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Dairy Marketing Branch

California Dairy Review

A publication serving the California dairy industry for over 14 years

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Season's Greetings

from CDFA Dairy Marketing

cdfa
California Department of Food and Agriculture
A.G. Kawamura, *Secretary*

This newsletter is available on the Dairy Marketing website at:
http://www.cdfa.ca.gov/dairy/ca_dairyrev_newsletter.html

Minimum Class Prices

California Hundredweight Prices

Class	October	November	December
1 No. Calif.	$18.44	$18.71	$18.28
So. Calif	$18.71	$18.98	$18.55
2 No. Calif.	$16.57	$16.57	N/A
So. Calif.	$16.81	$16.81	N/A
3	$16.52	$16.52	N/A
4a	$16.65	N/A	N/A
4b	$15.66	N/A	N/A

Quota Transfer Summary

Quota Transfers	Sepember	October	November
Number of Sellers	7	4	3
Pounds of SNF Quota Transferred	12,875	2,485	2,782
Average Price Per Pound of SNF Quota	$434	$441	$450

Pool Prices

Month	Quota	Overbase
September '09	$12.74	$11.04
October	$13.61	$11.91
November	$14.83	$13.13
December	$16.17	$14.47
January '10	$15.18	$13.48
February	$14.81	$13.11
March	$14.11	$12.41
April	$14.33	$12.63
May	$14.65	$12.95
June	$15.17	$13.47
July	$15.94	$14.24
August	$16.54	$14.84
September	$17.25	$15.55
October	$17.64	$15.94

Weekly Average Commodity Prices

Week Ending	Chicago Mercantile Exchange		California Manufacturing Plants	Dairy Market News
	Grade AA Butter	Block Cheddar Cheese	Nonfat Dry Milk	Western Dry Whey
	Dollars per Pound			
10/8	$2.1940	$1.7665	$1.1059	$0.3825
10/15	$2.1850	$1.7640	$1.1207	$0.3850
10/22	$2.1850	$1.7030	$1.0973	$0.3863
10/29	$2.1850	$1.6580	$1.1381	$0.3863
11/5	$2.1100	$1.5310	$1.1591	$0.3888
11/12	$1.9980	$1.4040	$1.1697	$0.3900
11/19	$1.9480	$1.4285	$1.1767	$0.3900

Milk Production Cost Comparison Summary for California *

By Quarter, 2009-2010

Quarter	North Coast		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
	Dollars per Hundredweight									
1st Quarter										
Total Costs	$22.38	$19.02	$16.63	$13.60	$16.63	$13.26	$15.35	$12.81	$16.67	$13.48
Total Costs & Allowances*	$24.77	$20.86	$18.23	$15.11	$18.58	$14.78	$17.29	$14.49	$18.51	$15.02
2nd Quarter										
Total Costs	$18.30	$16.54	$15.30	$13.17	$15.46	$12.81	$14.06	$12.20	$15.37	$12.98
Total Costs & Allowances*	$20.34	$18.30	$17.08	$14.59	$17.22	$14.25	$15.54	$13.75	$17.12	$14.43
3rd Quarter										
Total Costs	$17.35		$14.47		$14.68		$13.85		$14.62	
Total Costs & Allowances*	$19.08		$16.01		$16.26		$15.21		$16.17	
4th Quarter										
Total Costs	$18.23		$14.09		$13.91		$13.46		$14.05	
Total Costs & Allowances*	$20.11		$15.68		$15.50		$14.89		$15.63	

* Includes an allowance for management and a return on investment

Alfalfa Hay Monthly Weighted Average Prices

Week Ending October 29, 2010 - Week Ending November 19, 2010

Petaluma

	Low/High	Average
Supreme	N/A	N/A
Premium	$210/$210	$210
Good	$200/$200	$200
Fair	N/A	N/A

Escalon-Merced-Modesto-Turlock

	Low/High	Average
Supreme	$210/$250	$217
Premium	$190/$200	$195
Good	$160/$192	$176
Fair	$150/$160	$154

Northern-Intermountain Areas FOB Prices

	Low/High	Average
Supreme	$155/$180	$166
Premium	$150/$165	$158
Good	$130/$130	$130
Fair	N/A	N/A

Tracy-Patterson-Stockton-Lodi-Modesto FOB Prices

	Low/High	Average
Supreme	$170/$185	$178
Premium	$175/$175	$175
Good	$165/$165	$165
Fair	$140/$140	$140

Tulare-Visalia-Hanford-Bakersfield

	Low/High	Average
Supreme	$190/$215	$203
Premium	$180/$215	$195
Good	$170/$185	$174
Fair	$140/$160	$153

Western Fresno-Madera FOB Prices

	Low/High	Average
Supreme	$155/$155	$155
Premium	N/A	N/A
Good	$160/$160	$160
Fair	N/A	N/A

Chino-Los Angeles-San Diego

	Low/High	Average
Supreme	N/A	N/A
Premium	N/A	N/A
Good	$155/$160	$158
Fair	$155/$155	$155

Imperial Valley FOB Prices

	Low/High	Average
Supreme	N/A	N/A
Premium	N/A	N/A
Good	$120/$140	$124
Fair	$105/$130	$113

	Monthly Total
Tons FOB	89,610
Tons Delivered	32,325

Source: USDA Market News, Moses Lake, Washington, (509) 765-3611, www.ams.usda.gov/LSMarketNews

	ADF	NDF	RFV	TDN-100%	TDN-90%	CP-100%
Supreme	<27	<34	>185	>62	>55.9	>22
Premium	27-29	34-36	170-185	60-62	54.5-55.9	20-22
Good	29-32	36-40	150-170	58-60	52.5-54.5	18-20
Fair	32-35	40-44	130-150	56-58	50.5-52.5	16-18

ADF = Acid Detergent Fiber; NDF = Neutral Detergent Fiber; RFV = Relative Feed Value; TDN = Total Digestible Nutrients.

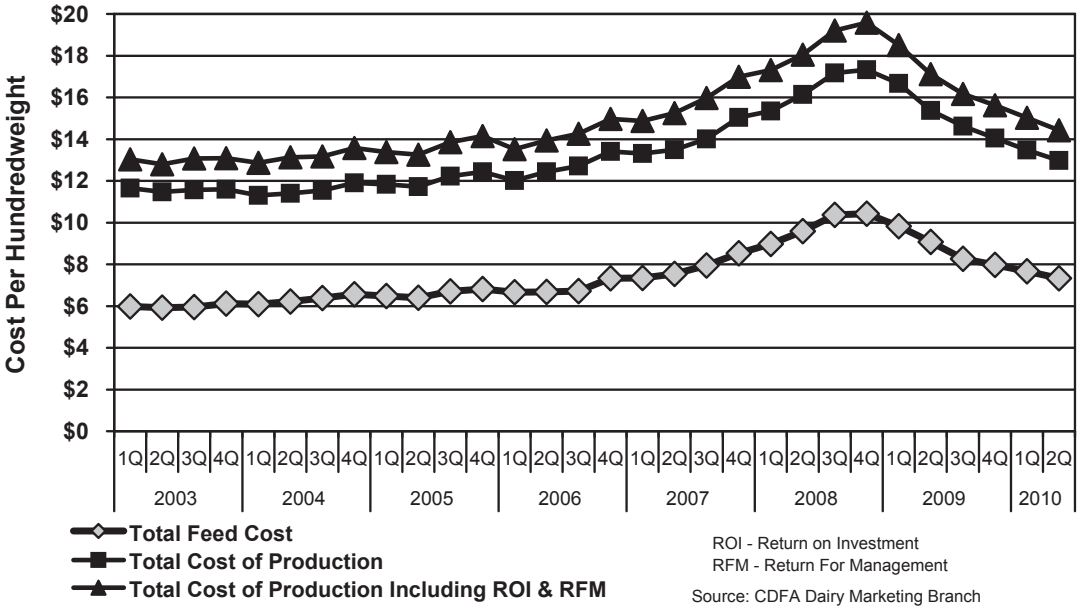
Alfalfa Hay Update

Northern California: All classes of domestic alfalfa were traded steady to firm with good demand and moderate supplies. Out-of-state hay continues to enter the market.

Southern California: All classes of domestic alfalfa remained mostly steady with good demand and light supplies. Export hay traded mostly steady on limited offerings. Rain in most areas hampered hay movement. Retail hay prices are increasing due to very tight supplies.

California Cost of Production, Total Feed Cost, by Quarter

Based on California Production Cost Survey, January 2003 through March 2010



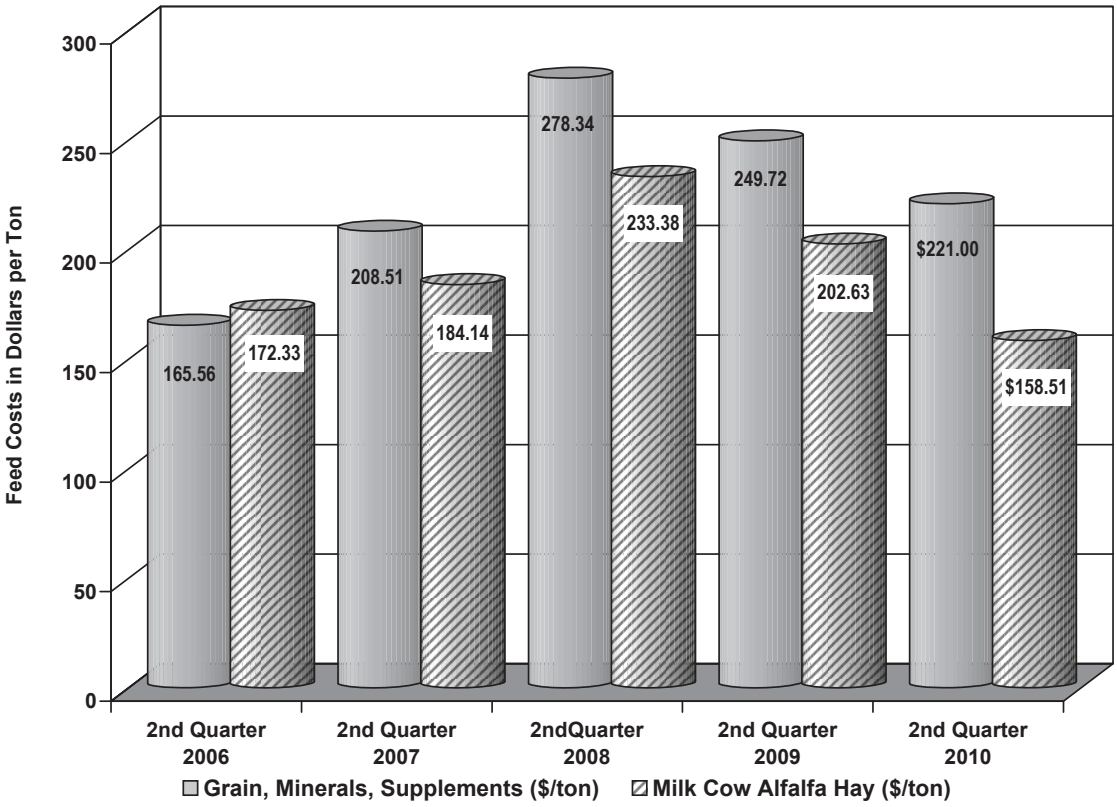
ROI - Return on Investment
RFM - Return For Management

Source: CDFA Dairy Marketing Branch

Average Cost Per Ton Fed, by Quarter

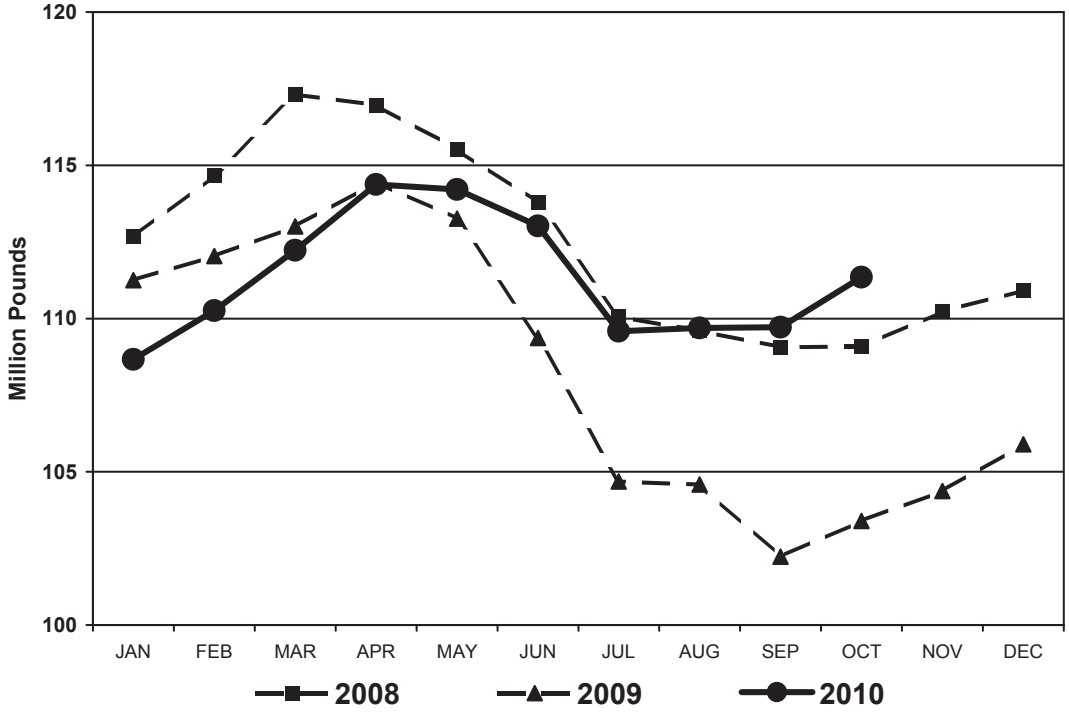
Grains, Minerals, Supplements & Milk Cow Alfalfa Hay

Second Quarters of 2006-2010, in Dollars Per Ton



California Milk Production

Average Daily Basis: 2008, 2009, 2010



Dairy Cow Culling Activity (Weekly)

Week Ending	Region 9 [1] Dairy Cows	U.S. Dairy Cows	West Region [2] Price Range
	Head		$/cwt.
09/17/10	14,000	56,700	$49-$58
09/24/10	14,500	57,300	$49-$55
10/01/10	15,500	54,900	$46-$52
10/08/10	14,500	54,900	$47-$51
10/15/10	14,000	52,000	$43-$54
10/22/10	14,800	55,000	$45-$54
10/29/10	14,700	55,600	$45-$51
11/05/10	15,300	57,400	$45-$50

[1] Region 9 includes AZ, CA, HI and NV
[2] West region includes AZ, NV, UT, CA, ID, OR and WA

Source: USDA Market News: Report LM_CT168 and ML_LS795

October Milk Production

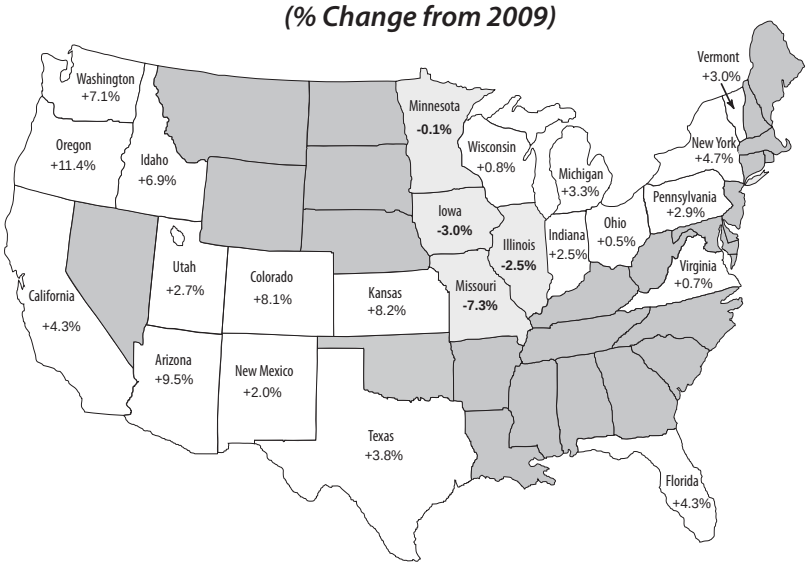
USDA estimates U.S. milk production for October 2010 in the top 23 milk producing states at 14.8 billion pounds, up 3.3 percent from October 2009. Production per cow in the top 23 milk producing states averaged 1,767 pounds for October, 47 pounds above October 2009.

For the U.S. overall, comparing October 2010 to October 2009:

- The number of cows on farms was 9.118 million head, up 22,000 head
- Production per cow averaged 1,740 pounds, 45 pounds more than October 2009
- Four of the top twenty-three milk producing states showed a decrease in milk production

October Milk Production in the Top 23 States

(% Change from 2009)



Federal Order Minimum Class I Prices

Hundredweight Prices

Regions	Oct.	Nov.	Dec.
Phoenix, Arizona	$18.93	$19.59	$19.31
Portland, Oregon	$18.48	$19.14	$18.86
Boston (Northeast)	$19.83	$20.49	$20.21

National Dairy Situation and Outlook – USDA Estimates

Milk Production

Monthly: Compared to 2009, USDA estimates overall milk production across the U.S. was up by 2.9% in October 2010 compared to October 2009. USDA reports that California milk production increased 4.3% compared to October 2009 (on 20,000 less cows and 100 more pounds per cow). Among other western states, compared to October 2009, Arizona was up 9.5%; New Mexico was up 2.0%; and Washington was up 7.1%. One of the top 10 states reported a production decrease. The largest increase was reported by Oregon at 11.4% growth in milk production (on 7,000 more cows and 80 more pounds per cow).

Quarterly: For the third quarter of 2010 compared to the second quarter of 2010, U.S. milk cow numbers increased to 9.123 million head, milk production per cow decreased to 5,269 pounds; the net effect was decreased milk production to 48.1 billion pounds. USDA projects that for the fourth quarter of 2010 compared to the third quarter of 2010, U.S. milk cow numbers will increase to 9.125 million cows, production per cow will decrease to 5,220 pounds; the net effect would be decreased milk production to 47.6 billion pounds.

Milk Prices

Comparing the third quarter of 2010 to the second quarter of 2010, U.S. average milk prices increased to $16.80/cwt. USDA projects that for the fourth quarter of 2010, U.S. average all-milk prices will be $17.85-18.15/cwt.; Class 4b prices will be $15.25-15.55/cwt.; and Class 4a prices will be $16.35-16.75/cwt.

Utility Cow Prices

Comparing the third quarter of 2010 to the second quarter of 2010, average U.S. utility cow prices were up $0.11/cwt. to a national average of $58.90/cwt. USDA projects that utility cow prices will average $55-57/cwt. in the fourth quarter of 2010.

Information from the USDA-NASS publication "Milk Production" and the USDA-ERS publication: "Livestock, Dairy, and Poultry Outlook."

USDA Milk-Feed Price Ratio

USDA reports that the milk-feed ratio for October was 2.23, up from the milk-feed ratio from October 2009 of 2.11. The current ratio of 2.23 means that a dairy producer can buy 2.23 pounds of feed for every pound of milk sold. Whenever the ratio meets or exceeds 3.0, it is considered profitable to buy feed and produce milk.

The corn price used to calculate the ratio in October was $4.78 per bushel; the price of baled alfalfa hay was $118 per ton; the price of soybeans was $10.70 per bushel.

The all-milk price used to calculate the ratio was $18.30 per hundredweight, up from $14.30 in October 2009.

CWT Continues to Export Cheese

Cooperatives Working Together (CWT) reactivated the Export Assistance program on March 18, 2010. Since then, CWT has assisted members in making export sales of Cheddar, Monterey Jack, and Gouda cheese totaling 30,169 metric tons (66.5 million pounds) to 25 countries on four continents. In addition, sales of butter and anhydrous milkfat totaling 14,968 metric tons (33.0 million pounds) have been made to nine countries on three continents.

The Export Assistance program was reactivated when economic analysis indicated that sizeable cheddar cheese inventories overhanging the market were hampering a recovery in producer milk prices.

Dairy Margin Management Seminar

On December 1 and 2, 2010, Commodity & Ingredient Hedging LLC is offering a comprehensive two-day seminar on dairy margin management in Visalia. The class is located at the Marriott at the Convention Center. The material covered typically appeals to lenders and accountants as well as producers and is appropriate for all levels of experience.

Participants will be introduced to the mechanics of the futures and options markets and the terminology related to the futures industry. Participants will also learn how to utilize risk management strategies to manage margins as a unit of risk.

Go to http://www.cihedging.com/education/margin-management-for-optimal-dairy-returns/?product_id=cih_event_48_1 for more details and registration information.

Proposed Somatic Cell Standard Gets Tougher

The National Milk Producers Federation has proposed new somatic cell count standards for the United States - calling for a step-wise approach over the next three years:

- Lowering the legal limit from 750,000 cells/ml to 600,000 by Jan. 1, 2012.
- Lowering it to 500,000 cells/ml by Jan. 1, 2013.
- Lowering it to 400,000 cells/ml by Jan. 1, 2014.

The proposal will be forwarded to the National Conference on Interstate Milk Shipments for a final decision. NCIMS, scheduled to meet April 2011, is made up of state regulators who meet every other year to revise and update the Pasteurized Milk Ordinance.

Cost of Production and Risk Management

Dairy producers need opportunities and tools to protect themselves from price volatility in today's market. The ability of producers to calculate their cost of production and to identify ways to improve efficiencies in their operations is an important tool for managing risk. Risk management programs including puts, contracting, and the Livestock Gross Margin Dairy Insurance Program (LGM-Dairy) are becoming viable options for protecting producer margins.

For example, LGM-Dairy is an insurance program available to dairy producers and sponsored by USDA that covers situations such as when the market value of milk falls and/or the market value of feed rises (for more information, visit http://www.rma.usda.gov/livestock/). Signing up for the LGM-Dairy program involves customizing individual policies based on a dairy producer's breakeven "income-over-feed cost." Calculating a dairy's cost of production can be a time-consuming process that requires collecting and organizing a large body of data; however, this service is offered by the Department's Dairy Marketing Branch. By participating in the Dairy Marketing Branch quarterly Cost of Production survey, each dairy receives a detailed summary of its monthly and quarterly costs which can be directly compared to other dairies in the state. These cost summaries are available to all dairy producers at no additional charge, and they can serve as a useful tool in managing risk.

For those interested in receiving additional information or participating in the Dairy Marketing Branch Cost of Production survey, please contact Mike Francesconi at 916-341-5988.

CWT Committee Votes to Focus on Exports After 2010

Self-help Program Will No Longer Fund Any Herd Retirement Rounds

At the National Milk Producers Federation (NMPF) annual meeting, members of Cooperatives Working Together (CWT), voted to focus the seven year-old program exclusively on building export markets after 2010. CWT's management committee determined that an export-centered program was the most appropriate course to follow in the future. Consequently, CWT will no longer fund any herd retirement rounds, where member farms are paid to reduce their herds. CWT conducted its 10th and final herd retirement this past summer.

NMPF's board of directors voted to support a CWT program that will be funded at 2¢/cwt., starting Jan. 1, 2011, and running through 2012. Members also determined that 75% of the nation's milk supply must be contributing at that level in order for the program to continue. A decision was also made to take the remaining funds not allocated so far in 2010, and shift those to the export assistance program in 2011.

Dr. Peter Vitaliano, NMPF's Vice President, Economic Policy & Market Research, noted that exports now represent a major commercial market for U.S. milk and is the fastest growing one, contributing twice as much new market growth for U.S. milk as the growth in domestic sales of the major consumer dairy products.

In the coming weeks, CWT will be reaching out to all cooperatives and all independent producers in order to achieve the minimum 75% participation level needed to move forward with the collection of the additional two cent investment that will providing total funding of approximately $40 million per year.

Kozak said that the membership commitment will be 24 months for both cooperatives and individual dairy farmers. This will allow CWT to develop an export assistance strategic plan as to how and when to best utilize the funds committed, he noted.

The Adoption of New Rule 4570

On October 21,2010, the San Joaquin Valley Air Pollution Control District adopted a revised version of its air quality regulations for dairies, known as Rule 4570. The new Rule 4570 is based on management practices developed by the air district from the latest emissions research, with input from dairy organizations, University of California scientists, and other stakeholders, and will further reduce emissions in a practical, cost-effective manner.

At the meeting, San Joaquin Valley Air Pollution Control District Governing Board members recognized and credited the dairy industry and individual dairy operators for their work to improve air quality in the valley over the past several years. In addition, air district board members thanked dairy industry organizations for investments in research needed to keep the rule practical and cost-effective.

The original Rule 4570, adopted in 2006, reduced emissions from dairies by more than 25 percent and included practices that dairies were able to adopt and make part of their daily routine.

How Rule 4570 differs from the earlier version:

- The new rule covers dairies with 500 or more milking cows, compared to the previous version applying to dairies with 1,000 ore more milking cows;
- The previous version focused on reducing emissions only from cows and manure, the new rule puts more emphasis on silage emissions and practices related to reducing emissions from silage.

Permit applications for the new rule will be due in April 2011 and once applications are filed and permits are issued, dairies will have a year to come into full compliance with the rule. In early 2011, the California Dairy Quality Assurance Program will provide free informational workshops across the San Joaquin Valley to ensure that dairies receive the information and assistance they need to remain up-to-date on air quality compliance.

Please note new Web Posting:
The "Water Quality Regulations for Dairy Operators in California's Central Valley – Overview and Compliance Cost Analysis" Study has been posted to the website at:
http://www.cdfa.ca.gov/dairy/notices.html

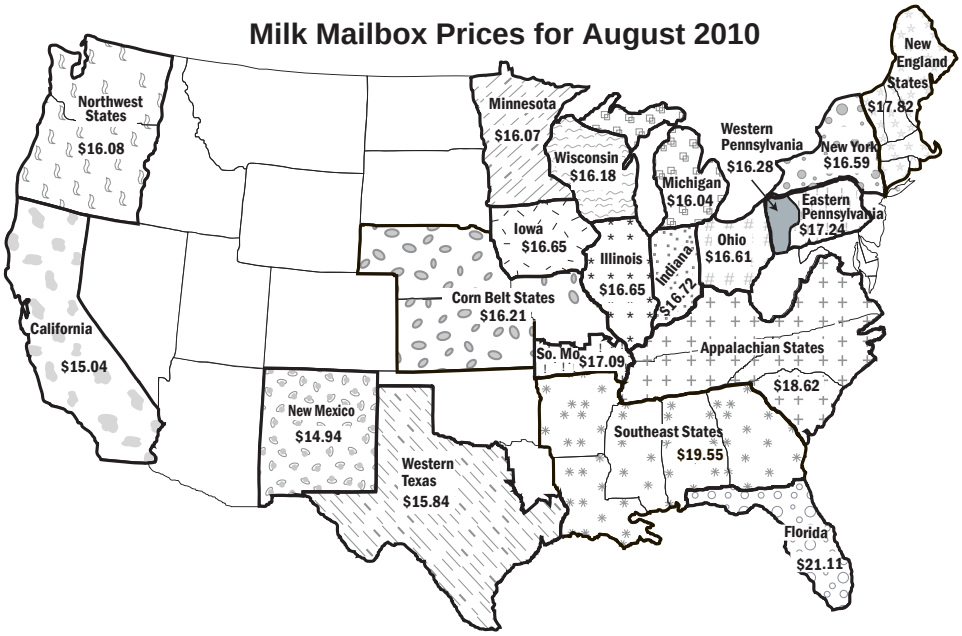
U.S. Mailbox Milk Prices

Milk Mailbox Prices in Dollars per Hundredweight

	Feb. '10	March	April	May	June	July	August
California [1]	$13.59	$12.81	$12.93	$13.25	$13.64	$14.33	$15.04
USDA [2]	$15.97	$14.92	$14.51	$15.08	$15.39	$15.81	$16.51

[1] California mailbox price calculated by CDFA.
[2] All federal milk market order weighted average, as calculated by USDA.

Milk Mailbox Prices for August 2010



In August 2010, mailbox milk prices for selected reporting areas in Federal milk orders averaged $16.51 per cwt., up $0.69 from the previous month average, and up $4.47 from August 2009. The component tests of producer milk in August 2010 were: butterfat, 3.52%; protein, 2.96%; and other solids, 5.72%. On an individual reporting area basis, mailbox prices increased from the previous month in all Federal milk order reporting areas except Western Pennsylvania, Ohio, and Indiana. Mailbox prices in August 2010 ranged from $21.11 in Florida to $14.94 in New Mexico.

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