

Milk Producers Council

5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328

E-mail: mpc@milkproducers.org

Website: www.MilkProducersCouncil.org

DATE: December 12, 2008

TO: DIRECTORS & MEMBERS

PAGES: 4

FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks $-\$.2775$ $\$1.5125$
Barrels $-\$.2250$ $\$1.5225$

CHICAGO AA BUTTER

Weekly Change $-\$.1475$ $\$1.1100$
Weekly Average $-\$.1020$ $\$1.1875$

NON-FAT DRY MILK

Week Ending 12/05 & 12/06

Calif. Plants $\$.8404$ 19,144,737
NASS Plants $\$.8523$ 25,581,676

Weekly Average

Blocks $-\$.1015$ $\$1.6845$
Barrels $-\$.1120$ $\$1.6575$

DRY WHEY

NASS w/e 12/06/08 $\$.1733$ WEST MSTLY AVG w/e 12/10/08 $\$.1600$

CHEESE MARKET COMMENTS: Cheese prices on the CME crashed yesterday and continued lower today. One-half of Thursday's block price decrease of \$.16 per lb resulted from an offer by someone with more cheese on hand than anyone wanted. Just when it began to look like those foolish forecasters who were saying that the difference in prices for cheese milk and butter-powder milk was too large (for reasons never given), and the most likely thing to happen is that cheese prices would move down to somewhere around the \$1.50 level – well, cheese prices fell to \$1.51 per lb and butter prices fell to \$1.11 per lb. Those forecasters don't look very foolish right now. As a practical matter, **there's really no short term direct connection between cheese prices and butter-powder prices**, but so long as enough people believe there is, their actions and those of others, will make it happen. At today's market prices, California's cheese milk price, 4b, would be close to \$13.25 per cwt, and the butter-powder price, 4a, would be close to \$9.80 per cwt. **That's about where the difference was last week.** So, what's next for cheese prices? Cheese manufacturers simply will not want to produce much more cheese than they know they can sell, even when cut-rate milk or condensed skim is available – and consumer demand is not expected to increase even after some expected lowering of retail prices – and exports of Cheddar cheese are not keeping up with where they were last year. So, cheese supply and demand seems to be in fair balance but, even after this week's decrease, prices still seem to be sitting on a shaky foundation.

BUTTER MARKET COMMENTS: The Dairy Market News reporters last week were really tuned in to what their contacts in the industry were talking about at mid-week: the possibility of sales being made to the CCC at \$1.05 per lb. Butter prices on the CME fell 14.75 cents per lb this week over four days, ending just 6 cents above that USDA support price. Exports of butterfat products in October were about where they were a year earlier and, as reported last week, the amount of butterfat products in cold storage at the end of October was 47 million lbs **lower** than the previous October. Both were positive signs, but look what happened. Go figure. Butter producers don't have the same option that cheese producers have when milk and cream is offered to them (which is to decline receiving it) – and more milk and cream is expected to come their way soon as the heavy cream product usage season winds down.

NONFAT POWDER MARKETS: Producers got some good news this week when USDA issued a rule to the Commodity Credit Corporation to not purchase any product under the support price program from anyone other than a manufacturer of the product (or their agent). Another spot of good news resulted from a complaint made by National Milk Producers Federation about USDA's proposed "barter" program that would have traded CCC-owned nonfat dry milk to private parties in exchange for products that could have values less than the value of the nfdm itself (\$.88 per lb if sold by CCC for unrestricted use). A federal court will review that program later this month. Meanwhile, **the CCC now has 93.3 million lbs of nfdm in storage in California warehouses** and commercial prices in California and nationally are averaging about \$.85 per lb.

WHEY MARKET COMMENTS: While the market for whey protein concentrates appears to be in the early stages of at least stabilizing, if not recovering, prices for dry whey are stuck on nowhere near break-even for manufacturers. DMN reports that at current prices there is definite interest from buyers and users of dry whey, and contracts are being negotiated. The encouraging news on WPC is offset a bit by the comment that imports from our NAFTA partner, Canada, may be restraining any significant increase in local prices. The western “mostly” average price for dry whey is stuck on \$.16 per lb.

FRED DOUMA’S PRICE PROJECTIONS...

Dec 12 Est:	Quota cwt. \$14.62	Overbase cwt. \$12.92	Cls. 4a cwt. \$10.23	Cls. 4b cwt. \$14.55
Last week:	Quota cwt. \$15.52	Overbase cwt. \$13.82	Cls. 4a cwt. \$10.74	Cls. 4b cwt. \$16.08

AN URGENT MESSAGE TO COOP MEMBERS REGARDING AN IMMEDIATE OPPORTUNITY:

(By Sybrand Vander Dussen) CWT announced that their Herd Retirement Program has accepted bids from 184 herds totaling 61,000 cows. Of that total, 49 farms with nearly 34,000 cows are coming from the West.

It’s safe to assume that a good number of those cows are from California. That’s the good news; **the bad news** is that it appears likely that at least DFA and CDI are going to allow those of their members who “retire” their herds to sell their cooperative production base to other fellow producers. In my opinion, this would be hugely self-defeating. *As we all know there are many heifers ready to milk in California.* CDI apparently has sufficient room in their powder plants to take more milk, however, **powder is now being sold to the government for \$0.80 per pound** yielding a milk price in the \$10 per cwt. range. Because of the huge concentration of powder in California our Overbase price will be dollars per cwt. below the blend price that will be received by all of our colleagues in other states. So, why would something be allowed that would result in more milk being produced at this time?

In California, the imposition of production bases by the three major co-ops has resulted in a closer relationship between production and demand. This CWT program **has the potential to reduce the milk supply further**, which is a positive development. All this will be for naught if the cooperatives allow the immediate transfer of production bases – because milk production then will not decrease.

Towards the goal of production sensibility, this is a public request for the major co-ops to buy, from their member CWT participants, the base that was allocated to them, for a price of \$150 for each 65 pounds. The co-ops should then simply **hold this base** and sell it to their member producers when the co-op can use the milk or profitable purposes. Base can be added and sold as the need arises. *If left alone, these participants will sell their base on the open market to fellow members and the effect of this Herd Retirement Program in California will be nullified.* To not purchase these bases, the co-ops exert no control, and will quickly find themselves in the earlier situation of too much milk.

Because the imposition of bases caused some members to suffer losses through overbase charges and other dairymen sold cows to out-of-state buyers, it is established that the production bases do have a value. We know that the co-ops can relax their programs, or even do away with them entirely. This would be a travesty given the pain we have gone through. Eventually, the whole process of setting them up and having to do what is needed to avoid penalties for exceeding the production limits would be repeated. Instead, **we need the next logical step**, that is for the co-ops to purchase the vacated bases and re-issue them only as needed.

The buy-back of base does several things. It shows forward-thinking leadership, which we sorely need. It establishes a value at a level sufficient to somewhat offset past costs, but does not allow the value to escalate or drop in response to the actions or inactions of our co-op boards. But best of all, it will keep a handle on milk production. A panel of directors or outside sources could evaluate applications for expanded production in an equitable manner. That is not rocket science. It simply requires attention to **timing** (when the co-op can profitably use the milk) and to **priority** (the dairyman who is building and is close to the point of production should be looked at first).

There is one other aspect. The co-ops should require that a base be actually produced to within a few percentage points. If the recipient of a production base does not provide the milk that is needed, he/she should suffer the milk acquisition costs that are incurred as a result. It is obvious that if production discipline is in place, a shortage (not being able to deliver on a commitment) is not a good thing.

So, here's a summary of what our California Coops need to do now:

1. Maintain control of all bases; purchase bases from members who reduce or retire (including CWT HRP participants), at \$150 per cow (or per 65 lbs of milk).

- Issue bases to expanding or new producers under fair rules, as milk is needed.
- Sell re-issued bases for the same price that was paid out. The cost to the co-ops is only the holding cost until reissuance.

2. Make the bases permanent.

- To now vacillate on base enforcement or to do away with them would be a terrible thing.
- Both CDI and DFA have stated that new markets will open to them next year. Great! We can look at two ways to respond. Either we can produce ourselves silly making powder at \$.80 and remain in oversupply, or we can use this opportunity to activate producer discipline and plus the market. Which of these sounds more sensible?

3. Make initial exceptions.

- If buying back the base places a particular member in a tough position, perhaps because of a plan to rent his place to another dairyman who would use his base, allow for that. In the future, people will know the rules and can adjust for it.

California producers are in a terrible bind right now because of the heavy concentration of powder manufacturing in our state. **We need to curtail production fast.** The CWT program will remove thousands of cows from California but it will accomplish nothing if the cooperatives allow those bases to be purchased by other dairymen. The cooperatives need to **buy up and retire** the base of the CWT participants for us to have any benefit from the millions of dollars that we have invested in the CWT program. **The coop boards** will be reluctant to do that. **They need to hear from you, their members.** Call your cooperative board member TODAY and let them know how you feel. Tomorrow will be too late. The base will be sold and an opportunity to help ourselves will be lost. **Now is the time for action!**

OPEN FORUM SPURS IMPORTANT INDUSTRY DISCUSSION: *(By Rob VandenHeuvel)* Last week, dairy producers, processor representatives, and other interested parties from throughout the state met at an open forum in Modesto hosted by Western United Dairymen (WUD). The forum was designed to launch an industry-wide discussion of some of the large-scale issues threatening the long-term viability of producers and processors in the state. The forum was well-attended and the discussion turned out to be quite valuable. Joining me at the meeting from Milk Producers Council was Sybrand Vander Dussen and Geoffrey Vanden Heuvel – both of whom have recently written articles in this newsletter about the future of this industry (<http://www.milkproducerscouncil.org>).

A number of major issues were brought up by those in attendance. Among those issues were:

- The flow of out-of-state milk into California.
- The benefits of better managing our national and state milk supply.
- The steep volatility that comes from supply/demand imbalances.

- The stiff pricing regulations in California that promote processing of basic commodity products, but stifles innovative thinking when it comes to processing other specialty products.
- The ever-expanding environmental regulations that both producers and processors are facing.

After creating an expansive list of issues based on comments from the group, we all took another look at the issues and discussed some of the ideas that could address these issues.

While I won't go into all the ideas discussed, I will mention a few.

- At least one comment was made that if we could do a better job of managing our state's milk supply and get our supply/demand in balance, a lot of our problems and concerns would go away.
- There was also a lot of discussion about the potential benefits CA producers could see if CA were to become a Federal Milk Marketing Order (FMMO). One comment made was that there only two ways to reduce the flow of out-of-state milk into California. One is to steeply discount our milk so out-of-state interests can't undercut our price. The other option is to regulate the sale of that milk, which is an option only available to FMMOs. There is a lot more we need to learn about FMMOs, but the general consensus at the meeting was that it's an option that warrants serious consideration.
- Another issue discussed was the rigidity of the California minimum pricing regulations. While the strict rules allow for built-in margins for the processing of basic commodity products – like cheddar cheese, butter and powder – the system does not allow the flexibility that could help foster the processing of more innovative products. This type of flexibility is available in much of the rest of the country.

It is my hope that this discussion will continue beyond just this meeting. In future issues of the MPC Update, we will expand on the issues brought up in the meeting and take a closer look at the future of our California dairy industry. As I noted above, we have already begun this effort. On the homepage of our website, I've posted articles written recently by Sybrand Vander Dussen and Geoffrey Vanden Heuvel on some of the major challenges we face due to the heavily regulated nature of our industry. If you haven't already read these articles, I strongly encourage you to take a few minutes to read them <http://www.milkproducerscouncil.org>

End