Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

DATE: October 25, 2013 **PAGES: 5**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	*+$.0175*	$1.8750	Weekly Change	*- $.0075*	$1.4750	**Week Ending 10/18 & 10/19**		
Barrels	*+$.0575*	$1.8200	Weekly Average	*- $.0425*	$1.4720	Calif. Plants	$1.8320	7,364,636
						Nat'l Plants	$1.8431	15,797,397
Weekly Average, Cheddar Cheese			**DRY WHEY**			***Prior Week Ending 10/11 & 10/12***		
Blocks	*+$.0265*	$1.8625	**Dairy Market News**	w/e 10/25/13	$.5563	*Calif. Plants*	*$1.8122*	*8,835,158*
Barrels	*+$.0215*	$1.7945	**National Plants**	w/e 10/19/13	$.5711	*Nat'l Plants*	*$1.8284*	*N/A**

** Due to the shutdown of the Federal Government, this figure was not calculated by USDA.*

***

FRED DOUMA'S PRICE PROJECTIONS…

Oct 25 Final:	**Quota cwt. $19.79**	**Overbase cwt. $18.10**	**Cls. 4a cwt. $19.98**	**Cls. 4b cwt. $16.82**
Last Week:	**Quota cwt. $19.77**	**Overbase cwt. $18.07**	**Cls. 4a cwt. $19.91**	**Cls. 4b cwt. $16.81**

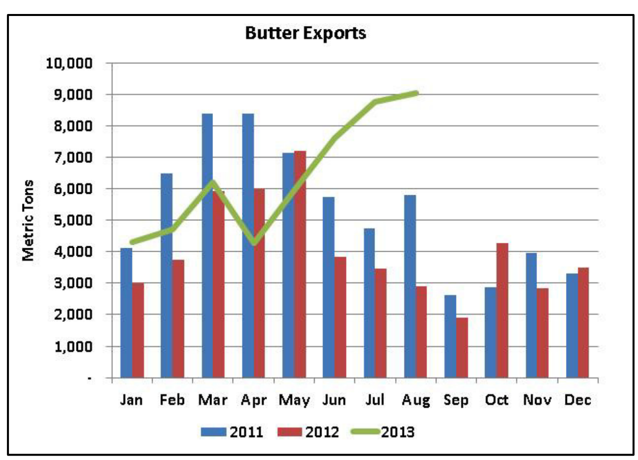
***

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

Milk & Dairy Markets

Cheese buyers who have been waiting for lower prices before locking in end-of-year needs may be giving up and stepping in, boosting the market. CME spot Cheddar barrels scored new highs for the year, settling at $1.82/lb., up 5.75¢ from last Friday. Blocks added 1.75¢ and settled at $1.875, the highest level in nearly six months. Nearby Class III futures followed suit. The November and December contracts added 41 and 22¢, respectively. There was less exuberance for 2014.

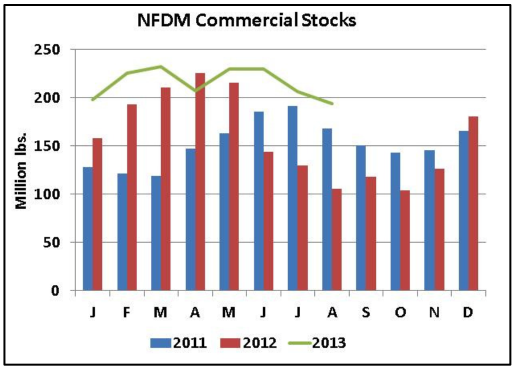
Grade A and Extra Grade nonfat dry milk (NDM) established new multi-year highs, settling at $1.90 and $1.85, respectively, up 3 and 4¢ from last week. The butter market looks anemic by comparison. It lost 0.75¢ this week and languished at $1.475. Class IV futures posted double digit gains. January Class IV futures were particularly strong. They settled 49¢ above last week's close. The market seems unconcerned about the potential for a substantial increase in global milk powder production next year. Or perhaps it expects a commensurate increase in demand for milk powders. Record-breaking export sales in August likely fueled the bullish fervor.



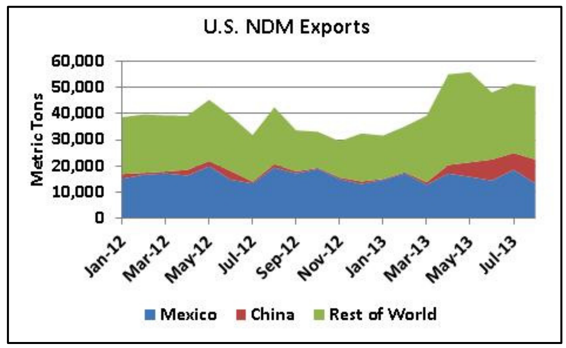
U.S. butter production typically bottoms in August. But this year production reached 135.6 million lbs., 1.5% higher than July and 4.7% more than August 2012. Manufacturers churned aggressively, seeking to meet the demands of the export market and the holiday baking season. That season is nearly upon us, but judging by the tone of the market, retail butter demand has not impressed. Exports, however, have shined. August butter exports totaled 9,057 metric tons, a five year high and more than three times greater than August 2012. Importers who don't typically turn to the U.S. for butter, like

Turkey and Ukraine, have emerged as some of our largest customers of late, highlighting the export opportunities created by the U.S. butter discount.

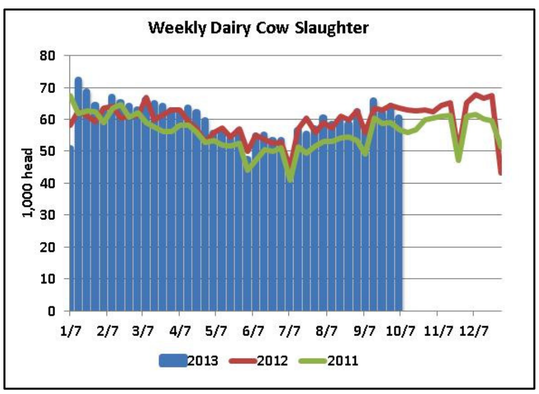
Strong Midwest milk production continued to push milk to cheese vats. August cheese production totaled 926.1 million lbs., up 3.9% from a year ago, and up 1.9% from July. U.S. cheese exports were record large in August, up 40% from the prior year. However, sales to our largest trading partners, including Mexico, declined.



U.S. production of NDM and skim milk powder (SMP) was 10.5% greater than a year ago. Production was 5% lower than in July, but this is a smaller than normal decline. Similarly, NDM stocks declined by a lower than typical 6% from July to August. U.S. exports of NDM in August were 19% greater than last year, but 2% lower than July. Production deficits in Oceania allowed the U.S. to ship ever larger volumes of milk powder to China, and U.S. shipments of SMP and NDM to China reached record levels in August. However, this did not fully offset declining sales to Mexico. If Mexico is simply waiting for lower prices before accelerating its purchases, this could help to extend the export boom. But if Mexico's appetite for U.S. milk powder is waning, it signals trouble for the U.S., especially given our already high stock levels and rebounding milk production overseas.



Overseas production is indeed rebounding. Record high milk prices and the anticipation of a quota-free Europe are encouraging increased output there. New Zealand milk production in August was 9.2% higher than a year ago, and August 2012 production was already impressive. Fonterra reports September and October milk collections at least 5% greater than last year. Weather permitting, New Zealand milk production will be robust in 2013-14, which could quickly erode U.S. milk powder export sales in southeast Asia. Dairy product prices in Europe and New Zealand remain at a premium to U.S. prices, but they are stagnating.



For the week ending October 5, dairy cow slaughter totaled 60,805 head, down 4.1% from a year ago. To date, dairy cow slaughter is 2.2% higher than last year.

Grain and Hay Markets

December corn futures closed a couple cents lower than last week. Trading ranges were narrow, and the market appears comfortable around $4.40/bushel for now. Soybean futures settled a dime higher, at $13.00. The harvest is progressing slowly, but the farmer remains a reluctant seller and the basis for both corn and soybeans is stubbornly high.

Export demand has been quite strong for this time of year, but this should not be surprising given the lack of readily available grain and oilseeds at South America's ports. This year's export program has been front-loaded due to tight old crop supplies and logistical and political issues in the Southern Hemisphere. The lack of farmer selling has allowed the physical market to tighten, even though the crop is more than adequate.

The market has not been forced to take a long term look at the supply and demand balance due to the lack of USDA reports. When the long-term demand outlook is reckoned against the size of corn and soybean supplies both here and abroad, lower prices seem likely. But for now, prices are supported by immediate needs. If elevators, processors and exporters cannot coax some corn and soybeans away from the farmer at harvest, much of it may end up sitting in farmers' bins all winter.

It rained heavily in southern Brazil and Paraguay this week, and rains will push northward next week. Dry conditions prevail in Argentina, but there are chances for rain in the latter half of next week. The dry weather has restricted corn planting and increased soybean planting intentions. But lingering dryness could hamper yields and result in lower output for both crops.

***

CDFA ANNOUNCES RESULTS FROM SEPTEMBER 12TH MILK PRICING HEARING: *(By Rob Vandenheuvel)* This week, the California Department of Food and Agriculture (CDFA) announced the results from a September 12, 2013 hearing on changes to California minimum prices for milk. CDFA Secretary Karen Ross decided to extend a temporary price increase on all five classes of milk through June 2014 (those increases were set to expire on December 31, 2013).

Before going into the announced decision and industry reaction, let me remind our readers how we got here.

<u>Background 2010 - Present</u>
For several years, dairy farmers have pleaded with CDFA to make fundamental changes to the way the California Class 4b price is calculated (this is for milk sold to California's cheese manufacturers).

- The reason is very simple: California's Class 4b price – which makes up about 45% of the Overbase price paid to California's dairy families – has lagged significantly below the Federal Order Class III price (the benchmark price for milk sold to cheese manufacturers around the country).
- While the Class 4b price has been at a slight discount to the Federal Order Class III price for many years ($0.45/cwt from 2003-2009), that discount has exploded since 2010 ($1.70/cwt since 2010). This is only the case for milk sold to cheese manufacturers. The prices for the other four classes of milk have remained in a much closer relationship with their comparable Federal Order price.
- The real-dollar value of this discount in Class 4b has reached more than $1 Billion. Yeah, that's Billion with a "B".

While CDFA has made changes to the Class 4b formula on a couple different occasions in the past three years, they have been far too small, relative to the discount, which still continues ($1.91/cwt in 2012 and $1.66/cwt in 2013-to-date). With the new high-feed-cost paradigm our state's dairy families now face, we simply cannot afford to continue this state-sponsored discount.

<u>2012</u>
What's at stake is the financial future of the California dairy farming sector. For many families around the State, this discount has been/is the difference between financial success and failure. To that end, dairy farmers have tried to think outside-the-box in how to fix the problem. In addition to numerous administrative hearings (with a fully unified dairy farmer position), we've seen protests, rallies and even asking the courts to intervene and define the Secretary's discretion.

<u>2013</u>
Last year, dairy farmers took the issue to the California Legislature, hoping they would step in and provide the leadership we have not seen from CDFA. After all, CDFA's authority is based solely on the Legislature's decision to given them that authority many years ago.

- The position of the dairy farmers was fairly straight-forward: Continue to allow CDFA to establish prices, but create some parameters they must follow in order to make sure our prices more closely track the comparable prices paid for the same quality of milk sold around the country.
- Obviously, the processor sector lobbied hard against this effort. After several months of intense lobbying on both sides, it became clear that a long-term solution was not achievable this year. The decision was made to seek a more modest "compromise" that both sides could agree to while the industry continued to work on a more substantive long-term solution.

<u>July 8, 2013</u>

That led to an offer made by the Dairy Institute of California (DIC) – on behalf of the State's cheese manufacturers – on what they would accept as part of a CDFA hearing process. We've posted this link before, but if you missed it, the DIC's letter July 8th can be found at: http://goo.gl/CbHgx7.

- The offer would have increased the Class 4b price by approximately $.65-.70/cwt. While this was significantly less than what dairy farmers were seeking (remember, the gap between Class 4b and Federal Order Class III was $1.91/cwt last year), it none-the-less represented much-needed additional revenue for the dairymen in the short term while a longer-term solution was worked on.
- While Assemblyman Richard Pan (D-Lodi) was central to negotiating this agreement, it also had the blessing of several members of the Assembly and Senate Agriculture Committees who had been closely involved in this process.

<u>July 22, 2013</u>

Two weeks after receiving the DIC's offer letter, a CDFA hearing was requested by dairy farmer organizations in order to implement this agreement. The DIC was given an opportunity to co-sign the petition, but declined to do so.

<u>September 12, 2013</u>

CDFA held their hearing on the matter on September 12th. True to their word, dairy farmer organizations testified in support of the agreed-upon proposal (despite several years of advocating for a much larger adjustment). Seven members of the Assembly and State Senate also testified in support of the negotiated proposal, which they had overseen. The DIC and their processor members, on the other hand, chose to change their tune and oppose the proposal. **<u>That's right, they opposed the very same proposal that THEY had put into writing on July 8th!</u>** In fact, the DIC went a step further and had their legal counsel testify that the price was already over-inflated as it is (claiming that there should be ***<u>zero</u>*** value in the formula associated with the dry whey markets).

<u>October 22, 2013</u>

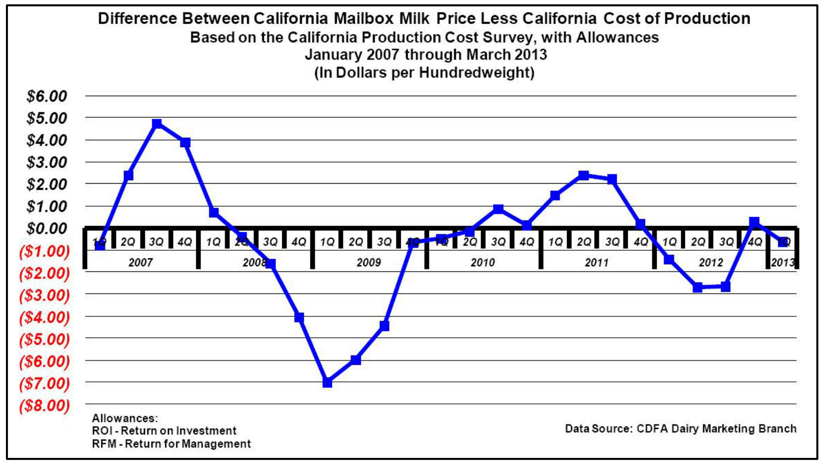
This week, the process reached its conclusion, as CDFA announced they would not be accepting the negotiated agreement, but would rather be continuing a much more modest temporary price increase on all five classes. The net impact of the Secretary's decision is a six-month increase of approximately $.125/cwt on the Overbase price – about 40% of what the impact would have been under the negotiated agreement.

So that lays it out for you. Obviously, California dairy families have gotten used to being disappointed by CDFA decisions. **What we have not gotten used to – nor should we have to – is negotiating a deal with a supposed industry "partner" and later watching them deny they ever made a deal in the first place (even though it was in WRITING).**

So what does the DIC have to say for themselves? They put out a press release this week in response to the hearing decision by Secretary Ross (http://goo.gl/PzOnUh). *"The DIC, which represents California cheese makers, says it respects today's decision by CDFA not to increase the temporary milk price relief already in place for dairy farmers, but simply to extend it through June 2014."* The release goes on to state that *"Secretary Ross was guided by the facts and we respect her decision."* Which facts would those be? The fact that you backed away from an agreement you had made in writing?

Then, in some sort of cruel joke to a California dairy farming sector that has seen weekly dispersal sales and dairy closures, the press release attempts to paint a rosy picture of the industry. *"The data shows very clearly that economic conditions for dairy farmers have improved substantially since last year. In addition to significantly lower feed costs, dairy farmers are also benefiting substantially from an increased demand for cheese and other products. As a result, they've already collected $508 million more from processors during the first nine months of this year compared to the same period last year."*

The press release also addresses the premiums being paid above the minimum prices by manufacturers. *"While*



producer groups have been demanding more from CDFA, dairy processors have been paying farmers millions more in premiums. We've acted in good faith and honored our promise of support." **When the DIC is done patting themselves on the back, maybe they want to check out this chart, created BY CDFA, and publish IN CDFA's hearing panel report.** CDFA's own numbers show that dairy farmers have seen a profitable price in only **one of the past six quarters** *(2nd quarter of 2013 isn't shown on here, but it also represented a losing quarter)*!

So where do we go from here. Well, a couple of thoughts:

For starters, the DIC has lost a lot of credibility in this process. As they so often like to state, we are partners in this industry. But after watching this stunt unfold, how can we really sit down and work in good faith towards a long-term solution?

But secondly, and more importantly, while it would be nice to put all the blame on the DIC (and they certainly have earned it), at its core **this is a CDFA problem**. Years ago, the Legislature mandated that CDFA get involved in establishing milk prices in order to *"Enable the dairy industry, with the aid of the state, to develop and maintain satisfactory marketing conditions, **bring about and maintain a reasonable amount of stability and prosperity in the production of market milk**, and provide means for carrying on essential educational activities"* (Section 61805 of the California Food and Agricultural Code, emphasis added).

Obviously, given the current financial state of the California dairy families (as evidenced in CDFA's own data, as well as the barrage of bank foreclosures and dispersal sales), there is ample evidence that CDFA has **failed** in their task to "bring about and maintain a reasonable amount of stability and prosperity in the production of market milk." If this were a national crisis, we might understand. But the rest of the country is not feeling the same pain that California's dairy farmers are. How is it that the California dairy industry – in the middle of 38+ million California residents and an even larger market overseas to the West – is the home of the lowest priced milk in the country? Why are our dairies are being enticed to move to Colorado, Idaho, South Dakota, Kansas and other more rural areas? Does no one at CDFA recognize the ridiculousness of a policy that results in California being the low-cost-leader for milk? Everything is more expensive in California…except the milk purchased by our manufacturers. Amazing.

The three major California cooperatives are working on a petition to submit to the U.S. Department of Agriculture that would create a Federal Milk Marketing Order in California. This would remove CDFA from the position of establishing monthly minimum prices. The process takes time and there are still issues that need to be dealt with, but they all have solutions. MPC looks forward to working with these cooperatives in the coming months as this process continues. **We simply cannot continue repeating history; change must occur.**

DEADLINE FOR SUBMITTING EQIP APPLICATIONS – NOVEMBER 15, 2013: *(By Kevin Abernathy, MPC's Director of Regulatory Affairs)* Even though the future of the Farm Bill is still in flux, the U.S. Department of Agriculture's Natural Resources Conservation Service (NRCS) is accepting applications for next year's Environmental Quality Incentives Program (EQIP). This program – which some of our readers have taken advantage of prior years – provides cost-sharing opportunities for capital projects aimed at improving air and water quality. The deadline for submitting applications for the 2014 funding is November 15, 2013. A flyer with some more information can be found at: http://www.milkproducerscouncil.org/2014eqip.pdf. MPC members interested in submitting an application can contact either myself (209-678-0666) or the MPC office (909-628-6018) for more information.