



# 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](mailto:office@milksproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



DATE: February 25, 2011  
TO: Directors & Members

PAGES: 4  
FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0325 \$1.9875  
Barrels +\$.0325 \$1.9500

### CHICAGO AA BUTTER

Weekly Change +\$.0150 \$2.0200  
Weekly Average -\$.0365 \$2.0100

### NON-FAT DRY MILK

Week Ending 2/18 & 2/19  
Calif. Plants \$1.3293 14,124,437  
NASS Plants \$1.3938 18,128,348

### Weekly Average

Blocks +\$.0415 \$1.9850  
Barrels +\$.0398 \$1.9463

### DRY WHEY

WEST MSTLY AVG w/e 02/18/11 \$.4775  
NASS w/e 02/19/11 \$.4350

**CHEESE MARKET COMMENTS:** It was a week of active cheese trading on the CME. Blocks gained \$.03 per lb and barrels gained \$.0325 per lb. Overall, cheese traders seemed to know what was going on (sellers had cheese, and buyers wanted some). The week's activity was about evenly balanced with bids and offers, and buyers showed a bit more eagerness than sellers. NASS released January's report on cold storage on Tuesday, after trading had closed. The report showed December's end-of-month inventory of American cheese had been over-stated by 2 million lbs and Italian cheese **under-stated** by about 23.5 million lbs. The numbers for January showed **American cheese stocks unchanged from October**, Swiss stocks up by 8 million lbs, and Italian stocks also up by 8 million lbs – which really was quite satisfactory. [Shorter term: stocks for American cheese were 8 million lbs higher than at the end of December; Swiss stocks were 5 million lbs higher; stocks of Italian and other styles were 9 million lbs lower.] Yesterday, six sellers and three buyers agreed on a total of fifteen sales, resulting in a penny gain for barrels and no change for blocks. The week ended with what may have been a test of buyers' interest –two offers of blocks which netted an increase of \$.0025 per lb. Despite the price increases this week, the market appears to be jittery. Last week ended with a fairly strong across the board drop in class III milk futures prices, began this week with mixed results, followed by sharp drops for the second and third quarter of the year on Wednesday and Thursday, and ended the week with solid price recoveries. It may be worth noting once again that today's (and other recent) class III milk futures prices are substantially under-priced relative to where the current spot cheese prices are sitting, based upon futures prices for dry whey. So, what set of traders do you think know more about what's going to happen over the next six months or so?

**BUTTER MARKET COMMENTS:** It's usually a sign of a strong market when sellers offer product at higher than current prices and buyers snap them up. That happened this week for butter. The offers came after the report that January's stock of butterfat products in cold storage jumped by 37 million lbs over the previous month. The amount of the increase was not surprising; butter stocks are now 49 million lbs higher than the low point that was reported just two months earlier, but still well below what could be called normal. It's the lowest January inventory in six years. *Dairy Market News* says export buyers are still active. Cash-settle butter futures prices were mixed this week, with some weakness towards mid-year. But who wouldn't be pleased with a \$1.93 butter price in July?

**POWDER MARKET COMMENTS:** Futures traders appear to be either satisfied or uncertain about nonfat dry milk prices. A single bid for extra grade on Friday moved that price up by \$.0025 per lb. DMN says the market for NFDN is steady to firm, with most sales happening under existing contract provisions. The NASS price for shipments made last week increased by \$.0324 per lb with steady volume; the California plant average price added \$.0173 per lb, also with steady volume. Production of nonfat powders continues to increase seasonally. The west's "mostly" price range is \$1.45 to \$1.79; the top is slightly below this week's CME spot price for extra grade, \$1.80 per lb. Light trading and some price advances are reported for buttermilk and whole milk powders. Interest in condensed buttermilk continues to affect production of powder.

**WHEY PRODUCTS MARKET COMMENTS:** The market for dry whey and whey protein concentrates are firm. The NASS average price for shipments last week increased by \$.015 per lb. The west's "mostly" price this week rose to \$.4775 per lb. DMN reports that some buyers of dry whey and WPC are one to two months behind on receiving their contracted orders. Should that be surprising, considering the high percentage of production that is being exported? Is that really any way to treat valued customers? Is that any way to run a business?

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

<b>Feb 25 Final:</b>	<b>Quota cwt. \$18.35</b>	<b>Overbase cwt. \$16.65</b>	<b>Cls. 4a cwt. \$17.73</b>	<b>Cls. 4b cwt. \$16.92</b>
<b>Last Week:</b>	<b>Quota cwt. \$18.26</b>	<b>Overbase cwt. \$16.56</b>	<b>Cls. 4a cwt. \$17.66</b>	<b>Cls. 4b cwt. \$16.75</b>

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**DAIRY REVENUES IMPROVING, BUT DOESN'T NEGATE THE NEED FOR FUNDAMENTAL REFORM:** *(By Rob Vandenheuvel)* As we sit here in the first quarter of 2011, we are clearly in the "boom" portion of this boom/bust cycle we've gotten so familiar with in the dairy industry. Dairy commodity values are rapidly moving up and those increases are making their way into the price dairy farmers are receiving for the milk they produce. Of course, for a variety of reasons, higher grain and feed prices are eating away a healthy chunk of that additional dairy farmer revenue (memories of 2008?), but the additional revenue for our dairies is certainly a welcome sight.

At the same time, our excitement over these higher prices is tempered, as we all have the eerie feeling that we've seen this before. Higher prices, inevitably followed by unbridled expansion in the national milk production, followed by the ensuing collapse in commodity values, and in turn a collapse in dairy farmer revenue.

In the past, some in our industry have been guilty of trying to convince themselves, "this time it's different; \$10 milk is a thing of the past." We certainly know better than that as we sit here in 2011. With grain and hay prices escalating to record levels, the exposure to negative margins on the dairy farm is larger than ever before. A collapse in the milk price to government-support levels represents such a high risk that dairy farmers are inevitably nervous when watching the volatile dairy commodity markets.

*Update on NMPF's "Foundation for the Future"*

With that backdrop and the hope of learning from past mistakes, the National Milk Producers Federation (NMPF) is getting closer to having their Foundation for the Future (FFTF) in legislative form that can be considered by Congress. While MPC and other trade associations and cooperatives throughout the U.S. are awaiting the detailed legislative language before taking a formal position on FFTF, we can already see how the proposal is taking shape.

For those of you unfamiliar with the structure of FFTF, I'd strongly encourage you to invest a few hours to review the materials on [www.futurefordairy.com](http://www.futurefordairy.com). Regardless of what you've heard about this proposal or what you may think you know about it, as a dairy farmer staring at a status quo with massive exposure to equity erosion, it's your duty to understand this proposal as best as possible.

As a brief reminder about what is contained in FFTF, there are three major pieces:

- (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 provide a 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 aimed at modernizing our nation's Federal Milk Marketing Orders.

In a conference call last week with trade associations and cooperatives from virtually all regions of the country, Jerry Kozak, CEO of NMPF, gave a status report on their work with FFTF. The process of turning that concept into a legislative bill for the U.S. House and Senate to consider is well underway. In the coming weeks/months, the industry will get the opportunity to see the details of this legislation and make an informed decision on whether it warrants support from our industry.

While this loose coalition of trade associations and cooperatives (you can see a list of the organizations that are active on these calls at: <http://www.milkproducerscouncil.org/updates/012111.pdf>) is not collectively endorsing FFTF or any other policy, the groups represent a tremendous amount of dairy farmers throughout the country. Bringing these and other groups together behind a common proposal will be the only chance for success.

#### *A Specific Development from NMPF*

While most of the details of FFTF have been spelled out on [www.futurefordairy.com](http://www.futurefordairy.com), we are still awaiting the details of the specific Federal Order reforms that will be part of FFTF. These reforms will be discussed at an upcoming NMPF board meeting and we are anxiously awaiting the details coming out of that meeting. However, on the conference call, NMPF was able to clear up one specific area of concern expressed by MPC and numerous others over the past couple months. Kozak was able to confirm that the subcommittee crafting these Federal Order reforms had decided to retain the “higher-of” feature in the Federal Order Class I formula. This part of the Federal Order Class I formula, which allows the Class I price to be driven by the “higher of” the cheese milk price or the butter/powder milk price, has been extremely valuable to dairy farmers around the country (a similar provision exists in the California Class 1 formula as well). The readers of this newsletter will recall the article in our December 17, 2010 issue ([http://www.milkproducerscouncil.org/121710\\_higherof.htm](http://www.milkproducerscouncil.org/121710_higherof.htm)) outlining this important issue. This development is very positive for future dairy farmer revenue.

#### *Lobbyists for the Nation’s Processors Ramping Up Their Efforts*

Recently, I was made aware of a website created by the International Dairy Foods Association (IDFA), the main lobbying organization for our nation’s processors. The website is <http://www.keepdairystrong.com>. The website appears to be specifically designed to undercut any effort to implement a market stabilization program that would empower dairy farmers to make temporary corrections to our national milk supply when market conditions indicate we have a supply/demand imbalance.

Before getting into the substance of the website’s content, the first thing that should smack all producers in the face is the title of the website, “Keep Dairy Strong.” While I can certainly understand why some processors would view this as a “strong” industry, for those of you on the farm who have been sustaining massive equity losses over the past two years, “strong” is probably not the word you would choose. Maybe “broken,” or “in need of repair,” or as one producer put it: an industry that’s “stuck on stupid.” We have major structural problems in the dairy industry, most notably the fact that of all the players in our industry (e.g., farmers, processors, retailers), dairy farmers carry virtually 100% of the financial burden when prices collapse.

Now as for the content on the website, we all recognize the philosophical objection that many processors have to empowering dairy farmers with the tools to collectively respond to imbalances in supply and demand. The wordsmiths that run the processor’s lobby shop throw the words “supply controls” or “supply limits” or “supply management” and mention the Canadian quota system because they know that most dairy farmers have no desire to operate under a system like that. However, if they are intent on using these terms, they should at least be willing to admit that all “supply management” is not created equal.

Take the “Dairy Market Stabilization Program” in FFTF for example. This is a measure that in *temporary* periods of time, dairy farmers would be empowered to collectively scale back production when needed. This program is being proposed after experiencing the past two years of watching the nation’s dairy farmers burn through billions of dollars in hard-earned equity, hoping it’s your neighbor – and not you – that’s going to close their farm and help balance our national supply and demand. Is that really a healthy way of running an industry?

Take a look at how the processors that fund IDFA structure their contracts with their milk suppliers. Is it for an unlimited volume of milk? Of course not. They line up their supply (milk purchases) with their demand (product sales). As I've written in this newsletter before, the fundamental difference between producers and processors on this issue isn't about the need for balancing supply and demand – it's who gets to control that decision.

With this predictable opposition, it is vitally important to bring a united producer front. Sure, in any national compromise proposal, there will be things you like and things you don't. And there will be things that dairy farmers in other regions like, and things they don't. That's the key to compromise, and successfully passing national dairy policy reform. But at the end of the day, regardless of what legislative proposal is put before us as producers, we need to ask ourselves whether or not that proposal gives us the tools we need to empower our nation's dairy farmers to better protect their investment in their dairies. This is a vitally important question, as the last two years have taught us that the "tools" we have now are woefully inadequate. No proposal will be perfect, and no proposal will address every issue we need to address as an industry. But under the current system, producers are out on a limb, with all their hard-earned equity at risk when that limb breaks and milk prices collapse again.

Will NMPF's FFTF be the vehicle that warrants united producer support? Time will tell, and MPC and others will have to answer that question in the coming months. **But we should all hope it does.** If not, we've missed this rare political opportunity to empower dairy farmers with the tools we desperately need to combat this boom/bust cycle in our industry. If that happens, shame on all of us. These chances are few and far between.