



Milk Producers Council

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DATE: October 19, 2012
TO: Directors & Members

PAGES: 4
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SPECIAL NOTE: A HEARTFELT THANKS TO JOHN KACZOR FOR HIS YEARS OF SERVICE: (By Rob Vandenheuvel) This is John Kaczor's final issue as editor of MPC's *Friday Market Update*. For the past six years, MPC's membership and other readers of our newsletter have had access to John's outstanding weekly original dairy market analysis. His market commentary has earned regular readership among industry players throughout the U.S., with his work reprinted in national – and even international – publications from time to time.

Words alone seem insufficient in expressing our appreciation for John's valuable work, but on behalf of the Board and membership of MPC, we want to extend our heartfelt gratitude to John for his work these past six years. John's shoes will be difficult to fill.

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.1000 \$2.0000
Barrels - \$.1425 \$1.9175

Weekly Average, Cheddar Cheese

Blocks - \$.0760 \$2.0240
Barrels - \$.1015 \$1.9585

CHICAGO AA BUTTER

Weekly Change - \$.0500 \$1.8800
Weekly Average - \$.0430 \$1.8880

DRY WHEY

Dairy Market News w/e 10/19/12 \$.6163
National Plants w/e 10/13/12 \$.6152

NON-FAT DRY MILK

Week Ending 10/12 & 10/13

Calif. Plants \$1.4127 6,621,529
Nat'l Plants \$1.4587 14,183,908

Prior Week Ending 10/5 & 10/6

Calif. Plants \$1.3974 6,705,234
Nat'l Plants \$1.4409 12,118,976

CHEESE MARKET COMMENTS: It was a rough week for cheese prices. After blocks reached the \$2.10 per lb mark on the CME on October 3rd prices stayed put for nine more trading days and then dropped abruptly by \$.09 per lb this Tuesday and by another \$.01 Thursday. Tuesday's action came only three trading days after release of a glowing report last week for August cheese exports – 30% more than the year before and 21% higher year-to-date. By all accounts, according to *Dairy Market News*, their contacts were not surprised by a price adjustment but did not expect one of this size. The price drop came from an offer to sell at \$2.02 per lb that was quickly taken; it was followed by another offer, uncovered, which pulled the price down by another \$.01 per lb. The barrel price followed along, from an uncovered offer by the same seller, then dropped another \$.0425 the following day, Wednesday. Blocks lost another cent per lb yesterday, through offers to sell as low as \$1.95 per lb before reversing course back up to \$2.00 per lb; 14 carloads were sold during that round trip. Today's differential between blocks and barrels, \$.0825 per lb, will surely not continue for long. That this week's offers to sell may be related to export issues seems possible; how else would a cheese plant have so much excess product when milk supplies are seemingly hard to come by and exports booming? That these price moves did not represent market fundamentals is given by the single-seller syndrome and the reaction to them by the futures markets. After the expected drop on Tuesday following the week's biggest loss during the cash trading period, class III milk futures prices for all months from January through April bounced back, ending the week higher than last Friday's close; November and December were down by an average of \$.35 per cwt. Cheese futures were also mixed with gains and losses off-setting each other through April.

BUTTER MARKET COMMENTS: Last week's abrupt recovery on the CME from the sharp \$.0925 per lb drop on October 5th held but one day this week before again falling below the heralded \$1.90 mark. Twenty carloads were sold over four days of trading this week, resulting in a net loss of \$.05 per lb. Still, the rise from \$1.30 per lb in early May to today's \$1.88 per lb is impressive for a number of reasons, including this year's very weak exports and price levels running well above those of our international competitors. [The one may well

follow from the other.] Domestic demand for butter (retail and food service sectors) continues to push upward while exports of butter and butterfat blends continued their prolonged slump. August exports were 45% below last August and year-to-date exports are 21.5% below last year's weak numbers. The recent apparent price weakness on the CME appears to stem mainly from buyers delaying placing orders in expectation of lower prices as the end of year approaches; price declines at about this time of year is a "normal" happening. Whether butter prices fall further or recover as they sometimes have near year-end depends on a basketful of factors ranging from basic supply and demand to individuals' attitudes and perceptions. The two most important basic factors at work is milk supply and end-of-month inventories which is rocketing downward at a pace equal to the sharp declines in 2008, 2009, and 2010. Current and future U.S. milk production is discussed in a following article. Butter futures were lower this week across the board through April, averaging \$.028 per lb down from last Friday's close.

POWDER MARKET COMMENTS: Exports of nonfat dairy powders are heading for a new record this year. August exports totaled 93.7 million lbs, the highest ever for that month and the fifth highest month on record. Year-to-date exports (through August) are 9% higher than last year. Prices for those exports, however, are not so great; this year's average export price, through August, for nonfat powders is \$.158 per lb lower than last year's average price, and this year's estimated average California plant price for nonfat dry milk is about \$.09 per lb lower than last year's average price for nonfat powder exports. *DMN* says buyers appear to continue to believe prices for NFDM should weaken even as the averages of the two reported price series continue to rise. For shipments last week prices reported to AMS rose \$.0182 per lb and the CWAP series rose \$.0153 per lb. A weakening in spot prices appears to be associated with a leveling out in domestic demand and some re-sales. Manufacturers seem content to hold on to what they can until a more clear picture of future milk supplies develops.

WHEY PRODUCTS MARKET COMMENTS: The market for dry whey varies from region to region. The northeast region is described as "very tight" by *DMN*, in balance in the west, and on the weak side in the central region. The respective "mostly" prices reflect those different market conditions, with transportation costs accounting for the differences between regions. August exports of dry whey were sharply lower (-27%) than the year before while exports of WPC were sharply higher (+28%). Year-to-date volumes are -9% and +15%, respectively. When their volumes and compositions are taken into consideration, the increase in WPC exports more than off-set the decrease in dry whey exports. A separate report on European exports shows "whey product" volumes in August rose by about 10% over last year. The west's "mostly" price this week averages \$.6163 per lb. The AMS average price for shipments last week rose \$.0148 per lb, to \$.6152 per lb. Futures prices this week for dry whey were unchanged for October and April and averaged \$.01 per lb lower from November through March.

FRED DOUMA'S PRICE PROJECTIONS...

Oct 19 Est:	Quota cwt. \$20.04	Overbase cwt. \$18.34	Cls. 4a cwt. \$17.77	Cls. 4b cwt. \$19.33
Last Week:	Quota cwt. \$20.19	Overbase cwt. \$18.49	Cls. 4a cwt. \$17.71	Cls. 4b cwt. \$19.69

GRASSROOTS PRODUCERS RALLY ONCE AGAIN IN SACRAMENTO; CDFA TRIES TO PRE-EMPT RALLY WITH A DISAPPOINTING "STATEMENT": *(By Rob Vandenheuvel)* This past Thursday, a grassroots group of dairy farmers gathered once again on the steps of the California State Capitol Building, urging Governor Jerry Brown and his Secretary of the California Department of Food and Agriculture (CDFA), Karen Ross, to modify the Class 4b pricing formula and bring it in closer alignment with the prices being paid for milk being sold to cheese manufacturers around the country. The rally was a followup to a September 13th rally held at the same location on the same issue (<http://www.milkproducerscouncil.org/updates/091412.pdf>). This issue has been thoroughly discussed in this newsletter, as CDFA has seen fit to provide a state-sponsored discount to California's cheese manufacturers by establishing monthly Class 4b prices that over the past two

years, have averaged about \$2.00 per hundredweight below the benchmark Class III price that is used to price milk sold to cheese plants in Federal Orders around the country.

In an obvious effort to pre-empt the rally, CDFA released a statement aimed at minimizing dairy farmers' concerns, "explaining" CDFA's inaction, and confusing the consuming public by making claims about the Class 1 pricing formula, which applies only to bottlers of fluid milk, and has nothing to do with the frustration dairy farmers have over the Class 4b price. MPC responded to CDFA's statement with a press release of our own, which if you haven't already seen it, can be found at: http://www.milkproducerscouncil.org/101812_cdfa.htm.

As California's cheese manufacturers have enjoyed a **state-sponsored discount on the milk they buy – to the tune of more than \$633,000,000 since January 2010, and counting (take a minute to think about how much money that is...)** – **all on the backs of the roughly 1,600 California dairy farmers we have left in our State**, it has truly been mind-blowing to watch the extraordinary steps CDFA has taken to justify their inaction.

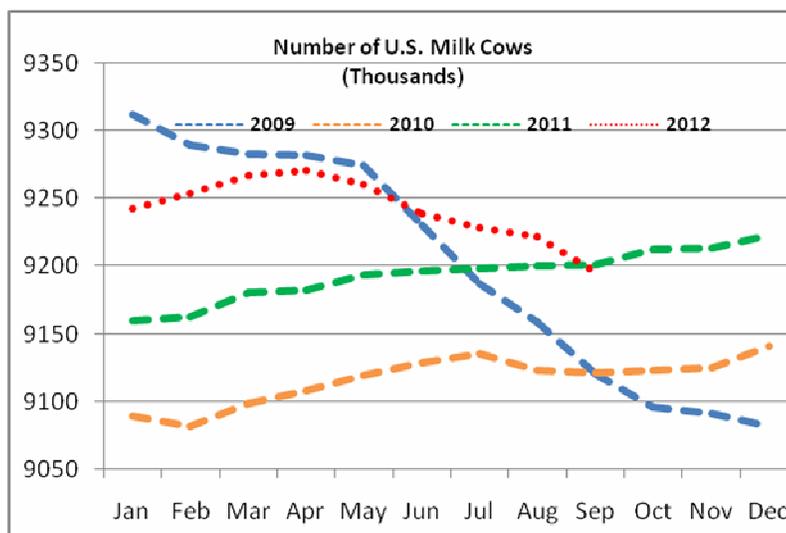
WESTERN UNITED DAIRYMEN ANNOUNCES PLAN TO WORK ON A BILL TO MODIFY CALIFORNIA'S CLASS 4B PRICE: *(By Rob Vandenheuvel)* This afternoon, Western United Dairymen – a fellow dairy trade association based in Modesto, CA – announced plans "to advance a bill in the California legislature that would more closely align the whey value in the California 4b formula with the regulated minimum price for whey found in surrounding states."

MPC applauds Western United Dairymen in this announcement. Secretary Karen Ross and the CDFA was given the responsibility many years ago by the California legislature to establish fair prices for milk produced and sold in California. However, it has become clear to those of us on the producer side of this industry that CDFA is failing in their state-mandated responsibility to provide a price that is in a "reasonable and sound economic relationship" with what comparable milk is sold for around the country; and their unwillingness to rectify the situation is coming at a **devastating financial cost to the California dairy families.**

SEPTEMBER MILK PRODUCTION FALLS BELOW LAST YEAR'S LEVEL: *(by J. Kaczor)* USDA's report on September milk production, released today, corrects some numbers for July and August, adding cows and more milk per cow which, of course, means more milk for those months. The updates added 16 million lbs of milk for July and 47 million lbs for August. That brought August production back to a statistical tie with last year instead of the 0.3% decline that had been reported. According to USDA, September's milk cow numbers dropped by 27,000 from August and by 6,000 from last September. Production per cow for the month was 7 lbs lower than a year ago. Milk production was 75 million lbs less than last year, a drop of 0.5% for the month.

This substantial drop in number of milk cows is something that was expected since June, which had 21,000 fewer cows than May. But the subsequent month-to-month declines following June were 11,000 in July and 6,000 in August. August still had 22,000 more cows than a year earlier. It appears a considerable percentage of the heavy culling that began in mid-April was being restocked or off set by other producers' expansions. So, it now appears September could represent the tipping point for U.S. milk production.

The chart shown here compares this year's number of U.S. milk cows to the numbers for the preceding three years. It is hard to picture the numbers for this year leveling off, much less turning about. [Last month's report, given the trend up to that time carried a different opinion: "it would not be surprising for the decline in number of milk cows to at least flatten out for the balance of the year."] That is not to say it could



not happen; there are plenty of replacements available and milk prices for all classes of usage in federal order areas and in California have been heading higher since July. But the current high level of feed costs, and the projections for more of the same at least through the first half of next year, is likely to affect both short term and long term plans for those producers who do not grow a substantial portion of their feed or who have not hedged against feed cost increases last Spring.

September's milk production report resembles those for July and August in terms of the geographical pattern of change for the 23 top milk producing states. In each month a majority of the 23 report higher milk production than the year before. In each month about one half of them report higher production per cow than the year before. The increases generally appear in the eastern and upper Midwestern states – the opposite of the pattern in the latter half of last year and early this year, a result of the devastating drought. California, with only 3,000 more milk cows this September than last year, is one of the states now on the verge of having a smaller milking herd. Milk production in the Golden State has now fallen below a year earlier for three straight months.

The reduction in the U.S. milk supply is sure to bring cheer to all other major dairy product exporting countries. It has virtually eliminated the threat of a global milk surplus and therefore provides support for firming dairy product prices. It also serves as a real time experiment on how well U.S. exporters do with respect to being able to demonstrate their ability to serve as dependable sources of supply in the face of a sharp down turn in U.S. milk supply from natural causes. It will also test how U.S. milk prices hold up under tight supply conditions when virtually everywhere else there is all over milk. How different is it, compared to an industry-sponsored program that would give a clear signal for an definite reduction for a clearly defined period of time?

PRICES ARE AGAIN MIXED IN THIS WEEK'S GLOBAL AUCTION: *(by J. Kaczor)* Winning prices fell for three of the seven product lines offered this week in Fonterra's global internet auction and rose for the four others. The weighted average price for all products increased by 3.5% from the auction held two weeks ago, to \$1.542 per lb. Two of the qualified sellers, Arla Foods and Murray Goulburn, did not offer their products this week. There are now 725 qualified bidders signed up with the auction; 178 participated this week by entering volumes in the first round of bidding; 134 stayed in long enough to win their bids. 116.5 million lbs of product was sold, slightly less than was sold in the preceding three auctions, but the 4th highest volume since the auction began four years ago, when it was offering only whole milk powder. Delivery of products for this and the previous auction covers the November through April period.

The product losing the most value in this auction was Fonterra's cheese, which includes "young," frozen, and high-solids options; the winning price fell by 9.4%, to \$1.356 per lb. Anhydrous milkfat, which is 99.8% butterfat, lost 3.5%, to \$1.306 per lb. The product gaining the most value was whole milk powder; it gained 8.0%, to \$1.552 per lb, and for the first time since mid-July is again priced higher than skim milk powder. Dairy America's high-flying prices got knocked down this time around. The average price bid for contract #1 product, for delivery next month, fell 10.5%, to \$1.505 per lb – still a very good level. Prices bid for DA's SMP in contract #2 appear to be about the same as those bid for Fonterra's products for that period.

The take away from this auction is that it gives Fonterra a big boost because approximately 70% of the volume sold was their whole milk powder. The price pattern, all powders up and everything else down, does not make much sense, nor do the continuing extremely low prices bid for anhydrous milkfat. It will be interesting to see if Fonterra elects to drop AMF when they begin to offer butter in mid-February. Why would they not? The butter to be offered is packaged in 25kg sizes, so direct price comparisons may be made, albeit with reservations (which should apply to all prices bid in this auction) because of possible terms, services, and benefits that may be associated with any supply agreement between sellers and buyers.