



Milk Producers Council

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DATE: February 21, 2014
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0575 \$2.1625
Barrels +\$.0950 \$2.1575

Weekly Average, Cheddar Cheese

Blocks +\$.0169 \$2.1269
Barrels - \$.0029 \$2.1006

CHICAGO AA BUTTER

Weekly Change +\$.0150 \$1.7850
Weekly Average +\$.0123 \$1.7763

DRY WHEY

Dairy Market News w/e 02/21/14 \$.6250
National Plants w/e 02/15/14 \$.6283

NON-FAT DRY MILK

Week Ending 2/14 & 2/15

Calif. Plants \$2.0360 8,121,113
Nat'l Plants \$2.0766 15,668,096

Prior Week Ending 2/7 & 2/8

Calif. Plants \$2.0452 11,731,945
Nat'l Plants \$2.0692 23,417,968

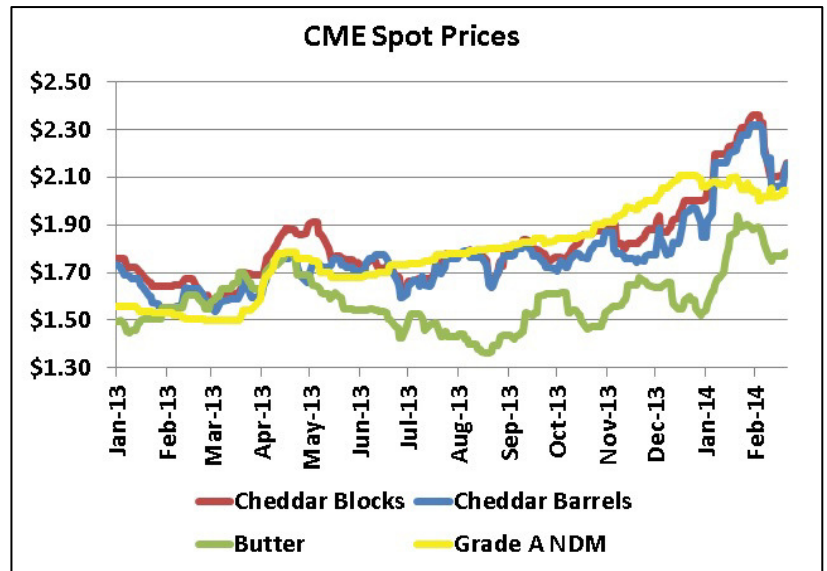
FRED DOUMA'S PRICE PROJECTIONS...

Feb 21 Est: Quota cwt. \$23.34 Overbase cwt. \$21.64 Cls. 4a cwt. \$23.03 Cls. 4b cwt. \$21.12
Last Week: Quota cwt. \$23.24 Overbase cwt. \$21.54 Cls. 4a cwt. \$22.93 Cls. 4b cwt. \$20.97

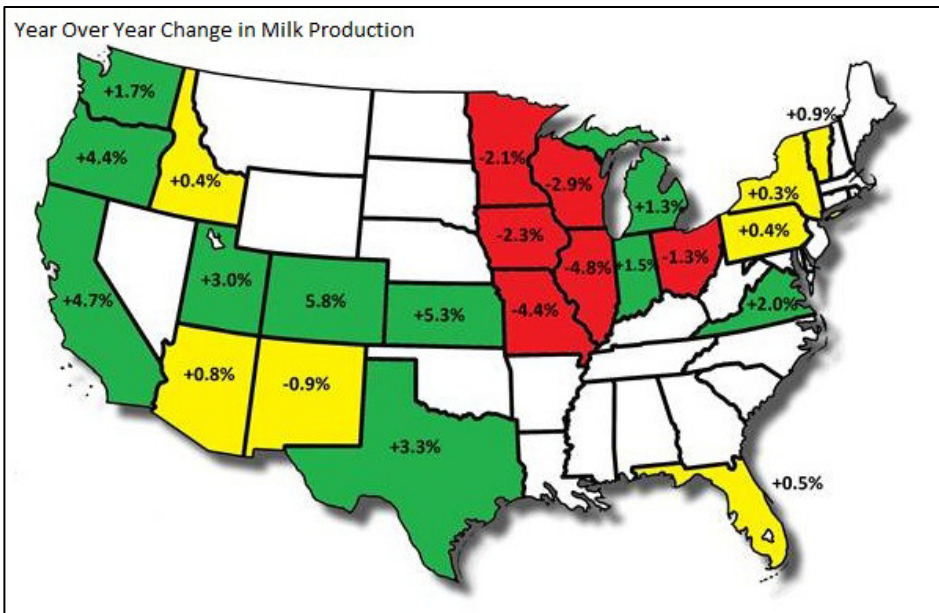
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

After retreating last week, CME spot dairy product prices mounted a comeback. Spot Cheddar blocks settled at \$2.1625/lb., up 5.75¢. Barrels were even stronger. They added 9.5¢ and closed at \$2.1575. By comparison the Class IV products were much quieter. Grade A nonfat dry milk (NDM) climbed 2.5¢ to \$2.045 and butter gained a half cent at \$1.785. April through October NDM futures closed limit up on Wednesday, 4¢ higher than the previous day's settlements. Both Class III and IV futures moved higher in every session of this holiday-shortened week. Most Class III futures settled 25 to 75¢ higher than last week, and the April contract rallied more than a dollar. Gains were equally impressive for Class IV contracts.



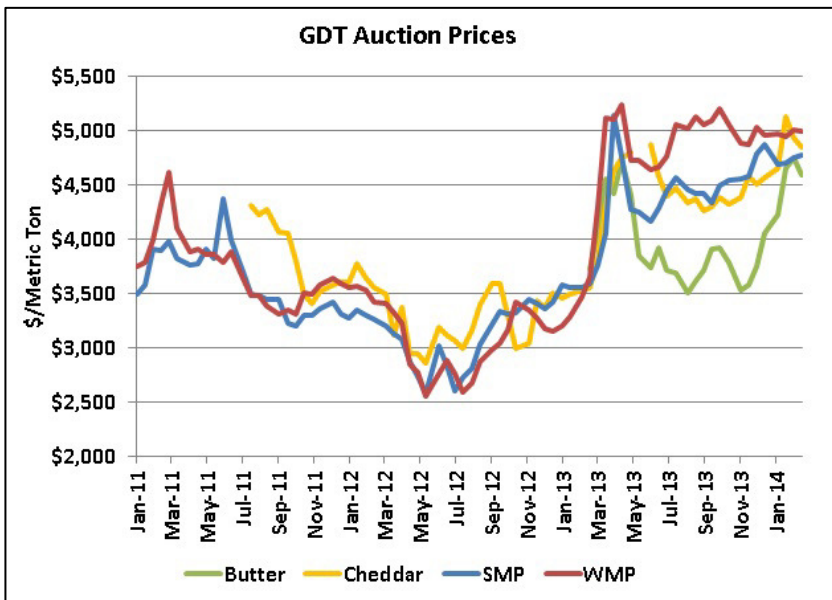
U.S. dairy producers are trying to match rising milk prices with rising production, but national milk output has been somewhat lackluster. January milk production totaled 17.26 billion lbs., up 0.9% from a year ago. Production in the Midwest was nearly 2% lower than a year ago. In contrast, dairy producers in the Southwest increased milk output, and nowhere more so than in California. Golden State milk production topped 3.6 billion lbs. in January, up 4.7% from January 2013.



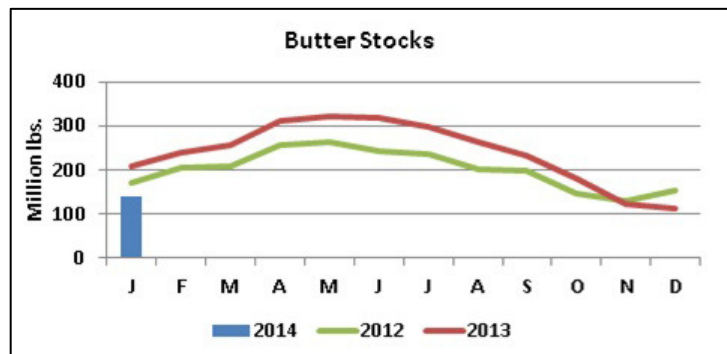
The weather and forage issues are surely culpable for much of the production deficit in the Midwest. But on a national scale the lack of replacements may also be to blame. USDA hinted as much by revising downward its estimates of the size of the milk cow herd as far back as last February. It seems that high cull rates had a greater impact on the dairy herd than previously assessed. The milk cow herd now totals 9,209,000 head. This is 7,000 more than in December but 13,000 fewer than in January 2013.

Competitors overseas have enjoyed nearly ideal conditions and are outpacing American milk production growth. A mild winter in Europe and green pastures in New Zealand have allowed for stunning increases in milk output. December production in the EU-28 was up 4.6% from the prior year. Season-to-date production in New Zealand is up 5.4% from the 2012-13 season, and USDA expects full season production to exceed last year by 7 to 9%. Much of this excess milk will be dried. Among all dairy products in New Zealand, milk powders have the highest margin. European processors are worried that the spring flush will overwhelm drying capacity. Milk powder production is formidable, the limit up moves in NDM futures are particularly impressive. Prices indicate that supply growth has not been able to overwhelm pent-up demand for milk powders.

Indeed, skim and whole milk powder prices were only slightly lower at the Global Dairy Trade (GDT) auction on Tuesday. The GDT index fell 1.2%, suffering its worst performance since November as the average winning butter price fell 3.8% and Cheddar prices dropped 1.7% from the previous auction. Butter prices were also dropping in Europe. The butter futures market there has fallen for nine consecutive weeks. Prices are down about 10% since the turn of the year.



Strong demand for dairy products limited inventory builds in January. Cheese stocks at the end of last month totaled 1.02 billion lbs., down 1.6% from a year ago. Inventories were 6.5 million lbs., or 0.6% greater than at the turn of the year. Cheese inventories typically grow by greater volumes in January. Similarly, butter stocks of 138.1 million lbs. were 33.3% lower than January 2012 but 22.8% greater than December 2013.



The 25.7 million lb. increase in butter inventories was about half as large as in an average January. Global dairy product demand remains firm, but as U.S. and overseas milk production continues to rise, cheese and butter inventories will likely climb as well.

The U.S. dairy industry is clearly in expansion mode. Dairy cow culling has slowed and springer prices

continue to rally. Weekly dairy cow slaughter totaled 59,237 head, down 10.6% from a year ago. Year-to-date slaughter is 8.7% lower than the very high cull cow volumes in early 2013.

Grain Markets

Corn futures climbed nearly a dime this week, and corn is now trading at the high end of the prevailing trading range. Farmers have taken notice and are beginning to sell a little. The corn basis has weakened in some areas. Firm ethanol and export demand is likely behind the rise in corn prices. But grain supplies are plentiful and the corn market will likely remain range-bound for the foreseeable future.

Soybean futures added 35¢ this week. China cancelled some contracts to import 2013-14 U.S. soybeans and rolled them to new crop, but the cancellations were too little, too late. U.S. oilseed supplies are tight, and exports are simply too large. The U.S. will have to import soybeans or slow the crush to preserve soybean supplies until harvest. The weather has slowed the crush but for now this has only served to lift soybean meal prices, without offering relief to soybean futures. There are plenty of buyers and the flow of exports from Brazil has hardly pressured global oilseed prices. Unless something drastic encourages (or forces) Argentine farmers to sell their soybeans en masse, end users will likely face high soybean and soybean meal costs well into summer.

2014 CDQAP “ENVIRONMENTAL STEWARDSHIP” CLASSES SCHEDULED FOR NEXT MONTH:

(By Rob Vandenheuvel) Many California dairies have already participated in past Environmental Stewardship classes hosted by the California Dairy Quality Assurance Program (CDQAP). But for those of you who haven't, you'll have another opportunity in the coming weeks when meetings are scheduled in Tulare and Fresno.

Water Quality Classes

Thursday, March 27

- Part One: 9 a.m. to 12 noon
- Part Two: 1 to 4 pm
- Southern California Edison Energy Education Center (formerly Edison AGTAC), 4175 South Laspina Street, Tulare, CA

Air Quality Class

Thursday, April 3

- 9:30 a.m. to 12:30 p.m.
- Fresno County Farm Bureau, 1274 W. Hedges Avenue, Fresno, CA

For any California dairy that has not already been “environmentally certified” by the CDQAP program, this is your only scheduled opportunity this year. The attendance to these classes, along with a followup on-site inspection of your dairy, is what is required to receive this certification. Besides the benefit of being recognized as an environmentally responsible dairy operator, the certification also means a 50% reduction in your annual fees paid to the State Water Board for the next five years (which has become a significant discount, as the State continually ramps up these annual fees).

A flyer with more information on the upcoming classes can be found on our website at: <http://www.milkproducerscouncil.org/2014cdqap.pdf>. MPC members wishing to participate in this program should contact either myself at (909) 992-9529, Betsy Hunter at (661)205-6721 or Kevin Abernathy at (209) 678-0666.