



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@milkproducers.org ~ www.MilkProducers.org



DATE: November 15, 2013
TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0025 \$1.8200
Barrels - \$.0250 \$1.7575

Weekly Average, Cheddar Cheese

Blocks - \$.0740 \$1.8125
Barrels - \$.0570 \$1.7660

CHICAGO AA BUTTER

Weekly Change +\$.0900 \$1.6500
Weekly Average +\$.0535 \$1.6105

DRY WHEY

Dairy Market News w/e 11/15/13 \$.5675
National Plants w/e 11/09/13 \$.5724

NON-FAT DRY MILK

Week Ending 11/8 & 11/9

Calif. Plants \$1.8634 8,247,051
Nat'l Plants \$1.8799 13,725,868

Prior Week Ending 11/1 & 11/2

Calif. Plants \$1.8390 7,501,460
Nat'l Plants \$1.8616 11,407,507

FRED DOUMA'S PRICE PROJECTIONS...

Nov 15 Est: Quota cwt. \$20.25 Overbase cwt. \$18.55 Cls. 4a cwt. \$20.42 Cls. 4b cwt. \$17.28
Last Week: Quota cwt. \$20.16 Overbase cwt. \$18.47 Cls. 4a cwt. \$20.08 Cls. 4b cwt. \$17.32

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

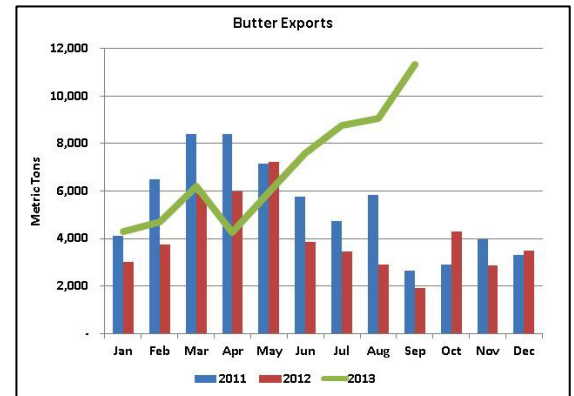
Milk & Dairy Markets

The Class IV market marched steadily higher this week. December through February futures added fifty cents or more, and November, December and January closed well above \$20/cwt. Class IV futures were supported by the CME spot markets, where butter and nonfat dry milk (NDM) reached new milestones. Spot butter added 4.5¢ on Thursday and surpassed the early September highs, rising to levels not seen since early May. It closed 9¢ higher than last week. Grade A NDM was up 4.25¢ and Extra Grade added 3¢. Both grades established new multi-year highs. The California Weighted Average Price for NDM rallied to \$1.8634, up 2.44¢ from last week to the highest average since November 2007.

After falling in tandem on Tuesday, Cheddar blocks and barrels diverged. Blocks regained much of the ground they lost early in the week and closed 0.25¢ lower at \$1.82. Barrels continued to slide and lost 2.5¢ this week. Class III prices were mixed. The cheese and Class III markets are sluggish. Buyers are living hand to mouth and hope to avoid any unnecessary purchases ahead of a potential price decline after the holidays. This suggests that they will be willing bidders when prices break, which may temporarily impede a steep drop in cheese prices.

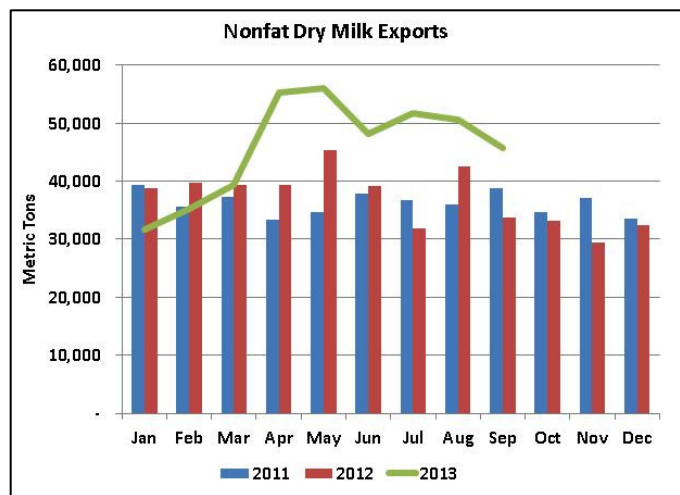
The butter market is on quite the tear. Spot butter has added 17.5¢ in the past three weeks. At \$1.65/lb., it is well above prices where Fonterra has indicated a willingness to sell. But for now that does not seem to matter. Holiday demand is lapping up cream supplies, leaving less for the churn. Butter processors have been forced to microfix bulk butter inventories to meet retail demand, and they are making a dent in once burdensome stocks. Domestic butter demand is firm and international needs are immense.

U.S. butter exports in September totaled 11,336 metric tons (MT) or 25 million lbs., nearly a six-fold increase from the prior year. Sales



were 29% greater than in August on a daily average basis and represent the largest September volume on record. Exporters maintained sales to traditional markets and expanded access to new ones. For the second consecutive month, Ukraine was one of the largest buyers of U.S. butter, and Lithuania emerged as another infrequent patron.

U.S. cheese and milk powder exports were also great by historical standards, but sales have slowed from the heady pace set in the past few months. September cheese exports of 25,783 MT were 5% lower than in August but exceeded September 2012 volumes by 40%. Cheese exports have been remarkably stable this year, thanks to steady purchases from Mexico and growing demand from East Asia. South Korea has emerged as the U.S.'s largest market for fresh cheese, particularly mozzarella to feed the nation's growing appetite for pizza.



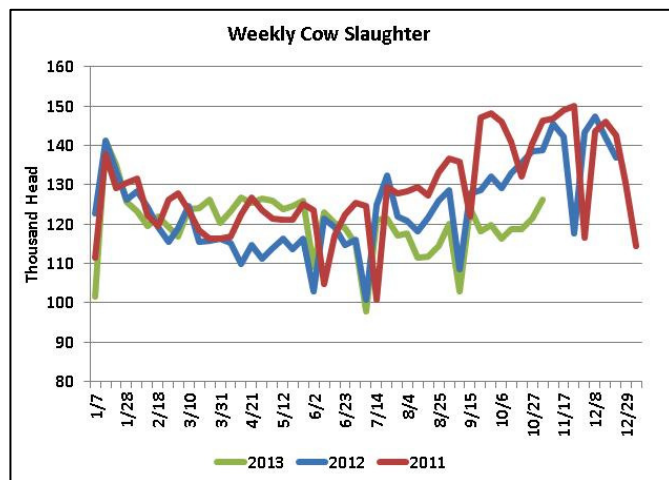
September NDM and skim milk powder (SMP) exports totaled 45,618 MT or 100.6 million lbs. Combined NDM/SMP exports have now topped 100 million lbs. for five consecutive months, a feat they have achieved in only a few isolated months before this year. Increased exports to China have more than offset declining sales to Mexico. But as New Zealand seeks to reclaim its share of the Chinese market, the U.S. will need to see a rebound in Mexican milk powder purchases. Even then, it seems unlikely that the current streak of high volume milk powder sales can go on indefinitely.

But there is reason to expect the tremendous growth in Chinese milk powder demand to continue. Among a

number of reforms, Communist party leaders announced a change to the nation's one child policy, which has been in effect since 1980. Couples will now be allowed to have a second child, provided one of the parents is an only child. The policy shift represents the potential for an increase in China's already voracious appetite for infant formula. Perhaps there is room for both the U.S. and New Zealand to maintain milk powder exports to the region. Even if New Zealand regains its market dominance there, the added demand could make more room for U.S. products elsewhere.

With milk revenue holding at historically high levels and feed costs falling, dairy profit margins are improving. Dairy producers are responding by slowing cull rates. Weekly dairy cow slaughter totaled 59,040 head, 5.6% lower than the same week a year ago. This was the lowest weekly slaughter total since August.

Beef producers are also sending fewer cows to slaughter, and combined dairy and beef cow slaughter since September has fallen short of 2012 by more than 100,000 head. September and October cow slaughter is nearly 200,000 head below 2011 levels. Cow beef is leaner, so the declining cow slaughter lessens domestic lean ground beef supplies. Typically, tighter lean beef supplies result in higher prices.



But lean beef prices are not rising. In fact, they have fallen almost 9% since peaking in early September. This suggests that lean beef demand is waning, and given stagnant U.S. incomes, the recent decline in food stamp benefits and already high beef prices, reduced demand is understandable. The apparent ceiling in lean beef prices means dairy producers will not enjoy cull cow revenue at the lofty levels seen earlier this year. However, prices are expected to remain only slightly below those highs.

Grain Markets

Corn prices retreated this week. December futures settled almost a nickel lower. At \$4.22/bushel, corn is only 6½ cents off the low established ahead of the recent Crop Production report. Grains are plentiful, and the only issue is convincing farmers to part with their crop at the lowest price in years.

Corn prices were pressured on Friday by news that the Environmental Protection Agency will lower the Renewable Fuel Standards (RFS) mandate for 2014. The EPA will cut its target for U.S. biofuel use from 18.15 billion gallons to 15.21 billion gallons. The proposed change implies an ethanol mandate of between 12.7 billion and 13.2 billion gallons, below the previous 14.4 billion gallon requirement. Ethanol margins are currently excellent, and weekly production stands at the highest level since late 2011. The new targets will not reduce corn demand for ethanol in the short term. Instead, the change provides the industry with an achievable blending target even as U.S. gasoline demand falls.

Soybean meal prices dropped nearly \$12 this week. According to the National Oilseed Processors Association (NOPA), October soybean crushings were larger than anticipated. The U.S. continues to export soybeans in volume, but the export program is decidedly front-loaded.

South American crops are off to a good start. The forecast for Argentina and Brazil will likely determine the direction of soybean prices for the next few months, and for now it promises sufficient rain for most crop areas.

A FUN STORY ABOUT IDAHO-BASED “POOP”: *(By Rob Vandenheuvel)* We spend a lot of time in this newsletter reporting on and analyzing how we can address some of the serious challenges we face as an industry. After all, that’s why we’re here, right? To speak out on behalf of California producers and advocate for positive change. But every once in a while, a story pops up that allows us to take a break from those serious issues and we’ve got one of those stories unfolding right now.

There’s a small dairy-related company in Nampa, Idaho that’s been generating quite a buzz on the internet. They sell bagged dairy compost to the local community. **Their name? “Poop.”**

Now the idea of composting dairy manure and selling it in bags is certainly not new. But this small family-run company has caught the eye of Intuit – makers of QuickBooks – who is sponsoring a contest giving small businesses an opportunity to get some premium advertising. Out of tens of thousands of entries, Poop’s 90-second video entry has advanced to the final four, with online voting to determine the winner out of those four. The Grand Prize for the winner is a 30-second commercial, to be aired during the 2014 Super Bowl!

You can check out the videos for Poop and the other three finalists at: <http://www.smallbusinessbiggame.com>. Learn how these creative folks from Idaho are teaching people to **“Poop their Plants.”** And make sure to cast your vote on the website (in fact, you can vote once a day between now and December 1st).

EPA PROPOSES LOWERING THE 2014 ETHANOL MANDATE: *(By Rob Vandenheuvel)* Today, as they’ve done for the past six-or-so years, the U.S. Environmental Protection Agency (EPA) announced their proposed 2014 volume requirements for the “Renewable Fuel Standard” (RFS) program, often referred to as the “ethanol mandate.” However, UNLIKE previous years, EPA announced that this year, they’re proposing a reduction in the ethanol mandate. This is obviously significant for dairy farmers, who have seen feed costs skyrocket in recent years as more than 40 percent of the U.S. corn supply is consumed by ethanol plants.

Under current law, the RFS was set to be 18.15 gallons of renewable fuel, of which 14.4 could be corn-based ethanol. However, in today’s announcement from EPA, the total RFS is proposed to be about 15.21 billion gallons, of which about 13 billion gallons could be corn-based ethanol.

This announcement is not totally surprising. It was floated a while back that EPA was considering using their authority to make this type of adjustment. While it’d be great to believe that EPA finally heard the arguments

coming from dairy and other livestock industries about the financial impact this policy has had on our cost of production, the reality is that the “blend wall” is what has triggered their change in thinking.

Under current law, there are limits to how much ethanol you can blend in gasoline. For the most part (excluding E-85 vehicles), that limit is 10 percent (E-10). So depending on how much gasoline is consumed in the U.S., there is only a certain part of that that can be ethanol. The “blend wall” refers to that limitation, and the problem with the RFS is that the current mandated volumes were higher than could be reasonably blended with the gasoline.

This has created huge market disruptions among petroleum companies, as many of them have been forced to purchase “RINs” (another issue for another day), skyrocketing their costs to just comply with the RFS. EPA put out a background document that has more information on the RFS and why they have proposed a reduced 2014 volume. You can find it at: <http://www.epa.gov/otaq/fuels/renewablefuels/documents/420f13048.pdf>. EPA is conducting a 60-day public comment period, after which they will render their final decision.

While this is a significant development within EPA, it really speaks to the fundamental flaws of the RFS, and the need to reform it through a change in the law. The RFS was created to stimulate a more vigorous renewable fuels industry, but the assumption was that advanced technologies like “cellulosic ethanol” would take over as a main component of that industry. Unfortunately, those advanced technologies have not kept pace, and instead corn-based ethanol has grown into a mammoth of an industry, consuming more than 40% of the U.S. corn supply, spurring the food-vs-fuel debate that we see today.

Congress needs to readjust the policy to get back to their original goal of encouraging advanced fuels. Given current market conditions, corn-based ethanol can reasonably compete with traditional gasoline, so isn’t going away. But it’s not the government’s job to guarantee a demand for their products. MPC has been working with a coalition of livestock, environmental, restaurant and taxpayer organizations to make these adjustments to the RFS, and we look forward to a vigorous debate on the issue in the coming months.

CENTRAL VALLEY AIR BOARD RECOGNIZES DAIRY INDUSTRY FOR THEIR AIR QUALITY EFFORTS: *(By Kevin Abernathy, Director of Regulatory Affairs)* This week, the San Joaquin Valley Air Pollution Control District (SJVAPCD) announced that they had achieved an air quality milestone by attaining the “1-Hour Ozone Standard.” This standard, which is based on monitoring and recorded violations (or lack thereof), demonstrates a significant improvement in Central Valley air quality compared to previous years.

Central Valley dairy families deserve a lot of credit for helping with this achievement. Despite what the environmental extremists may think and say, California dairy families – *who themselves are members of the local communities* – have collectively taken great steps in researching our impact on air quality and constantly seeking better management practices. And those efforts have paid off, with a now-measurable and publicly-recognized improvement in the Central Valley’s air quality.

ADDITIONAL TIME GRANTED BY CARB TO REGISTER EXISTING AGRICULTURAL VEHICLES: *(By Kevin Abernathy)* The California Air Resources Board (CARB) has announced some modifications to their “Truck and Bus Regulation” to make the program more flexible. Included in those changes is a provision allowing agricultural trucks that are eligible for the “low mileage exemption” but not yet enrolled to now enroll. This is a limited opportunity (only until January 31, 2014), so dairies with low-mileage trucks that were not enrolled in the program the first time around need to act soon to get those trucks enrolled. As a note, the requirement that you owned the truck on January 1, 2011 is still in place, so this would not apply to trucks acquired after that date. MPC members that have any questions on this program should contact me at kevin@milkproducers.org or contact MPC’s office at (909) 628-6018.