DATE: April 24, 2015
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager
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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE
Blocks +$.0350 $1.6100
Barrels - $.0050 $1.6200
Weekly Average, Cheddar Cheese
Blocks +$.0285 $1.6025
Barrels +$.0070 $1.6220

CHICAGO AA BUTTER
Weekly Change +$.0225 $1.8300
Weekly Average +$.0555 $1.8300

NON-FAT DRY MILK
Week Ending 4/17 & 4/18
Calif. Plants $0.9531 17,918,100
Nat’l Plants $0.9665 26,419,146

DRY WHEY
Dairy Market News w/e 04/24/15 $4.400
National Plants w/e 04/18/15 $4.562

FRED DOUMA’S PRICE PROJECTIONS…
Apr 24 Final: Quota cwt. $15.55 Overbase cwt. $13.85 Cls. 4a cwt. $13.46 Cls. 4b cwt. $14.22
Last Week: Quota cwt. $15.53 Overbase cwt. $13.83 Cls. 4a cwt. $13.51 Cls. 4b cwt. $14.16

MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets
Milk is abundant and cheese vats are full, but for now that matters not. Cheddar blocks climbed 3.5ȼ to $1.61/lb., their highest level since just before Christmas. Barrels slipped a half cent to $1.62. Class III futures surged late in the week to test the February highs. The June contract settled nearly a dollar higher than last Friday and most contracts logged double digit gains.

Class IV futures also settled higher. Here too, the June contract was strongest; it gained 40ȼ this week. Grade A nonfat dry milk (NDM) gained 0.5ȼ at the spot market, closing at 93ȼ. Butter added 2.25ȼ and closed at $1.83. Spot butter has not been this high since early February. U.S. butter stocks rose 3.9% in March to 184.3 million lbs., but they are 3.9% lower than at this time last year. Churns are active, but demand has been strong enough to restrain inventory growth.

U.S. milk production totaled 18.05 million pounds in March, up 1.2% from a year ago. This is the smallest year-over-year increase in national production in twelve months. Growth was pronounced in the Midwest, and tepid in the Southwest. California output was 2.9% below that of March 2014; output in Minnesota, Wisconsin and Michigan eclipsed last year by 4.5%. While these year-over-year comparisons accurately depict regional trends, they are somewhat exaggerated by divergent conditions last spring. California milk production boomed in early 2014, but the Midwest was plagued by a particularly harsh and protracted winter and issues with forage quality.
USDA revised its estimates of the January and February milk cow herds downward by 3,000 and 6,000 head respectively, to 9.306 million head in each month. According to USDA, the dairy herd declined by 5,000 cows in March to 9.301 million head. This figure is likely to be revised upward, as dairy culling slowed seasonally in March, and there was no shortage of heifers to replace cull cows. Officially, the dairy herd contracted last month for the first time since November 2013, but it remains 78,000 head larger than March 2014. Only three of the 23 largest dairy states had fewer cows than a year ago, including California, where the herd is down 2,000 head from March 2014.

With all that milk in the traditional cheese states, the trade expected a sizeable build in cheese inventories. Instead, USDA reported no change in total cheese stocks, although they remain 4.4% above year ago levels. Furthermore, American cheese inventories declined 2% from February to March. The counter-seasonal drawdown came as a surprise to a market that has been accustomed to hearing about robust cheese production. Indeed, this week Dairy Market News noted, “Cheese production levels remain high, with many plants in all regions operating at full production schedules to utilize strong milk supplies...Demand for cheese remains strong but increasing volumes are also being set aside for use later this year.”

How then, could American cheese inventories decline? There are a number of factors, but the primary driver has been the impressive surge in domestic cheese demand. Americans are dining out and consuming more cheese. Domino’s reported a 14.5% increase in sales in the first quarter, relative to last year. Robust pizza demand has also encouraged cheese makers to increase mozzarella production, at the expense of Cheddar and other American cheese varieties.

The trade typically watches Cheddar most closely, because only Cheddar less than 30 days in age can be brought to the CME spot market, and the spot market can quickly impact both cheese and Class III futures. It is exactly this fresh cheese that is not counted in USDA’s Cold Storage report, which tallies cheese in storage intended to be held for more than 30 days. Manufacturers are reportedly holding plenty of cheese that they intend to sell later this year, but less of it is Cheddar or other American varieties.

Exports may also have contributed to the erosion in cheese stocks. Given the strong dollar and the fact that Europe is aggressively seeking new markets to replace Russia, U.S. dairy product exports were expected to decline in March. USDA will issue its March tally in a couple weeks, but data from Global Trade Information Services show that Asia is hungry for cheese, and the U.S.
has managed to increase its market share there. The U.S. sent nearly 2.7 million pounds of cheese to China in March, accounting for 18% of China’s total cheese imports. At 14.9 million pounds, Chinese cheese imports were 16% greater than March 2014 and 35% above February on a daily average basis. The U.S. also sent nearly 13 million pounds of cheese to South Korea in March as South Korean cheese imports rose 20% from last year.

Chinese milk powder imports were less impressive. Combined imports of skim milk powder (SMP) and whole milk powder (WMP) dropped to 114.2 million lbs., the lowest March total since 2010. This is 63% lower than last year and 29% lower than February on a daily average basis. The Daily Dairy Report noted this week, “Overall this trade data suggests the slowdown in Chinese demand may be significant, and it could take time for demand to come back to the market.” Milk powder prices are not likely to rally anytime soon.

For the week ending April 21, dairy cow slaughter totaled 56,172 head, up 4.1% from the same week last year. So far this year, dairy cow slaughter is 3% ahead of the 2014 pace.

Grain Markets
Soybean futures moved back and forth but went nowhere this week. The May contract edged up a penny to $9.6975 per bushel. May corn futures dropped 15.25ȼ this week to $3.645/bushel. The corn market has not been this low since harvest. Soggy fields in the Southeast and the eastern Corn Belt and cold temperatures throughout corn country have slowed the planting pace, but the forecast looks favorable and fieldwork is likely to resume. The corn market may continue to fade, but today’s prices present an opportunity for end users to lock in historically low feed costs. There is a lot of weather between now and harvest, and corn prices have a tendency to rise along with the temperature in July.

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REMININDER: USDA’S “OUTREACH MEETINGS” ON THE CA-FMMO IN LESS THAN TWO WEEKS: (By Rob Vandenheuvel) As a reminder, USDA has announced three “Outreach Meetings” in California on the issue of a CA-Federal Milk Marketing Order (FMMO). As noted on the announcement, “The outreach meetings will give USDA the opportunity to explain the FMMO rulemaking process and allow proposal sponsors the opportunity to explain the technical details of their submissions.” You can find more details on the meetings at: http://www.ams.usda.gov/AMSv1.0/CAOutreach. The schedule is pasted below, and all attendees are encouraged to pre-register for the meetings (registration links are found below as well). Producers are strongly encouraged to make plans to attend one of these sessions.

**Tuesday, May 5, 2015**
California State University, Chico
Bell Memorial Student Union, Room 203
Corner of West 2nd and Chestnut Streets, Chico, CA 95927
Registration: http://events.constantcontact.com/register/event?llr=kttdtdatab&oeidk=a07eaortpixa7a11db4

**Wednesday, May 6, 2015**
Piccadilly Inn Airport
5115 E. McKinley Avenue, Fresno, CA 93727
Registration: http://events.constantcontact.com/register/event?llr=kttdtdatab&oeidk=a07eaou1p9vdecca442

**Thursday, May 7, 2015**
Los Angeles County Farm Bureau
41228 12th Street West, Palmdale, CA 93551
Registration: http://events.constantcontact.com/register/event?llr=kttdtdATAB&oeidk=a07eaouh617d5eb7a72