



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@milksproducers.org ~ www.MilkProducers.org



DATE: June 22, 2012
TO: Directors & Members

PAGES: 5
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0100 \$1.6250
Barrels +\$.0625 \$1.6350

Weekly Average, Cheddar Cheese

Blocks - \$.0255 \$1.6195
Barrels +\$.0440 \$1.6035

CHICAGO AA BUTTER

Weekly Change - \$.0200 \$1.5200
Weekly Average +\$.0760 \$1.5355

DRY WHEY

Dairy Market News w/e 06/22/12 \$4.850
National Plants w/e 06/16/12 \$5.075

NON-FAT DRY MILK

Week Ending 6/15 & 6/16
Calif. Plants \$1.0890 23,581,190
Nat'l Plants \$1.0997 29,697,756

Prior Week Ending 6/8 & 6/9
Calif. Plants \$1.0968 16,983,822
Nat'l Plants \$1.1022 26,771,802

CHEESE MARKET COMMENTS: Today's report on the amount of cheese in cold storage at the end of May showed stocks of American cheese 9.5 million lbs lower than at the end of April while stocks of all other cheeses higher by 9.1 million lbs. Total stocks were 20 million lbs lower than last May. This report bears out the relatively comforting comments *Dairy Market News* has been hearing from major manufacturers and buyers over the past several weeks, regarding sales and stocks on hand. Trading on the CME this week was light, with blocks gaining \$.01 per lb and barrels \$.0625, which squeezed the price spread down to \$.01 per lb. Bidders looking for cheese, or maybe only for a higher price, accounted for most of the price changes this week. *DMN* says cheese sales, domestic and export, remain strong. Wasn't it only a few years ago that a paper from the University of Wisconsin-Madison suggested consumers may want to substitute cheese for beef when the opportunity is right? Does cheap hamburger selling for \$4.89 per lb and decent steaks for \$15.89 per lb create a liking for a gourmet grilled cheese sandwich rather than a greasy burger? Class III milk futures responded to the higher cash prices with increases ranging from \$.29 per cwt to \$.59 per cwt; the highest price is August's \$17.19 per cwt. Cheese futures also increased across the board; July and August average \$.067 per lb up, with a high of \$1.72 per lb for August.

BUTTER MARKET COMMENTS: Butter stocks were 10.1 million lbs higher at the end of May than a month earlier, and about 93 million lbs higher than last May, according to USDA's report this week. That sizable increase from last May is really less than half of the increase in production over the prior year, showing domestic butter usage has been very strong. Current monthly production is moving lower, in line with lower milk production and higher demands for cream. Trading on the CME this week was heavy, beginning Monday with sellers moving to "correct" last Friday's \$.085 per lb bump by offering product \$.04 per lb lower. The price moved up and down from there, ending the week with a \$.02 per lb loss. Two carloads were sold on Friday at \$.045 per lb lower than the existing price but was followed by an unfilled bid which restored \$.02 per lb to the price. Based on reports from other parts of the world, butter prices may be facing headwinds in the coming months, which makes the recent price strength somewhat surprising. The average price reported to AMS for shipments made last week continues to be out of sync with the current week's CME average price, with a \$.145 per lb difference. Butter futures for the latter half of this year increased by an average of \$.023 per lb, rising to \$1.59 per lb by December.

POWDER MARKET COMMENTS: *DMN* reports a firming market for nonfat dry milk in all regions of the country. Production is slowing (less milk and more other usage of condensed skim) and demand is reported to be at least somewhat higher than it has been. Some buyers note the very high inventories and the continuing low prices being reported by manufacturers to AMS and to CDFA, and question whether higher prices are justified. Since sales are controlled by manufacturers, time, production levels, stock levels, and spot sales will eventually sort out which side is right. Prices for shipments made last week averaged about \$1.10 per lb which does raise the

question about why those prices are so low in the first place and why do they stay there for so long. (Export prices in April averaged about \$1.34 per lb f.o.b. plants or warehouses.) Prices this week again moved up on the CME for both grades of powder, with one sale of grade A raising the price by \$.005 per lb, to \$1.2275 per lb. Buttermilk powder sales are improving as ice cream production increases. BMP prices are tracking with prices for nonfat dry milk at various differentials depending on the region where sold.

WHEY PRODUCTS MARKET COMMENTS: It does not figure. *DMN* says dry whey production is heavy in the West and prices are firming, while production is steady elsewhere, product is not easily gotten, but prices are weakening. Depending on where you are, inventories are described as “manageable,” “comfortable,” or lower and approaching comfortable levels. Manufacturers in the western region say they are charging lower prices for exports than for domestic sales in order to hold their contracts. (Is that true? The estimated average price for exported dry whey in April was \$.61 per lb.) This week’s “mostly” price in the West ranged from \$.45 to \$.52 per lb. Prices for whey protein concentrate-34 have moved down and are now lower than they have been at any time in the past year. Sellers cite lower prices per lb of protein for other high quality dairy products as the reason for the price weakness. Dry whey futures averaged down for the week by \$.007 per lb.

FRED DOUMA’S PRICE PROJECTIONS...

June 22 Est:	Quota cwt. \$15.72	Overbase cwt. \$14.03	Cls. 4a cwt. \$13.34	Cls. 4b cwt. \$14.64
Last Week:	Quota cwt. \$15.76	Overbase cwt. \$14.06	Cls. 4a cwt. \$13.46	Cls. 4b cwt. \$14.62

HUGE STEP THIS WEEK: SENATE APPROVES THEIR VERSION OF THE 2012 FARM BILL: (*By Rob Vandenheuvel*) This week marked a huge milestone in the efforts to make fundamental reforms to our Federal dairy safety net programs. This past Thursday, the U.S. Senate approved their version of the 2012 Farm Bill by a vote of 64-35. The bill, which reauthorizes Federal agricultural policies across all commodities, includes a package of dairy proposals that are based on the *Dairy Security Act* (H.R. 3062), a bill that Milk Producers Council has strongly supported and urged our elected officials to support.

As a reminder, the dairy provisions approved in the Senate Farm Bill include the following changes to our dairy safety net programs:

- Eliminating the Milk Income Loss Contract (MILC) program, Dairy Product Price Support Program (DPPSP) and Dairy Export Incentive Program (DEIP).
- Replacing those programs with a two-pronged approach to providing a safety net for U.S. dairies:
 - **Dairy Producer Margin Protection Program (DPMPP):** This is commonly referred to as the “insurance” part of the bill. Under the voluntary DPMPP, a producer could choose to enroll in a direct-payment program run by the U.S. Department of Agriculture. The **basic program** (which would be provided without any premiums to dairies that enroll) would provide cash payments directly to dairy farmers when the national “margin” between milk prices and feed costs dropped below \$4.00 per hundredweight. In other words, when the average milk price across the country drops to less than \$4.00 per hundredweight over the “feed cost calculation” (a formula that incorporates national values of corn, soybean meal and alfalfa), a payment would be made to all dairymen enrolled in the program. Unlike the MILC program, this insurance program would not be capped at a specific volume of milk – instead it would cover 80% of the “historical production” of each dairy facility (which would be determined by the highest annual production for each dairy over the past three years). In addition, a **supplemental program** would be available for dairies that wish to generate payments from the program at higher margin levels. In other words, an individual dairyman could choose – on a year-by-year basis – to customize the program so that a

payment is generated whenever the price of milk is less than \$5.00 per hundredweight above the feed cost calculation. Or \$6.00. Or \$7.00. It's customizable for each dairy. This additional coverage would include an annual premium paid by the dairy farmer. The supplemental program could be customized to cover up to 90% of a dairy's annual production.

- **Dairy Market Stabilization Program (DMSP)** – This is commonly referred to as the “market management” part of the bill. The DMSP would only apply to dairies that choose to enroll in the insurance program outlined above (the DPMPP). If a dairy is enrolled in the DPMPP, they would be automatically part of the DMSP. Under the DMSP, when the margin falls below \$6.00 per hundredweight for two consecutive months (the national average price of milk falls to less than \$6.00 per hundredweight above the feed cost calculation), USDA would notify the dairies enrolled in the DMSP that in the following month, they would only be paid for 98% of their “base production” (which can be determined by either the dairy's production three months leading up to that point, or the production in the same month the prior year). If a dairy enrolled in the DMSP chooses to produce above that level, the milk handler would still pay for the milk, but those dollars would be diverted to a fund used to buy excess dairy products to be donated to food banks and feeding programs. If the margin continues to fall below \$5.00 or \$4.00 per hundredweight, the DMSP would be adjusted to pay enrolled dairy farmers for 97% and 96% of their “base production.” At no point would the DMSP authorize payments below 96% of a dairy's base production. Once the margin recovers to above \$6.00 per hundredweight for two consecutive months, the DMSP is de-activated and all calculations of “base production” are eliminated. If the DMSP re-activates at a later time, the calculations will re-start from scratch.

While the Senate debated 73 amendments to the Farm Bill (some of which would have applied to the dairy industry), the two programs outlined above remained intact in the final bill. MPC extends our deepest gratitude to California's Senators Dianne Feinstein and Barbara Boxer for their support of the dairy provisions and the overall Farm Bill. We also extend a heartfelt thanks to the coalition of dairy producer organizations and cooperatives that helped make this critical step in the legislative process possible by working with Senators around the country and building support for the dairy provisions. Leading that effort was the National Milk Producers Federation (NMPF), and they did an outstanding job.

The attention now moves to the U.S. House of Representatives – specifically the House Committee on Agriculture. This Committee of 46 Members of the House have tentatively scheduled a “markup” session for Wednesday, July 11th to debate/edit/approve the House version of the 2012 Farm Bill before sending it to the Full House of 435 Members. There are already details beginning to emerge that amendments may be offered in that markup session to modify portions of the dairy proposal, most notably an attempt to remove the Dairy Market Stabilization Program from the bill – a key priority of our nation's processors (i.e., the International Dairy Foods Association, or IDFA). **MPC and other coalition partners from around the country who have fought hard for the DMSP will be working diligently in the coming weeks to defend against any amendment of that variety, and dairy farmers around the country are strongly encouraged to contact their Congressmen and urge them to resist efforts to severely weaken this carefully-crafted package of dairy reforms.**

This week's approval of the Senate's Farm Bill was a huge victory for dairy farmers, but we still have much work to do. So stay engaged in this process and please be prepared to do your part in getting the word out to the Members of the House Committee on Agriculture.

Dairy producers with any questions about the Senate Bill, the upcoming activities in the House of Representatives, or any other related issues, should feel free to contact Milk Producers Council at (909) 628-6018. We'll continue to report on the progress in the coming weeks...

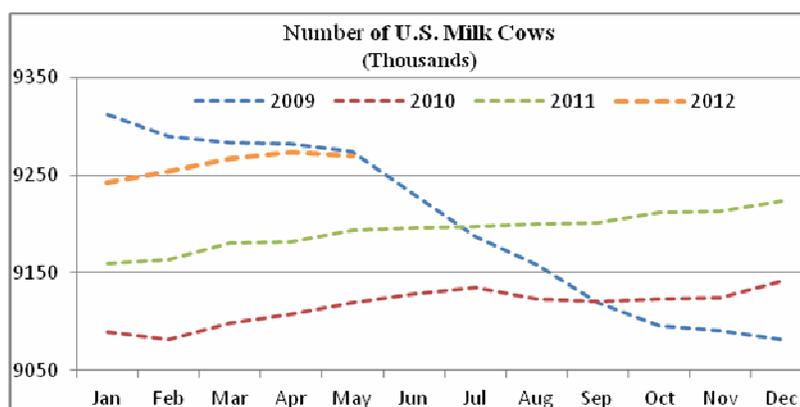
GROWTH IN MILK PRODUCTION SLOWS IN MAY: (by J. Kaczor) USDA's report on milk production in May was released Monday. The numbers show the first signs of a slowing in the rate of monthly production over the same month of the previous year. The number of cows dropped from April, the daily production per

cow was the lowest of the year – about half the average monthly increase for the first four months of the year, and the total milk production increase is the lowest since October, only 347 million lbs (+2.0%).

The decrease in number of cows from April was not great, only 4,000 cows, but it was the first such decrease since August and September, 2010 (credit CWT's final herd retirement program for that). The production per cow per day in May, although higher than last May, was lower than in March and April, bearing out the many comments that favorable weather caused the Spring Flush to arrive two months early this year. It did, and then flattened out. March PPC/D was 61.58 lbs, April's was 61.90 lbs, and May's was 61.32 lbs.

The consensus milk production forecast for this year presumed last year's strong milk prices would cause producers to expand their herds until such time milk prices fell to the point where feeding additional cows was no longer financially sound, and then to reverse course. Feed costs were expected to continue to rise, although at a somewhat slower rate than they had over the previous two years. The general time line for the number of milk cows to fall was after the middle of the year, by which time low milk prices and high feed costs would take their toll. By April, there were 74,000 more milk cows on hand than last August, the month when milk output abruptly changed course and began to accelerate upward.

The chart shown here records the number of U.S. milk cows from January, 2009, through May, 2012. The immediate cause for the dramatic decrease in 2009 was CWT's herd retirement programs; the proximate cause was the deadly low milk prices that set in from January through October of that year. The chart shows a full cycle has occurred – the number of U.S. milk cows in May is right back to where it was three years ago.



What happens next probably depends on a number of factors, none of which is presently very clear. If milk prices weaken much more than they have and feed costs move higher, the consensus forecast for a significant reduction in number of cows within a fairly short time frame could certainly happen. Through May, federal order class III prices are doing better than California's overbase price. The May class III price was \$1.29 per cwt lower than a year earlier and \$5.39 per cwt higher than May 2009. California's May overbase price is expected to be about \$4.00 per cwt lower than last May and less than \$4.00 higher than May 2009. The comparisons for both to last year are going to widen greatly as last summer's high prices come on to the screen, and California producers appear to be getting the worst of it. The current outlook for feed costs seems to change almost daily as weather issues are in play and acreage, yields, and carry-over stocks in every major production country are being closely watched by cash buyers and futures traders. It does appear that prices for corn and soybeans will remain higher than last year.

Some of the current commodity prices, used to set U.S. milk prices, are veering from their projected paths. CME cheese prices have recovered all of what was lost since January and have been at their weekly average highs for the year the last four weeks. CME butter prices have increased for six straight weeks and are now within \$.09 per lb of the year's highest price, which also occurred in January. On the other hand, prices for nonfat dry milk and dry whey have plummeted since their year's highs in January. The case for cheese prices remaining relatively strong is better than that for butter. Cheese producers have been keeping their eyes on inventory levels, domestic sales remain strong and export sales continue to grow relative to last year. However, most butter producers do not have the option to turn away milk and cream so inventories are likely to continue to grow as export sales continue to lag well behind last year's levels. The current inventory of butter in Europe's private storage program is 40% higher than last year and higher butter production is expected this year from New Zealand. Nonfat dry milk prices are now lower than last year's lowest price; dry whey prices have fallen two-thirds of the way towards last year's low. Both of these powders enjoy strong export demand but face major competitors for sales volumes and prices.

No dairy product prices are anywhere close to where they were last year, so despite their recent strength, yes, milk prices are likely to be substantially lower this year than last year. USDA updated its estimates for this year and next year on June 12th. The average of their range for cheese prices this year is \$1.59 per lb, \$1.47 for butter, \$1.23 for nonfat dry milk, and \$.55 for dry whey. Based on those prices the projected annual average for all milk this year is \$17.05 per cwt, \$3.09 per cwt lower than last year. The estimate for 2013 is only \$.70 per cwt higher than this year's. USDA's projections for cheese and butter are lower than current levels for those products while the projections for the dry products are higher than current price levels. The inference drawn from the price comparisons noted two paragraphs above would seem to differ from USDA's in that this year's average milk price per hundredweight could be as much as \$1.00 lower than USDA's latest estimate, at least for California producers because of price levels and percentages of usage for butter, powder, and cheese.

AVERAGE PRICES MOVE HIGHER AGAIN IN THE GLOBAL AUCTION: *(by J. Kaczor)* The weighted average winning price in this week's global dairy product auction, covering all products in all six contract periods, is \$1.380 per lb, which is \$.065 per lb higher (4.9%) than the winning price in the auction held two weeks ago. That increase is in addition to the \$.127 per lb increase from the previous auction, held two weeks ago. The summary published on the globalDairyTrade website shows the number of certified bidders increased to 667, which means 28 more signed on in the past two weeks. 175 actively participated; 118 were awarded portions of the 56.5 million lbs of product that was sold. The interest in this auction, as well as its growth is truly amazing.

Lactose was not offered, again. Prices for five of the product categories decreased and two, including whole milk powder, increased. These results appear to be part reflective of product values and part corrective to some of what happened in the previous auction. One of the "corrections" was to the prices for skim milk powder which increased by \$.20 per lb in the previous auction, taking the price \$.112 per lb higher than that for whole milk powder.

Even more interesting is the structure of the changes within the skim milk powder category, and the differences in price changes among the three sellers of that product. In the recap of the previous auction it was pointed out that the medium heat product offered by Arla Foods in contract 2 received a winning price that was \$.45 per lb lower than the winning price for Fonterra's medium heat product in contract 2. (Dairy America does not presently offer medium heat SMP.) In that auction Arla's product increased by \$.041 per lb and Fonterra's increased by \$.442 per lb. A question was asked about that price disparity – as to why and how something like that happens and how much longer would it continue. Well, it appears the matter has been sorted out in this auction. This time around, Arla's price increased by \$.079 per lb and Fonterra's decreased by \$.240 per lb. In fact, all of Arla's and Dairy America's products were awarded increases this time and all of Fonterra's skim milk powders (except for small volumes in later contract periods) for which a comparison can be made decreased in price. Those with a healthy streak of skepticism might think Arla was "thrown a bone" this time, but something like that cannot happen under GDT's Market Rules.