



# Milk Producers Council

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DATE: October 24, 2014  
TO: Directors & Members

PAGES: 3  
FROM: Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.1475 \$2.1400  
Barrels - \$.1475 \$1.9225

### Weekly Average, Cheddar Cheese

Blocks +\$.0255 \$2.2635  
Barrels - \$.0790 \$2.0250

### CHICAGO AA BUTTER

Weekly Change - \$.1900 \$1.8100  
Weekly Average - \$.3525 \$1.9495

### DRY WHEY

Dairy Market News w/e 10/24/14 \$.5975  
National Plants w/e 10/18/14 \$.6523

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### NON-FAT DRY MILK

#### Week Ending 10/17 & 10/18

Calif. Plants \$1.5034 9,093,789  
Nat'l Plants \$1.5147 17,033,791

#### Prior Week Ending 10/10 & 10/11

Calif. Plants \$1.4987 6,490,122  
Nat'l Plants \$1.4953 16,424,869

## FRED DOUMA'S PRICE PROJECTIONS...

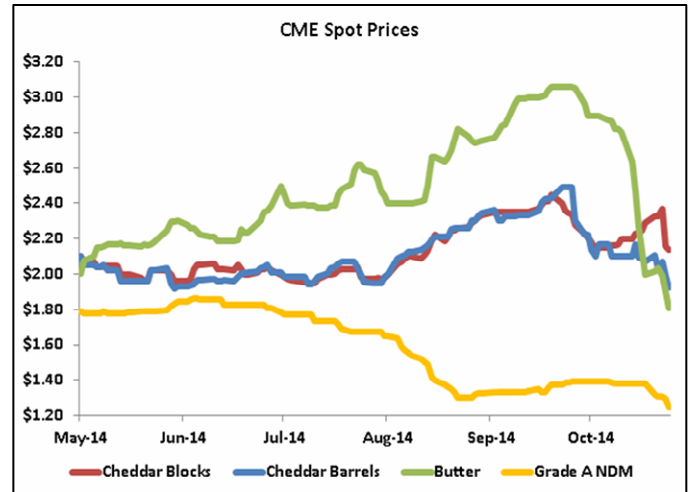
Oct 24 Est: Quota cwt. \$23.16 Overbase cwt. \$21.46 Cls. 4a cwt. \$21.05 Cls. 4b cwt. \$20.98  
Last Week: Quota cwt. \$23.20 Overbase cwt. \$21.50 Cls. 4a cwt. \$21.09 Cls. 4b cwt. \$21.04

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

### Milk & Dairy Markets

Weakness prevailed in the dairy markets this week. USDA released a heavily revised Cold Storage report on Wednesday, which seemed bullish for cheese prices. But spot cheese traders had other ideas; they pushed the Cheddar market sharply lower in the latter half of the week. Both blocks and barrels ended 14.75¢ below last Friday's closing price, at \$2.14 and \$1.9225, respectively. Not to be outdone, CME spot butter dropped another 19¢ this week to \$1.81. Grade A nonfat dry milk (NDM) lost 13.5¢ slipping to \$1.245. Friday's trade marks the lowest spot NDM price since July 2012. October through April Class III futures lost ground this week, with November and December down nearly 80¢. Deferred 2015 contracts were a little higher. Class IV futures settled mostly lower than last Friday.

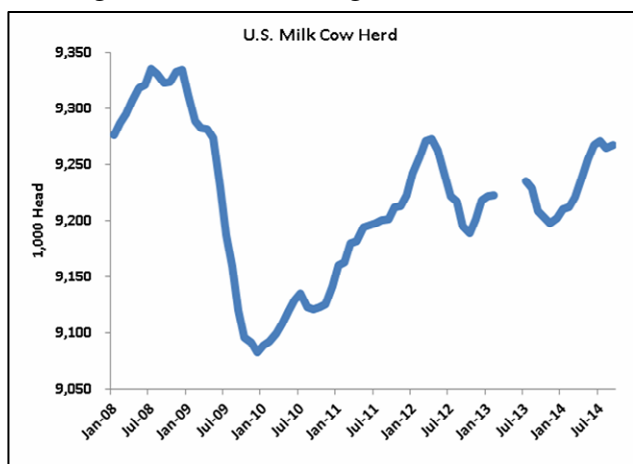
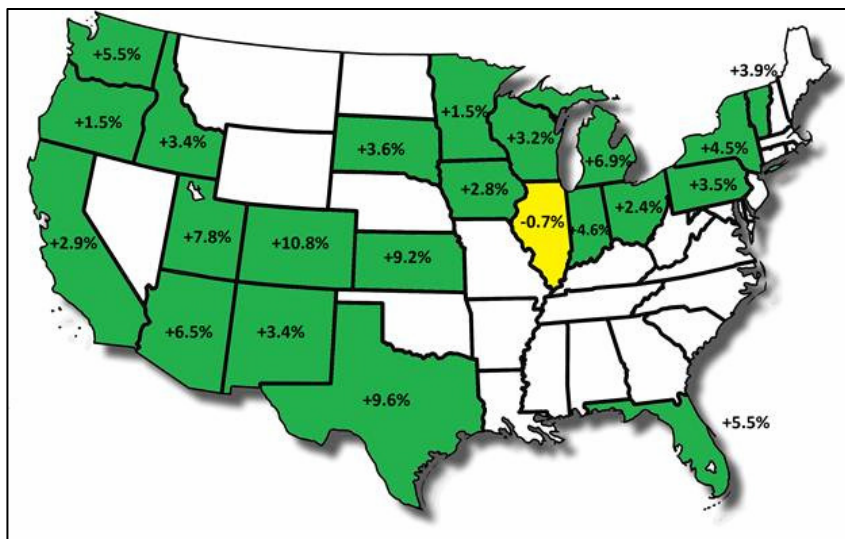


The futures now promise \$17 milk throughout 2015 which may not cover all costs for some producers, particularly in the West where feed is most expensive. But for now, margins are excellent and milk is flowing. U.S. milk production totaled 16.5 billion pounds in September, up 4% from a year ago. This marks the largest year-over-year increase in monthly milk production since March 2012. Every state except Illinois reported stronger output than last September. Growth was particularly robust in Colorado (+10.8%), Texas (+9.6%) and Kansas (+9.2%). California production totaled 3.3 billion pounds, up 2.9% from September 2013.

After surveying dairy producers, USDA lowered its estimates of the size of the milking herd. Compared to last month's Milk Production report, there were 11,000 fewer milk cows in August than previously reported. Thus,

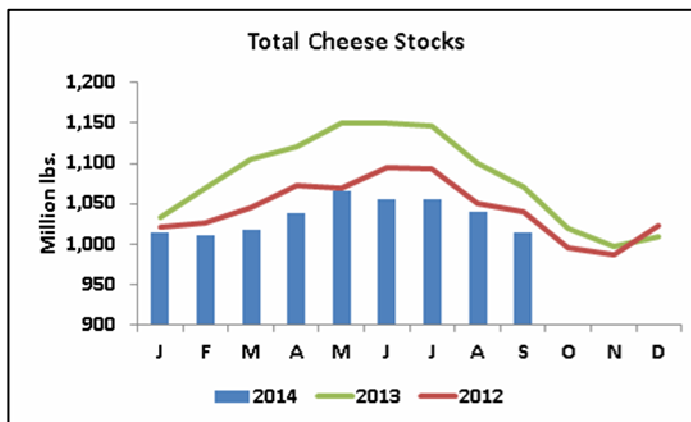
although the September milking herd is officially 2,000 head larger than it was in August, at 9.27 million head it is still 9,000 lower than USDA's estimate of the August herd as reported last month.

These figures suggest that herd expansion has been only a minor contributor to rising milk production. Over the past three months, rising milk yields have accounted for 86% of the increase in milk output compared to the third quarter of last year. Given strong margins, lofty heifer prices and the relatively low cull rate, dairy producers are clearly trying to expand the milking herd, but according to USDA the rate of expansion has slowed of late.



It is possible that milk cow numbers are in fact growing more quickly than USDA's data suggest and that a larger share of milk production growth is due to rising cow numbers. If this is the case, the current upward trend in milk production could prove more stubborn than growth driven primarily by production per cow. A market that depends on increased cull rates to restrict supplies faces a considerable lag between market signals calling for less milk and a broad decline in milk output. This is especially true after a sustained period of very strong margins, in which the market has been emphatically signaling to producers that they ought to expand.

Last month, USDA reported that total cheese stocks held steady from July to August. This month, they revised August cheese inventories downward by 14 million pounds to 1.04 billion pounds. Stocks dropped 2.6% from there to 1.01 billion pounds on September 30, down 5.4% from last year to a five-year low. The August to September drawdown in American cheese stocks was the largest since 2008, which helps to explain why spot cheese prices had been so strong until last week. Milk output in the traditional cheese states in the Midwest has really picked up over the past few months, so the impressive drawdown suggests that demand for cheese has been formidable.

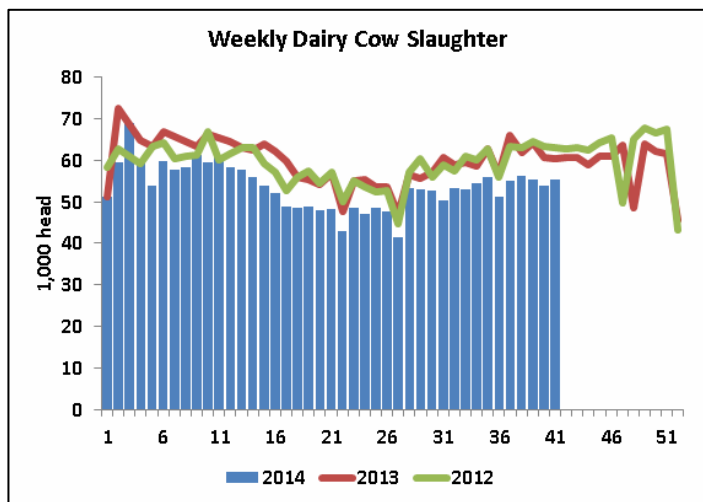
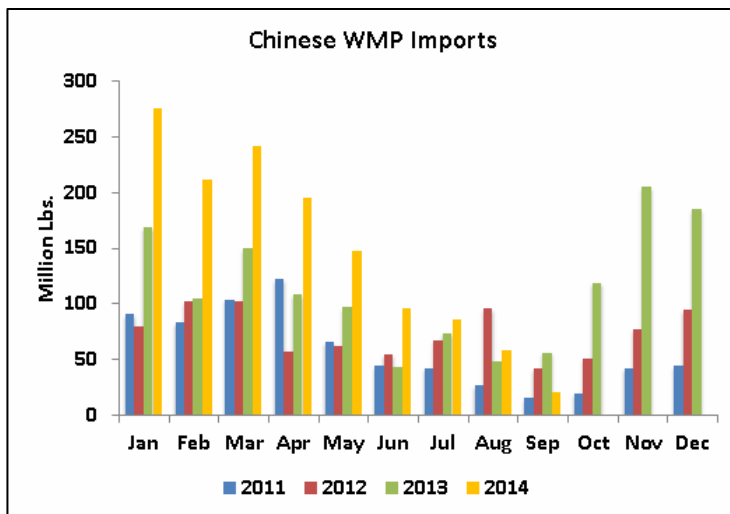


Butter inventories slipped to 146 million pounds in September, down 11.5% from August and 37.3% lower than last year. This represents a slight improvement in the year-over-year deficit as the holiday season looms near. In a typical year, retailers and other end users might already have much of their needs contracted, but it's likely that they balked at \$3 butter and made only minimal purchases in the early autumn. Now that spot prices have fallen \$1.25 from the highs, buying is more brisk. Cream supplies are plentiful, according to *Dairy Market News*, but butter makers are reluctant to build inventories at today's prices and are still carefully matching production to commitments.

After months of easing off the gas, China hit the brakes in September. Chinese imports of whole milk powder (WMP) fell to 20.7 million pounds, down 63% from August to the lowest monthly total in nearly three years. Combined imports of WMP and skim milk powder were 40% lower than in August and 54% lower than last year.

China is by far the world's largest consumer of WMP and the second largest producer, behind New Zealand. The decline in imports may signal a decline in demand, fostered by slowing growth in the formerly booming economy. Or China may simply need less foreign milk powder than previously thought. Chinese milk production is reportedly rebounding after a problematic 2013, and milk powder inventories have burgeoned after record-shattering imports earlier this year.

The decline in Chinese milk powder imports comes at an inopportune time for U.S. dairy producers. Milk production is on the rise and much of that milk will make its way to driers. Without China to sop up the excess, global milk powder inventories could grow considerably, leading to lower dairy product prices.



For the week ending October 11, dairy cow slaughter totaled 55,264 head, down 8.3% from the same week last year. So far this year, slaughter is 10.6% behind the 2013 pace. Slaughter in Region 9, which includes California, was higher than the same week in 2013 for the first time since the turn of the year.

#### Grain Markets

December corn futures gained a nickel this week, settling at \$3.53 per bushel. November soybean futures added 25.75¢. The strength in soybeans was driven by strong weekly exports and the slow harvest pace. Any increase in the soybean price could further reduce next year's corn acreage, so the rally in the soybean market likely

propped up corn prices this week. Both markets were also supported by an influx of buying among speculative funds.

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**FYI – ANIMAL RIGHTS ACTIVISTS SET UP A WHISTLEBLOWER PROGRAM WITH CASH REWARD:** (By Rob Vandenheuvel) Thanks to the staff at the California Farm Bureau Federation for a head's up on a new "Whistleblower Reward Program" set up by the Humane Society of the United States (*these are not the folks that run your local animal shelter, but the lobbying organization that labels our family dairies as "factory farms" and spends their millions lobbying Congress and State Legislators to eliminate calf hutches or require that chickens can flap their wings*). This new program offers a cash reward of up to \$5,000 "for information leading to the arrest and conviction of those who have committed acts of cruelty to farm animals."

Now obviously, the U.S. dairy industry condemns all forms of animal cruelty. As an industry, we've taken great measures to protect and enhance the health and welfare of our animals. Unfortunately, as we all know from past experience, our hard working dairy families are all-too-often defined by our worst offenders. However, I forward this information along to you because human nature being what it is, there is now a financial incentive to document animal cruelty, and while the intention may sound altruistic, it none-the-less opens the door to individuals "creating opportunities" to profit from this new reward system.

Dairies should continue to train their employees in proper practices when it comes to handling the animals, and implement a system of checks and balances to ensure those practices are being upheld. Don't give the industry's enemies an opportunity to paint you – and the rest of your industry – in a negative light.