



Milk Producers Council

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TO: Directors & Members

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks - \$.0050 \$1.5900
Barrels - \$.0325 \$1.5400

Weekly Average

Blocks - \$.0640 \$1.5795
Barrels - \$.0850 \$1.5295

CHICAGO AA BUTTER

Weekly Change - \$.0175 \$1.9725
Weekly Average - \$.0555 \$1.9715

DRY WHEY

WEST MSTLY AVG w/e 04/08/11 \$.4863
NASS w/e 04/02/11 \$.4875

NON-FAT DRY MILK

Week Ending 4/1 & 4/2

Calif. Plants \$1.5185 13,065,367
NASS Plants \$1.5593 15,209,578

CHEESE MARKET COMMENTS: It appears the lesson to be learned from the trading in cheese on the CME these past several weeks is that so long as someone has extra cheese to sell it's likely to show up on the exchange and that's the place to find bargains. This week, 74 carloads of cheese changed hands, at prices as much as 27 cents per lb lower than prices charged last week by manufacturers, presumably to their regular customers. With 3 million lbs sold on the exchange and 20 million sold through regular channels, would someone say the exchange's trading isn't so thin anymore? The NASS prices continued to chase after the CME prices for a second week, falling by another 11+ cents per lb. Futures traders apparently saw something they liked; it could have been Monday's report on the amount of cheese produced in February – 9.0% lower than January for all cheese and 11.0 % lower for cheddar. The cheddar number reflects a production rate per day lower than in January and was the lowest February output in at least five years. After losing a bit on Monday, class III milk futures gained every day for the rest of the week, with the May-July averages ending up by 51 cents per cwt and the August-October averages ending up by 21 cents. The largest increase occurred today after the spot market saw blocks gain 1.5 cents and barrels 3.0 cents. CWT released another notice of approved bids for subsidized exports of American cheese.

BUTTER MARKET COMMENTS: Except for May and June prices, futures prices for cash-settled butter this week held ground, or gained some, relative to CME's spot butter prices. However, for the first time since mid-January, the weekly average butter price ended the week under \$2.00 per lb. Trading this week was heavy – 27 carloads were sold. The price ended the week at what seems to be a well-supported level of \$1.9725 per lb. Sales are reported to be holding up well as Easter approaches. Butter production in February was a little lower on a per day basis than in January. Inventories are reported to be low and tight.

POWDER MARKET COMMENTS: February production of nonfat powders was about steady with January's levels. Production of buttermilk powder and whole milk powder was well below January's daily average production. Prices for both products continue to be affected by prices for nonfat dry milk. NASS prices for shipments of NFDM made last week rose by 4 cents per lb; California plants reported a 2.25 cents per lb increase. Volume was light to moderate for each price series. Inventories for all powders at the end of February were about unchanged from the prior month. *Dairy Market News* reports buyers are tending to use more condensed than powders. The NASS price for NFDM, \$1.56 per lb, is close enough to international prices to affect sales. (The price for skim milk powder in Fonterra's auction this week was \$1.71 per lb for shipments in June and \$1.64 for shipments during the 4th quarter of the year.) If export sales of nonfat dry milk ease back from their recent very high levels, look out for much weaker prices – again.

WHEY PRODUCTS MARKET COMMENTS: The average price reported to NASS for dry whey shipments last week rose strongly, to 48.8 cents per lb. Prices for whey protein concentrates (34% protein) are very strong. Demand for the full line of whey protein products continues to be very strong domestically and internationally.

FRED DOUMA'S PRICE PROJECTIONS...

April 8 Est: Quota cwt. \$18.74 Overbase cwt. \$17.04 Cls. 4a cwt. \$19.15 Cls. 4b cwt. \$14.20
Last Week: Quota cwt. \$18.62 Overbase cwt. \$16.93 Cls. 4a cwt. \$18.75 Cls. 4b cwt. \$14.27

SUCCESSFUL INDUSTRY MEETING IN VISALIA – DAIRY PRODUCERS GET AN UP-CLOSE LOOK AT NMPF'S "FOUNDATION FOR THE FUTURE" *(By Rob Vandenheuvel)* This past Tuesday, MPC and California Dairy Campaign co-hosted an industry meeting in Visalia to delve into National Milk Producers Federation's "Foundation for the Future" (FFTF). As many of you know, FFTF is a topic of industry conversations all over the country, as it is the most prominent industry reform plan out there.

Many of the details about FFTF have been published on www.futurefordairy.com, and whether you were able to attend this week's industry meeting or not, I strongly encourage every dairyman to learn as much as you can about what's being presented. In short, FFTF includes:

1. A "Dairy Market Stabilization Program" that will empower dairy farmers to collectively respond to supply/demand imbalances by temporarily cutting back milk production when needed.
2. A "Dairy Producer Margin Protection Program" that will replace the MILC and Dairy Price Support Program as our industry safety net to protect dairy farmer equity in the limited periods when the market stabilization program cannot act fast enough to bring balance back to our industry.
3. Fundamental reforms of our nation's Federal Milk Marketing Orders.

The meeting this past Tuesday attracted about 160 people, a vast majority of which were dairy farmers. The meeting, which was moderated by CDC Executive Director Kevin Abernathy, was broken into five main parts:

1. **An opening statement from MPC President Syp Vander Dussen.** Syp used his time to urge a call-to-action by dairy farmers. He reminded everyone in the room that IDFA – the main Washington, DC lobbying organization for our nation's processors, is going to work tirelessly to kill any effort aimed at empowering dairy farmers, and if we want any chance of real reform that includes measures to collectively cut back milk production when surplus production causes negative dairy farmer margins, we will need to all get behind a common industry proposal. Syp noted that any division on the producer side of our industry will hand IDFA what they want – a continuation of the status quo.
2. **My presentation on the details of NMPF's "Foundation for the Future."** I went through a presentation on the details of how FFTF would work, with much of the program triggering in an out based on dairy farmer "margins." A copy of the presentation slides I used can be found on our website at: <http://www.milkproducerscouncil.org/040511visaliadairymtg.pdf>. I encourage all our readers to spend a few minutes reviewing these slides, as they lay out the basic structure of what is being proposed in FFTF.
3. **A panel discussion by MPC Vice-President Geoffrey Vanden Heuvel and CDC Board Member Joaquin Contente.** The audience got a glimpse into the arguments in favor and against some of the pieces of FFTF, as Geoffrey and Joaquin spent about 30 minutes debating/discussing the details of FFTF.
4. **A closing statement by Cornell Kasbergen, Tulare dairyman and NMPF Director.** Cornell talked about the process he and his colleagues on the NMPF Board had gone through to craft FFTF, and updated the audience on the status of the plan as it is being sent to Congress as a legislative proposal. Cornell commented that while FFTF is certainly not "perfect" (and I would note that perfection is an unachievable standard in an imperfect world), it is truly our best and only shot at getting real reform that empowers dairy farmers through Congress this year. Cornell reiterated Syp's earlier comments that IDFA is strongly opposed to the provisions that allow dairies to collectively cut back surplus milk production, and they will be working hard to derail that effort in Congress. He went on to say that unless producers get behind FFTF, we will be stuck with the status quo.
5. **A Q&A session with the audience.** The meeting ended with time for Q&A, with the audience directing questions to Cornell, Joaquin and Geoffrey.

While it's always difficult to know what an audience gets out of any particular meeting, it seemed clear that the dairy producers that were able to attend this meeting walked out with a much clearer picture of FFTF and the issues are surrounding it than when they walked in. MPC and CDC greatly appreciate those who took the time to come out to the meeting, as well as Western Milling, who provided the accommodations.

The meeting was recorded by video, and hopefully in the near future, we will be able to post some/all of that footage on our website. But in the meantime, I strongly encourage everyone to take the time to go through the presentation slides on our website (<http://www.milkproducerscouncil.org/040511visaliadairymtg.pdf>), as well as the detailed information on NMPF's website (<http://www.futurefordairy.com>).

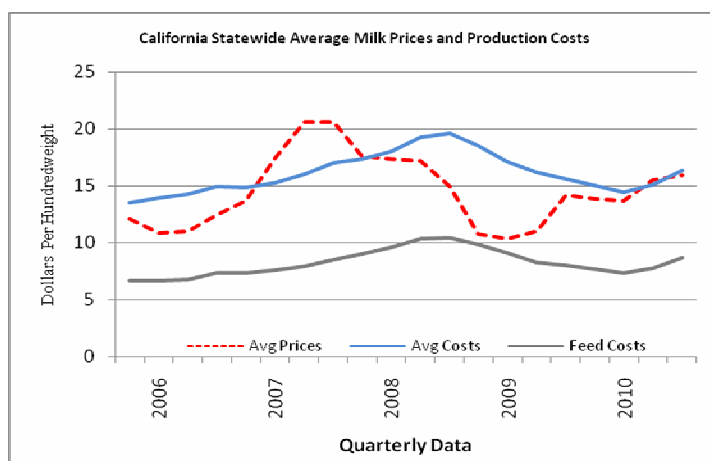
Much of the past couple years has been spent talking about different proposals and different ideas. That has been an essential part of this process, and one that MPC has been very active in. Last year, we spent much of our time and resources talking about the Costa/Sanders Bill – a legislative proposal for a Growth Management Plan that had some growing support around the country, but was not able to attract the critical mass of support needed to get it implemented. But as we sit here in 2011, **we have a rare opportunity to successfully move a real reform package through Congress.** Our legislators have made it clear that they recognize the devastation in the dairy industry and the need for reform, but until the producers can get on the same page with regard to what that reform package looks like, Congress's hands are tied.

With IDFA strongly opposed to serious reform in the dairy industry, **our nation's dairy farmers are either going to get behind one proposal or we will be stuck with the status quo of feeding top-dollar hay and grains to our cows and crossing our fingers every morning when the CME trading report comes out.** There has to be a better way of operating our industry, and given the rare and tight window of opportunity before us, the question we must ask ourselves is simple: **Does FFTF improve the producers' position in this industry?**

We know what IDFA's position is – they clearly believe FFTF would transfer some of the price risk away from producers and onto the backs of processors. Their opposition to that type of change is both predictable and understandable. But the question about whether FFTF is a plan that improves producers' position is something that every dairy farmer and producer group around the country must answer. So read as much as you can about the plan, and don't be afraid to ask questions. But at the end of that process, be prepared to stand up and answer the biggest question of all: **Is FFTF change you can support, or are you ok with the status quo?**

UPDATE ON CALIFORNIA COSTS OF PRODUCTION SHOW COSTS EXCEEDING AVERAGE PRICES: (by J. Kaczor) CDFA recently published the 2010's 4th quarter cost of production figures for California dairies. The report covers 148 dairies in four major production areas of the state. The sample size is about 9% of all operating dairies. The number selected for study is roughly proportionate to the number dairies in each of the production areas. The statewide average cost is determined by weighting the area costs by their share of the state's total production. The total costs include an allowance that ranges from \$1.50 to \$1.60 per cwt for capital investments and management.

The graph printed on the next page shows average prices and average production costs for milk at average tests, which makes the comparisons as fair as they can be. That dancing red line is the statewide blend price. The quarterly cost of feed, a major component of total costs, is included in the graph. According to CDFA, California's average milk prices were higher than the industry's average production costs in the third quarter of 2010, the first time in the most recent eleven quarters, but were lower again in the 4th quarter. Prices for the 1st quarter of 2011 (not shown in the graph) are estimated to be about \$1.50 per cwt higher than the previous quarter, which should put them above the projected increase in feed costs – for only the second time in two years.



Beyond there, the belief that high and rising commodity prices for the rest of 2011 could pull milk prices close to the record highs of 2007-2008, and generate reasonable net profits for milk producers, is dampened by the recent weakness in cheese prices on the CME and the slumping of prices in Fonterra's global auction. That auction,

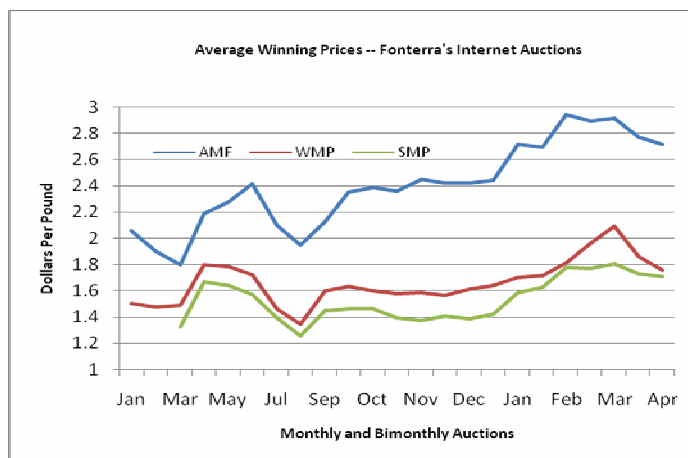
considered by many analysts to be one of the most transparent indicators of real global dairy product supply and demand, appears to be particularly sensitive to projections of future milk supply in major exporting nations.

The inclusion of feed costs in the graph (which reflect actual prices paid for the feed that was used during the periods studied) gives a rough means to compare California's "gross margins" to those that would be used to activate the margin payments and the Dairy Market Stabilization Program in the proposed Foundation for the Future reforms. The pattern of prices and feed costs is similar but the California quarterly data "smoothes" the price and cost numbers compared to monthly data used in the FFTF charts. Use of actual prices paid for feed (which is a combination of many different buying programs) also tends to moderate the peaks and valleys that result from use of monthly futures prices. Generally, actual feed costs for California producers during the four year period shown on this graph never got as high as those shown by the FFTF charts, but the gross margins, at least for the first two quarters in 2009, were somewhat lower.

PRICES FALL AGAIN IN THIS WEEK'S GLOBAL AUCTION; WHAT'S CAUSING THE WEAKNESS? *(by J. Kaczor)* Winning prices for two of the three product categories in this week's auction clearly indicate a recent change in buyers' outlook. The change is from apparent concern about future supplies to, well, apparently less concern. There's little to support a belief that demand for these major dairy commodities has fallen. If anything, recent reports about extraordinary needs from China, Russia, and India (and more recently South Korea and Japan) suggest that demand for whole milk powder and anhydrous milkfat will likely be greater this year and next year than last year. However, there are concerns that the high prices could dampen immediate interest; food prices in many of the major buying countries have been rising and they represent a high percentage of a typical household's total living expenses. That is a legitimate concern.

The graph shown on the previous page includes this week's winning prices. The prices are weighted averages for each of the three product categories for all periods. The winning prices and AMF and whole milk powder were lower across the board. Winning prices for skim milk powder rose for the first two contract periods and fell for the third period. [A sharp drop in the third period price for SMP is believed to be a "correction" to the sharp increase bid two weeks ago for the same delivery months.]

While it's true that a small change in supply or demand in the roughly six percent of world milk supply that is traded internationally can have a major effect on prices, the changes anticipated for supply and demand at least for this year are pointed in the same direction, upward. A recent report on milk production in Europe shows output growing by more than 3%. U.S. milk production is growing by more than 2%. Barring another year with adverse weather in Australia and New Zealand, milk production is expected to be as much as 6% higher for the year down there beginning in June and July. Argentina's milk production is said to be 16% higher than a year ago. Supplies of all internationally traded dairy commodities are expected to be higher this year, as is the demand for them.



Once again this week there have been comments from principals in New Zealand intended to calm the concerns of those who may see part of the sky falling. Unless someone has a better understanding of international supply and demand than the New Zealanders do, I'm satisfied with the reassurances given – that international dairy supply and demand continues to be fairly balanced.

MONTHLY MPC BOARD MEETING TO BE HELD NEXT TUESDAY: *(By Rob Vandenheuvel)* MPC's monthly board meeting will be held next Tuesday, April 12th, in the board room of the Kern County Farm Bureau (801 S. Mount Vernon Avenue, Bakersfield). The meeting will start at 11 a.m. All current and prospective MPC members and associate members are welcome to attend. If you plan on attending, please RSVP to the MPC office at (909) 628-6018.