Milk Producers Council

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TO: Directors & Members **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0150*	$1.5950
Barrels	*- $.0400*	$1.5500
Weekly Average, Cheddar Cheese		
Blocks	*+$.0054*	$1.5960
Barrels	*- $.0076*	$1.5755

CHICAGO AA BUTTER		
Weekly Change	*+$.0075*	$1.6125
Weekly Average	*+$.0240*	$1.6265
DRY WHEY		
DAIRY MKT NEWS	w/e 01/13/12	$.7063
NASS	w/e 01/07/12	$.6791

NON-FAT DRY MILK		
Week Ending 1/6 & 1/7		
Calif. Plants	$1.4019	8,988,000
NASS Plants	$1.4133	15,190,419
Prior Week Ending 12/30 & 12/31		
Calif. Plants	*$1.3850*	*15,211,692*
NASS Plants	*$1.4006*	*20,983,212*

CHEESE MARKET COMMENTS: *Dairy Market News* says wholesale and retail cheese sales this week continued along at a relatively slow rate in this post-holiday period during which many marketing plans are reviewed and recast. Sales were slower than production, which is being restrained somewhat by the resumption of bottling activity. That will soon change – the sales slowdown, that is – as Super Sunday approaches. After that it is college basketball at its best, coinciding with the Spring flush of milk production. Cheese production should end the year on a strong note, following the patterns of 2007 and 2008 (their highest production month was December) and should fall off in January for the reasons noted above. From thereon the norm should be new production records being set every month. Exports of cheese in 2011 have been very good through November, up by about 120 million pounds over the same period in 2010, a new record. CME prices for both styles of cheese fell somewhat this week, leaving the weekly averages for both quite close to average prices paid for manufacturers' shipments last week. CME class III milk futures fell hard this week over the February-April period, with most of the loss coming today after the barrel price lost $.03 per lb. The price pattern for the full year continues to be virtually flat with a low of $17.08 in February and a high of $17.46 in September. Cheese stocks are beginning to shape up. The combination of higher exports and lower production in 2011 could bring stocks of American cheese at the end of December down further, close to where they were in 2008.

BUTTER MARKET COMMENTS: Current buying is for immediate needs, following one of the heaviest sales periods in the recent past. The next big surge should be for Easter, which is April 8th this year. Production is moving higher as more milk from farms and more cream from bottling plants becomes available although needs for cream by some ice cream makers and for cream-based dips, cream cheese, and sour cream should help to keep butter stocks from growing too rapidly. The export market for butter weakened over the last several months but *Dairy Market News* says there may be renewed interest from former buyers. The butter price jumped $.03 per lb on Monday then gave most back mid-week, ending the week with a $.0075 per lb gain. Butter futures prices this week adjusted sharply downward for all months this year, trimming up to $.055 per lb from the highest of them, but still sell at premiums to today's price for all months after February. *DMN* hears that some plants expect market prices to fall below present level this quarter; futures traders appear to have the same thought.

POWDER MARKET COMMENTS: Prices for nonfat dry milk reported for last week's shipments continued their bounce back from the low point reached the week before Christmas, but still have not gotten back to where they were before that. All "mostly" price series continue their long, slow, downward slide; the West's price is close to parity with the California plant average this week. The price per lb of protein in nonfat dry milk is now the lowest by far among all other dairy commodities, besting whey protein concentrate-34 by about $.50 per lb and ranging upward to $1.90 per lb better than dry whey. Yet, *DMN* says NFDM users continue to hold back until the price picture becomes more clear. Maybe they should not do that.

WHEY PRODUCTS MARKET COMMENTS: The dry whey market in the U.S. is hot. Production is influenced, first, by the amount of cheese that is produced and, second, by an increasing portion of the whey stream going into concentrated whey products. That comment about the shift towards more concentrated products has been around for some time now but the monthly production data, through November, does not show much sign yet of it happening. All the while domestic and export demand remains strong and prices continue to rise in a very tight domestic market. *DMN* passed along a special note from western region manufacturers this week – shipments to exporters are leaving on time and with full loads. DW prices rose sharply in all regions this week. The West's "mostly" price popped upward by $.0225 per lb this week and is now within pennies of the record price reached in 2007. Users who may be left out or priced out have an attractive alternative ingredient, nonfat dry milk, which has a growing inventory, and is presently priced at about $1.90 per lb of protein lower than dry whey. The market for whey protein concentrate is also firm with WPC-34 prices also approaching the records set five years ago. WPC buyers/users have the same alternative product available as DW users, but with a smaller saving. The market for lactose rounds out the list of riches coming to those who are in that business; the "mostly" price for edible, non-pharmaceutical grade lactose this week ranges from $.82 to $.90 per lb. The futures market for dry whey is selling at a $.09 per lb discount to current prices by June and by $.19 per lb by November.

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FRED DOUMA'S PRICE PROJECTIONS…

Jan 13 Est:	**Quota cwt. $17.43**	**Overbase cwt. $15.73**	**Cls. 4a cwt. $16.44**	**Cls. 4b cwt. $14.46**
Last Week:	**Quota cwt. $17.45**	**Overbase cwt. $15.76**	**Cls. 4a cwt. $16.39**	**Cls. 4b cwt. $14.55**

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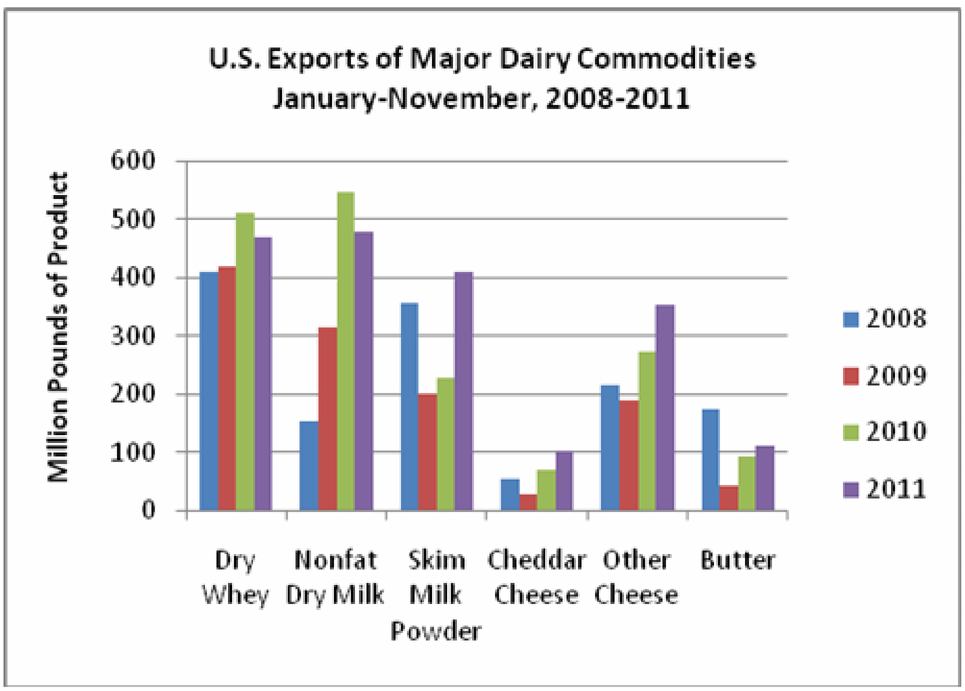
NOVEMBER'S EXPORTS POINT TO NEW RECORDS: *(by J. Kaczor)* With today's report on U.S. exports of major dairy commodities in November it is now safe to project how the entire year should end. The picture is looking good. It looks like previous record volumes for nonfat powders and cheese will be broken. Dry whey exports will remove more than half of all production for a second straight year and butter exports have increased for a second straight year. In addition to these major commodities, which are used in most plant's milk pricing formulas, the U.S. dairy industry exports an array of products including fluid milk, yogurt, ice cream, condensed milk, and a host of other dairy or dairy-based products.



The chart shown here compares 2011 exports through November to the volumes for the same periods in the three previous years. Nonfat dry milk has just now taken the lead from dry whey in total volume, followed by skim milk powder and cheese other than cheddar. As a percent of production the combined volumes of nonfat dry milk and skim milk powder total 54.0%, ever so little more than that for dry whey which is at 53.6%. Butter exports represent 6.7% of production. Exports of cheese other than cheddar represent 5.2% of production. Exports of cheddar cheese represent 3.5% of production. Prices for these exports continue to track well with current commodity prices used to price the milk used to make the products.

The importance of these exports at the present time cannot be over-stated. They are very important. While they were not made for the specific purpose of balancing milk supply with demand, they nonetheless serve that purpose. The alternative is for inventories to rise beyond reasonable levels, followed by lower prices. Although milk production in the U.S. appears to be slowing down, unfortunately for all the wrong reasons (meaning concerns about costs and credit and other things, and not because it is necessarily a good business plan), it could pick up as it has so many times before. Competition for these sales is keen. The gains shown are very welcome but come with no guarantee they will continue. While long term forecasts all see global demand growing faster than global milk supply, short term surprises have been shown to help or to hinder the best laid plans by the wisest and the best. A continuing weak U.S. currency, continuing appetites and healthy economies in South America and Asia, and economic stability in Europe, may be all that we need.

Note: U.S. fluid milk sales in November, according to this week's report by NASS, were 2.7% below the year before and have now fallen by about 1.4 billion lbs below the same period in 2010.

DAIRY GROUPS AND SEVERAL CO-OPS ASK CDFA TO CONSIDER CHANGES TO CLASS 4B FORMULA; ONCE AGAIN DENIED: *(By Rob Vandenheuvel)* As we wrote in this newsletter last week, California Dairies, Inc. (CDI) submitted a letter to the California Department of Food and Agriculture (CDFA) requesting that a hearing be scheduled to consider modifying the Class 4a minimum price formula. The changes being requested would increase the "make allowances" in the formula for butter and nonfat dry milk, while slightly lowering the "f.o.b. adjuster" for butter.

Yesterday, a letter was sent to CDFA asking that if they grant that hearing request, they also include possible changes to the Class 4b formula. The letter, which was co-signed by Land O'Lakes, Dairy Farmers of America, Security Milk Producers, Milk Producers Council, Western United Dairymen and California Dairy Campaign, can be found at: http://cdfa.ca.gov/dairy/pdf/hearings/2012/ProducerOrgsCorrespondence01.12.12.pdf.

MPC and the other groups that signed the letter didn't have to wait long to get an answer to our request. Today, CDFA sent out a letter denying the request for a hearing on the Class 4a formula, which by default, is also a denial of our request to also consider changes to the Class 4b formula. As our State's dairy families continue to struggle under a system that provides California cheese manufacturers with a $2.00+ per hundredweight discount on the milk they buy (which in real dollars is about a $30 million per month discount), CDFA continues to defend this State-sponsored fleecing of our dairies. MPC continues to work with fellow dairy producer groups and cooperatives to determine how to fix this outrageous inequity. So stay tuned…

IT'S TIME TO DUST OFF YOUR MILC DOCUMENTS: *(By Rob Vandenheuvel)* If you haven't taken a look at your dairy's Milk Income Loss Contract (MILC) lately, it may be time to pull them out of the files. According to the latest projections from economists at the National Milk Producers Federation (NMPF) (http://www.nmpf.org/milk_pricing/milc_payments), we are approaching some months that may generate a payment. According to their website, payments may be generated under the MILC program in February, March and July of this year. The latest projections (as of January 10th) are below.

Month	Proj. MILC Pmt. (per cwt)
February 2012	$.0195
March 2012	$.0713
July 2012	$.0256
** As of the latest projection, all other months in the current fiscal year are projected to have no payment.*	

If these projections hold true, March 2012 may be a month you want to consider as your "start month" under the program. As a reminder, when there is a month with no payment, that month does not affect your production limit. So using the current projection as an example: If your dairy produces less than 2,985,000 in a month, and you sign up for March, but there is no payment in April, May or June, you can still take advantage of the payment in July on whatever production remains under the 2,985,000 lbs. production limit.

If your dairy produces less than 995,000 lbs per month (roughly a 500-cow dairy producing 65 lbs/cow/day), you are able to collect MILC payments on at least 3 month's worth of production. If that's the case, the current numbers indicate that you may want to consider signing up for all three months. However, these projections change weekly, as projected milk prices and feed costs move up and down each week. So what's projected to occur at this point in time isn't necessarily what those projections will look like next week or next month. MPC members that would like more information on this can contact us at (909) 628-6018.