



Milk Producers Council

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DATE: December 20, 2013
TO: Directors & Members

PAGES: 3
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0750 \$2.0000
Barrels +\$.1200 \$1.9500

Weekly Average, Cheddar Cheese

Blocks +\$.0715 \$1.9670
Barrels +\$.0935 \$1.8865

CHICAGO AA BUTTER

Weekly Change +\$.0125 \$1.5825
Weekly Average - \$.0715 \$1.5585

DRY WHEY

Dairy Market News w/e 12/20/13 \$.5875
National Plants w/e 12/14/13 \$.5742

NON-FAT DRY MILK

Week Ending 12/13 & 12/14

Calif. Plants \$1.9190 6,729,853
Nat'l Plants \$1.9472 16,618,631

Prior Week Ending 12/6 & 12/7

Calif. Plants \$1.9094 7,340,210
Nat'l Plants \$1.9363 13,355,929

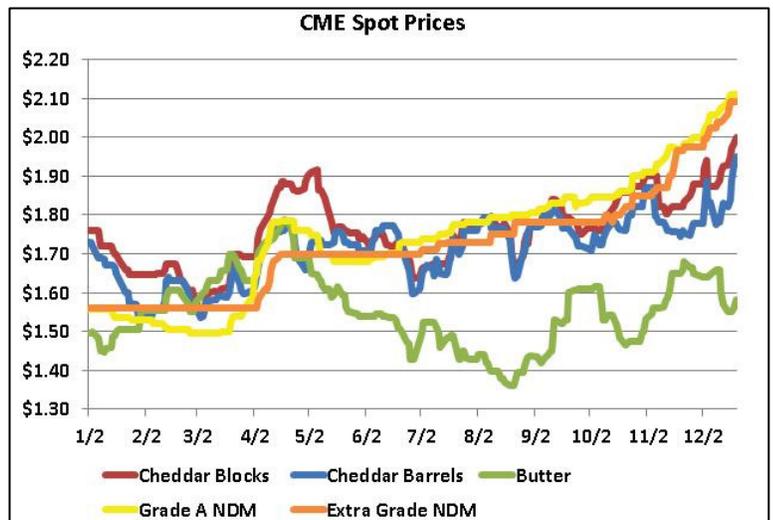
FRED DOUMA'S PRICE PROJECTIONS...

Dec 20 Est: Quota cwt. \$20.97 Overbase cwt. \$19.27 Cls. 4a cwt. \$21.06 Cls. 4b cwt. \$18.07
Last Week: Quota cwt. \$20.86 Overbase cwt. \$19.16 Cls. 4a cwt. \$21.02 Cls. 4b cwt. \$17.85

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

Milk & Dairy Markets

Dairy product prices continue to defy gravity. This week CME spot Cheddar blocks settled at \$2.00/lb., up 7½¢. Blocks last topped \$2 more than 13 months ago. Barrels added 12¢ this week and closed at \$1.95, also a 13-month high. The narrowing spread between blocks and barrels suggests that this rally may have staying power, as barrels are keeping pace rather than weighing down the cheese market. Milk production has lagged in the Midwest, and butter and powder manufacturers are competing for available milk supplies, so fresh cheese is becoming scarcer. Class III futures posted significant gains this week; contracts in the first quarter of next year added more than a dollar per cwt. January and February Class III settled at record high levels.

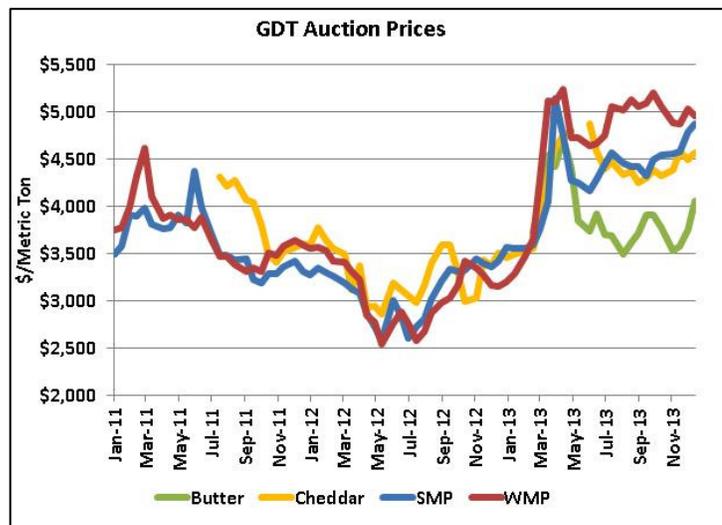


Grade A and Extra Grade nonfat dry milk (NDM) rallied to fresh highs at \$2.11 and \$2.09, up 3¢ and 4.5¢ respectively. The California Weighted Average Price (CWAP) for NDM rose to \$1.919/lb., the highest level in six years. Spot butter prices also made headway. After falling on Monday they came back Thursday and Friday and closed 1.25¢ higher than last week at \$1.5825. Class IV futures marched relentlessly higher this week, and most contracts logged double digit gains.

With record high dairy product prices and appreciably lower feed costs, dairy producers are undoubtedly cheery for the holidays. But as the year draws to a close, the question on the mind of every producer (and processor) is, "How long can it last?" The bull market has proven impervious to rising global milk production and still

adequate domestic stocks. After a summer respite, global dairy product prices are once again climbing, and the U.S. remains a low-cost provider even at today's exhilarating price levels. International buyers are hungry for U.S. butter, although there are hints that cheese and milk powder sales may be slowing.

Economic principles suggest that high prices should lead to a surplus of milk eventually. The futures market forecasts that while milk prices will remain at historically high levels throughout 2014, they will peak early next year. It seems likely that the futures are pricing too much exuberance into the latter half of 2014, but for now the market remains well-supported.

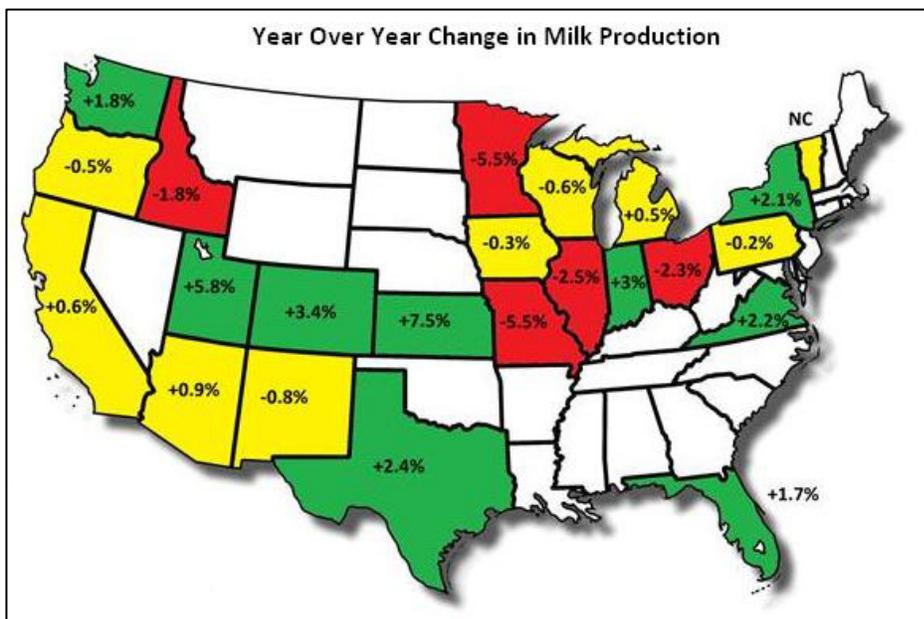


Prices moved higher at the Global Dairy Trade (GDT) auction. All products except whole milk powder reported higher values than the previous auction, but the GDT index rose only 0.2%. Skim milk powder (SMP) prices were 1.7% higher, but all of Fonterra's SMP sales were lower than the last event. Butter enjoyed an impressive 7.9% gain at the GDT.

Dairy producers in New Zealand are responding to higher prices as anticipated, with stronger milk production. October output was record large at 3.16 million metric tons, up 5.4% from October 2012 and 9.2% greater than October 2011. Season to date production is up 6.3% and rains in late November and December have restored soil moisture, lessening the

odds of a drought like the one that curtailed production earlier this year. Fonterra expects full season milk collections to exceed last year by 6.4%. Three months ago they projected growth of 5%.

Milk production in the U.S. has been less impressive. November production totaled 16 billion lbs., up just 0.1% from November 2012. The milk cow herd declined to 9.198 million, down 5,000 head from October and 3,000 head fewer than November 2012. This decline puts the milk cow herd at its lowest level since July 2011, a fact that likely spurred some of Friday's rally. Production per cow was two pounds greater than in November 2012.



California milk production totaled 3.284 billion lbs., up 0.6% from last year. Milk production was mostly higher throughout the Southwest, with notable gains in Utah, Colorado and Texas. In contrast, a number of Midwestern states have struggled to keep pace with strong production at this time last year. Low quality forage is reportedly weighing on production in Wisconsin and Minnesota. Idaho again suffered a notable drop in milk production; output fell 1.8% short of last year and the milking herd declined by 8,000 head.

Weekly dairy cow slaughter totaled 63,764 head, down 5.9% from the same week a year ago. Slaughter at this time last year was incredibly high as losses and liquidations mounted. Year to date slaughter is 0.9% higher than last year.

Grain Markets

Corn remains comfortable within the confines of its recent trading range. March futures gained almost 8¢ this week despite continued Chinese histrionics. U.S. corn cargoes that China rejected are finding new homes at steep discounts, and these substitute buyers will have less to purchase in the months to come. This should slow exports eventually, but the current pace of export and ethanol demand has prevented any further declines in cash corn prices. A few idled ethanol plants will be reopening soon, which will help to keep a bid under the domestic corn market. However, this will also result in more plentiful byproduct feeds.

After much back and forth, soybeans ended nearly 12¢ higher. Soybeans and soybean meal are leaving our shores at an unsustainable rate. The South American harvest cannot come soon enough. It's wet in northern Brazil and dry in Argentina. The forecast calls for rains in Argentina and southern Brazil mid-next week, and if they fall as promised, it will be a merry Christmas indeed.

SAYING FAREWELL TO AN INDUSTRY LEADER: *(By Rob Vandenheuvel)* As 2013 rolls into 2014, we say goodbye to a long-time leader in the dairy industry. Jerry Kozak, President and CEO of the National Milk Producers Federation (NMPF) for the past 15 years, will be officially retiring at the end of the year.

Obviously, my experience working with Jerry is limited to the six-or-so years I've been at MPC. And I would be lying if I said that NMPF and MPC agreed on all things all the time. After all, producer trade associations like MPC are just hard-wired to occasionally conflict with manufacturing cooperatives, like the ones represented by NMPF. However, based on my experience, I can say with certainty that our industry is absolutely better off from having Jerry at the helm of NMPF.

While there is probably a lengthy list of things that could be added to Jerry's resume during a 15-year career, I doubt very much that any of those things would come close to what has been achieved in the past four years in the effort to fundamentally reform our nation's safety net programs for the dairy industry.

Based on reports coming out of Washington, DC, we are on the verge of seeing a new Farm Bill approved. We don't exactly know what the dairy package will look like (that's one of the risks whenever you try to change government policies; you leave the final say-so to a group of 535 Congressmen and Senators, not all of whom even understand where milk comes from). But regardless of what happens, the past four years leading up to this point has been nothing short of a masterpiece in leadership on the part of Jerry and his team at NMPF.

In an industry that is all-too-often split by "East vs. West" (or more likely "Mid-West vs. West") or "Big vs. Small" or more recently, "Those who grow their own crops vs. Those who don't," Jerry and his team at NMPF were able to forge a nationwide alliance behind a unified proposal well-known throughout the industry as the Dairy Security Act (DSA). Of course, there are still groups who argue that the DSA either goes too far or doesn't go far enough, but isn't that a pretty clear indication that a common sense middle-ground has been reached?

The path to get to where we are today has been full of landmines and obstacles, all of which have taken strong leadership to overcome. This process would have crumbled under a weak leader. We needed someone who could let the criticisms roll off his back, and stay focused on the task at hand. Obviously, it's impossible to know what would have happened under different leadership, but for whatever it's worth, I believe that the team at NMPF, led by Jerry, had the perfect combination of a strong backbone (because you cannot succeed in a project like this trying to make everyone happy), while still keeping an open ear to ideas that improve the overall product. In the end, the final result was a package for Congress to consider that addressed a fundamental need to reform our safety net, at a ridiculously low price tag (when compared to the financial assistance provided to other major U.S. agricultural products), with support from dairy farmers around the country. We certainly hope Congress recognizes the value of that package, but whether they do or not, we are only even in the position to find out because of the strong leadership of Jerry and the team at NMPF he assembled.

Thank you for your service to this industry Jerry, and I wish you the best in your retirement.