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
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

DATE: July 27, 2012 **PAGES: 4**
TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0125*	$1.7050
Barrels	*- $.0100*	$1.6850
Weekly Average, Cheddar Cheese		
Blocks	*- $.0010*	$1.7150
Barrels	*- $.0095*	$1.6930

CHICAGO AA BUTTER		
Weekly Change	*+$.0800*	$1.6700
Weekly Average	*+$.0685*	$1.6465

DRY WHEY		
Dairy Market News	w/e 07/27/12	$.5138
National Plants	w/e 07/21/12	$.5102

NON-FAT DRY MILK		
Week Ending 7/20 & 7/21		
Calif. Plants	$1.1240	10,628,543
Nat'l Plants	$1.1759	17,275,087
Prior Week Ending 7/13 & 7/14		
Calif. Plants	*$1.1406*	*9,067,808*
Nat'l Plants	*$1.1575*	*17,424,379*

CHEESE MARKET COMMENTS: Trading this week on the CME was virtually non-existent and prices were unchanged for the week until today when 4 carloads of barrels and an offer dropped the price by $.01 per lb, and 5 carloads of blocks offered at varying levels of price ended with the price $.0125 per lb lower. Futures traders apparently decided prices over $19.00 per cwt for class III milk this year were getting too far ahead of the market. Too many important questions are still unanswered – regarding the weather, feed costs, milk supply, and international market strength. The number of milk cows going to slaughter in the last four weeks was 204,000, about 10,000 more than in the same period a year ago. While not a certainty it does suggest there will be fewer cows milked in July than in June, continuing the drop off that began last month. Most participants in the futures market prefer to wait and see. Fair amounts of rain was reported late this week for Iowa and Wisconsin, but many analysts believe it is simply too late for even good amounts and patterns of rain to save much of the Midwest's corn crop, but soybeans may be o.k. Cheese production is seasonally lower. With lower fat and protein content in the milk supply, manufacturers are taking advantage of the low prices for nonfat dry milk and condensed skim to fortify their vats. *Dairy Market News* says many manufacturers are holding cheese in storage "with confidence" that prices will be higher later in the year. However, futures prices this week were generally lower. The biggest losses were for August and September, averaging down $.74 per cwt. August is the low month for the year, at $17.30 per cwt; November is the high, at $18.82 per cwt. $19.00 per cwt was last week's story, and certainly seems within reach again.

BUTTER MARKET COMMENTS: Butter trading was very active this week, with 21 carloads changing hands, and prices rising from Monday through Thursday, ending the week $.08 per lb higher. Sixteen of the sales occurred today, all from offers, all at the current price level. *DMN* says current production is being used to fill current orders and some plants in the central and western regions have had to dip into their cold storage stocks to keep up with their orders. Cream is in relatively short supply throughout the country as other heavy usages continue to absorb available supplies. Retail, restaurant, and food service usages of butter are holding up nicely. Futures prices struggled, but did keep up with CME's spot market price increases. The price for August rose $.05 per lb to finish just above the spot price; other months rose from $.035 to $.0575 per lb. November and December shared the high price for the year, at $1.705 per lb. Unless something greatly different from current butter production and sales levels happens soon, butter prices should continue to move upward.

POWDER MARKET COMMENTS: Shipment volumes last week continued well below average for the two major price reporting agencies. The price spread between the two (see the above headers) has widened and are moving in opposite directions, although *DMN* sees an overall upward trend in prices. A combination of lower supplies of milk and greater usage of condensed skim by cheese plants and other users is keeping powder production about in line with known demand. Manufacturers are again making and stocking medium heat and high heat NFDM, which had been in very short supply during the flush period. Sales across the country are reported to be doing well as buyers begin to wonder about how tight the market may be later this year. Recent monthly exports have been setting new highs, but favorable currency levels in Europe gives those exporters a considerable price advantage compared to the U.S. and could begin to slow U.S. export growth. It will be interesting to see how interested our exporters are in holding their share of market with that "handicap." The buttermilk powder market is active. Production is slowing in pace with butter production. Prices are shadowing NFDM prices. Buyers appear to like the option to inter-change two high quality ingredients.

WHEY PRODUCTS MARKET COMMENTS: For the first time in many weeks the average price reported to AMS for shipments of dry whey rose above the $1.50 per lb level. *DMN* says prices in all regions moved higher this week. The west's "mostly" price averaged $.5138, about $.02 per lb higher than last week, and *DMN* says exporters also report receiving higher prices. However, prices for WPC-34 were slightly lower this week, as imported product with more suitable packaging and competitive prices is taking some sales, and buyers resist paying what they believe are unsupportable premiums for spot loads. *DMN* reports a continuing trend for fluid WPC-34 to be used to make higher concentrated dry WPC and isolates. Prices for WPC-34 powder should stabilize and begin to move upward in step with the so far indiscernible increases for NFDM. Dry whey futures prices continue to reflect mild optimism, although most months lost ground this week. The year's high month, November, at $.585 per lb, lost $.0125 per lb; August, the year's low month, at $.535 per lb, lost $.0075 per lb.

***

FRED DOUMA'S PRICE PROJECTIONS…

July 27 Final:	**Quota cwt. $16.07**	**Overbase cwt. $14.38**	**Cls. 4a cwt. $13.47**	**Cls. 4b cwt. $15.18**
Last Week:	**Quota cwt. $16.06**	**Overbase cwt. $14.37**	**Cls. 4a cwt. $13.43**	**Cls. 4b cwt. $15.18**

***

SOME FOOD FOR THOUGHT: THE ETHANOL MANDATE AND IDFA'S CONFUSION: *(by J. Kaczor)* This was a slow week, but the items and actions mentioned below may give food for thought.

1. Because of the Congressional Ethanol Mandate about 37% of the U.S. corn crop is siphoned off the top each year. That percentage, and volume, should grow slightly for another two years at which time the mandate's peak is reached. Meanwhile, the U.S. has been exporting unwanted ethanol and will soon be importing corn. Ethanol import tariffs expired in January, so imports of cheaper, cleaner, and more efficient Brazilian ethanol exports are expected to rocket upwards once Brazil's sugar cane crop recovers from recent weather-related problems. The imports of corn, according to a report this week, will be made by Smithfield Foods, the nation's largest hog farmer and pork producer, who is resigned to having to obtain feed corn from Brazil because of the current reduced supply in the U.S., thanks in part to the Congressional ethanol mandate.

2. Who would use stale data to make a point that refutes their position on a major topic? It is our friends, the dull wits at IDFA, the nation's largest milk processor trade association, in Washington, D.C. They are so bummed about the possibility that the Dairy Market Stabilization Program is part of the Farm Bill they do not realize their arguments against it have lost credence to the point they actually support the program rather than oppose it. If part of their latest "aha" moment is correct, claiming income over feed costs earlier this year [March, April, May] would have triggered the DMSP, their triumphant conclusion that it "would likely still be in effect today," only shows how little they understand milk producers. In fact, the DMSP would have provided a tool for producers to act decisively on a timely basis about feed costs climbing too high (so cut back usage) and too much milk being produced (so cut back production). Instead, producers could only deal with widely conflicting signals and hope the things that affect them most would work out – as the immediate future became less clear, and darker. Actually, IDFA may have hit a home run for supporters of DMSP by saying "The weather changes faster than government can change its rules and regulations, and this will cause prices to swing more wildly ***once the impacts of the drought are felt by the industry***." [Emphasis supplied by the author.]

3. IDFA earns a second mention on this list by continuing with its drum-beat argument that U.S. dairy product exports, and its reputation, will be lost – forever, perhaps – if milk production is cut back too sharply. "Too sharply" for IDFA means anything other than the slow, financially and psychologically painful, demise of milk producers and milk production as their income over feed costs continues to get ever-more squeezed

lower month by month. It appears that lame argument is being treated as it should be by those in Congress who wonder why wouldn't exporters simply agree to off-set whatever reduction in income may be caused by activation of the DMSP in order to protect their valuable export contracts. That would cost them 2% of a down-ward moving raw product cost on that part of their milk supply that comes from a source that had signed on to the DMSP (not all would). The additional cost would be against prices presumably negotiated months earlier when the exporter had a clear picture of possible risks, and plenty of time to take appropriate good-business actions to protect against those risks. They should be told.

ETHANOL BECOMING A HOT TOPIC IN WASHINGTON, DC: *(By Rob Vandenheuvel)* The Federal Government's strong support of corn-based ethanol has been creating a financial squeeze for dairy farmers for a number of years. Many dairy farmers around the country, particularly those outside the Midwest, have been making the case that our government's role in propping up corn-based ethanol has had a devastating affect on livestock agriculture and the cost of feeding our animals. **It's gotten so ridiculous that we now have more corn being consumed by ethanol plants than by livestock agriculture.** While we've seen some positive movement in our efforts (elimination of the ethanol blenders tax credit and import tariff), the most devastating pro-corn-based-ethanol policy continues to be alive and well (the Renewable Fuels Standard, or the "ethanol mandate"). However, with the historic 2012 drought reportedly have a huge impact on expected crop yields in the Midwest, it appears that the folks in Washington, DC seem to be taking notice.

Milk Producers Council has been working with a broad coalition of interests in Washington, DC, focusing on scaling back the government's support for corn-based ethanol. That coalition has included not only our fellow livestock agriculture groups from around the country, but also taxpayer advocates, environmental organizations and hunger groups. Together, our coalition has been successful in whittling down the three-legged stool of ethanol support (tax credits, tariffs and the ethanol mandate) down to solely the ethanol mandate.

As a reminder, the Renewable Fuels Standard (RFS) is a federal mandate that was created a number of years ago, but ramped up in 2007, that requires our oil/gas companies to blend a specific minimum volume of renewable fuels in their finished product. In 2012, more than 15 billion gallons of "renewable fuel" must be blended with the U.S. fuel supply. Of that volume, corn-based ethanol qualifies for more than 13 billion gallons. To put that in perspective, about 40 percent of our nation's corn supply (about 5 billion bushels) is needed to produce enough ethanol to meet this government-mandated demand.

Over the past couple months, the drumbeat for modifying this government mandate has gotten louder and MPC and our coalition partners has been able to play a hugely positive role in that. Below are some of the recent efforts:

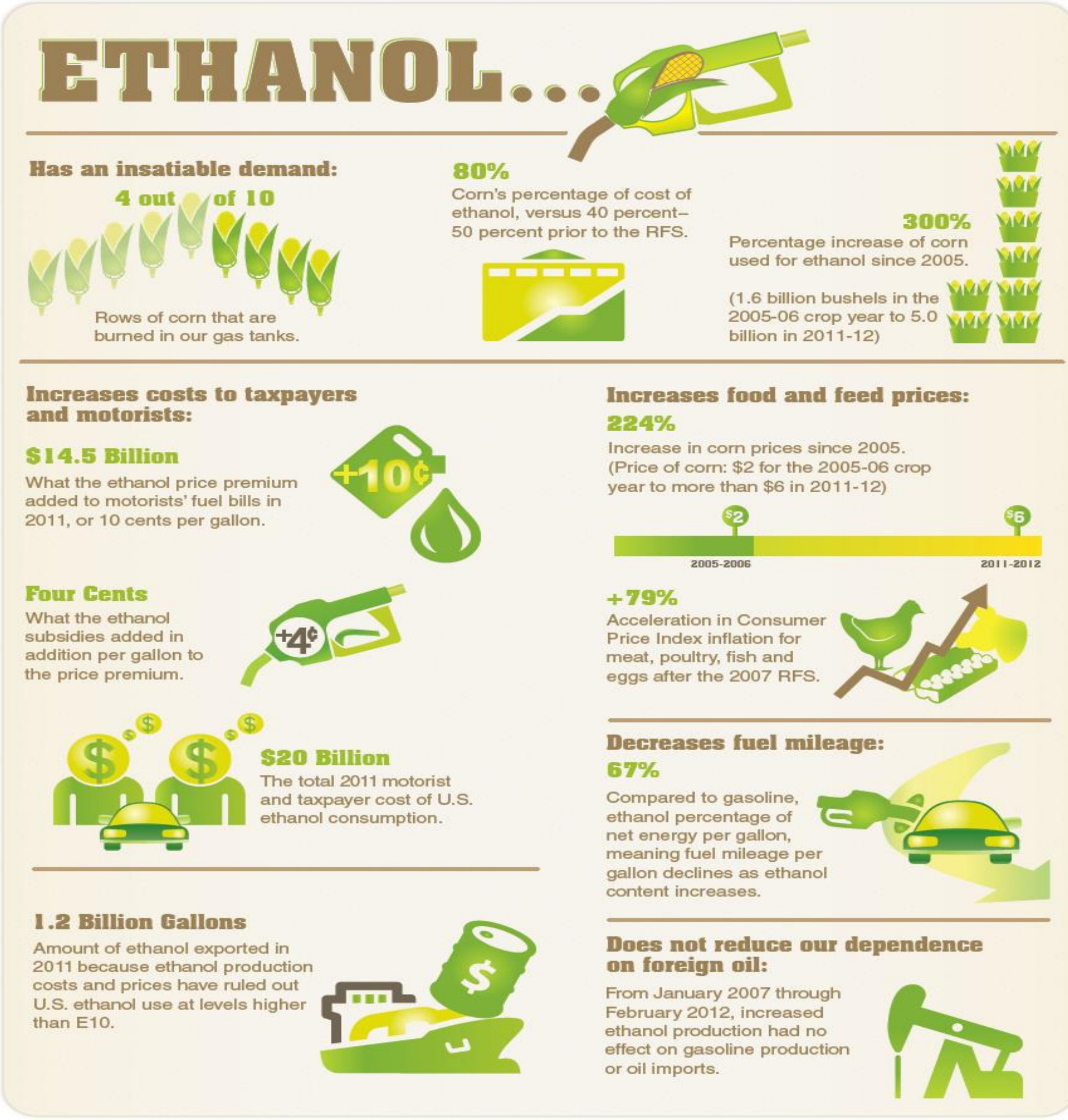
Analysis of the RFS

Last week, a study was published entitled, "The RFS, Fuel and Food Prices, and the Need for Statutory Flexibility." The study, which was done by Dr. Thomas Elam, Phd, President of FarmEcon LLC, takes a look at the Renewable Fuel Standard (RFS, a.k.a. the "ethanol mandate") and the impact it has had on both fuel and food prices. The full report can be found at website at: http://www.nationalchickencouncil.org/study-supports-need-to-reform-ethanol-production-mandate.

This in-depth look at the facts behind corn-based ethanol was sponsored by a group of livestock agriculture organizations from around the country. Those organizations are:

- American Meat Institute
- California Dairies Inc.
- Milk Producers Council
- National Cattlemen's Beef Association
- National Chicken Council
- National Pork Producers Council
- National Turkey Federation.

The analysis has successfully highlighted the huge flaws in the ethanol mandate and the devastation it has created among the livestock sector of our economy, while demonstrating that the policy has provided no real benefit for consumers of gasoline *(in fact, the analysis shows that corn-based ethanol is responsible for billions of dollars in* *additional costs at the pump)*. An illustration published with the analysis is shown below. It includes some pretty sobering facts about the *real* impact of corn-based ethanol.



Source: Elam, Thomas E. (2012, July 19). The RFS, Fuel and Food Prices, and the Need for Statutory Flexibility.

<u>Congressional Letter Urging EPA to Modify the RFS</u>

This past week, signatures have been gathered in the U.S. House of Representatives on a letter to EPA Administrator Lisa Jackson, urging the agency to utilize their authority to modify the RFS due to emergency conditions. The coalition has been working hard to gather signatures on the letter, which will be delivered to EPA in the coming days. A similar letter has just been circulated in the U.S. Senate with the same goal. MPC has been reaching out to the California Congressional Delegation, urging our elected officials to co-sign this letter.

In this time of deep concerns about food/feed availability, **it's time for the Federal Government to get out of the business of picking winners and losers by forcing corn into ethanol plants regardless of its impact on the economy**. Congress gave EPA the ability to adjust the mandate in cases where it was causing economic harm. That time is now.