



CME Class III milk, cheese gain ground

By the end of last week, Class III future contracts on the Chicago Mercantile Exchange (CME) had rallied with second-half 2011 prices averaging 50 cents higher than the week before. Cheese prices on the CME spot market also increased as buyers bid the price higher and a total of 74 loads, the highest weekly count of the year, traded on the CME last week.

By early this week, sellers were off the market and the previous weeks of brisk CME cheese sales came to a halt, even though the price continued to rise based on bids for product without willing sellers. Blocks were pegged at \$1.6275/lb on Wednesday (April 13) and barrels at \$1.5975/lb.

CME butter trade, on the other hand, was brisk with six loads changing hands on Wednesday, alone, as the CME price was bid back up to \$2.00/lb, but settled at \$1.9975/lb.

Exports are again the big news as February data, released Tuesday, shows total U.S. dairy exports were up 41% in February compared with a year ago. The U.S. dairy industry exported record amounts of cheese — accounting for 5% of total cheese production — during the first two months of 2011. This compares to export sales accounting for 3.7% of U.S. cheese production in 2010 and 2.4% of U.S. cheese production in 2009, according to USDA data reported by analyst Alan Levitt, who writes the CME Group Daily Dairy Report.

CWT also accepted bids to subsidize the export of three billion pounds of cheese for delivery May through July; however, this is a small fraction compared with the nearly 44 billion pounds of cheese exported at market price without producer-funded discounts in February.

U.S. exports of nonfat dry milk (NFD) and skim milk powder (SMP) were up 132% in February, accounting for more than half of total U.S. powder production.

Powder markets had declined in the U.S. following the trend of global price weakness in March, although the global market for SMP has recently stabilized. It is interesting to note that both the NASS Survey and the California price for NFD never ramped up near the bar set for many months by the global exchange or the CME, but as soon as both turned lower, the NASS and California prices reacted immediately without hesitation.

The CME pegged Grade A NFD at \$1.66/lb Wednesday (Apr. 13) and Extra Grade at \$1.80/lb. Meanwhile, the NASS Survey price Fri., Apr. 8 for the previous week ending Apr. 2,

was \$1.5593/lb, a loss of four cents from the week before.

U.S. production of skim milk powder (SMP) increased for the second straight month relative to production of NFD. It is interesting to note that SMP prices are not reported by USDA AMS Dairy Market News, nor are they reported or considered in the USDA NASS Survey or California reports used for setting Class IV milk prices under the current U.S. and California state milk pricing systems. This is certainly an issue that deserves attention in any plan to reform milk pricing methods in the next Farm Bill.

Back to the Future: More FFTF discussion

Additions / Revisions to FFTF 'Producer Examples'

Last week in the Moos, I shared some "Producer Examples" of how National Milk Producers Federation's (NMPF) Foundation for the Future (FFTF) Dairy Market Stabilization Program (DMSP) would translate at the farm level if in effect today. My Producer C example from last week was off by \$207 in calculating the milk check deduction at the \$4 "margin trigger."

This week, I've revised that example and added a fifth example for so-called Producer E. All five examples are shown on the chart (at right). As NMPF's FFTF is the "main plan" circulating in Washington D.C. right now, it is important for dairy producers to understand the details and how the different parts of the package will affect them.

To put the "Producer Examples" in perspective, Producer E would be like the real-life example I met in Wisconsin recently during a trip to the Midwest. They had a herd average 65 pounds/cow/day and went to 3x milking and improved areas of management to gain 2.5 pounds/cow/day (4%), so far, as a way to increase cash-flow to try to save the family farm.

Opportunity in the divide?

Discussion and questions continue to surface around NMPF's Federal Order Reform proposal, which was added to the FFTF package early last month. Just as the NMPF's details are coming forth, the International Dairy Foods Association (IDFA) this week issued a news release stating that it has different ideas about pricing reform. The three boards that make up IDFA met in California and voted to oppose the NMPF FFTF package of proposals. In a news release Tuesday, IDFA said it has a plan that would incorporate some of the recommendations of Secretary Vilsack's Dairy Industry Advisory Committee. The Association's CEO Connie Tipton is quoted in the news release saying: "Our members believe that it is time to decrease regulations in a highly regulated industry and the National Milk policy package (FFTF) does just the opposite."

This divide allows time for producers to organize and be heard on their interests in future pricing reform as it appears the NMPF train may have to stop and pick up the caboose.

NMPF's FFTF margin-triggered Dairy Market Stabilization Plan: Producer Examples

Producer A has no change in production: He has base monthly milk marketings (Nov-Jan) of 200,000 lbs. He actually markets 200,000 lbs in March. He is paid for 192,000 lbs. (200,000 lbs x 96%). The deduction from his milk check for March would be 200,000 lbs minus 192,000 lbs = 8,000 lbs x \$17.21/cwt = **\$1377 deduction.**

Producer B decreases in production: He has base monthly milk marketings (Nov-Jan) of 200,000 lbs. He markets 192,000 lbs in March. He is paid for 192,000 lbs (200,000 x 96%), with **no deduction** from his milk check.

Producer C (corrected example) has increased his herd average production by 5%: He has base monthly milk marketings (Nov-Jan) of 200,000 lbs. He markets 210,000 lbs in March. He is paid for 193,200 (not 192,000) lbs (200,000 minus 8% cap on penalty). The deduction from his milk check for March would be 210,000 lbs minus 193,200 (not 192,000) lbs = 16,800 (not 18,000) lbs x \$17.21 = **\$2891 deduction** (not \$3098 as reported last week).

Producer E (new example) has increased his herd average production by 4%: He has base monthly milk marketings (Nov-Jan) of 200,000 lbs. He markets 208,000 lbs in March (2000 lbs less than Producer C). He is paid for 192,000 lbs because the cap will not kick in on his excess like it does for the Producer C above and D below). The deduction from his milk check for March would be 208,000 lbs minus 192,000 lbs = 16,000 lbs x \$17.21 = **\$2754 deduction.**

Producer D is in the midst of expansion. The farm has increased herd size and doubled his production: He has base monthly milk marketings (Nov-Jan) of 200,000 lbs. He markets 400,000 lbs in March. He is paid for 368,000 lbs (400,000 lbs minus 8% cap on penalty). The deduction from his check for March would be 400,000 lbs minus 368,000 lbs = 32,000 lbs x \$17.21/cwt. = **\$5507 deduction.**