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 TO: Directors & Members

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 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0525	\$1.9250
Barrels	-\$0.0025	\$1.8300

Weekly Average, Cheddar Cheese

Blocks	-\$0.0030	\$1.8955
Barrels	-\$0.0350	\$1.7930

CHICAGO AA BUTTER

Weekly Change	-\$0.0750	\$1.5700
Weekly Average	-\$0.0110	\$1.6300

DRY WHEY

Dairy Market News	w/e 12/13/13	\$0.5813
National Plants	w/e 12/07/13	\$0.5586

NON-FAT DRY MILK

Week Ending 12/6 & 12/7

Calif. Plants	\$1.9094	7,340,210
Nat'l Plants	\$1.9363	13,355,929

Prior Week Ending 11/29 & 11/30

Calif. Plants	\$1.8893	7,313,901
Nat'l Plants	\$1.9092	11,365,234

FRED DOUMA'S PRICE PROJECTIONS...

Dec 13 Est:	Quota cwt. \$20.86	Overbase cwt. \$19.16	Cls. 4a cwt. \$21.02	Cls. 4b cwt. \$17.85
Last Week:	Quota cwt. \$20.73	Overbase cwt. \$19.04	Cls. 4a cwt. \$21.01	Cls. 4b cwt. \$17.58

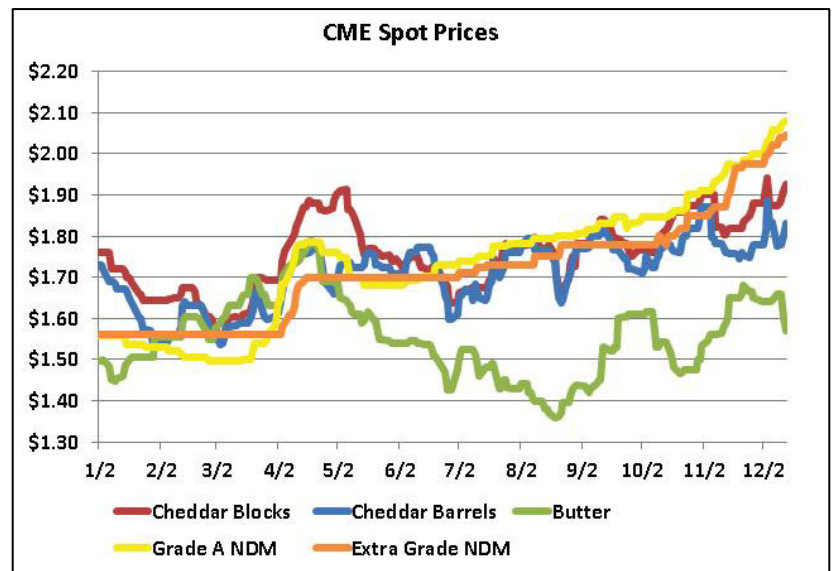
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

Milk powder prices continue to move mostly higher, but there are signs that the air is thinning at these altitudes. CME spot Grade A and Extra Grade nonfat dry milk (NDM) each added 2.25¢ this week, closing at \$2.08/lb. and \$2.045, respectively. Grade A NDM has gained ground in eight of the past nine CME spot sessions. CME spot and National Dairy Product Sales Report (NDPSR) NDM prices reached six-year highs, and *Dairy Market News* also reported a significant gain in milk powder prices. The California Weighted Average Price for NDM rose to \$1.9094/lb., up 2.01¢ from last week. Nonetheless, NDM futures inched lower this week.

The butter market showed more conviction; it moved abruptly lower. In the absence of willing buyers, CME spot butter lost 6¢ Thursday and another 3¢ Friday. Butter ended the week at \$1.57/lb., its lowest level since early November. Class IV futures followed the butter market downward. However, Class IV futures remain well above \$21/cwt. through the first quarter of next year.

Cheese prices typically soften in December, as holiday demand fades. That outcome is still possible, but this week Cheddar blocks looked askance at the calendar and once again pushed above \$1.90/lb. They ended Friday at \$1.925, up 5.25¢ this week. After plunging on Monday, Cheddar barrels spent the rest of the week trying to regain lost ground. They ended at \$1.83, down 0.25¢. December through February Class III futures settled a nickel or so lower than last week, but most deferred

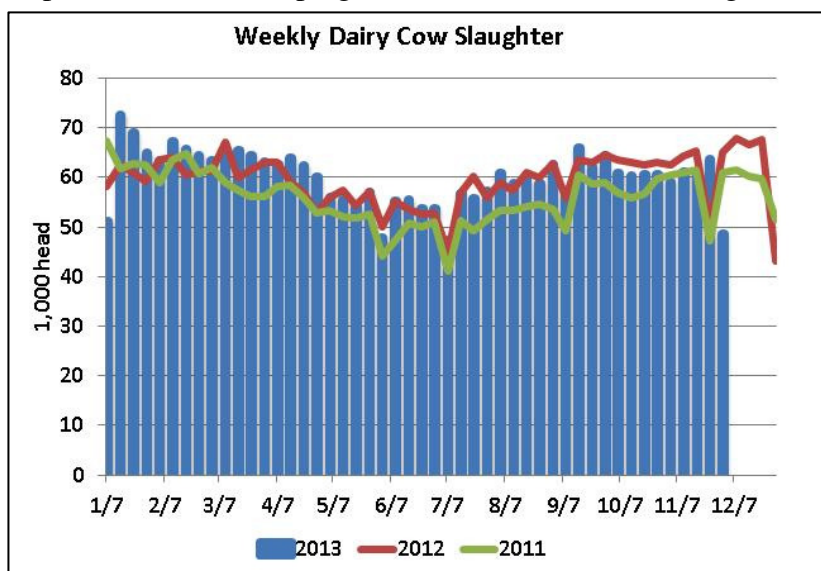


contracts posted double digit gains.

It appears that manufacturers of dry whey are doing some house cleaning before the turn of the year. The average price of dry whey sold for the 30 days ending December 7 fell to 55.86¢/lb., down 3.4¢ or 5.7% from the prior week on heavy sales volume.

Dairy product prices have appreciated significantly over the past couple months, and the reasons behind the rally – Chinese demand, low global inventories and the lingering impact of weather issues in New Zealand and Europe – remain in place. However, bulls must eat every day, and this bull market may be running short of fodder. Producers around the world are responding to astoundingly high milk prices by increasing production, and competition for exports is heating up.

U.S. dairy processors continue to alter product specifications to meet export demand. These constant improvements are helping to increase U.S. access to global dairy product markets. This week Land O'Lakes



announced that it would begin offering skim milk powder (SMP) at the Global Dairy Trade auction in March. Once a negligible part of the U.S. dairy product mix, SMP production is growing by leaps and bounds. U.S. production of SMP in the first ten months of the year is 36% greater than SMP production in all of 2012. Land O'Lakes will offer butter at the GDT later in 2014.

Dairy cow slaughter during the week of Thanksgiving totaled 48,501 head. Over the past two weeks, dairy cow slaughter has fallen 2.5% or nearly 3,000 head below year ago levels.

Grain Markets

Corn futures dropped a dime this week. The World Agricultural Supply and Demand Estimates report held no surprises. It confirmed that grain supplies are abundant, while oilseeds are tighter. USDA raised its forecast for corn imports slightly and added 50 million bushels to its estimates for exports and corn used in ethanol. All told, this resulted in a 95 million bushel decline in ending stocks. After corn usage is verified by USDA's Quarterly Grain Stocks report in January, USDA could increase estimates of ethanol, exports and feed demand, but there is plenty of corn to meet those needs.

Since new crop supplies hit the market, the pace of U.S. exports of corn and soybeans has been impressive. But going forward, U.S. corn export prospects will depend on the whims of Chinese politicians. Chinese corn imports are limited by quota, which is nearly filled. Central planners are expected to reset the allotment in January. However, Beijing has rejected 200,000 tons of U.S. corn that contained trace amounts of MIR162, a GMO strain that has been approved even in GMO-adverse Europe.

China could cause quite a headache for U.S. exports if they choose to press the issue, but judging by the lack of reaction from the corn market, they are not likely to protest U.S. corn for long. China can import corn for more than \$100/ton below the domestic corn price in China.

China continues to import as much U.S. soybeans and soybean meal as the market will bear. USDA upped its estimate of U.S. soybean exports by 25 million bushels. The current pace of exports would justify a larger increase, but soybean stocks are already projected to fall to minimal levels. U.S. exports will almost certainly slow when South American supplies are available. Farmers in Argentina and Brazil resumed selling old crop supplies after the recent rally in soybean prices, which may have pressured the market later this week. After

rising early this week and then falling on Thursday, soybean futures closed near last Friday's settlements.

NO FARM BILL IN 2013, BUT HOPES ARE UP FOR A JANUARY 2014 BILL: *(By Rob Vandenheuvel)*

Reports this week on the Farm Bill revealed some good news alongside some bad news.

First, the bad news: ***There will be no 2013 Farm Bill.*** The House of Representatives has ended their 2013 session and gone back to their districts until January 2014. That ends the possibility that a final Farm Bill could be agreed upon and voted on by December 31st.

Now the good news: **There are high hopes among the key negotiators that a final Farm Bill could be agreed upon and voted on in early January 2014.** While there have been very few reported details of the recent negotiations, general reports indicate that great progress has been made, and while there wasn't enough time in 2013 to get it to the finish line, early 2014 is a real possibility.

Now the initial reaction by some may be, "Well we've seen this before." Remember that last year, we had a similar scramble to the year-end deadline, and now 12 months later we still have no bill. But it's worth pointing out that a number of things are different. First, both the House and Senate passed a Farm Bill this year, and a Conference Committee has not only been set up, but has been actively negotiating the issues. Last year, there was no House Farm Bill; there was no Conference Committee. So while some might offer the sage advice to "Guard against optimism," there are many reasons to believe that we are nearing the end of this process and will soon have a five-year Farm Bill passed by Congress and signed into law.

Specific to the dairy provisions, there have been no details released on where the negotiations currently stand. Regular readers of this newsletter will recall that the Senate approved the Dairy Security Act – supported by MPC and other dairy organizations/cooperatives around the country – while the House of Representatives approved the "Goodlatte-Scott Amendment" – largely supported by the International Dairy Foods Association and the buyers of raw milk that they represent. We anxiously await word from the Conference Committee on how the dairy portion of a final bill will be structured.

SENATE BILL INTRODUCED TO ELIMINATE GOVERNMENT MANDATE ON CORN-BASED

ETHANOL: *(By Rob Vandenheuvel)* This week, a bipartisan group of U.S. Senators, led by Senators Dianne Feinstein (D-CA) and Tom Coburn (R-OK) introduced the "Corn Ethanol Mandate Elimination Act." The bill already has ten supporters sponsoring the bill: Senators Richard Burr (R-NC), Susan Collins (R-ME), Bob Corker (R-TN), Jeff Flake (R-AZ), Kay Hagan (D-NC), Joe Manchin (D-WV), James Risch (R-ID), and Patrick Toomey (R-PA), in addition to Feinstein and Coburn.

While this newly-introduced legislation will obviously not see Congressional action in 2013, it helps set the stage for a serious debate on the issue in 2014. You will recall that a few weeks ago, we wrote an article about the recent preliminary decision by the Environmental Protection Agency (EPA) to modify the 2014 Renewable Fuel Standard (RFS, also commonly referred to as the "ethanol mandate") by proposing lower volume requirements than current law dictates. If you missed it, that article can be found at: <http://www.milkproducerscouncil.org/updates/111513.pdf>.

The issue of corn-based ethanol and the role that government should/shouldn't be playing in mandating a demand for the product is rapidly becoming a popular issue in Washington, DC. The issue cuts across party lines (as evidenced by the bipartisan co-sponsor list), and makes interesting coalition partners (MPC is part of a coalition that includes other dairy/livestock groups, as well as environmental advocates, food/restaurant representatives, hunger organizations, marine enthusiasts, and others). The primary split is largely geographical, with Mid-West interests advocating in favor of the current policy and coastal interests advocating for change. It certainly makes for an interesting political debate in Congress.

Stay tuned, as we hope to see more movement on this issue in the coming months...