



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@milproducers.org ~ www.MilkProducers.org



DATE: August 16, 2013
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0200 \$1.7775
Barrels N/C \$1.7650

Weekly Average, Cheddar Cheese

Blocks - \$.0170 \$1.7715
Barrels - \$.0220 \$1.7650

CHICAGO AA BUTTER

Weekly Change - \$.0275 \$1.3700
Weekly Average - \$.0305 \$1.3850

DRY WHEY

Dairy Market News w/e 08/16/13 \$.5850
National Plants w/e 08/10/13 \$.5741

NON-FAT DRY MILK

Week Ending 8/9 & 8/10
Calif. Plants \$1.7336 10,920,629
Nat'l Plants \$1.7652 17,135,674

Prior Week Ending 8/2 & 8/3

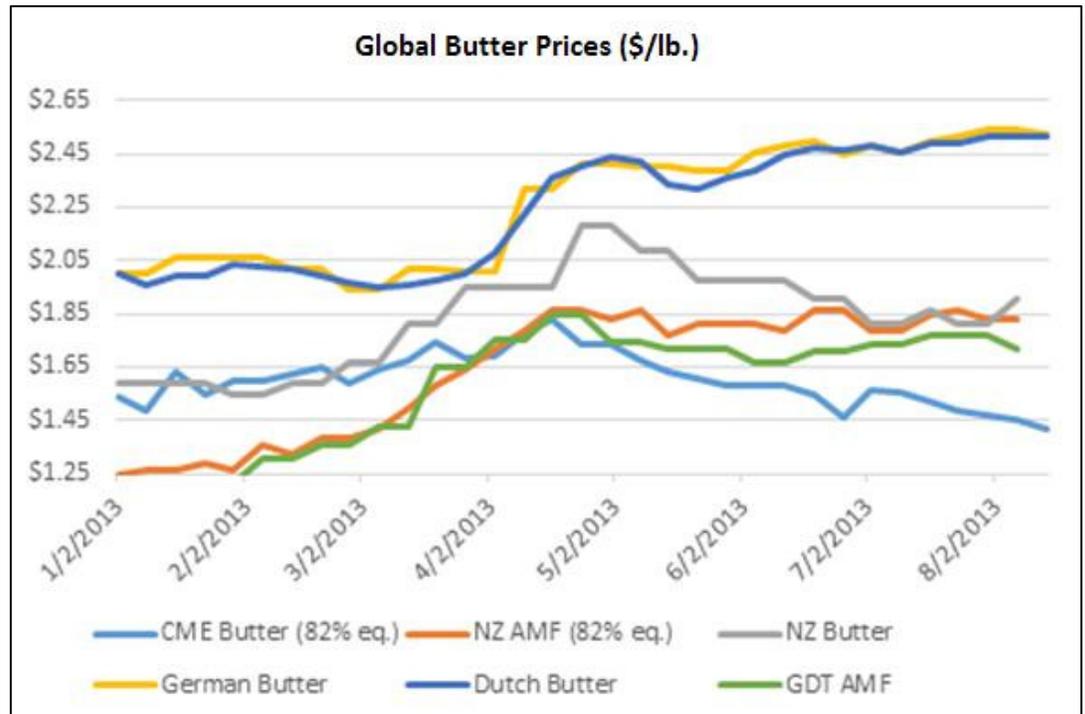
Calif. Plants \$1.6992 5,462,044
Nat'l Plants \$1.7595 16,255,766

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

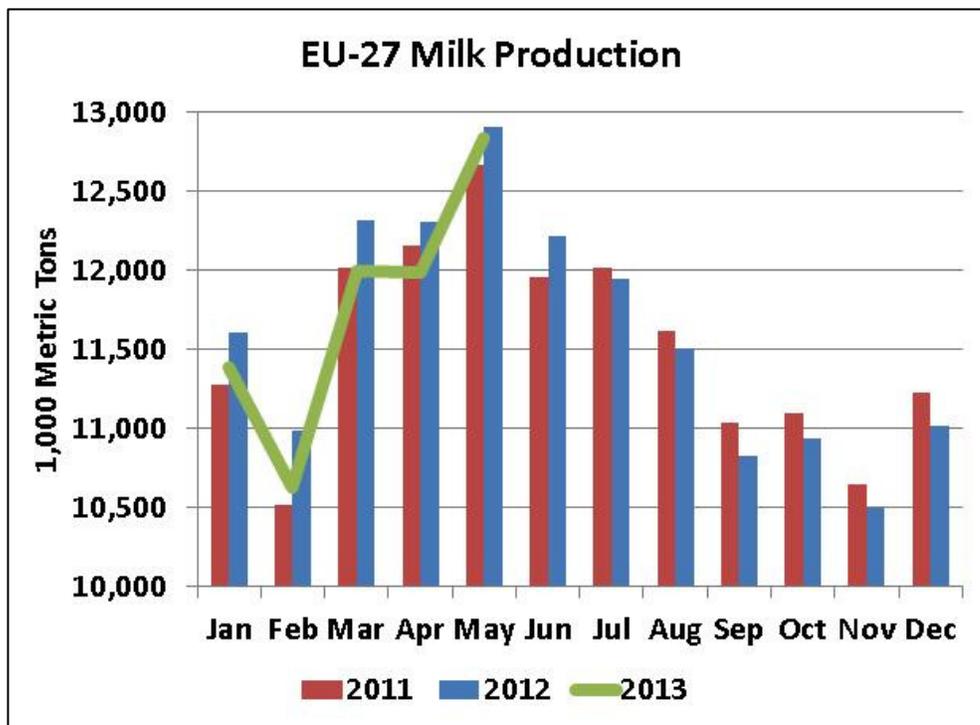
Milk & Dairy Markets

The dairy markets were relatively quiet this week. CME spot markets activity was similarly muted and likely responsible for the lack of direction in the Class III trade. Spot Cheddar blocks were untested. Barrels did not trade until Friday, when five loads changed hands. Barrels settled at \$1.7775/lb., down 2¢ from last week. Class III futures were mixed. 2013 contracts were little changed, but futures in the first half of 2014 shed as much as 30 cents. Class IV losses were steeper and more widespread; the September contract dropped 36¢. Milk powder and butter prices furthered their well-established trends. Grade A nonfat dry milk (NDM) added 0.25¢ this week, trading once. Butter lost 2.75¢ settling at a fresh 15-month low of \$1.37.

U.S. and European butter prices are diverging in accordance with their respective inventories. U.S. butter stocks are larger than they have been in any single month since the government-sponsored storage programs of the '90s. European butter supplies are 34% lower than they were at this time last year, and 13% lower than in 2011. Thus, German butter is valued a full \$1 per pound higher than U.S. butter. Even anhydrous milkfat – typically the lowest priced butterfat – is trading at a 30¢ premium to U.S. butter. Butter manufacturers who change their specifications in order to produce butter for the export market can capture much of that premium, but with orders mounting for holiday demand, capacity will



constrain domestic processors. Strong holiday demand coupled with an uptick in export sales could do much to reduce burdensome U.S. butter supplies.



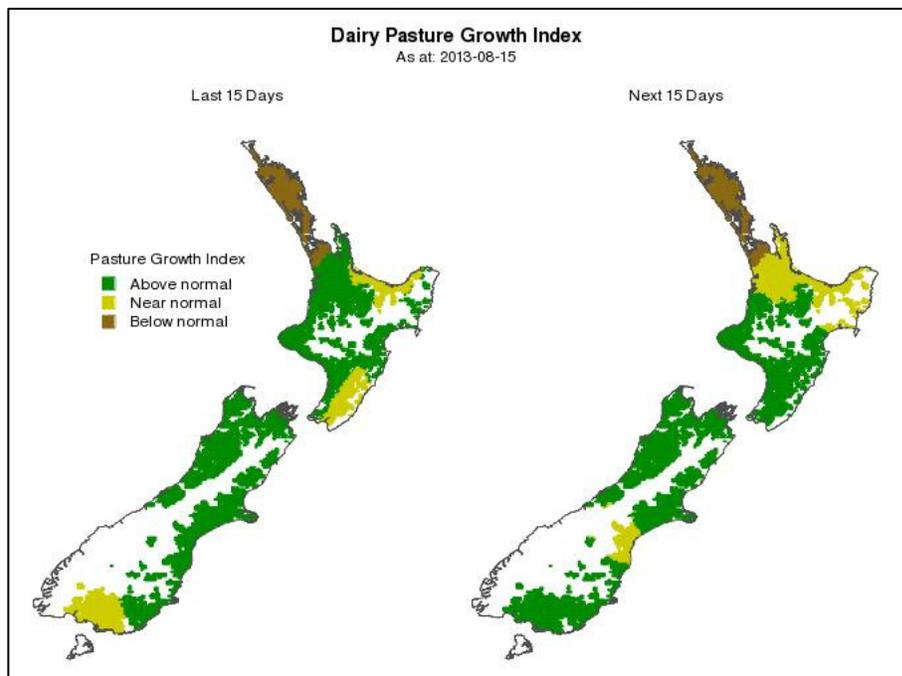
However, rebounding milk production in Europe could mean more cream for the butter churn in the months to come. European milk production in May was only 0.6% lower than in May 2012, the smallest year-over-year decline since the bloc began posting deficits last July. Unusually hot weather across Europe has limited milk production in the past few weeks, but with the changing of the seasons European milk production will likely exceed year-ago levels in the near future. Milk production in the United Kingdom was 2.3% higher than a year ago in July, breaking a 12-month streak of year-over-year contraction. Dairy producers are

encouraged to continue their milk production gains. Farmgate milk prices in the United Kingdom soared to record highs in June at 30.77 pence per liter (near \$21/cw.), up 2.7% from May.

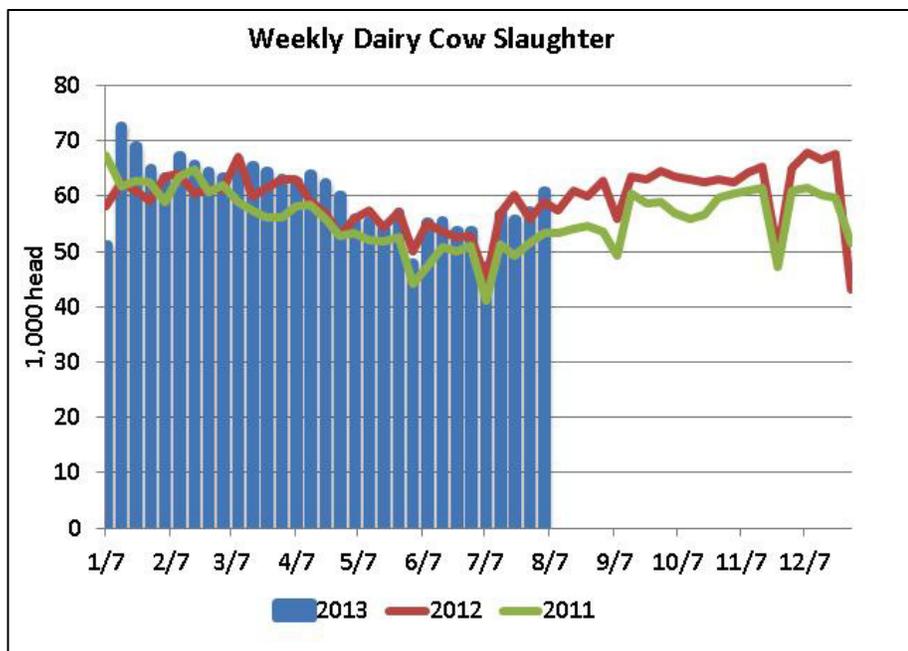
Dairy product prices in Oceania and Western Europe moved mostly higher in the past two weeks, according to *Dairy Market News*. Butter prices in Oceania were the exception. They fell 3%. All other dairy product prices rose. Skim and whole milk powder prices increased 2.2% and 0.76%, respectively in Oceania and 1.79% and 1.55% in Western Europe.

For the most part, U.S. dairy product prices also rose. The National Dairy Product Sales Report (NDPSR) for the week ending August 10 posted higher values for all dairy products except whey. The NDPSR NDM price averaged \$1.7652, 3.16¢ higher than the California Weighted Average Prices (CWAP). Nonetheless, at \$1.7336/lb., CWAP NDM stands at its highest level since January 2008. Sales volume was solid at nearly 11 million lbs.

Central Valley dairy producers still face daily high temperatures in the triple digits, although nighttime cooling is helping to mitigate heat stress. Elsewhere, cows continue to benefit from cooler than normal temperatures, and production is strong. Fortunately, back-to-school season has arrived and with it stronger fluid milk demand.



The New Zealand drought is clearly a thing of the past. Today dairy producers on the North Island face an unusual concern: too much grass. In some pastures cows are wading up to their bellies and if the overgrowth is not managed properly, low quality forage could result. Farmers can slow grass growth by reducing fertilizer usage, speeding up grazing rotations, or using some pastures for silage. However, if the weather changes and grass growth slows, those who adopt these measures could run short of forage later this year. New Zealand's dairy producers are faced with a gamble between assuring quality forage supplies or focusing on quantity, and both are important to achieve strong per cow milk production.



Dairy cow slaughter totaled an impressive 60,656 head in the week ending August 3. This was 2.9% higher than both the prior week and the same week a year ago. Culling in Region 9, which includes California, Arizona and Nevada, reached a seven-week high of 15,600 head.

Cargill, JBS and National Beef have announced that they will continue to accept cattle that have been fed Zilmax to promote growth. However, they may not have the option. Merck Animal Health, the maker of Zilmax, says it will temporarily suspend Zilmax sales in the United States and Canada so that independent experts can verify the

soundness of the product. This will force cattle feeders who want to feed growth promoting additives to switch from Zilmax, which adds around 26 lbs., to Optaflexx, which adds roughly 15 lbs. For a time, carcass weights and beef supplies could move incrementally lower as a result. Live cattle futures have extended the rally that began with Tyson's announcement last week.

Grain and Hay Markets

Corn and soybean prices moved sharply higher Thursday after the Farm Service Agency (FSA) released its preliminary certified acreage data. FSA reported that farmers chose to apply for prevented planting indemnities rather than plant corn on over 3.4 million acres. FSA estimates of total planted corn acreage were well below the most recent USDA estimates. FSA's preliminary data are unreliable in determining final acreage numbers. Traders seemed less inclined to accept the FSA data as fact on Friday, and the market gave back some of Thursday's gains. However, the report highlights the difficulty farmers faced this spring and suggests that if USDA does revise its acreage estimates, the most likely direction is downward.

Feed prices were further supported this week by strong new crop export sales, a lack of natural sell-side interest from farmers, and weather concerns. More than one respected meteorologist mentioned the potential for frost in the Midwest by mid-September. It is too early to forecast a frost event with any confidence, but it is also too soon to refute the possibility. If the crops do suffer an early frost, lower yields are inevitable, particularly for soybeans.

FRED DOUMA'S PRICE PROJECTIONS...

Aug 16 Est:	Quota cwt. \$19.08	Overbase cwt. \$17.38	Cls. 4a cwt. \$18.59	Cls. 4b cwt. \$16.53
Last Week:	Quota cwt. \$19.10	Overbase cwt. \$17.40	Cls. 4a cwt. \$18.47	Cls. 4b cwt. \$16.64