



# Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018  
 801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549  
 222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801  
 Fax (909) 591-7328 ~ [office@milproducers.org](mailto:office@milproducers.org) ~ [www.MilkProducers.org](http://www.MilkProducers.org)



DATE: May 22, 2015  
 TO: Directors & Members

PAGES: 3  
 FROM: Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks +\$.0300 \$1.6500  
 Barrels - \$.0025 \$1.6200

### Weekly Average, Cheddar Cheese

Blocks +\$.0225 \$1.6380  
 Barrels - \$.0065 \$1.6175

### CHICAGO AA BUTTER

Weekly Change - \$.0825 \$1.8900  
 Weekly Average - \$.0990 \$1.9170

### DRY WHEY

Dairy Market News w/e 05/22/15 \$4.250  
 National Plants w/e 05/16/15 \$4.542

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### NON-FAT DRY MILK

#### Week Ending 5/15 & 5/16

Calif. Plants \$0.9651 11,582,244  
 Nat'l Plants \$0.9557 20,531,068

#### Prior Week Ending 5/8 & 5/9

Calif. Plants \$0.9277 14,076,508  
 Nat'l Plants \$0.9414 18,542,278

## FRED DOUMA'S PRICE PROJECTIONS...

May 22 Est: Quota cwt. \$15.88 Overbase cwt. \$14.18 Cls. 4a cwt. \$13.86 Cls. 4b cwt. \$14.65  
 Last Week: Quota cwt. \$15.86 Overbase cwt. \$14.17 Cls. 4a cwt. \$13.89 Cls. 4b cwt. \$14.59

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

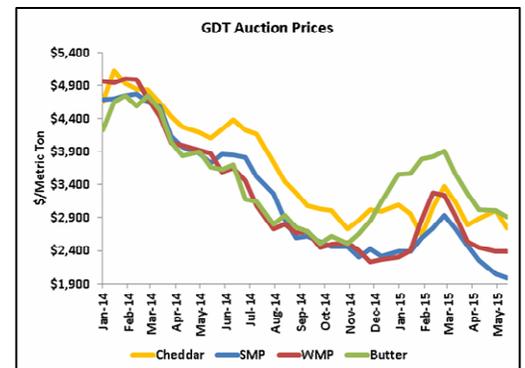
### Milk & Dairy Markets

It appears that the fire in last week's butter market was just a flash in the pan. This week CME spot butter lost 8.25¢, falling to \$1.89/lb. Several butter futures contracts settled a nickel lower on Friday, at their daily limits. CME spot nonfat dry milk (NDM) moved back and forth this week and ended Friday at 90¢/lb., up 0.25¢ on the week. Class IV futures lost between 10¢ and 50¢.

There is plenty of milk for cheese makers, but the market remains resilient. CME spot Cheddar blocks gained 3¢ this week, climbing to \$1.65, their highest level since early December. Cheddar blocks slipped to \$1.62, down 0.25¢. Class III futures were unconvinced by the block market strength. They lost a little ground this week.

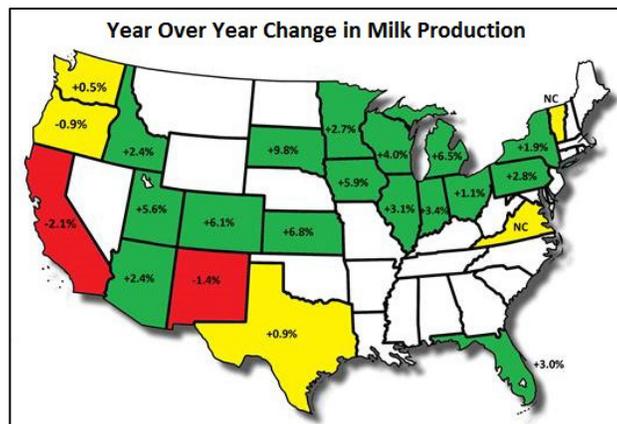
Prices moved lower again at the Global Dairy Trade (GDT) auction on Tuesday. The trade weighted index fell 2.2%. Nearly all products moved lower, including Cheddar (down 7.1%), butter (down 3.2%), skim milk powder (down 3.6%) and whole milk powder (down 0.5%).

European milk production got off to a slow start this spring, prompting speculation that producers there had sped up their post-quota expansion plans, enacting them last year when prices were high. Under this theory, European milk output was expected to be steady in 2015, despite producers' new freedom. But now unofficial reports suggest that output in Northern and Eastern Europe is on the rise. European driers will be kept busy.



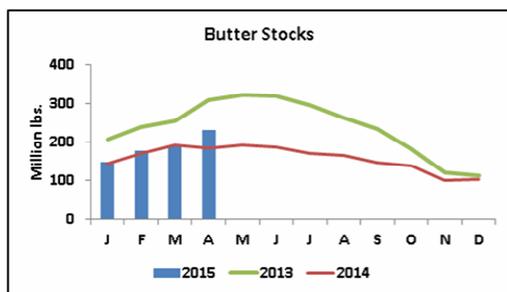
U.S. milk production remains strong. In April it totaled 17.8 billion pounds, up 1.7% from a year ago. Output in California slipped 2.1% from a year ago, and production in New Mexico and Oregon also fell short of last year. But milk is flowing in the Midwest. Output in Wisconsin, the nation's second largest dairy state, rose 4% from a year ago. Production rose 6.5% in Michigan, 6.8% in Kansas and 9.8% in South Dakota.

All that milk is keeping cheese vats full. *Dairy Market News* reports, “Heavier milk intakes are already placing strains on manufacturers and milk handlers. Driver availability is limited and milk tanker receiving has been delayed in some instances. Processors are anticipating the challenges will be compounded over the holiday.” It may be some time before the pressure abates. According to *Dairy Market News*, “Even if the flush begins to recede, new milk supplies available from expiring school year fluid milk contracts are expected to maintain strong milk availability for cheese manufacturing in the near future.”



Lack of capacity and resulting discounts may provide the only signal to producers in the Midwest that they ought to slow milk production, and many are likely to ignore it. Although \$16 or \$17 milk is certainly not exciting after last year, in light of falling feed costs and diminished debt levels, dairy producers in the region have little incentive to empty their crowded barns. Some producers have completed expansions, and the dairy herd has grown by 6,000 head in both Iowa and South Dakota, 9,000 head in Wisconsin, 12,000 head in Idaho, and an astounding 20,000 head in Michigan. There is likely more to come. Construction of new facilities that were begun during last year’s boom are not yet complete. They will continue to augment year-over-year growth in cow numbers in the coming months.

With all that milk and constant reports of heavy cheese production, it would have come as no surprise to see a big increase in cheese inventories. Total cheese stocks did rise in April to 1.08 billion pounds, up 15.6 million pounds from March 31. Cheese stocks typically rise 17.2 million pounds from March to April, so this year’s build was smaller than normal, signaling robust demand. This, along with a shift to non-American style cheeses, is likely the reason the cheese market has been able to hold fast in the face of formidable output. Total cheese stocks are 4.2% greater than April 2014 levels, but American cheese inventories are 1.4% lower than they were last year.



Butter stocks moved sharply higher in April, rising 43.5 million pounds to 230.4 million pounds. The month-to-month change was much larger than normal, but this is partially a function of the calendar. Easter and Passover came early this year, pulling holiday demand into March. Thus, butter stocks grew by a historically low 9.5 million pounds in March, and then rose sharply in April as manufacturers restocked after the holidays. Nonetheless, the monthly increase surprised the trade and the butter market moved quickly and decisively lower after the report.

For the week ending May 9, dairy cow slaughter totaled 51,617 head, up 5.7% from the same week a year ago. So far this year, culling is 3.9% ahead of last year’s pace.

### Grain Markets

The corn and soybean markets slipped this week as the weather continues to favor the crop in its earliest stages. July corn futures dropped 6¢ to \$3.60/bushel. For the past few weeks the wheat market has been on the rise amidst concerns that heavy rains in the Plains would damage the wheat crop there. But that put the U.S. wheat prices sharply higher than the global market, and today it succumbed, allowing the corn market to fall along with it.

November soybean futures lost nearly 30¢ and settled at a new contract low on Friday at \$9.07. Although farmers have been able to get most of the corn and soybean crops in the ground ahead of schedule, several million acres remain unplanted, and there are heavy rains in the forecast. It seems likely that farmers will shift some of those acres from corn to soybeans, because soybeans have a later ideal planting date. The crop in South America is huge and the nascent American crop is not getting any smaller. The soybean market is likely to remain under pressure.

**THE PROPOSALS ARE IN FOR THE UPCOMING CDFA MILK PRICING HEARING:** *(By Rob Vandenheuvel)* As we reported several weeks ago, the California Department of Food and Agriculture (CDFA) scheduled a milk pricing hearing in Sacramento for June 3<sup>rd</sup> to consider temporary changes to the calculation of the Class 4b monthly price – the price applicable for milk sold to California cheese/whey manufacturers. As regular readers of this newsletter know very well, our California Class 4b price has been severely discounted in recent years, relative to the Federal Order Class III price – the benchmark price for milk sold to cheese/whey manufacturers around the country. This past week, two proposals were submitted to CDFA for consideration at that hearing: **the first filed jointly by the three producer trade associations (*California Dairy Campaign, MPC and Western United Dairymen*); and the second by the Dairy Institute of California, on behalf of the cheese/whey manufacturers they represent.**

Before explaining these two proposals, it's important to note how this upcoming hearing and the proposal supported by MPC fits within the context of the discussion of a California Federal Milk Marketing Order (FMMO). The MPC Board has strongly endorsed the California FMMO proposal submitted by the three California cooperatives (California Dairies, Inc., Dairy Farmers of America and Land O'Lakes). We will be working to assist those cooperatives in the USDA hearing process however we can, in hopes of ultimately seeing a FMMO implemented in California that closely mirrors that cooperative proposal. Assuming USDA grants the request for a California FMMO hearing, the whole process will unfold over the coming two years.

In the meantime, we continue to operate in the California state milk pricing system; one that has facilitated a mailbox milk price in recent years that is significantly lower than the rest of the country. CDFA Secretary Karen Ross has called a hearing to discuss temporary proposals that help close this gap, and MPC looks forward to joining our fellow producer trade associations in testifying why a significant upward adjustment is warranted. However, this in no way changes the MPC Board's position on the proposed California FMMO. It's simply an opportunity to support an increase in the Class 4b monthly price that would be in effect for up to the next two years.

Now, as for the two proposals submitted for this upcoming CDFA hearing, they are very different, both in how they are structured, and the impact (or lack thereof) they would have on producer prices. Those differences can be best captured by the following two points:

*Effective period of the proposals:*

- **CDC/MPC/WUD Proposal:** Two years, the maximum allowed under Secretary Ross' hearing notice
- **Dairy Institute Proposal:** Six months

*Impact of the proposals on current milk prices:*

The estimated Class 4b price in May is \$14.65/cwt. Class 4b makes up approximately 45% of the California pool.

- **CDC/MPC/WUD Proposal:** Would increase this month's Class 4b price by about \$0.93/cwt, which equates to an increase of about \$0.40/cwt on the Overbase price.
- **Dairy Institute Proposal:** Would increase this month's Class 4b price by about \$0.06/cwt, which equates to an increase of less than \$0.03/cwt on the Overbase price.

There are obviously other details about the proposals we could discuss, and we certainly will in the hearing and perhaps in future issues of this newsletter. But this summary really says it all. In a hearing called by Secretary Ross due to a "*concern 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,*" the State's cheese manufacturers believe an appropriate response is a six-month adjustment that would have provided producers with less than a \$0.03/cwt increase in the pay price if it were in place this month. Apparently after being on the receiving end of a \$1.7 Billion California Discount over the past five-plus years, our State's cheese manufacturers believe they are entitled to the lowest-cost milk in the country. MPC, our fellow producer trade associations, and our producer cooperatives will do our best – both in this hearing and in the California FMMO effort – to dispel our processor counterparts of this notion.