



Milk Producers Council

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DATE: November 21, 2014
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.2125 \$1.7300
Barrels - \$.1750 \$1.7400

Weekly Average, Cheddar Cheese

Blocks - \$.2040 \$1.8070
Barrels - \$.1200 \$1.8470

CHICAGO AA BUTTER

Weekly Change +\$.0125 \$2.0000
Weekly Average - \$.0020 \$1.9910

DRY WHEY

Dairy Market News w/e 11/21/14 \$.5850
National Plants w/e 11/15/14 \$.6424

NON-FAT DRY MILK

Week Ending 11/14 & 11/15

Calif. Plants \$1.4196 11,945,145
Nat'l Plants \$1.4414 18,296,910

Prior Week Ending 11/7 & 11/8

Calif. Plants \$1.4524 7,200,762
Nat'l Plants \$1.4633 16,580,555

FRED DOUMA'S PRICE PROJECTIONS...

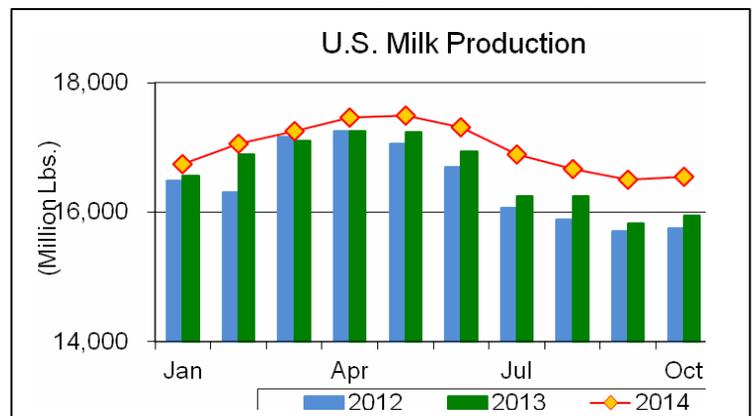
Nov 21 Est: Quota cwt. \$20.92 Overbase cwt. \$19.22 Cls. 4a cwt. \$18.32 Cls. 4b cwt. \$18.70
Last Week: Quota cwt. \$21.27 Overbase cwt. \$19.57 Cls. 4a cwt. \$18.69 Cls. 4b cwt. \$19.21

MARKET COMMENTARY: (By Daily Dairy Report staff, info@dailydairyreport.com)

Milk & Dairy Markets

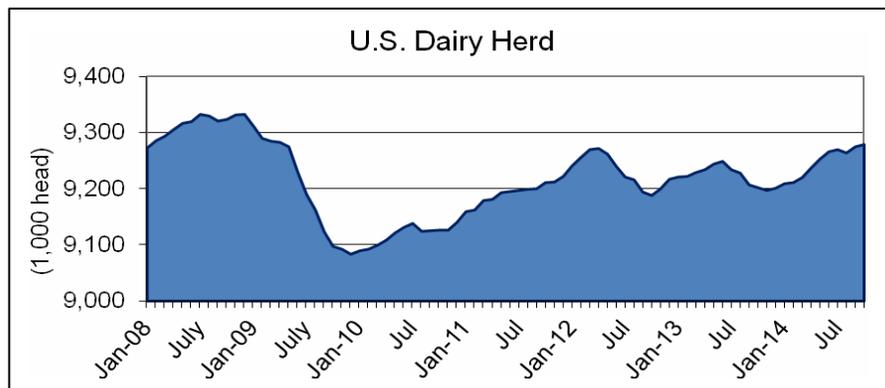
The CME Group (CME) spot Cheddar block and barrel cheese prices fell double digits this week but found some support during Friday's trading session. Barrel cheese traded as low as \$1.7025/lb. before being bid higher and closing at \$1.74. The block market was relatively quiet but came under pressure after the barrel price started to tumble. After three trades at \$1.73/lb., the block market, unlike the barrel market, closed at its low of \$1.73/lb. There was an uncovered offer of blocks at \$1.78/lb. left on the board. Weakness in the cheese market carried into the nonfat dry milk (NDM) trading session. Eleven loads of NDM traded above \$1.17 this week, but multiple offers during Thursday's market caused buyers to step aside and the market settled at \$1.1375/lb. Friday's trading session consisted of a single above-the-market offer at \$1.155, which did nothing to entice a buyer, and the market closed unchanged at \$1.1375. Spot butter buyers were disappointed with no trades this week after last week's sales of 22 loads (more than 950,000 lbs.). The butter market, which was bid 1.5¢ higher during the week to \$2/lb., bucked this week's selloff.

U.S. milk production flowed in October, topping 17.1 billion pounds, a 3.8% increase from a year ago, according to USDA's Milk Production report. Seasonally, milk production during October was 0.3% more than September on a daily average basis. Greater year-over-year (YOY) production gains were reported in each of the 23 selected states except for Illinois, which came in unchanged.



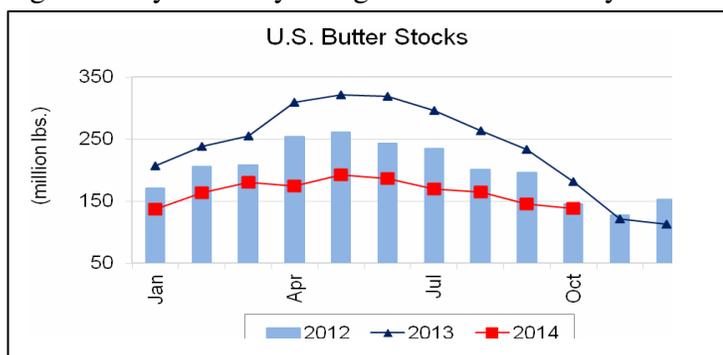
USDA revised 2014 monthly dairy cow numbers. For the most part, revisions were small with monthly changes between 1,000 and 2,000 head in either direction. The largest revision occurred in October as USDA's preliminary estimate of 9.267 million head was increased to 9.276 million cows, up 11,000 head from September.

Record-high milk prices into Q4 2014 prompted producers to bring 4,000 more cows into the national herd, which now numbers 9.28 million head—the largest herd since April 2009.



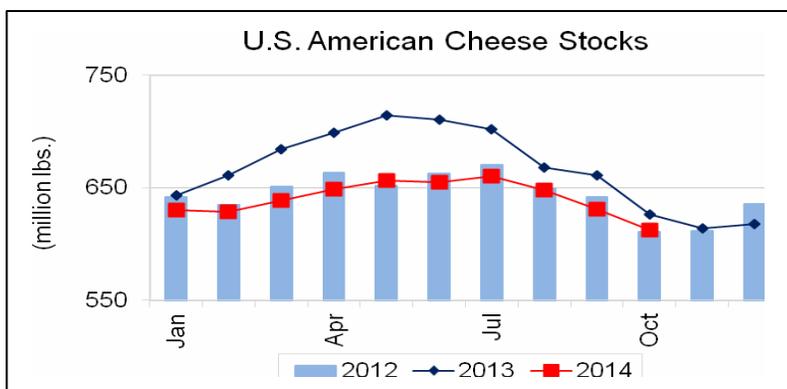
Not surprisingly, the states that posted the largest year-over-year gains (YOY) in milk output during October also reported the biggest herd expansions. Milk production in Texas increased 11.6% compared to last October due in part to a 32,000-head increase in the state’s dairy herd. Colorado’s milk output increased 9.7% with 8,000 more cows, while Michigan’s milk production exceeded last year’s by 7.1% with a 17,000-head gain in its herd. It is interesting to note that the nation’s leading milk-producing states, California and Wisconsin, reported more modest YOY gains of 2.7% and 2.4%, respectively, with little change in their dairy herds.

Around the globe, milk production continues to outpace the prior year as well. USDA’s *Dairy Market News* (DMN) reports that New Zealand’s October milk production was 4.3% above last year. Farmgate milk prices are significantly below year-ago levels and likely to result in lower supplemental feeding, early drying-off, and increased culling in early 2015. The two largest milk-producing countries in Europe, Germany and France, report YOY production gains of 3% and 7.4%, respectively, in September. Since then, farmgate milk prices have retreated, and lower YOY gains are expected into 2015.



Sticker shock might explain the significantly below-average drawdown in butter stocks that occurred in October. Butter inventories in October fell just 7.9 million pounds to 138.2 million pounds. The five-year average September-to-October decline is 33.4 million pounds. During the previous three months (August through October), butter stocks fell 32 million pounds compared to the five-year average drawdown of 80 million pounds. Granted, some end users might have waited as long as possible to place butter orders, which could translate into a stronger-than-average decline in November. Nevertheless, butter stocks are still 24% less than last year, and it is likely that year-ending stocks will be less than 100 million pounds.

American cheese stocks continued to decline along seasonal trend in October, falling 19.1 million pounds to 612.2 million, which is 3% less than the prior month and 2.2% less than the previous year. The decline in American cheese stocks over the past three months totaled 43 million pounds, which exceeds the five-year average drawdown by 10 million pounds, suggesting strong demand.



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Grain Markets

Corn and soybean meal prices have rebounded from the lows set in late September and early October. The amount of grain yet to be harvested and a resurgence in weekly corn exports contributed to this week’s price gains. More than 10% of the U.S. corn crop was still in the field for the week ending Nov. 16, according to USDA’s Crop Progress report released earlier this week. Harvest in the “I” states, Illinois, Indiana, and Iowa, is 94%, 84%, and 92%, completed, respectively. However, corn harvest in key milk-producing states trails the

national average by a significant margin. Wisconsin and Michigan corn harvests are estimated at 64% and 59%, respectively. Pennsylvania's corn crop is somewhat better with 79% harvested. Export sales of corn for the week ending Nov. 13 increased 80% to 908,689 metric tons.

PRESIDENT OBAMA ANNOUNCES EXECUTIVE ACTION ON IMMIGRATION ENFORCEMENT:

(By Rob Vandenheuvel) In a national address yesterday, President Obama announced steps his administration is taking on the issue of enforcement of our immigration laws. Among other things, the action would provide an opportunity for temporary relief from deportation for undocumented immigrants who have lived in the U.S. at least five years and have children who are U.S. citizens. The process would require registration, background checks and fees. There are no agriculture-specific provisions in the announced executive action.

This announcement has certainly raised the already-high profile of immigration reform discussions. It remains to be seen whether this will inspire swift action on immigration reform in Congress. The dairy industry has stood unified in support of comprehensive reform that provides meaningful change that addresses not only our current workforce, but the future needs of our labor-intensive dairy farms. We look forward to working with elected officials from both parties as this critical issue takes center stage in the new year.

LAST TWO CALIFORNIA CONGRESSIONAL ELECTIONS ARE NOW SETTLED:

(By Rob Vandenheuvel) Last week, in our report on the results of the November 4th election, we noted that two Congressional races in California remained "too close to call." With the votes almost all counted, we now know the winners in those two elections:

- Congressman Ami Bera (D-Elk Grove) has won re-election, with 1,432 more votes (out of more than 180,000 votes cast) than his Republican opponent Doug Ose.
- Congressman Jim Costa (D-Fresno, Merced) has also won re-election, with 1,327 more votes (out of more than 90,000 votes cast) than his Republican opponent, dairyman Johnny Techerra.

MPC certainly extends its congratulations to Congressmen Bera and Costa for their re-elections. In particular, we've had a long working relationship with Congressman Costa and he's been a strong voice for the dairy industry on the Ag Committee through several Farm Bills. We look forward to continuing that working relationship, with major issues on the agenda for this term; immigration reform and overhauling the ethanol mandate will hopefully be high on that list.

While politics can seem like a winner-take all contest, we would also like to extend sincere congratulations to our fellow dairyman Johnny Techerra for a hard-fought campaign. It takes tremendous energy and courage to step away from the comfort of your dairy farm into the heavily-competitive world of politics. Your colleagues greatly appreciate your willingness to take on that challenge.

ONLY TWO WEEKS LEFT TO ENROLL IN MARGIN PROTECTION PROGRAM:

(By Rob Vandenheuvel) On two weeks remain to submit the appropriate forms to your local Farm Services Agency (FSA) in order to enroll your dairy in the Margin Protection Program (MPP) for 2015. The deadline for FSA to receive your paperwork is December 5th. We've written about it many times over the past several months, but the MPP is a safety net program made available to dairy farmers in the recently-passed Farm Bill. It provides direct payments to enrolled dairies when national milk-price-over-feed-cost margins fall below pre-set triggers.

Dairies can sign up for the basic program, which requires a \$100 annual administrative fee along with the appropriate paperwork. You can also sign up for an enhanced level of protection, which includes a premium paid to USDA. MPC members looking for assistance in this matter can contact me at (909) 628-6018 or rob@milkproducers.org.