



# Milk Producers Council

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FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks	+\$ .0050	\$1.7100
Barrels	N/C	\$1.6850

### Weekly Average, Cheddar Cheese

Blocks	-\$ .0110	\$1.7040
Barrels	-\$ .0125	\$1.6805

### CHICAGO AA BUTTER

Weekly Change	+\$ .0200	\$1.6900
Weekly Average	+\$ .0150	\$1.6615

### DRY WHEY

Dairy Market News	w/e 08/03/12	\$ .5188
National Plants	w/e 07/28/12	\$ .5097

### NON-FAT DRY MILK

#### Week Ending 7/27 & 7/28

Calif. Plants	\$1.1679	6,948,585
Nat'l Plants	\$1.2014	14,979,910

#### Prior Week Ending 7/20 & 7/21

Calif. Plants	\$1.1240	10,628,543
Nat'l Plants	\$1.1759	17,275,087

**CHEESE MARKET COMMENTS:** The relatively high number of trades this week for barrel cheese (20) moved the price around a bit but ended the week with no change. The same general pattern was followed by blocks, only with fewer trades (6) and an increase of \$.005 per lb for the week. The price differential between the two, \$.025 per lb, is close to the norm, but the real market price based on manufacturers' prices reported to AMS has barrels consistently selling for a premium to blocks. The average difference between the two for the past four weeks has barrels (adjusted to 38% moisture) \$.042 per lb above blocks. The block price, and barrels a few weeks later, have rallied from just below \$1.50 per lb in mid-April, without much in the way of looking back. USDA's report on June cheese production showed less American and Italian cheese produced in June than in May, while the earlier report on the amount of cheese in cold storage at the end of June was 25 million lbs higher. That would normally put a somewhat negative note on the cheese market but look around at what is happening to feed costs and milk production. The longer view may be that cheese in storage is like money in a bank that pays fair interest. A lot of not so good things have happened during July, which could explain the apparent contradiction: higher costs, fewer cows, and less milk over 31 days makes quite a difference, especially after it follows a month with almost the same set of conditions. *Dairy Market News* reports cheese sales steady to growing, and both sides expressing concern about the milk supply and price levels later this year. Some rain has been falling along the eastern seaboard, in some southern states, and in the northwest. Everywhere else seems to be hot and dry, which for some western states is tolerable. It is a simple matter of good news for future milk prices for the wrong reasons, and bad news for those around to receive the prices. The class III futures market was paying attention: prices rose from \$.19 per cwt to \$.56 per cwt. \$19 is back on the board for three months this year with November's \$19.36 being the highest.

**BUTTER MARKET COMMENTS:** Butter production in June was 26 million lbs lower than in May and shipments fell short by about 7 million lbs (butterfat in cold storage at the end of June was 19 million lbs below May). Manufacturers of cream cheese, ice cream, sour cream, and whipping cream are competing for what seems to be a dwindling supply of milk, cream, and condensed skim this summer. Butter sales are holding up well. *DMN* says some manufacturers continue to dip into their stocks to fill current orders. CME spot prices added \$.02 per lb this week, supported by light trading. Both sides of the sale appear to be willing to hold and even build inventories for future usage. CME futures prices responded to the upbeat market by increasing from \$.015 to \$.04 per lb, reaching \$1.73 per lb in November and December.

**POWDER MARKET COMMENTS:** Production of the full line of dairy powders in June (except for skim milk powder) was lower than in May. Better yet, production per day was also lower. Stocks of nonfat dry milk dropped by 71 million lbs in June while production fell by 25 million lbs. The increase in SMP production could be a sign that export interest is either picking up or becoming more picky, but plants now have the time available to produce the product. *DMN* says the market tone in the West is firm but some buyers in the central region are

wondering why and how prices have risen so much in the face of record high production. That is a fair question; the reply should be to look beyond the end of the week and wonder about what price may be enough to get product in, say, November if market conditions continue as they have for the past several months. Prices reported to AMS for light shipments last week rose by \$.025 per lb and prices for California plants rose by \$.043 per lb with very light volume. Spot prices were little changed for the week. Buttermilk usage is active but limited by availability. Prices for Extra Grade and Grade A nonfat dry milk adjusted upward to \$1.40 per lb this week.

**WHEY PRODUCTS MARKET COMMENTS:** Production of dry whey in June was about equal to May's output on a per day basis. Production of whey protein concentrates increased – the 34% protein category was up slightly on a per day basis and stocks increased by 4.2 million lbs, (+13.2%). Production of the more concentrated products increased by 12.5% over May and stocks decreased by 2.3%. Prices for dry whey in the West are reported to be steady to firm. The “mostly” price increased by \$.005 per lb. Prices in the central and eastern regions moved upward; *DMN* reports manufacturers and buyers appear to expect higher prices not too far ahead, and are content to hold product back if necessary. Dry whey futures prices rose for the next six months, from \$.005 per lb for August to \$.04 per lb for January, to \$0.58 per lb.

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

<b>Aug 03 Est:</b>	<b>Quota cwt. \$16.77</b>	<b>Overbase cwt. \$15.07</b>	<b>Cls. 4a cwt. \$14.67</b>	<b>Cls. 4b cwt. \$15.66</b>
<b>July '12 Final:</b>	<b>Quota cwt. \$16.07</b>	<b>Overbase cwt. \$14.38</b>	<b>Cls. 4a cwt. \$13.50</b>	<b>Cls. 4b cwt. \$15.18</b>

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**REVISING THE “ETHANOL MANDATE” – THE BEAT GOES ON:** *(By Rob Vandenheuvel)* With the record drought continuing to impact expected crop yields around the country, the drumbeat of support in Washington, DC, for revising the Renewable Fuels Standard (RFS, also known as the “ethanol mandate”) has continued to get louder. Included in the Federal law that created the ethanol mandate are provisions that give the Environmental Protection Agency (EPA) the authority to revise the mandate due to severe economic or environmental harm. EPA has refused to exercise this option on their own, which has led to two key efforts taking place this week to push the issue.

#### Letter from Congress

Last week, we wrote about a letter addressed to EPA Administrator Lisa Jackson being circulated for signatures in the U.S. House of Representatives, that urges Administrator Jackson to utilize her authority to revise the ethanol mandate, given the impact that drought conditions around the country has had on expected crop yields. This week a bipartisan group of 156 Members of Congress sent the letter to EPA. The letter (which can be found at: <http://www.milkproducerscouncil.org/080212houseethanolletter.pdf>) states:

*“As serious drought conditions continue moving across nearly two-thirds of the country, we are at a critical juncture where federal policy meets real world realities. Because of these extreme weather conditions, corn prices are spiking and some analysts are predicting that the U.S. may experience a corn shortage this summer. Relief from the Renewable Fuels Standard (RFS) is extremely urgent because another short corn crop would be devastating to the animal agriculture industry, food manufacturers, foodservice providers, as well as to consumers. We urge you to adjust the RFS mandate for 2012 to account for the anticipated severe shortage in corn.”*

MPC extends its heartfelt appreciation to the following California Members of the U.S. House of Representatives who signed the letter in support of California's dairy and other livestock agriculture industries:

- Joe Baca (D)
- Brian Bilbray (R)
- Mary Bono Mack (R)
- Ken Calvert (R)
- John Campbell (R)
- Jim Costa (D)
- Elton Gallegly (R)
- John Garamendi (D)
- Duncan D. Hunter (R)
- Darrell Issa (R)
- Jerry Lewis (R)
- Dan Lungren (R)
- Kevin McCarthy (R)
- Tom McClintock (R)
- Howard McKeon (R)
- Gary Miller (R)
- Devin Nunes (R)
- Dana Rohrabacher (R)
- Edward R. Royce (R)
- Loretta Sanchez (D)

Official Petition for a Waiver from Livestock Organizations

While that effort was going on in Congress, **MPC joined a strong coalition we've been working with in Washington, DC, in officially petitioning EPA to revise the ethanol mandate.** Michael Formica, Chief Environmental Counsel for the National Pork Producers Council, submitted the petition (which can be read at: <http://www.milkproducerscouncil.org/073012livestockpetition.pdf>), on behalf of the following livestock agriculture groups:

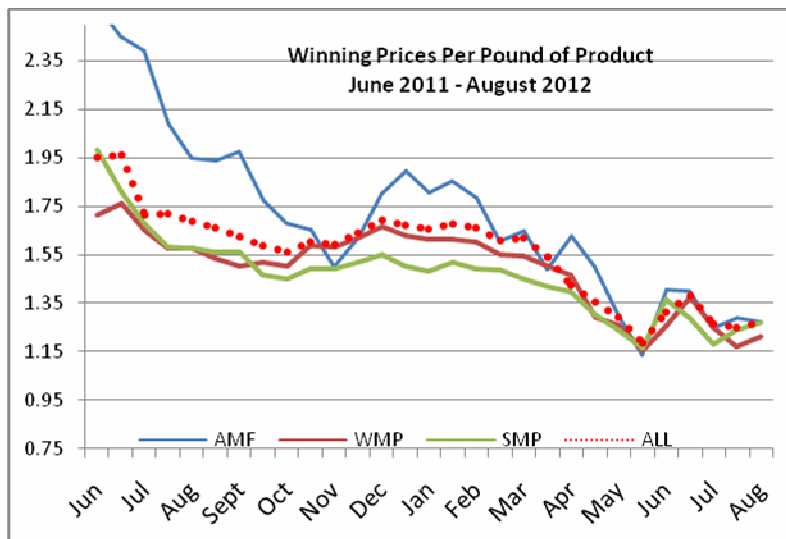
- American Feed Industry Association
- American Meat Institute
- American Sheep Industries Association
- California Dairy Campaign
- Dairy Producers of New Mexico
- Dairy Producers of Utah
- Idaho Dairymen's Association
- Milk Producers Council
- Nevada State Dairy Commission
- National Pork Producers Council
- National Chicken Council
- National Cattlemen's Beef Association
- National Turkey Federation
- North American Meat Association
- Northwest Dairy Association
- Oregon Dairy Farmers Association
- Southeast Milk, Inc.
- United Dairymen of Arizona
- Washington State Dairy Federation

The petition – which includes a comprehensive analysis of the impact the ethanol mandate has had on feed costs – states: “...we hereby request that you utilize your authority under the federal Renewable Fuels Standard (RFS) to waive the applicable volume of renewable fuel, in whole or in substantial part, for the period of one year pursuant to section 211(o)(7) of the Clean Air Act (“CAA”) (42 U.S.C. § 7545(o)(7)).” We are awaiting news from EPA on their response to this petition.

**A Federal policy that ignores the realities of weather and crop yields, resulting in about 5 billion bushels (or 40%) of our national corn supply being burned up by ethanol plants...if EPA and the Obama Administration think the issue will die down if they just stall, we need to prove them wrong. This is irresponsible governing and political pandering at its worst.**

**PRICES RISE IN THIS WEEK'S GLOBAL AUCTION BUT REMAIN FAR BELOW YEAR-EARLIER LEVELS:** (by J. Kaczor) Fonterra's global internet dairy product auction showed continued growth this week, with more qualified bidders, higher volumes, more winning bidders, and a slightly higher weighted average price. The number of bidders who participated (those who entered a bid in the first round) was the highest so far, 195, as was the number who stayed in until they received some product, 142. The volume of products sold, 103.4 million lbs, was the highest since last September's mid-month auction which makes it the second highest so far. The weighted average price for all products sold in the six contract delivery periods rose by \$.0191 per lb, to \$1.2692 per lb. The rise in total volume of products over the past year is partly attributable to three sellers signing on, offering skim milk powder and lactose, and Fonterra's addition of cheese.

The chart shown here summarizes price changes for the three major products for each auction from June 2011 to August 1<sup>st</sup>, as well as the weighted average price for all products sold in the auctions. The three major products represent about 90% of the volume of products offered by Fonterra. The WAP-all, so far as it reflects revenue per lb of product for Fonterra, is slightly skewed by the prices for the products sold by the other suppliers but still should provide a general idea of level of price payable by Fonterra for milk supplied during the year. Fonterra's fiscal year closed on May



31<sup>st</sup>. All prices for the five auctions since that time, when compared to prices for the five auctions at the beginning of the previous year explains why Fonterra's latest price projections are lower than last year's record level. The chart also shows the major effect the powder prices have on the total revenue generated by each auction.

The skewing of prices was especially large for the skim milk category. Dairy America began offering its SMP last September and the prices offered were generally substantially lower than those for Fonterra's, but with much lower volume. The entry of Arla Foods with its SMP this April did not change that pattern – both of the new suppliers' prices were bid lower than Fonterra's until truly unexplainable and unsupportable differences were reported for the June 5<sup>th</sup> auction. Major corrections occurred in the following two auctions – apparently with the, shall it be said, acquiescence of all bidders for at least medium heat powder who paid more for Dairy America's and Arla Foods' SMP and substantially less for Fonterra's. Since those corrections, prices for Dairy America's and Arla Foods' SMP in contracts 1 and 2 have been higher than Fonterra's, and sometimes higher than prices bid for Fonterra's whole milk powder.

Because of its dominant position in international dairy trade, Fonterra has a uniquely advantageous view of current and future international demand. They can afford to take a substantially longer and deeper view of what may be happening to prices, have a clear view of their supply of milk, and full command over how and where it is used. Their superior view regarding prices comes from the fact that the majority of their product volume is sold away from the auction, presumably at prices different from the public data, reflecting special services provided, contractual benefits received, and currency valuations. To date, their latest milk price forecast for the current year does not nearly reflect the price differences shown on the above chart. They continue to stress the likelihood of continuing price volatility and uncertain demand, and the need for patience.

Milk production in New Zealand for the year ending this May was 10.3% higher than the year before and Fonterra has been gradually increasing the forecast volumes to be offered in the auctions over the next twelve months. Based on USDA reports, it amounts to about 35% of their annual production. Their supply this year is expected to be about 2% higher than last year, provided they have normal weather, but they expressed some concern about how robust their largest international customer base, Asia (and most particularly China), will remain because of continuing uneven international economic recoveries. This week Rabobank lowered its estimate for U.S. milk production this year to 0.0%, with a recovery in global prices very possible in the 4<sup>th</sup> quarter. Isn't it ironic – Rabobank notes the 4<sup>th</sup> quarter strength will make Fonterra's milk production increase this year of even greater importance, to Fonterra.

**CONGRESS LEAVES TOWN FOR A MONTH WITHOUT VOTING ON THE 2012 FARM BILL:** *(By Rob Vandenheuvel)* Both the U.S. House and Senate have started their "August Recess" where the Members go back to their districts for a month. Unfortunately, a major piece of legislation moving through the Congress – the 2012 Farm Bill – was left on the table while they're back at home campaigning for the upcoming elections. The Farm Bill, which you all know contains much-needed reforms to our Federal dairy safety net policies, has made it through the Senate, as well as the House Agriculture Committee, but has hit a roadblock in the House of Representatives, where Republican leadership has refused to bring it to the full House for debate and a vote.

This past week, House leaders attempted to punt the issue until 2013 by bringing up a one-year extension of the current Farm Bill policies (which were originally approved in 2008). For the dairy industry, that move would have left us in a worse spot that we are even in right now (it's amazing that's even possible), with a scaled-back Milk Income Loss Contract (MILC) program and a Dairy Product Price Support Program that is nowhere near kicking in. Fortunately, House leadership came under extreme pressure not to delay this debate for a year, and their original plans to bring the extension to the House floor were cancelled.

MPC and many other dairy organizations around the country who are supporting the dairy reforms in the 2012 Farm Bill will continue working with Members of Congress and urging them to quickly approve the full five year Farm bill when the House comes back into legislative session in early September. So stay tuned...