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

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*N/C*	$1.6150
Barrels	*+$.0500*	$1.5725
Weekly Average, Cheddar Cheese		
Blocks	*+$.0370*	$1.6450
Barrels	*+$.0350*	$1.5595

CHICAGO AA BUTTER		
Weekly Change	*+$.1225*	$1.5400
Weekly Average	*+$.0510*	$1.4595
DRY WHEY		
Dairy Market News	w/e 06/15/12	$.4813
National Plants	w/e 06/09/12	$.5032

NON-FAT DRY MILK		
Week Ending 6/8 & 6/9		
Calif. Plants	$1.0968	16,983,822
Nat'l Plants	$1.1022	26,771,802
Prior Week Ending 6/1 & 6/2		
Calif. Plants	*$1.1040*	*16,578,191*
Nat'l Plants	*$1.0957*	*30,601,990*

CHEESE MARKET COMMENTS: The price spread between blocks and barrels this week narrowed to a reasonable $.0425 per lb from a $.05 per lb increase in the barrel price. Trading was moderate. The block price temporarily moved up by $.085 per lb from a combination of offers and bids on Tuesday and Wednesday but then fell back by the end of the week from four decisive offers. Cheese sales are reported to be running at about the same pace as slowing production, although *Dairy Market News* says orders for mozzarella may be off by more than anticipated. Plants continue to adjust production schedules to reflect somewhat lower sales, trading off maximum production for control over inventories. April's cheese exports were 31% higher than last April and 12% higher so far for the year. However, *DMN* says the recent price increases may be affecting those volumes. U.S. milk production is on its seasonal decline. Weather in the northeast and northwest remains favorable for milk production, while high temperatures and lack of rain (in some regions) is causing sharper than normal production decreases. The report for May milk production will be released on Monday and the cold storage report for cheese and butter will be released on Friday. Class III futures prices this week were mixed after rising sharply through mid-week. By Friday, July-August prices were off by a few cents per cwt, and September-December prices were up by an average of $.16 per cwt. The September price continues to be the high for the year, at $16.85 per cwt, up $.16 per cwt for the week. Cheese futures prices, except for July, followed the same pattern but continue to reflect premiums to the spot market prices.

BUTTER MARKET COMMENTS: Butter prices on the CME have been edging upward from the year's low weekly average price of $1.3065 per lb for the week ending May 11th to last week's $1.4085 without much in the way of supportive news. Production was surging, inventories in the U.S. and Europe were growing very fast, U.S. exports continued to be about a third lower than last year's exports over the past ten months, and international prices were steady to lower. The short term outlook was not positive, although forecasters continued to predict U.S. milk production would slow down to the point where there could be fewer cows being milked this October than last year. While that would mean a reduction of only 50,000 cows from current levels it would signal a definite slowing of milk production and give the dairy markets a chance to come into better balance. Well, for reasons not at all clear, the outlook for butter this week apparently strengthened by a lot; bidders Monday through Thursday raised the price by $.0375 per lb and seven sales today, originated by sellers, added another $.085 per lb to the price. Short term profits were taken today by a company who helped bid prices up earlier in the week. Today's CME price is now more than $.17 higher than the average price received by manufacturers for shipments made last week. Current butter production appears to be in balance with current sales and demand for butterfat for other uses is approaching seasonal highs. Today's sharp increase in spot prices surprised everyone, including futures traders. Prices for July and August rose sharply but not by enough to carry them above the spot price; the average monthly increase for the week was $.05 per lb.

POWDER MARKET COMMENTS: Prices for spot sales of nonfat dry milk are again higher throughout the country this week while prices for contracted shipments continue about where they have been, reflecting various reference points and commitments. The increases for the past two weeks total $.07 per lb for the West and $.16 for the central region – the first "sustained" increase in about a year. Product production is slowing on pace with that of milk production. *DMN* says stock levels in all regions are normal to moderate although that may not be the case for California plants, based on comparison of reported sales to production over the past five months. Six more car loads of grade A powder were sold on the CME this week, and prices for grade A and extra grade both moved higher with grade A ending the week at $1.2225 per lb. The industry's focus appears to be longer term than last week's huge price increase for skim milk powder in the global auction. Lower seasonal milk production, steady export demand at historically high levels, strong domestic demand for nonfat dry milk and condensed skim, and an apparent belief that the lowest prices are behind has buyers looking to their needs for the second half of the year. Prices for buttermilk powder are steady in the central region and edging up in the West; price levels for powder and condensed remain below those for NFDM.

WHEY PRODUCTS MARKET COMMENTS: Exports of dry whey in April were unchanged from a year ago, while whey protein concentrate exports were 29% higher and dry lactose exports were 23% lower. After continuous declines from the end of February prices for dry whey showed signs they may had reached their bottoms at least for the near term. However, this week *DMN* says they hear buyers continue to speculate about further price weakness. The national price, reported by AMS, is now down to $.503 per lb, about $.21 lower than the year's high reached the 3rd week in January. The lower prices should stimulate increased interest from exporters, although competition for those sales from European sources is strong. Prices for WPC-34 also continue to slip lower but the apparent strengthening in NFDM prices is expected to provide basis for their firming. *DMN* says the shift in production from lower concentrations of whey protein powders to the upper levels of concentration is continuing. Dry whey futures prices, at small premiums to the AMS price series, this week were lower for July and August, unchanged for September, and up by an average of $.018 per lb for the rest of the year.

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FRED DOUMA'S PRICE PROJECTIONS…

June 15 Est:	**Quota cwt. $15.76**	**Overbase cwt. $14.06**	**Cls. 4a cwt. $13.46**	**Cls. 4b cwt. $14.62**
Last Week:	**Quota cwt. $15.69**	**Overbase cwt. $13.99**	**Cls. 4a cwt. $13.34**	**Cls. 4b cwt. $14.54**

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IDFA'S LATEST ATTEMPT TO EDUCATE CONGRESS: *(by J. Kaczor)* It is getting interesting, these attempts by the International Dairy Foods Association to mislead and confuse those in Congress who have a vote on whether to include in the Farm Bill presently being considered, a voluntary program designed to cause some milk producers to cut back a bit on milk production when their gross margins fall to severely low levels.

Remember Connie Tipton, gripping the podium and possibly tearing up, when she first voiced her fanciful impression of a proposed Dairy Market Stabilization Program? In short, she said the program (or any such program) would raise milk prices and "kill the dairy industry," among other things. Later, various IDFA spokespersons said it would raise governmental costs, reduce exports, cost many millions of dollars of lost business for their members, raise food prices, cost thousands of U.S. jobs, raise taxes, and finally, instead of reducing milk price volatility (which it is designed to do) it would increase milk price volatility. They never got very far with that nonsense, so they made an absurd info-mercial, attacking the plan from the angle that the government does not have a valid role in helping to stabilize a major agricultural industry. That didn't go over so well either, so they finally resorted to hiring a consulting firm to, apparently, obfuscate, confuse, misdirect, and mislead those in Congress who do have a vote on the matter, or those who perhaps could influence people in Congress.

IDFA chose wisely. "Informa Economics" is a fine organization that has studied any number of important matters for a wide range of clients. They do good work. In this case, their apparent task was to prepare a study of the studies already made (but not to criticize them), pointing out how complex the industry models were, instruct Congress about the importance of considering impacts of establishing differing premises to support an argument, and repeat a whole lot of what already has been said or written many times over – then stop.

In one sentence in the brief the three paragraph conclusion to this study of studies, Informa Economics deftly overlooks one of those important premises they caution others about when they say "The studies using structural models of the U.S. dairy industry find DMSP reduces shot-term exports when it is activated." That conclusion assumes exporters would not or will not have taken appropriate steps to protect their valuable export programs from a short-term increase in price or a short term decrease in supply. Those supposed opposites are really one and the same. To presume a U.S. exporter would not take steps to assure a full supply of milk needed to fulfill an important contract is to presume that exporter is not very smart, to put it kindly. Ask any commodity broker or agricultural insurance agent how to go about contracting for a milk supply and setting in place a program to protect your milk supplier from losing out in the event the dreaded DMSP is activated. Have they not heard of a contingency supply program?

Well folks, none of the industry models, as good as they are, really prove their case because the proposed DMSP is voluntary and those producers who do not choose to enter the program may well be throttling up production at the very same time those producers who are in the program are throttling back. The net result of the DMSP – that is, how many producers opt into the program and how many opt out of it – is simply unknown, and the net impact on U.S. milk production is likewise unknown.

But how obtuse does IDFA think people in Congress are? Apparently the answer is "very much so," but most of them are business men or women who will be asking the obvious question about proper preparation in the event very low milk prices cause severe financial distress to milk producers. The DMSP does no more in that event than what is sure to happen over a protracted period of time in the absence of a DMSP, which is to induce a reduction in the U.S. milk supply. But it gives producers a "heads up," shortens the period of correction by months, and thereby saves any number of dairy farmers from making wrong decisions or losing their businesses. For gosh sakes, do the numbers and try not to get distracted by IDFA's smoke and mirror approach to U.S. dairy policy.

MANAGER'S NOTE: *(By Rob Vandenheuvel) Very well put John. In reading the press release put out by IDFA (http://www.idfa.org/news--views/news-releases/details/7354/),* ***I was amazed by the chutzpah being shown by this organization representing U.S. dairy product manufacturers.*** *When you boil it right down, what IDFA is saying is that they believe the roughly 60,000 dairy producers in the U.S. have a moral* ***obligation*** *to sacrifice* ***BILLIONS of dollars*** *in equity every few years in our effort to "protect" our ability to export dairy products. Do IDFA's clients make any such sacrifice?* ***Of course not!*** *They believe producers are obligated to provide them with all the high-quality milk they need at all times, regardless of whether that milk is generating a profit on the farm. In 2012, they expect us to sell them milk that cost our dairies $17 per hundredweight to produce for $14 per hundredweight, and then accuse* ***US*** *of destroying the industry when we promote a flexible, voluntary safety net policy that would empower us to restore market balance and allow the market value of our milk to cover our costs and generate a reasonable return on investment. Like I said, it takes chutzpah to make those arguments with a straight face.*

As John rightly points out, this is only the latest in a long list of attempts by IDFA to kill the Dairy Market Stabilization Program (DMSP) or any similar proposal. And before this debate is over, there will undoubtedly be new additions to that list. No matter what they have said or what they will say, know this: Their objection of the DMSP boils down to one word… ***CONTROL***. *They have it and we want it. It's truly as simple as that. They recognize – and rightly so – that the DMSP will provide producers with a tool to collectively respond to negative on-the-farm margins by temporarily and quickly moderating milk production to bring about better alignment with profitable demand. That's a frightening reality for a group of folks who are very comfortable with a status quo that gives them virtually all the control.*