



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0925 \$1.5625
Barrels - \$.0375 \$1.5350

Weekly Average, Cheddar Cheese

Blocks - \$.0955 \$1.5910
Barrels - \$.0655 \$1.5480

CHICAGO AA BUTTER

Weekly Change - \$.0375 \$1.6025
Weekly Average - \$.0335 \$1.6050

DRY WHEY

DAIRY MKT NEWS w/e 12/16/11 \$.6638
NASS w/e 12/10/11 \$.6537

NON-FAT DRY MILK

Week Ending 12/9 & 12/10

Calif. Plants \$1.4376 10,958,545
NASS Plants \$1.4418 20,686,273

Prior Week Ending 12/2 & 12/3

Calif. Plants \$1.4497 11,725,227
NASS Plants \$1.4422 18,274,338

CHEESE MARKET COMMENTS: For one reason or another there seems to be plenty of milk available to make cheese at the very time cheese buyers are doing more waiting than buying. The additional available milk is from higher production and school closings. Cheese plants, according to *Dairy Market News*, are being offered very nice discounts for the extra supply but seem reluctant to make more cheese that is surely headed for storage. That same dilemma has cheese buyers perplexed; concerns about year-end inventories apparently are over-riding what should be very attractive price levels. Sales of both styles have been good, for domestic usage and for exports, but major price benchmarks presently are not well aligned. Prices reported to NASS for last week's cheese sales are falling much more slowly than the CME's weekly average prices for both styles. This week's CME average price for blocks is \$.33 per lb lower than last week's sales price, and barrel prices are \$.28 per lb lower. The block price lost ground every day this week and barrels fell every day except Monday. The lowest price drops this week occurred today, about to where strong support occurred in April. That perhaps signaled the approach to a bottom, and could explain why CME's class III futures prices bounced back from Thursday's sharp drops (January's price fell \$.62 per cwt yesterday and recovered \$.42 per cwt today) and ended the week with net increases for all twelve months on the board, supported by strong whey prices more than anything else. The futures price pattern continues to be very flat for all of 2012, ranging from low of \$16.93 in May to a high of \$17.26 in February

BUTTER MARKET COMMENTS: The weekly average butter price reached its lowest level for the year, after prices fell by 3.75 cents per lb this week. CME butter prices have fallen six of the past seven weeks and are now \$.56 per lb below the year's high that was reached in June, and \$.27 per lb lower than just seven weeks ago. Export volume has been weakening since July (compared to last year) and the very big increases in production this year are beginning to swamp the excellent retail and food service sales. *DMN* does report increasing interest from off shore buyers – perhaps it is those butter-deprived Danes. Most domestic buyers, having filled most of their orders through year end and into January, are not doing much than to wait for even lower prices to follow. However, *DMN* says some late orders are still coming in, perhaps generated by the current low prices. Butter futures for the week are above current spot prices, and rise over the coming months, reaching \$1.76 per lb by August.

POWDER MARKET COMMENTS: The market for nonfat powders continues to be somewhat unsettled. *DMN* reports negotiations are ongoing for next year's contracts, and appear to be proceeding slowly. It is all about levels of price and product availability. Prices reported for last week's shipments of nonfat dry milk were slightly lower than the week before; California plant volume was lower while national volume was higher. Annual exports of nonfat powders will set a new record this year, even with what may be a sharp drop off over the final quarter. Prices for skim milk powder on Fonterra's auction last week for deliveries over their full seven months covered by the auction were nicely higher, rising about \$.18 per lb from February through August. Production and demand for buttermilk powder and whole milk powder are steady, with the full price range for each showing little change this week.

WHEY PRODUCTS MARKET COMMENTS: Higher prices and tight supplies continue to be the story for dry whey in the U.S. Prices reported to NASS for shipments made last week increased by \$.0067 per lb. Prices for dry whey and whey protein concentrate-34 this year have been higher than any time since 2007. The supply situation is partially accounted for by lower cheese production but also by changes being made by manufacturers of the lower concentrated WPC products in favor of more concentrated products. *DMN* says it has gotten to the point where some users of these products, concerned about price levels and availability, are looking elsewhere. What a nice way to reward loyal customers, isn't it?

FRED DOUMA'S PRICE PROJECTIONS...

Dec 16 Est:	Quota cwt. \$17.89	Overbase cwt. \$16.20	Cls. 4a cwt. \$16.77	Cls. 4b cwt. \$15.14
Last Week:	Quota cwt. \$18.07	Overbase cwt. \$16.38	Cls. 4a cwt. \$16.76	Cls. 4b cwt. \$15.53

CDFA DENIES CLASS 4B HEARING PETITION; CONTENT TO KEEP WATCHING OUR STATE'S CHEESE MAKERS BUY THEIR MILK ON THE CHEAP: *(By Rob Vandenheuvel)* Yesterday, the California Department of Food and Agriculture (CDFA) announced that they've decided to **deny** the request to consider changing the Class 4b formula that establishes the minimum price that California's cheese manufacturers must pay for their the milk they need. In their letter, CDFA wrote:

"The current dry whey sliding scale in the Class 4b formula has been in effect since September 1, 2011, which provides the Department with only three months of observed data under the current pricing formula. This data does not provide the Department with enough additional information following the conclusion of the previous hearing to determine how the current formula will perform. However, the Department will review this issue and data available in mid-2012 and determine if a hearing is necessary." (emphasis added)

In short, CDFA is saying that they are unable to determine if a hearing is warranted based on only three months of data. Really? Here's the data from those three months:

- Avg. Federal Order Class III price for milk sold to cheese plants (Sept.-Nov. '11): **\$18.72 per cwt.**
- Avg. California Class 4b minimum price (Sept.-Nov. '11): **\$16.43 per cwt.**
- Difference: **\$2.29 per cwt.**

As we've noted in past issues of this newsletter, adjusting the whey solids factor to a structure that mirrors the Federal Milk Marketing Order Class III formula that's used in much of the U.S. would close that gap by **\$1.79 per cwt.** still leaving our California cheese manufacturers with a \$0.50 per cwt. advantage over their fellow plants in surrounding states, but at least they would be paying a price for their milk supply that is in a much closer relationship to what the same quality of milk is worth around the country. What would that \$1.79 per cwt mean for the California dairy families that are still reeling from a devastating 2009 and facing near-record-level feed costs? **About \$80 million in additional money paid to California's dairy families!**

So that's the data we have to-date, and all indications are that when Decembers final prices are announced for the FMMOs and California, the numbers will show more of the same. So the obvious question is: **What more information does CDFA need to demonstrate that our current Class 4b formula is severely flawed and needs to be fixed!?**

This is just the latest demonstration that CDFA clearly feels absolutely no obligation to implement a structure that complies with the California state law. As a reminder, the law that outlines CDFA's duties in establishing minimum pricing formulas – the California Food and Agricultural Code – is very clear:

"If the [Secretary of Agriculture] adopts methods or formulas...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)

With this recent hearing request, CDFA had an opportunity to address the inequities of the current Class 4b formula, and instead chose to punt the issue to "mid-2012" and hope it goes away. Of course, the only way this

issue “goes away” is if whey markets collapse, leaving the rest of the country in the same devastating position that California’s dairy families find themselves in. **That’s an incredibly irresponsible approach for CDFA to take**, especially given that California law has mandated that they: “Enable the dairy industry, with the aid of the state, to develop and maintain satisfactory marketing conditions, [and] **bring about and maintain a reasonable amount of stability and prosperity in the production of market milk**” (*excerpt from CA Food & Ag Code Section 61805(d), emphasis added*).

The California dairy industry must now evaluate our options and unify behind a different approach to fixing this outrageous inequity. So stay tuned; **California’s dairy farmers must continue to demand that the law is followed.**

PRICES MOVE HIGHER IN FONTERRA’S LATEST AUCTION: (*by J. Kaczor*) More major dairy product exporters are indicating they like the idea of selling at least some of their products without having to go through what is sometimes a protracted period of negotiations which sometimes ends with more disappointments than sales. Some very accomplished companies have recently come on board the auction as sellers, or announced their intention to do so. Dairy America entered as a supplier of skim milk powder in October and is now offering its products in two contract periods. Last week Murray Goulburn, a major Australian producer cooperative, announced they would be offering lactose powder in the April auction, and this week Arla Foods, a major cooperative in northern Europe, said they would be offering skim milk powder in April. Lactose is presently not offered in the auction; MG is expected to be offering it in contract periods 2, 3, and 4. Arla’s skim milk powder will be offered alongside Fonterra’s and Dairy America’s, but they have not yet indicated which contract periods they will be using. Both new entrants said additional products may be offered at a later time. The same rules for offering products, setting beginning prices, and settling accounts that apply to Fonterra and Dairy America will apply to these companies. Interested bidders will first have to apply to these suppliers in order to qualify to bid and to establish their bidding parameters.

Unfortunately, one of the key details needed to make this otherwise excellent market meet the “transparency” test that Fonterra initially said would result is lacking – information on volumes is withheld for ninety days. Where is the value in knowing a product’s price without knowing the volume associated with the price? Where is the value in knowing that volume 90 days after the fact? That was then; this is now; things change over a three month period. Because all qualified buyers receive volume data for products for which they indicate interest just prior to the auction, one might think the volumes offered is an open secret, but it is not. GDT’s rules prohibit exchange of information among bidders, but sellers have the option to publish their offer volumes. Some might think it is enough to know New Zealand’s commodities market, NZX, accepts and uses the simple average of two successive “Spot Contract” winning bids to cash-settle their futures contracts for the three major products in the auction. But those prices are used regardless of the volumes associated with them or their reasonableness. That is not to say NZX’s futures program for these products does not provide a valuable risk management tool for buyers and sellers who use them, because they do fill that important role. But the matter of true value remains questionable.

Also, one might think the offering of skim milk powder from three different continents in two separate hemispheres beginning in April would provide important information about the product’s global value, but that will not necessarily be true. There are many reasons why the price for SMP in Europe for certain buyers could be much different from SMP prices in the U.S. or New Zealand for certain buyers through the auction process just as they have been through old fashioned buyer/seller wheeling and dealing.

Winning prices were higher for all products offered in the December 6 auction. The weighted average price for all products sold, a total of 83.1 million pounds, increased by \$.054 per pound from the previous auction’s average price. The WAP for skim milk powder increased by \$.032 per lb, to \$1.553 per lb. Whole milk powder increased by \$.048 per lb, to \$1.669 per lb. Anhydrous milkfat increased by \$.199 per lb, to \$1.820 per lb. There were 491 qualified bidders; 173 participated; 111 came away with some product. The auction’s delivery periods for the auction were: Contract 1, January; Contract 2, February; Contract 3, March-May; Contract 4, June-August.