



Milk Producers Council

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DATE: January 20, 2012
TO: Directors & Members

PAGES: 3
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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0900 \$1.5050
Barrels - \$.0475 \$1.5025

Weekly Average, Cheddar Cheese

Blocks - \$.0460 \$1.5500
Barrels - \$.0555 \$1.5200

CHICAGO AA BUTTER

Weekly Change - \$.0425 \$1.5700
Weekly Average - \$.0465 \$1.5800

DRY WHEY

DAIRY MKT NEWS w/e 01/20/12 \$.7163
NASS w/e 01/14/12 \$.7020

NON-FAT DRY MILK

Week Ending 1/13 & 1/14

Calif. Plants \$1.3975 13,834,310
NASS Plants \$1.4151 18,315,630

Prior Week Ending 1/6 & 1/7

Calif. Plants \$1.4019 8,988,000
NASS Plants \$1.4133 15,190,419

CHEESE MARKET COMMENTS: According to *Dairy Market News* reporters, U.S. cheese production and sales are presently fairly closely balanced and current prices, which are now well below those in other major exporting countries, are attracting continuing interest from exporters. USDA's Economic Research Service says commercial "disappearance" of all cheese is greater than production this year. Why then, have prices been moving lower on the CME? Most people who follow this market know the answer to that question – it is because of how the CME Spot Price market works. Cheese and butter price movements over short-term periods seem to defy logic, common sense, and basic economic theory, unlike any of the other sound markets for very important national and international commodities. It is a "thin" market, dominated by a relatively few traders, used in one way or another by all cheese plants and their customers according to their own respective interests which may be overly influenced by the lucrative cheese by-product industry. Call it what you may – whimsical, erratic, thin, unpredictable, useful. It, along with the related markets for futures contracts, puts, and calls, and what seems to be CME's relatively stand-offish approach to oversight of those instruments perhaps should be given another long look by the Government Accountability Office. This is not a complaint about falling prices; it is a comment on cheese spot price changes, up or down, that do not seem to represent industry consensus. Today's report on the amount of cheese in cold storage at the end of December supports the belief that current cheese prices are not too high. Stocks of American cheese were 30 million lbs lower than a year ago. Stocks of all cheese were 67 million lbs lower than a year ago and were below the billion lb level for a second straight month. CME class III milk futures for the February-April period have lost more than \$1.00 per cwt over the past two weeks. It is getting close to the point where proposals for de-regulation of milk prices used to make cheese are beginning to look somewhat sensible.

BUTTER MARKET COMMENTS: Butter production is increasing throughout the U.S., as expected, but sales appear to be increasing at a higher rate than expected. That is like what is happening with the cheese market, and butter prices are following a similar path lower. Current domestic butter prices, now more than \$.20 per lb lower than those in Australia, also make the U.S. an attractive option for exporters, just as the case for cheese. So, where are the orders for export? Today's report on butterfat in cold storage shows a normal month to month change from November, and a level about 23 million lbs higher than last December, virtually all of which is accounted for by the drop off in exports since June. For butter, the CME seems to be a bit more of an open and fair market than that for cheese. CME's butter futures prices continue to sell at a premium to the cash market for all months from March onward. The butter market is far less complex than the cheese market. The cheese market has a much greater monthly volume, many more varieties of products, and a more complex and diverse marketing channel with more intermediate handlers whose cutting, carving, packaging, merchandizing, and delivery functions should tend to defuse sharp changes in market outlook, but do not.

POWDER MARKET COMMENTS: Production of nonfat dry milk is on its seasonal upward swing. *DMN* says buying interest is steady, with little current interest for it being shown by cheese plants. Prices this week are mixed. *DMN* says there seems to be growing interest in holding production in line with contracted sales than in

letting inventories grow. If so, the extra milk may go into milk protein concentrates which are very useful products and not price-reportable. *DMN* also noted somewhat lower SMP prices reported by European producers, about \$.03 per lb lower than the NASS price reported today. A recent “tender” won by Europe may explain the low price there and should absorb much of any surplus that has developed. Fonterra’s SMP prices for low and medium heat products in this week’s global auction, for deliveries in March, averaged \$1.55 per lb, \$.059 per lb higher than two weeks ago. Sales of buttermilk powder are slow in all regions; it is a slow period and buyers tell *DMN* they are closely watching for possible direction from the NFDM market.

WHEY PRODUCTS MARKET COMMENTS: The market for dry whey appears to be stretched well beyond reason. The current price reported to NASS is \$.7020 per lb, which is close to the West’s “mostly” average for this week, at \$.7163 per lb (an increase of \$.01 for the week). The price reported f.o.b. ports in Europe is not far behind, with the high end of the range resting at \$.68 per lb. However, CME’s futures prices for February, which closed today at \$.7075 per lb, falls to \$.5950 in May and to \$.4900 per lb in September. What do those traders see? The market for dry whey continues to be tight. For whey protein concentrate-34, high prices and, in some locations, limited availability continues to stress the market. Lower cheese production is contributing to the tight market for both products.

FRED DOUMA’S PRICE PROJECTIONS...

Jan 20 Est: **Quota cwt. \$17.31 Overbase cwt. \$15.61 Cls. 4a cwt. \$16.40 Cls. 4b cwt. \$14.23**
Last Week: **Quota cwt. \$17.43 Overbase cwt. \$15.73 Cls. 4a cwt. \$16.44 Cls. 4b cwt. \$14.46**

UPDATE ON THE “CALIFORNIA DISCOUNT” GIVEN TO OUR STATE’S CHEESE MAKERS, COURTESY OF THE CALIFORNIA DEPARTMENT OF AGRICULTURE: *(By Rob Vandenheuvel)* Not to sound like a broken record, but with cheese prices continuing to fall and dry whey prices continuing to rise, the government-created “California discount” on milk that our State’s cheese makers are enjoying continues to outrage California’s dairy farmers.

Below is a chart of how our California Class 4b formula – which sets the minimum price our State’s cheese manufacturers must pay for the milk they buy – has fared in recent months against the comparable Federal Order Class III formula that applies to Federal Order cheese manufacturers. *(Reminder: The California Department of Food and Agriculture (CDFA) implemented a revised Class 4b on September 1, 2011; if not for those modifications, the Class 4b price in each of the months below would have been even lower!)*

	September 2011	October 2011	November 2011	December 2011	January 2012 *
California Class 4b minimum price	\$16.33	\$15.78	\$17.19	\$15.14	\$14.23
Federal Order Class III minimum price	\$19.07	\$18.03	\$19.07	\$18.17	\$16.96
Difference	(\$2.74)	(\$2.25)	(\$1.88)	(\$3.03)	(\$2.73)

* *January’s prices are a projection given the CME and NASS prices that have been reported through today.*

As we’ve noted in recent issues, the differences in the last row of the table represent **tens of millions of dollars PER MONTH** in a “California discount” enjoyed by our State’s cheese manufacturers. Question for CDFA: **How can you look at these figures and argue with a straight face that our Class 4b minimum price is in any kind of a “reasonable and sound economic relationship with the national value of manufactured milk products,” as required by California law? And what are you hoping will change between now and mid-2012 when you’ve said you’ll “review this issue” and determine if a change is needed?**

This is an outrageous fleecing of our State’s hard-working dairy farmers, and MPC, along with other industry leaders in California, must continue to shout it from the mountaintops and seek out solutions until this despicable injustice is fixed.

PRICES FOR MOST PRODUCTS IN THE LATEST GLOBAL AUCTION RISE; DAIRY AMERICA'S PRICES RAISE QUESTIONS: *(by J. Kaczor)* Twenty more potential bidders were added to the qualified to bid list since the previous auction, two weeks ago. There are now 533 qualified bidders. It is likely many of those who have recently signed on did so in anticipation of bidding for Murray Goulburn's lactose and Arla Food's skim milk powder, beginning in April. This week, 161 of the 533 were active; 111 were successful in contracting for some product. 68.4 million lbs of product were sold this week, covering delivery periods from February through September.

The weighted average price for all products rose by \$.022 per lb, to \$1.679 per lb. Prices for five of the seven product lines offered increased and prices for two decreased. Prices for the three largest volume products increased. They are, in order of volume, whole milk powder, skim milk powder, and anhydrous milkfat. The weighted average price for WMP, the product that represents more than half the total volume offered over a full year through the auctions, increased by only \$.0036 per lb. The weighted average price for SMP increased by \$.0372 per lb. The weighted average price for AMF increased by \$.0462 per lb. The outlook for each of these products was encouraging – the winning prices increased for each successive delivery period.

The results for Dairy America so far are puzzling. Comparisons of prices for Dairy America's products to prices for Fonterra's products (low heat and medium heat skim milk powder only), for shipment in any particular month, are consistently lower, and the differences appear to be growing. A different comparison, Dairy America's auction prices of SMP in October (for shipment in November) to the FAS report for all U.S. exports of nonfat powders in November, show a similar difference. FAS reported the average "value" for SMP at the point where the products leave the U.S. was \$1.511 per lb. The estimated average price Dairy America received in the auction was \$1.404 per lb, f.o.b. port of debarkation, for November shipments. An attempt to discuss these differences with Dairy America is being made.

SET YOUR CALENDARS FOR A RISK MANAGEMENT WORKSHOP NEXT MONTH: *(By Rob Vandenheuvel)* The California Dairy Quality Assurance Program (CDQAP) – the same folks that have helped dairies comply with environmental regulations and become environmentally certified – has secured some grant funding to hold four workshops throughout the State on the issue of reducing farm risk. You should have received a flyer in the mail on the upcoming sessions, but if you didn't, you can find it on our website at: www.milkproducerscouncil.org/2012riskmgmt.pdf.

The agenda for these workshops will include:

- **Dairy Economic Benchmarking**
- **Financial Tools & Planning**
- **Dairy Producer Panel**
- **USDA-RMA Livestock Gross Margin Insurance Program Overview**
- **"To Feed or Not to Feed"** – *Minimizing costs while maintaining animal health and reproduction and aiding in environmental compliance*
- **Using the Ammonia-N Test Kit**

The four workshops will be held on:

- **Wednesday, February 1st from 1 – 4 pm;** Hampton Inn & Suites Conference Room (3105 Chino Avenue, Chino Hills, CA)
- **Thursday, February 2nd from 9:30 am – 12:30 pm;** Tulare County Ag Center Classroom (4437 Laspina Street, Tulare, CA)
- **Monday February 6th from 10 am – 3 pm;** Glenn County Farm Bureau Office (831 Fifth Street, Orland, CA)
- **Thursday, February 9th from 9:30 am – 12:30 pm;** Stanislaus County Ag Center, DE Room (3800 Cornucopia Way, Modesto, CA)