



Milk Producers Council

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FROM: John Kaczor

*** A WEEK OF OPTIMISM FOR DAIRY FARMERS ***

HOUSE AG COMMITTEE NOT ONLY APPROVES THE 2012 FARM BILL, BUT LEAVES THE PROPOSED DAIRY REFORMS INTACT: *(By Rob Vandenheuvel)* This week, the U.S. House of Representatives' Committee on Agriculture approved their version of the 2012 Farm Bill. This was a huge step forward in our industry's efforts to modernize our Federal dairy safety net policies by creating a system that treats all dairies fairly, regardless of size, and give the industry a tool to collectively respond to supply/demand imbalances by quickly and temporarily adjusting on-the-farm milk supplies.

During the Committee's 12+ hour "markup," there were numerous amendments offered and discussed, included a couple relating to the dairy provisions in the bill. Most notably, an amendment was offered by Reps. Bob Goodlatte (R-VA) and David Scott (D-GA) specifically aimed at gutting the dairy reforms by removing the Dairy Market Stabilization Program from this bill. This amendment, which was largely promoted by the nation's processors, would have limited the dairy provisions to a stand-alone "margin insurance" program that provides limited government subsidies to dairies during periods of market imbalances and negative on-the-farm margins, without providing any tool to bring dairy markets back into balance. As MPC pointed out in a press release earlier this week (<http://www.milkproducerscouncil.org/071012FarmBillAmdt.pdf>), this amendment – which was advertised by its sponsors as the "free market approach" to dairy policy reform – essentially gave the nation's processors the ability to under-pay for milk and forced the U.S. taxpayers to try and make up the difference through a stand-alone, government-subsidized margin insurance, with no attempt to limit these government payments by restoring balance in our dairy markets. Far from the "free market solution," the Goodlatte/Scott Amendment could be more appropriately described as "welfare for dairymen and low-cost milk for processors."

Fortunately, after extensive debate, the amendment failed by a vote of 17-29, leaving the Dairy Market Stabilization Program intact. MPC extends its heartfelt thanks to the 29 members of the Committee who stood up for U.S. dairy farmers and opposed this amendment. All three of California's Representatives on the Committee – which includes Reps. Joe Baca (D-Ontario), Jim Costa (D-Fresno) and Dennis Cardoza (D-Modesto) – spoke against the amendment and cast their vote in opposition.

This week's vote in the House Ag Committee puts the dairy industry in a great position to make fundamental changes to our safety net policies. The provisions in the Committee-passed bill largely mirror the dairy provisions approved back in April by the U.S. Senate. While there is still more work to do (approval of the Farm Bill in the full House of Representatives and negotiating a compromise with the U.S. Senate), the fact that we've made it this far has only been possible because of a strong, coordinated effort put forth by dairy organizations around the country. MPC is proud to join a coalition of dairy organizations from coast-to-coast supporting the dairy provisions in the Farm Bill. This coalition recognizes the rare opportunity we have in 2012 to make positive, much-needed reforms to our safety net policies. We've been able to put aside the regional differences that all-too-often tear us apart and put together a proposal that benefits all U.S. dairy farmers.

Back in April, this strong coalition of dairy organizations from around the country sent a letter to the Senate Ag Committee when they were considering their version of the 2012 Farm Bill. As a reminder to our readers, those groups – who continue to work closely together as the bill moves through the House of Representatives – are listed below:

- Agri-Mark
- Alabama Dairy Producers
- Associated Milk Producers Inc. (AMPI)
- Dairy Farmers of America (DFA)
- Dairy Farmers Working Together
- Dairy Producers of New Mexico
- Dairy Producers of Utah
- Dairylea Cooperative Inc.
- Ellsworth Cooperative Creamery
- Holstein Association USA, Inc.
- Idaho Dairyman's Association
- Iowa State Dairy Association
- Land O'Lakes
- Maryland Dairy Industry Association
- Michigan Milk Producers
- Midwest Dairy Coalition
- Milk Producers Council
- Missouri Dairy Association
- National Council of Farmer Cooperatives
- National Farmers Organization
- National Milk Producers Federation
- Northwest Dairy Association / Darigold
- Oregon Dairy Farmers Association
- South Carolina Dairy Association
- South Dakota Dairy Producers
- St. Albans Cooperative Creamery
- United Dairymen of Arizona
- Upstate Niagara Cooperative, Inc.
- Washington State Dairy Federation

The next step is for the 2012 Farm Bill is to be presented to the full House of Representatives for a vote. The timing for that vote is unclear, and MPC will be working with our coalition partners to urge the leadership in the House of Representatives to bring this bill up for a vote in the very near future.

MPC FRIDAY MARKET UPDATE

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CHEESE MARKET COMMENTS: Weather takes center stage this week as the all eyes appear to be on forecasts for a possible break in the pattern of many hot and dry weeks in the Midwest and surrounding crop growing areas. At this point, everyone with a stake in crop yields should be on edge. USDA's acreage forecasts are somewhat lower after reports of some fields being plowed under because of no growth. The latest public and private forecasts for U.S. corn yield were lowered sharply and now virtually all are close to agreement on what may be expected, which is a lot less of most every feed crop planted. Cash and futures prices for corn, wheat, and soybeans have soared, which traders take as the signal for producers to reduce herd size and change rations. Current conditions point to less milk, less cream, less condensed skim, and lower volumes of cheese, butter, and powders than previously forecast for this year. USDA lowered its forecast for this year and next because of expected less milk per cow and fewer cows sooner. That may happen, but producers are receiving mixed signals – somewhat higher than expected milk prices coupled with possibly much higher than expected feed costs – but then there are also stories of lower than expected demand for some crops. There is a saying among Texas Hold'Em players that could apply to what U.S. milk producers are facing: play it slow and play the odds. The odds-makers this week seem to believe the revised forecasts and prices moved higher on the CME. Blocks added the most, \$.04 per lb, and did it the hard way, with 21 trades. Blocks added \$.005 net per lb, after first dropping by \$.035 per lb through Wednesday. Production is moderate, in line with sales. Class III futures prices were sharply higher across the board this week, with all months this year ending above \$18.00 per cwt. September's \$18.88 is the high, up \$1.01 per cwt this week.

BUTTER MARKET COMMENTS: There was only a single sale this week, but butter prices on the CME rose by \$.0175 per lb. *Dairy Market News* reports butter production is lower than expected because of how little cream is available and how much of it is being swept away by other users. Cream multiples are rising. Butter

buyers apparently have changed their minds about waiting for lower prices because of what they are seeing – continuing strong sales and lower than expected supplies. In fact, it appears that, after so many months of such huge volumes of butter production, July’s output could come in lower than a year ago. Exports in May were slightly higher than in 2011, for the first time this year. Butter futures responded to the continuing strong spot market this week, moving up by an average of \$.0525 per lb; October and December ended the week at \$1.63 per lb.

POWDER MARKET COMMENTS: The California plant average price for shipments of nonfat dry milk last week bounded up by \$.152 per lb, \$.02 per lb above the national price, but the volume shipped during the major holiday week fell to one-eighth of the previous week. The national price rose by \$.062 per with one-third the previous week’s volume. Neither of the prices should be considered representative. *DMN* is finding that demand appears to be picking up in the central region but is only fair in an unsettled western market. Production is on its seasonal trip downward but does not appear likely to get very close to last year’s lows. Export interest is steady. Buttermilk prices also moved up this week, helped by a tightening supply and the rising average “mostly” prices for nonfat dry milk.

WHEY PRODUCTS MARKET COMMENTS: Concern about what appears to be a long-term downward trend in production, dry whey users are more actively searching out sources for the near term as well as for later this year. Prices are generally on the rise, with fewer discounts to counter the trend. *DMN* says the market currently appears to be well balanced but slower production and higher exports could reduce the relatively little amount of product that is available. Steady demand and fewer discounts is helping prices for WPC-34 recover from recent weakness. The same concern about future supplies that affect other dairy protein products is also leading more buyers to secure contracts. Dry whey futures prices rose by an average of \$.04 per lb this week; December’s price jumped by \$.0525 per lb; October-December shared the high price for the week, \$.585 per lb.

FRED DOUMA’S PRICE PROJECTIONS...

July 13 Est:	Quota cwt. \$15.97	Overbase cwt. \$14.28	Cls. 4a cwt. \$13.36	Cls. 4b cwt. \$15.04
Last Week:	Quota cwt. \$15.87	Overbase cwt. \$14.17	Cls. 4a cwt. \$13.29	Cls. 4b cwt. \$14.85

2012 EXPORTS TO DATE ARE HOLDING THEIR OWN: (by *J. Kaczor*) With more milk having been produced in the U.S. each month from January through May (and for most months before), and less of it consumed in its wholesome fluid form, the important monthly question continues to be what is to be done with the surplus. There is some growth in domestic dairy sales. The ever-growing U.S. population appears to have taken to cheese, yogurt, and ice cream and variations thereof as their preferred dairy products, and thank goodness for that growth. That demand picks up some of the surplus, helps to transform the industry in terms of more products for more consumers, possibly helps to pick up valuable shelf space, promotes innovative approaches to marketing, and stimulates plant modernization. It follows that the additional production as well as all of the lost fluid milk sales not used for other domestic sales is converted to storable products with long shelf lives. Store it or sell it, and milk producers are thankful for the continuing growth in exports of most of those storable products. Under current industry circumstances, without continuing growth in exports there would be little chance for producers to receive anything even close to prices that cover costs of production at current levels of output. Does that satisfy anyone?

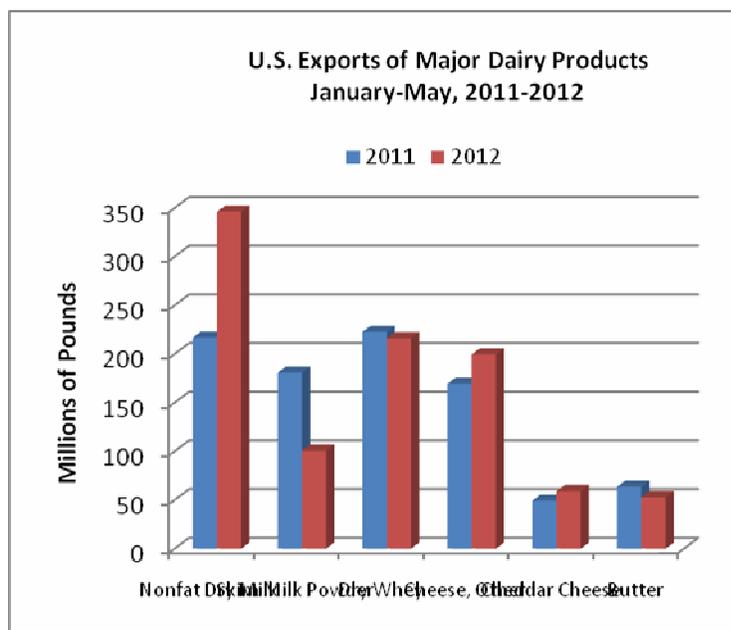
The continuing loss of fluid milk sales is baffling, frustrating, and costly to every segment in this industry. One small but growing reason for part of the loss is the dumbing down of chocolate milk by school districts. Once upon a time, kids could survive drinking chocolate whole milk. That was changed to lowfat milk, then to nonfat milk, and now many districts are deciding even thin milk with some cocoa flavoring and the least little bit of sweetener is still too much – and many kids simply stop drinking milk. That is happening throughout the U.S. and it is no small matter. Flavored milk sales in California in the January-May period was 3.5 million gallons

lower than for the same period a year earlier, which is close to one-half of the state’s total fluid milk sales loss for the period. The industry’s major generic promotional programs have evidence that drinking chocolate milk does a body good, but if the head on that body is a school administrator’s, forget about trying that argument.

In the first five months this year U.S. milk production was 3.5 billion lbs higher than for the same period a year ago and fluid milk sales were 0.7 billion lbs lower, a decrease of about 3.1%. The good news is dairy exports in all forms seem to be keeping pace with the additional milk production. National Milk Producers Federation analyzes and calculates and the U.S. Dairy Export Council reports the monthly dairy exports on a total milk solids basis. Except for 2009, the trend has been pointing upward for the past five years. For the first five months this year USDEC reports total milk solids exports accounted for 13.4% of total milk solids produced, an increase from 13.0% a year ago and 11.3% in 2010. This volume, while directly contributing to sellers’ profits also leads to some of the same collateral benefits mentioned above relative to emerging domestic sales trends – product development, sales innovation, and improvements in quality, service, and efficiency.

While all dairy exports are important to the extent all contribute to inventory control or depletion (meaning if it is not sold or given away it goes into storage) some are more important than others because their prices are used to establish milk prices. The price-setting dairy commodities in the U.S. presently are cheddar cheese and dry whey, the principal by-product of cheese making, nonfat dry milk, and butter. The following graph and table records and compares exports and their percentage of production for this January-May period to last year’s numbers.

For export purposes, nonfat dry milk and skim milk powder are interchangeable; they are reported as a single entry by USDA’s Foreign Agricultural Service in the monthly tabulation of dairy product exports. Their combined volume this year is 49 million lbs more than last year, and heading for a record. The sharp volume differences from year to year shown on the graph between the two is merely a function of a sharp cutback in production of skim milk powder this year. Exports of dry whey are slightly lower than last year but global demand remains strong for this basic dairy protein. Exports of cheese continue to show sizable increases from year to year. Butter exports, which benefited from either a real or perceived global shortage of butterfat eighteen months ago began to weaken last July and continue to lag last year’s volumes, although this May’s shipments edged above last May’s. Are these volumes sufficient to control or deplete inventories and therefore ultimately support U.S. milk prices? Following are the percentages of January-May production of the volumes shown in the graph.



	2011	2012
Nonfat Dry Milk:	41.4%	38.4%
Skim Milk Powder:	100.0%	100%
Combined Nonfat Powders:	48.2%	44.6%
Dry Whey:	49.5%	48.4%
Cheddar Cheese:	3.7%	4.3%
All Other Cheese:	5.5%	6.3%
Butter:	8.0%	6.1%

Except for the cheese categories, percentage of production exported so far this year for the other major price-setting dairy commodities is somewhat lower. End-of-month inventories as of May 31st reflect the above

comparisons fairly well. Manufacturers' stocks on hand of nonfat dry milk were 53 million lbs higher this year than a year ago; butter (and other butterfat products) stocks were 94 million lbs higher; stocks of dry whey were 2.5 million lbs lower; cheese stocks were 20 million lbs lower. That is a mixed picture, for sure, reflecting the absence of a well conceived and well organized U.S. export industry that is made up of hundreds if not thousands of individuals and firms in many cases competing for the same business and sometimes not getting any of it.

Must milk producers have to rely on recent expectations for lower U.S. milk production to occur, and for export volumes to continue at about their recent levels, in order for reasonable prices to develop? What if producers continue to expand, even at the reduced rate seen for May? What if milk production expands in response to the price signals presently flashing? What if global demand weakens and prices continue to fall? What about those, so far, occasional complaints from exporters about supposedly receiving lower prices than could be gotten for domestic sales; have they not taken appropriate steps to protect against such events? Australian and New Zealand exports are currently running at about 50% and 90%, respectively, of their milk production. They do that year after year and have plans to solidify existing business and to overcome all competition.

Some of those points are fair and some push the envelope a bit. But milk producers are the one's who have been asked to place total reliance on the expertise and tenacity of those who demand to have a full supply of milk for exports regardless of market conditions and costs of production. Long term plans for great achievements are nice to contemplate; maybe they should be sliced and diced and sold to Wall Street investment bankers for further handling. Continue your successful exporting businesses but "show me my share of the money," should be what milk producers say. Who would say that is not fair?