



# 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  
Fax (909) 591-7328 ~ [office@milksproducers.org](mailto:office@milksproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



DATE: October 8, 2010  
TO: Directors & Members

PAGES: 4  
FROM: John Kaczor

## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0100 \$1.7700  
Barrels N/C \$1.7350

### CHICAGO AA BUTTER

Weekly Change - \$.0500 \$2.1850  
Weekly Average - \$.0410 \$2.1940

### NON-FAT DRY MILK

#### Week Ending 10/1 & 10/2

Calif. Plants \$1.1249 10,958,631  
NASS Plants \$1.1645 13,033,926

### Weekly Average

Blocks +\$.0105 \$1.7665  
Barrels N/C \$1.7350

### DRY WHEY

WEST MSTLY AVG w/e 10/1/10 \$.3825  
NASS w/e 10/2/10 \$.3647

**CHEESE MARKET COMMENTS:** The block price on the CME gained a penny over two days this week while barrel prices remained unchanged. Trading was light. Cheese production has been increasing on a seasonal basis, and Dairy Market News (DMN) reports that current production is finding ready buyers. Production of cheddar cheese in August was lower than in June and July (okay and expected) and about where it was in 2008 and 2009 (better and encouraging). The October class III milk futures price (\$16.79 per cwt) added \$.21 per cwt this week, and supports a cheese price of about \$1.75 per lb. The outlook four months down the road, however, continues to reflect a lot of uncertainty, concern, and speculation: the class III milk futures price drops to \$14.10 per cwt and, along with anticipated lower prices for butter and dry whey, supports a cheese price of about \$1.53 per lb.

**BUTTER MARKET COMMENTS:** Buyers and sellers may rightly be concerned about what may happen to butter prices. Part of the concern is that futures prices for February are still sitting at \$1.60 per lb, but another part may be a look back at past performances. Prices on the CME have doubled since February 2009 and in the three times in the past fifteen years after prices have gotten that high they fell far and fast. That could happen again, but this time it really, really looks like there is a global shortage of butterfat. (See the article below on prices bid for anhydrous milkfat out through next June.) That shortage could be reduced somewhat as milk production increases worldwide and if plants in Europe and Oceania shift production from other products to butter and anhydrous milkfat. (They seem to be able to do that, while U.S. plants sock it to each other, in good old fashioned competition.) So, it's smart to be wary but not smart to panic. Prices on the CME this week lost \$.05 per lb without any sales. The market is being tested (twice this week a bid at more than six cents per lb below current prices was made – and was ignored). So far, it appears that price adjustments, if they continue, may be moderate. Butter production increased by a small amount in August and should continue to increase as milk production increases seasonally. U.S. buyers may be testing the market, sensing lower prices, but they might want to consider whether enough butter will be available two or three weeks from now if they don't place orders now. On the other hand, cat-and-mouse, wait-and-see strategies sometimes do pay off.

**POWDER MARKET COMMENTS:** Production of buttermilk powder is increasing somewhat but sales so far are keeping inventories about flat. Prices continue to carry a small premium to nonfat dry milk prices. The market for whole milk powder is “mostly firm” with steady prices and rising production. Current prices are about even with prices bid this week for deliveries from December to June. Prices for nonfat dry milk shipped last week rose for California plants (+\$.025 per lb) and for the more current NASS sales (+\$.015 per lb). Both price series, however, trail international prices. DMN again comments on that: “There remains a disconnect between U.S. prices and the gDT due to a variety of reasons – product standards, trading period, quantities traded, customer base, location, quality, and others.” Add to those some of our friendly but belligerent customers

such as Mexico, China, and Russia. Despite possible interruptions in what would otherwise be regular and anticipated exports of the product, nfdm inventories are reported to be not burdensome.

**WHEY PRODUCTS MARKET COMMENTS:** Prices reported to NASS for shipments of dry whey last week rose for the fourth week in a row – not by much, but an increase is an increase. The “mostly” prices in the central and western regions increased this week on the low end of the ranges (+\$.02 per lb in the west). Current demand appears to be as great or greater than current supply. DMN reports that inventories are being held with confidence. Prices for whey protein concentrate (34% protein) also added a cent per lb this week, as production is just keeping up with current orders. Some delays in shipments due to product availability are being reported.

\*\*\*

#### **FRED DOUMA’S PRICE PROJECTIONS...**

<b>Oct 08 Est:</b>	<b>Quota cwt. \$ 17.74</b>	<b>Overbase cwt. \$16.04</b>	<b>Cls. 4a cwt. \$16.69</b>	<b>Cls. 4b cwt. \$15.82</b>
<b>Last Week:</b>	<b>Quota cwt. \$ 17.74</b>	<b>Overbase cwt. \$16.04</b>	<b>Cls. 4a cwt. \$16.60</b>	<b>Cls. 4b cwt. \$15.88</b>

\*\*\*

**PRICES ARE MIXED IN FONTERRA’S LATEST GLOBAL AUCTION:** *(By J. Kaczor)* Fonterra’s twenty ninth dairy product internet auction of was held on Tuesday; it was the third in just thirty five days. The two per month schedule began September 1<sup>st</sup>. The thought behind doubling the number of auctions per month was to give the winning bids more meaning if they are updated every two weeks instead of once a month, and to reduce the price risk for bidders by giving them two chances each month to lock in prices for delivery of products as much as eight months ahead. With two years now completed, looking for and at the auction’s prices has become a normal part of what many market watchers do these days. For various reasons, there still are some who either reserve judgment about the results (if not the integrity) of the auction, but the number of companies registered as qualified bidders continues to grow. Fonterra reported 304 companies are now registered; 122 participated in this auction.

With each auction Fonterra updates its projection of how much of each product will be offered over the next twelve months. Volumes for whole milk powder and skim milk powder were increased and volumes for buttermilk powder and anhydrous milkfat were decreased.

Three types of whole milk powder are offered in the auction: regular, instant, UHT; this report covers regular grade only. Five types of skim milk powder are offered: low heat, medium heat, high heat, high heat stable, and UHT; this report covers the average of low heat and medium heat. One buttermilk powder is offered; it is UHT. Three options for anhydrous milkfat are offered: regular in drums, premium in drums, and premium in bins; this report covers premium in drums. Following are the prices and price changes for these products **for the first delivery month of December** compared to the prices bid two weeks ago for delivery during November.

- Whole milk powder: \$1.599 per lb, down \$.045 per lb from two weeks ago;
- Skim milk powder: \$1.422 per lb, down \$.008 per lb from two weeks ago;
- Buttermilk powder: \$1.361 per lb, up \$.018 per lb from two weeks ago;
- Anhydrous milkfat: \$2.436 per lb, up \$.025 per lb from two weeks ago.

The global tightness of butterfat supply continues to be evident as more bidders stayed in longer in order to secure their short term needs. The opposite occurred for the milk powders.

Following are the prices and price changes for these products bid for the second and third contracts (for deliveries in January-March and April-June, respectively), compared to prices bid two weeks ago.

- Whole milk powder: \$1.572 per lb for the 2<sup>nd</sup> contract, down \$.036 per lb and \$1.615 per lb for the 3<sup>rd</sup> contract, up \$.009 per lb;
- Skim milk powder: \$1.456 per lb for the 2<sup>nd</sup> contract, up \$.011 per lb and \$1.504 per lb for the 3<sup>rd</sup> contract, down \$.099 per lb;
- Buttermilk powder: \$1.481 per lb for the 2<sup>nd</sup> contract, up \$.091 per lb (no product was offered for the 3<sup>rd</sup> period);

- Anhydrous milkfat: \$2.436 per lb for the 2<sup>nd</sup> contract, up \$.032 per lb and \$2.406 per lb for the 3<sup>rd</sup> contract, up \$.056 per lb.

The prices bid for buttermilk and anhydrous milkfat progressively increased as the time between these bids and the time for delivery increased. Prices for whole milk powder increased a bit for deliveries in the April-June period after falling for deliveries in the prior three months. Skim milk powder prices did the opposite, with the drop in the 3<sup>rd</sup> delivery period being the largest change resulting from this auction.

One critic of these auctions believes the bidders may feel they have to participate in order to maintain their relationship with Fonterra on other matters or with these or other products, now or in the future. Well, Fonterra is the “big dog” in the international dairy product supply business and it’s plausible the belief expressed by this critic may be true for at least some of the bidders. There’s no way to tell if that’s true without a fair hearing on the matter and that’s not likely to happen. Even if it’s true, it’s not clear what effect that may have on the prices that ultimately result. One possible test eventually may come from the whole milk powder cash-settled futures contract market which was launched today by New Zealand’s NZX commodities market. Those futures contracts will be settled against the prices bid for deliveries in the first contract month of Fonterra’s auction. Once sufficient liquidity develops for these contracts, differences between the futures prices and the auction prices should show which is a better indicator of market sentiment, and product supply and demand. That may take some time.

**NATION’S PROCESSORS REVEAL THEIR STRATEGY: DON’T ARGUE THE FACTS, ARGUE EMOTION:** *(By Rob Vandenheuvel)* As the readers of this newsletter know, MPC and a growing number of other producer groups and coops around the country are working hard to promote production management as a strategy for moderating the extreme boom/bust cycles that have become all-to-common in our milk price. The idea has found support not only as a standalone legislative proposal (The Costa/Sanders Bill, or H.R. 5288 and S. 3531), but also as a part of the “Foundation for the Future” proposal being developed by the National Milk Producers Federation (NMPF).

The producer side of our industry could have easily predicted that the nation’s processors would be opposed to any efforts to give producers more control over our future growth in milk production. But what we didn’t know is what strategy the processors would use to combat our efforts. This past week, we got a direct look inside the playbook of the International Dairy Foods Association (IDFA), the powerful national lobbying wing of the processing sector.

Yesterday, IDFA sent out a press release entitled, “Government-Mandated Milk-Supply Controls Adversely Affect Dairy Industry Growth, New Study Finds.” A few excerpts from the press release are included below, and the full text of the release can be found at: <http://www.idfa.org/news--views/news-releases/details/5236>.

*A new study of government-mandated supply controls and their impact on the dairy industry in other countries shows that added controls on milk supply do not prevent price volatility and can have an adverse effect on an industry poised for growth. The report by Informa Economics, "An International Comparison of Milk Supply Management Programs and Their Impacts," examines what happened in Canada, the European Union and other countries when government-mandated supply controls were implemented and enforced. It outlines the negative impact a government-run supply-control policy has on the industry, especially at the farm-management level.*

*The study concludes that supply control programs limit exports, create an economic incentive for imports, increase consumer milk and milk-product prices, and add layers of bureaucracy to government oversight systems.*

Hopefully, IDFA didn’t spend too much money on this analysis. MPC and a vast majority of the dairy farmers in the United States would have been willing to stipulate that a Canadian-style quota system would be a bad idea for the U.S. dairy industry. That is why despite the devastation felt by dairy farmers throughout the 2009-2010

wreck, there continues to be no push to advocate that kind of policy. If IDFA's main concern is that producers not advocate for a Canadian-style quota system, I can assure them that as far as MPC and the producer groups we work with are concerned, we would oppose that type of policy right along with IDFA.

Instead, what MPC and others are advocating is a rational proposal on production management, sending direct economic signals to individual dairies to manage future milk production. Nothing in either the Costa/Sanders Bill or the "Foundation for the Future" would give the government any ability to mandate a specific production level or prevent a dairy from growing their share of the market.

The value of raw milk sold by dairy farmers is not a huge mystery. It is the result of the market's interpretation of how well supply and demand are balanced. All MPC and others are trying to accomplish is to quickly send the signals that dairies need to help keep those two things in better balance over the long term.

We are very cognizant of the fact that the U.S. dairy industry is increasingly involved in the global marketplace. That can be a very positive thing for our dairy farmers, which is why producers take it very seriously when critics of our proposals claim that we are trying to kill our chance of exporting dairy products. That is why MPC and several producer groups and cooperatives from around the country joined together to hire Dr. Mark Stephenson and Dr. Chuck Nicholson to utilize their respected economic model to analyze the proposals being made. That analysis, which was published a couple weeks ago (<http://dairy.wisc.edu>), clearly stated the proposals would significantly reduce milk price volatility and government expenditures when compared to the status quo. According to their analysis, reducing the huge swings in our milk price can be done without "shorting" the market of needed milk and without greatly enhancing the average long-term milk price, which in turn results in a U.S. dairy industry that will continue to play a major and growing role in the global marketplace.

We need to remember our goal in these proposals. We are looking to provide dairy producers with the necessary tools to maintain better *balance* in supply and demand. That balance won't eliminate all volatility, but it will help us avoid or greatly shorten the periods of oversupply that devastate the value of milk and our dairy operations. Producers are the **only ones** who pay the price when we get into an oversupply situation – and it's a steep price. We've seen the tools we have, and they are simply not effective. It's time for a rational alternative.

No where in the analysis released by IDFA is the Costa/Sanders Bill or NMPF's "Foundation for the Future" ever referenced. Why is that? What value does the report add to the debate if it ignores the details of the actual policies we are promoting? Could it be that it's easier to attack the Canadian quota system than to debate the merits of what is actually being proposed here in the United States? As the old adage goes: "When you have the facts, argue the facts. When you have the law, argue the law. When you have neither the facts nor the law, pound the table." If you listen closely enough, you can probably hear the pounding noises coming out of IDFA's headquarters in Washington, DC.

**REMINDER – CDQAP HOLDING WORKSHOPS THROUGHOUT THE CENTRAL VALLEY ON NEW AIR REGULATIONS:** *(By Rob Vandenheuvel)* As we've written in past newsletters (and as you've seen in recent CDQAP flyers mailed to your dairy), a series of workshops are scheduled for this fall to update dairies (and other farmers) about new air regulations. For those of you who haven't already received it, the flyer can be found at: <http://www.milkproducerscouncil.org/fall2010air.pdf>. Next week, five more workshops will be held.

- Tuesday, October 12, 9:30 am - 12:30pm, Tulare County Ag Center Auditorium (4437 S. Laspina, Tulare)
- Wednesday, October 13, 9:30 am - 12:30 pm, Riverdale Memorial Hall (3085 W. Mount Whitney, Riverdale)
- Wednesday, October 13, 1 pm - 4pm, Riverdale Memorial Hall (3085 W. Mount Whitney, Riverdale)
- Friday, October 15, 9:30 am - 12:30 pm, Stanislaus County Ag Center Harvest Hall (3800 Cornucopia Way, Modesto)
- Friday, October 15, 1 pm - 4 pm, Stanislaus County Ag Center Harvest Hall (3800 Cornucopia Way, Modesto)