



Milk Producers Council

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TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$1.7600
Barrels	-.0525	\$1.6600

Weekly Average, Cheddar Cheese

Blocks	-.0520	\$1.7600
Barrels	-.0705	\$1.6810

CHICAGO AA BUTTER

Weekly Change	-.0100	\$1.5900
Weekly Average	-.0505	\$1.5870

DRY WHEY

Dairy Market News	w/e 12/07/12	\$.6375
National Plants	w/e 12/01/12	\$.6570

NON-FAT DRY MILK

Week Ending 11/30 & 12/1

Calif. Plants	\$1.5070	6,579,261
Nat'l Plants	\$1.5310	16,454,459

Prior Week Ending 11/23 & 11/24

Calif. Plants	\$1.4965	5,940,600
Nat'l Plants	\$1.5199	11,947,459

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

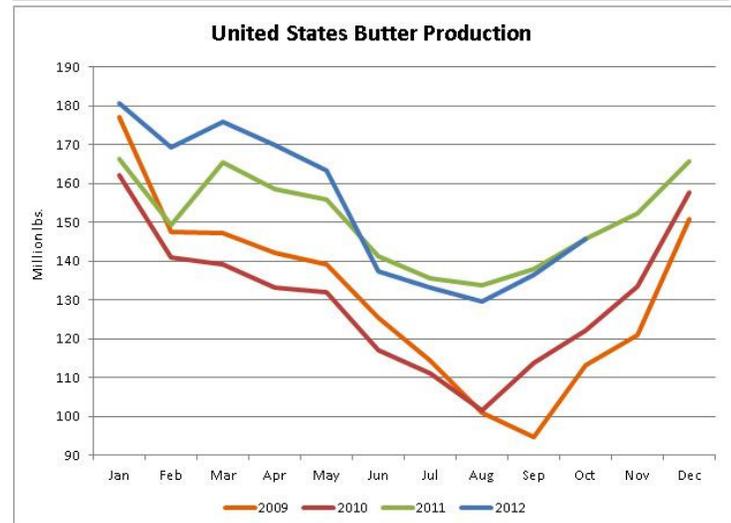
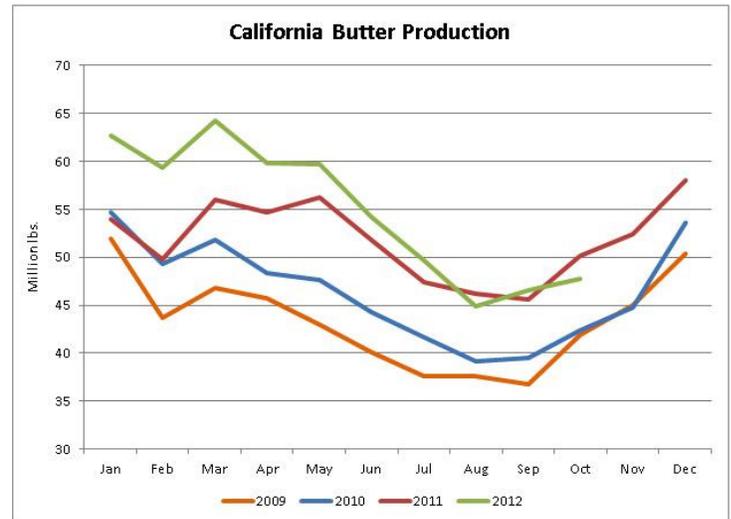
Milk & Dairy Markets

Milk and dairy product prices moved mostly lower again this week. Early 2013 Class III futures were particularly weak. Class III open interest has fallen below 20,000 contracts, its lowest level since January 2009. Trade volume has suffered due to a combination of growing volume on alternative contracts like cheese and whey futures, holiday inertia, and indecisiveness. Dairy producers are not willing sellers at these prices given high feed costs. Conversely, end users expect the decline to continue, and they remain on the sidelines.

The California 4a price for November was announced at \$18.27, up 30¢ from October. The 4b price was \$18.48, down 95¢ from the previous month. California 4a and 4b prices will likely continue to narrow as heavy national cheese production pressures Class III and 4b prices. December milk prices will likely be lower than November given declines in the product markets.

Butter prices appear to be stabilizing after their steep and somewhat sudden decline to the \$1.60 area. U.S. butterfat remains largely uncompetitive in the global market, but the difference between U.S. and global prices is narrowing. Anhydrous Milk Fat prices at the Global Dairy Trade auction on Wednesday moved 3.7% higher to an average price of \$3,197/mt or \$1.45/lb.

Butter production in October totaled 145.7 million lbs., slightly higher than October 2011 according to Monday's Dairy Products report. Regional production trends were not so static. Due to declines in milk production, butter output in the West fell



5.4%. Meanwhile, production in the Central region was 6.4% higher than last year. As milk production continues to slow in the West, butter production will likely slow in tandem, as this region produces nearly half of the nation's butter. California alone accounts for one third of U.S. butter production, and Golden State output fell 4.9% in October.

Cheddar blocks were untested this week at the CME spot session. But cheddar barrels and every other measure of cheese prices moved lower. Barrels shed 5.25¢ this week, settling at \$1.66. The winning average price of cheddar at the Global Dairy Trade auction was \$1.53, down 2.5% from the previous event. January cheese futures closed at \$1.775, a nickel lower than they did last Friday. Global cheese buyers appear wholly unconcerned about securing product for early 2013, as it seems there will be no shortage of cheese.

Indeed, strong cheese prices in October pulled milk from other uses and into cheese vats. October cheese production was 3.2% higher than last year even as overall milk production was lower than 2011. In California, however, cheese output fell 2.8% from October 2011 to 184 million lbs. California is the nation's second-largest cheese producer behind Wisconsin. The Dairy State more than made up for declines in the West, increasing cheese production by 5.3% from last year. The fact that cheese stocks in cold storage at the end of October were down 4% from September and down 6% from a year ago reveals firm demand for cheese despite a month of heavy production and high prices.

With less milk available and increases in both butter and cheese production, milk powder bore the brunt of the shortfall. Combined nonfat dry milk (NDM) and skim milk powder (SMP) production was 1.4% lower than last year and has been lagging year-ago levels for months, mostly due to declines in SMP production. But there is not likely to be a shortage of milk powder any time soon. New Zealand milk production remains very strong and is on pace to exceed last year's record-breaking production by 4-5%. Fonterra opened a new drier in Darfield on New Zealand's South Island a few months ago capable of processing more than 1,000 metric tonnes of milk powder daily. This week Fonterra announced plans to double capacity at one of their North Island driers, which would make it slightly larger than the Darfield plant.

SMP prices lost 3.5% at the GDT auction, falling to \$1.525/lb. Whole milk powder prices were 2% lower, at \$1.4379. NDM prices in the West now mostly range from \$1.51 to \$1.55, which is a penny stronger on the high end of the range, according to *Dairy Market News*. CWAP NDM prices averaged \$1.507 for the week ending November 30, up 1.05¢.

Dairy Market News also reported an increase in the whey price in the West. But while nearby whey prices remained firm, 2013 whey futures weakened notably this week. The California Department of Food and Agriculture denied the most recent petition to revise the whey price calculation, but it will hold a hearing later this month to discuss temporary adjustments to all milk price components.

Grain Markets

Grain and oilseed markets were heavily influenced by export activity this week. Corn prices lost about 15¢, weakened by yet another report of almost nonexistent export sales. U.S. corn is priced at a considerable premium to South American supplies. While balance sheets suggest Brazilian exporters should be scraping the bottom of their bins to fill export orders, they simply keep selling with no indication that they intend to stop.

Soybean exports were strong, and the USDA reported additional sales to China. Chinese soybean crushing margins are hovering near break-even levels and they are improving. Demand for soybeans and soymeal is strong both domestically and internationally. But U.S. and Chinese crushers are competing for soybeans that farmers are largely unwilling to sell. Soybean prices were 40¢ higher this week, but they could be under pressure on Monday if weekend rains in Brazil are as widespread and heavy as forecast.

Wheat exports were tepid, but wheat prices moved higher this week as there are more signs of trouble for the global wheat crop. Western Australia is very dry and estimates for both production and exports are falling. Unseasonably warm temperatures in Russia have prevented the winter wheat crop from entering dormancy, and

some of the crop is sprouting. Long range forecast are calling for one of the coldest winters ever in Russia, and the crop is unprotected from potentially damaging colds due to lack of snow cover.

FRED DOUMA'S PRICE PROJECTIONS...

Dec 07 Est:	Quota cwt. \$19.02	Overbase cwt. \$17.33	Cls. 4a cwt. \$17.36	Cls. 4b cwt. \$16.41
Last Week:	Quota cwt. \$19.03	Overbase cwt. \$17.33	Cls. 4a cwt. \$17.38	Cls. 4b cwt. \$16.41

DISCUSSIONS OVER THE 2012 FARM BILL CONTINUE IN CONGRESS: *(By Rob Vandenheuvel)* As we inch closer to the end of 2012, the discussion over the remaining major items on Congress's agenda (which includes the approval of a five-year Farm Bill) intensifies.

This week, the folks at the International Dairy Foods Association (IDFA), on behalf of their processor members, took to the airwaves in an attempt to pressure Congress to simply extend the 2008 Farm Bill into next year, allowing for Congress to delay the approval of a new five-year bill. Jerry Slominski, one of the leaders of IDFA, included the following statement in his comments to Dairyline Radio: "Isn't it better for farmers to receive MILC payments rather than to send payments to the government under the so called 'Dairy Market Stabilization Program' or supply management program?" (<http://www.idfa.org/news--views/headline-news/details/7844/>)

Besides being a gross simplification of the Dairy Market Stabilization Program, which isn't even worth responding to, **what Mr. Slominski is really saying is that he and IDFA would prefer the Federal Government to just make payments to dairy farmers with absolutely not effective tool to actually restore balance to our markets**, which in the end is the only path to market-based profitability for dairy farmers. This is consistent with IDFA's support for the "Goodlatte/Scott Amendment" which is a standalone "margin insurance" program without the DMSP. What we are seeing is a fundamental debate over two very different visions for our industry: government welfare for dairy farmers (IDFA's preferred option) *or* a voluntary, market-based DMSP that allows any individual dairy to grow as much as they desire, but empowers us to quickly and temporarily respond to those hopefully rare imbalances in our dairy markets.

With IDFA ramping up their efforts to kill the current dairy provisions in the five-year Farm Bill, we renew the call the action that we began last week. If you haven't reached out to your Congressman yet, **we need you to get on the phone!** As a reminder, below are phone numbers for many of the California Representatives from our dairy regions:

- **Wally Herger (Orland):** (202) 225-3076
- **Jerry McNerney (Escalon/Lodi/Tracy):** (202) 225-1947
- **Jeff Denham (Madera/Chowchilla/Kerman):** (202) 225-4540
- **Jim Costa (Fresno/Hanford/Bakersfield):** (202) 225-3341
- **Devin Nunes (Tulare/Visalia):** (202) 225-2523
- **Kevin McCarthy (Bakersfield):** (202) 225-2915
- **Joe Baca (Ontario):** (202) 225-6161
- **Gary Miller (Chino):** (202) 225-3201
- **Ken Calvert (Corona):** (202) 225-1986
- **Jerry Lewis (Redlands):** (202) 225-5861
- **Mary Bono-Mack (Moreno Valley):** (202) 225-5331

If you have any questions, feel free to give MPC a call at (909) 628-6018.

CDFA ANNOUNCES MILK PRICING HEARING ON DECEMBER 21st: *(By Rob Vandenheuvel)* This week, California Department of Food and Agriculture (CDFA) Secretary Karen Ross announced that a hearing will be held on December 21st to consider temporary modifications to the formulas for *all* five classes of milk. The Secretary's announcement clearly states that any proposed modifications will be in place for no longer than six months.

For the past two years, dairy farmers have been seeking significant modifications to the Class 4b formula, which calculates the minimum price to be paid for milk sold to cheese manufacturers. While this hearing will be broader in scope than just the Class 4b formula, it will provide an opportunity for the dairy farming sector to make the strong case that there is ample evidence that a producer pay price increase is justified. Dairy families are encouraged to make plans to attend the hearing, which will begin at 7 a.m. on Friday, December 21st. The hearing will be held in the main CDFA auditorium at 1220 N Street in Sacramento, CA.

MPC ENDORSES CALIFORNIA MILK PRICING LEGISLATION: *(By Rob Vandenheuvel)* As our readers likely saw earlier this week, MPC issued a press release announcing our Board of Directors' support for AB 31, a bill introduced by Assemblyman Richard Pan (D-Elk Grove/Galt/Lodi) that would modify the California Class 4b formula in an effort to maintain better alignment with the Federal Order Class III price. In case you missed that press release, it can be read here: <http://goo.gl/BDRIE>.

While MPC recognizes that Secretary Ross has scheduled a hearing on December 21st that will include discussions about the Class 4b price, any results coming out of that hearing will be temporary in nature. AB 31 provides an opportunity for the California Assembly and State Senate to discuss long-term options for the California dairy industry.

CENTRAL VALLEY MONITORING PROGRAM CONDUCTING FIRST ANNUAL ELECTIONS: *(By Kevin Abernathy, Director of Regulatory Affairs)* As our Central Valley dairies know well, the Central Valley Dairy Representative Monitoring Program (CVDRMP) is a not-for-profit group, organized and overseen by Central Valley dairy operators. The group's purpose is to reduce regulatory costs for member dairies by administering a representative groundwater monitoring program for dairies. A dairy's membership in good standing in CVDRMP can substitute for the current regulatory requirement to install monitoring wells, and is a lower-cost alternative.

The CVDRMP has an elected board of directors overseeing the organization. Annual elections for this board are currently being held. If your dairy is part of the CVDRMP, you should have received material in the mail in the past week. Ballots are due by Friday, December 21st, so dairies are encouraged to review this material and respond as soon as possible. If you have any questions, please don't hesitate to contact MPC at (209) 678-0666.

REMINDER – FUNDING IN CENTRAL VALLEY AVAILABLE FOR TRACTOR REPLACEMENT: *(By Kevin Abernathy, Director of Regulatory Affairs)* We've included this notice in the newsletter a couple times, but we'd like to remind our members that starting on October 15th, the San Joaquin Valley Air Pollution Control District (SJVAPCD) began accepting applications for agricultural tractor replacement projects. The funding for these projects is available on a first-come-first-serve, so MPC members interested in participating should contact either myself (kevin@milkproducers.org or 209-678-0666) or the SJVAPCD in the **very near future**. A flyer distributed by the SJVAPCD can be found on our website at: <http://www.milkproducerscouncil.org/valleyairtractor.pdf>.