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Dairy

Calif. milk prices higher in federal system

By CAROL RYAN DUMAS
Capital Press

California dairy farmers are deciding whether to leave their state marketing order behind and join the federal milk marketing order system, which sets regulated minimum prices on pooled milk.

California produces more than 18 percent of the nation's milk, and milk prices in the state are typically the lowest or near the lowest in the country. Dairy farmers there hope to increase the price they receive for their milk by joining the federal marketing system.

But because the state is such a large milk producer, joining the federal system also has the potential to affect pricing and production in other parts of the country.

An economic analysis by USDA Agricultural Marketing Service shows positive impacts for California dairy farmers but negative impacts on dairy farmers in some other regions.

The market for milk in the U.S. is basically national. Eventually, what happens in one part of the U.S., unless it is trivial, will reverberate to other parts of the U.S., Andrew Novakovic, an economist with the Dyson School of Applied Economics and Management at Cornell University, said.

"If the Northeast is awash in milk, it creates a downward pressure on markets elsewhere, not just in the Northeast. If cheese is rocking in Wisconsin or export sales are gangbusters in Washington, that tide raises our boat as well," he said.

All federal order minimum prices are tied to the same movers. There are some small regional differences in the price formulas but these parts are constant. Mostly what moves prices up and down are the national formula prices, he said.

A significant part of the California FMMO analysis is the expectation that dairy farmers in California will see a sufficiently higher price to inspire them to increase production. If this is true, the production increase could put downward pressure on prices everywhere, he said.

Effects of a California Federal Milk Marketing Order

Average annual changes from baseline projections (without a California FMMO) by region, 2018-2026.

Area	All-milk price (Dollars per cwt)	Milk production (Millions of pounds)
Northeast	-0.19	-34
Appalachia	0.32	11
Florida	0.05	6
Southeast	0.09	17
Upper Midwest	0.16	143
Central	-0.15	-21
Mideast	-0.27	-67
Pacific Northwest	-0.19	-11
Southwest	0.04	25
Arizona	-0.17	-16
California	0.43	383
Former Western*	0.36	113
Unregulated West	-0.1	-2
Hawaii, Alaska	0.33	1
U.S.	0.08	545

*Covering parts of Utah, Idaho and Nevada.

Source: USDA AMS Capital Press graphic

This outcome was included in the original USDA impact analysis. More current analysis by Mark Stephenson, director of dairy policy analysis at the University 0f Wisconsin, calls into question whether the California price will actually increase appreciably or at all, he said.

Joining the federal system would raise California's all-milk price an average of 43 cents per hundredweight from 2018 to 2026, compared with projections of prices if producers stay with the state order, according to the AMS analysis. It would also increase California's blend price across all utilizations by an average of 45 cents per hundredweight.

In addition, a California FMMO would also increase the all-milk price in the U.S. as a whole by an average of 8 cents per hundredweight, compared with projections without it. But it would also reduce the all-milk price in the Pacific Northwest, the unregulated West, Arizona, the Northeast and the Central and Mideast regions.

The higher milk prices would encourage more U.S. production, with an annual average increase of 545 million pounds. Eight regions would show an increase, led by California with an annual increase there of 383 million pounds.

The regions with the lower all-milk price, however, would have lower production compared with projections without a California FMMO.

Adoption of a California FMMO would raise producer revenue estimates by an average of $284 million per year in the U.S. and by an average of $269 million in California. Revenue would be lower in the seven regions of lower milk prices, compared with the scenario with no California FMMO.

Nearly all milk produced in California is currently pooled in the state order and marketed with regulated minimum prices. But in federal orders only Class I milk for fluid consumption is fully regulated. Manufacturers of dairy products such as cheese, have the option to participate in the milk pool.

California producers wanted to retain mandatory pooling of all milk, but USDA denied that proposal as a departure from the workings of the other 10 federal orders.

The analysis estimates that 32.7 percent of Class II milk (for cream, yogurt cottage cheese and ice cream), 42.4 percent of Class III milk (for cheese) and 41.8 percent of Class IV milk (for butter and powder) currently pooled under the state order would not be pooled in the federal order.

The pricing of dry whey in California's pricing formula for milk to manufacture cheese fueled the move to a federal order. Adoption of a California FMMO would reduce the amount of pooled milk used for cheese and whey production in California, leading to a national increase in prices for cheese and whey and consequently an increase in Class III prices.

In California, the Class III price is projected to average 31 cents per hundredweight higher if producers vote to join the federal system than it is projected to be if they don't.

Higher Class III prices nationally would shift U.S. milk supplies from making cheese to increased butter and nonfat powder, decreasing prices for butter and powder and consequently lowering prices for Class IV milk.

In California, however, Class IV prices are projected to average $1.42 per hundredweight higher with a California FMMO than with the state order. Class II is projected to average $1.98 per hundredweight higher if producers join the federal system. Class I prices would be an average of 88 cents per hundredweight lower due to the difference in how Class I is priced in the federal system compared with the state order.

CWT changing direction on dairy exports

By CAROL RYAN DUMAS
Capital Press

Cooperatives Working Together, which provides export assistance to dairy cooperatives, will be seeing some changes to its business model to adapt to today's export challenges.

Developed by National Milk Producers Federation, CWT has undergone significant evolutionary shifts to maximize its effectiveness and return on investment. Launched in 2003, it initially supported both dairy herd retirement and product exports.

Since 2010, the voluntary, producer-funded program has focused exclusively on enhancing exports, targeting products containing a significant amount of milkfat such as cheese and butter.

Those products containing a higher fat content "have more bang for the buck because they have the most impact on farmers' milk checks," Chris Galen, NMPF senior vice president of communications, said.

Moving ahead, CWT will continue to focus on those higher-value products and expand those offerings, he said.

CWT is funded by dairy co-ops and individual farmers, paying monthly dues of 4 cents per hundredweight of milk marketed. Cooperatives needing help to seal a deal overseas — such as when U.S. product prices are higher than world market prices — apply for assistance, he said.

NMPF, with the support of the CWT board, has formulated a new strategic assessment to evolve the program to meet the challenges of today's marketplace, he said.

The biggest thing is rather than just helping cooperatives capture short-term sales this week or this month, it's more of a strategic shift to build long-term business opportunities for farmer-owned businesses, Galen said.

It's the same thing CWT is already doing but doing it in a more methodical fashion, helping cooperatives build a foothold in markets for long-term sales, he said.

The strategy includes expanding the range of exports to engage more products, shippers and customers and facilitating longer-term contracts for delivery.

It also includes encouraging higher-value marketing strategies in retail and foodservice; developing improved market intelligence on prices and market needs; and maximizing collaboration with other farmer-funded efforts, such as USDEC and Dairy Management Inc.

The Associated Press File

Cheese is pressed at the Emmi Roth USA production plant in Monroe, Wis. The National Milk Producers Federation is changing its Cooperatives Working Together export program to focus on developing long-term trade instead of spot sales overseas.

Dairy prices begin to climb; cheese demand mixed

Dairy Markets
Lee Mielke

Dairy prices were mostly higher last week. Cheddar block cheese closed Friday at $1.6025 per pound, up 7 1/4-cents on the week and 14 1/4-cents above a year ago.

The barrels finished at $1.45, up a penny and 1 1/2-cents above a year ago. Six cars of block were traded on the week at the CME and 32 of barrel.

The blocks were unchanged Monday but jumped 3 3/4-cents Tuesday, to $1.64, highest price since Nov. 16, 2017. The barrels were up 2 3/4-cents Monday to narrow the gap, but stayed there Tuesday at $1.4775, a still too high 16 1/4-cent spread.

Cheese demand is mixed, says Dairy Market News. Reversing a trend from previous weeks, Italian style cheesemakers report steady to increased sales. While traditional style cheesemakers, who have recently provided generally positive demand reports, are relaying decreasing sales in some cases. More cheesemakers are taking discounted spot milk, with prices ranging $2.50 to $5 under class and milk offers are prevalent.

Western cheese is active as milk continues to be readily available with the spring flush.

"Some contacts report that prices are not reflecting the current condition of the market. Cheese inventories/production are more than demand; therefore, according to contacts, prices are supposed to be lower than they are."

Cash butter shot up 9 1/2-cents last Wednesday to $2.3350 per pound, despite a lot of product finding its way to Chicago, but closed Friday at $2.2875, up 7 1/4-cents on the week and 19 cents above a year ago, with 51 cars sold last week. Monday's butter jumped 3 1/4-cents and stayed there Tuesday, at $2.32, with 23 cars trading hands plus 12 on Monday.

Cream headed for the churns is not where some butter producers were expecting following the holiday.

Butter demand is not slowing and contacts say the increased cold storage data has not affected overall market positivity.

Western butter makers report spring holiday retail sales were good but orders have slowed. Cream is readily available, butter production is vigorous, and inventories are heavy and growing.

Cash Grade A nonfat dry milk closed Friday at 72 3/4-cents per pound, up 3 3/4-cents on the week but 8 1/4-cents below a year ago.

The powder was steady Monday but inched three-quarters higher Tuesday, to 73 1/2-cents per pound.

Spot dry whey finished at 32 cents per pound, up 3 1/2-cents on the week.

It lost a penny both Monday and Tuesday, slipping to 30 cents per pound.

Benchmark up

The March Federal order Class III benchmark milk price started climbing out of its hole and hit $14.22 per hundredweight, up 82 cents from February but is $1.59 below March 2017. It is 26 cents above California's comparable 4b cheese milk price and equates to $1.22 per gallon, up from $1.15 in February and compares to $1.36 a year ago. The First Quarter average is at $13.87, down from $16.49 at this time a year ago and compares to $13.75 in 2016.

Monday's Class III futures portended an April price of $14.46; May, $14.87; and June at $15.19, with a peak at $16.16 in September.

The March Class IV price is $13.04, up 17 cents from February but $1.28 below a year ago. Its First Quarter average stands at $13.01, down from $15.37 a year ago and compares to $13.75 in 2016.

Projection unchanged

The Agriculture Department left unchanged its 2018 milk production forecast in Tuesday's World Agricultural Supply and Demand Estimates report.

2018 production and marketings remain at 219.0 and 218.0 billion pounds, respectively. If realized, 2018 production would be up 3.5 billion pounds or 1.6 percent from 2017.