



Milk Producers Council

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DATE: August 24, 2012
TO: Directors & Members

PAGES: 4
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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0175 \$1.8525
Barrels - \$.0325 \$1.8025

Weekly Average, Cheddar Cheese

Blocks - \$.0470 \$1.8440
Barrels - \$.0360 \$1.8045

CHICAGO AA BUTTER

Weekly Change +\$.0075 \$1.8000
Weekly Average +\$.0225 \$1.8000

DRY WHEY

Dairy Market News w/e 08/24/12 \$.5600
National Plants w/e 08/18/12 \$.5399

NON-FAT DRY MILK

Week Ending 8/17 & 8/18
Calif. Plants \$1.1896 11,132,096
Nat'l Plants \$1.2575 15,609,839

Prior Week Ending 8/10 & 8/11
Calif. Plants \$1.2174 8,391,361
Nat'l Plants \$1.2467 17,487,632

CHEESE MARKET COMMENTS: The U.S. milk supply continues to fall, affected by heat and humidity and by producers' decisions to trim the number of cows being milked and by changes in the composition of feed for the cows. *Dairy Market News* says cheese production is about equal to current demand, although mozzarella production in the East was higher and cheddar barrel production was lower in the Midwest because some milk was diverted to powder plants. Cheese prices were mixed this week on the CME, with moderate trading activity. A seller offered three carloads of blocks and four of barrels on Monday, pulling the prices for both down by \$.03 per lb. For the week, barrels lost \$.0325 per lb and blocks \$.0175 per lb. Both are about \$.05 per lb below this year's highs reached last week. The price spread between the two widened by \$.02 per lb, to \$.05 per lb. The pattern of weighted average prices reported to AMS by manufacturers for shipments last week again turned opposite the weekly average spot prices on the CME, similar to what prevailed for most weeks in July. Last week the simple average price for blocks on the CME was \$.0385 per lb higher than the simple average for barrels, but the weighted average prices (adjusted for 38% moisture) reported to AMS for shipments last week had block cheese selling for \$.0259 per lb lower than barrels. The total cheddar sales volume reported to AMS each month amounts to only about 9% of total cheddar production. This is mentioned only because the "circularity" of prices is so often lamented by manufacturers. These differences do not affect California's cheese milk prices since the CME block simple average price is used for that purpose, but federal order areas use the weighted average sales prices for both styles. CME's class III milk futures prices this week were mostly lower. September fell to \$19.10 per cwt. Prices for all months through March are above \$19 per cwt but October is the only one higher, at \$20.01 per cwt. Cheese futures were mixed, ranging from October's high of \$1.955 per lb to March's low of \$1.87 per lb.

BUTTER MARKET COMMENTS: The butter price on the CME this week rose by \$.0075 per lb on Monday, from offers, and held there for the rest of the week. Once again, there were no sales. Availability of milk for churning is being limited by higher demand for fluid milk (mainly for schools) but more cream is soon expected as bottling plants spin off butterfat and ice cream production moves lower after the Labor Day weekend. *DMN* notes overall butter sales appear to be greater than current production, and should continue to reflect a seasonal tightness of supply through the end of the year. Inventories began their long downward slide in June, to their November or December lows. Those plants with the ability to build butter stocks are said to be doing so with confidence. Despite falling stocks and continuing strong sales, CME butter futures prices this week for the fourth quarter averaged down by \$.0425 per lb, to \$1.815, showing little stomach for premiums.

POWDER MARKET COMMENTS: The supply/demand/price situation for nonfat dry milk in the U.S. appears to be very similar to what it has been at times in the past – tight supplies, a large percentage of the current total supply exported at prices negotiated long before, and prices for shipments covered by major domestic contracts apparently indexed to anything other than a current market indicator. Here is this week's capsule

comment by *DMN*: “The California index price, based on sales over the last 150 days, moved lower by 2.7 cents [to \$1.1896]. The national index, based on sales during the prior 30 days, is up 1.1 cents [to \$1.2575].” The low end of the full range of prices in the West reported by *DMN* this week is \$1.23 per lb; the high end of the “mostly” price is \$1.50 per lb. That almost guarantees increasing use of Milk Protein Concentrates, imported by enterprising brokers, in a growing list of products that do not have standards of identity. For the record, the “mostly” price for NFD in the central and eastern regions this week is \$1.37-\$1.51 per lb and \$1.27-\$1.50 per lb in the west. The market tone for buttermilk powder is firm and prices are higher, as some buyers in various parts of the country are unable to secure a supply. If there is a lesson to be learned from the mess described above it might be for buyers to secure a contract for future deliveries under favorable terms, for more than you believe is needed. It is no more than a form of insurance.

WHEY PRODUCTS MARKET COMMENTS: The U.S. market for dry whey continues to be tight and prices in all regions continue to increase. The west’s “mostly” price this week averages \$.56 per lb, up a penny from last week, offering continuing support for class 1 and cheese milk prices. In some cases, according to *DMN*, shipments of contracted amounts are being delayed because of tight supplies. Little is available for spot purchases. Contrast that picture to what continues for WPC-34 where *DMN* says some manufacturers have ready supplies for spot sales at prices very competitive with dry whey and NFD, with no takers. Futures prices for dry whey this week peak at December’s \$.62 per lb, down \$.015 for the week.

FRED DOUMA’S PRICE PROJECTIONS...

Aug 24 Final:	Quota cwt. \$17.32	Overbase cwt. \$15.63	Cls. 4a cwt. \$15.10	Cls. 4b cwt. \$16.57
Last Week:	Quota cwt. \$17.35	Overbase cwt. \$15.64	Cls. 4a cwt. \$15.07	Cls. 4b cwt. \$16.63

EPA ANNOUNCES REVIEW OF THE “ETHANOL MANDATE”: *(By Rob Vandenheuvel)* After hearing from numerous Governors from around the country (seven so far: Delaware, Maryland, Georgia, New Mexico, Arkansas, North Carolina and Texas), the Environmental Protection Agency (EPA) has launched a 90-day process of evaluating the merits of a one-year modification of the ethanol mandate (a.k.a., the “Renewable Fuel Standard or RFS). That 90-day review sets EPA up with a deadline for a final decision sometime around mid-to-late November. As part of that process, EPA is accepting comments for the first 30 days of the process. More details on EPA’s announcement can be found at: <http://www.epa.gov/otaq/fuels/renewablefuels/documents/2012-rfs-waiver-request-comment.pdf>.

Milk Producers Council will be working with our fellow coalition partners, many of whom submitted a detailed request to EPA (<http://www.milkproducerscouncil.org/073012livestockpetition.pdf>), to provide evidence of the economic devastation that is resulting from this unwise Federal policy of forcing about 40% of our national corn supply into ethanol plants at a time when an historic drought is threatening fundamental food and feed availability. So more on this issue to come...

CDFA DENIES REQUEST FOR ANOTHER MILK PRICING HEARING: *(By Rob Vandenheuvel)* This week, the California Department of Food and Agriculture (CDFA) announced their decision to deny a request by Western United Dairymen to revisit our Class 4b milk pricing formula as well as enact a temporary \$0.50/hundredweight increase in all five classes. The letter from Kevin Masuhara, Director of CDFA’s Division of Marketing Services, can be read at: <http://cdfa.ca.gov/dairy/uploader/docs/Decision%20Letter.pdf>.

CALIFORNIA’S ENHANCED FLUID MILK STANDARDS...PRODUCERS DESERVE THE FACTS: *(By Rob Vandenheuvel)* Below is copy of Section 7254 in Title 7 of the U.S. Code. This specific section of Federal law provides California with the Congressional-given authority to establish enhanced fluid milk standards for milk products “sold at retail or marketed in the State of California”:

Nothing in this Act or any other provision of law shall be construed to preempt, prohibit, or otherwise limit the authority of the State of California, directly or indirectly, to establish or continue to effect any law, regulation, or requirement regarding—

- (1) the percentage of milk solids or solids not fat in fluid milk products sold at retail or marketed in the State of California; or*
- (2) the labeling of such fluid milk products with regard to milk solids or solids not fat.*

“Nothing in this Act **or any other provision of law...**” It’s pretty clear, isn’t it? Since its enactment in 1996, this provision has been the subject of judicial review and has been upheld by the courts. It unequivocally gives our State the ability to enforce our own enhanced standards for fluid milk sold in California, whether that milk is originally produced within California or not.

So why am I bringing this up now? On July 11, 2012, the U.S. House Agriculture Committee approved their version of the 2012 Farm Bill. Included in that Committee-passed bill was language inserted by Rep. Steve King (R-IA) that aims to limit the ability of individual states in enforcing state-specific standards on out-of-state-agricultural products that are imported and sold within the state. As discussed by the author of the provision, Rep. King, the measure is aimed at preventing a state like California from implementing special standards on the production of a product like eggs, and then requiring out-of-state egg farmers to follow those same standards if they want to sell eggs in California.

Obviously, MPC and others took a close look at this amendment to ensure it wouldn’t impact our ability to continue to enforce our enhanced fluid milk standards. But as you can see from the above excerpt from U.S. Federal Law, no “provision of law” can “preempt, prohibit or otherwise limit” that right of California. So unless the provision in the 2012 Farm Bill repeals Section 7254 of Title 7 of the U.S. Code (which it does **NOT**), **our Congressionally-supported rights are still alive and well**. Should we continue to monitor this provision throughout the legislative process to make sure no changes are made to Section 7254 of Title 7 of the U.S. Code? Of course. But that’s a far cry from stating that the current House Farm Bill eliminates our right to enforce enhanced fluid standards.

So given these facts, **why am I continuing to see accusations by some in the California producer community that the House Ag Committee’s 2012 Farm Bill would eliminate our ability to enforce our own enhanced standards?** What possible motivation would these folks have for casting this *unsupported* doubt on the 2012 Farm Bill as it moves through the legislative process? I don’t think we’ll ever know the answer to that question. But bottom line: California’s dairy farmers deserve the right to evaluate the 2012 Farm Bill **based on facts**, and unless the folks making the claims above about this provision in the bill know something we don’t, **the law simply doesn’t support their claim**.

So please keep that in mind as Congress comes back into session in September and resumes their discussion over the 2012 Farm Bill. Before anyone tries to “sound the alarm,” make sure it’s based on the facts. As producers who rely on our organizations to provide guidance on legislative issues, **you deserve that level of honesty**.

JULY COLD STORAGE REPORT IS CONSIDERED “NEUTRAL:” (by J. Kaczor) USDA’s National Agricultural Statistics Service (NASS) this week published their estimate of month-end stocks of natural cheese and certain butterfat products as of July 31st. There are various ways to look at these monthly reports. As we have seen over the past five years, these stocks can vary widely in terms of absolute volumes, percentage of monthly production, and monetary value. Regardless of whether they are considered a valuable asset or an unsold measure of production, experience has shown that data for single months is next to worthless in terms of evaluating their importance or potential impact.

First, a short review of where the numbers come from and what information they are intended to convey. NASS mails questionnaires on or about the 24th of each month to approximately 1,400 public and private cold storage facilities whose products are normally stored for 30 days or more. Included in the mailing are dairy manufacturing plants. Excluded are wholesalers, jobbers, distributors, chain stores. The survey asks for data as

of the last day of the month. Response to the questionnaires is mandatory. The facility is asked to report the amount of the specified products in the facility on the last day of the month, regardless of ownership or origin, sold or un-sold, domestic or imported. The relevance of these reports is in the percentage of coverage and the consistency of reporting procedures over time. Both of these considerations are considered to be very high.

NASS compiles the responses, then adds estimates for non-reporting firms to arrive at their best estimate of the total. Reports from about 900 firms are received each month, representing about 70% of the total cold storage capacity. It is believed the surveys for butterfat products and cheese capture a much larger percentage of what is in storage. The numbers have been on a general upward trend, at least in absolute terms, but not so much as a percentage of production.

Each report includes adjusted numbers for the previous month, and a comparison of the current month to the same month a year earlier. As of July 31st, NASS reported the volume of butter, butter oil, and anhydrous milkfat in storage was 231,999,000 lbs. The adjusted volume for June 30th is 243,235,000 lbs. It is believed that these numbers represent mostly butter and only minimally the other products mentioned. June's 243.235 million lbs represent 1.78 times the amount of butter manufactured during June – consider that to be 53 days worth of production. The amount of butterfat in cold storage a year earlier was 190.310 million lbs, 1.3 times the amount manufactured during the month, or 39 days worth of production. July's production will be reported September 4th. Expect to see butterfat stocks decline through the end of the year.

The amount of American cheese in cold storage at the end of July was 633.962 million lbs. The adjusted amount reported in storage at the end of June was a little lower, 629.232 million lbs, or about 1.72 times the amount that was produced during the month. The amount of all cheese in storage at the end of July was 1,043.353 million lbs, compared to the adjusted number for June, 1,048.262 lbs, which was about 1.17 times the amount that was produced during June. A year ago June's total cheese in storage was 1,051.424 million lbs, representing about 1.18 times that month's production. The larger percentage of American cheese in storage compared to all cheese is accounted for by Cheddar, for aging. Considering the overall growth of cheese sales (U.S. per capita consumption in 2011 set a new record) and possible changes in the ways major buyers, who are left out of the monthly computations, may have their suppliers handle their inventories, cheese stocks at the one billion lb level have not been considered to be disruptive or price-deflating.