also include a debate/discussion about the plan by a panel of California dairymen Geoffrey Vanden Heuvel, Joe Augusto and Joaquin Contente. **Whether you are supportive, opposed, or undecided on the prospects of FFTF as a dairy policy reform package, this is a meeting you should plan on attending.**

On the back page of this newsletter is a flyer announcing the April 5th event. As you can see, it will be held from 1 – 3 pm at the Holiday Inn in Visalia (just off Highway 198). **ALL dairy farmers, as well as allied industry folks, are invited and encouraged to attend. So spread the word!**

FEBRUARY MILK PRODUCTION RATES A SECOND LOOK: (by J. Kaczor) February’s milk production report was encouraging in the sense that the rate of increase over the same month a year earlier continued to decline. Last year there was a fairly steady increase in that annual rate from January, which began the year at -0.7%, to September, where it peaked at +3.3%. The September result came from milking 1,000 more cows and an increase in production per cow of 55 lbs for the month. Last year’s rate of increase in PPC was among the highest ever seen. Since September, the monthly year to year increases in milk production have stepped steadily down to 2.01% in February, with 68,000 more cows. That’s encouraging.

USDA reports the number of milk cows in January and February was 9.16 million head, higher than any month last year. However, production per cow so far this year is increasing at little more than half the rate for last January and February. The lower PPC rate could partly be weather related but could also be a function of higher feed costs and a much higher rate of culling this year, meaning younger cows and less milk for a time. USDA reports that 58,000 more milk cows were sent to slaughter in the first two months this year than for the same period a year ago – and were replaced by the 68,000 fresh cows.

The table at the right breaks out the numbers for the ten highest milk producing states and compares their totals to other state groupings. California is the only state among the top ten with fewer cows than a year ago, and is one of five with higher PPC for the month. New York squeezed back above Idaho again, but only because of a huge differential in PPC between the two states for the month.

The table also shows that the biggest milk producing states are getting bigger. Nine western states (5 are shown in the table; the others are in the next group of 13) accounted for 82% of the total February increase in milk production. March came in with a roar, weather wise, which could help to dampen the increase in PPC for the month. High and rising feed costs, which disproportionately affect western dairies, could help producers decide against expanding their herds. But the recent price strength across the full complex of dairy products that are used to set milk prices, which should generate prices close to those in effect from mid 2007 through most of 2008, is not likely to be ignored.

	Number of Cows (1,000)		Milk Production (Million Pounds)		Pct Change
	2010	2011	2010	2011	
California	1,760	1,752	3,089	3,162	2.36%
Wisconsin	1,260	1,266	1,997	2,007	0.50%
New York	610	610	952	988	3.78%
Idaho	554	573	936	968	3.42%
Pennsylvania	541	543	822	820	-0.24%
Texas	410	425	672	731	8.78%
Minnesota	470	471	710	704	-0.85%
Michigan	355	362	627	644	2.71%
New Mexico	318	324	595	612	2.86%
Washington	246	252	449	459	2.23%
Top Ten	6,524	6,578	10,849	11,095	2.27%
Next 13	1,799	1,826	2,821	2,906	3.01%
Next 27	769	756	1,058	1,054	-0.38%
Fifty States	9,092	9,160	14,758	15,055	2.01%

Where does the U.S. rank among the largest dairy product exporting countries and regions? The numbers were reported last week. Milk produced by the 27 countries making up the European Union increased milk production last year by 1.23%. New Zealand increased production by 1.1%. Australia decreased production by 0.3%. The

U.S. increased production by 1.8%.

The EU covers a vast geographic area and likely encountered every imaginable variation in weather, feed production and costs, and milk prices. Remember the dairy farmer protests? The EU also has production quotas in place which affects some of the planning but relatively little of the actual results, as some of the member countries were reported to have exceeded their quotas by considerable amounts. New Zealand's production was affected by two drought periods which affected the January-February output and also December's. They were expecting a production increase of about 5%. Australia began the year still suffering from the end of an eight year drought and ended it with heavy rains. Production in mid year was 3.2% higher than a year earlier but quickly fell to the point where they ended with a negative number. The U.S. began the year trying to recover from what was called the worst price and cost period since the Great Depression. Prices began to increase in the 4th quarter of 2009 but slumped back through mid 2010 to levels that were not likely more than break even. The various end product pricing formulas didn't become aligned in the right direction until recently. Until late summer, it was more a matter of hope and vision for decent prices than real prices sufficient to repair balance sheets. And we have reached that point; where next, and where will our competitor countries be in the coming year?

CORRECTION TO LAST WEEK'S ARTICLE ON FONTERRA'S PLANS: *(by J. Kaczor)* In last week's story about how Fonterra's global auction may change for bidders as additional sellers join in, three rule changes were noted; one was thought to be positive and two were thought to be negative. This week we were glad to hear from Mr. Paul Grave, *globalDairyTrade* Manager, who disagreed with one of conclusions that was drawn from reading a draft rule covering publication of results – that a “decision to stop the timely reporting of winning prices and volumes by contract period” had been made. Following is Mr. Grave's statement which corrects that conclusion: **“The article in a recent *Friday Market Update* suggesting the new draft Market Rules for *globalDairyTrade* would stop the timely reporting of winning prices and volumes by contract is incorrect. The same price information that is published today will continue to be published.”** As was mentioned in our article, that information serves as an important “barometer” of supply and demand. We are pleased to hear there was no intention to withhold it. In fact, Mr. Grave points out there will be an improvement in what will be published: presently the volume of products sold is not reported, while the new rules provide that the total volume sold in the auction will be published immediately, as was reported in last week's article. We had not seen that as a significant change, so we thank Mr. Grave for that additional information, and look forward to hearing about further developments.

UPDATE ON AIR RESOURCES BOARD'S DIESEL TRUCK PROGRAM: *(By Rob Vandenheuvel)* Last week, this newsletter published an article reminding California dairies to review the paperwork received from the California Air Resources Board (CARB) with respect to the diesel trucks registered as “ag vehicles” last year. As I noted in the article, this paperwork sent out by CARB asks for updated information, such as an updated odometer reading and any information they felt was missing on the application filed last year. If you missed that article, you can find it at: <http://www.milkproducerscouncil.org/updates/031811.pdf>. In the past week, CARB has announced that they are extending the deadline for receiving the paperwork until **April 29th**. MPC members wanting assistance in this matter can contact the MPC office (909-628-6018) or our Central Valley Representative Betsy Hunter (661-205-6721).

CALLING ALL DAIRY PRODUCERS AND ALLIED INDUSTRIES!



California Dairy Campaign and Milk Producers Council would like to invite all dairy farmers and allied industries to come participate in an honest discussion about a major industry proposal being developed: National Milk Producers Federation's "Foundation for the Future."

The meeting will include an overview of "Foundation for the Future," a Q&A session, and a "point-counterpoint" discussion including California dairymen Joe Augusto, Joaquin Contente and Geoffrey Vanden Heuvel on the pros and cons of the NMPF proposal.

Make plans to attend!

Tuesday, April 5, 2011

1 - 3 p.m.

**Holiday Inn in Visalia
(9000 W Airport Drive)**

Accommodations provided by:

