



Milk Producers Council

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DATE: June 21, 2013
TO: Directors & Members

PAGES: 5
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0025 \$1.7250
Barrels - \$.0550 \$1.7175

Weekly Average, Cheddar Cheese

Blocks - \$.0130 \$1.7230
Barrels - \$.0255 \$1.7445

CHICAGO AA BUTTER

Weekly Change - \$.0350 \$1.5000
Weekly Average - \$.0240 \$1.5160

DRY WHEY

Dairy Market News w/e 06/21/13 \$5.913
National Plants w/e 06/15/13 \$5.742

NON-FAT DRY MILK

Week Ending 6/14 & 6/15

Calif. Plants \$1.6613 11,865,042
Nat'l Plants \$1.6816 22,120,873

Prior Week Ending 6/7 & 6/8

Calif. Plants \$1.6622 8,334,585
Nat'l Plants \$1.6839 18,461,823

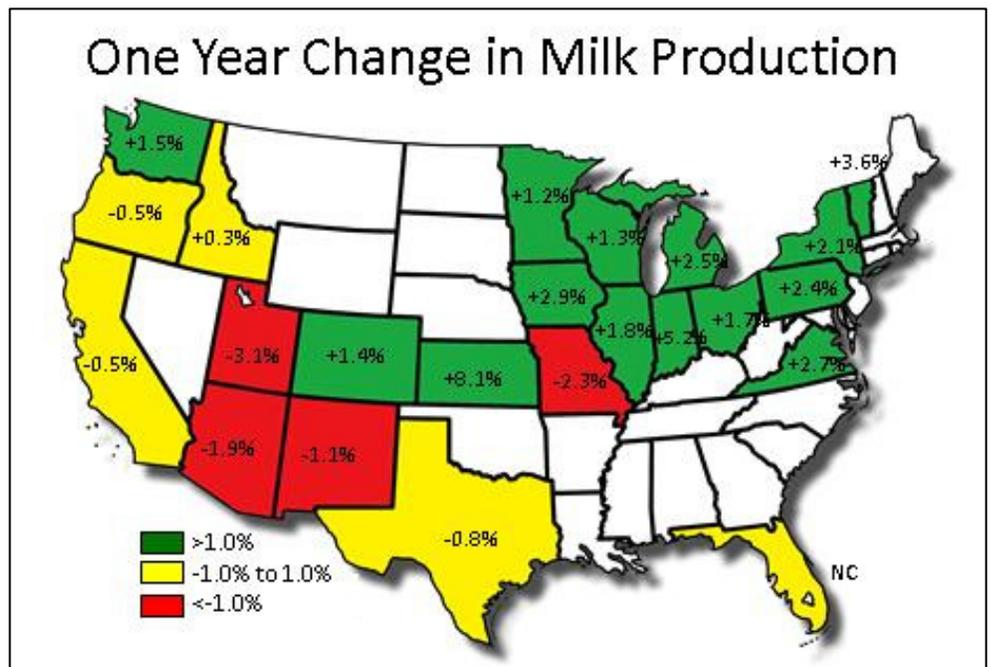
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

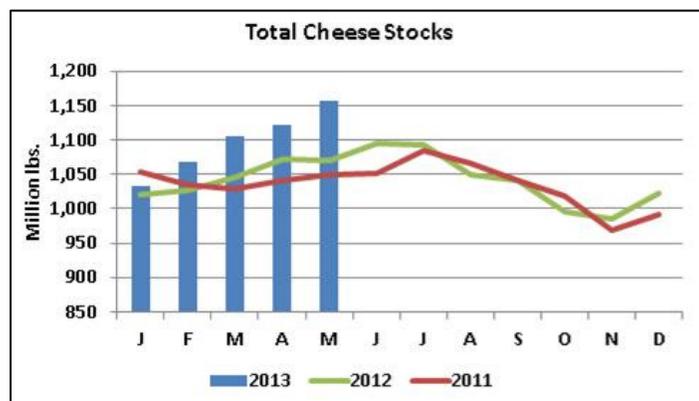
There is no shortage of dairy products in the U.S., and Class III milk futures continue to lose ground. Summer contracts fell about 20¢ this week, while deferred futures lost a nickel. CME spot Cheddar blocks added 0.25¢/lb., rising to \$1.725. Barrels lost 5.5¢ and are once again trading at a discount to blocks. Trade volume was almost nonexistent. A single load of blocks changed hands, in stark contrast with the 50 loads of blocks traded just two weeks ago.

Class IV futures were mostly a few cents lower, and the July contract lost 19¢. CME spot butter shed 3.5¢ this week, trading twice and settling at \$1.50/lb. Volume and open interest have been moving higher, confirming the downward trend in butter futures. This represents a divergence from global butter prices. In the past two weeks, butter prices have held steady in Oceania and increased 1.7% in Western Europe, according to *Dairy Market News*. Butter prices at the Global Dairy Trade (GDT) auction moved 4.7% higher and are now 24¢ higher than U.S. spot butter. Dairy America will be offering butter for the first time at the next GDT auction, and they will likely be quite competitive.

CME spot Grade A nonfat dry milk (NDM) prices increased 2.75¢ this week to \$1.73 after six trades. Milk powder prices are also moving higher in Europe. According to *Dairy Market News*, skim milk powder (SMP) prices have increased by 2.5% in the past two weeks, and whole milk powder prices (WMP) are up 1.6%. In Oceania, SMP and WMP prices declined 11.6% and 4.0%, respectively. However, GDT milk powder prices moved higher on Tuesday, ending more than two months of steep declines from record highs.



U.S. milk production totaled 17.7 billion lbs. in May, 0.8% higher than a year ago. USDA lowered its estimate of April milk production by 20 million lbs. Milk production peaked early this year; May production was 0.5% lower than April on a daily average basis. California milk production totaled 3.73 billion lbs., down 0.5% from a year ago and down 0.4% from April. Most Midwestern and Northeastern states reported 1-3% increases in production relative to last year.



Given strong Midwest milkflows, an increase in cheese production and inventories was almost inevitable. Indeed, May 31 cheese stocks were a record high 1.16 billion lbs., 35 million lbs. higher than at the end of April, and 8.2% larger than a year ago. American cheese stocks were up 10.1% from May 2012. Cheese stocks typically increase in May, but the volume of last month's increase was impressive.

Butter stocks also increased in May, rising to 323 million lbs., a nearly 20-year high. This is 4.3% higher than April and 23.5% larger than May 2012. Butter inventories typically peak in May or June. Cream is readily available, suggesting that butter stocks will continue to grow from already high levels.

Weekly dairy cow slaughter totaled 55,070 head, which is slightly lower than a year ago. Year to date slaughter is 3.6% higher than last year, thanks to very high cull rates in the first four months of the year. Since May dairy cow slaughter has been 1.4% lower than last year.

Grain and Hay Markets

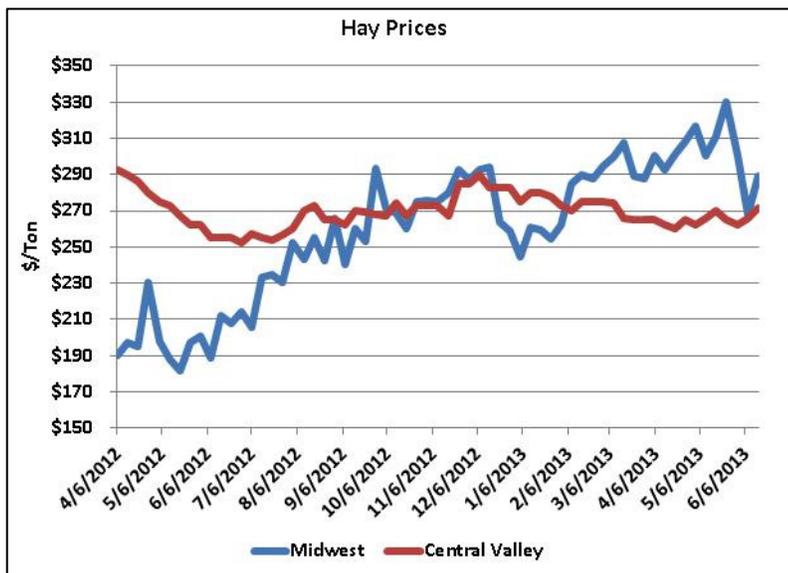
Commodity markets in general came under pressure this week. Federal Reserve Chairman Ben Bernanke hinted that the Fed may tap the brakes on its asset purchasing program if the U.S. economy continues to improve through the end of the year. This spurred the U.S. dollar index to its strongest weekly performance in nearly a year, making U.S. exports less competitive. Furthermore, concerns about global commodity demand mounted as economic data disappointed and bank lending rates rose in China, revealing the potential for a credit crisis in the world's second largest economy. Fears about Chinese demand likely had an outsized impact on the soy complex.

New crop corn prices added 20¢ after posting double digit moves nearly every day. This week coincides with the start of the drought-driven rally in corn prices last year, and the fact that many Corn Belt farmers are more concerned about mud than drought did not prevent fearful comparisons to last year. Weather forecasters began discussing the possibility of a ridge of high pressure settling over the Plains, making for weeks of high temperatures and little rain. However, later weather models suggested no such ridge, and prices deflated from mid-week highs.

A Reuters survey shows that crop analysts expect USDA to report corn planting at 95.3 million acres in next week's Acreage report. This compares to 97.3 million acres on USDA's most recent balance sheet. Some of the lost corn acres were shifted to soybeans. Analysts expect soybean area at 77.9 million acres, up from USDA's latest 77.1 million acres. New crop soybean prices dropped 25 cents this week. Old crop contracts were also lower.

The National Oilseed Processors Association reported May crushing activity at 122.6 million bushels, which was larger than expected, but 11% lower than last year. The June through September crush will need to average 20% lower than last year to meet USDA's crush forecast. Crush margins remain solid, so a 20% reduction in the crush seems unlikely at this point. However, tightening soybean supplies could push the crush notably lower this summer, which would likely result in higher soybean meal prices.

Alfalfa prices are easing from record highs in the Midwest as new crop supplies are finally available. However, winterkill is a problem, particularly in Wisconsin, and the availability of quality forage remains in question after weeks of rain. In a reversal of fortunes, some Midwest dairy producers are importing hay from the West. The Southern Plains remain in severe drought. Meanwhile, water issues in the Central Valley have led some farmers to abandon older alfalfa stands after only a few cuttings. Given record low stocks and production issues, hay prices will likely remain well supported.



The Cattle on Feed report leaned bearishly, as June 1 inventories were larger than expected, and the number of cattle marketed was smaller than anticipated. However, beef stocks in cold storage were lower than expected. Cattle futures added more than \$2/cwt. this week. They will have to contend with cattle and beef inventory figures on Monday.

FRED DOUMA’S PRICE PROJECTIONS...

June 21 Est:	Quota cwt. \$18.83	Overbase cwt. \$17.14	Cls. 4a cwt. \$18.32	Cls. 4b cwt. \$15.95
Last Week:	Quota cwt. \$18.72	Overbase cwt. \$17.02	Cls. 4a cwt. \$18.00	Cls. 4b cwt. \$15.95

GOODLATTE/SCOTT AMENDMENT PASSES, BUT FARM BILL ULTIMATELY FAILS IN THE HOUSE: (By Rob Vandenheuvel) It was a wild week in the U.S. House of Representatives, with a Farm Bill debate that spanned two days and included the consideration of 103 amendments (including the processor-supported “Goodlatte/Scott Amendment” to severely weaken the dairy reforms in the bill), and a surprising twist at the end, when the bill failed to get enough votes for approval.

Specific to the dairy reforms, the original provisions in the bill – modeled after the “Dairy Security Act” that MPC and other dairy organizations/cooperatives have been working on for several years – were stripped from the bill when the Goodlatte/Scott Amendment was approved 291-135. During the debate, it was painfully clear that many misinformed Members of Congress – particularly those from urban areas that rarely deal with dairy issues – were tricked into believing the propaganda that was spread by the processor’s lobbyists (International Dairy Foods Association, or IDFA).

Seemingly lost in the debate was the fact that the “market stabilization program” in the Dairy Security Act is a *standby program*. It *only* would go into effect *if* dairy margins collapse. If there is adequate consumer demand for U.S. dairy products, there is no reason that stabilization program would need to be implemented. And if there is not enough demand for U.S. dairy products, our national milk production has to be reduced, either through a rational, coordinated market stabilization program or through our current system (extended negative margins, massive equity loss, and bankrupt dairymen).

As you know, the U.S. Senate has approved their version of the Farm Bill (which includes the Dairy Security Act). But with the House Farm Bill failing to get enough votes for approval, the next steps are unclear. Ultimately, we need to get to a final Farm Bill that can pass both the House and Senate, but there are numerous ways to get there, and the House Leadership is undoubtedly pondering those paths as they try to make sense of what happened this week.

California’s Champions

Within California’s Congressional Delegation, **our dairy farmers owe a number of our Representatives a huge debt of gratitude for their efforts to defeat the Goodlatte/Scott Amendment.** While the effort was

ultimately unsuccessful, these Members of Congress stood up for our dairy families, despite heavy pressure by not only the processors, but by the Speaker of the House (Rep. John Boehner, R-OH), who personally took it upon himself to urge all Members to support the Goodlatte/Scott Amendment.

On the top of that list is the ONLY California Republican who voted against the Goodlatte/Scott Amendment: Rep. David Valadao (Hanford). Rep. Valadao, who is a dairyman himself, even publicly spoke out against the amendment during the House debate, which was certainly an uncomfortable position when the most powerful Republican in the House (Speaker Boehner) is putting the pressure on his members to support the amendment. For those interested in listening to Rep. Valadao's comments during the debate, you can find them online at: <http://youtu.be/wMuJSLCma4o>.

On the Democrat side of the aisle, the amendment was opposed by 22 of California's Representatives (out of 38). **We owe a heartfelt thank you to:**

- **Rep. Ami Bera** (*Rancho Cordova/Elk Grove*)
- **Rep. Lois Capps** (*San Luis Obispo/Santa Barbara*)
- **Rep. Judy Chu** (*Pasadena*)
- **Rep. Jim Costa** (*Merced/Fresno*)
- **Rep. Anna Eshoo** (*Palo Alto*)
- **Rep. Sam Farr** (*Monterrey*)
- **Rep. John Garamendi** (*Davis/Orland*)
- **Rep. Jared Huffman** (*Petaluma/Eureka*)
- **Rep. Zoe Lofgren** (*San Jose*)
- **Rep. Alan Lowenthal** (*Long Beach/Avalon*)
- **Rep. Doris Matsui** (*Sacramento*)
- **Rep. Jerry McNerney** (*Stockton/Lodi*)
- **Rep. George Miller** (*Walnut Creek*)
- **Rep. Gloria Negrete McLeod** (*Chino/Ontario*)
- **Rep. Nancy Pelosi** (*San Francisco*)
- **Rep. Raul Ruiz** (*Palm Springs/Blythe*)
- **Rep. Linda Sanchez** (*Whittier/Cerritos*)
- **Rep. Loretta Sanchez** (*Santa Ana/Anaheim*)
- **Rep. Brad Sherman** (*Northridge/Sherman Oaks*)
- **Rep. Mark Takano** (*Moreno Valley/Riverside*)
- **Rep. Mike Thompson** (*Napa/Sonoma*)
- **Rep. Juan Vargas** (*El Centro/South San Diego*)

Together, these 23 Members of the California Congressional Delegation understood the plight of the U.S. dairy farmers and the importance of a balanced approach that will empower our dairies to rationally respond to market signals. **We cannot express enough how much we appreciate their support.**

CDFA ANNOUNCES RESULTS FROM MAY 20TH HEARING: (*By Rob Vandenheuvel*) This afternoon, the California Department of Food and Agriculture (CDFA) announced the results from their May 20th hearing to consider temporary changes to the California minimum prices. Before going into those hearing results, let me provide a little background:

- In December 2012, a similar hearing was held, and a four-month price increase to all five Classes of milk was implemented for February-May 2013
 - \$0.05/cwt increase to the Class 1 price
 - \$0.10/cwt increase to the Class 2 and 3 prices
 - \$0.30/cwt increase to the Class 4a and 4b prices
 - The result was an estimated \$0.25/cwt increase to the Overbase price
- On May 1, 2013, CDFA announced that they would be conducting another hearing on the same issue on May 20th. The hearing was called on CDFA Secretary Karen Ross's own authority (*in other words, it was CDFA's own idea; no petition from the industry was filed*)
- At the hearing on May 20th, eight witnesses testified on behalf of processors. **All eight processor witnesses supported a six-month continuation of the February-May 2013 price increases.**
- The producer position was also unified, with all eight producer witnesses supporting a \$1.20/cwt increase to the Class 4b price *only*.

So that catches you up to CDFA's announcement today. Their decision? The hearing panel (which makes a recommendation to the Secretary) listened to the testimony and recommended that *no price increase be given*. Secretary Ross overruled that decision, and **decided to increase all five Class prices by HALF of the amount from the February-May 2013 increase** (resulting in an estimated increase to the Overbase price of \$0.125/cwt), for July-December 2013.

So eight processor representatives testified that they supported a six month price increase equal to the previous price relief, and we ended up with **HALF**. I can't think of a better lead into the next article...

CALIFORNIA'S THREE COOPERATIVES MOVING FORWARD ON A CALIFORNIA FEDERAL MILK MARKETING ORDER: *(By Rob Vandenheuvel)* This week, in a press release by California Dairies, Inc. (CDI), it was reported that the three major California cooperatives (CDI, Dairy Farmers of America and Land O'Lakes) are moving forward with the drafting of federal order language to initiate the process of moving towards a California Federal Milk Marketing Order (FMMO). The announcement comes after the three coops commissioned a study on the issue by Dr. Mark Stephenson (University of Wisconsin-Madison) and Dr. Chuck Nicholson (Penn State University). The study revealed that ***"a properly written federal milk marketing order for California would provide a regulatory structure that would potentially result in higher farm gate prices, which would benefit California dairy farm families."***

The process for implementing a California FMMO includes a petition submitted to the U.S. Department of Agriculture, a public hearing on the issue, and ultimately a vote of California producers (requiring a 2/3 majority for approval). Cooperatives are an integral part of the decision process, as they can bloc vote for their members. Therefore, the interest of California's three major cooperatives, representing about 80% of the State's milk production, is a strong indication that this process will definitely move forward. In reports from the meeting, the cooperatives believe it will take about six months for staff to put together the draft FMMO language to submit to USDA. **Given the article above on CDFA's current attitude towards California dairy families, that process cannot happen fast enough!**

REMINDER: TWO MORE MPC AREA MEETINGS SCHEDULED FOR NEXT WEEK: *(By Rob Vandenheuvel)* This week, Milk Producers Council held three area meetings in Bakersfield, Tulare and Riverdale. Next week, two more area meetings are scheduled for Merced and Lodi. These meetings – which are open to MPC members, other interested dairymen and allied industry folks – are an opportunity to hear the latest on many of the issues facing the California dairy industry, such as our challenges in California and the status of the U.S. Farm Bill.

The schedule for next week's meetings is:

- **Tuesday, June 25th @ 11:00 a.m.** – Vista Ranch & Cellars (7326 California 140 in Merced)
- **Tuesday, June 25th @ 4:00 p.m.** – Van Exel Dairy (18630 N. Thornton Road in Lodi)

If you plan to attend, please shoot an email to Kevin Abernathy (Kevin@milkproducers.org) or myself (Rob@milkproducers.org), or you can call the MPC office at (909) 628-6018.