



# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks N/C \$1.5250  
Barrels +\$.0350 \$1.5100

### CHICAGO AA BUTTER

Weekly Change N/C \$2.1000  
Weekly Average N/C \$2.1000

### NON-FAT DRY MILK

#### Week Ending 1/14 & 1/15

Calif. Plants \$1.2372 13,792,804  
NASS Plants \$1.2560 22,749,789

### Weekly Average

Blocks +\$.0420 \$1.5125  
Barrels +\$.0536 \$1.4856

### DRY WHEY

WEST MSTLY AVG w/e 01/14/11 \$.4125  
NASS w/e 01/15/11 \$.3956

**CHEESE MARKET COMMENTS:** It's fair to say the cheese market is unsettled. Sales volumes for all styles of cheese have been good, as expected, at this time of year but prices on the CME have been on a roller coaster pattern for the past six months. Based upon prices reported to NASS, market prices continue to lag well behind the spot market. [Last week, CME price averages for barrels rose \$.09 per lb and \$.13 per lb for blocks, while manufacturers' prices reported to NASS rose only \$.002 per lb for both styles. Over the past three weeks, NASS prices for blocks fell by \$.027 per lb and barrels by \$.022 per lb, while CME averages increased by \$.140 and \$.095, respectively.] CME trading activity this week was moderate, and heavily influenced once again by bidders wanting cheese. Dairy Market News reports cheese production to be at about expected levels. Market watchers apparently saw much to be pleased with this week, as class III milk futures gained strongly; the February price, at \$15.93 per cwt, gained \$.93 per cwt, but March gained the most, \$1.12 per cwt, and is now above the \$16 per cwt level. Today's report on the amount of cheese in cold storage at the end of December could dampen what seems to be virtually unanimous enthusiasm. Stocks of Swiss and Italian cheeses were understated by 13 million lbs for November; that was corrected, and December's stocks for the two are another 16 million lbs higher – meaning there's 29 million more lbs of those cheeses at year end than was expected. The Stock of American cheeses was understated by a bit in November but rose by about 7 million lbs in December.

**BUTTER MARKET COMMENTS:** Today's report on butterfat inventories shows an increase of about 12 million lbs over a month earlier. That shouldn't present a problem; U.S. production was increasing in response to sound indications of global shortages. Short term increases in stocks are inevitable. However, the current U.S. price level, compared to those for international competitors, may impact the volume of butter and butterfat exports. Through November, exports of butter represented 6.1% of U.S. butter production – twice that of a year earlier, but only half of what was exported in 2008. The butter price was unchanged at \$2.10 per lb, a level not seen ever before for this time of year. Cash-settled butter futures moved strongly up prior to the cold storage report. The NASS price for last week's shipments moved up by \$.135 per lb, to get to within \$.19 per lb of CME's spot price. The butter market is not at ease. Manufacturers are expected to ease up on production, understandably wanting to see some indication of what will happen to sales.

**POWDER MARKET COMMENTS:** The big story of the week for nonfat dry milk is coming from the CME. Unbelievable, perhaps unprecedented, interest in nonfat powders is evident by what is happening. Spot prices for grade A and extra grade powder moved up another \$.09 per lb this week; **grade A powder ended the week at \$1.5225 per lb; extra grade is at \$1.49 per lb.** Total increases over the past three weeks are just over \$.25 per lb. Most of the price movements began with bidders wanting powder at higher than current market prices. Grade A powder is what is actually selling (28 carloads in two weeks), but bidders are entering prices for extra grade, supposedly to maintain something close to parity of prices. It's beginning to look like the U.S. market for NFDM/SMP may be in for a ride. Prices reported for shipments last week increased by a few cents per lb, and the price ranges reported for cash sales are widening, with movement upward on the high side. Inventories are reported to be tight. Our report last week that 2010 exports of nonfat powders represented 47% of production

should perhaps have added the important detail that the volume for the most recent three months had accelerate to a level that represented 71% of production during that period. The stage seems set for more of the same; what is absent so far are price levels reasonably close to what other major exporting countries are getting for their powders. DMN reports prices for whole milk powder to be steady to lower, based on indexed pricing in existing contracts, although it's not clear what index at the present time would be pulling prices downward. Prices for buttermilk powder are reported to be moving upward, in line with NFDM prices, although buyers are said to be uneasy about believing butter prices will remain where they presently are.

**WHEY PRODUCTS MARKET COMMENTS:** The markets for dry whey and whey protein concentrates are firm and prices are reported to be moving upward. The NASS price for last week's shipments increased by close to a penny per lb, to \$.3956 per lb. All "mostly" price ranges also increased this week. DMN reports that product availability is an issue, with some buyers being told they should not expect shipments until notified. This is a tough one: without cheese, there is no whey, and whey products are apparently at the top of the dairy protein buyers' lists.

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**FRED DOUMA'S PRICE PROJECTIONS...**

**Jan 21 Est:**            **Quota cwt. \$16.20    Overbase cwt. \$14.51    Cls. 4a cwt. \$16.54    Cls. 4b cwt. \$12.40**  
**Last Week:**           **Quota cwt. \$16.14    Overbase cwt. \$14.44    Cls. 4a cwt. \$16.27    Cls. 4b cwt. \$12.47**

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**MORE COWS, MORE MILK: THE DECEMBER MILK PRODUCTION REPORT:** *(By J. Kaczor)*

USDA says there were 54,000 more cows being milked this December than a year ago, and production per cow was higher by 32 pounds. Total milk production increased by 389 million lbs, or 2.5%. Compared to November, there were 16,000 more cows being milked, and production per cow edged upward by just a bit. The table below breaks out the numbers for the ten highest milk producing states and compares their totals to other state groupings.

It's worth noting that California is among the few of the heaviest milk producing states still with fewer cows than a year ago (5 of 23). USDA's reports show no growth in the total number of cows being milked in California over the past nine months, although the state's improvement in production per cow is among the highest in the country. That's not to say California dairies did not grow during this time; CWT reported 14 California dairies closed their operations in August, with all cows going directly to the slaughterhouse. The slack was filled by others; the number of milk cows in December (1,748,000) was exactly where it was in July, the month preceding CWT's final herd buy-out.

DECEMBER	Number of Cows (1,000)		Production Per Cow (Pounds)		Milk Production (Million Pounds)		Pct Change
	2009	2010	2009	2010	2009	2010	
California	1,762	1,748	1,865	1,930	3,286	3,374	2.7
Wisconsin	1,259	1,265	1,705	1,710	2,147	2,163	0.7
New York	610	611	1,675	1,750	1,022	1,069	4.6
Idaho	550	574	1,850	1,860	1,018	1,068	4.9
Pennsylvania	539	542	1,620	1,640	873	889	1.8
Texas	411	420	1,795	1,845	738	775	5.0
Minnesota	470	470	1,630	1,630	766	766	0.0
Michigan	354	361	1,910	1,920	676	693	2.5
New Mexico	318	321	2,015	2,065	641	663	3.4
Washington	243	252	1,940	1,945	471	490	4.0
<b>Top 10</b>	<b>6,516</b>	<b>6,564</b>	<b>1,786</b>	<b>1,821</b>	<b>11,638</b>	<b>11,950</b>	<b>2.7</b>
<b>Next 13</b>	<b>1,795</b>	<b>1,821</b>	<b>1,668</b>	<b>1,698</b>	<b>2,994</b>	<b>3,092</b>	<b>3.3</b>
<b>Next 27</b>	<b>771</b>	<b>751</b>	<b>1,482</b>	<b>1,494</b>	<b>1,143</b>	<b>1,122</b>	<b>-1.8</b>
<b>Fifty States</b>	<b>9,082</b>	<b>9,136</b>	<b>1,737</b>	<b>1,769</b>	<b>15,775</b>	<b>16,164</b>	<b>2.5</b>

December's U.S. milk production scorecard should probably be graded "neutral." The positive aspects include a third straight month with a declining percentage of production over the same month a year before, and the second lowest increase in production per cow for the year. Compared to 2009, milk production in September increased

by 3.3%; October's by 3.0%, November's by 2.8%, and December's by 2.5%. December's reported production per cow was 32 lbs greater than a year earlier; only January, with a 30 lb gain, was lower.

A negative note (in terms of possible surplus production) is the increase in number of cows – there were 16,000 more than in November, (14,000 more than the average for the six preceding months), and the highest reported for the year. This increase occurred at the same time many more dairy cows were being culled. USDA's report on December livestock slaughter, released today, says 24,000 more dairy cows were put away in December than in November (meaning they were replaced by 40,000 heifers), and 34,000 more than in last December. The increase in number of milk cows in December could be a response generated by positive news in October: butter and cheese prices on the CME reached peak levels about then, Fonterra's "futures" auction for butterfat and powders was generating nice price increases, and U.S. export volume was doing well. However, at about the same time, the news on current and likely future feed costs was not good. The forward looking news reports continue to include the good and the bad. The amount of milk produced in December was about what was being forecast; the increase in number of cows was a surprise.

**Regarding milk production per cow.** Yes, it was another annual record, reflecting well on the skill and care milk producers, and those who provide them a wide range of services, bring to their professions. USDA says PPC in 2010 was 21,148 lbs. Twenty years ago it was 14,782 lbs. Ten years ago it was 18,196 lbs. That's an astounding achievement. The year to year increase of 574 lbs was also astounding, coming within 6 lbs of being the 2<sup>nd</sup> greatest increase. The record was set in 2005 – an increase of 598 lbs – higher in pounds and higher in percentage than last year's change, but could have been influenced by higher usage of a growth enhancer back then. Well done.

**PRICES MIXED IN FONTERRA'S LATEST AUCTION; SIGNS OF MORE INCREASES AHEAD?** (By J. Kaczor) Brokers might describe this week's results from Fonterra's internet auction as "choppy." Depending on the shipping month involved, which covers a range from March through September, winning prices for the three major product categories variously rose and fell compared to results from the previous auction held on January 3<sup>rd</sup>. Overall, prices for products scheduled for shipment in March rose 3.1%, and fell 0.2% and 0.7%, respectively, for the more distant periods. The weighted average price for all shipments of all products covered by the auction rose by 1.2%, which amounts to \$.024 per lb of product.

Fonterra is rightly pleased with this result, but appears to be trying to dampen expectations for more to come. A spokesman for the company declined to say the increase was part of an upward trend, instead saying the price changes in the last three or four auctions (in December and January) were more in line with the price volatility experienced in the last three years than part of a trend. Weather related issues were cited as a more likely factor influencing bidders. Other observers in New Zealand were more upbeat. A Bank of New Zealand economist said the results over the past few months were positive. *"It's possibly a sign of things to come through 2011 with supply running on the tight side and demand...improving with the ongoing recovery in the global economy."*

The weighted average price change mentioned above is greatly influenced by whole milk powder volume which is about 70% of all volume offered. The average price for WMP was \$1.715 per lb (+0.5%), with prices ranging from \$1.68 for March to \$1.80 for the July-September period. The average price for SMP was \$1.623 per lb (+2.4%), with prices ranging from \$1.64 for March to \$1.62 for July-September. The average price for AMF was \$2.697 per lb (-0.3%), with prices ranging from \$2.71 for March to \$2.77 for July-September. Charts showing current and historical prices for these products are updated every two weeks on the globalDairyTrade website. They show recent auction prices for AMF have risen to the record highs reached in the summer of 2007, and prices for WMP and SMP have risen to within about \$.40 per lb of the records reached in 2007-2008. All of these are well above historical norms.

The reason for these prices is likely both weather related and demand driven. The rising demand comes from the two giant economies, China and Russia, and several "emerging" economies whose populations are growing faster than overall supply and whose appetites for dairy proteins is growing. Milk production in Western Europe is said to have suffered somewhat from a cold and snowy winter, and a higher proportion of their milk supply is reported

to be needed for cheese demand within the expanding EU. Other weather problems have been widely reported and did affect to some extent milk production in New Zealand, Australia, and Argentina. With the U.S. dollar again heading downward, the milk supply heading upward, and real shortages of butterfat and skim milk apparent, it's beginning to look like the stars may again becoming aligned for the U.S. dairy industry.

**CONTINUED PROGRESS ON DEVELOPING DAIRY POLICY REFORM LEGISLATION:** *(By Rob Vandenheuvel)* As we enter into 2011, the dairy industry has reason to be more optimistic that we will see higher milk prices this year. Cheese, butter and nfdm have been moving up, and if the futures markets are any indication, those prices will continue to see strength. At the same time, however, the grain markets are getting stronger, along with the alfalfa market, resulting in a rising cost of production for dairy farmers. So at the end of the day, while higher milk prices are certainly a welcome sight, it's hard to get real excited about the profitability of our nation's dairy farmers, especially when considering the mountain of debt piled up from the past 2+ years.

So what can we take from this? One major message should be how important it is for our industry leaders to continue developing fundamental policy reform for our industry. As it stands right now, our industry is woefully lacking the tools necessary to bring our markets back to profitable levels for dairy farmers. One way to acquire those tools is to reform our current dairy policies, which is something Congress has the ability to do.

With the new Congress now in place and Committees established, progress continues to be made in developing a unified industry proposal. To that end, MPC has been working with dairy farmer trade associations and cooperatives all over the country. Early last year, a number of dairy farmer organizations throughout the country began meeting and talking about how to advance improvements to our nation's dairy policy. That collection of groups has grown over the past year, and now represents a huge portion of the nation's milk. To date, here are the groups that have been participating in this effort:

- Agri-Mark *(Northeast)*
- Associated Milk Producers, Inc. *(Upper Midwest)*
- California Dairy Campaign
- California Dairies, Inc.
- Dairy Farmers of America
- Dairy Farmers Working Together *(Vermont)*
- Dairy Policy Action Coalition *(Nation-wide)*
- Dairy Producers of New Mexico
- Dairylea *(Northeast)*
- Darigold – Northwest Dairy Association
- Family Dairies USA *(Upper Midwest)*
- Georgia Milk Producers
- Holstein Association USA
- Kansas Livestock Association
- Kentucky Dairy Development Council
- Land O'Lakes
- Milk Producers Council
- National All Jersey, Inc.
- National Farmers Organization
- National Farmers Union
- Northeast Dairy Leadership Team
- Ohio Dairy Producers Association
- Oregon Dairy Producers Association
- Southeast Milk, Inc.
- St. Albans Cooperative Creamer *(Northeast)*
- Upper South Milk Producers Association *(Southeast)*
- Upstate Niagara Cooperative *(Northeast)*
- Utah Dairy Association
- Washington State Dairy Federation
- Western United Dairymen *(California)*

Earlier this month, this group of organizations hosted a conference call featuring Jerry Kozak, CEO of the National Milk Producers Federation (NMPF). NMPF has put together the "Foundation for the Future" (FFTF), a legislative proposal aimed at reforming several important areas of our nation's dairy policy (more information can be found at [www.futurefordairy.com](http://www.futurefordairy.com)). MPC has written a number of articles in this newsletter on FFTF, and as NMPF continues to develop this proposal, we will undoubtedly write many more. The reason for the conference call was to get an update on NMPF's progress.

During the call, the groups were given a few key pieces of good news. First, it looks like we are rapidly approaching the introduction of NMPF's comprehensive proposal in Congress. Second, if producer groups around the country are able to rally around a common proposal, NMPF has gotten an indication from key leaders in Congress that we may have a chance at moving legislation in early-2011. And third, it was revealed that the

American Farm Bureau Association, a key agricultural organization that has historically opposed some of the policy changes proposed in FFTF, has made changes to their policies to allow them to consider supporting the proposal.

The coalition listed above, which is made up of leaders in all areas of the country, is very interested in seeing sound policy reforms implemented as soon as possible. Many of the groups were the funding sources behind the important economic analysis done last year by Drs. Mark Stephenson (University of Wisconsin) and Chuck Nicholson (Cal Poly, San Luis Obispo). That analysis, along with work done by Dr. Scott Brown (University of Missouri) has provided invaluable insight into what impact the policy proposals might have. This coalition will play a key role in helping to bring consensus to an industry historically plagued with regional conflict. To have these leaders from around the country continuing to work together is collaboration like we rarely, if ever, see in the dairy industry.

Last year, we had the luxury of debating and discussing multiple proposals amongst the industry. Those proposals included the Costa/Sanders Bill (which MPC was heavily involved in promoting), the Specter/Casey Bill (S. 1645), a “Marginal Milk Pricing” proposal by Agri-Mark Cooperative and NMPF’s “Foundation for the Future,” which is a more comprehensive package that borrowed ideas from the other proposals and added some new ones.

This year, we don’t have that same luxury. The stars are aligning in Congress, and our industry has a rare opportunity to get real reform approved. The key will be whether or not dairy farmers and their organizations all over the country can get behind one proposal. We need to be hopeful that the process moves quickly. These windows of opportunity don’t last forever. So stay tuned for more updates as we hopefully make 2011 a year of positive change for the long-term outlook in the dairy industry.

**MONTHLY MPC BOARD MEETING TO BE HELD NEXT TUESDAY:** *(By Rob Vandenheuvel)* MPC’s monthly board meeting will be held next Tuesday, January 25<sup>th</sup>, in the board room of the Kern County Farm Bureau (801 S. Mount Vernon Avenue, Bakersfield). The meeting will start at 11 a.m. All current and prospective MPC members and associate members are welcome to attend. If you plan on attending, please RSVP to the MPC office at (909) 628-6018.