

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 ~ <u>office@milkproducers.org</u> ~ <u>www.MilkProducers.org</u>



DATE: September 19, 2014 TO: Directors & Members

FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAG	O CHEDD	AR CHEESE	CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	+\$.1000	\$2.4500	Weekly Change	+\$.0600	\$3.0600	Week Ending 9/12 & 9/13		
Barrels	+\$.0950	\$2.4300	Weekly Average	+\$.0360	\$3.0220	Calif. Plants	\$1.4397	22,636,920
						Nat'l Plants	\$1.4683	36,964,957
Weekly A	Average, Ch	eddar Cheese	DRY WHEY			Prior Week Ending 9/5 & 9/6		
Blocks	+\$.0570	\$2.4070	Dairy Market News	w/e 09/19/14	\$.6100	Calif. Plants	\$1.4594	20,798,317
Barrels	+\$.0780	\$2.4080	National Plants	w/e 09/13/14	\$.6690	Nat'l Plants	\$1.4825	37,008,975

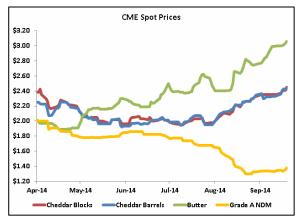
FRED DOUMA'S PRICE PROJECTIONSSept 19 Est:Quota cwt. \$24.36Overbase cwt. \$22.67Cls. 4a cwt. \$22.89Cls. 4b cwt. \$22.55								
Sept 19 Est: Quota cwt. \$		24.50 Overbase cwt	. <i>\$44.</i> 0/	UIS. 4a CW	1. \$42.89	UIS. 40 CW	'l. \$44.33	

Last Week: Quota cwt. \$24.28 Overbase cwt. \$22.58 Cls. 4a cwt. \$23.12 Cls. 4b cwt. \$22.24 ***

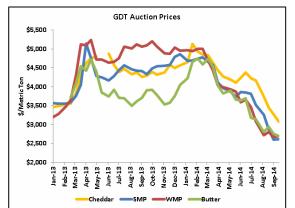
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

Last week's panic is naught but a memory this week as the U.S. dairy markets emphatically reasserted their ability to rally in spite of sustained weakness overseas. CME spot butter and Cheddar reached fresh highs and even nonfat dry milk (NDM) ascended. Grade A NDM closed at \$1.375/lb. up 3.5ϕ from last week to its highest level in a month. Butter added 6ϕ , ending the week at \$3.06 after 31 trades. Cheddar blocks gained a dime and barrels rose 9.5ϕ ; they closed at \$2.45 and \$2.43, respectively. Strength in the spot market translated to much higher Class III milk prices for 2014. The November contract climbed almost \$2.00. However, 2015 futures were more reluctant to rally, and contracts closed on either side of last Friday's settlements. The Class IV market posted



gains well into next year. The June 2015 contract, for example, added 88¢.



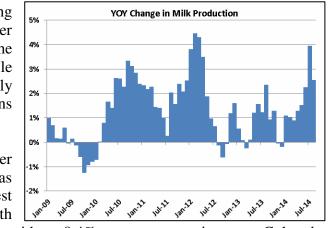
Milk powder prices also firmed at the Global Dairy Trade (GDT) auction. Skim milk powder (SMP) gained 0.9% and whole milk powder (WMP) prices rallied 0.6% from the previous event. However, only product for November and December delivery inched upward. This was strength enough to allow the GDT index to hold steady, but it was not sufficient to erase the discount that Oceania milk powder holds relative to the U.S. market. Most other dairy products continued to slip. Butter lost 2.5% and Cheddar dropped 6.5%.

Milk production continues to rise around the globe, and the U.S. is

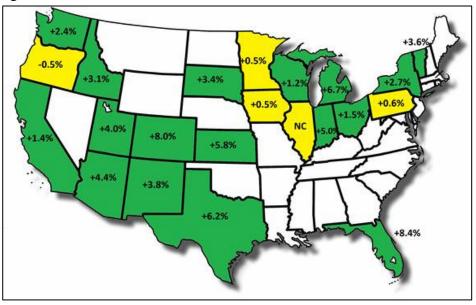
no exception. Domestic milk production totaled 17.22 billion pounds last month, 2.5% more than August 2013.

This marks the eighth consecutive month of year-over-year growth in U.S. milk output thanks in large part to improving milk yields. National average output per cow was 1.9% greater than in August 2013. There were 9.276 million cows in the milking herd in August, 47,000 head more than last year. While this is 1,000 head fewer than in July, USDA revised its July estimate upward by 5,000 head, so the August herd remains larger than USDA's initial July assessment.

Among the 23 major dairy states, only Oregon reported lower milk production than the year before. Output in Illinois was steady. Iowa, Minnesota and Pennsylvania reported modest increases. The other states continue to report impressive growth



in milk output relative to last year. Florida led the way higher, with an 8.4% year-over-year increase. Colorado was not far behind, with an 8% surge. Michigan and Texas followed, with gains of 6.7% and 6.2%, respectively. California milk output rose 1.4%. There are 2,000 fewer milk cows in the Golden State than there were a year ago.



For the week ending September 6, which included Labor Day, dairy cow slaughter totaled 51,269 head. This was 9.2% lower than last year, bringing the year-to-date total down 10.4% from last year. There is no reason to expect the milk cow herd to begin contracting anytime soon.

<u>Grain Markets</u>

Combines are rolling and field reports confirm that the corn and soybean crops are huge. Corn and soybean futures continue to sink. This week December corn futures closed at \$3.315 per bushel, down 16¢ from last

week. November soybean futures faded to \$9.57, down nearly 40¢. Last weekend's cold snap had a very limited impact on the crop, and there is no threat of frost in the forecast.

Harvest has not yet arrived in the Northern Plains, but grain elevators are already full. The oil industry has monopolized much of the nation's trucking and rail capacity and elevators in the region report that their orders for rail cars to move last year's grain are months behind. These backlogs will only get worse as harvest moves northward. For farmers in the area, this means additional storage charges and a very wide basis, with cash corn prices below \$3 per bushel. Local livestock operations will be able to purchase cheap grain and corn silage as long as they can find a farmer willing to part with it at today's prices.

Rising hauling costs will impact all levels of the dairy industry supply chain, but they will have the greatest impact on feed, due to its bulk. Dairy producers in California will feel the hauling mark-up most acutely, as they are importing an abnormally large share of their ration this year amidst severe drought.

California's dairy industry is largely shielded from the impact of the hauling mark-up on milk deliveries, since most dairies in the Golden State are located relatively close to a variety of processors. But as the *Daily Dairy Report* noted this week, cooperatives in other parts of the country are now more constrained in their decisions regarding product mix. Thus, rail and trucking issues are muting the market's signals favoring one product over

another. Cooperatives are likely to keep local manufacturers full, even if more distant processors offer a better price. There is simply too much water in raw milk to justify an unnecessary long-distance haul. Processors who are far from population centers will face steeper hauling costs on top of already sky-high dairy product prices.

MPC SCHEDULES SIX AREA MEETINGS TO DISCUSS MARGIN PROTECTION PROGRAM: (By

Rob Vandenheuvel) As you all know, from now through November, U.S. dairies are able to sign up for the new "Margin Protection Program," a Federal safety net program created in the 2014 Farm Bill. In an effort to bring our members up to speed on how the program works, what decision-making resources are available for the program, and how to sign up, we have scheduled six area meetings over the next three weeks to delve into the issue.

MPC invites our members, prospective members and allied industry partners to come out to any one of these meetings, which start next week. The schedule is outlined below:

Wednesday, September 24, 3 pm

Lodi Region: Van Exel Dairy (18630 N. Thornton Road in Lodi)

<u>Thursday, September 25, 1:30 pm</u> Chowchilla Region: Diepersloot's Big Red Barn (14874 Road 16 in Madera)

Wednesday, October 1, 2:30 pm

Kern County: Echeverria Farms (20229 Old River Road in Bakersfield)

Thursday, October 2, 11 am (lunch provided)

Hanford/Visalia Region: Innovative Ag Services (1201 Delta View Road in Hanford)

<u>Tuesday, October 7, 11 am (lunch provided)</u> Fresno Region: Maddox Dairy (12863 W. Kamm Avenue in Riverdale)

Wednesday, October 8, 1 pm Southern California: Chino Fairgr

Southern California: Chino Fairgrounds (5410 Edison Avenue in Chino)

In order to prepare for the meetings, RSVP's are appreciated. Please send an email to <u>rob@milkproducers.org</u> or <u>kevin@milkproducers.org</u> to let us know you're coming. We look forward to seeing you there!

ANOTHER MASSIVE FEE INCREASE ON THE AGENDA AT THE STATE WATER BOARD: (*By Kevin Abernathy, Director of Regulatory Affairs*) Once again, the State Water Resources Control Board (SWRCB) is considering a massive increase to the annual fees paid by California's dairy families. Next **Tuesday, September 23rd at 9:00 am in Sacramento, the SWRCB will hold a meeting to consider several proposed changes to the annual fee structure for dairies, all of which represent a significant increase.**

Among the options being considered is an across-the-board increase of 30-33%. Under this option, the averagesized California dairy with 1,000 cows would see their annual fees rise from \$2,988 to about \$3,900. For the State's larger dairies (3,000+ cows), the annual fee would rise from \$9,960 to about \$13,000!

Another option – which has been identified as the preferred option for State Water Board staff – is to implement a 20% across the board increase, but to also limit the discount that CDQAP-certified dairies receive at \$2,500. For those of you who are CDQAP-certified, you know that you're currently entitled to a 50% discount in your annual fees. Under this alternative option being discussed next Tuesday, that discount would be limited to 50% of your fee or \$2,500, whatever is lower. This would mean a steep increase to the fees of all CDQAP-certified dairies greater than 1,500 animals.

Dairy Cares, which MPC is a member of, submitted outstanding comments on our behalf (you can see the letter at: <u>http://www.waterboards.ca.gov/resources/fees/comments091814/docs/jp_cativiela.pdf</u>), but for any dairyman willing and able to attend next week's Water Board meeting to speak out in opposition of the constant barrage of fee increases we continue to see from the Water Board, please contact me for more information at <u>kevin@milkproducers.org</u> or 209-678-0666.