



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 ~ www.MilkProducers.org



DATE: May 6, 2011
TO: Directors & Members

PAGES: 3
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0350 \$1.6475
Barrels +\$.0575 \$1.6600

CHICAGO AA BUTTER

Weekly Change +\$.0200 \$2.0950
Weekly Average +\$.0605 \$2.0895

NON-FAT DRY MILK

Week Ending 4/29 & 4/30

Calif. Plants \$1.5219 10,442,490
NASS Plants \$1.5987 11,938,993

Weekly Average

Blocks +\$.0345 \$1.6390
Barrels +\$.0460 \$1.6375

DRY WHEY

WEST MSTLY AVG w/e 05/06/11 \$.5075
NASS w/e 04/30/11 \$.4764

CHEESE MARKET COMMENTS: The strength in cheese prices that began to show last week continued this week, with a little more gusto. The interest in barrel cheese on the CME was more evident than that for blocks, but both finished the week higher. Twenty-four carloads were traded. Good news came this week in March's dairy product production report. The report was released by NASS after the market closed on Tuesday, but prices had already moved higher for both styles by that time. Total cheese production in March increased in line with the additional amount of milk that was produced that month, but production of American cheese (mostly cheddar) was lower on a per day basis. Better yet, since stocks of American cheese at the end of March were 5 million lbs lower than at the end of February while production was 36 million lbs higher during the month, total usage of American cheeses increased by 41 million lbs. According to CWT, a good part of that increase likely can be attributed to exports of cheese subsidized by CWT late last year, which are just now being shipped. Traders in class III milk futures were unimpressed; prices from June through October were lower this week, although they continue to carry premiums to spot cheese prices. Two weeks' price increases could stimulate cheese buyers who may feel opportunity slipping away.

BUTTER MARKET COMMENTS: Butter trading was again very active this week. Twenty-eight carloads traded hands after an inactive Monday where buyers and sellers tested the market with bids too low and offers too high. Tuesday's butter production report provided positive support for current butter prices: production of butter during March was lower on a per day basis than in February while usage of cream for seasonal products, principally ice cream mixes and sour cream, increased sharply. The increase in end of month stocks did not keep up with the month's production. It's possible there's a trend towards increasing production of anhydrous milkfat, a potential candidate for strong exports, and which is not reportable by NASS. However, even if that's the case, AMF products are included in the monthly reports of "butter" stocks which, as was noted above, fell behind production of butter. The general weakness reported for AMF prices in Fonterra's auction on Tuesday was answered by the market with 20 buys over the following three days and a small increase in price. Futures traders are supporting current butter prices through October, at which time their support melts away month by month.

POWDER MARKET COMMENTS: Production of nonfat dry milk and skim milk powder in March increased by a total of 22 million lbs over February's output. Production on a daily basis was higher during the month. The good news of NFDMD is that end of month stocks were unchanged from February's levels, which means usage outpaced production. The market is considered to be steady and prices are firm. Prices reported to NASS for shipments made last week almost got to \$1.60 per lb, rising 2.7 cents per lb. However, the volume was the lowest it's been for several months. The average price reported by California plants was lower by a half cent per lb and is now almost 8 cents per lb lower than anywhere else. Production of buttermilk powder in March was slow as were sales. Production of whole milk powder in March increased by 31%, but stocks increased by only 7%. *Dairy Market News* reports the market as active and prices moving lower, but gives no indication of why for either. Fonterra's auction on Tuesday, with the unusual price movements for whole milk powder and skim milk powder, had no apparent effect on the U.S. powder markets. CME futures prices for nonfat dry milk this week added an average of two cents per lb to prices for the year's 4th quarter.

WHEY PRODUCTS MARKET COMMENTS: The markets for dry whey and whey protein concentrates continue to be tight, says DMN, and prices for both product lines continue to move upward. The west's "mostly" price for dry whey this week increased by more than two cents, to \$.5075 per lb. That helps California's class 1 prices and California's cheese makers. Production during March showed whey usage for MPC production continued to take raw product from dry whey production. Sales for both product lines during March exceeded what was produced. Resales of both products continue to receive premium prices above those reported by manufacturers. CME futures traders added an average of two cents per lb to dry whey prices for months stretching from May through next April.

FRED DOUMA'S PRICE PROJECTIONS...

May 6 Est:	Quota cwt. \$18.93	Overbase cwt. \$17.23	Cls. 4a cwt. \$19.56	Cls. 4b cwt. \$14.59
April '11 Final:	Quota cwt. \$18.88	Overbase cwt. \$17.18	Cls. 4a cwt. \$19.45	Cls. 4b cwt. \$14.34

CALIFORNIA DAIRY PRODUCER LEADERS MET THIS WEEK ON NMPF'S "FOUNDATION FOR THE FUTURE: (By Sybrand Vander Dussen, MPC President) This past week, members of California's 3 trade associations and 3 largest co-ops met in Fresno to explore whether California could come up with a consensus about National Milk's "Foundation for the Future" (FFTF)

This program is aggressive, large and has huge changes. Because of that, sometimes a key point is hidden from the producer. It was obvious at the meeting that some producers have an incomplete understanding of the program, and they simply have become opposed to it. It all hinges around "supply management".

Read carefully the following:

1. Under this program, ***you as a producer are still allowed to produce any amount of milk you want, anytime, anywhere. No restrictions.***
2. ***Only if you want***, you can sign up for "margin protection", a type of insurance to cover you when milk prices and feed prices are too close (the difference between feed/milk is the "margin").
3. When the margin gets below \$6 for two consecutive months, producers ***are given the choice: cut back 2%***, and be paid for all the milk you produce, or ***continue to produce*** and the payment for that last 2% will go into a fund to buy dairy product for giveaways. This continues until the margin is over \$6 for two consecutive months. (***Read that last line again – once the margin recovers to over \$6 for two months, the program goes away!***)

It's that simple. FFTF is a dairyman-run program offering some protection to all dairy producers. The only government involvement is the need for Congress to pass enabling legislation so everyone is in it. Dairy men unwittingly divide themselves constantly, and suffer greatly, and needlessly.

A producer was quoted as saying he would rather go broke than have this program in place.....why?

CONTINUED DISCUSSION IN U.S. SENATE OVER OUR FEDERAL ETHANOL POLICIES: (By Rob Vanderheuevel) This week, Senators Tom Coburn (R-Oklahoma) and Dianne Feinstein (D-California) introduced S. 871, the "*Ethanol Subsidy and Tariff Repeal Act.*" This bipartisan bill would repeal two of the three main Federal government supports for the ethanol industry:

- Effective July 1st, the bill would fully repeal the \$0.45 per gallon "ethanol blender's tax credit," a tax credit available to the oil/gas companies for every gallon of ethanol they blend with their fuel. (*This tax credit is costing U.S. taxpayers an estimated \$6 billion per year*)
- Effective July 1st, the bill would fully repeal the \$0.54 per gallon tariff on ethanol imported into the U.S. (*The third main Federal government support for the ethanol industry – which is not addressed in this legislation – is the "Renewable Fuels Standard," a government mandate that our nation's oil/gas companies must blend a certain volume of ethanol with our fuel – 12.6 billion gallons in 2011.*)

The introduction of this bill is a huge step forward in the effort to start scaling back these ethanol subsidies. With almost 40% of our nation's corn production being diverted away from consumers and livestock farmers, and into ethanol plants, it appears we've finally reached a point where many of our Federal legislators are taking notice.

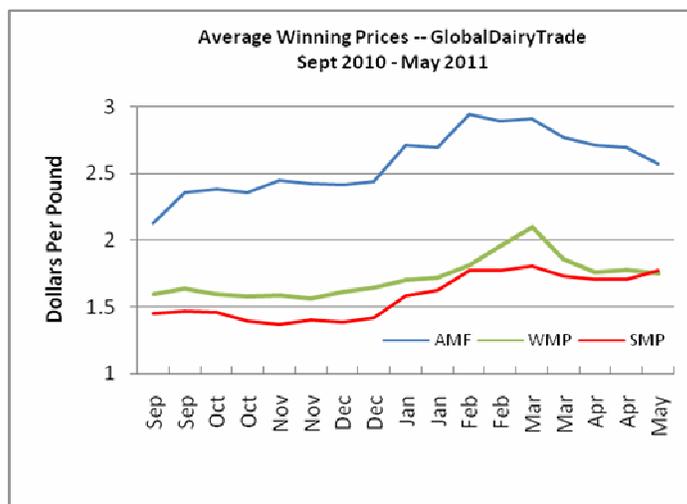
Milk Producers Council has been working with a broad coalition of livestock agricultural groups, taxpayer advocates, hunger advocates and environmental interest groups to urge Congress to act on this important issue. (A letter from this coalition thanking Senators Coburn/Feinstein, with a list of coalition members, can be found at: <http://www.milkproducerscouncil.org/0511coburnfeinsteinletter.pdf>)

In recent months, two major bills were introduced in the U.S. Senate, both with similar goals of scaling back these ethanol subsidies. One was introduced by Senators Tom Coburn and Ben Cardin (D-Maryland), the other was introduced by Senators Dianne Feinstein and Jim Webb (D-Virginia). While these bills had similar goals, the fact that we had multiple bills made it more difficult to present a united front in repealing these subsidies. With these Senators joining forces being a unified bill, the stage is now set for the U.S. Senate to finally hold a vote on repealing both the ethanol blender's tax credit and the import tariff.

Senators Coburn and Feinstein have indicated that they will be attempting to attach their bill to another piece of legislation in the near future, so stay tuned for more updates...

PRICES ARE MIXED IN FONTERRA'S LATEST INTERNET AUCTION: (By J. Kaczor) Total revenue generated from the May 3rd global internet auction was virtually unchanged from the two auctions in April. That is important for Fonterra because delivery of the products auctioned in April begin in June, which is the beginning of Fonterra's fiscal year. Based on operations and sales to date, Fonterra had recently increased their announced prices (to record highs) for milk retroactive all the way back to June 2010 and affirmed their forecast for continuing strong demand for their products. From their point of view, the results from the May 3rd auction was either 'stable,' or 'steady,' but the bidding itself was unusually long, taking more than three hours, and the winning prices for individual products differed widely.

Prices for whole milk powder were slightly lower for all delivery periods; the 3rd period delivery price is \$.12 per lb lower than the price for the 1st period. Prices for anhydrous milkfat also fell for all periods – by more than 4%. Prices for skim milk powder were sharply higher for the July "spot month" and mixed for the delivery months August through January; the 3rd period delivery price is \$.29 per lb lower than the price for the 1st period. The prices in the graph shown here are weighted average winning prices for all volumes of each product sold for the entire period covered by the auction. The graph is updated to show only the results from September, when the two auctions per month schedule began.



The price bid for skim milk powder for July deliveries increased by \$.215 per lb, which made it \$.165 per lb higher than whole milk powder for that month. That increase was caused by unusually strong interest for UHT SMP for that month only. Price decreases for WMP were progressively greater for the 2nd and 3rd delivery periods. Prices for AMF, while lower than they were at any time since December, were essentially flat for the three delivery periods.

Recent reports from New Zealand indicate that improved pastures from timely rainfall have resulted in milk production holding up at surprisingly high levels for this time of year. Earlier forecasts for total production for the year ending in May have been revised sharply upward, to +3%. Australia also is finishing their year, in June, with revised forecasts for higher production.

There is no official indication yet that additional suppliers will join with Fonterra in offering products in this auction. However, the GlobalDairyTrade website has been updated. It has a cleaner, better organized look to it, and has spaces set up for the names of additional suppliers. Check it out. (NOTE: While no official announcement has been made by Fonterra, MPC General Manager Rob Vandenheuvel reports that California Dairies, Inc. CEO Richard Cotta stated at a meeting this week that CDI would begin marketing products in the GlobalDairyTrade in the near future.)