



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



DATE: May 3, 2013  
TO: Directors & Members

PAGES: 5  
FROM: Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks +\$.0500 \$1.9100  
Barrels +\$.0450 \$1.7300

### Weekly Average, Cheddar Cheese

Blocks +\$.0275 \$1.8935  
Barrels - \$.0395 \$1.6850

### CHICAGO AA BUTTER

Weekly Change - \$.0400 \$1.6500  
Weekly Average - \$.0340 \$1.6810

### DRY WHEY

Dairy Market News w/e 05/03/13 \$.5650  
National Plants w/e 04/27/13 \$.5650

### NON-FAT DRY MILK

#### Week Ending 4/26 & 4/27

Calif. Plants \$1.5440 10,708,743  
Nat'l Plants \$1.6015 19,620,870

#### Prior Week Ending 4/19 & 4/20

Calif. Plants \$1.4975 12,836,174  
Nat'l Plants \$1.5480 23,123,955

**MARKET COMMENTARY:** (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

Class III prices softened this week. June and July suffered most, losing about 40¢. Markets were particularly weak on Friday, but volume was light, suggesting that Friday's trade may not be a strong indication of market consensus. Class IV contracts put in a mixed performance, but most months settled a little lower than last week. Butter and powder prices lost ground at the CME spot markets this week, while Cheddar prices increased. Butter shed 4¢/lb., with 13 loads changing hands. Grade A nonfat dry milk (NDM) lost 1.25¢. Cheddar blocks added a nickel and barrels rose 4.5¢. The barrel market is heavy with product. Sellers got rid of 22 loads of barrels at the exchange, but warehouses remain full. This pushed the spread between blocks and barrels as high as 23¢ this week, the widest it has been since December 2009. Barrels gained a little ground late in the week, and the spread ended at a still wide 18¢.

U.S. dairy product prices were pressured by a decline in the Global Dairy Trade auction. The weighted average price of all products fell 7.3%, the first such decline since December. Skim milk powder (SMP) prices fell 9.5% from the previous auction, and whole milk powder (WMP) prices were down 10.2%. However, after months of upward momentum, milk powder prices remain near record highs. SMP and WMP prices at auction are up 20% and 48%, respectively, from where they began the year. Cheddar was the only product to move higher. It added 3.4% from the previous auction. Cheddar prices are 39% higher than the average winning price at the January 2<sup>nd</sup> auction.

According to the *Irish Farmers Journal*, New Zealand milk production was 16.3% lower than a year ago in March and down 40% in April. This would put full season production roughly steady with last year. Official data has not yet been released. Milk production is also lower than last year in Australia, Argentina and Europe. In the U.S., it is not much greater than a year ago. However, quenching rains have set New Zealand up for a decent start next season, and history suggests that the sun will shine in Europe again. Rising milk checks and improving weather could do much to increase global milk production from current levels both here and abroad.

Please see the table below for a summary of dairy product export and production data. March dairy product exports were mostly higher than last year. However, given barriers to production elsewhere, U.S. dairy product exports were expected to be very strong in March, and actual sales volumes were not impressive.

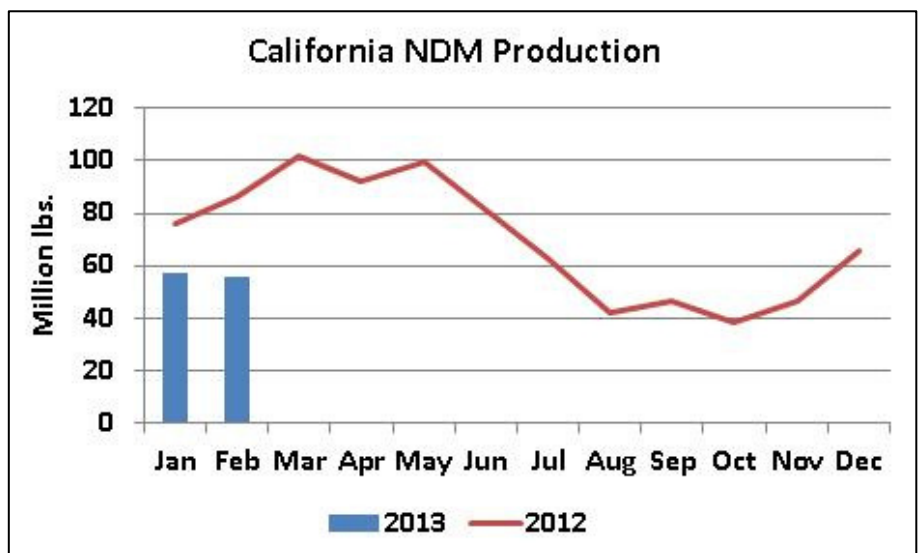
	March-12	February-13	March-13	Change from Feb. 2013	Change from March 2012
U.S. Butter Production (Thousand lbs.)	176,287	173,811	183,622	-4.6%	4.2%
California Butter Production (Thousand lbs.)	64,209	53,811	59,663	0.1%	-7.1%
U.S. Butter Exports (Metric Tons)	5,922	4,702	6,219	19.5%	5.0%
U.S. Cheese Production (Thousand lbs.)	956,196	855,778	954,335	0.7%	-0.2%
California Cheese Production (Thousand lbs.)	199,046	175,144	194,341	0.2%	-2.4%
U.S. Cheese Exports (Metric Tons)	25,087	21,638	26,425	10.3%	5.3%
U.S. NDM/SMP Production (Thousand lbs.)	201,865	180,852	193,637	-3.3%	-4.1%
California NDM Production (Thousand lbs.)	101,174	55,281	63,245	3.3%	-37.5%
U.S. NDM Exports (Metric Tons)	39,400	35,152	39,288	1.0%	-0.3%
U.S. NDM Stocks (Thousand lbs.)	210,432	225,708	213,925	-14.4%	1.7%
U.S. Whey Production (Thousand lbs.)	88,011	77,077	84,080	-1.5%	-4.5%
West Region Whey Production (Thousand lbs.)	20,481	17,523	15,983	-17.6%	-22.0%
U.S. Whey Exports (Metric Tons)	40,722	37,144	41,618	1.2%	2.2%
U.S. Whey Stocks (Thousand lbs.)	53,350	69,054	77,228	1.0%	44.8%

*All monthly comparisons are made on a daily average basis*

Due to still heavy milkflows in the Midwest, Cheddar production remains strong. It was up 1.3% from last year in March, and mozzarella production increased 2.5%. Lower production of other cheese varieties resulted in a slight decline in total cheese production relative to last year. Softer cream cheese and ice cream production pushed cream to butter churns, resulting in a 4.2% increase in butter production. Butter futures have softened accordingly.

Combined NDM/SMP production moved lower in March, but, for all the talk about a world in need of U.S. milk powder, NDM exports were disappointing and stocks are building. However, manufacturers are clearly adjusting product mixes to supply the export market. March SMP production of 47.5 million lbs. was the second highest on record.

Dry whey production declined in March, and exports were up slightly. Whey stocks have been building since October, and in March they topped 77 million lbs., nearly 45% higher than in March 2012.



Golden State production of all dairy products was notably lower than a year ago, when California milk production was burdensome. The 37% decline in milk powder production is particularly notable. National milk powder production would be significantly below last year if it were not for new production capacity in the Central region.

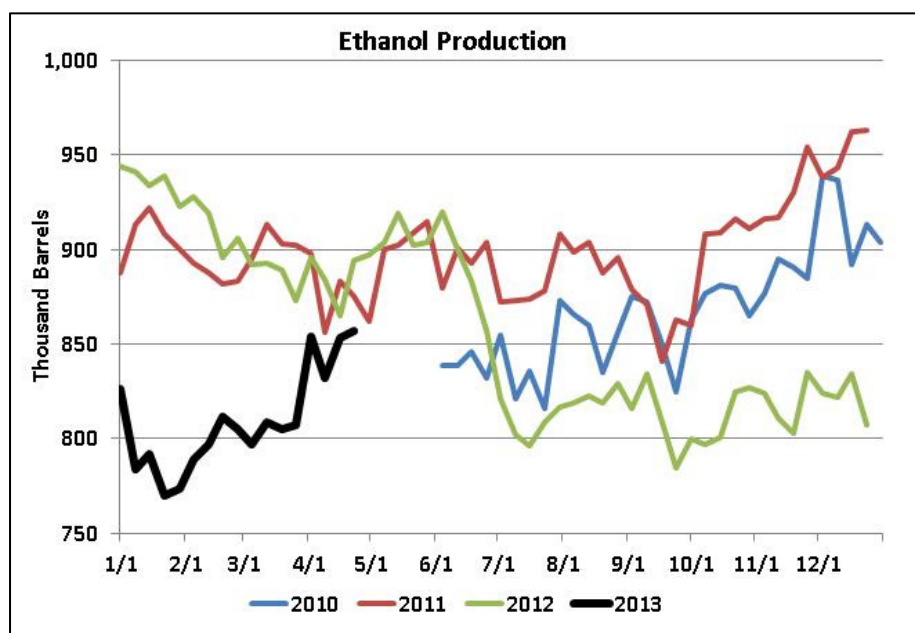
USDA announced April Class III and IV milk prices at \$17.59 and \$18.10, respectively, up \$0.66 and \$0.35 from March. The California 4a milk price was \$18.02, up \$0.15. The 4b price was \$16.92, \$1.90 higher than in March. Milk prices are dramatically higher than a year ago. Class III, IV, 4a and 4b are up \$1.87, \$3.30, \$3.30 and \$3.49, respectively.

For the week ending April 26, the California Weighted Average Price for NDM was \$1.544, up 4.65¢ from the prior week. Sales volume has waned since peaking a month ago. Last week it was just under 11 million lbs.

Weekly dairy cow slaughter totaled 62,323 head, up 9.3% from the same week a year ago. Year to date slaughter is up 4.7%.

Grain and Hay Markets

Feed prices moved sharply higher this week as a winter-like storm hit the Corn Belt, stalling fieldwork. It may be May, but there is snow on the ground in Iowa and Minnesota, and lows have dipped below freezing in the Plains, damaging the wheat crop. Corn planting is underway in parts of the Eastern Corn Belt, but more sunshine is badly needed, and lasting cold, wet weather could force farmers to switch some corn ground to soybeans. Farmers are hoping for a clear planting window in a week or two. In any given crop year, the grain trade is fixated on the weather outlook. Given tight stocks and the need for a crop that is large enough to replenish them, the market is following the forecast with an even greater degree of obsession this year.



There are plenty of reminders of the tight stocks situation, particularly for oilseeds. Canadian canola stocks on March 31 fell to 3.9 million metric tons, which was well below expectations. Stocks are 25% smaller than at the same time a year ago. Also, Cargill announced they will be shutting their Lafayette, Indiana soybean crushing facilities for the summer due to the scarcity of soybeans available for crushing.

Ethanol margins are improving, and production is increasing. In its quarterly report, ADM said it has resumed running its ethanol plants at full capacity. Some had been idled or run at

reduced production levels due to low margins and tight corn supplies. Ethanol production has averaged 849 thousand barrels per day in the past four weeks, compared to an average of 780 thousand barrels per day in the first four weeks of the year.

\*\*\*

**FRED DOUMA’S PRICE PROJECTIONS...**

<b>May 3 Est:</b>	<b>Quota cwt. \$19.35</b>	<b>Overbase cwt. \$17.66</b>	<b>Cls. 4a cwt. \$18.02</b>	<b>Cls. 4b cwt. \$17.80</b>
<b>Apr '13 Final:</b>	<b>Quota cwt. \$19.00</b>	<b>Overbase cwt. \$17.30</b>	<b>Cls. 4a cwt. \$18.02</b>	<b>Cls. 4b cwt. \$16.92</b>

\*\*\*

**THIS WEEK’S ASSEMBLY AG COMMITTEE HEARING ON AB 31 – A MIXED BAG OF GOOD NEWS AND BAD NEWS:** (By Rob Vandenheuvel) Producers received both good news and bad news this week at the California Assembly Agriculture Committee hearing on AB 31, a bill introduced by Dr. Richard Pan, an Assemblyman from the Lodi area. As we’ve discussed in the past couple months, AB 31 – as originally written – would result in the California Class 4b price (for milk sold to California’s cheese manufacturers) tracking in a closer relationship with the Federal Order Class III price (which is used as the benchmark price for comparable milk sold around the country).

First, the good news. By approving a bill this week, regardless of what is in that bill (more on that later), AB 31 remains alive, keeping the issue of changes to our California Class 4b pricing structure going for at least a few more weeks. This is significant, since under the rules of the Legislature, if AB 31 hadn't been approved by the Ag Committee this week, official action on it wouldn't have been available until 2014. The other piece of good news is that the Chair of the Committee – Assemblywoman Susan Talamantes Eggman (D-Stockton) made it clear that the language included in the Committee-approved bill would not ultimately be the language that is sent to the full Assembly for a vote later this month, but would instead need to be replaced by actual policy reforms.

Now, the bad news. As I hinted in the previous paragraph, the original language from AB 31 – which would have established some parameters to ensure that our Class 4b price stays in better alignment with the Federal Order Class III price – was stripped out of the bill prior to the hearing and replaced with a list of “Legislative Intent” language. Specifically, the amended version of AB 31 stated:

*The Legislature hereby finds and declares the following:*

*(a) The California Dairy industry has been confronted with numerous challenges in the past several years which have forced the dairy producers to exit the industry and processors to face heightened competition.*

*(b) The challenges include dramatic increase in the cost of corn and other produce used to feed livestock, increasing environmental and regulatory costs and decreasing water availability.*

*(c) It is the intent of the Legislature to provide the Department of Food and Agriculture the temporary authority to consider an emergency price adjustment.*

*(d) It is the intent of the Legislature that the Secretary of Food and Agriculture actively engage the Dairy Future's Task Force to assist in developing proposals intended to best position both producers and processors to achieve the goals of long term success and sustainability.*

*(e) Further, it is the intent of the Legislature to address establishing a dry whey value factor in the computation of the value of class 4b market milk and a dry whey credit for processors.*

As you can see in this language, there is no actual change that would be implemented under this bill. Legislative intent language is exactly what it sounds like – a statement of “intent” by the Legislature, but no actual policy change. As stated by Chairwoman Eggman during the hearing, it is now up to the industry – both producers and processors – to come up with policy changes that can be included in the bill. So at this point, we don't really know what AB 31 will ultimately look like before it goes to the Assembly floor for a vote later this month.

Since AB 31, as approved by the Committee, was merely a shell of a bill and included no actual policy change, the unanimous vote in support of the bill doesn't tell us much. **Instead, we need to pay close attention to the comments made by the Committee members.** One of the overriding themes of the Committee comments was a concern about having the Legislature get involved in milk pricing. I would submit to the Committee that **AB 31 is not about setting formulas or prices, which has been a function of CDFR, but rather providing more specific guidance on a provision that already exists in law.** Let me explain:

Regular readers of this newsletter are well-aware that the California Food and Agricultural Code lays out the guidelines for the Secretary of Agriculture in her role of establishing minimum prices for milk produced and sold in California. One of the often-cited guidelines is included in Section 62062 of the Code, which states that:

**“If the director adopts methods or formulas in the plan for designation of prices, the methods or formulas shall be reasonably calculated to result in prices that are in a reasonable and sound economic relationship with the national value of manufactured milk products.”** (emphasis added)

One of the basic disputes we have with CDFA is, “What is a reasonable and sound economic relationship?” Producers have argued that it entirely unreasonable to maintain a roughly \$2.00 per hundredweight gap between the California Class 4b price and the benchmark price for comparable milk sold to cheese plants around the country (Federal Order Class III price). For the seven years leading up to 2010, the average gap between these two prices was \$0.45 per hundredweight. Since 2010, that gap has been as high as \$3.63 per hundredweight, and averaged \$1.71 per hundredweight. At the same time, our State’s cheese manufacturers have argued that the gap is entirely appropriate.

So we have vague language in the law that AB 31 attempts to add more substance to. Under the original language of AB 31, there would be some specific parameters included in the law that would ensure that California’s Class 4b price stays within a reasonable range of the Federal Order Class III price. It doesn’t mandate a price that’s higher, but merely establishes a reasonable range. In addition, the original AB 31 goes on to provide a small business exemption that would actually lower the price plants pay on the first 3 million pounds of milk they buy per month.

Sounds pretty logical and reasonable, huh? Personally, I think it sounds downright generous. Dairy farmers could have asked that our Class 4b prices be equal to the Federal Order Class III prices, and that would certainly have been justified. After all, California’s dairy farmers face some of the highest feed costs in the country. Shouldn’t we have a pricing structure that accounts for that? Instead, the original AB 31 proposal was met with strong opposition from the Dairy Institute and the cheese manufacturers they represent. While dairy families fight for their economic survival, California’s cheese manufacturers continue to fight as hard as they can to protect the lowest regulated milk prices in the country, and therefore protect as much profit as they can. Do we really expect them *not* to fight for as low a milk price as possible? Of course not. But we need to remind our elected officials that there’s a huge and fundamental difference between fighting for survival and fighting for maximum profits.

So that’s where we are right now. AB 31 is still alive, but what the bill becomes is still very much in the air. So stay tuned as this story continues to develop in the coming weeks.