



Milk Producers Council

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TO: Directors & Members

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MPC FRIDAY MARKET UPDATE – MERRY CHRISTMAS!

CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$1.5625
Barrels	+\$0.0250	\$1.5600

Weekly Average, Cheddar Cheese

Blocks	-\$0.0285	\$1.5625
Barrels	+\$0.0020	\$1.5500

CHICAGO AA BUTTER

Weekly Change	-\$0.0075	\$1.5950
Weekly Average	-\$0.0085	\$1.5965

DRY WHEY

DAIRY MKT NEWS	w/e 12/23/11	\$0.6688
NASS	w/e 12/17/11	\$0.6561

NON-FAT DRY MILK

Week Ending 12/16 & 12/17

Calif. Plants	\$1.4254	13,444,861
NASS Plants	\$1.4418	19,894,159

Prior Week Ending 12/9 & 12/10

Calif. Plants	\$1.4376	10,958,545
NASS Plants	\$1.4418	20,686,273

CHEESE MARKET COMMENTS: The combination of a somewhat neutral report on November milk production, released on Monday, and the great looking report on November's cheese cold storage report, released yesterday, may have helped to steady the cheese market. The amount of American cheese in cold storage at the end of November was 39 million lbs lower than a year ago and was about equal to where it was two years ago; the amount of all cheese in storage in November fell below the billion lb mark for the first time since February 2010. These changes need to be understood, they are subject to corrections next month, and one month does not make a trend, but still... Block prices were unchanged this week and barrels gained \$.025 per lb. Trading for both styles was moderate. Further hope for stable, if not higher, cheese prices comes from the actions this week by a number of traders on the CME who offered cheese at current or higher prices, quite the opposite of what was recently happening. However, substantial differences between prices received by plants and current weekly average prices continue to make buying decisions more difficult than they should be. Block prices reported to NASS for shipments last week were \$.085 per lb lower than the week before but still are \$.21 per lb higher than this week's lower average price. The differential for barrels narrowed more as prices received by plants fell by \$.11 per lb while the average price held steady. *Dairy Market News* says domestic and export demand for cheese continues to be doing well. Cheese futures prices are selling at a premium to spot prices, supported partly by strong whey prices. Class III milk futures prices were mixed for the week and continue to be very flat for all months next year.

BUTTER MARKET COMMENTS: With milk production moving up in its regular seasonal pattern (plus some) and fluid milk usage continuing to lag behind last year's levels, butter plants have more raw product supply than they need or want. Milk and cream is readily available, boosted by normal school closings, and prices are right. Domestic sales of butter have been very good, but export volume has been sharply lower for the past several months. Export volume may improve as shortages are being reported in some European countries and U.S. prices are currently very competitive. The cream surplus should not last long because heavy cream demand is typical through January, and an uptick in ice cream production is not far behind. The report on butterfat products in cold storage at the end of November, released yesterday, should be taken as a very positive indication that domestic supply and demand is closely aligned. November's stocks are 36 million lbs lower than October's and about 25 million lbs higher than last November; that is about the normal change from October and, since U.S. butter production increased this year by about 230 million over last year, the comparison to last year's stocks indicates a substantial increase in butterfat "disappearance." Yes, higher stocks are coming over the next several months, as they do every year; if they continue to be higher than last year's levels, it will likely be because exports have not held up to where producers were assured they would be. Spot prices on the CME were marginally lower this week on light trading while futures prices were mixed at levels fully supportive of current spot prices.

POWDER MARKET COMMENTS: The common comment on nonfat dry milk from all regions this week is to expect substantial increases in production in the face of moderate to weak buying interest. The current

comfortable levels of stocks will grow while negotiations on supplies and prices for next year continue. It is still not clear what, if any, effect may result if skim milk powder production continues to increase and nonfat dry milk powder production continues to decrease. *DMN* calls the present situation a “wait and see” approach. The “mostly” prices were unchanged this week; the western average is \$1.40 per lb, and is \$.045 per lb higher elsewhere. Prices reported for shipments of nonfat dry milk last week were lower for the week (see the recaps above). There are no current reports on the export market except for Fonterra’s global auction where prices for skim milk powder for February shipments averaged \$1.48 per lb, up \$.12 per lb from their recent October lows; they increase over the six months following. The market for buttermilk powder appears to be saturated as butter production ramps up. Prices are unchanged in the West and steady to somewhat lower elsewhere. Interest in whole milk powder is increasing as prices edge lower. CME’s futures prices for nonfat dry milk were mostly unchanged for the week, ranging from \$1.42 per lb for January to \$1.38 for June, then up and down for the balance of the year.

WHEY PRODUCTS MARKET COMMENTS: Memo to California Department of Food and Agriculture’s Dairy Marketing Branch: *Dairy Market News* this week says the trend for dry whey in the West “is for tighter supply and firmer prices.” Do you get it, “trend?” *DMN* says buyers who want extra product must get it from the higher priced resale market. Prices reported to NASS for shipments made last week were again higher. The west’s “mostly” price this week is \$.6688 per lb. The market for whey protein concentrate-34 is steady; the national average price is \$1.46 per lb. The price range for edible, non-pharmaceutical lactose this week is \$.73 to \$.81 per lb. The price for pharmaceutical grade lactose – unimaginable. The price for whey protein isolates – unimaginable. But, CDFA, California manufacturers want you to continue to focus on the price for commodity grade cheese and do not ever, ever, look at a plant’s total operation which, of course, includes money made from all products produced and all services rendered. CDFA, this is no longer the 1930’s; the industry is no longer operating in the dark ages. Tour a plant, or two or three. And do ask what is behind that door with the “no admittance” sign. And do ask about those “other” dairy product exports while you are at it. Then do get back to us with what “trend” you might have found, o.k.?

FRED DOUMA’S PRICE PROJECTIONS...

Dec 23 Final:	Quota cwt. \$17.91	Overbase cwt. \$16.21	Cls. 4a cwt. \$16.82	Cls. 4b cwt. \$15.14
Last Week:	Quota cwt. \$17.89	Overbase cwt. \$16.20	Cls. 4a cwt. \$16.77	Cls. 4b cwt. \$15.14

VISIONARY INDUSTRY LEADER DOUG MADDOX PASSES AWAY: *(By Rob Vandenheuvel)* This past Monday, the dairy industry lost a visionary leader when Doug Maddox suddenly passed away from a massive heart attack at the age of 75. *Hoard’s Dairyman* wrote an outstanding piece on Doug, which we’ve printed below (http://www.hoards.com/blog_Doug-Maddox?utm_source=twitterfeed&utm_medium=twitter):

A vibrant person until his last day, Doug had a personality that simply caused people to gravitate to him. Doug was known around the globe as an outstanding businessman, a mentor to many young producers, and a person who had a deep respect for the Holstein cow. At last count, the family’s dairies are believed to be home to the largest 100 percent registered Holstein herd in the United States.

Farming has always been in the Maddox’s blood. The RuAnn prefix is a combination of his parents’ names: Rufus and Annie. For the past 54 years, he grew the family enterprise, and together RuAnn and Maddox Dairies have over 5,000 registered Holstein cows, with over 12,000 total animals. Over the years, Doug and his family exported dairy cattle and semen to over 40 countries. To this day, they still harvest between 3,000 and 4,000 embryos each year. A gifted entrepreneur, Maddox also farmed 10,000 acres. Of that total, 5,000 acres is vineyards and almonds, with the remainder used as cropland for the dairy herd.



Doug dedicated a great deal of time to the industry. Just this summer he committed time to travel to Washington, D.C., to discuss pending dairy legislation with Senators and Representatives. As a leader, Doug gave guidance to many organizations including: the Riverdale District School Board, National DHIA, the California Department

of Food and Agriculture State Board, the California Milk Marketing Producer Review Board, and Holstein Association USA. He is past president of both California DHIA and Holstein Association USA.

A long list of accolades has been bestowed on this giant of a man. They included the prestigious National Dairy Shrine Distinguished Cattle Breeder, Holstein USA Elite Breeder, World Ag Expo Outstanding Dairy Producer, and Cal Poly Outstanding Alumni in the School of Agriculture. He was also named Outstanding Young Breeder and Senior Breeder by the California Holstein Association.

Perhaps the thing Doug and his wife, Matilda, were both so proud of was the fact all their children are involved in the family business. Steve and his wife, Brenda, and son, Stephen, Jr., run Maddox Dairy. Patrick and his wife, Mary, manage RuAnn Dairy, while daughter Liz and her husband, Jamie Bledsoe, own and operate Golden Genes. Daughter Julie Chow serves as chief financial officer for the entire Maddox enterprise. Many of Doug and Matilda's grandchildren, who are enthusiastic dairy prospects, will no doubt follow in Grandpa's footsteps.

When Doug won the Holstein's Elite Breeder Award in 2010, he was quoted as giving this advice to young breeders, "Use common sense and be patient. Breeding registered Holsteins is a lifetime commitment — it's a marathon, not a sprint." Those words certainly fit Doug's approach to life. Our thoughts and prayers go out to the entire Maddox family.

Milk Producers Council certainly echoes the sentiment expressed in the *Hoard's Dairyman* article. We had the opportunity to work closely with Doug over the past several years as we've worked side-by-side to improve our Federal safety net policies for the dairy industry. Doug was a natural leader in our industry, with a passion for trying to unify dairy farmers behind common-sense approaches to strengthening our industry's future.

Geoffrey Vanden Heuvel, Vice-President of Milk Producers Council, worked especially close with Doug over that time. "It has been my distinct honor to get to know Doug over these past several years. We have all heard the stories about Doug's success in business, but what has really stuck with me is the qualities Doug demonstrated as a selfless leader of our industry. He had a passion for dairy farming, and a special place in his heart for the future generations of dairymen. Doug was willing to do whatever it took and travel as many miles as necessary in his attempts to unify dairymen in the interest of improving our industry. His focus and perseverance will be dearly missed."

A Mass Service commemorating Doug's life will be held at St. Ann Catholic Church on Tuesday, December 27th at 10 a.m. (3047 W. Mount Whitney Avenue, Riverdale, CA 93656). More information can be found at: http://dairybusiness.com/dairyline_headline.php?item=Doug+Maddox+Funeral+Arrangements.

On behalf of the MPC Board of Directors and staff, we express our deep condolences to Doug's wife and their family. Our thoughts and prayers are with you all.

NOVEMBER MILK PRODUCTION INCREASES 1.8%; RECENT TRENDS CONTINUE: *(by J. Kaczor)* USDA's initial estimate on number of dairy cows in the U.S. for November is a decrease of 1,000 from October, but 91,000 more than last November. There's the rub. Production per cow increased by 14 lbs over last November, and is now on its annual seasonal climb to its Springtime peak. The total additional amount of milk produced during November is 277 million lbs above last November. In terms of percentages, the U.S. industry had the lowest increase of all the major dairy product exporting nations last month and, very likely, this month and onward for the foreseeable future.

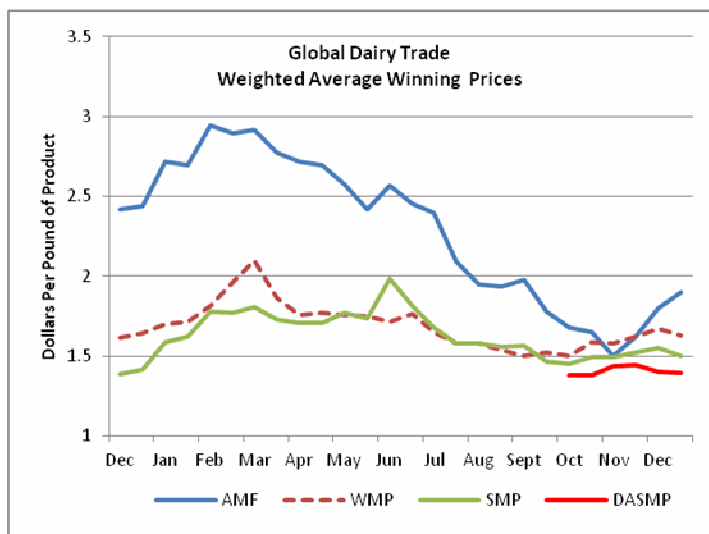
The recent trends referred to above include the expansion in the Western and Southwestern states, and the percentage increase represented by the 23 top milk producing states. USDA estimates the top 23 states' milk production in November represented 93.4% of total U.S. production, up by 0.2% from a year ago. Nine western states had a total of 100,000 more dairy cows in November than a year ago; the fourteen other top producing states had a net increase of 8,000 cows.

The number of dairy cows California had in October was adjusted downward by 1,000, to 1,788,000 cows. The number did not increase in November. That means there were 27,000 more cows than a year ago (the number includes dry cows); production per cow increased by 15 lbs for the month, to 1,880 lbs, which was matched by Washington and surpassed only by New Mexico's 2,020 lbs. California produced 77 million lbs more milk than last November, an increase of 2.4%. That keeps the state exactly where it was in 2006 (in terms of milk cows) and about where we were in 2008 in terms of milk production. It also means we are still ahead of Texas in terms of the monthly production increase. Texas had 20,000 more cows that produced 60 more lbs per month, for a total increase of 61 million lbs of milk.

PRICES ARE GENERALLY LOWER, BUT STABILIZING IN FONTERRA'S GLOBAL AUCTION: (by J. Kaczor) The number of companies registered as "qualified bidders" for Fonterra's globalDairyTrade auctions rose to 504 this week. Almost 200 have joined over the past seven months. The apparent growing interest likely comes from the additional products offered by Fonterra (three were added since mid-May) and by the entrance of Dairy America in October – and by the promise of more sellers and more products to come. In the eight months immediately prior to mid-May the number registered as qualified bidders barely changed; 300 were registered on September 15, 2010, and there were 305 registered on May 3, 2011.

The number of participating bidders has also been growing, but not at the same pace as the number qualified to bid. The ratio of non-bidders to bidders is virtually two to one for the last six auctions, averaging 310 to 158. The ratio of winning bidders to all bidders from auction to auction varies widely, depending simply on how many keep their volumes active as the prices rise from round to round regardless of whether the prices at the end of each round are higher or lower than the winning prices in the previous auction. The recent average number of winning bidders is 120.7 (of the 158 who bid), a ratio somewhat higher than it had been earlier in the year. The decision to stop or continue depends on many factors such as bidders' needs/wants, short term/long term planning, other alternatives and options, forecasts of supply, demand, and prices, and many others.

Winning prices for most products in this week's auction were lower than the one before. The weighted average price for all products sold fell by \$.023 per lb, to \$1.672 per lb. The chart to the right shows the weighted average winning prices for the three major products offered in the 26 auctions from December 1, 2010, to December 20, 2011. It appears that prices generally have stabilized from October on. The biggest move upwards was for anhydrous milkfat; this week the price increased \$.077 per lb and has increased by \$.396 over the last three auctions. Prices for the milk powders decreased. The WMP price lost \$.042, to \$1.61 per lb, for February deliveries and \$.041 per lb for all volumes, but is \$.127 per lb higher than its recent October low. SMP prices lost \$.040, to \$1.48 per lb, for February deliveries and \$.051 for all volumes, but are \$.119 per lb higher than where they were in October. Prices for all three products for the March to August delivery periods, with lower volumes, are well above the prices for February, the "Spot Month" delivery period. An estimate of Dairy America's prices for SMP sold in the auction are shown by the red marker for the October to December period.



The continuing dairy commodity price volatility, widely predicted by virtually all experts who have a stake in the matter, can be seen on the above chart. Global milk supply, particularly in the southern hemisphere, is booming. Global financial issues remain largely unresolved. Short term global demand, particularly from some southeast Asian countries appears to be less sure than it was last year. Prices, where goest thou next?

**ON BEHALF OF THE MPC BOARD OF DIRECTORS AND STAFF,
WE'D LIKE TO WISH YOU AND YOUR FAMILY A BLESSED CHRISTMAS!**