



Milk Producers Council

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DATE: May 23, 2014
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0225	\$2.0200
Barrels	+\$0.0600	\$2.0200

Weekly Average, Cheddar Cheese

Blocks	-\$0.0190	\$1.9880
Barrels	+\$0.0120	\$1.9840

CHICAGO AA BUTTER

Weekly Change	+\$0.0200	\$2.1800
Weekly Average	+\$0.0025	\$2.1670

DRY WHEY

Dairy Market News	w/e 05/23/14	\$0.6625
National Plants	w/e 05/17/14	\$0.6727

NON-FAT DRY MILK

Week Ending 5/16 & 5/17

Calif. Plants	\$1.8284	17,679,784
Nat'l Plants	\$1.8556	29,316,026

Prior Week Ending 5/9 & 5/10

Calif. Plants	\$1.8386	15,424,063
Nat'l Plants	\$1.8987	28,897,396

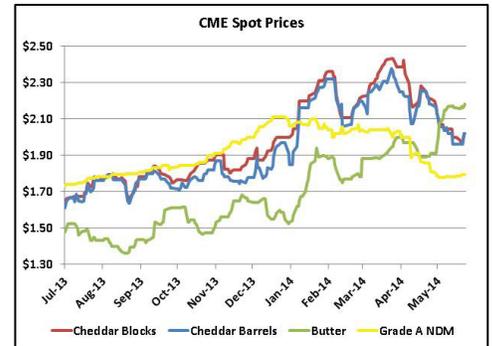
FRED DOUMA'S PRICE PROJECTIONS...

May 23 Final:	Quota cwt. \$22.86	Overbase cwt. \$21.16	Cls. 4a cwt. \$22.74	Cls. 4b cwt. \$19.34
Last Week:	Quota cwt. \$22.88	Overbase cwt. \$21.18	Cls. 4a cwt. \$22.78	Cls. 4b cwt. \$19.36

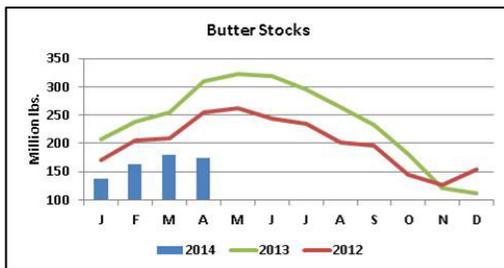
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

CME spot butter prices climbed to three year highs on Friday at \$2.18/lb, up 2¢ from last week. A total of 38 loads changed hands at the exchange, matching the highest weekly volume in more than seven months. The other products also closed higher. Cheddar blocks and barrels both settled at \$2.02, up 2.25¢ and 6¢, respectively, from last week. Grade A nonfat dry milk (NDM) added 0.75¢, closing at \$1.7925. June through December Class III futures gains ranged from 24¢ to 56¢. The Class IV market was even stronger; Friday's settlements were 52¢ to 79¢ higher than last week.



The large volume of butter exchanged this week is curious given tight



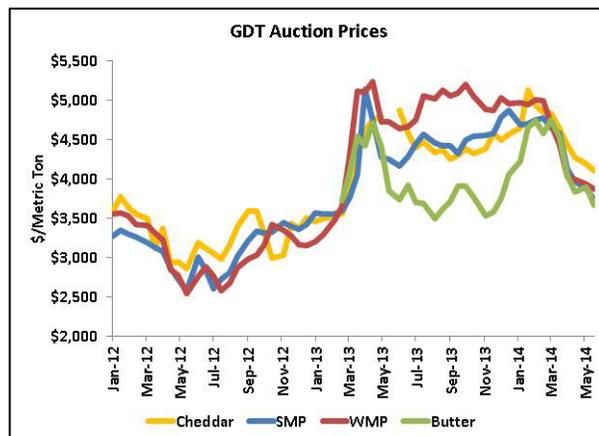
butter supplies. According to USDA's Cold Storage report, there were just 174 million lbs. of butter in inventory at the end of April. Butter stocks were 29.4% lower than April of 2014 and fell to the lowest level for the month since 2011. Typically, manufacturers lay away almost 30 million pounds of butter in April. But this year, stocks declined almost 6 million lbs. (or 3.3%) from March to April.

If manufacturers cannot grow inventories in May and June, butter supplies could be constrained during the seasonal drawdown in the late summer and early autumn. However, according to *Dairy Market News*, churning activity is on the rise, and some butter is headed to storage. U.S. butter prices exceed those in Europe and New Zealand, and export orders are slowing.

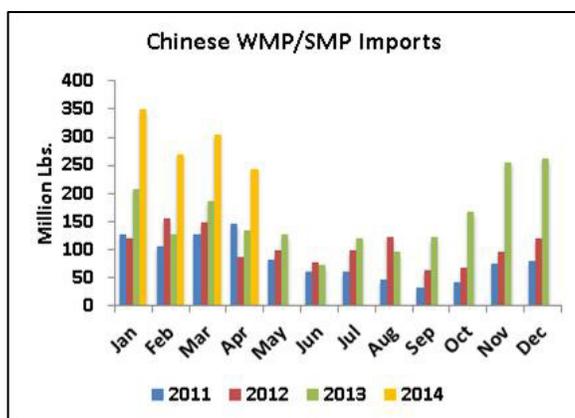
U.S. cheese is among the most expensive in the world. Falling prices overseas – and readily available domestic supplies – have pressured wholesale cheese prices. This week's sudden surge in the CME spot Cheddar price is

an anomaly in an otherwise weakening cheese market. There were 1.04 billion lbs. of cheese in storage on April 30. This is 7.6% lower than April 2013 stocks. However, stocks grew 1.8% from March, mirroring the seasonal trend.

Dairy product prices moved lower at the Global Dairy Trade (GDT) auction. The trade weighted index fell 1.8%. Butter posted the largest decline, falling 3.8%. Whole milk powder (WMP) and skim milk powder (SMP) prices continue to slide; they lost 1.1% and 3.5%, respectively. Cheddar fell 2.1%.



U.S. dairy product prices will likely come under continued pressure from robust overseas supplies. European milk production in the first quarter was 5.8% greater than last year. The Dairy Companies Association of New Zealand confirmed record large output in March. At 1.76 million metric tons, March production was 22% greater than March 2013. Season-to-date production is 7.6% greater than the first ten months of 2012-13. The season is winding down, but such volumes cannot fail to impress.



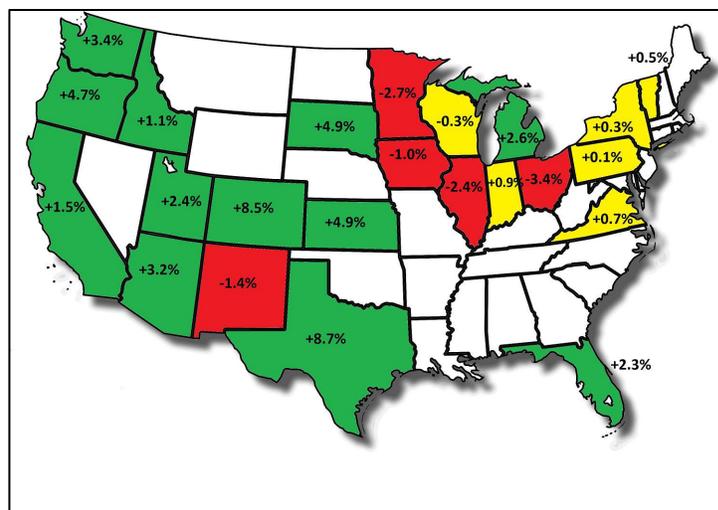
Much of the excess milk in Europe and New Zealand has been dried. However, global demand for milk powders is on the decline. Chinese imports of SMP and WMP fell to six month lows in April, although they remain sharply higher than year-ago levels. Chinese restraint is likely responsible for the 22% decline in SMP and WMP prices at the GDT over the past three months.

China's demand for milk powder imports over the past six months has been nearly twice as large as the comparable period a year earlier, but this does not imply an equally large increase in consumption. Chinese milk powder consumption is almost certainly rising, but some of the recent run-up in imports has

helped to offset China's 2013 milk production deficit. Further, it is likely that some of those imports were routed to storage, which could allow China to slow future purchases. China is expected to enjoy a substantial rebound in milk production this year. USDA forecasts that China will add more than 500,000 cows to the milking herd in 2014. If China increases domestic milk powder output as anticipated, they will likely continue to reduce imports. Global milk powder prices could come under further pressure, especially as lower Chinese purchases coincide with increased global milk production.

U.S. milk output was ho-hum in April. Production of 17.4 billion lbs. was 1% greater than the previous month and year. The flush has been slow to arrive in the Midwest and Northeast, but output in the Southwest remains strong. California production was 1.5% greater than April 2013. Texas and Colorado reported gains of almost 9%.

The milking herd totaled 9.231 million cows last month, according to USDA estimates. This was 10,000 head more than in March, and USDA revised its preliminary estimates for March upward by 3,000 head. Even with disappointing milk production in the Midwest, USDA reported the strongest production per cow for April since they began reporting the data more than a decade ago. Given weather and forage issues in the Midwest, it seems more likely that dairy producers are crowding their barns and that cow numbers are higher than USDA's assessment. If so, the delayed flush in the



Midwest could be very strong indeed, and national production could be greater than expected for longer than anticipated.

For the week ending May 10, dairy producers culled just 48,798 head. This was 12.1% lower than the same week last year. Year-to-date slaughter is 10.3% lower than in 2013.

Grain and Hay Markets

July corn futures lost 5.5¢ per bushel this week, closing at \$4.78. It is raining in the Southern Plains and the sun is shining in the Corn Belt. Planters are rolling throughout the Midwest, and the weather premium has leaked away. Rains in the Plains will likely benefit the wheat crop, although they are admittedly too little, too late in some areas.

July soybeans climbed 50.5¢ this week. Crushing demand remains strong, and the net result of U.S. export cancellations and imports from South America has not been enough to remedy the very tight stocks situation. End users are hoping for dramatic relief from very high soybean and soybean meal prices thanks to the potential for a record large crop. However, there are growing concerns that Argentine farmers will hoard much of this year's crop as a hedge against inflation. This would force importers like China to turn to the U.S. as soon as new crop supplies are available, a time when they would typically purchase South American supplies. Indeed, this week China contracted several cargoes of new crop soybeans with U.S. exporters, and new crop soybean prices rallied almost 45¢.

MPC TEAMS UP WITH LAW FIRM TO ASSIST MEMBERS WITH LABOR AND ENVIRONMENTAL ISSUES: *(By Rob Vandenheuvel)* In case you missed it, MPC announced this week that we have entered into a strategic partnership with California law firm Weintraub Tobin (<http://www.weintraub.com/>). This partnership will provide our dairy family members with access to high quality consultation and education opportunities with respect to labor and environmental regulations. (Press release can be found at: <http://www.milkproducerscouncil.org/052114partnership.pdf>)

It's no secret that the regulatory burdens placed on California dairy farms are obscene, and seemingly getting worse by the year. Dairies throughout the state are well-aware of the air and water regulatory agencies that oversee them, but in recent years we have seen an uptick in labor-related activity by Cal-OSHA and the California Labor Commission. One of the best ways to arm and protect our dairy families from these zealous regulators is with quality education about the laws and our responsibilities as business owners in California. That is precisely why the MPC Board of Directors approved this partnership with Weintraub Tobin, known experts in the areas of labor and environmental law.

More information will be provided to MPC's members in the coming months about the package of benefits put together by MPC and Weintraub, which will include unlimited access to Weintraub's monthly Labor and Employment Seminars, regular updates on evolving labor/employment and environmental issues, as well as 24/7 access to its attorneys.

RISK MANAGEMENT WORKSHOPS SCHEDULED FOR NEXT WEEK: *(By Rob Vandenheuvel)* Some of you may have received information in the mail about two upcoming "Dairy Risk Management Workshops," hosted by USDA and the University of California Cooperative Extension. The workshops will be held in Chino (Tuesday, May 27th) and Merced (Thursday, May 29th) from 8:30 am – 3 p.m. (broken down into two separate programs, one in the morning and one in the afternoon). There is no cost to attend the workshops, and flyers for can be downloaded on our website at: <http://goo.gl/pi00Du> (Chino) or <http://goo.gl/Ljl3h1> (Merced).

MPC would like to wish you and your family a happy and safe Memorial Day weekend! We all owe a huge debt of gratitude to the men and women who have died while fighting for the freedom we enjoy in this country.