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CME cash dairy trade goes from pit to click

By CAROL RYAN DUMAS
Capital Press

CME Group is replacing its open outcry spot call auctions for dairy products on its Chicago trading floor with live online trading.

The auctions involve cash transactions for nonfat milk, cheese and butter.

In December, CME will begin to transition the nonfat dry milk market to an electronic auction platform. The butter and cheese markets are expected to transition during the first quarter of 2017.

The change is in response to requests from customers and dairy industry participants to use proven technology to increase the transparency and accessibility of prices discovered during the dairy spot call auction sessions, said Tim Andriesen, CME Group managing director of agricultural products.

"The transition to our electronic CME Direct Auction Platform will enable both auction participants and observers to more easily access information about spot dairy bids and offers as well as quantities in real time during the auction sessions," he said.

Based on customer feedback, CME believes the transition has the potential to broaden industry participation in the spot call sessions, he said.

Moving to current technology makes a lot of sense, said Mark Stephenson, director of dairy policy analysis at the University of Wisconsin.

"It's possible that it will bring more liquidity into the market, and more liquidity is always a good thing," he said.

But he wonders if people will still be able to see the transactions and understand who is buying and selling on the electronic platform.

Trading on the floor is anonymous, but one can get a pretty good idea who's being represented in the pit. Making an educated guess might not be as easy online, he said.

During the electronic auction, trading counterparties will be anonymous to both participants and observers, but the platform will enhance the transparency of price discovery compared to the current spot call, Andriesen said.

"Participants and auction observers will be able to see the quantity and price of bids and offers for each spot call product in real time during the auction," he said.

Users will also be able to see the depth of the book — all bids and offers, not just the best bid and offer.

"We believe this will result in broader customer and industry access to dairy spot call auction prices and trading," he said.

CME Group will only reveal the counterparty information to the other counterparty at the end of each session. That level of information will not be revealed publicly.

In the case where a broker executes both sides of an order, he or she will know the respective counterparties before the end of a session, he said.

College students helping Idaho cheese plant expand offerings

By JOHN O'CONNELL
Capital Press

John O'Connell/Capital Press

Russell Aldredge, quality assurance manager with Nelson-Ricks Creamery in Sugar City, Idaho, shows a block of smoked cheddar his facility made as a sample to test making goat cheese. The plant is also poised to move into production of additional products, such as sour cream and butter, with help from Brigham-Young University-Idaho mechanical engineering students, who are working to retrofit the creamery's equipment for a class project.

SUGAR CITY, Idaho — A group of mechanical engineering students at Brigham Young University-Idaho are helping the owners of a local cheese plant renovate existing equipment to produce new products.

The five students, working under Alan Dutson, the university's mechanical engineering academic outcomes and assessment director, are working to upgrade the Nelson-Ricks Creamery for their "capstone" project — which offers a real-world challenge in lieu of writing a thesis.

It's among several projects either in the works or in planning to increase the old cheese plant's profitability, production and visibility within the Eastern Idaho community.

The capstone project should take another 12 weeks to complete and, if successful, will give the plant the ability to pasteurize the cream removed as a byproduct of cheese production into marketable dairy products — potentially butter, sour cream, yogurt and buttermilk.

"The team working on the project is just getting started with identifying customer needs, etc., and hasn't really completed the main part of their project yet," Dutson said.

The cheese company opened in the late 1890s. With no successors in line to resume operations when they reached retirement, family members of the original owners sold the plant to the California-based marketing, processing and wholesale cheese distributor Greenberg Cheese Co. in 2012.

"It had been a long-time supplier of ours," said Donald Greenberg, operations manager with Greenberg Cheese. "It was a good supplier, made quality cheese and had a following across California, Arizona, Nevada, Utah and Idaho."

The original owners sent their cream to an affiliated butter plant in Salt Lake City for processing. Under its new ownership, Nelson-Ricks has sold cream at a loss to local hog farmers. The company breaks even on disposal of excess whey, which area farmers apply to land as a fertilizer. It also plans to eventually heat-treat and condense whey for use as a high-protein nutrition supplement.

Greenberg said the butter would meet specifications of whey butter, which can be sold at a premium due its lower fat and higher protein content. He said it could take a couple of years for the plant to start branching into the new products.

"We're looking at the feasibility of each one to see which one we can do first and quickly," Greenberg said.

The plant now produces cheddar and monterey jack as its staples, also making Gouda, mozzarella and Parmesan — some in waxed wheels. Greenberg Cheese sells much of the plant's production to California restaurants, but Greenberg hopes to build his network of Eastern Idaho buyers.

Russell Alldredge, the plant's quality assurance manager, said the plant plans to branch into making goat cheese, and will eventually procure about a third of its milk supply from area goat producers. He said the plant also intends to start contracting directly with local cow dairies and continue buying some milk from the surplus market.

Alldredge said some local dairies closed during the cheese plant's hiatus in 2012, and others are now committed to new buyers.

"Now most of them are looking at wanting to come back with us," he said, adding the company intends to work with area dairymen to build their herds with cows that produce the best milk for cheese production.

U.S. beef access to China could come quickly

By CAROL RYAN DUMAS
Capital Press

While USDA says work remains to be done on a deal to restore U.S. beef access to China, a National Cattlemen's Beef Association spokesman says it might not take long.

"There's not a set timeline … but when you look at how quickly China has worked with countries like Canada and Brazil to restore that access once they lifted their ban, I think this could be a matter of months," said Kent Baucus, NCBA director of international trade.

The U.S. Meat Export Federation wants beef to move as quickly as possible but just doesn't have a timeline, said Joe Schuele, USMEF vice president of communications.

"While this is an important first step in the process of resuming beef exports to China, USMEF understands that China must still negotiate with USDA the conditions that will apply to U.S. exports entering this market," USMEF President and CEO Philip Seng said in a press statement.

The next step is for China's food safety inspection agency to set the terms of trade, which means what the U.S. beef can and can't contain and which methods of production are allowed, Baucus said.

"We're going to have to negotiate all that. So it's really uncertain yet as to what the final product will look like going into the Chinese market," he said.

The ban started with "the cow that stole Christmas" in 2003, he said. That discovery of bovine spongiform encephalopathy — mad cow disease — in a Washington state dairy cow closed many U.S. beef export markets overnight.

Since then, restoring access has been a priority, and China is the latest market to reopen to U.S. beef, he said.

Lifting the ban is a big development considering it's taken 13 years and a lot of education to address all of China's concerns, he said.

The resumption of beef trade is great news for U.S. producers. China represents one-fifth of the world's population with a middle class that's larger than the entire U.S. population, he said.

"This is not only a population that wants protein, they want beef, and beef demand in China has continued to grow," he said.

China's imports of beef from other countries reached 495,000 metric tons in 2015, a 56 percent increase over 2014, according to USMEF.

The country's beef imports were a record $2.3 billion in 2015. In 2016, its imports are expected to increase to 825,000 tons, making it the second-largest beef importer in the world, according to USDA.

Capital Press File

China and the USDA are negotiating to reopen that nation to U.S. beef exports. A final agreement could come in "a matter of months," an NCBA spokesman said.

Dairy Markets
Lee Mielke

Cold Storage report depresses prices

By LEE MIELKE
For the Capital Press

Cash dairy markets didn't like what they saw in the latest Cold Storage data.

Cash 40-pound block cheddar cheese closed the following Friday at $1.5325 per pound, down 2 3/4-cents on the week, lowest level since June 27, 2016, and 21 1/2-cents below that week a year ago when they jumped 15 3/4-cents.

The 500-pound cheddar barrels, after dipping to $1.46 Tuesday, rallied to close Friday at $1.51, unchanged on the week but 10 3/4-cents below a year ago, with 24 cars of block trading hands on the week at the CME and 40 cars of barrel.

The first two days of trading in October left the blocks unchanged, as traders anticipated and then absorbed Tuesday's Global Dairy Trade auction.

The barrels lost 2 1/4-cents Monday and lost a penny Tuesday, slipping to $1.4775 per pound.

Midwest cheese production is steady, according to Dairy Market News.

"Milk intakes are relatively balanced and many manufacturers are running near full production schedules. A few processors are looking for additional loads of milk to round out production, but spot loads are a little less available for discounted prices," DMN said. "Retail and food service cheese orders are strong and have been building a little into the end of the year. All varieties of natural cheese have good demand."

Western cheesemakers are not having any problems getting enough milk for the vats. DMN says, "Cheese production is active and often running near full capacity. Retail and food service demand is firm. Industry contacts still report long inventories, but processors are turning the stocks."

Cash butter closed Friday at $1.8975 per pound, down 13 cents on the week and 60 1/4-cents below a year ago when it plunged 63 1/2-cents after jumping 41 3/4-cents the previous week. Eight cars were sold last week at the CME.