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: January 17, 2014 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*+$.0300*	$2.2300
Barrels	*+$.0425*	$2.2025
Weekly Average, Cheddar Cheese		
Blocks	*+$.0595*	$2.2115
Barrels	*+$.0785*	$2.1765

CHICAGO AA BUTTER		
Weekly Change	*+$.1775*	$1.8525
Weekly Average	*+$.1260*	$1.7740
DRY WHEY		
Dairy Market News	w/e 01/17/14	$.6063
National Plants	w/e 01/11/14	$.5928

NON-FAT DRY MILK		
Week Ending 1/10 & 1/11		
Calif. Plants	$1.9661	9,561,782
Nat'l Plants	$2.0150	18,130,668
Prior Week Ending 1/3 & ¼		
Calif. Plants	*$1.9664*	*7,253,946*
Nat'l Plants	*$2.0039*	*13,914,467*

***

FRED DOUMA'S PRICE PROJECTIONS…

Jan 17 Est:	**Quota cwt. $22.41**	**Overbase cwt. $20.71**	**Cls. 4a cwt. $21.89**	**Cls. 4b cwt. $20.26**
Last Week:	**Quota cwt. $22.24**	**Overbase cwt. $20.55**	**Cls. 4a cwt. $21.57**	**Cls. 4b cwt. $20.15**

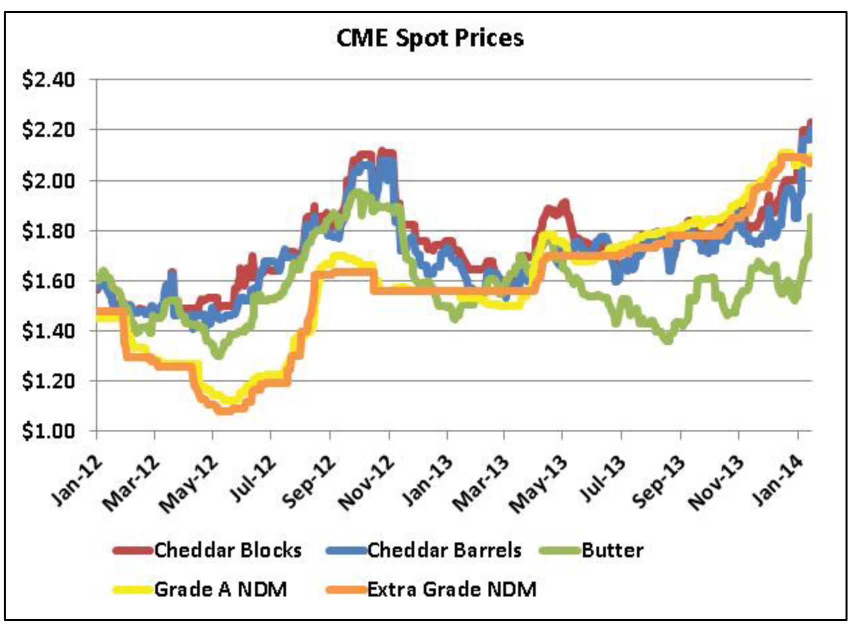
***

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

Milk & Dairy Markets

The recent rise in dairy product prices has been nothing short of astonishing. February Class III futures climbed $1.73/cwt. this week and traded limit up on Thursday. They settled at $21.92 on Friday. March Class III and February through June Class IV futures also posted gains of a dollar or more. February Class IV futures ended the week at $23.45.

Class III and IV milk are taking their cues from the dairy product markets. This week CME spot Cheddar blocks reached $2.23/lb., just 5.5¢ from the all-time high set in May 2008. Cheddar barrels are not far behind, at $2.2025. Cheese prices have never been this high in the first half of the year. Nonetheless, there is a dearth of willing sellers. Would-be buyers of Cheddar blocks left the pit empty-handed this week.



Grade A nonfat dry milk (NDM) added 2.75¢ this week, although spot NDM prices lost ground on Wednesday and Thursday. Extra Grade NDM ended steady with last week at $2.08. The California Weighted Average Price of NDM averaged $1.9661/lb., down slightly from the previous week. This was the first such decline in CWAP NDM since early November. Sales volume was solid.

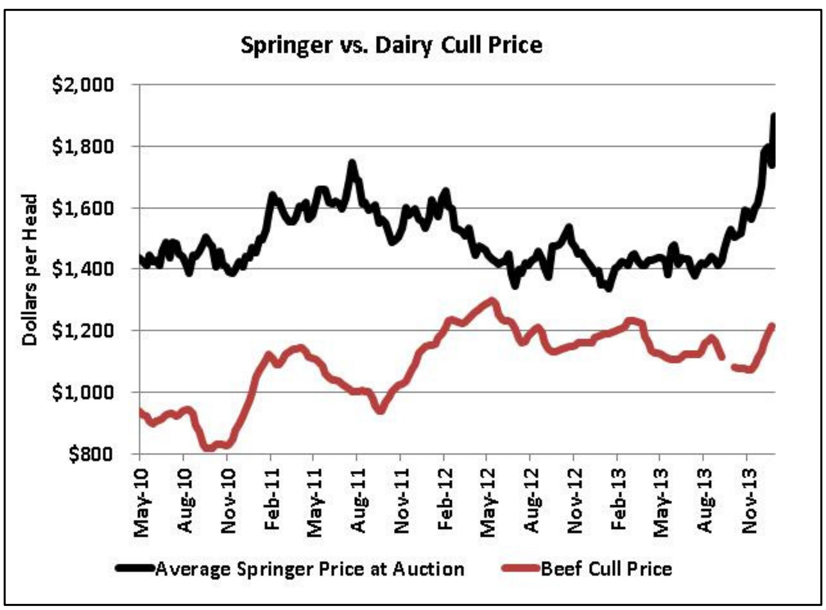
After lagging the other spot products for eight months, the butter market is playing catch-up. And it is doing so in impressive fashion. This week CME spot butter rallied 17.75¢, closing at $1.8525, a 14-month high.

With most dairy product prices nearing all-time highs, the billion dollar question is simple: How long will it last? As Mark Twain famously opined, “History does not repeat itself, but it does rhyme.” In the past, National Dairy Product Sales Report (NDPSR) butter and NDM prices have both averaged more than $2/lb. for four consecutive months. Butter is well below $2 and NDM has held over $2 for all of two weeks. This week the NDPSR Cheddar block price climbed over the $2 mark for the first time. NDPSR cheese prices have never averaged over $2 for more than two months at a time.

It should be noted that on a number of occasions, dairy product prices made only brief visits above $2 before plunging, as high prices did their job by boosting output and restricting demand. But cheese, butter, and milk powder prices have never been this high simultaneously. This suggests that none of these markets will be quickly overwhelmed by a flood of products as they compete for finite volumes of milk. But the global milk supply is growing, and as prices rise, demand growth could stall.

U.S. dairy product prices are no longer a bargain. Spot butter reached $1.85 this week, but at the most recent Global Dairy Trade (GDT) auction Fonterra sold butter for February delivery at $1.74/lb. on a fat-adjusted basis. Cheddar averaged $2.11 at the GDT, well below the $2.23 bids for CME block Cheddar on Friday. GDT skim milk powder (SMP) prices remain above equivalent prices for NDM in the U.S., but the gap is narrowing. French SMP prices fell this week and they can now compete with U.S. NDM. Granted, butter, cheese and NDM futures remain below USDA’s assessment of global dairy product prices. But they too are rising to the occasion.

U.S. dairy product exports are unlikely to nosedive in the near future as manufacturers will be filling export contracts for months to come. But U.S. dairy products will face stiffer competition from overseas. Once export contracts are fulfilled, U.S. dairy product inventories could mount quickly. Cheese could be particularly vulnerable to waning demand once Super Bowl fans have finished their pizza and nachos.



Slaughterhouses are finding it difficult to source enough ready cattle to run at capacity, and they are fighting one another for the pleasure of buying cattle at prices too high to sustain a profit. After years of liquidation, the beef industry is holding back cows for breeding, and the supply of lower quality cow beef is particularly limited. Lean beef prices are soaring, and dairy producers can expect cull cow revenue to remain high.

But even record high beef prices may not be enough to tempt dairy producers to cull aggressively. Dairy producers are likely filling their barns with as many cows as possible, and heifers are precious. #1 Holstein springers averaged $1,900 at the Tulare Livestock auction last Saturday, up $300 from a month ago. Prices are rising similarly at auctions throughout the country.

Grain Markets
Corn futures lost almost a dime last week, as the concerns wrought by USDA’s crop production reports faded in light of still large global grain supplies. Corn futures will likely continue to bounce around in the current price range unless there is more drama in the export market.

Soybean prices rallied nearly 40¢ this week as supplies remain tight. The Brazilian crop will be record-large, but dry weather is crimping yields in southern Argentina. There are good rains in the forecast beginning Monday, but soybean prices will likely rally further if the rains don't fall as promised. There is little rain expected after the system early next week.

South American soybean supplies will be critical to relieve tight oilseed supplies in the U.S. Canada has a record large canola crop but lacks the capacity to move it to the U.S. in a timely fashion. An estimated 30,000 rail cars are back-logged in Canada, and ships are waiting two and a half weeks to leave the port with crops for export. The bottleneck could last into early 2015. Canada's huge canola crop does little to pressure U.S. oilseed prices if it cannot cross the border in size.

The National Oilseed Processors Association reported a record large soybean crush in November. But soybean meal yields were very low, which explains the strength in the soybean meal market. Given limited soybean supplies, the pace of crushing or exports must slow from here. A steep decline in exports seems the most likely course. Indeed, U.S. soybean processors are reportedly looking to import South American soybeans this summer in order to ensure that they can operate at capacity as domestic supplies dwindle.

***

TALKS OVER A NEW FIVE-YEAR FARM BILL CONTINUE: *(By Rob Vandenheuvel)* The dairy portion of the Farm Bill currently being negotiated was front-and-center in the Washington, DC media reports this week. There were numerous articles about the debate over whether or not to include a "market stabilization program" in the Farm Bill. As a reminder, this market stabilization program is a key component of the Dairy Security Act. It's a program that could trigger in from time to time when on-the-farm margins dropped below certain levels. When triggered, the market stabilization program would create a financial incentive to temporarily cut back milk production by 2-4 percent, depending on how poor the dairy margins were at that time. The program would have only applied to those dairies that opt to enroll in the government-subsidized margin insurance program.

This has been a big issue within our industry for a couple years now. Producer groups around the country largely support a tool to facilitate temporary, coordinated production decreases during times of low margins, while a majority of the nation's processors oppose anything that could result in less milk production – even if the dairy farmers are losing money on that production. That issue took center stage in the mainstream media this week, when Speaker John Boehner made it clear that he would actually hold up the entire Farm Bill if it had that market stabilization program in it. Speaker Boehner made those statements after finding out that the principle negotiators on the bill had agreed that the Dairy Security Act – including the Market Stabilization Program – should be included in the final Farm Bill.

The National Milk Producers Federation (NMPF) has been leading this effort in support of the Dairy Security Act. They put out a press release yesterday providing an update on the status of negotiations. Rather than trying to paraphrase their release, I've reprinted it below:

NMPF Statement on Status of Farm Bill Negotiations over Dairy Title
From Jim Mulhern, President and Chief Executive Officer, NMPF:

During the past four years that NMPF has worked to revise federal dairy policy, we have evaluated a variety of proposals against two key criteria: 1) does it provide an effective safety net for all of the nation's dairy farmers?; and 2) does it protect taxpayers from the possibility of excessive program costs through the use of suitable incentives for those enrolled in the program?

The resulting Dairy Security Act measure, contained in the farm bills approved by the House and Senate Agriculture Committees in 2012 and again in 2013, is a loss-prevention margin insurance program that meets those objectives.

We were initially heartened that the four bi-partisan leaders of the House-Senate farm bill conference committee included the DSA language in the package that they were planning to present to the full *conference. Despite the long-standing opposition to this plan from House Speaker John Boehner, we were confident we had the votes in the conference committee to defeat any amendment to strike the market stabilization program.*

Unfortunately, the Speaker's threat that he would not allow a vote on a farm bill containing the market stabilization program has effectively served to kill our proposal within the committee.

We are now engaged in discussions with agriculture committee staff on an alternative approach to creating a dairy safety net that would contain inducements to help achieve a supply-demand balance and prevent catastrophic milk price collapses like we experienced in 2009.

At this point, it is conceivable that an alternative mechanism could be developed, relying upon adjustments to the program's margin insurance payout structure and participant premium rates, among other options. Any such approach must still offer an effective risk management tool to farmers, while containing suitable incentives to program enrollees to achieve cost controls. As always, the devil is in the details, and we will not support any program that does not effectively address the needs of our members throughout the U.S.

This is certainly a disappointing development, to say the least. Speaker Boehner has spewed a lot of rhetoric over the past year or two about the "Soviet-style dairy program" he claims we have, and how the market stabilization program would make it worse. If Speaker Boehner truly understood milk pricing, he would understand that the most socialistic feature of the California and Federal Order programs is the fact that the processors – the folks Speaker Boehner most aligns himself with – have a guaranteed opportunity for profit, regardless of whether dairy product prices are high or low. While dairy farmers live and die by the market value of dairy products like butter, nonfat dry milk, cheese and whey (which drive the value our raw milk), processors can be profitable whether the values of these products are high or low. While we've gotten used to Speaker Boehner's ignorance and rhetoric, I'm not sure how many of us expected him to use his position to hold up the entire Farm Bill over a dairy-specific issue that had the support of the key negotiators. Unfortunately, that's what happened this week.

So where do we go from here? It's not entirely clear, although media reports indicate that the Farm Bill negotiators may have a "compromise" dairy package for the industry to review next week. So I guess the best we can say at this point is stay tuned.

CALIFORNIA DAIRY PRODUCERS INVITED TO ATTEND INDUSTRY MEETING NEXT WEDNESDAY AT CDFA: *(By Rob Vandenheuvel)* Many of you are aware of the "Dairy Future Task Force" established by the California Department of Food and Agriculture (CDFA) in 2012. That task force was set up by Secretary Karen Ross in response to efforts by producer groups and cooperatives to get adjustments to our Class 4b price. Of course, we have written many articles on that issue, so I will not belabor the point right now.

As part of that Task Force effort, four working groups were set up, with each one asked to focus on a specific issue. The four working groups covered: (1) Class 4 Pricing Reform, (2) Quota, (3) Investment, and (4) Risk Management. Those four working groups will be reporting to the Task Force next **Wednesday, January 22nd at a meeting from 10:30 am – 3:00 pm at the main auditorium in CDFA's office (1220 N Street in Sacramento).**

Also invited to the meeting are members of the Dairy Advisory Committee. **Any California dairy farmer is welcome to participate on the Dairy Advisory Committee, so if you are interested in attending, you should make plans to come to the meeting.** An agenda for the meeting can be found at: http://www.milkproducerscouncil.org/012214wgagenda.pdf.

CDFA has asked for RSVPs, which can be done by emailing Candace Gates (candace.gates@cdfa.ca.gov).