

Dairy Profit Weekly

a DairyBusiness Communications Publication www.dairyprofit.com

Class Prices

Federal Orders

January

III: 3.5%, \$13.39/cwt.

IV: 3.5%, \$12.20/cwt.

California January

4b: 3.5%, \$12.56/cwt.

4a: 3.5%, \$11.74/cwt.

DMI, Fonterra to fund whey research

U.S. dairy checkoff managers Dairy Management Inc. (DMI) and Fonterra Cooperative Group Ltd., of New Zealand, will jointly fund research into the health benefits of whey. DMI-funded research will focus on body composition as it relates to the overall adult population, while Fonterra's efforts will focus on body composition as it relates to sports nutrition.

This Issue

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MILC extension headed to President Bush

Legislation to extend the Milk Income Loss Contract (MILC) program is finally making its way to President George Bush for his signature, four months after the program expired. The House approved the budget reconciliation bill on Feb. 1, which included legislation to extend MILC through Sept. 30, 2007, when the current federal Farm Bill also expires. The Senate approved the bill last December. President Bush pledged to sign the extension while campaigning in 2004.

The program is changed slightly under MILC extension language. Instead of producers receiving 45% of the difference between the Class I price in Boston and \$16.94/cwt., they will receive 34%. The MILC payment is not, however, subject to the mandatory 2.5% reduction provision contained in federal budget rules.

Once signed, dairy producers who produce fewer than 2.4 million lbs. of milk annually will receive retroactive payments of 4¢/cwt. for December and 10.5¢/cwt. for both January and February. Those producing more than 2.4 million lbs. annually will begin receiving payments for the month previously

designated at their USDA Farm Service Agency office. Roger Cryan, economist with the National Milk Producers Federation, projects March MILC payment could approach 44¢/cwt. (see Table 1).

Table 1.
MILC payment projections, FY 2006

Month	Class I base \$/cwt.	MILC payment ¢/cwt.
October '05	\$14.27	--
November	\$14.56	--
December	\$13.57	4.1
January '06	\$13.38	10.5
February	\$13.38	10.5
*March	\$12.41	43.5
*April	\$12.24	49.4
*May	\$12.25	49.0
*June	\$12.33	46.2
*July	\$12.44	42.6
*August	\$12.68	34.2
*September	\$12.86	28.1

Soucre: Roger Cryan, National Milk Producers Federation
* Projection based on milk futures prices as of Jan. 31, 2006.

U.S. replacement cow prices soften a bit

Quarterly average U.S. replacement cow prices fell for the first time in a year, based on USDA's Jan. 31 report. Nationally, prices averaged \$1,840/head nationwide in January, down \$30 per head from October 2005, but still \$220 per head more than January 2005 (see Table 2).

Geographical trends were hard to distinguish. Among the 23 major dairy states, producers in 14 saw steady to slightly higher replacement prices. Largest increases from the previous quarter were in Michigan and Pennsylvania (both +\$100 per head), Virginia and Arizona (both +\$50 head).

Price declines occurred in nine states. Largest declines were in California (-\$150 per head), Missouri (-\$130), Iowa and Oregon (both -\$120), and Colorado and Idaho (both -\$100).

By region and state, average prices per head were:
West: Arizona, \$1,950; California,

\$1,800; Colorado, \$2,100; Kansas, \$1,730; New Mexico, \$1,860; and Texas, \$1,900.

Northwest: Idaho, \$1,900; Oregon, \$1,880; and Washington, \$1,850.

Midwest: Illinois, \$1,780; Indiana, \$1,800; Iowa, \$1,750; Michigan, \$2,000; Minnesota, \$1,790; Missouri, \$1,660; Ohio, \$1,840; and Wisconsin, \$1,880.

Northeast: New York, \$1,710; Pennsylvania, \$1,900; and Vermont, \$1,850.

Southeast: Florida, \$1,980; Kentucky, \$1,810; and Virginia, \$1,850.

January 2006 average U.S. cull cow prices also declined slightly. USDA's summary, which combines culled beef and dairy cows, said the national average price was \$46.60/cwt. in January, down 70¢/cwt. from December. Cull cow prices were stronger in many western states, but down elsewhere.

Table 2.
U.S. average replacement cow prices

	2003	2004	2005	2006
January	\$1,370	\$1,390	\$1,620	\$1,840
April	\$1,300	\$1,580	\$1,770	
July	\$1,310	\$1,720	\$1,830	
October	\$1,360	\$1,640	\$1,870	

Source: USDA quarterly agricultural prices report

California Court sides with CMAB

Coming to a similar conclusion as a U.S. Supreme Court decision last May, the **Superior Court of California**, County of Sacramento, ruled the **California Milk Advisory Board's (CMAB)** advertising and promotional program constitute government speech, and therefore not subject to the provisions of the free speech clause of Article I of the state Constitution. The case, *Gallo Cattle Company v. A. G. Kawamura*, challenged the constitutionality of CMAB.

The **Central Plains Dairy Association** reports **Missouri corn and soybean groups** won't support building ethanol and biodiesel plants **in counties that restrict livestock production**, because those plants would have fewer markets for distillers grain co-products.

Regional Roundup

The **South Dakota Senate ag committee** tabled a bill **requiring hydrogen sulfide testing at dairies**. Voting against the bill, one senator said it was an attempt to prevent livestock development.

A **revised livestock facility siting draft rule** will be presented to the Wisconsin Department of Agriculture, Trade and Consumer Protection board, Feb. 8. Details are available at: www.datcp.state.wi.us/arm/agriculture/land-water/livestock_siting/news.jsp. The **Wisconsin Dairy Business Association**, a producer organization, supports the revised plan.

The **Vermont Dairy Task Force** issued a report setting out a series of goals:

- **Increase return on assets** for producers by 8% by expanding the Vermont

Farm Viability Program to improve farm labor management.

- **Increase the Vermont dairy herd** from 143,000 to 150,000 animals.
- **Attract a new dairy processing plant** to the state and help existing processors to innovate and grow.
- Improve the state's **dairy industry image**.

The task force will also work on a **memorandum of understanding** between **Vermont, New York and Pennsylvania** – which produce 16% of the nation's milk – for a regional approach to bolster the dairy industry.

Colorado-based Horizon Organic will invest \$5 million in an \$18 million expansion of **Steuben Foods' plant** in Elma, N.Y., to be able to process more milk locally. Horizon is also starting **Horizon Organic Producer Education**, a program to help more New York producers transition to organic production with technical assistance and payments for transition milk. In New York, 119 producers ship organic milk to Horizon, which needs 30 million more pounds of organic milk annually there to fill regional demand.

The **Allied Federation of Cooperatives**, Canton, N.Y., is proposing to merge with **Agri-Mark Dairy Cooperative Inc.** Allied is a federation of 26 small co-ops with more than 800 farmers producing about 915 million lbs. of milk a year. Agri-Mark has about 1,300 farmer-members throughout New England and New York. The two organizations have been working to form joint hauling routes for farm milk and share laboratory testing.

Milk-feed ratio lower

A **decline in January milk prices was offset somewhat** by lower prices for soybeans and hay, but the monthly milk-feed price ratio declined (see *Table 3*) for just the second time in seven months.

Estimated by USDA, the milk-feed ratio is the pounds of 16% mixed dairy feed equal in value to 1 lb. of whole milk. A ratio of 3.0 or higher is considered positive for a dairy expansion. January marked the sixth straight month the ratio topped 3.0.

That's likely to change, however. Due to the lag in the milk pricing system, the January prices don't reflect a softening late in the month. If feedstuff prices hold fairly steady, February could bring a milk-feed ratio at or below 3.0.

January all-milk prices were lower compared to December among all major dairy states except Michigan, where prices were unchanged. The preliminary national average January 2006 price decreased 30¢/cwt. from December, to \$14.50/cwt., and is \$1.40/cwt. lower than January 2005. January 2006 prices, by region, were:

Southwest: Arizona, -10¢, to \$14.30/cwt.; California, -53¢, to \$13.20; Colorado, -20¢, to \$14.10; Kansas, -30¢, to \$13.90; New Mexico, -60¢, to \$13.40; and Texas, -20¢, to \$14.90.

Table 3. U.S. milk-feed price ratio

Product	Jan. 2006	Dec. 2005*	Jan. 2005
Milk (cwt.)	\$14.50	\$14.80	\$15.90
Corn (bushel)	\$1.96	\$1.92	\$2.12
Soybeans (bushel)	\$5.51	\$5.77	\$5.57
Baled alfalfa (ton)	\$95.60	\$97.70	\$94.50
Milk-feed ratio	3.24	3.27	3.45

* Revised from previous month

Source: USDA National Ag Statistics Service

Northwest: Idaho, -20¢, to \$13.60; Oregon, -20¢, to \$14.50; and Washington, -20¢, to \$14.50.

Southeast: Florida, -20¢, to \$17.80; Kentucky, -20¢, to \$15.30; and Virginia, -50¢, to \$16.00.

Midwest: Illinois, -20¢, to \$15.30; Indiana, -20¢, to \$14.90; Iowa, -40¢, to \$15.20; Michigan, unchanged at \$15.10; Minnesota, -20¢, to \$14.90; Missouri, -40¢, to \$14.90; Ohio, -10¢, to \$15.50; and Wisconsin, -20¢, to \$15.10.

Northeast: New York, -50¢, to \$14.70; Pennsylvania, -10¢, to \$16.50; and Vermont, -20¢, to \$15.30.

Other cost factors not included in the milk-feed ratio could impact milk production in the months ahead. According to USDA, prices for energy and fuel, interest rates and building materials are all at their highest points in years.

This week on DairyLine

Log on to www.dairyline.com to find:

- **Negative factors** – from the large number of available replacement heifers to heavy supplies of nonfat dry milk – are lining up in dairy markets, according to Chicago Mercantile Exchange *Daily Dairy Report* editor Al Levitt.
- **Updating federal order make allowances** is good for the dairy industry, reports International Dairy Foods Association's Chip Kunde.

DPW February 6, 2006

DPW markets

California's January Class 4b milk price is \$12.56/cwt., down 69¢ from December and \$1.82 below January 2005. The **Class 4a** milk price is \$11.74/cwt., down 37¢ from December and 52¢ below a year ago.

USDA announced a January federal order **Class III milk price** of \$13.39/cwt., up 2¢ from December, but 75¢ less than January 2005. The **Class IV price** is \$12.20/cwt., down 37¢ from December, and 32¢ below a year ago.

The **European Union (EU)** approved Monsanto's YieldGard Rootworm Corn for human food ingredients. Last November,

YieldGard Rootworm corn was approved for EU livestock feed use.

An expanding beef herd means strong prices will continue in 2006, according to Chris Hurt, Extension economist at Purdue University. The current expansion is expected to extend until around 2010, with the largest beef production coming in 2010-2012.

This likely means several more years of favorable prices as cow slaughter remains low and heifer retention high. **Challenges for the year** include the restoration of U.S. beef exports lost due to "mad cow" disease.

DPW industry

Cooperatives Working Together accepted a bid from **Land O'Lakes Inc.**, of Arden Hills, Minn., to export 330,000 lbs. of butter to Israel.

United Kingdom's **Arla Foods** acquired **White Clover Dairy**, Hollandtown, Wis., for an undisclosed sum. White Clover Dairy has been producing havarti and feta for Arla Foods under a license agreement. According to Arla's web site, it is the company's third site in North America; the other two are in Canada.

Arla has less welcome news elsewhere. Cartoons of the Prophet Muhammad published in a Danish newspaper last year – including one of Muhammad wearing a bomb-shaped turban – has brought sales of Arla Foods' dairy products in the Middle East to a halt. **A boycott of Arla's products by Muslim consumers** may force the company to suspend production in the Middle East, and postpone or end plans for expanded production and marketing there.

Land O'Lakes cited declining Midwest milk production for its decision to **close its Greenwood, Wis.** cheese manufacturing facility. Company officials indicated the plant would be offered for sale.

The **17th annual Upper Midwest Organic Farming Conference** will be held Feb. 23-25, in La Crosse, Wis. Visit www.mosesorganic.org for information.

Average retail dairy product prices

Product	Dec. 2005	Nov. 2005	Dec. 2004
Whole milk (\$/gal.)	\$3.24	\$3.21	\$3.23
AA salted butter (\$/lb.)	\$2.98	\$3.13	\$3.46
Natural cheese (\$/lb.)	\$4.43	\$4.43	\$4.10
Process cheese (\$/lb.)	\$3.92	\$3.95	\$3.94
Ice cream (\$/1/2 gal.)	\$3.69	\$3.51	\$3.85

Source: U.S. Department of Labor

December 2005 average U.S. retail dairy prices were mixed compared to November 2005 and December 2004, according to the latest monthly U.S. Department of Labor survey. Average fluid milk and ice cream prices were higher than the previous month, but butter and process cheese prices were lower. Natural cheese was unchanged.

	Grain Futures		
	Corn	Soybeans	Soy Meal
	\$/bu	\$/bu	\$/ton
Mar. '06	2.20	5.84	181.90
May '06	2.30	5.97	184.70
July '06	2.39	6.07	187.80
Aug. '06	*2.47	6.10	189.10

Feb. 2, Chicago Board of Trade * Sept. '06

	Regional Feeds		
	Cottonseed	Soy	Corn
	\$/ton	\$/ton	\$/bu.
Madison, WI	157	189	1.85
Zumbro Falls, MN	167	213	1.90
Orangeburg, SC	86	233	3.06
Okeechobee, FL	118	232	3.77
Lynden, WA*	194	242	3.84
Turlock, CA	178	221	3.30
Sulphur Springs, TX	144	212	3.02
North Java, NY	139	226	2.85

FOB, Feb. 2 NA = not available * Previous week

	Nonfat Dry Milk	
	Low-Med. Heat	(cents/lb.)
West	86.00-99.75	
East & Central	92.00-104.50	

Source: USDA Market News, Jan. 16-20

	Federal Order Class Prices/\$/cwt.			
	I base	II	III	IV
Sept. '05	13.70	14.35	14.30	13.75
Oct. '05	14.27	14.25	14.35	13.61
Nov. '05	14.56	13.49	13.35	12.90
Dec. '05	13.57	13.22	13.37	12.57
Jan. '06	13.38	13.25	13.39	12.20

	Class III Futures			
	200,000 lbs.; \$/cwt.			
	High	Low	Settle	1/26
Feb. '06	12.39	12.30	12.32	12.41
Mar. '06	12.17	12.01	12.01	12.17
Apr. '06	12.22	11.90	12.06	12.18
May '06	12.34	12.00	12.16	12.30
June '06	12.42	12.16	12.16	12.46
July '06	12.70	12.46	12.48	12.62
Aug. '06	12.95	12.81	12.81	12.95
Sept. '06	13.05	12.92	12.98	13.08
Oct. '06	12.86	12.81	12.81	12.91
Nov. '06	12.79	12.76	12.76	12.79
Dec. '06	12.61	12.56	12.56	12.61
Jan. '07	12.20	12.20	13.38	12.38

Source: Feb. 2, Chicago Mercantile Exchange

	Distillers Dried Grain	
	Feb. 1, USDA - (\$/ton)	
Cent. Ill.	75-90	
Chicago	90-100	
Nebraska	95-105	
St. Louis	85-100	
Minnesota	75-80	
Wis./E. Minn.	77-82	
California	115-120	

	Alfalfa Hay - \$/ton	
	Premium	NE
Virginia	150	NE
Kansas	90-120	80-105
Nebraska	95-140	60-115
Missouri	90-125	30-80
Illinois	115-160	75-120
Iowa	90-120	65-100
Minnesota	NE	68-83
S. Dakota	90	68-85
Montana	100-120	60-85
Nevada	NE	NE
CA-Central	180-245	165-188
CA-Northern	175-210	175
CA-Southern	145-220	115-165
Wyoming	80-110	60-75
Utah	85-100	60-80
Colorado	110-125	80-85
Oklahoma	120-140	100-120
Texas	160-185	130-160
Idaho	115	NE
New Mexico	130-140	85-110
Oregon	125-140	110-115
Washington	115-135	100

FOB, Week ending Jan. 27, USDA.
NE = not established. NA = not available.

State	Monthly Ave. Milk Prices	
	Dec.	Jan.
	All Milk \$/cwt.	All Milk* \$/cwt.
California	13.73	13.20
Florida	18.00	17.80
Idaho	13.80	13.60
New Mexico	14.00	13.40
New York	15.20	14.70
Penn.	16.60	16.50
Texas	15.10	14.90
Vermont	15.50	15.30
Wisconsin	15.30	15.10
U.S.	14.80	14.50

Source: USDA * Estimated price

Dairy replacements - \$/head

New Holland, Pa. (Feb. 1)	
Fresh cows	\$1,700-\$2,375
Short-bred cows	\$1,600-\$1,800
Springing cows	\$1,575-\$2,175
Springing heifers	\$1,650-\$2,300
Short-bred heifers	\$1,700-\$2,175
Open heifers (300-500 lbs.)	\$600-\$875
(500-800 lbs.)	\$900-\$1,425
(800-1,050 lbs.)	\$925-\$1,575

Jerome, Idaho (Feb. 1)	
Springers (top 100)	\$1,850, top of \$2,200
Fresh heifers	\$1,210-\$1,825
Open heifers (300-400 lbs.)	\$280-\$378/cwt.
(500-600 lbs.)	\$270-\$505/cwt.

Smiths Grove, Ky. (Jan. 31)	
Springers (bred 5-8 months)	
(2-3 yrs. old)	\$1,400-\$2,290
(4-6 yrs. old)	\$1,050-\$1,470
Fresh cows (2-6 yrs. old)	\$1,350-\$2,310
Open heifers (160-300 lbs.)	\$835-\$995
(300-500 lbs.)	\$980-\$1,210
(500-850 lbs.)	\$1,250-\$1,490
Calves (med./large)	\$450-\$770
(small)	\$190-\$360

Springfield, Mo. (Jan. 25)	
Springing heifers	\$1,700-\$2,375
(Crossbreds)	\$1,325-\$2,150
(Jerseys)	\$1,890-\$1,970
Shortbred heifers	\$1,625-\$2,300
(Crossbreds)	\$1,300-\$1,950
(Jerseys)	\$1,600-\$1,775
Springing cows	\$1,385-\$1,750
Bred cows	\$1,300-\$1,375
Fresh & open cows	\$1,290-\$1,430
(Crossbreds)	\$1,350-\$1,450
Open heifers (200-500 lbs.)	\$900-\$1,300
(Crossbreds)	\$710-\$1,250
(500-800 lbs.)	\$1,350-\$1,510
(Crossbreds)	\$1,000-\$1,250
Calves	\$370-\$690

Ithaca, Wis. (Jan. 25)	
Fresh cows (2-6 yrs.)	\$1,850-\$2,900
Springing cows	\$1,700-\$2,450
Springing heifers	\$1,700-\$2,125
Open heifers (90-150 lbs.)	\$535-\$660
(300-700 lbs.)	\$700-\$1,050
(900-1,200 lbs.)	\$1,150-\$1,500

* Prices quoted for supreme & approved animals. Holsteins unless otherwise noted.

Week ending	USDA/NASS Cheddar Cheese					
	U.S.		MN/WI		Other	
	Barrel (\$/lb.)	Block (\$/lb.)	Barrel (\$/lb.)	Block (\$/lb.)	Barrel (\$/lb.)	Block (\$/lb.)
Jan. 28	1.3330	1.3528	1.3384	1.4131	1.3301	1.3444
Jan. 21	1.3530	1.3654	1.3612	1.4230	1.3476	1.3581
Jan. 14	1.3553	1.3774	1.3603	1.4275	1.3515	1.3721

Week ending	Chicago Mercantile Exchange		
	Cheddar Cheese		Butter
	Barrel (\$/lb.)	Block (\$/lb.)	Grade AA (\$/lb.)
Feb. 2	1.2100	1.2400	1.2500
Jan. 26	1.2300	1.2650	1.2850
Jan. 19	1.3275	1.3675	1.3325

Source: Chicago Mercantile Exchange

DPW *washington*

The Environmental Protection Agency's (EPA) environmental appeals board **approved the first 20 agreements** for animal feeding operations (AFOs) under its **Air Quality Compliance Agreement program**. The initial list included only poultry and swine operations. These livestock operations will be involved in a three-year research project to monitor and measure air emissions, data EPA said it will use to develop a regulatory program.

EPA is evaluating remaining applicants and will notify those that meet the requirements for participating in the monitoring program as soon as possible. There were 2,681 AFOs, representing more than 6,700 farms in 42 states, that applied.

The National Dairy Board voted to spend \$6 million in promotion funds on dairy's portion of the monitoring study.

Signing the agreement frees the AFOs of liability for some past violations of federal environmental laws. For more information on the agreement, go to: www.epa.gov/compliance/resources/agreements/caa/caf0-agr-0501.html.

Signups for **the 2006 Conservation Security Program (CSP)** will be held between Feb. 13, and March 31, in 60 watersheds across the country. **Sen. Tom Harkin (D-Iowa)** said he is disappointed with Congress and the Bush

Administration for **cutting funding** for the program, reducing the total number of watersheds covered in 2006 from the original 110. **Enrollments will be funded alphabetically** until the money runs out. Find more information at: www.nrcs.usda.gov/programs/csp. Only producers who don't have an existing CSP contract are allowed to apply.

Many U.S. farmers will be driven out of business if **immigration reform** doesn't include a guest worker program and enough time to transition to a new program, said **American Farm Bureau Federation president Bob Stallman**. In a letter to Sens. Arlen Specter (R-Pa.) and Patrick Leahy (D-Vt.), chair and ranking member of the Senate Judiciary Committee, Stallman said a guest worker program must be market-based and able to adjust to seasonal or year-round requirements. He said U.S. agriculture would give up between \$5 billion and \$9 billion to foreign competitors, and as much as one-third of U.S. fruit and vegetable production could be lost.

The American Meat Institute (AMI), representing U.S. meat processors, filed an amicus brief **supporting USDA's rule to resume beef trade with Canada**. AMI disputes the contention by R-CALF USA, a rancher organization, that Canadian cattle pose a danger of bovine spongiform encephalopathy to U.S. cattle. Arguments

are being heard in a Montana court.

U.S. officials **met with a Japanese delegation** and urged it **to allow U.S. beef back into Japan**. Rep. Bob Goodlatte (R-Va.) said the United States corrected the problem that allowed illegal beef into Japan a month after it had reopened its border to U.S. beef. Meanwhile, **Mexico reopened** its markets to U.S. bone-in beef from animals less than 30 months of age.

The American Veal Association (AVA) became an associate member of the **National Milk Producers Federation (NMPF)**, while NMPF reciprocated by joining AVA. Because veal production is separate from, but linked to dairy farming, the two organizations decided they should have a stronger relationship through membership in each other's respective organizations. The special-fed veal industry contributes \$350 million to the dairy industry through purchases of dairy byproducts and calves.

USDA will hold its annual **Agricultural Outlook Forum**, Feb. 16-17, in Arlington, Va. Trade, conservation, innovation and the growing influence of China are some of the topics to be addressed. Go to www.usda.gov/oce/forum or phone: 877-572-6043.

Farm Service Agency county offices started notifying producers with **Conservation Reserve Program** contracts that expire in 2007 if they are eligible to re-enroll. They are eligible for two- to five-year extensions.

DPW February 6, 2006

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