



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@milproducers.org ~ www.MilkProducers.org



DATE: January 9, 2015
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenhoevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0200 \$1.5900
 Barrels +\$.0050 \$1.5450

Weekly Average, Cheddar Cheese

Blocks +\$.0416 \$1.5760
 Barrels +\$.0636 \$1.5430

CHICAGO AA BUTTER

Weekly Change - \$.0150 \$1.5400
 Weekly Average - \$.0150 \$1.5400

DRY WHEY

Dairy Market News w/e 01/09/15 \$4.800
 National Plants w/e 01/03/15 \$5.941

NON-FAT DRY MILK

Week Ending 1/2 & 1/3

Calif. Plants \$1.1562 4,766,967
 Nat'l Plants \$1.1395 13,082,732

Prior Week Ending 12/26 & 12/27

Calif. Plants \$1.1997 4,659,420
 Nat'l Plants \$1.1700 11,458,771

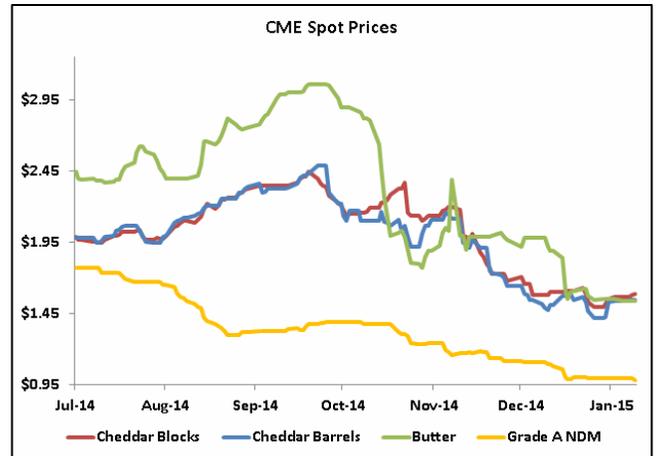
FRED DOUMA'S PRICE PROJECTIONS...

Jan 9 Est: Quota cwt. \$16.62 Overbase cwt. \$14.92 Cls. 4a cwt. \$14.20 Cls. 4b cwt. \$14.23
 Last Week: Quota cwt. \$16.64 Overbase cwt. \$14.95 Cls. 4a cwt. \$14.55 Cls. 4b cwt. \$14.04

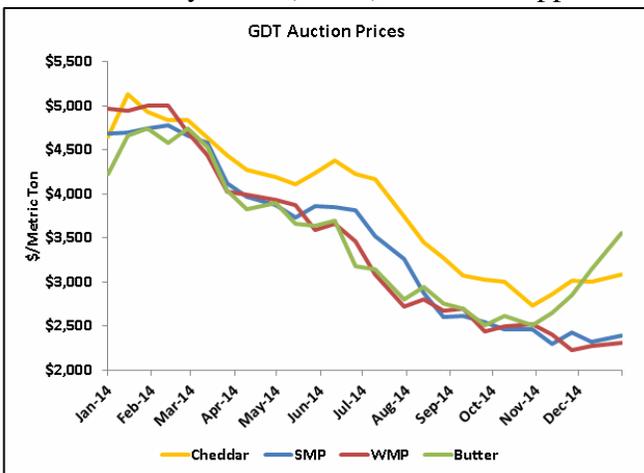
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

CME spot Cheddar prices ticked upward this week. Blocks gained 2¢, rising to \$1.59/lb. Barrels added a half cent and closed at \$1.545. Fresh cheese may be a little tight, but it will soon be abundant. Manufacturers faced a deluge of milk over the holidays, and cheese output remains strong. *Dairy Market News* reports that some Midwestern cheese plants were able to purchase milk at as much as \$6.50/cwt. below Class III this week. In that context it is not surprising that the futures market failed to follow the spot trade. Class III futures were sharply lower; the February contract lost 66¢.



The nonfat dry milk (NDM) market dropped 1.25¢ Friday to \$0.9875, its lowest level since August of 2009.



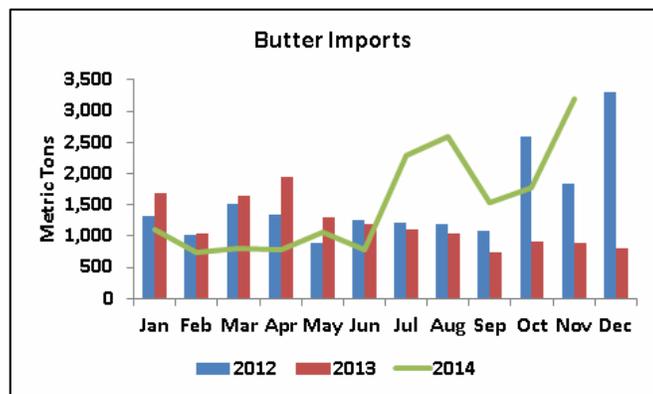
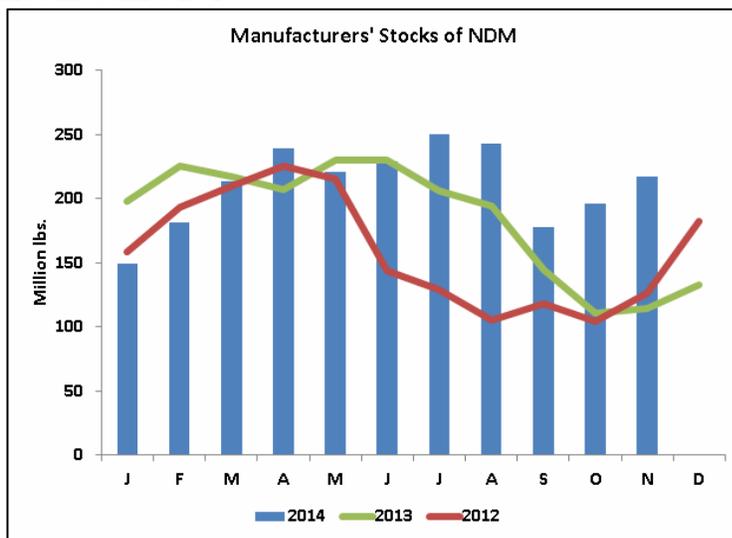
Butter slipped to \$1.54 on Monday, and then held, down 1.5¢ from last Friday. Supplies are rising as demand for domestic dairy products stagnates, and Class IV futures posted double digit losses.

The Global Dairy Trade (GDT) auction began the year on a positive note, with the GDT index up 3.6%. All dairy product prices moved higher than at the previous event. Butter was particularly strong, logging a 13.2% gain. However, because the Oceania butter market had fallen so far below that of Europe and the U.S., its recovery lent little support to U.S. butter futures. Skim and whole milk powder (SMP and WMP) posted more modest gains at the GDT,

rising 2.8% and 1.6%, respectively.

New Zealand is dry and milk production there is decelerating. The drought is most severe in Canterbury on the South Island. This suggests that it will not have as much impact on milk output as the drought of 2013, which was concentrated in the key dairy region of Waikato, on the North Island. Much of Canterbury is irrigated, which has allowed farmers there to mitigate the early impacts of the drought; however, irrigation restrictions could soon curtail this relief. Stockpiles of supplemental feeds will help to offset declining pasture conditions. Hay and silage supplies are relatively high after a good start to the season, and palm kernel inventories are straining storage capacity. Still, dairy product prices have fallen and rain has not. In the coming months, New Zealand's milk output could post a year-over-year deficit for the first time since mid-2013.

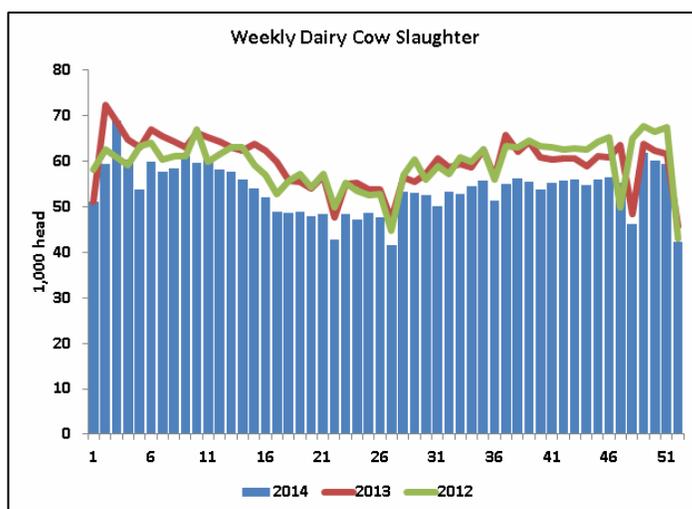
Dairy producers in Europe are also tapping the brakes due to speed bumps in the form of much lower pay-prices and, in some areas, super-levies for over-quota production. Meanwhile, output in the U.S. has remained strong as producers sought to squeeze every precious drop ahead of the steep decline in revenue at the turn of the year. Combined production of NDM and SMP totaled 181.3 million pounds in November, up 15.2% from November 2013 and 4.9% greater than October on a daily average basis. With little demand for U.S. product, manufacturers' stocks of NDM rose to 216.9 million pounds, up 89.7% from the year before. Butter output slipped to 135.6 million pounds in November, down 2.6% from October and 4.7% lower than November 2013. Cheese production rose to 948.7 million pounds, up 2.9% from the year before.



As expected, U.S. dairy product exports stumbled in November. Total exports accounted for 14% of November milk production and were 7% lower than the previous year, according to the U.S. Dairy Export Council. Shipments to Asia were markedly lower, but Mexico has stepped up its purchases. Due to the wide chasm between U.S. and overseas butter markets, U.S. butter imports neared two-year highs in November, at 3,187 metric tons, or 7 million pounds. U.S. cheese exports have fallen for five straight months, and Global Trade Information Services reports that European cheese exports to the U.S. in October were 25%

higher than the previous year.

For the week ending December 27, dairy cow slaughter totaled 42,400 head. 2014 culling was 9.8% behind 2013's pace. Weekly comparisons are unreliable around the holidays, but it seems likely that producers are stepping up their slaughter. Springer prices are fading along with the milk price. In contrast, beef prices remain high, creating the incentive for dairy producers to cull their heavy cows and replace them with first lactation heifers or to simply make more room in their crowded barns.



Grain Markets

March corn futures closed 4.5¢ higher this week, settling at \$4.0025 per bushel. Soybean futures gained almost 30¢. Traders spent the week positioning themselves for Monday's Crop Production, World Agricultural Supply and Demand Estimates and quarterly Grain Stocks reports. The January reports often feature revised production estimates and can cause significant moves in the grain markets.

USDA could tweak its assessment of the U.S. harvest, but any changes would likely be minor relative to this season's undeniably huge crops. USDA's estimates of South American crops could be of greater importance. Corn and soybeans in the Southern Hemisphere got off to a great start, but northern Brazil has begun to turn dry, and little rain is expected in the next ten days. Conditions in southern Brazil and Argentina remain favorable. With the Brazilian real plummeting relative to the dollar, Brazil's crops have become increasingly competitive in the global marketplace. If the weather significantly reduces the size of Brazil's soybean harvest, it could result in greater demand for U.S. soybeans.

MPC JOINS CALIFORNIA DAIRY TRADE ASSOCIATIONS IN FILING SUIT AGAINST THE STATE WATER BOARD: *(By Rob Vandenheuvel)* This week, a lawsuit was filed against the State Water Resources Control Board (SWRCB) in Sacramento Superior Court on behalf of MPC, California Dairy Campaign and Western United Dairymen. The suit is in response to the dramatic increases we've seen in recent years in the State Water Board's annual fees. Below is a brief summary, drafted by the staff of Dairy Cares, a statewide coalition of dairy organizations that works together on environmental and other issues:

Three California dairy producer trade associations on Thursday sued the State Water Resources Control Board over recent sharp increases in water quality permit fees.

In a complaint filed in Sacramento Superior Court, the trade groups allege that the Water Board violated both a state law intended to protect dairies and other commodity groups from unfair fee increases, and a state constitutional provision intended to protect against illegal tax increases. The plaintiffs ask the court to reverse the fee increases. The suit was brought by California Dairy Campaign, Milk Producers Council, and Western United Dairymen, who collectively represent most of California's dairy farmers.

The Water Board increased water quality permit fees sharply in each of the last two years, with a 27 percent increase in 2013, followed by a 33 percent increase in 2014, according to the lawsuit. This combined increase of nearly 69 percent in two years was part of a longer-term trend in which dairy fees have quadrupled since 2005. During the same period, more than 500 of the state's dairy farms have gone out of business due to poor economic conditions.

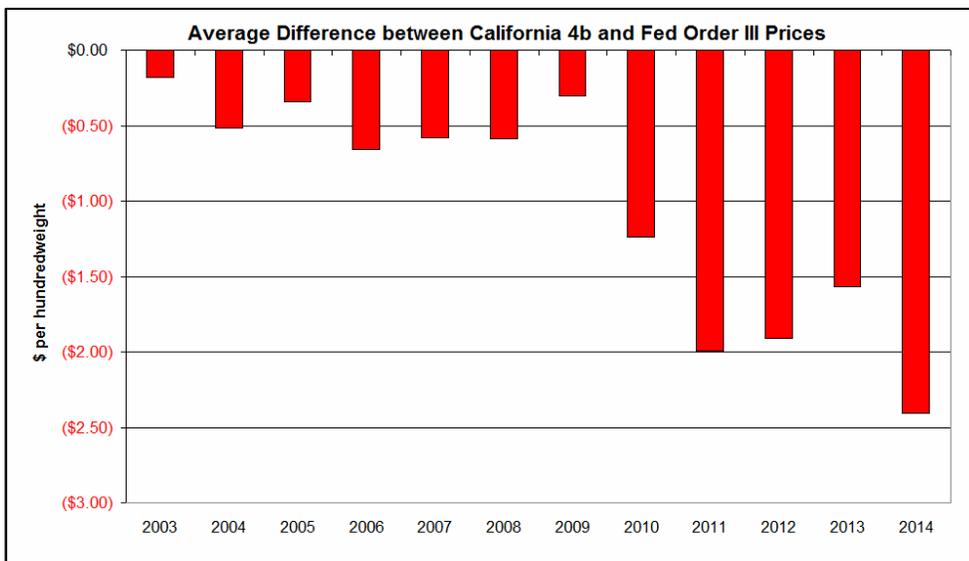
The lawsuit alleges that the 2014 increases violated a provision of the state constitution that requires a two-thirds vote of the state Legislature before taxes can be increased. The suit also alleges that the Water Board failed to comply with provisions of state law that prohibit state agencies from collecting any fee or charge in an amount that exceeds the reasonable cost of providing the service, and provisions of state law that require consideration of the "pricing mechanism of the commodity produced" when setting fees.

2014 – THE BIGGEST “CALIFORNIA DISCOUNT” IN HISTORY: *(By Rob Vandenheuvel)* While 2014 will certainly be remembered by many for the strong average U.S. milk prices we saw, it will also be remembered as the steepest “California discount” that the California Department of Food and Agriculture (CDFA) has ever seen bestowed upon our State's cheese manufacturers. Over the past year, the California Class 4b price (which applies to milk

The “California Discount” for our State's Cheese Manufacturers		
	Dec '14	2014
California Class 4b Price	\$14.78	\$19.93
FMMO Class III Price	\$17.82	\$22.34
Discount	(\$3.04)	(\$2.41)
The California Discount: More than \$1.64 Billion since January 2010.		

sold to California's cheese plants) **averaged \$2.41 per hundredweight lower** than the Federal Order Class III price (the benchmark price used to value milk sold to cheese manufacturers around the country). **As the buyers of more than 45% of California's milk production, this \$2.41 per hundredweight equates to a state-sponsored discount of more than \$427 million for the roughly 60 cheese plants operating in the State! That's \$240,000 for a 1,000-cow dairy; as we go into a year of great uncertainty, that's \$240 per cow that California dairymen could have used!**

Since this gap began to explode in 2010, the average monthly discount has been \$1.82 per hundredweight, which adds up to more than \$1.64 Billion in forgone revenue that never made it into the California pool. What does that mean for the average CA dairy? If you're a 1,000-cow dairy producing 65 lbs of milk/cow/day, this \$1.64 Billion represents **more than \$940,000 since 2010 to your dairy alone!**



Producers and their organizations have tried hearings, rallies, protests, a lawsuit and legislation, all in hopes of closing this unreasonable gap and receiving a fair price for the milk they produce. As we enter 2015, we continue to hear reports that the three main California cooperatives have been developing a proposed California Federal Milk Marketing Order that could put our producers on an even playing field with their out-of-state colleagues. Producers should stand ready in 2015 to participate in that process, as it will give **you something you desperately need: a tangible alternative to the devastating status quo.**

DAIRYMEN REMINDED TO LOG YOUR DECEMBER 31, 2014 ODOMETER READING ON YOUR CARB-REGISTERED DIESEL TRUCKS: (*Kevin Abernathy, Director of Regulatory Affairs*) This is just a friendly reminder for those of you who registered your heavy-duty diesel engine trucks with the California Air Resources Board (CARB) under their Ag Vehicle Extension program. By January 31st of each year, you are required to report your odometer reading from December 31st of the prior year.

As a reminder, CARB's diesel truck program will eventually require all operating trucks to comply with 2010 emissions standards, but through this Ag Vehicle Extension program, you are able to delay compliance until 2023, provided you comply with their reporting requirements.

More information can be found on CARB's website at <http://www.arb.ca.gov/msprog/onrdiesel/onrdiesel.htm>. MPC members that have any questions about their dairy's compliance can contact Rob Vandenheuvell at (909) 628-6018, Betsy Hunter-Binns at (661) 205-6721 or myself at (209) 678-0666.