



Milk Producers Council

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DATE: March 20, 2015
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0300 \$1.5400
 Barrels - \$.0250 \$1.5200

Weekly Average, Cheddar Cheese

Blocks - \$.0080 \$1.5600
 Barrels - \$.0040 \$1.5410

CHICAGO AA BUTTER

Weekly Change - \$.0150 \$1.6800
 Weekly Average - \$.0300 \$1.6800

DRY WHEY

Dairy Market News w/e 03/20/15 \$1.4450
 National Plants w/e 03/14/15 \$1.4835

NON-FAT DRY MILK

Week Ending 3/13 & 3/14

Calif. Plants \$1.0384 11,238,774
 Nat'l Plants \$1.0724 15,699,807

Prior Week Ending 3/6 & 3/7

Calif. Plants \$0.9958 10,314,639
 Nat'l Plants \$1.0463 16,964,521

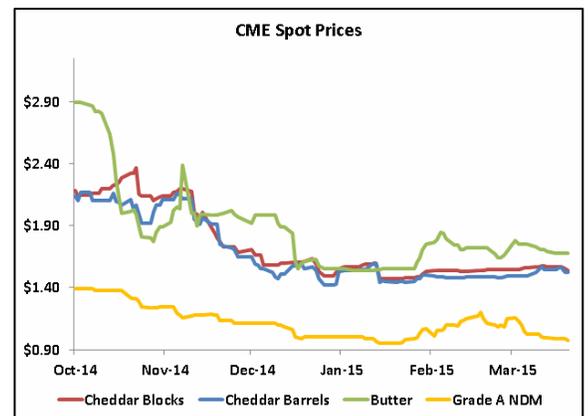
FRED DOUMA'S PRICE PROJECTIONS...

Mar 20 Est: Quota cwt. \$15.55 Overbase cwt. \$13.85 Cls. 4a cwt. \$13.61 Cls. 4b cwt. \$13.99
 Last Week: Quota cwt. \$15.57 Overbase cwt. \$13.87 Cls. 4a cwt. \$13.58 Cls. 4b cwt. \$14.06

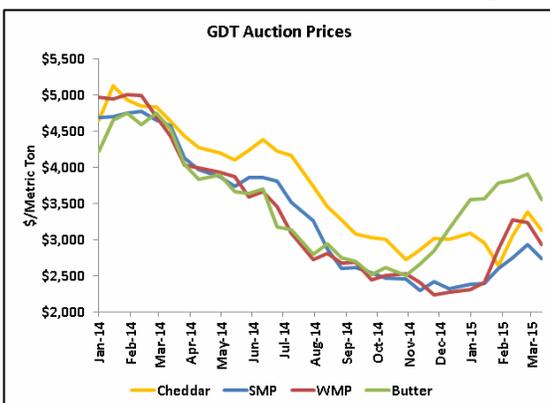
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

The CME spot dairy product markets lost ground this week, but they did so without much drama or fanfare. Spot butter dropped 1.5¢ on Monday, falling to \$1.68/lb. where it remained for the duration of the week. Cheddar blocks held steady through Wednesday, but losses Thursday and Friday pushed them down 3¢ to \$1.54. Cheddar barrels dropped 2.5¢ to \$1.52 and Grade A nonfat dry milk (NDM) slipped 1.75¢ to \$0.975. Nearby Class III futures closed a little higher than last week, while all contracts from May forward settled in the red. The greatest losses were in July and August, which each closed 52¢ lower than last Friday. Class IV futures endured similar struggles.

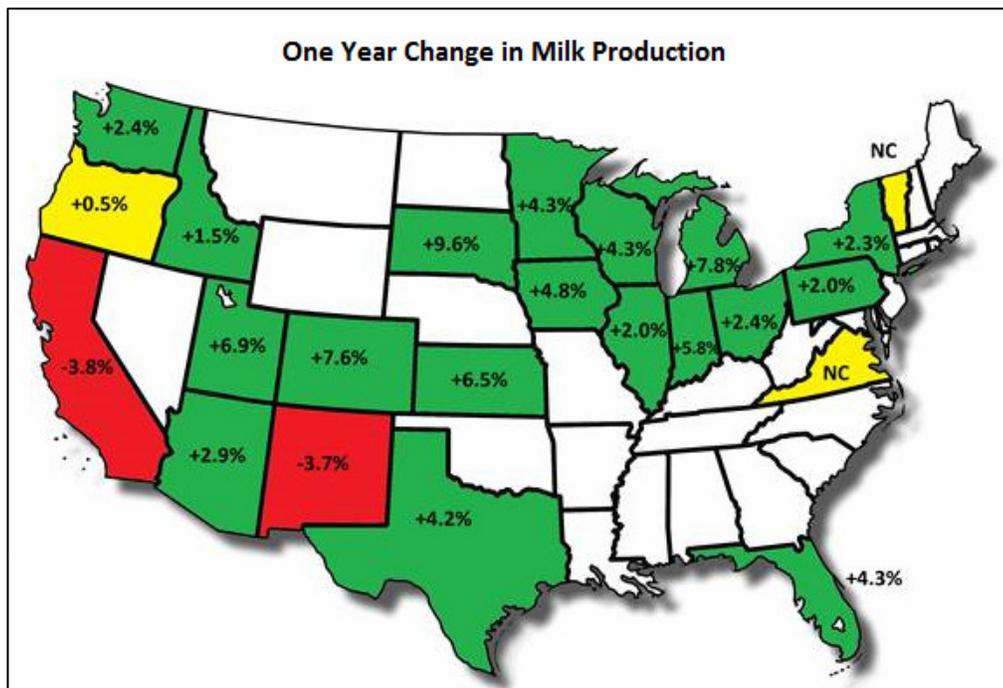


Prices plunged at the Global Dairy Trade (GDT) auction, bringing the streak of higher trading to a decisive end. The GDT index fell 8.8%. All dairy product prices moved lower, including whole milk powder (WMP), which dropped 9.6%.



Using Fonterra's collections as a proxy, it seems that New Zealand's milk production ebbed in February, but the year-over-year decline was not as large as had been feared. Rains on the North Island brought welcome relief, although the South Island – home to 40% of the nation's milk – remained dry. Undeterred by the better weather, Fonterra reiterated its outlook for a 3.3% deficit in collections for the 2014-15 season relative to 2013-14. This would require a year-over-year decline of at least 25% in the remaining three months of the season.

U.S. milk production totaled 16.17 million pounds in February. Output was 1.7% greater than last February, representing the smallest year-over-year growth in nine months. For the third consecutive month, production in the nation's largest dairy state fell shy of year-ago levels. California output dropped 3.8% from February 2014, largely due to lower production per cow. Output in New Mexico slipped 3.7%. All of the other major dairy states reported steady or higher milk production than a year ago. Output in the upper Midwest was particularly strong. This winter was mild in comparison to last year, when producers and cows in the region battled bitterly cold temperatures.

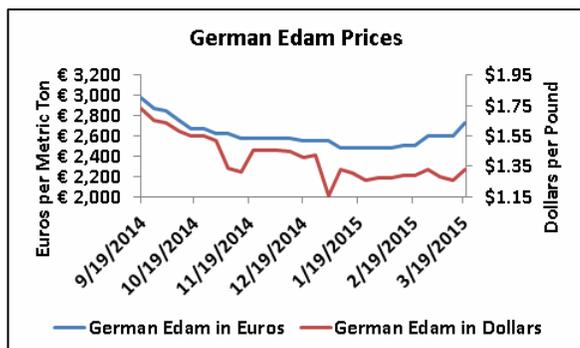


Although cull rates have ticked upward, producers continued to add cows in February. At 9.3 million head, the dairy herd was 100,000 head greater than the year before. California and Pennsylvania are the only major dairy states with fewer cows than last February, although a number of states reported no change.

While milk is abundant, domestic demand remains strong. Cheese manufacturers have plenty of milk, but they have expressed no qualms about increasing production. *Dairy Market News* reports that inventories are not burdensome and supply and demand seem to be in balance. The spot market confirms this equilibrium; it has gone exactly nowhere since late January. Butter demand is also firm and getting better as Easter and Passover loom near. However, this state of nirvana seems unlikely to last, particularly as export demand slows.

There are a number of reasons why U.S. dairy product exports are likely to fade. Importers fled to other markets in the fall, when U.S. prices vastly exceeded the global market. Key buyers – including China and Mexico – stocked up as prices fell. They may continue to bargain shop, but they probably don't feel much need to make large purchases. Demand from the Middle East may wane as oil prices, which drive economic activity there, have plummeted. Russia is largely on the sidelines, and Europe is aggressively pursuing new markets. Due to stockpiling, sanctions and geopolitical and economic issues, growth in global demand for dairy products is questionable this year, and, whether or not the pie is shrinking, the U.S. is likely to capture a smaller piece.

As the U.S. competes with the other major dairy exporters, it faces a huge disadvantage: the dollar is surging. The U.S. economy is outperforming most major economies, and the Federal Reserve is likely to raise interest rates eventually, although it suggested this week that a rate hike may not come as soon as many had expected. This uncertainty has added volatility to the currency markets, and the dollar retreated late this week. Nonetheless, it is

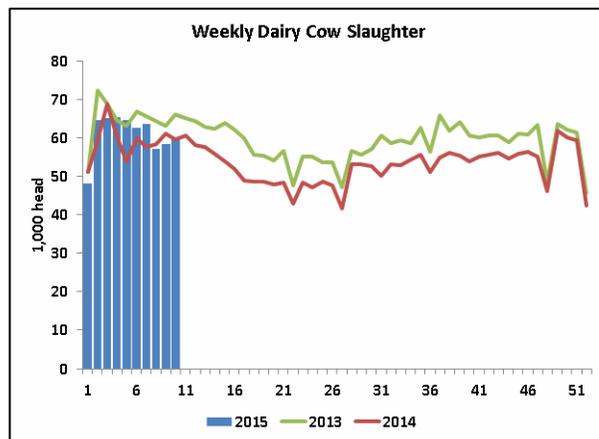


clear that the U.S. Federal Reserve is likely to adopt tighter monetary policies eventually, in contrast to the rest of the world. So far this year, 24 central banks have cut interest rates, and their currencies have weakened accordingly. Since last summer, the dollar has rallied more than 20% against a basket of competing currencies.

The strong dollar has huge implications for all markets that depend on exports, and currency can skew market signals. For example, over the past six months the price of German Edam has

fallen 10.1%. But when priced in dollars rather than euros, the price of Edam has fallen 23.2% over the same period. This has muted what would have been an even stronger signal for European producers to slow milk production. With the season in New Zealand and Australia drawing to a close, the burden to reduce output to bring global supplies in line with demand will fall most heavily on the shoulders of producers in the U.S. Even if global demand for dairy products grows, the U.S. dairy product markets will need to fall as the dollar climbs in order to keep in step with prices in Europe and New Zealand.

For the week ending March 7, dairy producers culled 60,055 head, slightly more than the same week a year ago. For the year to date, national dairy cow slaughter is 3.4% ahead of the 2014 pace, but slaughter in Region 9, which includes California and Arizona, is up 13.4%.



Grain Markets

May corn futures settled at \$3.85 per bushel, up almost a nickel from last Friday. May soybean futures closed at \$9.7375, basically steady with last week. The grain complex was subject to the whims of the currency markets this week. Corn and soybean futures retreated Monday as the dollar flirted with new highs, but when the greenback fell they soared. Soon these markets will turn their attention to planting season and concerns about weather and soil conditions. But for now, they are focused on forex.

MPC MOURNS THE LOSS OF CHOWCHILLA DAIRYMAN JOHN TROOST: (By Rob Vandenheuvel)

The board and staff of MPC extend their heartfelt sympathy to the family of Chowchilla dairyman and former MPC Board Member John Troost, who went home to be with the Lord this past Tuesday night at the age of 72 after a lengthy fight with cancer.

We ask that you keep in your thoughts and prayers John’s wife Jinet, his three children (Jana van Keppel, Jeff, and Jill Parker), his eight grandchildren, his mother Annie Troost and his five siblings (Maynard, Phil, Joanne Verhoeven, Gary, and Freddy), as well as all his extended family.

John and his family were longtime fixtures in the California dairy industry, milking cows in Artesia, Mira Loma and currently in Chowchilla. He was an amazing man with a big heart and will be missed greatly by all who knew him. **For those able to attend, a funeral service to honor John’s life will be held on Monday, March 23rd at 10:30 am at Cornerstone Community Church in Chowchilla (208 Fig Tree Lane, Chowchilla, CA 93610).**

A BRIEF UPDATE ON THE CALIFORNIA DISCOUNT, AS USDA SCHEDULES CA-FMMO OUTREACH MEETINGS: (By Rob Vandenheuvel)

For the past five years, this newsletter has been publishing on a regular basis the cumulative value of the “California Discount,” which is a calculation of how much *lower* our State’s Class 4b price (for California milk sold to cheese plants) has been relative to the Federal Order Class III price (the benchmark price for the same quality of milk sold to cheese plants around the country). As you can see in the chart below, that difference has averaged \$1.84 per hundredweight for the entire five year period of 2010 – present. The dollar value of that discount has risen to an astounding \$1.7+ BILLION. And as we recalculate the numbers with the most recent data, we find that for a 1,000 cow dairy with a 65 lb/cow/day average, their share of that California Discount has now risen to over \$1 MILLION since 2010.

The “California Discount” for our State’s Cheese Manufacturers		
	Feb ‘15	2010-Present
California Class 4b Price	\$13.75	\$16.20
FMMO Class III Price	\$15.46	\$18.04
Discount	(\$1.68)	(\$1.84)
The California Discount: More than \$1.7 Billion since January 2010.		

Fortunately, as we've also discussed in recent issues of this newsletter, we are now on our way to an administrative hearing at the U.S. Department of Agriculture (USDA) that will hopefully lead to a Federal Milk Marketing Order (FMMO) in California, finally putting our producers on an even playing field with the rest of the country.

As part of that process, USDA has announced three "Outreach Meetings" in California on the issue. 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>. An agenda will be released after April 10th. 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=ktddatab&oeidk=a07eaortpixa7a11db4>

Wednesday, May 6, 2015

Piccadilly Inn Airport
5115 E. McKinley Avenue, Fresno, CA 93727

Registration: <http://events.constantcontact.com/register/event?llr=ktddatab&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=ktddatab&oeidk=a07eaouh6i1fd5eba72>

REMINDER: STATE WATER BOARD HOSTING PRODUCER MEETINGS ON THEIR ANNUAL FEES FOR CALIFORNIA DAIRY FAMILIES: *(By Kevin Abernathy, Director of Regulatory Affairs)* When trying to describe the increases our dairies have seen in their annual fees paid to the State Water Resources Control Board (SWRCB), words like "obscene," "outrageous," and "indefensible" immediately come to mind. Our dairymen readers are well aware of the 33% increase this year, on top of the 27% the year before. Longer-term, we've seen these fees – which might as well be called taxes – quadruple in the past decade. As we've reported before, this has led MPC to join with California Dairy Campaign and Western United Dairymen in filing suit against the SWRCB over these sharp increases.

As part of the most recent increase, the Governing Board of the SWRCB directed the staff to conduct "stakeholder outreach meetings" to provide more information directly to the stakeholders on how the funds are used and why the increases were needed. Those meetings have begun, and there are two coming up in the Central Valley at the locations listed below. Interested producers are encouraged to attend and voice your perspective on what those outrageous increases have meant for your dairy.

Tulare County

Thursday, March 26th, 10:00 am – 12:30 pm
UC Cooperative Extension Tulare, 4437-B S. Laspina Street, Tulare, CA 93274

Merced County

Wednesday, April 1st, 10:00 am – 12:30 pm
UC Cooperative Extension Merced, 2145 Wardrobe Avenue, Merced, CA 95341