



Milk Producers Council

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DATE: January 10, 2014
TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$.1575	\$2.2000
Barrels	+\$.2400	\$2.1600

Weekly Average, Cheddar Cheese

Blocks	+\$.1376	\$2.1520
Barrels	+\$.2155	\$2.0980

CHICAGO AA BUTTER

Weekly Change	+\$.1000	\$1.6750
Weekly Average	+\$.1067	\$1.6480

DRY WHEY

Dairy Market News	w/e 01/10/14	\$.6038
National Plants	w/e 01/04/14	\$.5975

NON-FAT DRY MILK

Week Ending 1/3 & 1/4

Calif. Plants	\$1.9664	7,253,946
Nat'l Plants	\$2.0029	7,709,258

Prior Week Ending 12/27 & 12/28

Calif. Plants	\$1.9436	4,518,409
Nat'l Plants	\$1.9785	7,709,258

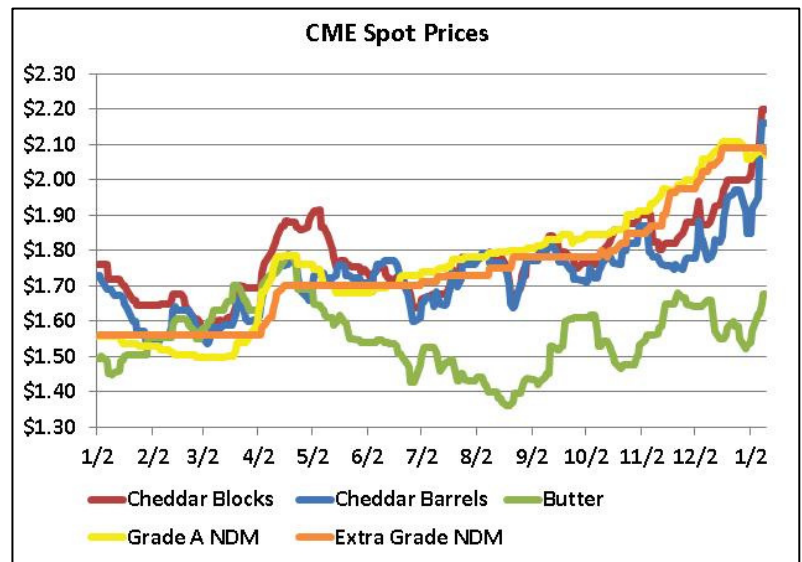
FRED DOUMA'S PRICE PROJECTIONS...

Jan 10 Est:	Quota cwt. \$22.24	Overbase cwt. \$20.55	Cls. 4a cwt. \$21.57	Cls. 4b cwt. \$20.15
Last Week:	Quota cwt. \$21.64	Overbase cwt. \$19.95	Cls. 4a cwt. \$21.21	Cls. 4b cwt. \$19.13

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

Milk & Dairy Markets

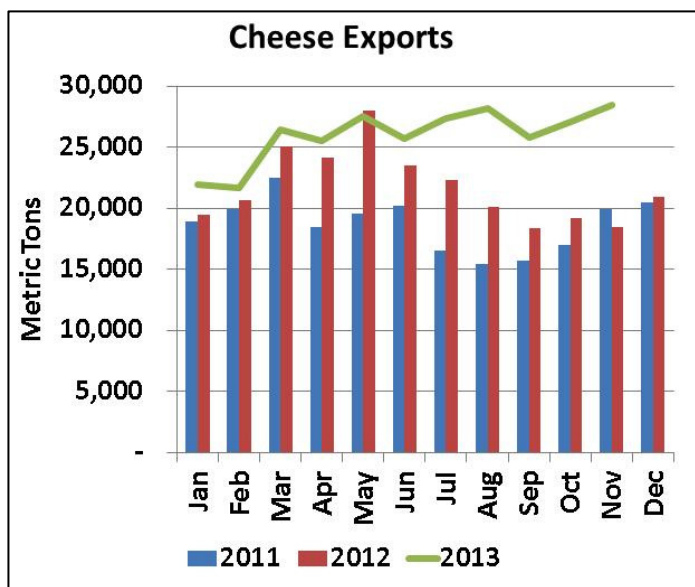
While most of the country struggled with sub-freezing temperatures, the spot Cheddar market was on fire. Blocks rallied 6¢ on Tuesday and another 9¢ on Wednesday, reaching \$2.20/lb. for the first time in almost six years. Barrels added 3¢ Monday, 11¢ Tuesday and a dime on Wednesday, rising to \$2.16. And then they stopped. The spot Cheddar market was eerily silent on Thursday and Friday. This spooked traders on Thursday and Class III futures moved lower amidst concerns that recent gains could not be sustained without constant and enthusiastic bidding. But by Friday Class III, cheese and whey futures were again moving higher. Most Class III contracts managed gains of 40¢ or more this week.



Spot nonfat dry milk (NDM) gave up a little ground on Friday, but butter moved consistently higher, ending at \$1.675/lb., up 10.5¢. January through April Class IV futures enjoyed double digit gains, and later contracts ended mostly in the green.

It has been bitterly cold throughout most of the nation. Dairy producers faced power outages, finicky equipment, icy bedding and frozen water troughs. Feed delivery and milk pick-ups were delayed, and some producers were forced to dump milk due to road closures. The volumes dumped represent a negligible portion of total milk supplies. The net impacts of the cold appear to be minimal. Cows likely suffered only small declines in milk production. Consumers rushed to the store to stock up on milk and other staples, but this was offset by the lack of

demand for school milk and a decline in restaurant traffic. The increase in retail demand likely shifted some milk away from cheese and butter processors into fluid milk plants.

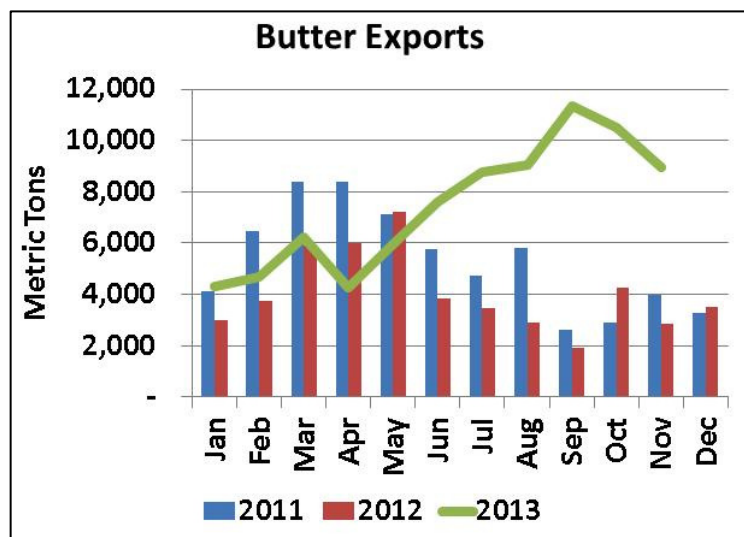


The reduced flow of Midwest milk to cheese plants likely supported the market this week, although there were plenty of other factors behind the steep rally in cheese prices. Cheddar gained 1.9% at the Global Dairy Trade (GDT) auction on Tuesday, reaching \$2.11/lb. U.S. cheese prices are now higher than competing global offers. But Fonterra has only a limited supply of cheese to sell, and U.S. exporters are committed to ship cheese from deals that were inked months ago at considerably lower prices. U.S. cheese exports totaled a record large 62.7 million lbs. in November, up 8.5% from October and 54% greater than November 2012. Through November, fresh cheese exports are 48% higher than last year.

Butter prices also moved higher at the GDT. They gained 5.1% and rose to \$1.87/lb. once converted to 80% October volumes but were more than three times greater

butterfat. November butter exports fell 12% short of than November 2012 levels. U.S. butter remains the best value for importers, and U.S. inventories have tightened considerably thanks to the strong export pace and firm domestic demand. But with the holidays in the rear-view mirror, there is more cream available and butter churns are going full throttle.

Milk powder prices remain at very high levels, but they are starting to falter. Skim milk powder (SMP) prices fell 3.4% at the GDT, and whole milk powder (WMP) prices dropped 0.6%. Combined NDM/SMP exports totaled 100.4 million lbs., down 9% from October on a daily average basis but up 54% from November 2012. Shipments to Mexico were 14% lower than at this time last year.

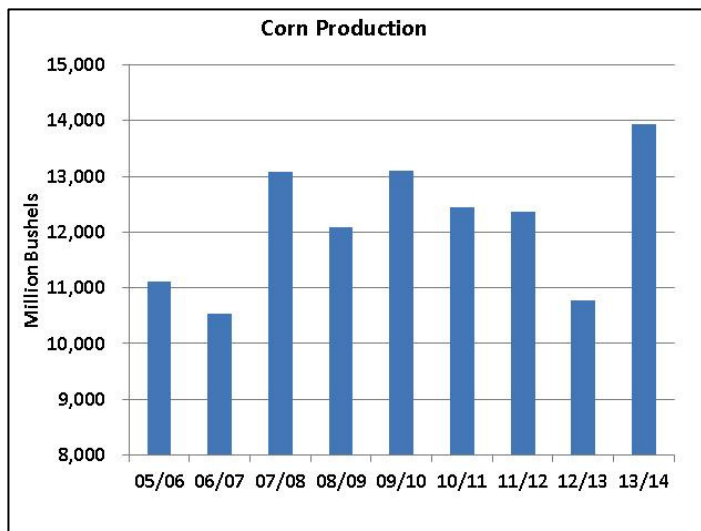


Dairy cow slaughter totaled 45,646 head in the week that included Christmas. For all of 2013, dairy cow slaughter exceeded 2012 slaughter by 0.6%. In Region 9, which includes California, Arizona and Nevada, 2013 slaughter was 1.8% lower than 2012 as margins improved.

Grain Markets

Nearby corn futures traded to the lowest level since August 2010 on Friday morning, ahead of USDA's World Agricultural Supply and Demand Estimates, Crop Production and quarterly Grain Stocks reports. USDA increased its estimate of corn acreage slightly and acknowledged that a lower proportion of that acreage was abandoned. These changes were expected. However, USDA surprised the trade by reducing its assessment of the national average corn yield to 158.8 bushels per acre, down from its December yield of 160.4. This resulted in a 64 million bushel reduction in 2013 corn production. The news halted the corn market's march toward \$4.00/bu. March corn futures reversed course and settled at \$4.3275, up 20.75¢ on the day and almost a dime higher than last Friday's close.

USDA increased its assessment of corn demand for feed and ethanol by 100 million and 50 million bushels, respectively. Given strong profit margins in both the livestock and ethanol industries and the cold snap which has increased feed intakes, these changes are hard to refute. The combination of a smaller crop and larger demand



resulted in ending stocks of 1.631 billion bushels. While this is 161 million bushels below USDA's December stocks projection, it is still the largest ending stocks figure in four years. Today's reports suggest there is slightly less corn than previously thought; however, there is still plenty of grain in the world and with the slow down in Chinese imports of U.S. corn and DDGs there is no reason for corn prices to exceed recent price ranges.

Soybean futures added 15¢ this week. USDA slightly increased its estimates of soybean acreage and yields, resulting in production of 3.29 billion bushels, 31 million bushels higher than the December figure. USDA assumes that demand will rise as much as production, so there was no change in ending stocks. As a percentage of

demand, ending stocks have fallen to four year lows.

U.S. oilseed supplies remain tight, and prices will not fall without solid production in South America. Fortunately, outside of southern Argentina, the weather has been highly favorable, and crops in the Southern Hemisphere are faring well. U.S. farmers are likely to increase soybean acreage this spring, and with normal weather U.S. soybean production could rise to record-breaking levels. High soybean and soybean meal prices will persist for now, but there is the potential for a huge decline in oilseed prices by fall.

USDA reported a 17% increase in December 1 hay stocks compared to December 1, 2012. Still, at 89.3 million tons, U.S. hay stocks remain tight. California hay stocks were unchanged from year ago levels. California hay production is unlikely to climb in the year to come. Mountain snowpack is only 20% of average for this time of year, and water allotments will be severely restricted. Much of that water will go to permanent crops, and hay could wither.

AN OPPORTUNITY FOR CALIFORNIA PRODUCERS TO HEAR FROM USDA ON THE FEDERAL ORDER PROGRAM: *(By Rob Vandenheuvel)* There has been a lot of discussion in the past year over the possibility of a new California Federal Milk Marketing Order (FMMO). This discussion, of course, comes after several years of failed efforts to make the changes necessary to our State Order that would bring our California milk prices in alignment with the prices paid for milk throughout the country.

We've mentioned in previous issues of this newsletter that the three major California cooperatives (California Dairies Inc., Dairy Farmers of America and Land O'Lakes) are currently working on the details needed to petition the U.S. Department of Agriculture (USDA) for a hearing on the issue. We hope to see that process continue to progress.

In the meantime, there are a couple opportunities next week to attend listening and Q&A sessions with some of the USDA staff who are visiting California. The two meetings that have been set up are:

- Thursday, January 16th, 1 p.m., Tulare Ag Commissioner's office (4437 S. Laspina Street, Tulare)
- Friday, January 17th, 3 pm, Modesto Double Tree Hotel (1150 9th Street, Modesto)

These meetings are open to all California dairy producers. You are also welcome to invite your banker, accountant, or other allied industry partners. While there are certain aspects about a California Federal Order that can't be answered without the details that are currently being developed by the three cooperatives, this is a fantastic opportunity for dairy farmers to meet the USDA staff directly and gain a better understanding of how the Federal Order system works more generally.

AN INTERESTING OBSERVATION, AND A DISTURBING REALITY: (By Rob Vandenheuvel) With the final California and Federal Order classified prices announced this week, we are able to calculate that for the year, our California Class 4b price (for milk sold to the State's cheese manufacturers) averaged \$1.57 per hundredweight below the Federal Order Class III price (the benchmark price for milk sold to cheese manufacturers around the country). That puts the "California Discount" at about \$285,000,000 for the year.

The "California Discount" for our State's Cheese Manufacturers		
	Dec '13	2013
California Class 4b Price	\$18.03	\$16.42
FMMO Class III Price	\$18.95	\$17.99
Difference	(\$1.53)	(\$1.57)
The "California Discount": About \$285,000,000 just in 2013 alone		

We've obviously written numerous articles about this, and given the serious efforts currently underway to move forward with a USDA petition for a California Federal Order, there is little point in expanding this article beyond the simple facts above. However, in a conversation this week with one of our members, a very interesting and disturbing comparison was brought up.

The California quota system is a valuable component of our industry, representing a significant amount of asset value for many of our state's dairy families. Protecting this program and the underlying asset value of the quota is a huge priority for many in this industry. There are roughly 2,150,000 pounds of California quota (on a solids-not-fat basis) outstanding. Last month, the average price paid for quota was \$425 per pound, and in the past several years, it's traded as high as \$500 per pound. That means the collective underlying asset value of all California quota is about \$915 million, and recently as high as \$1.075 Billion. A HUGE number.

Now on an unrelated but interesting note, since January 2010, California Class 4b price has averaged \$1.68 per hundredweight below the Federal Order Class III price, representing a "California Discount" of **more than \$1.2 Billion**.

Of course, these numbers are not new. I've just never seen them presented in this way. **In the past four years, the discount that CDFA has felt obligated to provide the State's cheese manufacturers is larger than the underlying asset value of entire California quota program!** Not that you all needed more evidence that there's a problem, but the numbers have just gotten so huge, it's sometimes difficult to put them into perspective. And while milk prices are currently very strong, it's important to remember why **we must continue to push forward with efforts to provide California dairy families with the ability to get a fair and nationally-competitive price for their milk.**