



Weekly Update

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Butter

6 sales, 3 bids unfilled, 4 offers uncovered. The CME cash butter price gained 0.75 cents this week. Churning schedules are active, but lighter than during recent year-end holidays. Cream is often more available than anticipated. Class II is again using cream that was surplus to the churn during the holidays. Churning schedules are generating bulk for future use and prints for current needs. Overall, butter buying interest is fair at best. Orders being placed are for near term needs with upcoming Easter/Passover entering discussions.

Cheese

21 sales, 2 bids unfilled, 10 offers uncovered. Block prices lost 1.5 cents this week. Production has slowed as less milk is available with Class I needs returning to normal after the holidays. Demand is being fed by increased retail orders for NFL playoff parties. Export sales are being aided by CWT assistance for 6.4 million pounds of cheddar and Monterey Jack.

Milk Production

Milk production in California continues to follow a slightly higher trend on a week-to-week basis. Weather conditions have been very favorable with limited precipitation and mild temperatures. Plants are operating well, with some milk diverted from cheese into butter/powder. Class I demand is increasing. The February 2012 Class 1 prices in California range from \$18.52 in the north to \$18.79 in the south.

Dry Products

Pricing moved higher on the bottom of the range and mostly series for Western low/medium heat nonfat dry milk. Manufacturers and sellers have re-established pricing levels and sales activity has returned to regular account and spot business. Other pricing indices are moving higher, after being impacted by higher volume, lower priced shipments in recent weeks. Domestic and export NDM demand is fair. Additional offerings of condensed skim are also being seen. Interest for NDM from cheese producers is limited.

Source: USDA Dairy Market News

Weekly Update delivery options

Send change of address or request for Update delivery to Western United Dairyfarmers by phone or fax, or email to info@westernuniteddairyfarmers.com.

Commodity Markets: CME – California Plants

Average	AA Butter	NFDM	40# Blocks	Barrels	Dry Whey
November	\$1.7727	\$1.4573	\$1.8582	\$1.8849	\$0.6403
December	\$1.6228	\$1.4022	\$1.6551	\$1.6169	\$0.6606
January	\$1.6094	\$1.3913	\$1.5840	\$1.5762	\$0.6892
January 13	\$1.6125	\$1.4019	\$1.5950	\$1.5500	\$0.7063
Week to date	↑ ¾ cent	↑ 1 ⁶⁹ / ₁₀₀ cents	↓ 1½ cents	↓ 4 cents	↑ 2½ cents

Estimated* Producer CWT. Prices

Month	Class 1	4a	4b	Overbase	Quota
November	\$20.42	\$17.70	\$17.19	\$17.61	\$19.31
December	\$20.83	\$16.59	\$15.14	<i>\$16.25</i>	<i>\$17.95</i>
January	\$20.04	<i>\$16.44</i>	<i>\$14.42</i>	<i>\$15.77</i>	<i>\$17.47</i>

* Actual announced prices are in **BOLD**, estimates are in *Italics*



What's up and what's not – your weekly market review

By Annie AcMoody, MS, Director of Economic Analysis

I'm not sure which is occurring more frequently in the news these days: the conflicting indicators of economic recovery or the number of Tebow-related stories. While forcing market participants to operate under a cloud of uncertainty, at least the former shines some useful information on current market conditions. Notably making the headlines this week was a strengthening U.S. dollar, higher jobless claims, and the highest consumer confidence index in six months. While the last two are fairly straightforward (not so good and good, respectively), the first one has a few implications to consider: a strong dollar makes our products more expensive for foreign buyers. Fortunately, as it can impair our dairy export competitiveness, it also reduces our grain export competitiveness. Speaking of exports, USDA released November trade data this week. It showed butter exports were up from October (+37%) but down from a year ago (-11%). Imports were also up from last year (+115%).

Back at the CME, prices bounced up and down this week in a fairly narrow range. After jumping up 3.5 cents on Monday, the butter market paused on Tuesday before dropping on Wednesday and Thursday. Two uncovered offers to sell at the same price remained on Friday. We can hope buyers step back in after the long weekend so sellers don't feel the need to further discount their offers. Butter ended the week at \$1.6125/lb, up 0.75 cents. Despite the small price fluctuations, it seems as though the butter market found a comfortable spot around current levels.

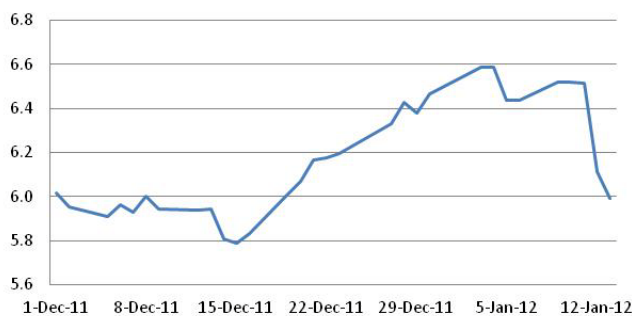
Reversing part of last week's gains, block cheese lost some value this week, dropping 1.5 cents to \$1.5950/lb. Activity at the CME was decent, with loads trading hands almost every day (Monday-Thursday), for a total of 21. Buyers vanished on Friday, perhaps spooked by potentially unlucky purchases on Friday the 13th. According to USDA trade data, November exports of cheese were very helpful in moving a lot of product out of the country, up 52% from November last year and the highest volume since June. Without strong exports, the domestic market would have to absorb those extra volumes. And according to retail data, this could be tricky: cheese sales were down 2% in December. Hopefully all the current football talk is encouraging plenty of NFL parties involving cheese.

The California nonfat dry milk price moved upward for the second week in a row, gaining 1.69 cents. The resulting price, \$1.4019/lb, was achieved through a small sales volume of 8.9 million pounds. The average Western powder price reported by DMN also moved upward, to \$1.39/lb (+0.5 cents). The gain occurred at the low end of the range, narrowing the gap to 2 cents—much smaller than the average range of a dime observed in the last three months of 2011. DMN additionally reports domestic demand and export interest are fair. The latter is currently influenced by cheaper pricing in the European Union, which is not likely to improve due to a weakening euro currency. (Continued page 2)

(Continued from page 1) Dry whey continued its trek upward, marching up another 2.25 cents this week. At 70.63 cents per pound, it remains at the highest level since July 2007 and it continues to contribute the maximum potential value in the 4b formula (\$0.65/cwt). DMN continues to report strength in the market, with "tight supplies" remaining the key words on the street.

After concerning South American weather seemed to monopolize news headlines in the last month, contributing to a 74-cent increase in March corn futures since mid-December, winds shifted today when USDA released its latest crop reports. Going against trade expectations, USDA announced higher-than-projected inventories. The 2011-2012 global corn stocks were estimated at 128.1 million tons, up one million tons from the previous estimate released in December. In light of this information, corn futures melted quickly, closing down the 40-cent limit on Thursday. Another 12 cents were lost today to end the week a penny under \$6/bu.

March corn futures



WUD winter meetings under way

Western United Dairymen's schedule of winter district meetings began in Galt for District 2 on January 3. WUD staff and President Jamie Bledsoe join members for dinner and a briefing on a wide range of legislative and regulatory topics, as well as an overview of the economic scene. See the box for a list of the remaining district member meetings for 2012.

Winter district member meetings

Date	District	Social	Dinner	Location
Tue, Jan 17	7	6:30 PM	7:00 PM	Farm Bureau, Fresno
Wed, Jan 18	11		12:00 noon	Benji's, Bakersfield
Wed, Jan 18	8	6:30 PM	7:00 PM	Heritage Complex, Tulare
Mon, Jan 23	1	6:30 PM	7:00 PM	Rolling Hills Casino, Corning
Tue, Jan 24	9	6:30 PM	7:00 PM	Fraternal Hall, Hanford
Mon, Feb 6	10	6:30 PM	7:00 PM	Turf Room, Ferndale
Tue, Feb 7	3	6:30 PM	7:00 PM	Sheraton Resort, Petaluma

FDA begins milk-residue survey

The National Milk Producers Federation reports that the U.S. Food and Drug Administration drug-residue sampling survey is under way. The survey will involve 900 milk samples from dairy producers who have had a cull cow residue violation in the past, as well as another 900 milk samples from dairies at large. FDA will be looking for evidence of a correlation between drug residues that may be showing up in the carcasses of cull cows with those that may be showing up in milk. Last September, at the annual meeting of the American Association of Bovine Practitioners, FDA official William Flynn said regulators want to know how cull-cow-tissue violators are doing in comparison to the industry as a whole.

Flynn, who serves as deputy director for science policy at the FDA Center for Veterinary Medicine, said the survey would be a "blind" study, meaning that regulators will not be able to tie a specific milk sample back to a specific farm. That is what makes the current initiative a "survey" more than a "regulatory action." A year ago, it appeared FDA would take a more aggressive approach, but it backed off and decided to go the survey route instead after industry representatives raised concerns about the consequences of their initial plan.

Nevertheless, National Milk Producers Federation has identified additional areas of concern. FDA will be using testing equipment that is far more sensitive than conventional screening tests, noted Jaime Jonker, vice president of scientific and regulatory affairs for NMPF. There is the potential for FDA to pick up trace amounts that normally would not be found, including some that are well below the FDA-established "safe level". Dairy organizations, including WUD have raised questions about how those trace amounts would be interpreted and reported by FDA. Dairy representatives will continue to work with the federal agency to find a fair resolution.

EPA expected to release Dioxin exposure guidelines

The *Wall Street Journal* has reported that the Environmental Protection Agency is preparing to release guidelines to define a safe level of exposure to dioxin. The guidelines are expected this month. Dioxin, a byproduct of industrial manufacturing, is considered ubiquitous in the environment. When present, it is absorbed by livestock from their feed, particularly if they are grass-fed. Dioxins are identified as carcinogens and they have been linked to human reproductive problems. However, some scientists dispute the EPA conclusion that the small amounts found in food are dangerous.

The EPA dioxin limit is expected to be similar to a preliminary level of no more than 0.7 picograms per kilogram of body weight a day set last year. When that number was analyzed however, "what we discovered was that the average consumer would exceed the reference dose" after just one meal or heavy snack, said Steve Kopperud, coordinator for the Food Industry Dioxin Working Group. Such a standard has the potential to frighten consumers and affect trade. The Food Industry Dioxin Working Group, which includes eight major trade associations representing a wide variety of stakeholders who could suffer if EPA implements its proposal, expressed these concerns and others in a letter to the Obama Administration last week. "Since the agency contends the primary route of human exposure to dioxin is through food, this could not only mislead and frighten consumers about the safety of their diets, but could have a significant negative economic impact on all U.S. food producers," the group wrote.



Paul's report: Decision Day on the North Coast

By Paul E. Martin, Director of Environmental Services

Thursday, January 19, 2012, is sure to be an important day for WUD members in the North Coast area. That's when the North Coast Regional Water Quality Control Board is scheduled to adopt a new dairy water quality regulatory program. While we have successfully been without a formal program for many years, state law passed in 2003 mandates this action by the water board. The meeting will begin at 9:30 a.m. We encourage our members to attend and demonstrate your well-known commitment to environmental responsibility. You are your own best ambassadors. Be sure to check in with WUD field representative Melissa Lema for talking points.

The first level of regulation is termed a "General Conditional Waiver of Waste Discharge Requirements" (Conditional Waiver). This document establishes conditions that must be met by each dairy in order to be in compliance with water quality law. There is no fee for this permit. WUD staff believes the majority would be best served to apply for a Conditional Waiver.

The next level of regulation is termed "General Waste Discharge Requirements" (GWDR). This permit does carry an associated fee. For less than 300 cows the fee is \$535 annually; for 300 to 699 cows it is \$1,070. The fee continues to increase as herd size increases. A GWDR will likely be used for dairies with significant challenges.

The third, and most rigid, level is termed a "National Pollutant Discharge Elimination System" (NPDES) permit. This permit is unlikely to be used by North Coast dairies, but the federal government does require it to be offered. While we expect to see few if any NPDES permits in the North Coast, the water board does have the authority to impose this most burdensome requirement in critical non-compliance situations. The NPDES permit has the same fee structure as the GWDR.

So what does the Conditional Waiver entail? Dairies must embark on a more formal regulatory process, but it is very similar to what for the past five years has been working well for Sonoma and Marin dairies located in the jurisdiction of the San Francisco Bay Area water board. The first step will be to prepare and submit a Notice of Intent to Comply. Following that, a map of the facility will be prepared and a water quality plan developed. An annual report with some photographic monitoring will be required in the second year of the program. The Conditional Waiver also contains requirements for specific monitoring of surface and ground water. Importantly, it establishes an opportunity to perform group representative monitoring as a substitute for individual monitoring, which will greatly reduce the demands on individual dairies.

As WUD members, you will not have to deal with the new program on your own. In addition to WUD staff, you will have the resources of CDQAP, the local Farm Bureaus, NRCS, and local RCDs. All will be at your side to help you through the process. WUD is already well started with workshop planning for your area, and we are seeking funding for the mapping job.

WUD staff and members spent a great deal of time leading negotiations with the North Coast Water Quality Control Board as they developed the program. We have studied, line by line, pages and pages of draft documents as they were released for comment. The water board's staff was not familiar with dairies, so several WUD members in the North Coast provided tours and educational conversations, and they attended board workshops. These efforts were appreciated by the water board, and they have resulted in a more realistic and practical program. While there are a few requirements in the order that we would prefer to do without, we believe over all it is fair and something we can do. We expect the vast majority of North Coast producers will be able to utilize the no-fee Conditional Waiver as the appropriate tool for their operation.

Animal rights activists take credit for Harris Farms fires

In the early morning hours of Sunday, January 8, fires were set that heavily damaged 14 tractors and several cattle trailers at Harris Ranch near the intersection of Highway 145 and Interstate 5 in western Fresno County. Within days, a statement from animal rights activists identified the Animal Liberation Front (ALF) as the group responsible. According to the statement, the attack was aimed at "the horrors of factory farming."

John Harris, Harris Farms CEO and chairman, said in an email Tuesday that he and others with the ranch are "appalled by this senseless, but very alarming attack." He called it a terrorist action. "I had suspected Animal Liberation Front may have been involved and now they are in fact claiming responsibility for it with multiple details," Harris wrote.

The Animal Liberation Front is a decades-old organization linked to many acts of domestic eco-terrorism such as arson. According to the animal rights activist statement, "containers of accelerant were placed beneath a row of 14 trucks with 4 digital timers used to light four of the containers and kerosene-soaked rope carrying the fire to the other 10.... We were extremely pleased to see that all 14 trucks 'were a total loss.'" The statement boasted that "despite guards, a constant worker presence and razor wire fence, the enemy is still vulnerable." The message ends by saying "until next time."

Harris said the attack will have no effect on his company. "We are gratified by the support and concern we have received from the public and the outrage this attack has created," he wrote. "We must live in a society that is safe for all and no one can tolerate violence such as this. ALF and similar terrorist groups pose a real threat, and I am confident that the many law enforcement agencies working on this case will bring them to justice soon."

WUD president Jamie Bledsoe, commenting on the attack, said, "Those responsible for the terrorist attack on Harris Ranch must be arrested and prosecuted to the full extent of the law. Our state's farmers and ranchers do their best to grow safe, wholesome food in a responsible manner. They should not have to live in fear of attacks against their lawful businesses, their property, or their families and employees."

California Congressional delegation facing changes

This week Jerry Lewis, a Republican who has represented an Inland Empire district in Congress for more than 30 years, joined the list of those California members announcing their decision to not seek reelection in 2012. At age 77, the decision by Lewis was not unexpected. Others who have announced retirement this year are Lynn Woolsey (D-Santa Rosa), Wally Herger (R-Chico), Dennis Cardoza (D-Merced), Elton Gallegly (R-Thousand Oaks), and Bob Filner (D-Chula Vista). While age may be a factor in some decisions to retire, the changes brought about by redistricting based on the 2010 census has also been relevant. Cardoza's retirement meant that he and fellow Democrat Jim Costa would not have to battle over the same new south valley district. The departure of Lewis allows Gary Miller (R-Brea) to run in the new 31st District in which Lewis lives rather than a district pitting him against another Republican incumbent, Ed Royce. According to the *Los Angeles Times*, after a decade in which only one California seat flipped between Democrats and Republicans, about 12 races are considered competitive, due to the shakeup caused by redistricting.

CDFA denies petition

In a letter released today, the California Department of Food and Agriculture announced their decision to deny a hearing requested by California Dairies, Inc. In a letter dated January 3, the cooperative had proposed changes to the Class 4a formula to increase the manufacturing cost allowances for butter and powder and a reduction in the f.o.b. adjuster for butter. In rejecting the proposal, the CDFA letter states, "the current pricing formulas have been in effect since September 1, 2011, which provides only four months of additional information under the current pricing formula. This short period of time following the conclusion of the previous hearing does not warrant a hearing at this time."

Help offered to replace high-polluting engines

Interested applicants in 37 eligible California counties have until February 3, 2012, to submit the required documentation to be considered for this fiscal year's ranking and funding cycle for the NRCS National Air Quality Initiative (NAQI). As part of the overall Environmental Quality Incentives Program (EQIP), this initiative offers payments to high ranked applications that would remove from service and destroy eligible high-polluting internal combustion engines and replace them with engines meeting current California emission standards.

Go to http://www.nrcs.usda.gov/wps/portal/nrcs/detail/national/programs/financial/air/?&cid=nrcs143_008546 for more program information.



Steve Garvey to keynote convention

Former Los Angeles Dodgers baseball great Steve Garvey will keynote the Western United Dairymen annual convention banquet on Thursday, February 23, 2012. The convention will be February 22 to 24 at the Pechanga Resort-Casino in Temecula.

Garvey, nicknamed the "Iron Man" for establishing the National League record of playing in 1,207 consecutive games, played for the Los Angeles Dodgers during most of his career. He played a Major League record 193 consecutive errorless games at first base, and he had a lifetime career batting average of .294 and a .996 fielding percentage at first base, which is a Major League best.

In 1983, Garvey joined the San Diego Padres. Steve Garvey's most dramatic moment in his baseball career was his ninth inning game-winning home run in the 1984 playoffs, to propel the Padres toward

the National League Pennant. Garvey retired from baseball in 1988 and is now involved in his own company, Garvey Communications. Garvey is presented by special arrangement with Eagles Talent Speakers Bureau. Go to www.westernuniteddairymen.com for additional information about the convention.

WDR reports and activities

First of the month Photograph freeboard in each pond.
 Weekly (Oct-May) Visually inspect production and waste storage areas and ponds.
 July 1, 2012 Nutrient Management Plan to be fully implemented.

Ongoing activities:

- Record visual inspections, volume, and date for each process wastewater application.
- Record date, time, volume, duration, location, destination, field measurements & lab analysis of runoff from 1/3 of cropland areas at first and mid-season significant storms.

Hay & Grain Report

All prices FOB unless noted as (DEL)

Region 1: North border to Shasta

Good	375	248.33
Fair/Good (rain)	100	230.00

Region 2: Tehama to Sacramento

Premium	125	270.00
Fair/Good	50	220.00
Fair/Good (DEL)	50	260.00

Region 3: San Joaquin to Merced

Supreme (DEL)	150	325.00
Premium (grassy)	50	300.00
Premium (DEL)	500	308.75
Good/Prem (DEL)	250	298.00
Good (grassy)	25	275.00
Fair	100	260.00
Fair (DEL)	400	282.50
Fair (DEL, weedy)	25	260.00

Region 4: Madera to Tulare

Supreme (DEL)	50	335.00
Premium (contr)	2000	300.00
Premium (DEL)	150	315.00

Region 5: Kern to W San Bernardino

None reported

Region 6: E San Bernardino to Imperial

Supreme (DEL)	150	320.00
Premium (DEL)	120	312.50
Good/Premium	650	266.15
Good	1050	253.81
Fair	25	245.00
Fair (rain)	100	225.00

Grains

Soybean Meal, 47½%:

Chino (incl. fuel)	347.50 – 353.50
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USDA Market News 1/13/12