



Milk Producers Council

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TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	- \$.0875 \$1.6375	Weekly Change	- \$.0725 \$1.4275	Week Ending 6/21 & 6/22	
Barrels	- \$.1200 \$1.5975	Weekly Average	- \$.0710 \$1.4450	Calif. Plants	\$1.6595 12,196,859
Weekly Average, Cheddar Cheese		DRY WHEY		Nat'l Plants	\$1.6878 21,316,416
Blocks	- \$.0575 \$1.6655	Dairy Market News	w/e 06/28/13 \$1.5913	Prior Week Ending 6/14 & 6/15	
Barrels	- \$.1105 \$1.6340	National Plants	w/e 06/22/13 \$1.5864	Calif. Plants	\$1.6613 11,865,042
				Nat'l Plants	\$1.6816 22,120,873

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

Milk & Dairy Markets

Class III futures rebounded Friday, but by then considerable damage had already been done. July futures took quite a beating, ending 91¢ lower. Other contracts lost between 26 and 56¢, with greater losses in the nearby contracts. The CME spot Cheddar market softened further this week and is largely to blame for Class III weakness. Cheddar blocks shed 8.75¢/lb. and barrels lost 12¢. Cheese futures volume reached 15-month highs Monday and prices moved sharply lower. Last Friday's Cold Storage report, which showed ample cheese and butter stocks, weighed heavily on the markets this week.

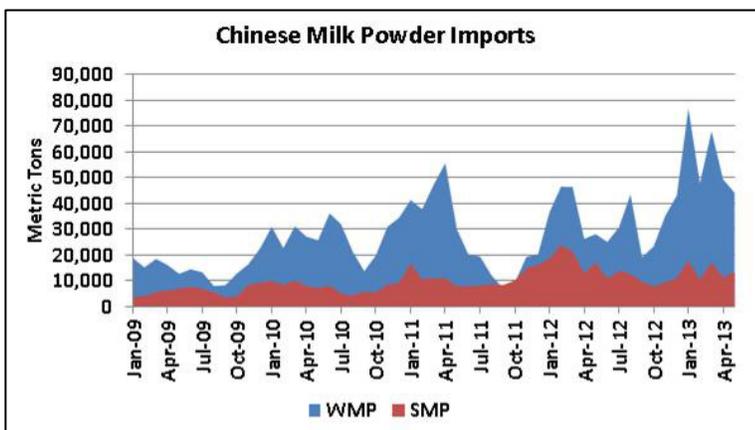
Class IV futures also moved lower, with most contracts losing around 50¢. The CME nonfat dry milk (NDM) market held steady this week, while spot butter dropped 7.25¢. Butter futures traded limit down in some months on Wednesday, compounding losses from earlier in the week. Butter futures bounced back, albeit half-heartedly, on Thursday and Friday. The rebound has elicited calls for a bottom in butter futures. End users have had ample opportunity to contract deferred butter needs at these lower prices, so their interest in additional purchases may be muted. This period of lower prices for all U.S. dairy products has hopefully contributed to increased export sales in the past few weeks.

EU butter stocks are 43% lower than at this time a year ago, and prices have risen to match five year highs. Meanwhile, U.S. butter stocks are heavy and exports have disappointed. Combined U.S. and European butter stocks were 4.6% lower than a year ago at the end of May. U.S. manufacturers produce butter that is naturally white, salted and 80% butterfat. Global buyers prefer butter that is yellow, unsalted and 82% butterfat. There is a roughly 70¢ spread between U.S. and global butter prices. If these specifications are truly holding back U.S. export potential, U.S. butter manufacturers are well incited to add a natural colorant like carotene, hold the salt and up the fat.

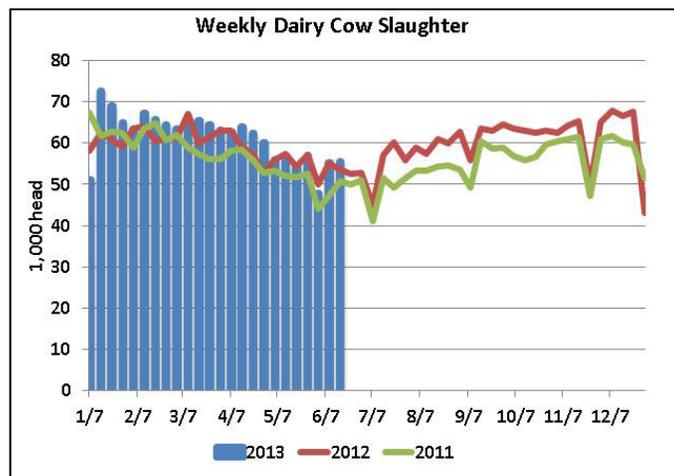
The California Weighted Average Price for NDM averaged \$1.6595/lb., down from \$1.6613 last week. Manufacturers in the West, who are well poised to export, have switched some NDM production to skim milk powder (SMP), which has lowered NDM supplies. This is helping to support domestic NDM prices. Anecdotal reports suggest that manufacturers are contracting NDM at prices above current CWAP and NDPSR averages, implying that these averages will be supported in the months to come.

Chinese SMP imports in May were 21% lower than a year ago, but they were up 18% from April. Year to date SMP imports are 25% lower than in 2012. May whole milk powder (WMP) imports were 11% lower than in

April but up 57% from a year ago. Year to date WMP imports are 56% higher than last year. As sales volume from New Zealand waned, the U.S. accounted for 3% of Chinese WMP imports in May, its highest share of that market since October.



For the week ending June 15, dairy cow slaughter totaled 55,335 head, up 3.2% from a year ago. Year to date slaughter is 3.5% higher than last year. Slaughter picked up in California and nearby states, perhaps due to aggressive buying from meat packers in the region.



The forecast calls for continued triple-digit highs in the Central Valley for the next week. Nighttime lows in the mid-70s will do little to mitigate heat stress. Temperatures are also topping 100 degrees in the Southern Plains, breaking records in many areas. Milk production will almost certainly suffer. The heat will also increase crop water intakes, and there is precious little water to be had.

Grain and Hay Markets

USDA released its quarterly Stocks and annual Acreage reports Friday. The two reports show the old and new crop corn markets at ever widening extremes. The spread between July and December corn futures reached \$1.75, its highest level since 1996. Corn stocks on June 1 totaled 718 million bushels, falling short of pre-report estimates. The stocks figure implies the strongest corn for feed demand in the March-May quarter since the 2009-2010 crop year and exacerbates the tight old crop stocks situation. July corn settled 12¢ higher in response.

USDA estimated corn area at 97.4 million acres. This is 118,000 acres higher than farmers intended according to the March Prospective Plantings survey. However, many analysts surmised that the March survey understated corn acreage and the new Acreage figure suggests that was indeed the case. The Acreage survey was conducted in the first two weeks of June, so it is likely that some farmers hoped to plant ground to corn that has since been switched to another crop or fallowed for insurance. The final acreage figure could be a little lower than 97.4 million acres, but bulls who were calling for closer to 92 million acres of corn have been silenced. Assuming normal abandonment after a decline of one million acres from today's estimate, the corn crop would be record large given a national average yield of 148 bushels per acre or higher. The corn crop is generally in good condition, and a yield in the mid-150s seems probable. Given the likelihood of a very large crop, December corn dropped 27¢ Friday, closing at \$5.11.

June 1 soybean stocks totaled 435 million bushels. This was only slightly smaller than pre-report expectations, which nonetheless means supplies are very tight. July soybean futures added 16¢ on Friday. Given the large proportion of unplanted acreage in early June, USDA's National Agricultural Statistics Service will resurvey farmers in 14 states in July, to better determine soybean acreage. If changes are warranted, USDA will update its acreage estimates on August 12. For now, USDA estimates soybean area at 77.7 million acres, up 574,000 acres from March intentions. November soybeans settled at \$12.52, down 23¢.

FRED DOUMA'S PRICE PROJECTIONS...

June '13 Final: Quota cwt. \$18.83 Overbase cwt. \$17.13 Cls. 4a cwt. \$18.36 Cls. 4b cwt. \$15.91
Last Week: Quota cwt. \$18.83 Overbase cwt. \$17.14 Cls. 4a cwt. \$18.32 Cls. 4b cwt. \$15.95

COMPREHENSIVE IMMIGRATION REFORM APPROVED BY THE U.S. SENATE; OUTLOOK UNCLEAR IN THE HOUSE OF REPRESENTATIVES: *(By Rob Vandenheuvel)* This week, the U.S. Senate approved S. 744, a comprehensive immigration reform package, by a vote of 68-32. Specific to the dairy industry, this bill would provide much-needed certainty, as it addresses both our current and future workforce needs. **MPC would like to thank our two Senators – Barbara Boxer and Dianne Feinstein – who have worked hard on this issue and voted in favor of S. 744.**

The Senate bill gives current agricultural workers an opportunity to continue working in agriculture under a new “blue card” program. It also includes an opportunity in the future to apply for permanent residency. For future workforce needs, the bill transitions the current H-2A program into a more rational Agricultural Worker Program. This new program would allow dairies to utilize the program for year-round workforce needs (as opposed to the more seasonal H-2A program we currently have “available”). While there were certainly some concessions made in the negotiations by the farming community, S. 744 represents a solid step forward in implementing much-needed reforms to our broken immigration system.

Moving over to the House of Representatives, the outlook for immigration reform is much less clear. There is no definite schedule to bring a comprehensive immigration reform package to the House Floor. Reports indicate that the House may instead take the issue up in piece-meal, with multiple bills voted on covering the various issues. And with Speaker John Boehner indicating that he will require a *majority* of his Republican members to support any immigration bill, the prospects of a bill similar to the Senate-approved package (*which only received support from 14 out of the 46 Republicans in the Senate*) seem daunting to say the least. But we greatly appreciate the work of the Senate, and will continue to work with our House Members to demonstrate the great need for this comprehensive approach to immigration reform.

THE DEBATE OVER DAIRY POLICY REFORM CONTINUES; IDFA CONTINUES TO SPEW OUT THEIR PROPAGANDA: *(By Rob Vandenheuvel)* Last week, we reported on the disappointing news from Washington, DC that the House of Representatives had approved the “Goodlatte/Scott Amendment” to the Farm Bill, which severely weakened the dairy reform proposal (Dairy Security Act) that was approved by the House Agriculture Committee. We also reported that the House ultimately rejected their amended version of the Farm Bill, putting us in limbo for the time being. On the other side of the Capitol, the Senate has already approved their version of the Farm Bill, which includes the Dairy Security Act as the dairy reform proposal.

With all that as background, the debate over the future of our dairy safety net policies continues in Washington, DC. This week, yet another press release was published by the International Dairy Foods Association (IDFA), the main lobbying organization for the nation’s processors. The press release, which can be found at: <http://www.idfa.org/resource-center/market-information/update-on-dairy-markets/details/8297/>, attempts to paint the Goodlatte/Scott Amendment as the optimal proposal, going so far as to argue that the Goodlatte/Scott Amendment would actually result in *less* U.S. taxpayer funds being expended (compared to the Dairy Security Act).

While IDFA likes to cite an analysis by the Congressional Budget Office, their claims simply fail to pass the “logic test.” Let me demonstrate what I mean:

Let’s pretend for a minute that a plumbing problem in your home leads to flooding in your house. Now of course, you are going to clean up the flooded area, drying out the carpet and furniture in hopes of preventing mold or other damage to your home. **But a prudent person is also going to fix the plumbing issue that caused the flooding in the first place.** What would happen if you merely cleaned up the flood damage and left the

plumbing issue unchecked? You would constantly be dealing with flood damage, ultimately resulting in destroyed carpet, furniture and other problems, at a huge long-term expense.

Applying this theory to the current debate over dairy policy, the “plumbing problem” represents the all-too-common occurrences when national overproduction of milk relative to demand causes our milk prices to drop below the cost of producing that milk. The Goodlatte/Scott Amendment – which is merely a “margin insurance” program that makes payments when our dairy farmers are losing money – is like cleaning up the flood damage without fixing the plumbing problem. **The Dairy Security Act is a two-pronged approach that does both – provides a margin insurance program to “clean the flood damage,” while at the same time implementing a “Dairy Market Stabilization Program” that quickly addresses the underlying market imbalance that created the problem in the first place, the “plumbing problem,” if you will.**

So using common sense, which of these two responses to the “plumbing problem” is more likely to cost you more? Constantly cleaning up a flooded house, or addressing the underlying problem head on? **Do I even need to answer?!?**

Now I’m sure it will be pointed out to me that this is a very simplistic comparison. I will be reminded that unlike a plumbing problem, the problem of insufficient milk prices for dairy farmers is eventually solved. **But you know how those profitable prices are restored, right? Through market balance! Although it’s only after unspeakable financial pain for the dairy farmers and billions of dollars in lost equity.** We all know what needs to happen when we get in an oversupply situation – **the question is do we want a coordinated approach to addressing it or do we want a slow, painful fix, with taxpayers forking out billions of dollars in the meantime?** And remember, **low milk prices for dairy farmers are NOT a problem for our nation’s processors, which is why they see no value in actually addressing the problem!**

Sometimes in policy debates, our industry – as well as our elected officials – get so caught up in studies, analyses and the general propaganda that we forget to use our common sense. Common sense tells us that we need a dairy safety net that provides protection for our valuable dairy infrastructure, while at the same time addressing the fundamental root of our problem, which is market imbalance.

MPC will continue to work with our coalition partners to implement the common sense reforms included in the Dairy Security Act. **The financial future of our nation’s dairy farmers depends on it!**

NOTE: Due to scheduling constraints and the Independence Day holiday, there will be no MPC “Friday Report” next week. Our next issue will be on Friday, July 12th.

The MPC Board of Directors and Staff would like to wish you and your family a wonderful and safe Independence Day!