



# Milk Producers Council



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## MPC FRIDAY MARKET UPDATE

### CHICAGO MERCANTILE EXCHANGE

Blocks    -\$.0275   \$1.3700  
Barrels   -\$.0275   \$1.3300

### CHICAGO AA BUTTER

Weekly Change   +\$.0350   \$1.6100  
Weekly Average   +\$.0284   \$1.5940

### NON-FAT DRY MILK

Week Ending 6/4 & 6/5  
Calif. Plants   \$1.2815   5,320,100  
NASS Plants   \$1.3034   8,872,727

### Weekly Average

Blocks    -\$.0426   \$1.3730  
Barrels   -\$.0374   \$1.3370

### DRY WHEY

WEST MSTLY AVG   w/e 6/4/10   \$.3913  
NASS               w/e 6/5/10   \$.3716

**CHEESE MARKET COMMENTS:** Today, cheese prices on the CME increased for the first time in twelve trading days. There are a number of reasons that could explain the increases, and to think the tone of the market has instantly changed from definitely negative to possibly positive. They include: (1) buyers have returned to the market in good numbers, with more bids than offers; (2) both styles of cheese seem to be moving in the same direction; (3) exports of cheese so far this year are higher than they were last year, and CWT appears to be willing to continue supporting their export program; (4) the CWT herd retirement program may help to hold down the trend of increasing cow numbers; (5) as mentioned last week, even with the increase in April milk production, April cheddar cheese production did not increase relative to three of the past four years and to March; (5) the most recent reports on milk production and dairy product prices in Europe and Australia/New Zealand indicate that milk surpluses are not immediately evident; (6) the U.S. recession has officially ended, and the global economy (with the exception of some European countries) continues to improve; (7) CME class III milk futures prices have consistently been selling at premiums to the cash cheese market. Those seven points combine to make a plausible, but certainly not solid, case for thinking that cheese prices are on their way to a sustainable recovery. I won't list the valid points that fall into the "on the other hand" side of the discussion, except to note that the CME spot cheese market is thinly traded and has already changed direction seven times in the last six months, and the record amount of cheese in storage will likely continue to be a factor in buyers' minds, if not manufacturers'.

**BUTTER MARKET COMMENTS:** For the second week in a row, no butter trading occurred on the CME and prices continued to move upward. There appears to be a consensus of opinion that butterfat is presently under priced. Sales, including exports, continue to keep pace with, if not exceed, production in the U.S., and Fonterra's auction prices last week for anhydrous milkfat continued to move strongly upward through the month of February. CME's butter futures prices for all remaining months this year continue to move up in step with the cash markets. Strong late-Spring demand for cream for usages other than for butter and butter oils is certainly helping to keep supplies in line with sales.

**POWDER MARKET COMMENTS:** Prices for nonfat dry milk reported to NASS and to CDFA for sales made last week were again slightly higher, and volumes again slightly lower, than the week before and the week before that. Stocks across the country are growing, but *Dairy Market News (DMN)* reporters say western manufacturers are not concerned enough to offer incentives to buyers. Export volumes are reported to be slowing from a strong first four months this year. The currently strong U.S. dollar (relative to currencies of potential international buyers) is believed to be the reason for the slow down. However, the currencies of New Zealand and Australia are also very strong, so the concern is apparently directed towards Europe, which has a small mountain of aging skim milk powder in government warehouses and a very weak currency. The markets for dry buttermilk and whole milk powder are reported to be firm and prices are steady to rising. Average prices this week are \$1.29 per lb for dry BM and \$1.61 per lb for dry WM. Note: be watchful for another dumping of

powder by Dairy America if they can't manage to begin to move substantial volumes off shore. CME's futures prices for nonfat dry milk continue to edge downward as weekly sales volumes decrease.

**WHEY PRODUCTS MARKET COMMENTS:** Prices reported to NASS for sales of dry whey made last week again edged upward. Sales volumes were strong. DMN reports dry whey is moving readily from plants in the central region, but a bit more slowly from western plants. The average of the West's "mostly" price this week fell by a quarter cent, but is still within \$.015 per lb of the year's high.

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

<b>June 11 Est:</b>	<b>Quota cwt. \$ 15.03</b>	<b>Overbase cwt. \$13.34</b>	<b>Cls. 4a cwt. \$15.05</b>	<b>Cls. 4b cwt. \$12.11</b>
<b>Last week:</b>	<b>Quota cwt. \$ 15.04</b>	<b>Overbase cwt. \$13.34</b>	<b>Cls. 4a cwt. \$14.85</b>	<b>Cls. 4b cwt. \$12.29</b>

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**RECAP AND REVIEW OF EXPORTS OF MAJOR DAIRY COMMODITIES FOR THE JANUARY-APRIL PERIOD:** (By J. Kaczor) U.S. exports during the first four months this year of the four dairy commodities used in the milk price formulas for the California milk pool and for federal orders were substantially higher than for the same period a year ago. Following is a recap of the volumes for each commodity, along with comments and comparisons.

**Whey Products:** Exports of dry whey and whey protein concentrates were at record highs for each of the first four months this year. A total of about 171 million lbs of dry whey was exported in the January to April period (one half of all produced during the period), and about 44 million lbs of whey protein concentrate (about one third of production). Total exports of these products were 32% higher than the same period in 2009. Considering the fact that the total of these products exported during all of 2009 was only 16% below the record that was set in 2007, it's not improbable to believe exports in this category this year may set a new record.

**Butter and butterfat products:** The U.S. has not been a major exporter of butter and anhydrous milk fat. The annual average of these products exported in 2005 and 2006 was only 21.3 million lbs, about 1% of production. Exports soared to 199 million lbs in 2008, about 11% of production. Last year, even with the boost given to exports of anhydrous milk fat, exports fell to 64.3 million lbs, but still a very substantial percentage of production in a very bad year for exports. So far this year, exports are about double last year's. That shouldn't necessarily be taken as an indication of what may happen over the balance of this year, but does help to explain the strength of the butter market in the U.S.

**Cheese:** The record for cheese exports was 289.2 million lbs in 2008, (more than twice the average exported in 2005 and 2006) and amounted to 2.9% of production for the year; exports last year fell about 50 million lbs below that record, to 2.4% of production. So far this year, 104.3 million lbs of cheese were exported, amounting to 3.1% of production, 43% above what was exported during the same period a year ago. That's a good number, and bodes well for what may happen for the rest of the year, but cheddar (the price setting product for U.S. milk) amounts to less than a fifth of those exports, only 1.7% of the amount that was produced during the period.

**Nonfat powders:** After rising to a record high 862 million lbs in 2008 (46% of production), exports fell to 549 million lbs in 2009, the lowest level in the most recent five-year period, despite substantial assistance from USDA's export assistance subsidies in the second half of the year. Exports this January were the lowest they have been in the past six years. However, the volumes for each succeeding month increased, and April's exports of 60 million lbs were the second highest for that month in the past six years. That's a good recovery, but the bad news is total exports in this category so far this year comes to only 29% of what has been produced, and the prices for each of the four months are progressively lower. January's average "value" at the point where the export occurred was \$1.32 per lb; February's was \$1.24 per lb; March's was \$1.22 per lb; April's was \$1.17 per lb. These values include the price charged for the product plus transportation to the point of export, plus product insurance to that point. The prices reported by California plants for those months were: \$1.160 per lb, \$1.070

per lb, \$1.021 per lb, and \$1.075 per lb, respectively. It will be interesting to see the progression and comparison of volumes and prices over the coming months.

**MPC AND OTHER GROUPS AROUND THE COUNTRY ANXIOUSLY AWAITING ECONOMIC ANALYSIS:** *(By Rob Vandenheuvel)* Several months ago, a coalition of dairy producer groups and cooperatives from around the country began meeting to discuss some of the proposals that have been developing in response to the violent volatility that has been plaguing the dairy industry. These groups included:

- Agrimark (Northeast)
- Associated Milk Producers Inc. (Upper Midwest)
- Dairy Farmers of America
- Dairy Farmers Working Together (Vermont)
- Family Dairies USA (Wisconsin)
- Holstein Association USA
- Land O'Lakes
- Milk Producers Council
- Northeast Dairy Leadership Council
- Northwest Dairy Association (Darigold)
- St. Albans Cooperative Creamery (Northeast)

While this broad coalition representing tens of thousands of dairies across the U.S. certainly agreed on overlying concepts – most importantly that a supply-based price stabilization aspect should be a key part of any long-term solution – there was quite a bit of debate on exactly how to structure the details of any proposal. After multiple meetings, it became clear that this coalition needed the assistance of unbiased outside economic analysis that could utilize a tested economic model to attempt to gauge the effectiveness the various policy proposals in reducing milk price volatility.

The coalition decided to retain the services of two widely-respected dairy economists who have an economic model capable of analyzing various policy proposals. Dr. Mark Stephenson (*currently at Cornell University and soon to be at the University of Wisconsin, Madison*) and Dr. Chuck Nicholson (*formerly at Cornell University and now at California Polytechnic University, San Luis Obispo*) were asked to analyze several ideas, using their economic model.

Specifically, the coalition of dairy organizations was interested in conducting further analysis of:

- National Milk Producers Federation's "*Foundation for the Future*" (see article below)
- Holstein Association's "Dairy Price Stabilization Program"
- Milk Producers Council's "Growth Management Plan," which is captured in H.R. 5288, the "Dairy Price Stabilization Act of 2010" (which was introduced last month by Reps. Jim Costa, CA; Rick Larsen, WA; Peter Welch, VT; John Larson, CT; and Joe Courtney, CT)
- Agrimark's "Marginal Milk Pricing" Proposal
- A herd-retirement program proposed by Dairy Farmers Working Together

Almost all the groups participating in the coalition meetings agreed to share the funding for this analysis. Further, when word started to spread about the project, two additional groups recognized the value of the analysis requested by the coalition and offered to make a financial contribution to the analysis: National Farmers Organization and Western United Dairymen (California).

Over the course of the past couple months, Drs. Stephenson and Nicholson have been updating their economic model to not only include more current data, but also to try and capture additional information on the impact of the various proposals, such as the potential impact on the import and export of dairy products.

It's expected that the modeling work will be done in the coming weeks, with a written report expected soon thereafter. Obviously, as soon as that analysis is complete, we will pass that very important data on to the readers of this newsletter. So stay tuned...

**NATIONAL MILK PRODUCERS FEDERATION OVERWHELMING SUPPORTS A BROAD PACKAGE OF CONCEPTS FOR LONG-TERM REFORMS OF THE DAIRY INDUSTRY:** *(By Rob Vandenheuvel)* This week, the National Milk Producers Federation – representing 30 major cooperatives from across the country, overwhelmingly approved a package they've named, "Foundation for the Future." This package of reforms lays out a multi-pronged approach for making major adjustments to the federal policies that impact the dairy industry. The three prongs of this conceptual outline are:

- Transitioning the existing safety nets of the Dairy Product Price Support and Milk Income Loss Contract (MILC) programs into a new Dairy Producer Margin Protection Program to guard against periods of severe financial pressures;
- Reforming the Federal Milk Marketing Order program; and
- Establishing a Dairy Market Stabilization Program to help address periodic imbalances in milk production and demand.

In the coming weeks and months, this newsletter will take a closer look at the ideas and proposals contained in this package of reforms. In the meantime, it is very encouraging to see NMPF put forth a bold proposal that recognizes the industry needs to take a hard look at making real change to our federal policies to break this cycle of extreme booms and busts in our milk price and in our dairy farmers' profitability.

Most notable of the concepts supported by NMPF is the "Dairy market Stabilization Program to help address period imbalances in milk production and demand." MPC and other producer groups from around the country have been making the case that any real reform of the dairy industry must include a tool that will help us maintain a better balance in supply and demand (*see article above*). It's very encouraging to see the NMPF board and staff embrace that idea, and MPC and other supporters of H.R. 5288, the *Dairy Price Stabilization Act*, certainly look forward to working with NMPF to help fine-tune this and other pieces of the proposal.

**LATEST CARES COLUMN ON THE MPC WEBSITE:** *(By Rob Vandenheuvel)* The May 2010 Dairy Cares Report is now posted on the MPC website (<http://www.milkproducerscouncil.org/cares.htm>). This month's column gives a preview of a report soon to be released by Dairy Cares entitled, "*Milestones in Sustainability – A progress report to the community on California dairy initiatives to promote: Environmental Stewardship, Responsible Animal Care, and Family and Community Values.*"

**MPC'S MONTHLY BOARD MEETING TO BE HELD NEXT TUESDAY IN BAKERSFIELD:** *(By Rob Vandenheuvel)* Next Tuesday (June 15<sup>th</sup>), MPC will hold our regular monthly board meeting in the board room of the Kern County Farm Bureau office. The address is 801 S. Mount Vernon Avenue, Bakersfield, CA 93307. Our board meetings start at 11 am and usually end around 2 pm. As always, current and prospective MPC members (both our dairy members and associate members) are strongly encouraged to attend. If you plan on attending the meeting, please RSVP with Debi at (909) 628-6018.