



# Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018  
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549  
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801  
Fax (909) 591-7328 ~ [office@milkproducers.org](mailto:office@milkproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



DATE: August 10, 2012  
TO: Directors & Members

PAGES: 4  
FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks +\$.1450 \$1.8550  
Barrels +\$.1350 \$1.8200

### Weekly Average, Cheddar Cheese

Blocks +\$.1145 \$1.8185  
Barrels +\$.1105 \$1.7910

### CHICAGO AA BUTTER

Weekly Change +\$.0600 \$1.7500  
Weekly Average +\$.0655 \$1.7270

### DRY WHEY

Dairy Market News w/e 08/10/12 \$5.5350  
National Plants w/e 08/04/12 \$5.197

### NON-FAT DRY MILK

#### Week Ending 8/3 & 8/4

Calif. Plants \$1.1844 5,751,520  
Nat'l Plants \$1.2144 12,927,686

#### Prior Week Ending 7/27 & 7/28

Calif. Plants \$1.1679 6,948,585  
Nat'l Plants \$1.2014 14,979,910

**CHEESE MARKET COMMENTS:** Buyers went to the CME looking for cheese this week, willing to pay more than they may have wanted. Blocks gained \$.145 per lb and barrels gained \$.135 per lb; both are now at their highest points this year. In the absence of hard news until today, there was a sense of hurry about the week, possibly spurred on by speculation about what was happening to corn and soybean production and prices, and milk production. Virtually all of the CME price movements and trades this week were initiated by bidders. A major exception was the 15 of 19 carloads of barrels traded Friday, which pulled the price lower by \$.01 per lb before half of that was recovered through bids. Class III milk futures prices increased for all months through March. After small losses today, the average increase for the week was \$.38 per cwt through January. October's \$19.74 is the high for the group. Cheddar cheese futures gained various amounts this week and average \$1.90 per lb through January. *Dairy Market News* says there is enough milk currently being produced to satisfy cheese manufacturers, and the cost of nonfat dry milk and condensed skim make it sensible to fortify vats to the maximum. Inventories are about steady. Domestic and export demand remains good, yes, including Mozzarella, and some buyers are anticipating increased demand from schools and the Labor Day holiday. June exports of cheddar cheese totaled 14.3 million lbs, 3.0 million more than last June. The average price was about \$1.83 per lb, about \$.15 per lb higher than CME prices at the time. Exports of all other cheese rose by 4.4 million lbs, to 37.5 million lbs.

**BUTTER MARKET COMMENTS:** With milk production and components on a downward seasonal trend and cream demand at a seasonal high, butter production continues to move lower. The amount of U.S. butter in storage also is falling at a faster rate than normal. *DMN* says some butter plants are comfortable with their present supplies, anticipating more cream from fluid milk plants when schools open for their fall seasons. That idea may be tested when July milk production is reported next week. If milk production begins to decline the cream that normally would move to butter plants will instead be taken by the customary heavy cream users for the upcoming string of late summer and fall holidays. *DMN* says some butter buyers are looking ahead by making buys now for later usage. It looks like if current trends continue, butter stocks at year end may fall to levels last seen in 2010. CME prices moved \$.06 per lb higher this week, all from bids to buy; there were no sales. Someone in the trade is paying attention. Butter futures increased almost in step with this week's cash market but carry only \$.01 per lb premiums from December onward, and little more in the months before. Exports continue to lag well behind last year. This June 7.5 million lbs of butter were exported, 3.4 million lbs lower than last June. The average price was about \$1.53 per lb, just about where CME prices were at the time.

**POWDER MARKET COMMENTS:** Production of nonfat powders is falling seasonally and should continue falling through September. The market is firm and prices are rising in all regions, says *DMN*. Manufacturers' shipments last week continued at their recent low volume levels. Their prices, while about \$.02 per lb higher than the week before, lagged well below regional market prices reported by *DMN*. For example, California plants

averaged \$1.1844 last week while the low end of the West's "mostly" price range was \$1.23 per lb, and the national price reported by AMS was \$1.2144 per lb while the low end of the East/Central "mostly" price was \$1.315 per lb. *DMN* says there is a lack of consensus among buyers about the firmness of future prices for NFD. Stocks are steady to lower and production is trending seasonally downward; *DMN* rates the market tone in all regions as firm and supplies appear to be on the tight side. However, skeptics point out that U.S. prices are approaching or are higher than those in other countries and U.S. exporters must remain competitive, hence domestic prices are fast approaching their highs. There is that, but that assumes the U.S. must always offer the lowest nonfat powder price in order to retain export sales. Clearly that is not the case for Dairy America and Arla foods who will receive \$1.32-\$1.33 per lb for low heat and medium heat SMP sold through the internet auction for delivery to docks variously in September and October, while Fonterra will receive only \$1.24 per lb for the same products for October delivery. Is there something wrong with that picture? We will have to wait and see if the skeptics are right about U.S. prices. How long can they wait to prove their point? June exports of nonfat powders totaled 86.3 million lbs, about 3 million lbs higher than last June. The average price fell to about \$1.215 per lb, about \$.06 per lb higher than the West's "mostly" price at the time.

**WHEY PRODUCTS MARKET COMMENTS:** This week *DMN* delivered a unanimous verdict on the health of the dry whey market – the market tone is firm and prices are rising in all regions. The tightness comes from a slowing in production and some manufacturers' unwillingness to release some of what could be readily sold to spot buyers. There is also increasing interest by some buyers who wish to assure themselves of a known supply at a known price instead of playing Carnac the Magnificent. The West's "mostly" average price increased by \$.0162 per this week. Interest in WPC-34 continues to be limited, says *DMN*. Little product is offered on the spot market and there is little interest in what is offered, unless it comes at a lower price. The average WPC-34 price this week is \$1.12 per lb, which provides about the same amount of protein as nonfat dry milk, and three times the protein contained in dry whey (but with less lactose). Manufacturers continue to expand production of the more concentrated forms of the product, which provides them higher margins. June exports of dry whey, at 42 million lbs, was 3.3 million lbs lower than last June. The average price was about \$.57 per lb, about \$.05 per lb higher than the West's "mostly" price at the time.

\*\*\*

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

<b>Aug 10 Est:</b>	<b>Quota cwt. \$17.25</b>	<b>Overbase cwt. \$15.55</b>	<b>Cls. 4a cwt. \$14.86</b>	<b>Cls. 4b cwt. \$16.57</b>
<b>Last Week:</b>	<b>Quota cwt. \$16.77</b>	<b>Overbase cwt. \$15.07</b>	<b>Cls. 4a cwt. \$14.67</b>	<b>Cls. 4b cwt. \$15.66</b>

\*\*\*

**MARKET COMMENT:** (by *J. Kaczor*) Wow, and wow again. It appears the higher milk prices forecast 8 or 9 months ago could happen sooner than expected. CME's dairy spot markets this week popped upward (the cheese block price by an average 11.45 cents, barrels by 11.05 cents, and butter by 6.55 cents), and are now at their highs for the year. These increases are meaningful and much needed. This week's averages, provided they hold, should move California's statewide blend price to above \$17 per cwt which covers the reported first quarter's cost of production (before management and investment costs are included). Similar increases should occur in federal orders, but to above \$19 per cwt.

However, these prices are too late to cover second quarter costs and fall well short of covering third quarter costs of the vast majority of milk producers, particularly in view of what has happened to feed costs in the past two months. On the other hand, a fortunate minority of producers are in fair to good shape and will likely benefit greatly from the much higher milk prices expected over the coming months. It appears that questions about whether, when, and by how much milk producers will cut back production this year are being answered to just about everyone's satisfaction: the answers are "yes, in June and thereafter, and by a lot." The U.S. marketplace for dairy products has been turned upside down by one of those unpredictable factors: intense, widespread, and protracted heat and drought (July's average temperature in the U.S. was the highest in the 117 years those records have been kept, and the drought is of historical proportion). Marketing plans in the U.S. and around the world are

being re-written for better or worse to reflect the significant changes happening here. Spot prices, on the CME and around the country, appear to be on very solid ground even after the recent increases, and futures prices are doing their best to keep up with the cash transactions. The increases reflect the expectation that U.S. milk production will be plunging, manufacturers will be concerned about having enough supply this fall and winter, and milk producers will be re-calculating every single important aspect of their businesses, with many in survival mode.

Today USDA updated its World Agricultural Supply and Demand Estimates for U.S. corn and soybean production and prices. The assessment is sobering. This year's U.S. corn yield and carry-over stocks are projected to be at a 17 year low, production is expected to fall by 2.2 billion bushels, and next year's season average farm price for corn was projected to rise to \$7.50 to \$8.90 per bushel. Soybean production is projected to be 358 million bushels below last year's level and next year's price was projected to rise to \$15.00 to \$17.00 per bushel. USDA expects substantial downward adjustments for domestic and export demand for these products – the “rationing” effect. The projections for milk prices do not seem even closely related to what is being forecast for milk production. 2011's average price for all milk was \$20.14 per cwt; the projection for this year was updated and is now projected to average \$17.65 (an increase of \$.50 per cwt from last month), then rise by \$.65 per cwt next year. It appears that the projections for feed costs, milk production, and milk prices do not correlate very well. USDA's next update will be released mid-September, but the August update for crops is considered to be the “gold standard.” Let us hope this one was fool's gold.

**PETITION FOR ANOTHER HEARING FILED WITH CDFA:** *(By Rob Vandenheuvel)* This week, a petition for another California Department of Food and Agriculture (CDFA) hearing was filed by Western United Dairymen (WUD). The petition requests a hearing to consider: (1) temporarily increasing the prices of all five classes of milk by \$0.50 per hundredweight for six months; and (2) taking another look at permanent changes to the dry whey factor in the Class 4b formula.

In putting together this petition, Western United Dairymen has taken a couple pages from the history books. Both of these ideas, which MPC has strongly supported in the past, have been submitted for consideration in previous CDFA hearings. The six-month emergency increase of \$0.50 per hundredweight in all five class prices was originally submitted by WUD in the fall of 2009. While MPC testified in support of that proposal in the hearing, WUD ultimately withdrew their support for the proposal. For those who don't remember, California dairy farmers ended up getting a less-than-modest increase in all five classes of milk that netted out to an increase of about \$0.15 per hundredweight for only three months (January – March 2010). Given the devastating economic situation that California dairy families are current being subjected to, if the Secretary grants a hearing, let's hope the results are significantly stronger this time around.

On the 2<sup>nd</sup> part of the petition – permanent changes to the dry whey factor in the Class 4b formula – WUD is bringing back a well-thought-out proposal made to CDFA in 2007 by a coalition of the Alliance of Western Milk Producers, WUD and Milk Producers Council. The idea is to implement a dry whey factor that brings our Class 4b price into better alignment with the national benchmark price for milk sold to cheese plants (FMMO Class III), but creating a provision that would exempt the first 100,000 lbs of milk purchased by each cheese manufacturer from paying the “dry whey factor” in the Class 4b formula. It was an innovative idea that establishes a fair price for Class 4b milk, while providing some financial relief to some of the smallest cheese plants in the State. While CDFA rejected the proposal in 2007, it's an idea that certainly deserves fair consideration.

Secretary Ross has 15 days to respond to the petition, so stay tuned...

**THE ISSUE THAT WON'T GO AWAY, NO MATTER HOW HARD THE ETHANOL FOLKS TRY:** *(By Rob Vandenheuvel)* Once again, the issue of our Federal policies propping up the corn-based ethanol industry was prominently featured in the news this past week. For the past month or so, much of the attention has been from leaders in Washington, DC applying pressure on EPA to revise the Renewable Fuel Standard (a.k.a. the RFS, or the “ethanol mandate”) in light of the current historic drought impacting our expected crop yields. This

week, that pressure moved outside of our nation's capital, as Governors from around the country are starting to speak up. Yesterday, Delaware Governor Jack Markell and Maryland Governor Martin O'Malley sent a letter to EPA Administrator Lisa Jackson, urging her to utilize her existing authority to revise the RFS.

This comes at the same time that international pressure is building for the U.S. to revise the RFS. José Graziano da Silva, the director-general of the United Nation's Food and Agricultural Organization, wrote this week in the *Financial Times* that "An immediate, temporary suspension of that mandate would give some respite to the market and allow more of the crop to be channeled towards food and feed uses." Adding to the fire, as John Kaczor mentioned above, USDA's report this week that corn yields and carryover stocks are projected to be at a 17-year low.

Out here in the West Coast, MPC joined a group of California livestock organizations in urging Governor Jerry Brown to join the chorus in urging EPA to temporarily waive this destructive public policy. The letter, which can be found at: <http://www.milkproducerscouncil.org/govbrownletter.pdf>, was co-signed by:

- Association of California Egg Farmers
- California Dairy Campaign
- California Dairies, Inc.
- California Grain and Feed Association
- California Poultry Federation
- Dairy Farmers of America – Western Area Council
- Milk Producers Council
- Western United Dairymen

MPC greatly appreciates the hard work of Bill Mattos, President of the California Poultry Federation, who took the lead in putting together this unified letter to Governor Brown. In the coming days, hopefully the Governor will be willing to join the growing number in sending a strong message to EPA on this important issue.

**A HEADS UP FROM DMI ON SOME SUSPICIOUS CALLS BEING MADE:** *(By Rob Vandenheuvel)*  
This week, Dairy Management Inc. (DMI, the folks that run our National Dairy Promotion and Research Board) send out the following message about unsolicited calls being made to California dairy families:

*I wanted to share with you that DMI has received several phone calls from dairy producers in California who have been contacted by unknown individuals who claim they are calling on behalf of the National Dairy Board or National Dairy Council. In visiting with a few producers, these calls are coming from different area codes in the country, asking producers specific questions about their operation.*

*Please know that no one has been authorized to make any such calls on behalf of NDB/NDC. Please let us know if you receive a call, or hear from other producers that receive these random, unsolicited calls.*

Dairymen in California and throughout the country are urged to keep a lookout for suspicious calls, and if you get one, please contact: Joe Bavido, Dairy Management Inc., at (847) 627-3315 or [Joe.bavido@rosedmi.com](mailto:Joe.bavido@rosedmi.com).