



Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks N/C \$1.5000
Barrels +\$.0100 \$1.4600

Weekly Average, Cheddar Cheese

Blocks - \$.0025 \$1.5000
Barrels +\$.0020 \$1.4560

CHICAGO AA BUTTER

Weekly Change +\$.0350 \$1.3550
Weekly Average +\$.0450 \$1.3515

DRY WHEY

Dairy Market News w/e 05/18/12 \$1.4975
National Plants w/e 05/12/12 \$1.5304

NON-FAT DRY MILK

Week Ending 5/11 & 5/12

Calif. Plants \$1.1574 20,520,221
Nat'l Plants \$1.1467 26,874,383

Prior Week Ending 5/4 & 5/5

Calif. Plants \$1.2531 14,961,545
Nat'l Plants \$1.2169 21,910,537

CHEESE MARKET COMMENTS: CME's spot cheese market was almost as calm as calm could be. Only two carloads were sold this week, each coming from an offer from a company that recently had pulled prices for both styles lower and lower. This week a buyer on Tuesday readily accepted an offer for a carload of barrel cheese at the existing price; that was followed the next day by a bid to buy barrels at a penny per lb higher, moving the price up. Also on Wednesday an offer to sell blocks at the existing price also was readily accepted. Another week with no Friday surprises and very little activity of any kind does not mean there is no interest; it may be buyers and sellers have been waiting for Friday's report on April milk production before fighting over current cheese values. *Dairy Market News* says they hear from all regions milk production appears to have peaked, leveled off, or is on a downward seasonal path. That has led to less cheese production by some plants, but not all. No more milk offered at below class prices means plants now can start dusting off their original production plans. According to *DMN* that means more use of nonfat dry milk or milk protein concentrate for vat fortification. Futures traders appeared to like what they saw this week in the cheese market; class III milk futures rose by \$.50 per cwt for June and continued to add something to last week's prices out to the end of the year. Cheese futures likewise increased, averaging \$1.56 per lb for June-August and \$1.65 per lb for October-December.

BUTTER MARKET COMMENTS: Butter production continues at high levels, but price levels and retail activity is such that consumers can find butter at \$1.99 per lb or lower. That should get everyone's attention. Domestic sales have picked up as well as exports. However, inventories continue to build, according to the numbers from a sample survey *DMN* manages. Prices reported to AMS for shipments last week fell by about \$.04 per lb, close to this week's average of \$1.352 per lb on the CME. Heavy demand for cream for other usages is helping to clear the market – no more deep discounts or tankers searching for places to unload. The CME butter price increased by \$.035 per lb this week while last week's prices reported to AMS dropped by .04 per lb, to \$1.375. Butter futures this week were higher across the board; increases ranging from \$.03 per lb for June to \$.06 per lb for September suggests a change of heart for butter lovers and traders.

POWDER MARKET COMMENTS: High volume of exports is helping to keep nonfat dry milk prices from collapsing, and some pick up in interest from cheese plants is also helping. However, prices gave way for last week's shipments; the AMS price was lower by \$.07 per lb with slightly higher volume and the California plant average fell by \$.095 per lb. In one fell swoop, those moves clip away about \$0.60 per cwt from Federal Order class II/IV prices and about \$0.80 per cwt from California class 2/3/4a prices. Production is still seasonally heavy, but *DMN* says many manufacturers say the rise in inventories has slowed to the point where more medium heat and high heat powder is being made. Prices are weak in all regions yet buyers appear to be still looking for something lower. So far it looks like \$1.00 per lb may be as low as it gets, and only for those who can command it. *DMN* says an export tender may help tighten the market, possibly inducing buyers to place orders for more

than immediate needs. JIT buying patterns look like smart business but are disruptive and unnecessary. Buttermilk usage, dry and condensed, is on the upswing but buyers are fighting for what appears to be an unreachable price differential below nonfat dry milk. Push back by some plants is occurring. *DMN* says the market for whole milk powder is steady, with prices moving slightly lower.

WHEY PRODUCTS MARKET COMMENTS: Except for the northeast region, prices reported to AMS for sales of dry whey had been considerably higher than spot load prices reported by *DMN*. A good part of that difference went away as AMS reported a drop of \$.037 per lb for shipments made last week. *DMN* explains the difference between AMS prices for large sales and the lower prices for spot sales by pointing out export prices are now lower than the more firm domestic prices. Domestic prices should remain on the steady to firm side as production continues to shift from dry whey to more concentrated forms, particularly higher valued WPC with 50 to 80% protein content. WPC-34 prices continue to be under pressure with lower priced alternative dairy products readily available. Lactose powder continues to be the product making the most money for manufacturers, although *DMN* says some buyers believe an adjustment downward is needed. DW futures this week were mixed, losing a bit or unchanged through August, and adding a bit or unchanged from thereafter to year's end.

FRED DOUMA'S PRICE PROJECTIONS...

May 18 Est:	Quota cwt. \$15.46	Overbase cwt. \$13.77	Cls. 4a cwt. \$13.73	Cls. 4b cwt. \$13.52
Last Week:	Quota cwt. \$15.55	Overbase cwt. \$13.85	Cls. 4a cwt. \$13.98	Cls. 4b cwt. \$13.52

LESS THAN TWO WEEKS UNTIL CDFR HEARING ON CALIFORNIA'S CLASS 4B FORMULA: (*By Rob Vandenheuvel*) On May 31 and June 1, the California Department of Food and Agriculture (CDFR) will be holding a hearing to consider modifying the state's Class 4b formula that establishes a monthly minimum milk price to be paid by California cheese manufacturers. Regular readers of this newsletter are very familiar with the issues surrounding this upcoming hearing. In case you missed it, last week we published an article updating our readers on the financial impact of having a Class 4b price that is substantially lower than the Federal Order Class III price – the price that applies to cheese plants operating within the Federal Milk Marketing Orders that regulate much of the dairy regions outside of California (<http://www.milkproducerscouncil.org/updates/051112.pdf>).

At a pre-hearing workshop held this week, it was announced that for those wishing to participate in the hearing, there will be opportunities to provide testimony on **both** May 31st and June 1st (*in other words, regardless of how much time the hearing takes on May 31st, the hearing will definitely be opened on June 1st for those interested in giving testimony that day*). **So producers interested in participating can make plans to attend the hearing on either of these days.** It was also announced that on the afternoon of May 31st, there will be an opportunity carved out in the schedule for anyone interested in providing brief testimony (less than 3 minutes). If anyone has any questions about the upcoming hearing, please feel free to contact MPC at (909) 628-6018.

APRIL MILK PRODUCTION INCREASES 3.2%, SHOWING SIGNS OF SLOWING: (*by J. Kaczor*) USDA's report on April milk production shines a slim ray of hope that the monthly increases in milk production may be winding down. 5,000 more milk cows were added since March and daily production per cow increased by a scant 0.2 lbs. That generated 2.3 million lbs more milk per day than March, about 44 tankers per day. Compared to last April, there were still 90,000 more cows being milked and production per cow increased by 40 lbs during the month. Total milk output was 538 million lbs greater, an increase of 3.2%.

The outstanding weather throughout the country accounts for part of the month's increase, inertia for some of it, and additional cows for the rest, by those who had the need or saw an opportunity. Milk prices had already begun to slip below where they were a year before, starting in February. The U.S. all milk price for February was only 7.3% below the previous February; March's price was 15.7% lower. April's price was just recently

reported, “only” \$2.70 per cwt below last April. Those differences should sound an alarm and may cause enough producers to look for ways to economize, and possibly consider what would happen if, in the worst case scenario, feed costs do not abate, exports fail to keep up with production, commodity prices continue to weaken, and fluid milk sales continue to drop.

The 23 top milk producing states added 4,000 milk cows since March. Production increased in all but Pennsylvania which shed 2,000 cows during the month. Five states had percentage increases greater than 5%, led by Utah (7.9%), then Colorado, Michigan, Iowa, and Arizona. Twenty of the 23 showed increases in production per cow; three showed no change. California, with 13,000 more cows than a year ago (2,000 more than in March) had the biggest increase in milk output, 109 million lbs (+3.1%) which was considerably lower than March’s 212 million lb increase (5.9%); Wisconsin was second, with 4,000 more cows than a year ago (1,000 more than in March), producing 77 million more lbs of milk.

GLOBAL AUCTION PRICES PLUNGE; WILL U.S. PRICES FOLLOW? *(by J. Kaczor)* The weighted average winning price in this week’s global auction for all products for all contract periods was \$1.188 per lb, \$.102 per lb lower than the auction held two weeks ago and \$.827 per lb lower than the winning price from the auction held one year ago. This was the last auction sale in Fonterra’s current fiscal year ending May 31st. The volume of products offered by Fonterra in this and several recent auctions was higher than initially forecast despite the approaching low point of the country’s milk production season, June and July. Because of the recent downward price trend and Fonterra’s earlier comment about “stockpiling” a surplus of profits, amounting to about 18% above what was forecast during the first half of their fiscal year, some New Zealand economists believe the recent increases in volume of products offered by Fonterra was purposeful. Push as much into the grinder in order to clear out as much of the current year’s inventory as possible. Then start the new year fresh.

Fonterra is expected next week to announce their initial forecast of prices expected to be paid to their member producers for the fiscal year beginning June 1st, and may also comment on their last update for the current year. Final numbers usually are announced sometime in October and made retroactive for the full year. Last October’s combination of prices paid to suppliers plus profits from the year’s sales was a record high. The current year’s volume was greater than last year’s, as was the profits in the first half of the year. The simple average of the auction’s announced winning prices from June through November was 7% higher than the winning prices for the same period a year ago. The simple average of the winning prices for the second half of the year is 18% lower than last year’s second half. That pattern is similar to pricing patterns for U.S. dairy farmers. For comparison purposes, the table shown here reports the percentage change in monthly milk prices from the previous year for the global auction, California’s blend price, and the U.S. all milk price.

	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Global Auction	11.2	13.2	19.8	(2.4)	(1.4)	0.9	1.9	(6.5)	(18.0)	(24.8)	(22.0)	(38.0)
California Blend	44.8	37.0	31.4	15.9	8.0	18.7	16.4	6.1	(13.5)	(15.8)	(15.2)	(18.6)
U.S. All Milk	37.0	37.1	32.3	19.2	8.1	14.5	18.0	13.8	(7.3)	(15.7)	(13.8)	(18.9)

Red numbers denote price decreases from the previous year. Because the global auction added three normally higher priced products to the products offered last June and July, while the price comparisons are to the lower priced products for the year before, it may be assumed that, for purposes of comparing the impact on profits, the percentage gains are somewhat overstated and the percentage losses somewhat understated for the auction. **Note to California producers:** The percentage change in the California blend price for April and May are estimates, based on the most recent dairy product prices; those prices are little more than \$4.50 per cwt higher than the statewide blend prices that were effective for April and May 2009. CDFA also just published their calculations of cost of production changes for 2011, a statewide average increase from the previous year of \$2.09 per cwt.

There remains some question about how representative the results from the twice monthly global dairy product auctions may be of all sales made by Fonterra over the course of a year. Fonterra has been cautious about being overly specific on the subject, allowing as how the auction reflects the collective decisions of hundreds of buyers who have a wide range of wants and needs for the products offered. They have consistently relied on the proposition that change in global supply and demand is the major determinant of changes in dairy product prices.

The effect of currency fluctuations is also potentially a factor, although Fonterra has been an astute currency hedger to protect themselves from negative consequences from that factor. Fonterra also has made it clear the products they offer in the auction are basic products with the ultimate price charged depending on what additional services and product enhancements the buyer elects to receive.

Since milk production in the major exporting countries is reported monthly (with various leads and lags) the monthly supply side of the global supply/demand equation is the easiest to measure and follow for those who want to go through the calculations. Determining the short term demand side is more difficult because the major importers over the past several years have been “emerging” countries with improving economies and fast growing populations said to be embracing western style diets, hence more dairy products. Fonterra has also been the major beneficiary from China’s population’s distrust of locally produced dairy foods. The current international price weakness is being attributed to a global surplus of milk production and various economic uncertainties which could affect the ability of the major importing countries to maintain their purchasing volumes. Looking ahead, it appears everyone sees the global supply of milk and dairy products over the next ten or fifteen years falling short of expected global demand. Looking more to the present, it appears there may be no way to avoid significantly lower milk margins for U.S. and European dairy farmers until sizable milk production cutbacks occur. New Zealand dairy farmers? They are also preparing for an announcement of lower prices but seem not deterred from continuing to increase milk production by adding cows and converting more non-dairy farmland to dairy farms.

CALIFORNIA DAIRYMEN NEED TO REGISTER FOR UPCOMING REFERENDUM VOTE ON BEEF CHECKOFF INCREASE: *(By Rob Vandenheuvel)* This summer, the California Department of Food and Agriculture (CDFA) will be conducting a referendum on increasing the state’s beef checkoff assessment from \$1 to \$2 for each head of cattle sold in the state. The vote is open to all California cattle producers, including the state’s dairy farmers. In order to vote, dairies must certify your eligibility. You will either receive a certification form in the mail which you must then fill out and return, or you can certify online by visiting <http://cdfa.ca.gov/mkt/beef> and completing all sections of the online form.

If passed, the entire proceeds from the increase in the checkoff assessment would stay in California to be spent by California beef producers for research, education and promotion of their product.

LATEST DAIRY CARES REPORT POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The April “Dairy Cares Report” has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. The column focuses on the sign-up progress for the Central Valley Dairy Representative Monitoring Program (CVDRMP), an industry initiative aimed at conducting regional groundwater monitoring in lieu of individual monitoring on each dairy. The cost of being a part of this collaborative effort will significantly rise after July 1st, so if you haven’t already signed up, it’s strongly recommended that you consider signing up in the next six weeks.