



Milk Producers Council

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DATE: January 24, 2014

TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0800	\$2.3100
Barrels	+\$0.0725	\$2.2750

Weekly Average, Cheddar Cheese

Blocks	+\$0.0679	\$2.2794
Barrels	+\$0.0710	\$2.2475

CHICAGO AA BUTTER

Weekly Change	+\$0.0375	\$1.8900
Weekly Average	+\$0.1260	\$1.9000

NON-FAT DRY MILK

Week Ending 1/17 & 1/18

Calif. Plants	\$2.0044	10,490,218
Nat'l Plants	\$2.0362	21,888,317

DRY WHEY

Dairy Market News	w/e 01/24/14	\$0.6063
National Plants	w/e 01/18/14	\$0.5950

Prior Week Ending 1/10 & 1/11

Calif. Plants	\$1.9661	9,561,782
Nat'l Plants	\$2.0150	18,130,668

FRED DOUMA'S PRICE PROJECTIONS...

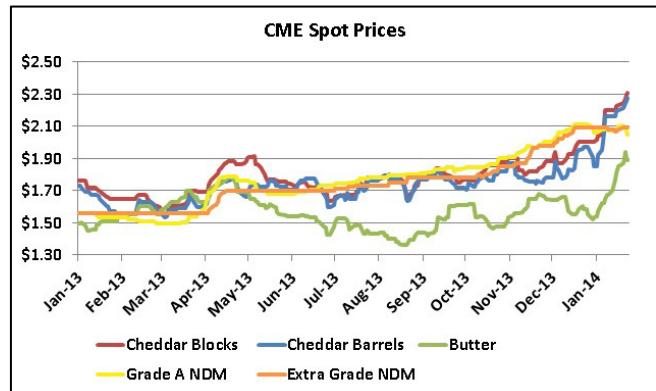
Jan 24 Final: Quota cwt. \$22.49 Overbase cwt. \$20.79 Cls. 4a cwt. \$22.06 Cls. 4b cwt. \$20.31

Last Week: Quota cwt. \$22.41 Overbase cwt. \$20.71 Cls. 4a cwt. \$21.89 Cls. 4b cwt. \$20.26

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

Milk & Dairy Markets

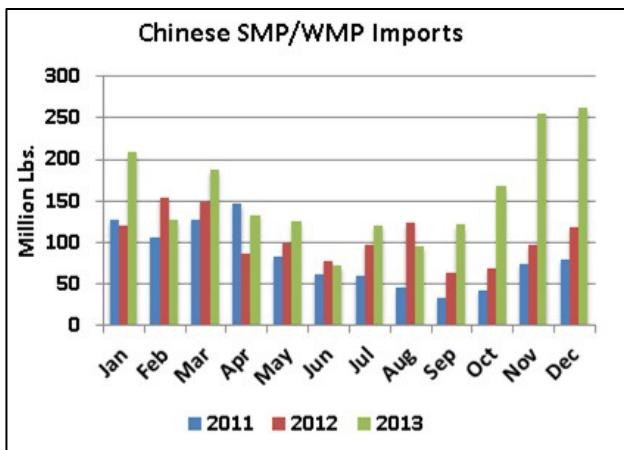
For months, high milk powder prices have pushed milk to driers and away from other users, including cheese makers. Global cheese supplies have tightened and fresh cheese is particularly scarce. Cheddar was bid higher every day this week, and both blocks and barrels had reached new all-time highs at the CME by Thursday. Still, sellers remained on the sidelines. Buyers were finally able to secure a couple loads on Friday, but they pushed blocks to \$2.31/lb. in the process, up 8¢ from last week. Barrels reached \$2.275, up 7.25¢. Not a single barrel changed hands this week. Cheddar prices reached new record highs at the Global Dairy Trade (GDT) auction as well. Fonterra sold Cheddar for March delivery at \$2.39/lb. Not to be outdone, February Class III futures also traded to record-breaking levels this week. They closed at \$22.45/cwt., up 53¢ from last Friday. March through December Class III futures were mixed and little changed.



CME spot butter rallied to \$1.94 on Wednesday, a 15-month high. It ended the week at \$1.89, well below the peak but still 3.75¢ above last Friday's settlement. At the GDT, butter reached \$2.06, its second highest average price since debuting at the auction nearly a year ago.

Milk powder prices were mixed at the GDT and CME. Grade A nonfat dry milk (NDM) closed at \$2.05, down 4.75¢ from last week. Extra Grade NDM added a penny at \$2.09. Like butter and NDM, Class IV futures were mixed. Prices were generally lower in the first half of the year and notably stronger in the second half.

The California Weighted Average Price for NDM was \$2.0044. It topped \$2.00 for the first time since November 2007. As lagging averages like the CWAP and NDPSR narrow the gap below spot prices, end users will face the



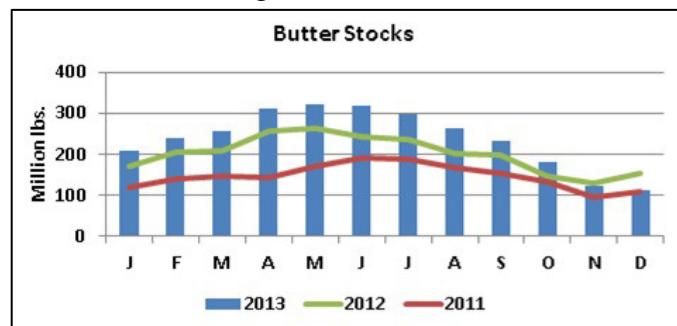
full brunt of higher prices and the sustained rally in dairy product prices could lose some steam.

But some end users seem all but impervious to these higher prices. China imported a record large 77.4 million lbs. of skim milk powder (SMP) in December. Combined SMP and whole milk powder imports were also record large and were more than two times greater than December 2012 volumes. For the year, China's WMP/SMP imports were 50% higher than in 2012.

New Zealand and Europe are ramping up milk production in response to higher prices, but so far U.S. dairy producers have not. December milk production totaled 16.8 billion lbs., 8 million lbs. lower than December 2012 output. Production declined in a number of key cheese producing states, including Idaho, Wisconsin, Minnesota and New Mexico. Lower milk production in the Midwest appears to be the result of a lack of quality forage and the perils of an especially bitter winter. California milk production totaled 3.5 billion lbs., up 1.6% from December 2012.

USDA estimates the national milking herd at 9.206 million cows, up 2,000 head from November. USDA revised its July through November milk cow estimates higher. Still, the herd is 12,000 head lower than in December 2012. Given today's margins, dairy producers are likely doing all they can to add cows. But heifer supplies are dwindling, and prices are high. Those who hope to expand their herd will likely have to keep cows for longer and slow their cull rates. And they appear to be doing so. Dairy cow slaughter in the first two weeks of the year is 10.5% lower than in the first two weeks of 2013 despite record high beef prices.

At year end, there were only 111 million lbs. of butter in cold storage. This was 27% lower than at the end of 2012 and 8.4% lower than November 2013. Butter inventories typically increase in December, but last month they suffered their steepest year-end decline in nine years, falling to two-year lows despite manufacturers' efforts to increase churn rates. Butter makers will have to increase production further in order to stock up for Easter demand. But with retail butter prices up 22¢ from a year ago, perhaps consumer demand will wane, which could allow stocks to build without increased production.



Cheese stocks grew 1.2% last month to just over one billion lbs. The increase was smaller than average and supplies were 1.2% lower than in December 2012, marking the first year-over-year decline in cheese stocks in 14

months. American cheese stocks were 2.6% lower than last year and slightly greater than November inventories. Given the apparent shortage of fresh cheese and sizeable export commitments, cheese stocks are not likely to grow dramatically in the next couple months.

Grain Markets

Corn futures added a few cents after a largely uneventful week. The soybean trade was more exciting. Nearby soybean futures dropped more than 30¢ and soybean meal lost almost \$10/ton. Brazil's farmers have sold little of the soybean crop ahead, and they are quick to sell at the first sign of a rally in the soybean market. The Brazilian soybean basis nosedived this week. The early harvest is underway, and soybeans are making their way to the ports. There are rumors that importers have switched a number of soybean contracts from U.S. to South American origin. Still, U.S. soybean and soybean meal exports remain strong.

Timely rains fell in Argentina this week, and while the weekend looks dry, more moisture is expected early next week. Southern Brazil is starting to turn dry. While this will help the early soybean harvest, it could stress the bulk of the crop, which is still developing.

CALIFORNIA DROUGHT BECOMING A NATIONAL STORY, BUT ARE WE HEARING THE WHOLE STORY?: (*By Rob Vandenheuvel*) As we approach the end of January with very little measurable rain to speak of in California, there is more and more talk about a California drought and the impact it is having on the residents and farmers of California's Central Valley. If you haven't already seen it in your paper or on your evening news, it will undoubtedly be there soon.

The general population outside of our State probably knows very little about the Central Valley of California, but they undoubtedly recognize the "Made in California" labels that are on many of the products they eat. Given the readership of this newsletter, you already know that California's dairy farms produce about 20 percent of the nation's milk. But did you also know that according to CDFA, nearly half of U.S.-grown fruits, nuts and vegetables come from California as well? Obviously, the availability of water in the Central Valley has a huge impact on U.S. availability of food (not to mention the global consumers of our products as well).

While much of the media attention has been on the lack of rain – which is certainly a valid observation – we as a local agricultural industry know that this drought was largely set in motion by human actions. No, I'm not talking about some theory that your pickup truck is causing "Global Warming." I'm talking about the fact that our Federal policies have resulted in a higher priority being set on the well-being of a 3-inch fish over the well-being of millions of California residents.

A short 12 months ago, California authorities released 700,000 acre-feet of useable fresh water out of the Sacramento-San Joaquin River Delta, and into the Pacific Ocean. Haven't seen that in the media stories on this issue? Not surprising. If that fact seems preposterous and unbelievable, check it out on California's Natural Resources Agency's website: <http://goo.gl/3j7vUy>. Was it because of a lack of storage capabilities? Absolutely not! It was because of a fear that if the water were pumped from the Sacramento-San Joaquin River Delta into available storage facilities, it might have killed some of the "Delta Smelt," a 3-inch fish that happens to be on the U.S. "endangered species list." Exactly how much water is 700,000 acre-feet? More than 260,000,000,000 gallons. And by the Natural Resources Agency's own admission, it's "*enough to irrigate more than 200,000 acres of farmland or supply 1.4 million households for a year.*" **How much better off would we be if we had that 700,000 acre-feet today in storage?**

In the coming days/weeks/months, there will be lots of talk about how we can prevent this in the future, and we greatly appreciate the leadership of our Central Valley Legislators in trying to bring national awareness to this issue. We look forward to working with them on both short and long-term solutions. But in the meantime, we are left living with the real-life, painful consequences of a ridiculous Federal policy that literally chooses the welfare of a 3-inch fish over that of the human beings that live here.