



Milk Producers Council

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TO: Directors & Members

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FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0325 \$1.8200
Barrels - \$.0250 \$1.7775

Weekly Average, Cheddar Cheese

Blocks +\$.0065 \$1.8505
Barrels - \$.0050 \$1.7995

CHICAGO AA BUTTER

Weekly Change +\$.0400 \$1.8400
Weekly Average +\$.0285 \$1.8285

DRY WHEY

Dairy Market News w/e 08/31/12 \$5.800
National Plants w/e 08/25/12 \$5.476

NON-FAT DRY MILK

Week Ending 8/24 & 8/25
Calif. Plants \$1.2571 8,773,562
Nat'l Plants \$1.2955 15,725,977

Prior Week Ending 8/17 & 8/18
Calif. Plants \$1.1896 11,132,096
Nat'l Plants \$1.2575 15,609,839

CHEESE MARKET COMMENTS: In pre-holiday activity this week prices for cheese first rose then fell on the CME. The high points for both styles was reached Wednesday after which sellers decided to reduce stocks or take short-term profits. Trading again was active; 30 carloads sold last week and 37 this week. According to *Dairy Market News* cheese demand is strong – beyond the obvious holiday surge – and some manufacturers are striving, even struggling, to at least stay even with the incoming orders. Others seem satisfied to schedule production at levels best suited to maximize plant efficiencies. However, as daily milk production with lower component content continues to fall, and fluid milk consumption edges up (from school openings) options for some will be reduced to fortifying vats at increasing costs or to adjusting schedules for lower output. As to what happens next, *DMN* put it nicely: “Everyone is a bit more cautious this year with the ultimate uncertainty of supplies and timing of price movements.” CME’s class III milk futures did not share in the upbeat cash market, ending the week with small losses through December (with all except September at \$19.76 per cwt or higher). Cheese futures through December also lost various sums, from \$.007 per lb to \$.03 per lb.

BUTTER MARKET COMMENTS: Regarding production, butter manufacturers are in about the same position as cheese makers. The seasonal pattern of cream availability and usage is changing from spring and summer mode to fall, but that does not necessarily mean more cream for churns. The additional cream freed up by lower ice cream production and bottling plants’ surplus comes with a lower base of supply and competition from other heavy cream users. Butter sales have been good this summer but export volume continues to lag the weak second half of last year. Nonetheless, the latest monthly report on draw down of stocks (July) was the largest for the month since 2004, and should continue to track below 2008’s levels. Sales range from steady to very good, according to *DMN*, although some buyers may be cautiously building stocks for fall sales. The big news from CME this week was 8 carloads of butter traded, the first such sales in some time. The price rose by \$.04 per lb, with 3 of the sales occurring at that price. The week ended with an uncovered offer to sell at \$1.85 per lb. CME butter futures prices for September-December were sharply higher, up an average \$.07 per lb, but unchanged thereafter.

POWDER MARKET COMMENTS: Reports of another week of higher prices for nonfat dry milk, along with market comments about steady demand, support a growing realization that, for the U.S. at least for the time, rising prices reflect a real tightness in the market. It did not happen overnight. Stocks of NFD in June fell by 70 million lbs from May and were 41 million lbs lower than a year earlier. The short reason for that is U.S. monthly production of NFD in this year was at a 45-year record high level from January through May but has since decreased while SMP production began to increase in June. NFD in production in California plants, which produce about one half of all U.S., peaked in March, fell by 20% through June, and by another 19% in July, while production of SMP increased by about 24 million lbs. Lower production and occasional inventory clearance sales did the job. Look for further reductions in NFD in stocks, at least through July. Prices reported for shipments of

NFDM last week again increased, again with modest volumes. The AMS “national” average price rose by \$.038, to \$1.2955; the California plant average rose by \$.068, to \$1.2571 per lb. (*DMN* reports international average prices for SMP to be sharply higher: western Europe powder at \$1.47 per lb and New Zealand powder at \$1.455 per lb. Woo Hoo.) The spread of prices reported as “mostly” by *DMN* this week (\$.25 per lb in the central/eastern region and \$.36 in the west) indicate the extent to which some buyers must go to obtain product.

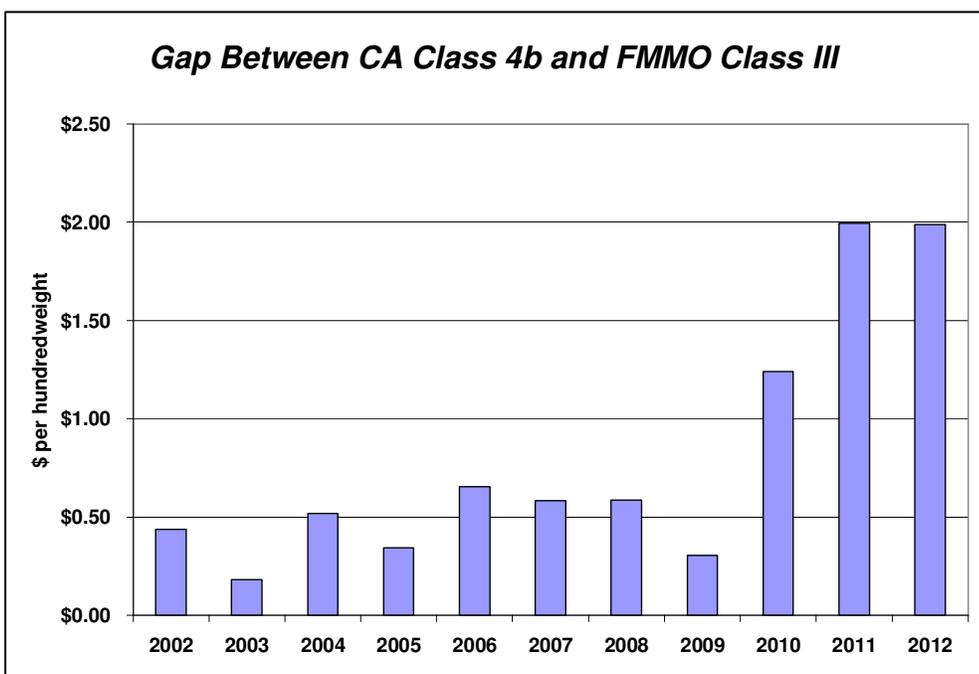
WHEY PRODUCTS MARKET COMMENTS: Demand for dry whey is good to very good, according to *DMN*. Prices in all regions are higher this week. Prices reported f.o.b. docks in Western Europe are averaging \$1.59 per lb. Production is about in line with cheese production. Stocks range from meager to adequate. Not all buyers presently are able to procure the volumes they need or want, even (in the western region) through the resale market. Concerns by plants and buyers abound about 4th quarter supplies and future contracts. The west’s “mostly” average price jumped by \$.02, to \$.58 per lb. *DMN* says the west’s market for dry whey is firm, “and the pace seems to be increasing.” The market for WPC-34 has improved to the point where prices have moved up (referencing NFDM prices) and *DMN* says manufacturers indicate their inventories are balanced with near term contractual commitments. Production of dry WPC-34 is slowing. There is mention of more buyers wanting condensed WPC-34 rather than powder, and more condensed being converted into more concentrated products. Dry whey futures were mixed, ranging from \$.568 per lb in September to \$.627 per lb in November.

FRED DOUMA’S PRICE PROJECTIONS...

Sep ‘12 Est:	Quota cwt. \$18.02	Overbase cwt. \$16.32	Cls. 4a cwt. \$16.17	Cls. 4b cwt. \$16.92
Aug ‘12 Final:	Quota cwt. \$17.40	Overbase cwt. \$15.70	Cls. 4a cwt. \$15.35	Cls. 4b cwt. \$16.57

CALIFORNIA DAIRY FAMILIES FIGHT BACK FOR A FAIR PRICE: (*By Rob Vandenheuvel*) Today, MPC joined three other California dairy organizations in filing legal action against the California Department of Food and Agriculture (CDFA). The filing, which was submitted by Paul Hastings LLP on behalf of MPC, Dairy Farmers of America (DFA), Security Milk Producers Association (SMPA) and California Dairy Campaign (CDC), states that CDFA has failed to follow the law in refusing to bring California’s Class 4b price into better alignment with the prices being paid by cheese manufacturers around the country.

Regular readers of this newsletter are well aware of the facts on this matter. The legal action stems from an administrative hearing held by CDFA on May 31-June 1, 2012. That hearing was held to consider changes to the formula used by CDFA to calculate California’s “Class 4b” monthly minimum price. The Class 4b price announced each month is the minimum price that must be paid for milk being sold to cheese manufacturers. California law requires CDFA to calculate prices that are in a “reasonable and sound economic relationship” with what comparable milk is sold for around the country.



A vast majority of the U.S. dairy industry outside of California operates in Federal Milk Marketing Orders (FMMO), which calculate a national “Class III” price that must be paid by cheese manufacturers regulated under the FMMO. When comparing these two monthly prices over the past 10 years, a disturbing trend has developed since 2010. CDFA has a history of discounting the Class 4b price below the FMMO Class III price, but that discount has blown up in size since 2010 (see chart above). The gap in 2010 was about \$1.24 per hundredweight, and since the beginning of 2011, the California Class 4b price has averaged **\$2.00 per hundredweight below the FMMO Class III price.**

What does this mean in real dollars for California’s dairy families? An average-sized California dairy, milking 1,000 cows, lost about **\$380,000 of much-needed revenue that, under the law, should have been paid for their milk since January 2010,** simply because CDFA’s pricing policy fails to maintain a reasonable relationship with comparable milk prices around the country. Cumulatively, that equates to **more than \$590 Million** that was due to California’s dairy families and was instead retained by our State’s cheese manufacturers. California’s dairy farms, of which 99 percent are family owned, are facing record high feed costs and cannot afford to sustain this state-sponsored discounting of milk. In fact, a recent article in the *Fresno Bee* indicated that in the past eight months, 28 dairies in the San Joaquin Valley have filed for bankruptcy.

A CHANCE TO HELP SUPPORT THIS EFFORT TO DEFEND THE RIGHTS OF OUR DAIRIES

The coalition of MPC, DFA, SMPA and CDC has taken the lead on bringing forth this legal action, **but we are urging anyone interested in helping to financially support this defense of California dairy families.** MPC is managing the financial end of this legal effort, so contributions can be made out to “Milk Producers Council,” with “Legal Defense Fund” in the memo line. The contributions can be mailed to:

**Milk Producers Council
Legal Defense Fund
13545 S. Euclid Avenue, Unit B
Ontario, CA 91762**

This opportunity to support California’s dairy families is open to all interested parties, so please spread the word to your fellow dairy farmers, as well as the community of allied industry folks that rely on a healthy California dairy industry. If you have any questions, please don’t hesitate to contact MPC at (909) 628-6018 or rob@milkproducers.org.

*The MPC Board and Staff would like to wish everyone a happy Labor Day.
Hoping you can spend some quality time with family and friends.*