



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@milproducers.org ~ www.MilkProducers.org



DATE: April 13, 2012
TO: Directors & Members

PAGES: 3
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks N/C \$1.4875
Barrels N/C \$1.4600

Weekly Average, Cheddar Cheese

Blocks - \$.0019 \$1.4875
Barrels - \$.0118 \$1.4495

CHICAGO AA BUTTER

Weekly Change - \$.0050 \$1.4250
Weekly Average - \$.0184 \$1.4260

DRY WHEY

Dairy Market News w/e 04/13/12 \$5.163
National Plants w/e 04/07/12 \$6.133

NON-FAT DRY MILK

Week Ending 4/6 & 4/7

Calif. Plants \$1.2980 14,814,431
Nat'l Plants \$1.2605 22,270,600

Prior Week Ending 3/30 & 3/31

Calif. Plants \$1.3180 13,479,968
Nat'l Plants \$1.2965 22,648,086

CHEESE MARKET COMMENTS: Current low prices are helping to keep cheese moving through the marketing chain, a much needed happenstance considering how much more is likely to be produced before the peak milk production season winds down to lower summer levels. Dairy Market News reports some tanker loads of milk, cream, and/or condensed skim being trundled cross country and sold for as much as \$5.00/cwt below class prices. Some cheese makers cannot take any more, regardless of price, as they are at capacity. Others, who have some production time left, are pleased for the opportunity. Despite the strong sales, including exports, cheese stocks are growing. CME trading activity this week was, shall we say, bumpy for barrels. Blocks saw no activity whatsoever. Six carloads of barrel cheese were sold Tuesday, with no price change, but seven sold on Thursday at four price levels, ending \$.0525 per lb lower (one seller, four buyers), and five more sold on Friday, regaining all of what was lost the day before. Trading ended with an "in your face" offer at a penny higher, with no takers. Class III milk futures this week for months through September were lower, with May's \$14.97 the low for the year and September's \$16.42 the high, and tailing downward thereafter. Cheese may offer the better of any products the possibility of higher prices sooner rather than later.

BUTTER MARKET COMMENTS: DMN says butter sales were very good through last week at all levels of sale but heavy production continues to push inventory levels higher. More of the same is expected for another month or so. Butter plants throughout the country are straining to handle all the raw supplies available, even deeply discounted offerings. Buyers are sorting through their sales for the past six months to figure how much overall domestic demand has changed, and are looking for signs that the market price has stabilized. Futures prices for near-term months are sitting near CME spot prices, and cautiously rising over the following months, reaching \$1.4950 in July and topping out at \$1.59 per lb. in January.

POWDER MARKET COMMENTS: The pressure on prices continues to build. Prices for nonfat dry milk this week are lower, the market is described as weak, and buying interest is light. National prices reported to AMS continue to move steadily lower, having lost \$.10 per lb over the past six weeks. The California plant average price lost \$.02 per lb last week but is still 3.8 cents per lb higher than the national average. Spot prices on the CME this week were lowered by \$.075 per lb this week, to \$1.1825 per lb for extra grade product whereas NFDN futures prices from May through December ranged from \$1.235 to \$1.35 per lb. Milk production is edging towards Spring peak levels, setting new records virtually every week so far this year. Many drying plants are at capacity; few can take in more raw supply regardless of how low the price offers may be. With class 1 sales still heading lower in all parts of the country, additional milk and condensed skim is being offered into an extended buyer's market. That market begins with milk plants themselves, includes their direct customers, and extends to secondary markets and beyond. Price structures for dairy powders are beginning to show signs of collapse; nonfat dry milk is leading the way down and dairy powders of all kinds are following. Prices for whole milk and buttermilk powders are moving lower because of the combined effects of rising stocks and lower prices for the major competitive product, NFDN. Exactly why domestic prices for NFDN are so low when export

prices and global auction prices are so much higher is hard to understand. It may be that U.S. sellers are competing with European sellers, and both are leaving the good stuff to Fonterra, Argentina, and Australia.

WHEY PRODUCTS MARKET COMMENTS: While last week's prices for dry whey in the national price series bounced up, DMN reports cash prices in all regions for each of the last four weeks were lower than the week before, although only marginally so in the West. DMN says the wide ranges in prices reported in all regions contribute to buyers' uncertainty, leading to more conservative buying strategies. In other words, seek deep discounts and take them when offered and hold back as long as can be done on everything else. Prudent use of deep discounts is how manufacturers keep inventories from getting out of hand. The ultimate effect of doing this is questionable – the “can” is merely being kicked down the road, and the practice tends to be disruptive and is seen by some as unfair. When the low end of the full range of prices is \$.25 to \$.30 per lb below the high end of the “mostly” range of prices, as has been the case, more “mostlies” want to change sides. Futures prices were mixed this week, gaining some through September, then essentially flat. Unlike prices for other futures products, the pattern for whey futures is pointing downward. Prices for WPC-34 also have moved lower as virtually all sellers move prices downward. Buyers continue to accept deliveries per contractual obligations, but nothing more. WPC exports in January and February were lower than the same months in 2011. The general outlook for whey protein products is presently negative.

FRED DOUMA'S PRICE PROJECTIONS...

Apr 13 Est:	Quota cwt. \$15.86	Overbase cwt. \$14.16	Cls. 4a cwt. \$14.99	Cls. 4b cwt. \$13.35
Last Week:	Quota cwt. \$15.87	Overbase cwt. \$14.17	Cls. 4a cwt. \$15.00	Cls. 4b cwt. \$13.35

AN UPDATE ON THE STATE-SPONSORED DISCOUNTING OF CALIFORNIA MILK; LESS THAN TWO MONTHS UNTIL A HEARING ON THE ISSUE: *(By Rob Vandenheuvel)* Another month has gone by with our California cheese manufacturers benefiting from a State-sponsored discounting of the milk they need to make their products. The Class 4b minimum price – which applies to the milk purchased by California's cheese manufacturers – was announced for March 2012 at **\$13.67 per hundredweight**. The Federal Milk Marketing Orders (FMMO) – the regulatory structure that exists in most of the dairy industry outside of California – also announced their March Class III price (applicable for milk sold to FMMO cheese plants); that price was **\$15.72 per hundredweight**. If you don't have a calculator handy, **that's a difference of \$2.05 per hundredweight!**

As regular readers of this newsletter are well-aware, this is just the latest evidence of a disturbing and outrageous trend. Seven months ago, the California Department of Food and Agriculture (CDFA) updated the Class 4b pricing formula after a two-day hearing was held last summer. **Since that new formula was put in place (September 2011), our California Class 4b price has trailed the FMMO Class III price by an average of \$2.57 per hundredweight.** In that time, California's dairy farmers have sold an average of about 1.5 billion lbs of milk per month to our cheese plants. **Using those numbers, our California cheese manufacturers, compared to their competitors around the country, have enjoyed a discount – courtesy of California's Department of Food and Agriculture – of more than \$38,000,000 per month on the milk they've bought in the seven months since CDFA “fixed” the Class 4b formula (that's about \$266 million since September!).** And of course that's directly **at the expense** of the roughly 1,700 dairy farmers who **desperately need** all the revenue available in order to operate in our current high-cost economic environment.

While it is coming far too late, a hearing has been scheduled by CDFA on May 31 – June 1 to reexamine the issue. A unified coalition of seven major dairy organizations/cooperatives has been working hard to secure this hearing and prepare to advocate on producers' behalf throughout that process. We'll continue to report on this fleecing of California dairy families until meaningful change takes place; **let's hope this current hearing process results in the meaningful change that our State's dairy farmers are entitled to.**

DAIRY EXPORTS GROW IN 2011; MORE IS NEEDED TO KEEP INVENTORIES UNDER CONTROL: *(by J. Kaczor)* It is now an absolute given that U.S. exports of dairy products is an essential part of the total demand for the U.S. milk supply. USDEC calculates the percentage of total milk solids production that is exported in all forms as a measure of how the U.S. is maintaining its position in that very competitive field. That update also serves as a reminder to milk producers of how precarious is the balance between total milk

supply and total demand. According to USDEC, the percent of total milk solids production exported in 2010 was 12.7%. U.S. milk production in 2011 grew by 3.9 billion lbs (1.8%) and U.S. fluid milk usage (class 1) fell by 900 million lbs, but the percentage of the total supply exported grew to 13.3% during the year. Exports in 2009 went in the opposite direction – falling by almost a third, resulting in severely lower milk prices.

The product mix of all exports is important in the sense that a broader supply base should involve a broader demand sector and thereby be somewhat more sustainable under all conditions than would a limited line offered to a relatively few customers. In fact, that is the business model used by the world's leading dairy product exporter, Fonterra Cooperative Group, New Zealand. Fonterra exports about 95% of the milk it receives from its member producers in the form of a wide variety of products they sell throughout the world. The total revenue received from those sales translates directly into a single price per liter or per lb of milk solids payable to their members. Fonterra has the enviable ability to shift its production among a large number of its plants to quickly respond to whatever combination of products is in the greatest demand and provides the largest total revenue.

Recap of U.S. Annual Exports of Major Dairy Commodities										
	Nonfat Powders		Dry Whey		Butter		Cheddar Cheese		All Other Cheese	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Volume	846.3	960.5	557.3	551	99.2	115.1	75.9	113.4	306.5	381.1
Pct Production	46.60%	48.90%	55.00%	54.60%	6.30%	6.40%	2.30%	3.60%	4.30%	5.10%
Average "Value"	\$1.18	\$1.51	\$0.45	\$0.56	\$1.59	\$2.01	\$1.76	\$1.87	---	---

The U.S. industry is not so fortunate in that it is comprised of a large number of competing companies, none with the full line of products carried by Fonterra, and each pursuing their individual business plans. While the industry as a whole benefits from exporting a broad based line of dairy products, the prices paid to U.S. producers depend on prices of only four major internationally traded dairy commodities, nonfat dry milk, dry whey, butter, and cheddar cheese. The table shown here recaps the U.S. exports of those four products for the past two years. (All cheese other than cheddar is shown to indicate a source of growing milk demand. No prices are shown because of the variety of products represented by the category.) The nonfat powders include skim milk powder as well as nonfat dry milk. The volumes are in millions of lbs. The average values are those reported by the U.S. Census Bureau, reflecting the prices reported paid for the products plus the cost of transportation from the seller to the point where they leave the country, plus insurance.

All told, the percentage of production of the four price-setting commodities is encouraging. The U.S. is, and has been, a leading exporter of nonfat powders and dry whey. Except for past intermittent export subsidies of nonfat dry milk and butter through USDA's soon to be defunct Dairy Export Incentive Program, the four products receive no direct governmental monetary support for helping exporters. Cooperatives Working Together reinstated its export assistance program for cheddar cheese in March 2010, expanded it by adding a number of other American style natural cheeses later that year, and recently added butter to its program.

The table to the right recaps export data for January and February, 2012. The numbers reflect the same factors in the preceding table. Compared to the annual data for 2010 and 2011, shown above, a number of things stand out. The showing for nonfat powders and dry whey continue to be encouraging;

	Volume	Percent of Production	Average Value
Nonfat Powders	173	45.0%	\$1.45
Dry Whey	85.2	49.0%	\$0.67
Butter	13.9	4.0%	\$1.89
Cheddar Cheese	21.1	4.0%	\$1.88
All Other Cheese	67.1	5.8%	---

the volumes should continue high, but expect lower prices for both in the near future. The volumes for cheeses continue to grow. Butter is the exception: exports are weak, continuing the pattern that began last July when January to June strong increases over the year before turned around and offset about half of the gains. The level of price also raises a number of questions. Assuming \$.04 per lb of product is involved in transporting products to the docks or borders, an average price for exported butter of \$1.85 per lb for January and February compares to U.S. national average price reported for commercial sales of about \$1.52 per lb and the average price f.o.b. docks in New Zealand of about \$1.72 per lb. The export values do not appear to be helping domestic prices, which is a trick that has been seen before with other products. Is that what milk producers can expect when U.S. exporters attain the status of reliable and consistent – and unregulated – global suppliers? Yes, some of the exported butter contains 2% more butterfat (worth about 3 to 4 cents per lb) and some of the prices likely were set months ago, but so were prices for shipments from New Zealand. Would not lower prices and higher volumes of exports be the best combination for the U.S. industry? It seems to be working for Fonterra.