DATE: August 15, 2014 PAGES: 3
TO: Directors & Members FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE
Blocks +$.1200 $2.2200
Barrels +$.0875 $2.2100
Weekly Average, Cheddar Cheese
Blocks +$.0640 $2.1480
Barrels +$.0610 $2.1700

CHICAGO AA BUTTER
Weekly Change +$.2600 $2.6000
Weekly Average +$.1320 $2.5320

NON-FAT DRY MILK
Week Ending 8/8 & 8/9
Calif. Plants $1.7786 9,678,144
Nat’l Plants $1.7958 18,094,075

Prior Week Ending 8/1 & 8/2
Calif. Plants $1.8438 11,247,293
Nat’l Plants $1.8412 17,405,384

DRY WHEY
Dairy Market News w/e 08/15/14 $.6700
National Plants w/e 08/09/14 $.6971

FRED DOUMA’S PRICE PROJECTIONS…
August 15 Est: Quota cwt. $23.36 Overbase cwt. $21.66 Cls. 4a cwt. $23.73 Cls. 4b cwt. $19.91
Last Week: Quota cwt. $23.00 Overbase cwt. $21.30 Cls. 4a cwt. $23.29 Cls. 4b cwt. $19.44

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

Milk & Dairy Markets
Milk powder slumped while cheese and butter soared this week. CME spot nonfat dry milk (NDM) has fallen in each of the last ten sessions. Today it settled at $1.3975/lb., down 14.25ȼ from last Friday. Spot milk powder prices are mired at the lowest level in two years. It climbed to $2.66, within 15ȼ of the all-time record from September 1998. An astounding 59 loads changed hands this week as the spot butter market gained 26ȼ. Class IV futures were mixed, with August through November contracts rising while later contracts dropped.

Spot Cheddar blocks added 12ȼ and reached $2.22. Barrels rose to $2.21, up 8.75ȼ. Both markets stand at nearly four-month highs. In response, the September Class III contract rallied more than a dollar this week. But deferred contracts were less exuberant. Most 2015 contracts lost ground, and all but the nearby cheese futures greeted the spot market rally with only tepid gains.

Overseas markets continue to slide. According to Dairy Market News, cheese, butter and skim milk powder (SMP) prices in Oceania all dropped roughly 6% in the past two weeks. Whole milk powder (WMP) prices fell 11.4%. Prices were lower across the board in Western Europe as well.
Tight supplies of cheese and butter have pushed U.S. spot markets to new heights even as foreign markets fall. But manufacturers and traders are cautious. Although prices have remained high for longer than many anticipated, they are not expected to remain so. Butter futures project a 25% decline between now and the end of the year. Dairy Market News reports that, although additional butter inventories will be needed this fall, manufacturers are afraid to add to stocks at today’s prices only to watch them lose value. Indications of manufacturers’ sales from Dairy Market News, the National Dairy Product Sales Report and the California Weighted Average Price index all point to softer dairy product markets.

The steep decline in milk powder prices of late and concerns about Chinese demand are likely to reduce powder production in general and WMP production in particular. Cheese now offers much better returns than WMP. Dairy Market News reports that manufacturers in the Midwest with the flexibility to do so are already shifting milk away from NDM and into cheese. Manufacturers in New Zealand are similarly incentivized to step up cheese production this season. This will allow New Zealand to supply more cheese to Russia now that Europe has been sidelined. It could also pressure the U.S. Cheddar barrel market, as most cheese from New Zealand is of the processed variety. However, milk powder production is likely to remain ample. If global milk output rises as expected, drier capacity will be put to good use.

For the week ending August 2, dairy cow slaughter totaled 50,222 head, 17.3% lower than the same week a year ago. So far this year, dairy cow slaughter is 10.5% lower than last year.

Since peaking at the end of last month, cattle futures have fallen about $10/cwt. However, they bounced back Thursday and Friday, and are holding for now around $150/cwt. The cattle herd will take years to rebuild and prices will remain high by historical standards. Consumer demand for ground beef has been spectacularly inelastic, helping to support cattle prices. But pork and poultry production is expected to rise, offering cheaper alternatives in the meat aisle. The cattle markets are likely to transition from a period of steady ascendance to one of increased volatility as they seek to balance tight beef supplies with increased competition for the center of the plate.

Grain Markets
USDA updated its monthly Crop Production and World Agricultural Supply and Demand Estimate reports Tuesday and sent the soybean markets plunging. September futures lost 11¢ while the November contract dropped more than 30¢. USDA confirmed that the soybean crop is record large, bumping its production estimate up to 3.82 billion bushels.

This year’s corn crop is also expected to be the largest ever, at 14 billion bushels. However, this was smaller than the market anticipated and corn futures jumped 14¢ this week. The December contract settled at $3.77 per bushel. USDA estimates the corn yield at 167.4 bushels per acre, based on conditions as of August 1. Private analysts expect yields in the low 170s.

The weather has been generally favorable since USDA surveyed fields in July. Those surveys showed record large ear counts and very heavy ear weights. If the weather cooperates, yields are likely to exceed USDA’s current estimates. Some farmers have complained about the lack of heat to finish the crop ahead of frosts, and a few areas are turning dry. But next week is supposed to be warmer and wetter in the Corn Belt, which would allow for better kernel fill. There will be no shortage of grain this fall.

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A FANTASTIC TOOL ON THE MARGIN PROTECTION PROGRAM: (By Rob Vandenheuvel) The U.S. Department of Agriculture (USDA) is expected to announce the final details of the new “Margin Protection Program” (MPP) in the very near future. This is an important announcement from USDA, as Congress left numerous important questions unanswered in the Farm Bill approved earlier this year, such as:

- What the enrollment period is for dairies.
- Whether the program is operated on a calendar year basis or fiscal year basis (like the Oct 1 – Sept 30 calendar for the MILC program).
- Exactly how “new producers” will be defined and how dairies that change locations will be handled.
- How much of your production will be eligible for the lower premium.
- How your premiums will be paid.
- Whether you actually have to produce the milk in order to be eligible for the payouts.

Once we have the final details of how the new program operates, MPC and many other organizations/cooperatives will be helping to educate the producer community on not only how the program works, but how to evaluate what may be the best option for your dairy.

In the meantime, there’s a fantastic tool available online that I’d recommend every dairy producer check out. We’ve published a link to this tool in previous issues of the newsletter, but it’s worth another mention. It can be found at: [http://www.farmdocdaily.illinois.edu/tools/flash_dairy_dashboard_010514.html](http://www.farmdocdaily.illinois.edu/tools/flash_dairy_dashboard_010514.html). It makes some assumptions about how the premiums will be calculated, but does a great job of providing a historical look at how the MPP would have operated in any of the past 14 years.

In order to use the tool, you’ll need to enter a couple things:

- Your dairy’s annual milk production (and remember that the MPP uses the highest annual production of 2011, 2012 or 2013 for your production history, so that is the number you would enter)
- The percentage of your production you’d like to participate in the program (from 25-90%)
- The level of milk-price-over-feed-cost margin you’d like to set for your participation (from $4-8/cwt)

With that information entered, you can look at individual years from 2000 through 2013 to see: (1) what the premiums would have been for your dairy, which would be the same regardless of year; and (2) what the net payout would have been, which varies by year, depending on the national average milk prices/feed costs.

As an example, if you entered 25,000,00 lbs of annual milk production (about the production of a 1,000 cow dairy), and entered that you’d like to cover 90% at a $6.00 per hundredweight margin, you’d see that:

- Your dairy would be required to pay a premium each year of $0.14/hundredweight, or about $31,673.
- In 2009, the program would have had a net positive return of $1.64/hundredweight, or $375,782 spread out over the year (that’s a net figure, so you actually would have received over $400,000, but had to pay $31,673).
- In 2012, the program would have had a net positive return of $1.04/hundredweight, or $238,273 spread out over the year (again, that’s a net figure).
- In the other years, there would either have been no payout, or a negligible payout.

So while the past is not a perfect indication of the future, this tool can give you some valuable information about how a particular margin level would have operated under conditions that every dairyman vividly remembers – the devastating wrecks of 2009 and 2012. And that’s really what the program is designed for, to provide catastrophic margin protection. So again, I encourage every dairyman to take a look at that tool, play around with the various margin/coverage levels, and learn as much as you can about how the program operates. And of course, MPC members with any questions can either call/email the office for assistance, or keep an eye out for soon-to-be announced area meetings where we will be going over the final program details in full.

NOTE: There will not be an MPC Friday Market Update next week. Publication will resume on August 29th.