Milk Producers Council

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TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*- $.1075*	$2.0250
Barrels	*- $.0550*	$2.0800

Weekly Average

Blocks	*- $.0615*	$2.0820
Barrels	*- $.0200*	$2.1110

CHICAGO AA BUTTER

Weekly Change	*- $.0300*	$2.0725
Weekly Average	*- $.0315*	$2.0705

DRY WHEY

WEST MSTLY AVG	w/e 08/12/11	$.5863
NASS	w/e 08/06/11	$.5631

NON-FAT DRY MILK
Week Ending 8/5 & 8/6

Calif. Plants	$1.5690	12,431,138
NASS Plants	$1.5726	18,218,277

CHEESE MARKET COMMENTS: "Volatile, confusing, regional, unsettled, and lower" describes CME's cheese market this week. Sales were moderate, only 13 carloads changed hands, all from offers to pay less for more. Concern about larger issues such as the nation's credit worthiness didn't appear to affect what was concerning the traders. How much milk, how much cheese, how much demand, when to make a decision, and how to best balance those unknowns without having enough good information to help – those were the issues that appeared to explain the choppy and negative price movements this week. The week ended with barrel prices less weak than block prices. The regional aspect stems from the continuing extremes in weather across the country. The weather in the West and Northwest was just fine; rain began to fall in the southeast and the upper Midwest; Texas and areas to the immediate north continued to suffer from heat and drought. CME futures traders were a jumpy lot this week. Class III milk futures rose and fell through the week, often with sharp changes mid-day, with almost all of the action covering the September through November period, which ended with an average loss of $.70 per cwt.

BUTTER MARKET COMMENTS: Despite what appears to be continuing strong fundamentals for the domestic butter market, sometimes there is simply too much butter at a few plants that expect more to come, and it is offered on the exchange. That's how it's supposed to work. Ten carloads of butter were sold this week, all from offers. At one point on Thursday the price was $.0625 per lb lower for the week but a sale and a pair of bids recovered $.0325 of the week's loss. Sales have been steady, but *Dairy Market News* says some buyers are holding back, expecting (or hoping) prices will drop before the heavy end of year holiday sales season arrives. Futures traders this week weighed in with lower prices across the board from August through next April. September is the last month with a price at the $2.00 per lb level; January's price is $.30 per lb lower than Friday's closing price on the spot market.

POWDER MARKET COMMENTS: While the market for nonfat dry milk appears to be in balance, prices have been edging lower for the past few weeks as buyers appear to be resisting the current price offerings, and finding lower priced product readily available. Overall, production is lower than normal for this time of year, from lower milk output with lower components. Exports of nonfat dry milk for the first half of the year were 31% higher than the year before, amounting to about one third of production, but cheese plant usage (the highest source of domestic demand) does not appear to be strong enough to keep prices much higher than the mid $1.50 per lb area. The low end of the full price range for the West this week is $1.43 per lb. CME futures prices were lower by $.03 to $.04 per lb for the October-December period, ending at $1.39 per lb. Production of buttermilk powder is reported to be lower for a variety of reasons, but DMN reports prices are not holding up, because of competition from nonfat dry milk deals.

WHEY PRODUCTS MARKET COMMENTS: Prices for dry whey were steady to higher, depending on region of the country. Production is lighter than normal but so are exports. The market appears to be fairly balanced except for the eastern area where supplies are tight and re-sales of DW are reported to be earning premiums. The market for whey protein concentrate-34 is uneven, partly because of the recent shift from DW production to WPC production and partly from the lower prices for nonfat powder. However, depending on levels of inventory, some manufacturers are holding firm to previously contracted prices.

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FRED DOUMA'S PRICE PROJECTIONS…

Aug 5 Est:	**Quota cwt. $21.38**	**Overbase cwt. $19.69**	**Cls. 4a cwt. $20.08**	**Cls. 4b cwt. $19.09**
Last Week:	**Quota cwt. $21.65**	**Overbase cwt. $19.96**	**Cls. 4a cwt. $20.15**	**Cls. 4b cwt. $19.64**

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BIG DEVELOPMENT ON THE DAIRY POLICY REFORM FRONT: *(By Rob Vandenheuvel)* Over the past two weeks, we've published articles in this newsletter that took an in-depth look at the facts behind the draft legislation proposed by Congressman Collin Peterson (D-Minnesota) (information on Rep. Peterson's draft legislation can be found at http://democrats.agriculture.house.gov/press/PRArticle.aspx?NewsID=1118). The bill would make fundamental reforms to our industry's "safety net" programs. Our articles looked at how the reforms in Rep. Peterson's bill would work and how they would compare to what we have now. If you missed either of those articles, you can find them both on our website at www.milkproducers.org.

This week, news out of Washington, DC forces us to take a look at another equally-important part of the equation – the political aspect. It was announced this week that Congressman Mike Simpson (R-Idaho) will be co-sponsoring the legislation along with Rep. Peterson (press release: http://futurefordairy.com/sites/default/files/pdfs/FFTF-Legislation-Simpson-Cosponsor-081111.pdf). **This is a huge development for a couple reasons.**

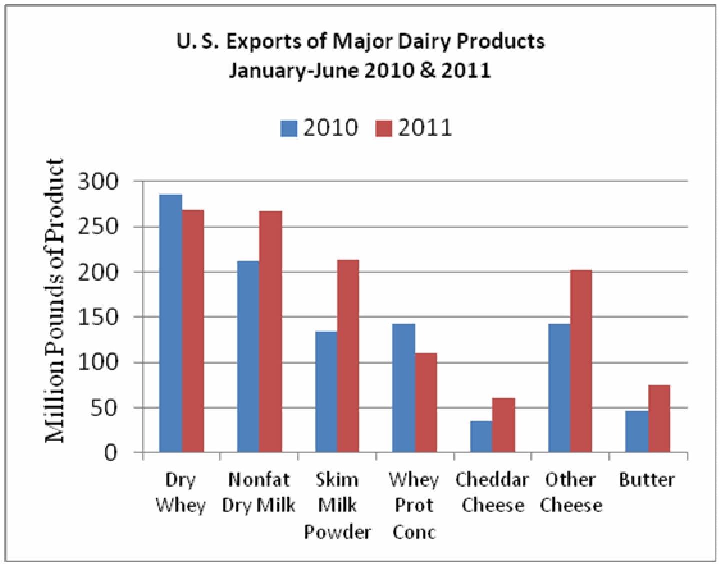
First, this is the first comprehensive dairy policy reform bill in recent history to receive support from both a Republican and Democrat in Congress. Why is this significant? There are 435 Members in the House of Representatives and 100 Senators. These 535 individuals – **and only these 535 individuals** – hold the power to actually vote on and approve reforms to our Federal dairy policies. Of those Members of Congress, 286 are Republicans, 244 are Democrats and 2 are Independents (the numbers don't quite add up to 535 because there are currently 3 vacant seats in the House of Representatives). Add to those numbers the fact that Republicans control the U.S. House, Democrats control the U.S. Senate and the President is a Democrat. With that kind of political maze to navigate through in Washington, DC, **no legislation will be able to generate enough support to be approved by Congress and signed by the President unless it has support in both the Republican and Democrat camps.**

Rep. Simpson's announcement also carries regional significance. **The producer side of the dairy industry constantly finds ways to divide ourselves** – differences in region and average farm size are the two most prominent. Our nation's processors – who appear to have a much easier time uniting behind a common policy position – rely on these differences among the U.S. dairy farmers to keep us from ever uniting behind a common proposal to reform our dairy policies. **There's a reason we haven't seen much rhetoric blasting Rep. Peterson's draft legislation coming out of the International Dairy Foods Association (IDFA) lately. They seem to be content with sitting back and letting producer groups fight each other**. The announcement that Rep. Simpson of Idaho is now joining forces with Rep. Peterson of Minnesota is a huge step in the direction of setting aside our regional differences and uniting behind a common proposal that will improve the dairy safety net policies for all dairies throughout the country. **Thank you Congressman Mike Simpson!**

U.S. EXPORTS THROUGH JUNE REMAIN AT OR NEAR HISTORIC HIGHS: *(By J. Kaczor)* Increased export volume in the first half of the year along with increases in the percentage of production exported were recorded for five of seven major U.S. dairy products. The exceptions were dry whey and whey protein concentrates, with lower volumes and lower percentages of production. The U.S. Dairy Export Council estimates total dairy product exports in June represented 13.6% of U.S. milk solids production, and 13.1% of year to date production.

The increases in volume from last year are impressive. They range from 26% for nonfat dry milk to 70% for cheddar cheese. (Hats off to CWT for the persistent support given to their members in that most important of milk price setting dairy products.) Other percentage increases are 42% for cheeses other than cheddar and 59% each for skim milk powder and butter. The largest volume category continues to be the nonfat powders, which total 481 million lbs so far this year. The second largest category is the whey protein products which total 379 million lbs. Cheese is the third largest, with 263 million lbs. Butter exports total 75 million lbs, 8% of the amount produced, a significant percentage of total demand.

The graph shown here compares the export volumes through June for the seven products for the last two years. While lower than the year before, the volumes for dry whey and whey protein concentrates still represent more than 50% of their production during the period.



Among concerns about the role exports play in industry profitability is their prices. Historically, exports have been used as market clearing sales, the lowest of the low. That appears to be changing. The estimated average prices received for exports this June was $.50 per lb for dry whey, $1.63 per lb for the nonfat powders, $2.18 per lb for butter, and $1.86 per lb for cheddar cheese. It's gratifying to note those prices were in reasonable relationship to the prices reported by manufacturers for the month.

U.S. exports continue to be supported by the weak U.S. dollar and rising global demand, although recent international unrest and economic uncertainty appears to be affecting both, not for the better. The adverse weather affecting U.S. milk production this year could have caused occasional product shortages for export, except the sharp drop in Class 1 sales has helped to fill that pipeline. That is not a wanted trade-off but it is what it is. Future prices and volumes are subject to a number of outside factors, the two most important being how much more milk will be produced this coming year in New Zealand and Australia and how much longer will China and some southeast Asian nations continue their unprecedented growth in demand.

While not answering these questions, Rabobank this week issued a report, widely reported in the media, entitled "California Dairy: Turn West." The report points out the obvious for the California industry: surplus production, growing competition to the east, and geographic proximity to the Asian and South American markets. The report resembles the Bain Report in what it covers, but focuses on California. Here it is California producers and plants: you have high feed costs and environmental challenges, your milk prices are volatile, you need to work on improving your products, services, and relationships, if you expand production to help control costs you will need more plant capacity, and you should probably change how you price your milk used to produce products for export. Duly noted, and thanks for the valuable advice.