



# Milk Producers Council

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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks - \$.1175 \$1.8325  
Barrels - \$.1100 \$1.8700

### CHICAGO AA BUTTER

Weekly Change - \$.0925 \$1.6475  
Weekly Average - \$.0835 \$1.7010

### NON-FAT DRY MILK

**Week Ending 11/11 & 11/12**  
Calif. Plants \$1.4800 10,205,071  
NASS Plants \$1.4860 15,864,681

### Weekly Average

Blocks +\$.0510 \$1.9555  
Barrels +\$.0540 \$1.9940

### DRY WHEY

**DAIRY MKT NEWS** w/e 11/18/11 \$1.6450  
**NASS** w/e 11/12/11 \$1.6360

**CHEESE MARKET COMMENTS:** A suitable analogy on what happened in CME's cheese trading pit this week might contain the words "tornado," "black ice," or any other words or terms picturing things turned upside down. Prices for blocks and barrels this week, after moving higher on Monday and Tuesday, paused on Wednesday then proceeded to fall sharply from offers to sell. Blocks lost \$.1675 per lb and barrels lost \$.1775 per lb in two days. The net change for the week for blocks was a loss of \$.1175, while the block average price increased by \$.0510 for the week. Similar changes occurred for barrels. Average prices received by manufacturers for shipments last week are not so far from today's closing prices, but the weekly averages are about \$.12 per lb higher...for a time. Futures traders were waiting for this. Class III futures prices increased, seemingly reluctantly and begrudgingly last Friday and early this week in response to increases in the cash prices, before turning down sharply on Wednesday and Thursday. Today, when blocks fell by \$.1525 and barrels by \$.1250, class III futures prices increased across the board. The net loss for the December-February period for the week averaged \$.27 per cwt while all other months through October gained some. Whatever claims the CME dairy spot markets may have had about price transparency and being a place for willing buyers and sellers to gather went flying out the window.

**BUTTER MARKET COMMENTS:** Butter production is beginning to pick up as cream for other usages winds down for a time. *Dairy Market News* says butter sales continue to be strong, although the heaviest buying for Thanksgiving is virtually complete. The current lower prices are welcomed by those who have not yet committed themselves for December and beyond. Retail sales are reported to be going very well as are food service volumes. Spot prices moved lower again this week and are now resting right on top of the futures prices for the December-February period. The low price over the next twelve months has shifted to January, at \$1.63 per lb.

**POWDER MARKET COMMENTS:** The somewhat rosy picture painted last week for the nonfat powder market does not seem so rosy anymore, according to *DMN*. What happened over the weekend to change things so much? Short term, Class 1 sales are said to be strong, and stocks of powder are not burdensome. Production in California continues to shift from NFDM to SMP, which *DMN* says is the lower priced item. *DMN* also heard exporters this week complain about international prices being lower than domestic prices. You know, that is exactly why those exporters should be looking to jump lock, stock, and barrel into the wonders of hedging. There are any numbers of qualified brokers who can show our exporters how to plan ahead and protect themselves from those kinds of situations. NFDM volumes reported to the major reporting agencies for last week were on the low side. California's prices were lower and the national prices were higher, and once again above the California level. The markets and prices for buttermilk and whole milk powders are steady. Usage of both are seasonally heavy. WMP imported into the eastern region from Europe (or maybe Argentina) continues to take some sales away from domestic producers.

**WHEY PRODUCTS MARKET COMMENTS:** The market for dry whey continues to reflect tight supplies, strong domestic and export demand, and rising domestic prices. The higher domestic prices have not deterred

those who need the product. *DMN* says negotiations are on-going for next year's contracts and the early feedback is for buyers to consider the current price levels as the basis for beginning their offers for next year. Exporters of dry whey are singing the same song that some exporters of nonfat powders are singing regarding lower prices. The difference is that *DMN* is not reporting on complaints coming from these manufacturers. May we call them hedgers? The West's "mostly" price series added another \$.0063 this week and continues to hold California's class 1 prices and provides maximum allowed value to class 4b prices. The market for whey protein concentrate-34 is steady and prices have firmed up a bit from last week's reported weakness.

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**FRED DOUMA'S PRICE PROJECTIONS...**

**Nov 18 Est:**      **Quota cwt. \$19.37**    **Overbase cwt. \$17.67**    **Cls. 4a cwt. \$17.91**    **Cls. 4b cwt. \$17.19**  
**Last Week:**      **Quota cwt. \$19.52**    **Overbase cwt. \$17.83**    **Cls. 4a cwt. \$18.03**    **Cls. 4b cwt. \$17.44**

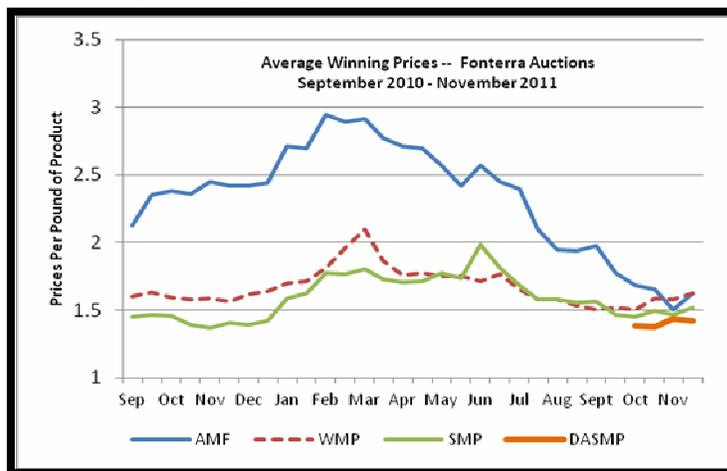
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**OCTOBER MILK PRODUCTION RAISES THE ANNUAL AVERAGE:** (by *J. Kaczor*) Led by eight western states with additional cows and a production per cow increase above the average, milk production in October expanded by 330 million lbs over last October, an increase of 2.1%. Details will be provided in next week's edition of this market update.

**PRICES RISE IN LATEST GLOBAL AUCTION:** (by *J. Kaczor*) Despite the great financial concerns in Europe, the political upheavals in north Africa, the "occupy" demonstrations in the U.S. (and elsewhere) and, most importantly, despite the burgeoning milk supplies in Europe, South America, and Oceania – winning prices in this week's global auction changed course and moved up smartly.

While one data point does not make a trend, reactions to recent sales and prices from widely ranging sources somewhat cautiously suggest the international dairy product export business may have gotten its legs back. A story last week from Europe reported prices paid to dairy farmers there in September, \$22.63 per cwt, was the highest it has been in the twelve year history of the European Union. Export sales were reported as "rather good" for skim milk powder, cheese, and dry whey, mostly driven by the weakened Euro vs. the U.S. dollar. From New Zealand, the last few auctions are a "sign of stability in an increasingly shaky world."

The chart shown here records the weighted average winning prices for the three major products offered in Fonterra's twice monthly auctions from September 2010 to November 15th auction. Prices for all three products (whole milk powder, skim milk powder, and anhydrous milkfat) are well down from their highs reached earlier this year, but there's a lot of activity on the right side of the chart. The weighted average price for all products rose by \$.04 per lb, an increase of 2.6% from the previous auction.



There are now 482 qualified bidders. In this auction, 166 entered and 123 wound up with some of the 86.7 million lbs of product that was sold. The average prices shown on the chart cover all delivery periods for each auction, similar to the accrual method of accounting for sales. For planning purposes, it is worthwhile to look at how the prices lay out over the full seven months included in contracts 2, 3, and 4. Prices for SMP and AMF are significantly higher for the 4th contract period (May-July) than for the 2nd contract period (January). SMP prices rise from \$1.48 per lb to \$1.67 per lb over that period. Prices for AMF rise from \$1.61 per lb to \$1.91 per lb. Prices for WMP rise from \$1.62 per lb to \$1.65 per lb. Rules of the auction were changed when Dairy America began to offer products; publication of the volumes sold is delayed for a period of three months.

Dairy America has now offered skim milk powder in the last four auctions. Their contract 1 shipment period is the month immediately following the month in which the auctions are conducted (November, for October's auctions). This month, DA began to offer SMP in contract 2 (for shipment in the February-April period), along side Fonterra's SMP. The estimated average winning prices for DA's products are included on the chart. It

appears the price difference per lb of product, for like specifications, below what Fonterra is receiving is about \$.07 per lb. Possible reasons why bidders may decide to offer different prices for DA's products were mentioned in an October 7<sup>th</sup> edition of this newsletter.

**RECEIVED YOUR ANNUAL FEE INVOICE FROM THE CALIFORNIA STATE WATER BOARD YET? IT'S QUITE A BIT HIGHER THIS YEAR:** *(By Rob Vandenheuvel)* Each year around this time, California dairies receive an invoice for their annual fee to be paid to the State Water Resources Control Board (SWRCB). This year you'll notice that the fee is quite a bit higher than last year – 27.4% higher to be precise.

In the past, the SWRCB's budget for their work on "Confined Animal Facilities" (CAF) was funded by a combination of permit fees paid by agricultural operations and funds from the general state revenue. As part of the ongoing budget work occurring in Sacramento, the general funds we used to rely on were eliminated, which means the dairies and other agricultural operators that pay permit fees are left to cover the entire cost of the Water Board's activities.

Agriculture is not alone in this new world of increased fees. In fact, the SWRCB implemented \$27 million in increased permit fees, of which CAF's make up \$775,000. On a percentage basis, our 27.4% increase also falls below the overall increase of 37.8% in fees paid by all permit holders. I'm sure this doesn't make any of our dairies happy about the increased fees being paid to the SWRCB, but it's good to put it in perspective.

In recent years, a growing number of dairies throughout the state have taken the steps to get "certified" under the California Dairy Quality Assurance Program (CDQAP). This certification, which includes class time and an on-farm inspection by a CDQAP inspector, carries the benefit of a 50% reduction for five years in your dairy's annual fee paid to the SWRCB. While the deadline for getting this reduction on this year's annual fee has already passed (September 30, 2011), dairies have until next September to complete the certification in order to reduce next year's annual fee (and the four years after that). If you received your annual fee invoice and aren't sure if it's the correct amount, this is the chart outlining the fees for dairies. The cow ranges are based on the number of "mature dairy cattle" (milking and dry).

Number of "mature cows"	Annual fee
3,000 or more mature cows	\$7,812
1,500 – 2,999 mature cows	\$4,883
700 – 1,499 mature cows	\$2,343
300 – 699 mature cows	\$1,172
Less than 300 mature cows	\$586

Obviously, if your dairy is CDQAP-certified, your annual fee should be 50% of the amount listed above. MPC members that have questions or are interested in getting information on CDQAP-certification should contact the MPC office at (909) 628-6018 or email us at [office@milkproducers.org](mailto:office@milkproducers.org)

**OCTOBER DAIRY CARES COLUMN POSTED ON OUR WEBSITE:** *(By Rob Vandenheuvel)* The most recent Dairy Cares Report has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the hard work being done by our California dairy families in implementing the National Dairy FARM (Farmers Assuring Responsible Management) Program – a national initiative aimed at demonstrating for our consumers of milk and dairy products the high-quality of care our dairies are providing for our dairy cows.

**NOT A MEMBER OF MPC YET? WANT TO JOIN?** *(By Rob Vandenheuvel)* As we noted last week ([http://www.milkproducerscouncil.org/111111\\_kevinabernathy.htm](http://www.milkproducerscouncil.org/111111_kevinabernathy.htm)), **MPC is actively seeking new members.** As a voluntary, producer-led trade association, we rely on memberships to fund the organization. With the recently-announced addition of Kevin Abernathy as our Director of Regulatory Affairs, MPC members now have access to top-notch representation on the increasingly-important environmental regulations that impact our farms, in addition to the well-known work we have been doing on behalf of our members on a host of other important issues (more on that in the article linked above).

Dairies and allied industry partners interested in pursuing a membership with MPC can find a membership form on our website ([www.milkproducers.org](http://www.milkproducers.org)). In addition, please feel free to contact us directly via email ([office@milkproducers.org](mailto:office@milkproducers.org)) or phone (909-628-6018).