



Milk Producers Council

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DATE: December 19, 2014
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0100 \$1.6100
 Barrels +\$.0400 \$1.5500

Weekly Average, Cheddar Cheese

Blocks +\$.0195 \$1.6075
 Barrels +\$.0745 \$1.5760

CHICAGO AA BUTTER

Weekly Change - \$.2800 \$1.6100
 Weekly Average - \$.2910 \$1.6430

DRY WHEY

Dairy Market News w/e 12/19/14 \$1.5400
 National Plants w/e 12/13/14 \$1.5849

NON-FAT DRY MILK

Week Ending 12/12 & 12/13

Calif. Plants \$1.3034 9,276,961
 Nat'l Plants \$1.2550 19,414,918

Prior Week Ending 12/5 & 12/6

Calif. Plants \$1.3653 10,849,869
 Nat'l Plants \$1.3100 10,849,869

FRED DOUMA'S PRICE PROJECTIONS...

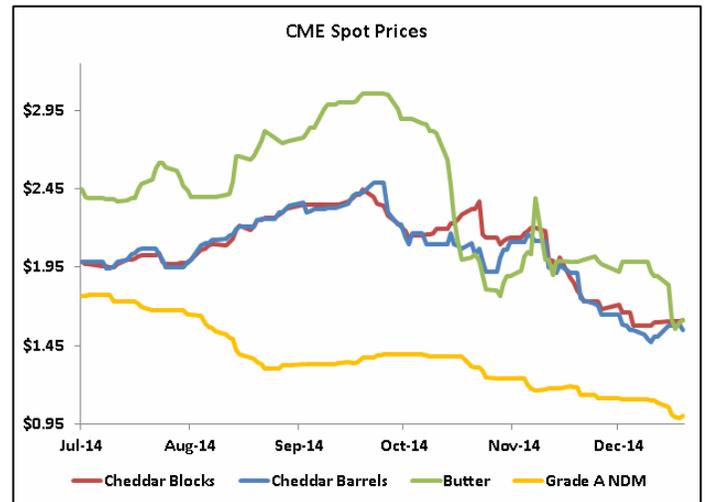
Dec 19 Est: Quota cwt. \$18.51 Overbase cwt. \$16.81 Cls. 4a cwt. \$16.96 Cls. 4b cwt. \$14.97
Last Week: Quota cwt. \$18.63 Overbase cwt. \$16.94 Cls. 4a cwt. \$17.38 Cls. 4b cwt. \$14.93

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

Milk & Dairy Markets

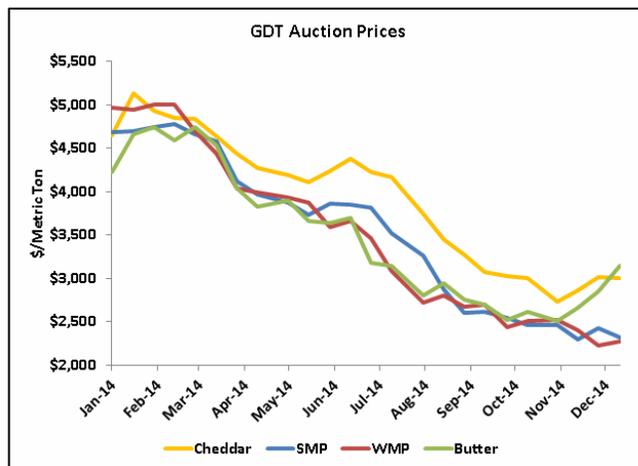
The CME spot Cheddar market managed a tepid rally this week. Blocks added a penny, closing at \$1.61/lb. Barrels gained 4¢ and settled at \$1.55. Nearby Class III contracts climbed in response. January futures closed 60¢ higher than last Friday. However, the trade clearly believes that spot market strength will be temporary. March through December Class III futures posted double-digit losses again this week.

On the first trading day of the year, the bell rang with spot butter at \$1.54. The butter market has not been that low since, but on Wednesday it came close, dropping to \$1.555. After rebounding on Thursday and Friday, butter closed at \$1.61, down 28¢ for the week. Grade A nonfat dry milk (NDM) lost 8.25¢, slipping to \$1.0025. On Thursday, the NDM market dropped to \$0.99, its lowest level since August 2009 and its first time below a dollar in nearly as long. With both butter and NDM trending lower, Class IV futures had little choice but to follow, and they did so with conviction. March through June contracts settled almost a dollar lower than last week.

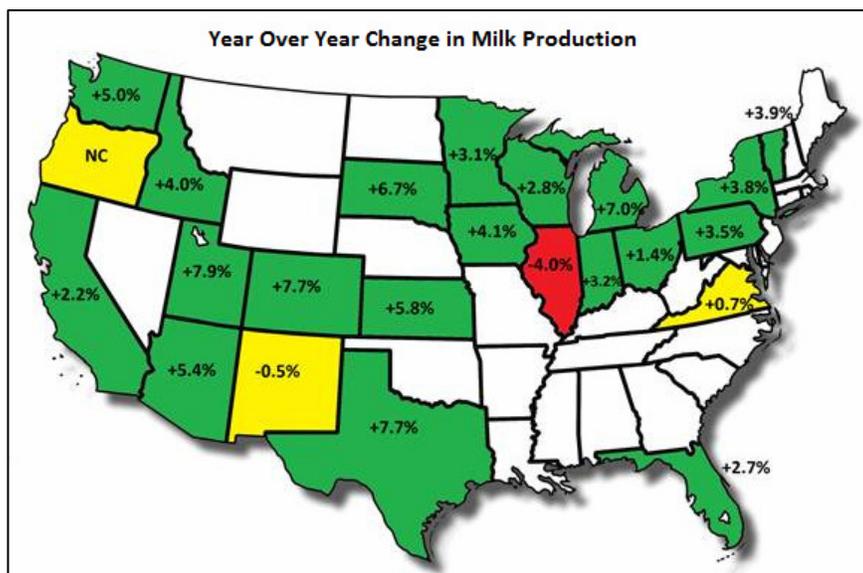


Dairy product prices were mixed at the Global Dairy Trade (GDT) auction; the GDT index gained 2.4%. Butter prices were 10.4% higher than at the previous event. But at an equivalent price of \$1.39/lb. adjusted to 80% butterfat, the New Zealand butter market remains well below the U.S. and European markets, which are converging near \$1.50. Cheddar prices fell 0.6% at the GDT to \$1.36, and skim milk powder dropped 3.2% to \$1.12.

Ahead of the auction Fonterra trimmed its whole milk powder (WMP) volumes. They also shifted the timing of their offerings, reducing the amount of product for delivery in February and boosting later contract volumes. If this was an attempt to project scarcity and prop up the WMP market, it was largely in vain. The average winning price for WMP was 1.4% higher than at the previous auction. However, at \$1.03/lb., this is the second lowest value for 2014 and some 54% below the lofty levels of earlier this year. China's early exuberance and later absence made 2014 a year of extremes in the milk powder market. The hangover is likely to last well into next year.



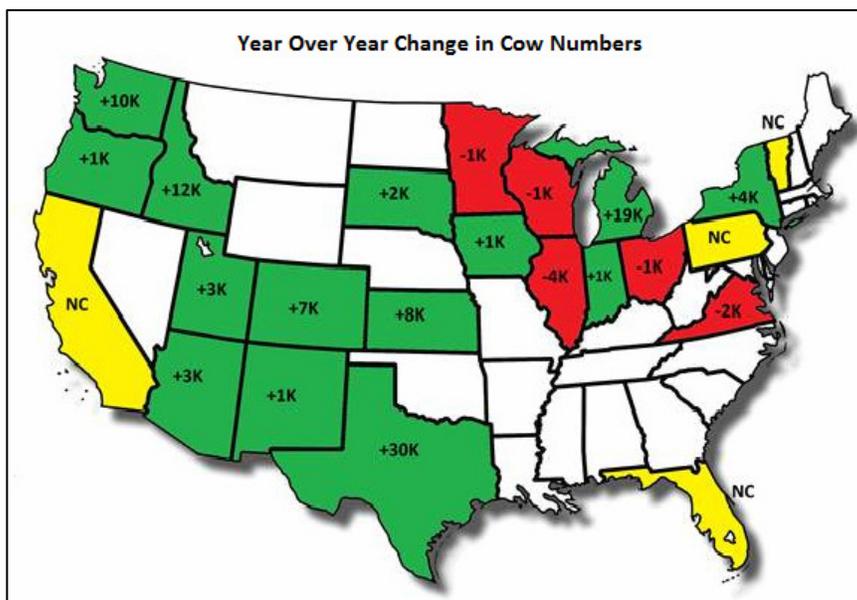
U.S. milk production topped 16.5 billion pounds in November. Milk output at this time last year was less than impressive, and dairy market analysts expected last month's output to best November 2013 by more than the reported 3.4%. By this measure, the Milk Production report is likely to support the futures markets early next week.



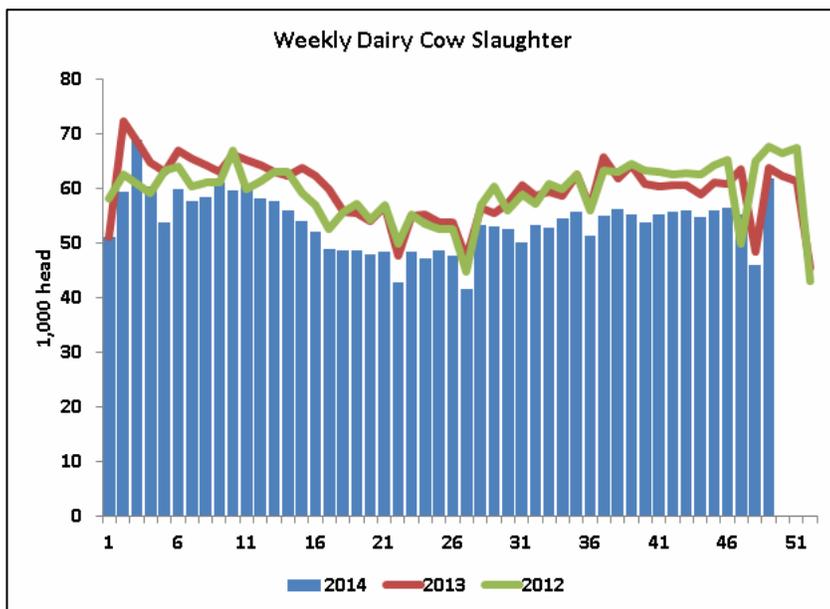
USDA revised its initial estimate of the October milk cow herd downward by 4,000 head, but it believes dairy producers added an equal number of cows in November. Thus the milking herd remains at 9.28 million head, or 82,000 head larger than the year before. Dairy producers are aggressively adding cows in Texas (+30K), Michigan (+19K) and Idaho (+12K). National expansion accounted for 0.9% of the annual increase in milk output, while improved production per cow caused a 2.4% bump. Illinois and New Mexico were

the only major dairy states to report lower production than in November 2013, while output in Oregon held steady. California milk production totaled 3.3 billion pounds, up 2.2% from last year.

USDA does not report state-level milk production for most of the Southeast. However, it is clear that output in the region is on the rise. With fluid milk demand perpetually sliding, there is little need for milk from other regions to supply the Class I market in the Southeast. USDA reports that Florida brought in 90 loads of milk from out of state at this time last year, but the Sunshine State was entirely self-sufficient this week. Thus, milk is backing up in the rest of the country and manufacturers are running near capacity even before the holidays further reduce fluid demand. Balancing plants are likely to run full throttle next week, and dairy product prices could fall under additional pressure.



With much lower margins promised next year, it appears that dairy producers are finally tapping the brakes on their efforts to expand. For the week ending December 6, dairy cow slaughter totaled 61,877 head. Although this is much higher than the prevailing cull rate, it is still 3% lower than last year. For the year to date, slaughter is 10.1% lower than last year.



Grain Markets

March corn futures gained 3¢ this week, closing at \$4.10 ½. Corn is plentiful, but it is following the wheat market, which now stands at seven month highs. Global wheat supplies are similarly abundant, but they are becoming less accessible. With the collapse of the ruble, Russian grain exports have grown increasingly competitive. Russia is the world’s fourth largest grain exporter, and this year’s wheat crop is the largest in five years. However, Russia has followed through on promises to restrict grain exports by denying export certificates even after grain cargoes pass sanitary inspections. Ironically, Russia’s attempt to cool domestic grain prices has ignited a global rally.

March soybean futures lost 15 ¼¢ and settled at \$10.38 ½. Regular rains have favored most of South America’s cropland, although things are looking a bit dry in southern Argentina. Logistical issues continue to plague the soybean meal and canola markets, and the basis is unusually strong. It seems that a return to “normal” is always a month or two away.

CALIFORNIA NRCS MAKES SOME CHANGES TO IMPROVE THEIR EQIP CONTRACTING: *(By Kevin Abernathy, Director of Regulatory Affairs)* Last week, California’s Natural Resources Conservation Service (NRCS) office announced a new system they will be implementing that will shorten the amount of time between applying for EQIP funding and – for those who get selected – getting a contract. In short, the new system will allow applications to be ranked and approved for funding multiple times per year rather than the once or twice that has been done previously.

Dairymen throughout California have been able to apply for EQIP grants in the past to co-fund air and water quality enhancement projects, and this change will hopefully make the program more responsive to the applicants. A press release from NRCS on this new change can be found on their website at: <http://www.nrcs.usda.gov/wps/portal/nrcs/detail/ca/newsroom/releases/?cid=STELPRDB1265484>.

MPC members with questions or an interest in pursuing projects eligible for EQIP funding should contact me or anyone at MPC to see how we can help.

The MPC Friday Market Update will not be published next week, so our next publication will be Friday, January 2nd.

**On behalf of the MPC Board and Staff,
we want wish all of you and your families a wonderful Christmas!**