



Milk Producers Council

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DATE: May 2, 2014
 TO: Directors & Members

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 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.1400 \$2.0700
 Barrels - \$.1250 \$2.0550

Weekly Average, Cheddar Cheese

Blocks - \$.0855 \$2.1350
 Barrels - \$.0865 \$2.1250

CHICAGO AA BUTTER

Weekly Change +\$.1650 \$2.0750
 Weekly Average +\$.0725 \$1.9695

DRY WHEY

Dairy Market News w/e 05/02/14 \$.6588
 National Plants w/e 04/26/14 \$.6872

NON-FAT DRY MILK

Week Ending 4/25 & 4/26

Calif. Plants \$2.0124 11,292,368
 Nat'l Plants \$2.0173 18,908,679

Prior Week Ending 4/18 & 4/19

Calif. Plants \$1.9751 12,972,450
 Nat'l Plants \$2.0110 21,446,419

FRED DOUMA'S PRICE PROJECTIONS...

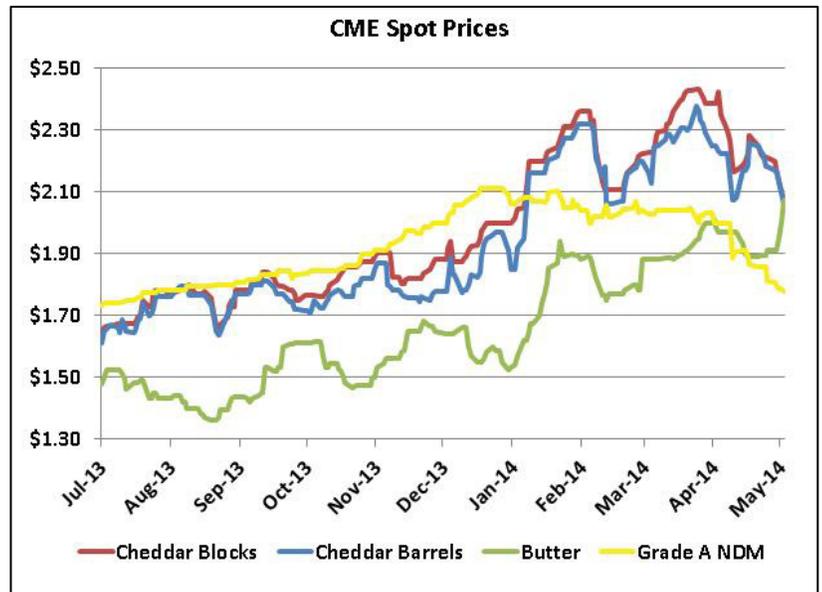
May 2 Est: Quota cwt. \$23.26 Overbase cwt. \$21.57 Cls. 4a cwt. \$23.47 Cls. 4b cwt. \$19.69
 April '14 Final: Quota cwt. \$24.04 Overbase cwt. \$22.34 Cls. 4a cwt. \$23.30 Cls. 4b cwt. \$21.73

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

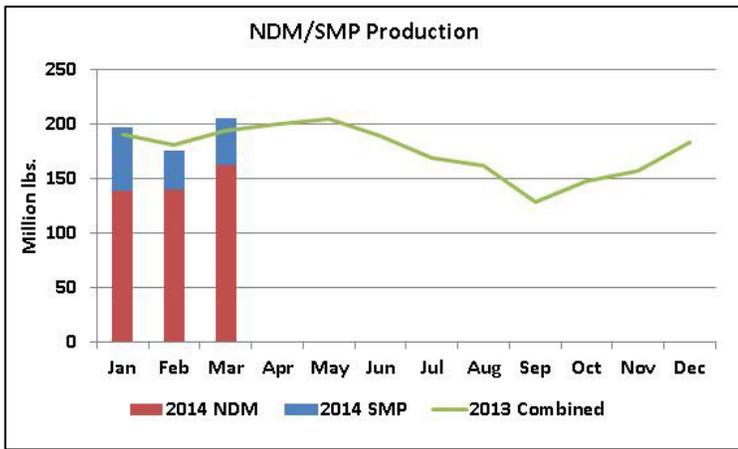
Milk & Dairy Markets

CME spot butter soared this week, rising to \$2.075/lb. On the way to its 16.5¢ gain, butter surpassed the spot Cheddar market and ended at its highest level since August 2011. The May, June and July butter futures contracted settled limit up on Wednesday, a nickel higher than the day before. On Thursday butter futures traded with expanded limits and logged even steeper gains.

In contrast, the Cheddar and nonfat dry milk (NDM) markets stumbled this week. Cheddar blocks fell 14¢ to \$2.07. Barrels lost 12.5¢ and closed at \$2.055. Grade A NDM dropped 3.25¢, settling at \$1.775. Despite the abject weakness in the spot Cheddar market, Class III futures continued to climb. Indeed, the June contract added 72¢ and the May, June and July contracts reached new highs Thursday. Class IV futures were even stronger. Most contracts gained 60¢ or more and the July contract settled \$1.02 higher.



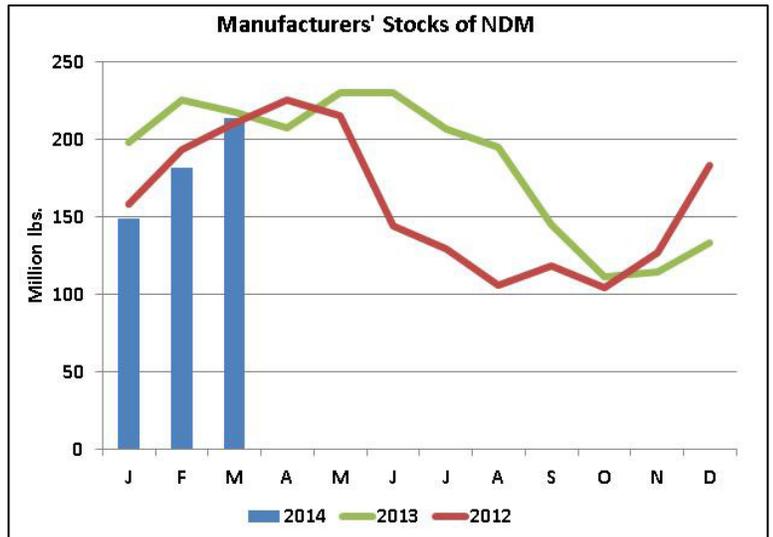
USDA announced the April Class III milk price at an all-time high of \$24.31/cwt., up 98¢ from March and an astounding \$6.72 greater than April 2013. California's 4b milk price was \$21.73 in April, 43¢ lower than March. The April Class IV price retreated 32¢ from March, at \$23.34. This was \$5.24 higher than April 2013. California 4a milk was \$23.34, also 32¢ lower than the March 4a milk price.



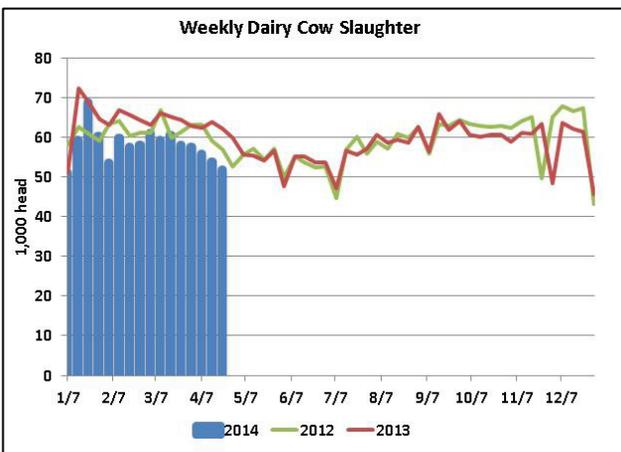
USDA's Dairy Products report helps to explain why butter prices are climbing while the cheese and milk powder markets falter. U.S. butter production totaled 165 million lbs., marking a four-year low in March output. This is 9% lower than March 2013 production and 9.1% lower than February on a daily average basis. Cheese output reached 963.9 million lbs., up 1% from last year and 2.3% greater than February. At 205.3 million lbs., combined production of NDM and skim milk powder (SMP) was 5.7% higher than last year and 5.4% greater than the previous month. The February to March growth in cheese and milk powder production was larger than typical, while the

scant increase in butter output fell short of the historic average.

NDM inventories are rising along with production. Manufacturers' stocks of NDM climbed to just under 214 million lbs. While this is 1.7% lower than March of 2013, it represents a 17.9% increase from February levels.



The California flush is over, but there is no lack of milk, and production is climbing in much of the rest of the country. With retail milk prices at record highs, consumers are retrenching and fluid milk plants are scaling back. There is more than enough milk for processors. Low cheese and butter stocks have helped to mute the price impact of rising production, but manufacturers are already rebuilding cheese and milk powder inventories. As the delayed spring flush sets in, those markets could come under further pressure.



For the week ending April 19, dairy cow slaughter totaled 52,018 head. This was 16.5% lower than the same week in 2013 and represents the lowest non-holiday cull since July 2011. It is clear that dairy producers are reducing cull rates as they try to expand the herd. Heifer demand remains strong. According to USDA, dairy replacement heifers cost an average of \$1,880 per head in February, March and April. This is 26% higher than USDA's January estimate. Heifer prices in California are even higher. At the Turlock Livestock Auction over the past few weeks, #1 Holstein springers ranged from \$1,800 to \$2,375 per head.

Grain Markets

By this past Sunday, just 19% of the corn crop was in the ground. This is considerably lower than the historic average and below analysts' expectations ahead of USDA's Crop Progress report. Farmers in much of the Midwest have been sidelined by cool temperatures and a steady drizzle, although drier conditions in the western Corn Belt have allowed for considerable progress there. Next week's forecast is a bit clearer, but temperatures are expected to remain lower than normal, and late-week rains will bring fieldwork to a halt again. Progress will be erratic at best. If less than half of the corn crop is planted by mid-May, USDA will begin to lower its estimate of potential corn yields.

When the official totals are released, April corn exports are expected to be higher than any month since November 2007. Corn export commitments already exceed USDA's full season export forecast. While some of these export contracts will likely be carried over to next season, the pace of corn exports must slow or USDA will have to increase its estimate of corn export demand. Private analysts are already calling for greater corn demand and lower ending stocks.

Despite the lack of planting progress and robust export sales, corn futures shed 14¢ this week. They followed the soy complex lower. Soybean futures lost 17.25¢ after a rout on Thursday. The market has been pressured by news that ships carrying soybeans and soybean meal from South America have reached ports in the U.S. The U.S. is expected to import a record-breaking volume of soybeans this crop year. However, due to the extravagant pace of U.S. soybean exports earlier this season, domestic end users will need all those imports and more. But soybean prices are rising in Brazil and U.S. importers are not booking more contracts given today's market. U.S. soybean prices will need to rally to assure a continued flow of soybeans from the Southern Hemisphere to the U.S.

LATEST DAIRY CARES COLUMN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The April 2014 *Dairy Cares Report* has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. Given all the debate in the past several months about the drought conditions in California, this month's column focuses on some of the ways our State's dairy families are responding to the limited supplies of water.