



Milk Producers Council

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DATE: May 1, 2015
TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$1.6100
Barrels	-.0025	\$1.6175

Weekly Average, Cheddar Cheese

Blocks	+.0075	\$1.6100
Barrels	-.0040	\$1.6180

CHICAGO AA BUTTER

Weekly Change	+.0200	\$1.8500
Weekly Average	+.0220	\$1.8520

DRY WHEY

Dairy Market News	w/e 05/01/15	\$.4400
National Plants	w/e 04/25/15	\$.4574

NON-FAT DRY MILK

Week Ending 4/24 & 4/25

Calif. Plants	\$0.9360	26,940,500
Nat'l Plants	\$0.9527	39,623,920

Prior Week Ending 4/17 & 4/18

Calif. Plants	\$0.9531	17,918,100
Nat'l Plants	\$0.9665	26,419,146

FRED DOUMA'S PRICE PROJECTIONS...

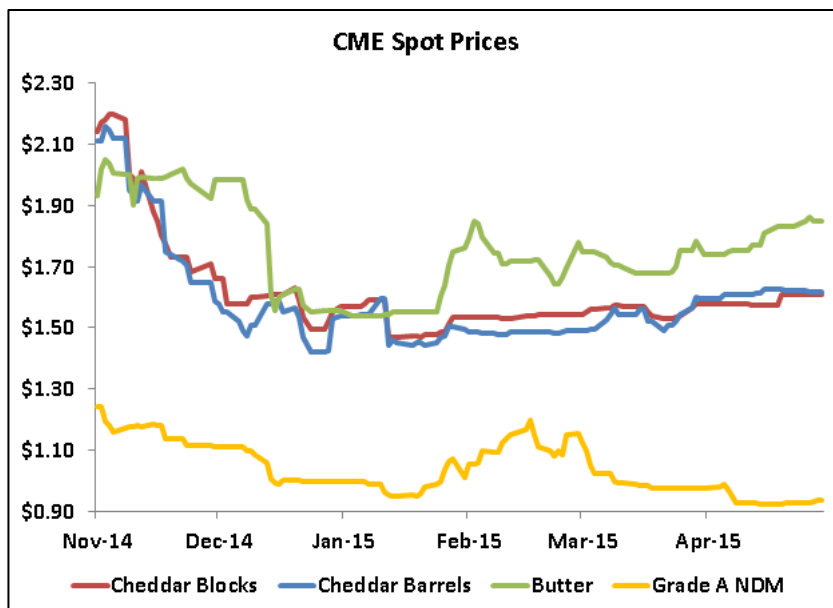
May 1 Est:	Quota cwt. \$15.72	Overbase cwt. \$14.03	Cls. 4a cwt. \$13.53	Cls. 4b cwt. \$14.55
April '15 Final:	Quota cwt. \$15.52	Overbase cwt. \$13.82	Cls. 4a cwt. \$13.38	Cls. 4b cwt. \$14.22

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

Milk & Dairy Markets

The CME spot markets were dormant this week, and the futures were unimpressed. Cheddar blocks held steady at \$1.61/lb., and four loads changed hands. Barrels slipped 0.25¢ to \$1.6175, still within a penny of the 2015 highs. Class III futures diverged; the May through September contracts were notably weaker, while deferred contracts gained a little.

CME spot butter reached its highest level since mid-December on Tuesday, climbing to \$1.86. It retreated Wednesday and then held, closing at \$1.85, up 2¢ from last Friday. Grade A nonfat dry milk (NDM) rebounded to 93.75¢, up 0.75¢ on the week. Class IV futures were mixed and little changed from a week ago.

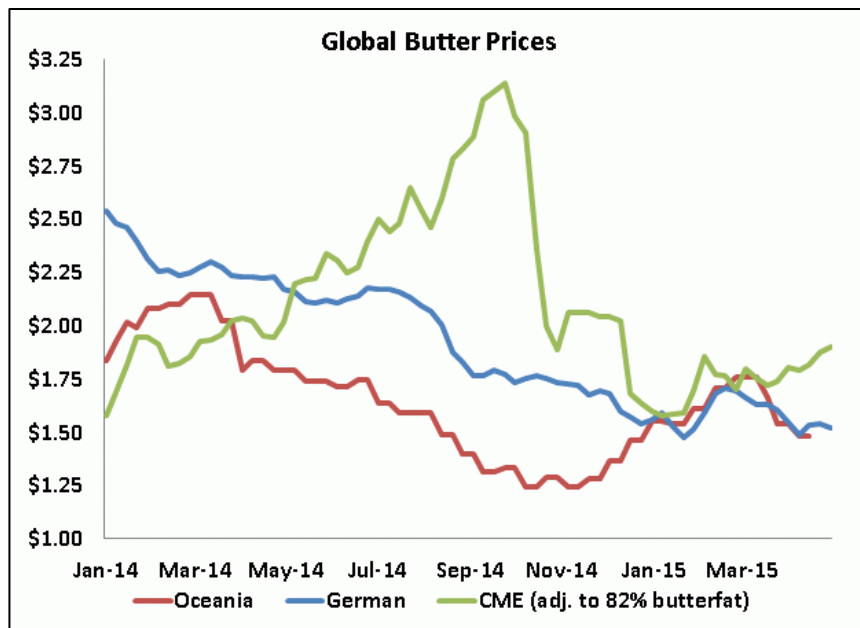


USDA announced the April Class III price at \$15.81/cwt., up 25¢ from March but down \$8.50 from April 2014. The California 4b milk price was also up 25¢, at \$14.22. The April Class IV milk price of \$13.51 is 29¢ lower than March and \$9.83 below April 2014. California 4a milk is \$13.36, down 6¢. So far this year, Class III prices have averaged \$2.16 higher than Class IV, putting dairy producers in regions with high Class I and Class III milk utilization at a distinct advantage.

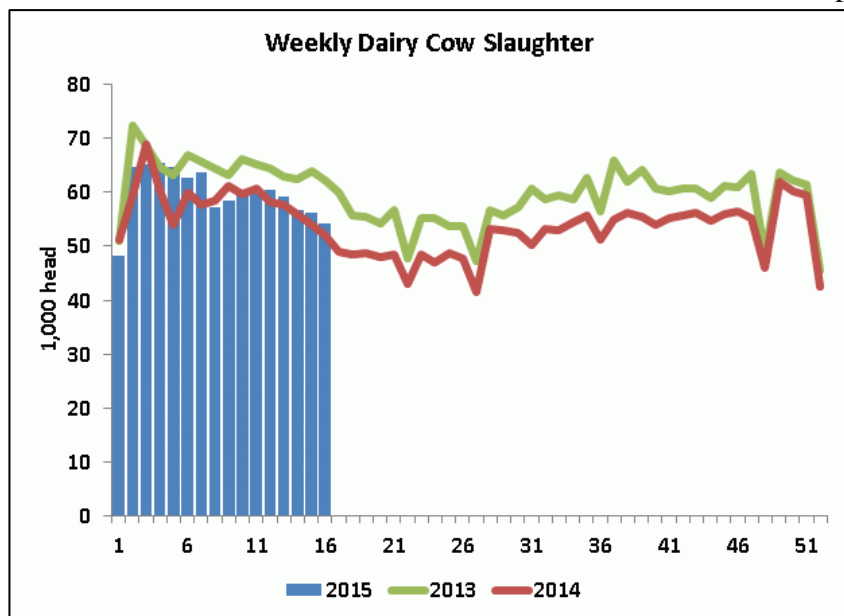
Spring has finally arrived. It's hot in California and warming up in the rest of the country. Milk production is declining seasonally in the Southwest and rising elsewhere. Fluid milk demand will soon fade as schools let out for the summer, leaving already brimming processing capacity with an even larger burden. There is simply too much milk in the heart of the country. According to the Federal Milk Marketing Administrator for the Mideast Marketing Area, "There have already been some reports of dumped milk that balancing plants could not accommodate." Cheese plants have been running full throttle, and the strain is showing. *Dairy Market News* reports, "The volume of production for the last several weeks is taking a personnel toll, leaving some cheese facility staff feeling exhausted."

Unless demand grows as quickly as supply, the cheese market may also become exhausted. The fact that spot Cheddar prices stand at four month highs suggests that there is not a lot of cheese looking for a buyer. But is this due to rising consumption or increased storage? It's likely a combination of the two, with an emphasis on the latter. Although manufacturers are able to avoid flooding the market with cheese they destine for aging programs, they are merely delaying the inevitable. Eventually, this cheese will need to be sold.

The cheese and butter markets are likely to come under added pressure from foreign markets. In the last seven weeks, butter prices have fallen €400/metric ton (MT) in the Netherlands and €350/MT in Germany. The spread between CME spot and European butter has widened from about a dime in mid-March to 38¢ today after adjusting for currency and butterfat differences. Last fall, both the cheese and butter markets demonstrated their ability to ignore declining prices overseas when domestic supplies were scarce. But in the midst of a formidable spring flush, weakness in Europe and Oceania might prove to be more contagious.



The milk production season is winding down in New Zealand, and Fonterra now believes that 2014-15 milk collections will exceed the 2013-14 season by 1.1%. This is a reversal from Fonterra's previous expectations; they called for a 3% decline at the height of the New Zealand drought and forecasted a 2% contraction until this week's revision. Without voracious demand from China to sop up the excess, Fonterra expects dairy product



prices to remain low. They lowered their farmgate milk price forecast to just NZ \$4.50 per kg of milk solids. This is 20¢ lower than their previous forecast and the fourth decline in the pay price this season. Including dividends, this brings the cash payout to \$11.66/cwt. at the current exchange rate. The *Daily Dairy Report* noted earlier this week that "After decades of industry expansion, many of New Zealand's dairy producers are heavily indebted and the current pay price is below break-even levels... If low prices persist, cash flow issues could restrict expansion and the use of supplemental feed in the upcoming season, reducing the potential for growth in milk output."

For the week ending April 18, dairy cow slaughter totaled 54,288 head, up 4.4% from the same week a year ago. So far this year, culling is 3.1% ahead of the 2014 pace, but below the level needed to cause a sustained contraction in the national herd.

Grain Markets

The sun is shining in the Corn Belt and planters are rolling. Concerns about cold, muddy fields and lost corn acreage largely evaporated this week, and corn prices dipped to their lowest level since last fall. July corn futures settled at \$3.63 per bushel, down 6.75¢ from last Friday. July soybeans closed a nickel lower, at \$9.6475.

Next week looks a little wetter, and there will be many opportunities for the weather to damage the crop once it’s in the ground. But farmers have largely cleared the first hurdle, and the bears are roaring with relief.



A number of South American government and agricultural research firms updated their corn and soybean production estimates this week, and they have reached a clear consensus: the Brazilian and Argentine crops are even bigger than previously thought. USDA will likely increase its estimates for corn and soybean output in South America, and global grain stocks are likely to rise.

If feed costs remain low, it will dull the pain from shrinking milk checks. This will put indemnity payments from the Margin Protection Program even further out of reach and slow the incentive for dairy producers to reduce milk output. Producers who also farm would probably rather keep their barns full and use up feed than sell excess grain at \$3.65 per bushel. It may be some time before there is a meaningful slowdown in U.S. milk production.

CDFA SCHEDULES HEARING ON TEMPORARY CHANGES TO THE CLASS 4B FORMULA: *(By Rob Vandenheuvel)* Today, the industry was notified that CDFA Secretary Karen Ross has scheduled an administrative hearing on June 3rd in Sacramento to consider temporary adjustments to the Class 4b milk price calculation. This hearing was called on the Secretary’s own authority – no industry hearing request was submitted.

In the hearing notice, Secretary Ross stated that, “While the industry must continue to work towards long term structural reforms...I am concerned that the current conditions impacting the production of milk and the marketing of dairy products may warrant short-term adjustments to the current pricing levels. Thus the Department is calling a hearing on its own motion.”

The hearing – which will focus solely on the Class 4b pricing calculation – comes as we close out another month that saw a steep discount in our Class 4b price relative to the Federal Order Class III price – the benchmark price for milk sold to cheese manufacturers throughout the rest of the country. As you can see in the table shown here, our April 2015 Class 4b price was \$1.59 per cwt below the Federal Order Class III price.

The “California Discount” for our State’s Cheese Manufacturers		
	April ‘15	2010-Present
California Class 4b Price	\$14.22	\$16.14
FMMO Class III Price	\$15.81	\$17.96
Discount	(\$1.59)	(\$1.82)
The California Discount: More than \$1.78 Billion since January 2010.		

While the MPC Board of Directors continues to strongly support the California-Federal Milk Marketing Order proposal submitted to USDA by our State's three major cooperatives (three outreach meetings next week on that process; see article below), that process could reportedly take us into 2017 before we see a final decision by USDA and ultimate implementation. This hearing – which Secretary Ross specifically notes will only consider temporary adjustments for up to two years – gives us an opportunity to make the case to CDFA that some level of transitional milk price relief is warranted.

Proposals for how to craft a temporary adjustment will be submitted to CDFA over the next few weeks, so there will undoubtedly be more on this issue to report as we learn more about the proposals that emerge. So stay tuned...

NEXT WEEK: USDA'S "OUTREACH MEETINGS" ON THE CA-FMMO: *(By Rob Vandenheuvel)* As a final reminder, next week USDA is holding 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=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>