



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 ~ www.MilkProducers.org



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TO: Directors & Members

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0050 \$1.7850
Barrels - \$.0400 \$1.7200

Weekly Average

Blocks - \$.0012 \$1.7888
Barrels +\$.0031 \$1.7306

CHICAGO AA BUTTER

Weekly Change - \$.0925 \$1.9125
Weekly Average - \$.1076 \$1.9619

DRY WHEY

WEST MSTLY AVG w/e 09/09/11 \$.6075
NASS w/e 09/03/11 \$.5876

NON-FAT DRY MILK

Week Ending 9/2 & 9/3

Calif. Plants \$1.5446 11,239,749
NASS Plants \$1.5424 21,515,370

CHEESE MARKET COMMENTS: After last week's pre-holiday pause, cheese prices this week continued to work themselves downward on the CME, and manufacturers' average prices followed along. The spread between the CME and NASS prices narrowed somewhat, but last week's commercial prices are still too high to cause buyers to do much beyond bargain for discounts. One sure way to make prices fall is for manufacturers to offer products at lower prices on the CME, which is what mostly happened this week. A total of 19 carloads of cheese traded this week, mostly from offers. The NASS price for blocks (for shipments made last week) fell by \$.11 per lb but was only \$.15 per lb lower than where it was four weeks earlier when it reflected CME prices \$.37 per lb higher than where they now are. The NASS price for barrels fell by \$.18 per lb, and is \$.27 per lb lower than where it was four weeks earlier when it reflected CME prices \$.40 per lb higher than the present average. The futures markets for cheese and for class III milk, both of which fell this week, supports current spot prices. It does look like there is a consensus building to support cheese prices at about current levels, and market prices are heading in that direction.

BUTTER MARKET COMMENTS: No sales occurred this week, but opinions that too much butter may be on hand, perhaps at prices too high, were very evident this week on the CME. The spot butter price fell by \$.085 per lb over three days from three offers. This post-holiday shortened week seldom serves as a clear indicator of market sentiment because milk and cream supplies and usage were in market-clearing mode. However, the near term futures markets floundered – October's price fell by \$.125 per lb this week and December's price fell to \$1.76 per lb. Butter production was reported to be heavy, and butter stocks may now be higher than they were a year ago. DMN reports export interest is light, in part because U.S. prices have not been tracking closely enough with international prices (at least those in the Southern Hemisphere). One possible bright note this week comes from Fonterra's auction results for anhydrous milkfat prices: after falling five straight times, they moved upward for all seven months covered by the auction. Indecision, opportunity, and risk pretty much describes the moment.

POWDER MARKET COMMENTS: DMN says drying plants were able to handle all the milk that came their way the past two weeks. They also say the tightness mentioned last week in the central region has generated higher prices for some sellers, but an apparent over-supply in the west has generated sharp discounts for some buyers. Apparently, no one can be found anywhere who wants to build powder inventories. Exports of nonfat powders in July were about 22% higher than last July, which is certainly good, but was lower than the rate for the first half of the year. DMN reports current export interest in the West to be slow to moderate, and brokers are looking for lower prices for near term deliveries. CME futures prices moved up this week by small amounts for near-term months, but still are about \$.12 per lb below last week's lower prices reported by manufacturers. The California plant average price has, for a 4th week, been higher than the national price (see the volumes in the table above). Prices for buttermilk powder are easing downward, in line with NFDM prices, but DMN says demand is building in the central and eastern regions as plants and buyers prepare for the upcoming heavy baking season.

WHEY PRODUCTS MARKET COMMENTS: The market for dry whey continues to be strong and prices continue to edge upward. Supplies are tight, or closely held, throughout the country. Usage of dry whey and whey protein concentrates of all concentrations appears to be holding up well – bakery interest is increasing and ice cream manufacturing is decreasing. Exports for dry whey in July continued at their steady rate, and exports of WPC were surprisingly strong, 27% higher than last July.

FRED DOUMA’S PRICE PROJECTIONS...

Sept 9 Est:	Quota cwt. \$20.01	Overbase cwt. \$18.31	Cls. 4a cwt. \$19.28	Cls. 4b cwt. \$16.49
Last Week:	Quota cwt. \$20.15	Overbase cwt. \$18.45	Cls. 4a cwt. \$19.75	Cls. 4b cwt. \$16.52

FROM ‘EASTERN DAIRYBUSINESS’ AND ‘WESTERN DAIRYBUSINESS’: COMMENTARY BY DAIRYMAN DOUG MADDOX: *(By Rob Vandenheuvel)* This week, a column written by well-known dairyman and Past-President of the Holstein Association, Doug Maddox, was published on the website of *Eastern DairyBusiness* and *Western DairyBusiness*. The column, which delves into the industry debate over federal dairy policy reform, will be published in the hard-copies of these magazines in October, but thanks to their website, is available for readers now. Many thanks to Doug Maddox and DairyBusiness Communications for this outstanding perspective on the decisions facing the industry over much-needed updates to our federal safety net policies.

Status quo or survivability? Support for Peterson proposal is your choice

Dairy’s three-year cycle points to another downturn in 2012. A policy discussion draft, based on the primary components of Foundation for the Future, is the best way to insulate dairy producers against it.

<http://dairybusiness.com/articles/2011-09-06/maddox--status-quo-or-survivability>

By Doug Maddox

As I reflect on the last 12 years, 2000 – 2011, one thing stands out. Volatility, with boom-to-bust years, does not favor the dairy producer. Dairyman have problems agreeing on anything. But, I think we all agree status quo is not a good option. Therefore, it puzzles me that so many well-intentioned people are fighting the dairy policy reform draft for discussion put forth by U.S. Rep. Collin Peterson (D-Minn.).

First, I want to tell you that I’m supporting Peterson’s plan, and here is why. The 3-year cycle (2000, 2003, 2006 and especially 2009) has drained U.S. dairy producers’ equity. Most people agree another 2009, continuing the 3-year cycle in 2012, would be devastating.

Naysayer positions

So, why the naysayers? I think they fall into three categories:

1. Those who want no supply management, in hopes the global market will absorb all of our production.
2. Those who think the Peterson draft does not go far enough. They want a program guaranteeing dairy producers a cost of production, plus a profit.
3. Those who don’t trust the National Milk Producers Federation. They believe anything NMPF supports will favor the processor sector of the organization.

Let’s take a good honest evaluation of the national dairy situation. First, assuming the status quo is not an option and another bust cycle would devastate dairy producers, then our No. 1 priority should be to prevent the next cycle from occurring, or at least mitigate it to the survival point.

If so, what are our options?

The only realistic game in town is Peterson's draft. Is it perfect? No. Is it better than status quo? You bet. Would I like to have my production costs covered, plus a return on investment, plus a profit? Of course, I would. Will I support those proposals if they get any support? Yes, I will. Should we try to improve all of the proposals to be more producer-friendly? Yes, that is our responsibility. However, let's not kill the only game in town.

Peterson bill our only hope

Chances are the Peterson bill is our only hope of dairy reform this year. Next year, and the 2012 Farm Bill, could be another story. However, 2012 is a presidential election year. Traditionally, not much gets done in election years. Remember the 3-year cycle, and 2012. I hope all dairy producers will consider supporting Peterson's bill. It might be our only hope.

However, I think people are looking at Peterson's draft – based on the primary components of NMPF's Foundation for the Future program – incorrectly. We should be comparing this proposal to what we have now, not to what is on our wish list. Let's compare the proposal to today's programs, and maybe suggest some improvement.

Everyone can have input

First, personally, I would suggest the Federal Milk Marketing Order reform piece be addressed administratively, instead of in this bill. I think it will go through an extensive hearing process anyway. So, we might as well start that way, so everyone can have input. Having it as part of this bill only makes it harder for dairy producers to understand. In fact, in my opinion, it will not in itself protect the dairy producer.

The Dairy Market Stabilization Program (DMSP, or market management) and the Dairy Producer Margin Protection Program (DPMPP) are key to dairy producers as a safety net. Without some form of supply management, we cannot address a long-term supply-demand imbalance, at least in a reasonable time. However, we have supply management now: 2009 caused a 4% drop in California milk production (-0.4% nationally) to help balance supply-demand. But, do we have to go through that economic pain to balance supply-demand?

DMSP is unique; it kicks in when margins are compressed, and disappears when either feed costs drop and/or milk prices rise. The criticism is that it is not proactive enough and should activate sooner, to eliminate as much volatility and producer loss as possible. I agree with this assessment. I would like to see it activate when producers start to lose money. It should activate closer to the break-even point. However, it should be noted that we have no proactive supply management now, no protection whatsoever.

Global market concerns

The other criticism of any supply management is we should be prepared to produce for the global market. I also agree with that, and the trigger philosophy in the DMSP takes care of that need. If there is a profitable demand for milk, and demand and supply are in balance, we will not need to activate the DMSP.

However, one thing is certain: Producers don't want to take all the risks in supplying the global demands. At a Rabobank meeting recently, the talk was all about supplying this market. They also warned to be prepared for more volatility in the world market. As producers, I can guarantee we will produce the milk if the price is profitable, but should we be required to produce at an unprofitable price?

That leaves the margin protection program. Personally, I like insurance, and I like this part of FFTF as is. It sure beats the Milk Income Loss Contract program, a welfare program, and the Dairy Product Price Support Program, which is completely outdated. DPMPP is similar to other crop insurance programs, so it is not new to USDA. It does not guarantee a profit, but does provide a safety net to mitigate the losses. It is far more cost-effective than other risk management schemes available.

Currently, national feed costs are about \$13.00/cwt. If you buy up on the supplemental margin insurance to a \$6/cwt. margin for 15.5¢/cwt. on 90% of your milk, your safety net would be \$17.80/cwt. on 90% of your milk.

Obviously, that does not correlate exactly to California's milk price, but here are the other options at this current time.

While it is not perfect, it definitely is better than status quo and cheaper than risk management on the Chicago Mercantile Exchange. Everyone recommends dairy producers use risk management to mitigate the losses of a volatile dairy industry. My vote for risk management is DMSP and DPMPP. Hopefully, we will not need margin protection with a proactive DMSP. Our goal should be that the insurance is not needed, and is only there for use in a catastrophic situation.

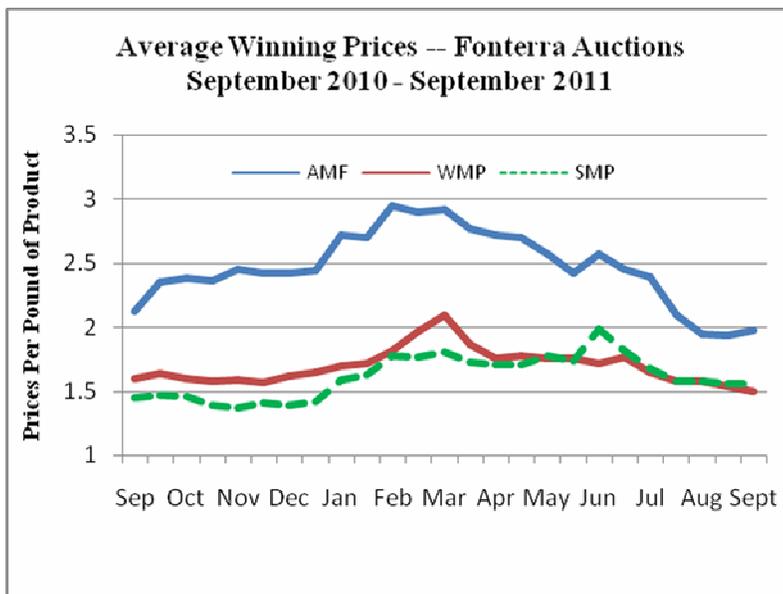
Now is the time for every dairy producer to step up and be counted. It appears to me the choice is status quo or survivability.

Doug Maddox, a Riverdale, Calif., dairyman, is past president of Holstein Association USA.

PRICES ARE MIXED BUT THE AVERAGE IS LOWER IN FONTERRA'S LATEST GLOBAL AUCTION: (By J. Kaczor) The weighted average price for all dairy products sold in this week's internet auction was again lower than the winning prices in the previous auction. Although well below the highs reached earlier in the year, the prices appear to be stabilizing close to levels reached one year ago. In this week's auction the winning average price for whole milk powder was \$1.503 per lb, \$.032 below the average price in the previous auction. The winning average price for skim milk powder was \$1.562 per lb, \$.003 higher than two weeks ago. The winning average price for anhydrous milkfat was \$1.974 per lb, \$.036 higher than two weeks ago. Whole milk powder represents 60% of the total volume of all seven products offered in the auction; its price thereby greatly influences the overall result. Winning prices in this auction for WMP were lower for all delivery periods, from November 2011 through May 2012. Winning prices for AMF were higher for all the periods. Prices for SMP were lower in the first and third delivery period and higher in the second period.

The number of qualified bidders has risen to 387; 166 participated in this auction; 128 wound up with some product. Eleven rounds of bidding took only two hours and twelve minutes. A total of 97 million lbs of products were sold in this auction. Fonterra's volume projections indicate relatively little change through the end of this year, at which time the volumes begin to fall, in line with the pattern of milk production in the southern hemisphere. Total volume forecast for the next twelve months was increased by 2%.

The graph to the right shows the weighted average prices for the past 25 auctions. The price patterns through March reflected the industry's consensus viewpoint of increasing global dairy demand outstripping global dairy supply. Recent prices may be reflecting lower optimism and concerns about recurring economic and financial problems in various parts of the world. SMP prices are currently \$.42 per lb below their high point reached in June. WMP prices are \$.53 per lb below their March peak. AMF prices are \$.97 per lb below where they were in February. Fonterra spokesmen say lower prices were expected when they issued their price forecast earlier this year for the 2011-2012 production year which began in June. Because these products are priced in U.S. dollars, the value of the New Zealand dollar versus the "greenback" also can influence prices. Over the past year, the NZ\$ increased by about 15% versus the US\$ (and most other currencies), which means some buyers need to use more of their money to buy a given volume of product from New Zealand or apply the same amount of money for a lower volume.



Here's more information about coming changes, and Dairy America's participation as a new supplier. First, DA's supply agreement has been posted on the globalDairyTrade website. The agreement greatly resembles Fonterra's agreement except DA agreement, as written, requires bidders for their skim milk product to be willing to accept nonfat dry milk instead of SMP, provided the NFDM meets the specifications for SMP (presumably with respect to the protein and moisture content). The other change deals with the new contract period supposedly established for DA. It will be put in place for the September 20th auction, two weeks before DA begins to offer products in October. The new contract 1 delivery period for the 9/20 auction will be October; the new contract 2 will ship in November, and contracts 3 and 4 will ship in the following six months. Contract 1 deliveries from the October auctions will be in November. Fonterra did not say if they will be offering any of their products in contract 1 on September 20th, or in any of the auctions that follow.

For laughs, here is a quote reported September 8th on the nzherald.co.nz website regarding lower milk powder prices. "It's largely due to an increase in production, particularly in the Northern Hemisphere, over the last several months and some of that supply's come on to international markets," says an economist at ANZ National Bank in Wellington. Let's see, is that the Northern Hemisphere that includes Canada with no growth in milk supply, the U.S. with a steadily declining milk supply, and Western Europe with a sharply downward shift in milk supply? Surely he didn't mean Argentina with sharply increasing milk supply, or New Zealand, whose milk output from January through June was said to be 12.2% above the previous year.

ONLY A FEW DAYS LEFT TO REVIEW YOUR MILC CONTRACT: *(By Rob Vandenheuvel)* We've been reminding our readers in recent weeks to review your Milk Income Loss Contract (MILC) that is currently on file with your local Farm Services Agency (FSA). In case you missed those reminders, if your dairy is currently signed up for the 2011/12 MILC program to start in October 2011, you have until September 14th to decide whether or not you would like to change that.

Why does this matter? If your dairy is enrolled in the MILC program and you've chosen October of each year as your "start month," it's possible that you'd benefit from changing that. If you keep your start month as October, and payments begin later in the fiscal year, you will have no choice but to begin collecting the subsidy payment as soon as it's available, regardless of whether it's an optimal month for your operation to do so. And if you'd like to change your month from October to a later month, you have only until September 14th to make that change. If you have any questions about the MILC program or your dairy's specific MILC contract, feel free to contact either your local Farm Services Agency office or Milk Producers Council at (909) 628-6018.

LATEST DAIRY CARES COLUMN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The August "Dairy Cares Report" has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. The column takes a look at what "sustainability" means for California dairy families. A series of videos on the topic has been produced and will be published on the Dairy Cares website (www.DairyCares.com) later this month.

MONTHLY MPC BOARD MEETING TO BE HELD NEXT TUESDAY: *(By Rob Vandenheuvel)* MPC's monthly board meeting will be held next Tuesday (September 13th). This month's meeting will be held in Chino, CA, at Centro Basco Restaurant. The meeting will start at 11 am. All current and prospective MPC members and associate members are welcome to attend. If you plan to attend, please RSVP by calling (909) 628-6018.