



Milk Producers Council

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DATE: October 18, 2013
TO: Directors & Members

PAGES: 5
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0575 \$1.8575
Barrels - \$.0025 \$1.7625

Weekly Average, Cheddar Cheese

Blocks +\$.0610 \$1.8360
Barrels +\$.0325 \$1.7730

CHICAGO AA BUTTER

Weekly Change - \$.0600 \$1.4825
Weekly Average - \$.0430 \$1.5145

DRY WHEY

Dairy Market News w/e 10/18/13 N/A*
National Plants w/e 10/12/13 \$5.802

NON-FAT DRY MILK

Week Ending 10/11 & 10/12
Calif. Plants \$1.8122 8,835,158
Nat'l Plants \$1.8284 N/A*

Prior Week Ending 10/4 & 10/5
Calif. Plants \$1.8095 9,718,317
Nat'l Plants \$1.8289 N/A*

* Due to the shutdown of the Federal Government, these figures were not calculated by USDA.

FRED DOUMA'S PRICE PROJECTIONS...

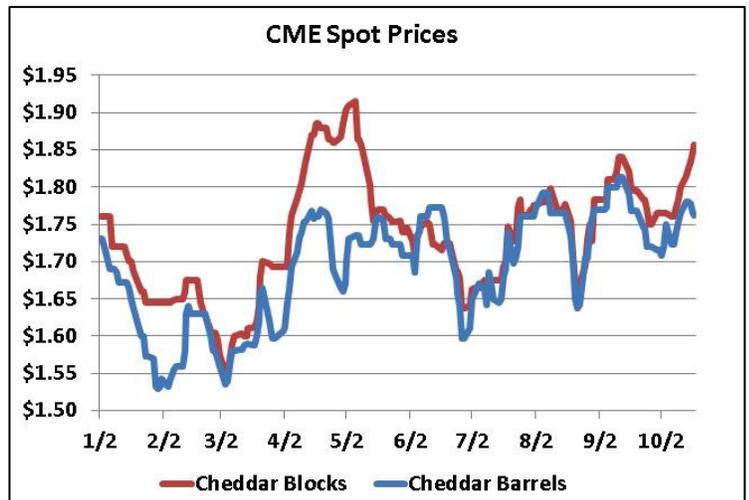
Oct 18 Est: Quota cwt. \$19.77 Overbase cwt. \$18.07 Cls. 4a cwt. \$19.91 Cls. 4b cwt. \$16.81
Last Week: Quota cwt. \$19.68 Overbase cwt. \$17.98 Cls. 4a cwt. \$19.95 Cls. 4b cwt. \$16.60

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

Milk & Dairy Markets

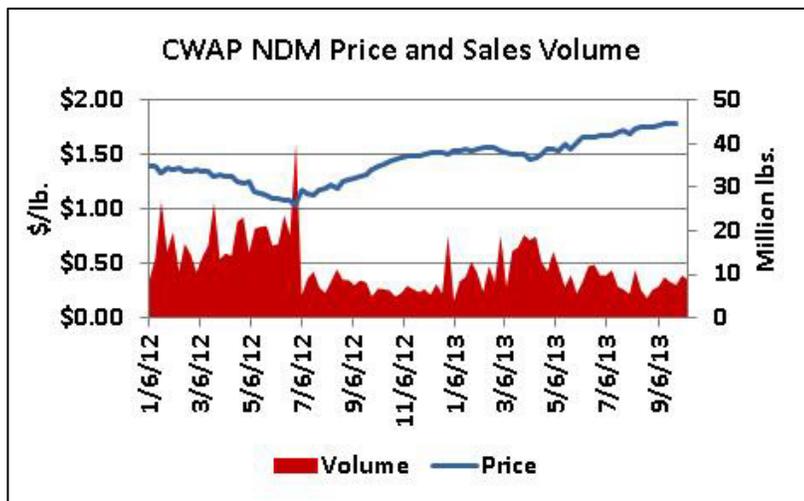
CME spot Cheddar blocks climbed 5.75¢ this week and broke out of their well-defined trading range. Blocks settled at \$1.8575/lb., the highest level since early May. Barrels could not keep pace, which suggests that export and retail demand is driving the rally. Fresh supplies of cheese for manufacturing remain ample. Spot barrel prices fell 0.25¢ and the block-barrel spread widened to 9.5¢, the largest divergence in more than five months.

Class III futures also could not keep up with the buoyant block market. For much of the week they opened higher and spent the thinly traded morning hours trying to rally before fading as the day's session waned. Most contracts added only a few cents this week. The November contract was strongest; it closed 12¢ higher than last week.



Nearby Class IV futures followed the butter market lower. CME spot butter shed 6¢ and settled at \$1.4825/lb., the lowest level in more than a month. Spot Grade A and Extra Grade nonfat dry milk (NDM) continued to rise. They added 1.5¢ and 2¢, respectively. Deferred Class IV contracts continue to impress. Contracts in the second quarter added at least 25¢ this week compounding recent gains. Since the month began, April through June Class IV futures have risen by more than 81¢ on average.

The California Weighted Average Price (CWAP) for NDM continued its upward trek, rising to new multi-year highs at \$1.8122/lb. The CWAP NDM price has rallied in nine out of the past ten weeks.

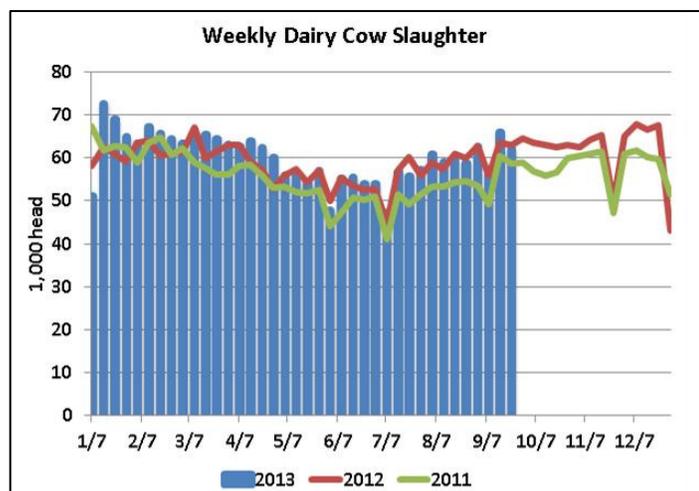


The Upper Midwest Milk Marketing Order published equivalent National Dairy Products Sales Report (NDPSR) equivalent prices this week in the absence of USDA. All dairy product prices fell. Regional marketing orders did not conduct surveys and thus could not adjust the NDPSR equivalent prices in line with actual cash sales weighted by volume. It is unclear how USDA will respond if the equivalent prices are widely different from those in next week's survey. Monthly class prices are based on these weekly prices.

The Global Dairy Trade (GDT) price index fell 1.9% this week, and most dairy products – except milk protein concentrate, rennet casein and skim milk powder (SMP) – traded lower. Fonterra recently increased its forecast for the volume of dairy products it intends to sell at the GDT over the next 12 months. Increased offerings and rebounding production in Europe and Oceania are expected to pressure prices at subsequent auctions.

Presaging the declines at the CME, GDT butter prices were particularly weak. They fell 3.5%. SMP for November and December delivery appreciated, while prices for more deferred contracts dropped, reflecting the industry's assumption that milk powder will be more widely available next year. California-based Dairy America maintained a 25¢ premium to domestic milk powder prices through its GDT sales.

U.S. dairy product exports remain economical when compared to most foreign products. But the discount is fading as the global rally in dairy product prices has halted. U.S. and Dutch SMP prices, for example, are nearly at parity. However, there is still much opportunity for large volumes of dairy products to leave our shores. A weakening currency makes U.S. dairy product exports cheaper to foreign buyers. The U.S. dollar index fell to 8 ½-month lows this week. Currency analysts suggest that the Euro could rise from \$1.37 to \$1.40 against the dollar. The Federal Reserve is likely to continue its easy money policies until it has confidence in the economy and Congress. After weeks of debt ceiling and shut-down drama, such confidence is lacking.



Canada and the EU signed a multi-billion dollar trade pact Friday, which will allow the EU greater tariff-free access to Canada's highly-guarded cheese market. Canada will gain a bigger share of Europe's beef and pork markets once they alter production and processing methods to meet EU standards. The U.S. was left out of the trade deal, as negotiators stayed home amidst the partial government shut-down.

For the week ending September 21, dairy cow slaughter totaled 62,042 head, down 1.6% from the same week a year ago. Slaughter in Region 9, which includes California, totaled 16,100 head, down 8% from a year ago.

Grain and Hay Markets

It looks like the corn market established a temporary bottom near \$4.30 per bushel last week. Corn futures were more lively this week, settling almost a dime higher. Dreary weather in the Corn Belt has slowed the harvest and mitigated selling pressure from farmers.

Meanwhile, cash corn prices in Brazil and the Black Sea region are rising, making U.S. corn exports more competitive. China has been buying U.S. corn, but other, less fastidious buyers have taken their business where supplies are cheaper. U.S. corn is not a bargain, but its premium to supplies from other exporters is narrowing. The weakening dollar is helping to further close that gap. There is plenty of corn in the U.S. to support a sizeable export program, but sales volumes and prices will be held in check by abundant supplies elsewhere. For now, the corn market seems comfortable in a range from \$4.30 to \$4.50 per bushel.

Soybean prices also rallied this week. The November contract added 24.5¢ per bushel. Farmers are only slowly selling their crop, and the basis remains firm. Importers continue to contract U.S. soybeans for delivery in the next few months, which will pull on nearby supplies and could further support the basis.

The forecast calls for heavy rains in Brazil this weekend. There is little rain in store for Argentina over the next ten days, and the fields there could use a good soak. It is early, and the weather is fickle, but persistent dryness in Argentina could quickly elevate soybean prices.

HOUSE OF REPRESENTATIVES NAMES CONFEREES FOR FARM BILL; NEGOTIATIONS BEGIN: *(By Rob Vandenheuvel)* Last week, the U.S. House of Representatives officially named their “conferees” for the Farm Bill. In laymen’s terms, this means the House officially selected a group of Congressmen from both parties to negotiate with a similarly-selected group of Senators, with the goal of agreeing on one common Farm Bill that can be approved by both the House and the Senate.

This is a huge step forward in the process, as official negotiations really didn’t start on the Farm Bill until the naming of those conferees. A list of the Congressional Representatives and Senators appointed as conferees can be found at the following links:

- Senate Conferees: <http://www.ag.senate.gov/newsroom/press/release/cochran-statement-on-naming-of-senate-farm-bill-conferees>
- House Conferees (Republican): <http://agriculture.house.gov/press-release/farm-bill-process-moves-forward-house-conferee-appointments>
- House Conferees (Democrat): <http://democrats.agriculture.house.gov/press/PRArticle.aspx?NewsID=1191>

Of the 41 Conferees (29 from the House and 12 from the Senate), three are Californians: **Representatives Jeff Denham (R-Modesto), Jim Costa (D-Fresno) and Gloria Negrete McLeod (D-Chino).**

Yesterday, a letter was sent to the conferees on behalf of 53 dairy organizations and cooperatives from around the country. The letter stressed our coalition’s continued support for inclusion of the Senate-approved Dairy Security Act in the final Farm Bill. On the next page is the text of that letter, along with the supporting organizations.

There is not much time in the 2013 Congressional session, and with this week’s announcement that the major budget issues have been only temporarily dealt with, Congress has a lot on its plate over the next several months. However, the Farm Bill is a major priority for many of our elected officials, and there appears to be significant objections to simply extending the prior Farm Bill. So MPC will continue to work with our coalition partners over the next couple months to make the case that the Dairy Security Act should be included in that final Farm Bill. Obviously, more to come on this...



October 17, 2013

Dear Conferee:

As you prepare to engage in conference committee deliberations to finalize a five-year farm bill, the undersigned organizations, representing dairy farmers small and large from across the U.S., strongly encourage you to support the Dairy Security Act contained in the dairy title in the Senate farm bill, and to include its provisions in the final conference package.

The Dairy Security Act is specifically designed to offer dairy farmers help when they desperately need it: when margins between farm milk prices and production costs shrink to dangerous levels. Equally important, the Dairy Security Act is designed to limit taxpayers' liability through its market stabilization mechanism that will help farm milk prices recover – to mitigate against prolonged or particularly serious downturns that would otherwise increase government program costs.

The need for both margin insurance and market stabilization has been made clear by the milk price roller-coaster that has plagued both dairy producers and consumers over the last 15 years. This was never more obvious than in the devastating recession of 2009. As milk prices collapsed, Congress intervened with \$350 million in emergency funding on top of more than \$750 million in MILC payments to help dairy farmers fend off economic ruin. This assistance was desperately needed. But despite these measures, thousands of dairy farms were forced out of business. That was because these efforts did nothing to address the underlying cause of the problem: low prices triggered by milk supplies that badly outstripped demand. Without the two-pronged Dairy Security Act, the conditions that created the crisis in 2009 will continue and could easily worsen in the future.

It is especially disappointing to the nation's dairy farmers to see the recent letter of opposition to DSA's market stabilization program from dairy processor and food retailer groups that profit from the conditions the DSA is designed to correct. Processors, wholesalers and retailers receive 70% of the amount consumers pay for dairy products (with farmers receiving only 30%), and they employ their own supply management daily by buying only the amount of milk they want. Without the stabilization mechanism, when there are excess supplies that drive down the price of all milk it is dairy farmers, the cooperatives they own and taxpayers who would suffer.

Collapsing farm prices and unchecked milk supplies are a bonanza for dairy processors. Again in 2009, as prices fell precipitously and farmers lost money on every gallon of milk they produced, processors' earnings soared ("the perfect sunny day," as one processing industry leader said at the time). No wonder they oppose a system designed to keep milk supplies in better balance with demand and prevent a prolonged collapse in farmers' margins.

Without the DSA's market stabilization program, dairy farmers will continue to suffer periods of unsustainably low prices, even as taxpayers will subsidize processors by keeping milk prices artificially low through margin insurance that blunts the market signals contained in the market stabilization component.

We have worked hard to craft the Dairy Security Act as a responsible alternative to the current, dysfunctional dairy program. The DSA is a voluntary program that protects producers and keeps taxpayer costs in check.

Contrary to the gross distortion pedaled by DSA's opponents during the House debate, the plan doesn't increase retail milk prices. It is designed merely to keep farm milk prices from staying too low for too long, conditions that put 2,000 dairy farms out of business in 2009.

The margin protection and market stabilization mechanisms in the Senate's dairy title establish a critically important, economically viable and cost-effective safety net for the nation's milk producers. The Dairy Security Act deserves your support.

Sincerely,

National Milk Producers Federation
National Council of Farmer Cooperatives
National Farmers Union
National Farmers Organization
Holstein Association USA, Inc.
Agri-Mark
Alabama Dairy Producers
Arkansas Dairy Cooperative Association
Associated Milk Producers Inc. (AMPI)
Bongards' Creameries
Colorado Dairy Farmers
Continental Dairy Products, Inc.
Cooperative Milk Producers Association
Dairy Farmers of America (DFA)
Dairy Farmers Working Together
Dairy Producers of New Mexico
Dairy Producers of Utah
Dairylea Cooperative Inc.
Dairyman's Marketing Cooperative, Inc.
Ellsworth Cooperative Creamery
Farmers Cooperative Creamery
FarmFirst Dairy Cooperative
First District Association
Foremost Farms USA
Idaho Dairymen's Association
Iowa State Dairy Association
Kansas Dairy Association
Land O'Lakes

Lone Star Milk Producers
Maryland Dairy Industry Association
Maryland & Virginia Milk Producers Cooperative Association
Michigan Milk Producers Association
Midwest Dairy Coalition
Milk Producers Council
Missouri Dairy Association
North Carolina Dairy Producers Association
Northeast Dairy Farmers Cooperatives
Northwest Dairy Association / Darigold
Oregon Dairy Farmers Association
Prairie Farms Dairy Inc.
Premier Milk Inc.
Scenic Central Milk Producers
Scioto County Cooperative Milk Producers' Association
Select Milk Producers, Inc.
South Carolina Dairy Association
South Dakota Dairy Producers
St. Albans Cooperative Creamery
Swiss Valley Farms Company
Tillamook County Creamery Association
United Dairymen of Arizona
Upstate Niagara Cooperative, Inc.
Virginia State Dairymen's Association
Washington State Dairy Federation
Zia Milk Producers, Inc.