



Milk Producers Council

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DATE: September 26, 2014
TO: Directors & Members

PAGES: 3
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.1700 \$2.2800
Barrels - \$.1300 \$2.3000

Weekly Average, Cheddar Cheese

Blocks - \$.0620 \$2.3450
Barrels +\$.0440 \$2.4520

CHICAGO AA BUTTER

Weekly Change - \$.0100 \$3.0500
Weekly Average +\$.0360 \$3.0580

DRY WHEY

Dairy Market News w/e 09/26/14 \$6.100
National Plants w/e 09/20/14 \$6.729

NON-FAT DRY MILK

Week Ending 9/19 & 9/20

Calif. Plants \$1.5777 8,422,703
Nat'l Plants \$1.5124 21,350,013

Prior Week Ending 9/12 & 9/13

Calif. Plants \$1.4397 22,636,920
Nat'l Plants \$1.4683 36,964,957

FRED DOUMA'S PRICE PROJECTIONS...

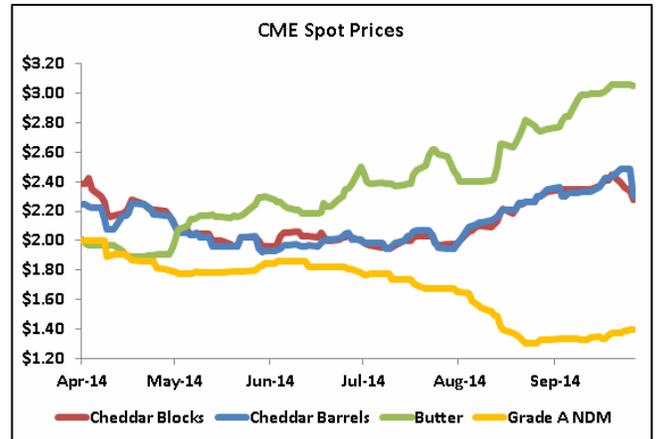
Sept 26 Est: Quota cwt. \$24.33 Overbase cwt. \$22.63 Cls. 4a cwt. \$23.04 Cls. 4b cwt. \$22.39
Last Week: Quota cwt. \$24.36 Overbase cwt. \$22.67 Cls. 4a cwt. \$22.89 Cls. 4b cwt. \$22.55

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

Milk & Dairy Markets

October Class III futures traded to new all-time highs above \$25/cwt. on Wednesday and Thursday. But on Friday the cheese market was routed and nearby Class III futures deflated. October through December Class III futures ended roughly a half dollar lower than last week. 2015 contracts settled mostly higher.

Volatility reigned this week as traders struggled to interpret the divergence between Cheddar block and barrel prices. Blocks lost ground at each spot session and closed at \$2.28, down 17¢. Barrels gained 6¢ on Monday and then held at \$2.49 through Thursday, leaving traders wondering if the untenably wide gap between blocks and barrels would be remedied by a rally in the block market or a collapse in barrel prices. On Friday that question was answered emphatically: barrels plunged 19¢ to \$2.30, down 13¢ from last week. Although barrel supplies remain tight, the market has clearly demonstrated its ability to lose a lot of ground in a short amount of time.

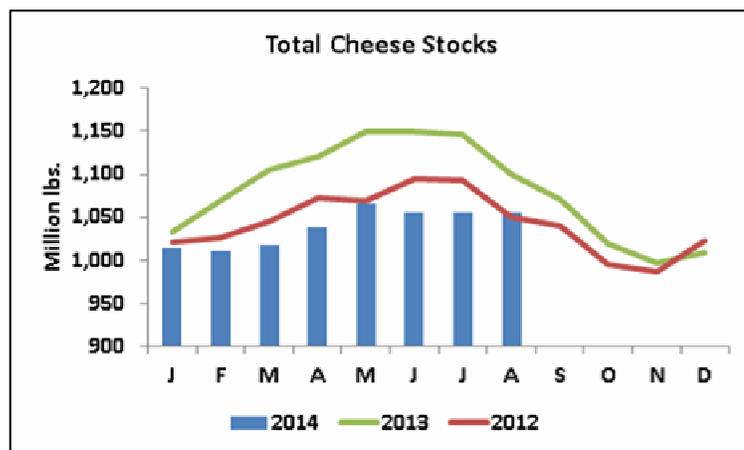
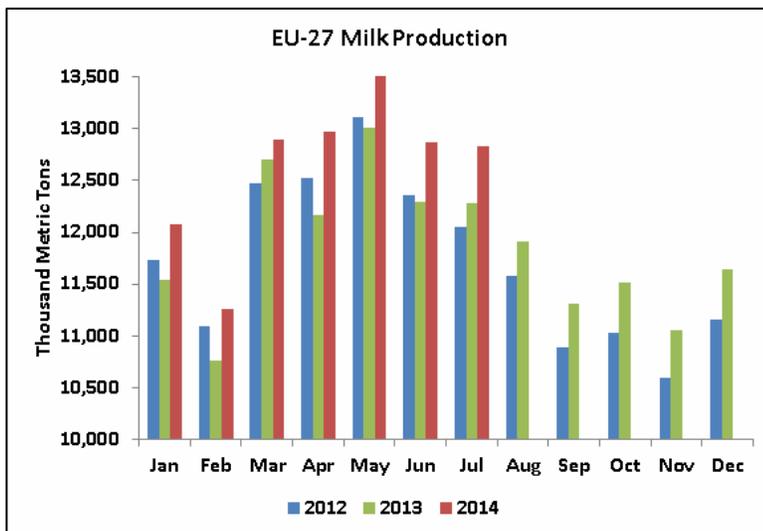


The butter and powder markets were quiet in comparison. Butter slipped to \$3.05 Friday, down a penny. Nonfat dry milk (NDM) inched upward and closed at \$1.395, 2¢ higher than last Friday. Class IV futures were mostly higher, and the recent strength pushed the May and June contracts above their Class III counterparts.

The California Weighted Average Price for NDM rebounded this week to \$1.578, regaining 14 of the 35¢ it had lost during the preceding three weeks. However, sales volume slipped to the lowest level since late May. Domestic demand for milk powder is mixed, while international buyers are looking elsewhere, and with good reason. Overseas prices remain well below the U.S. market, and Dairy Market News reports that skim and whole

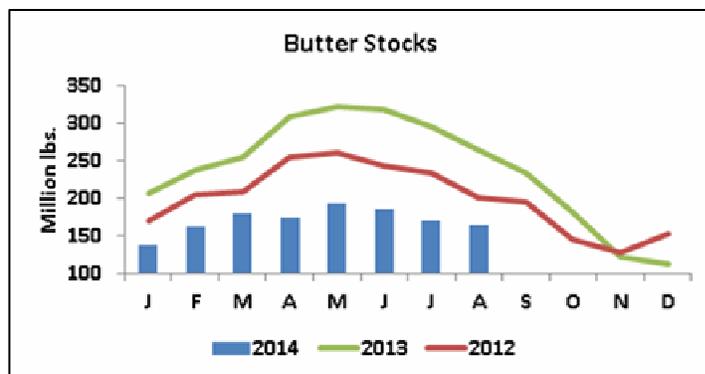
milk powder prices continued to slip in Western Europe over the past two weeks. European milk production in July was up 4.6% from a year ago, and most of the excess milk went to driers. European SMP output was 21% greater in July than last year.

New Zealand milk output in July was also well above July 2013. With the season at its ebb, June and July milk flows are not a reliable indication of growth prospects for the coming months. Fonterra expects full-season milk collections to be 2% above last year's record-breaking production. In a world flush with dairy products, Fonterra lowered its 2014-15 pay price forecast from their previous estimate of NZ\$6.00 to NZ\$5.30 per kg of milk solids. This is Fonterra's lowest pay price since the 2008-09 season and represents a stark 37% decline from 2013-14. At this level, a number of New Zealand's dairy producers anticipate red ink. Arla and Tesco also announced cuts in their pay prices for producers in the United Kingdom.



Global milk powder output is unusually strong for this time of year, but the world's largest buyer remains patient. Chinese milk powder imports continue to slip on a month-to-month basis and are now only slightly above last year's levels. Combined imports of SMP and WMP in August were just 1.8% greater than in August 2013 and they were 32.3% lower than July volumes.

The U.S. is one of very few markets with a shortage of cheese and butter, and tight supplies are not likely to persist much longer. USDA reported August 31 cheese stocks at 1.055 billion pounds. Inventories in cold storage are 46 million pounds lower than last year, a deficit of 4.2%. This compares to shortfalls in excess of 90 million pounds in June and July. Clearly, high prices are encouraging production and reducing demand, slowing the seasonal draw-down in cheese inventories. Indeed, American cheese stocks actually increased from July to August, an event which has not occurred in almost 30 years.



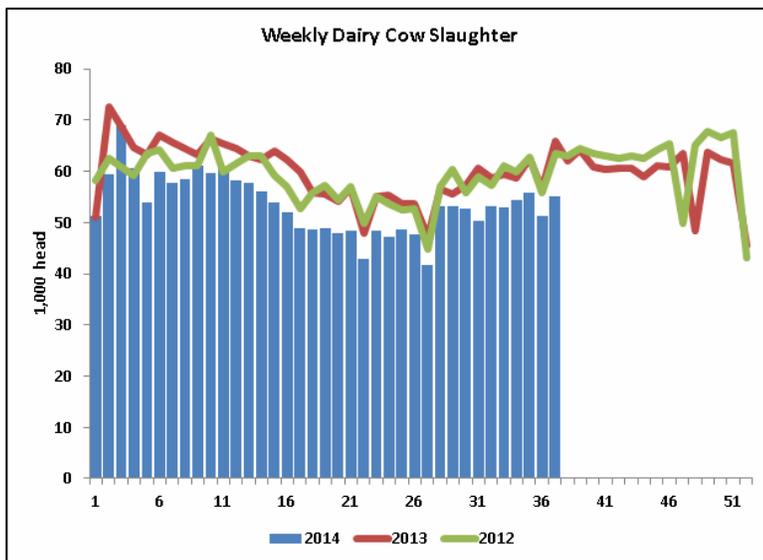
Butter stocks slipped to 165 million pounds, some 37% lower than last year. Inventories declined just 3% from July to August, a drop of 5.1 million pounds. This is much smaller than the typical August draw-down around 30 million pounds. High prices are taking their toll on butter demand, and soon the U.S. markets will be confronted with a flood of imports. The butter market's ascent has been breathtaking as it achieved unprecedented heights with surprising longevity, but the air is starting to feel a little thin.

For the week ending September 13, dairy cow slaughter totaled 55,015 head, down 16.5% from the same week last year. So far this year, slaughter is 10.6% below the 2013 pace.

Grain Markets

Corn and soybean futures continued to slide. December corn settled at \$3.23, down 8.5¢ from last Friday. November soybeans dropped to \$9.10, down 46.75¢. The corn and soybean crops are big and there is no threat of frost.

Dairy producers and other end users are putting up silage piles and buying grain. But farmers are unwilling to sell their corn at cash prices south of \$3, and they are doing all they can to delay pricing. The markets have managed to fall to new lows even without much of the natural sales pressure that typically occurs at harvest. In the coming months, potential rallies may quickly stall as farmers greet them with deferred sales.



REMINDER: TWO MORE MPC AREA MEETINGS NEXT WEEK TO DISCUSS MARGIN PROTECTION PROGRAM: (By Rob Vandeneuvel) As you all know, from now through November, U.S. dairies are able to sign up for the new “Margin Protection Program,” a Federal safety net program created in the 2014 Farm Bill. In an effort to bring our members up to speed on how the program works, what decision-making resources are available for the program, and how to sign up, we have scheduled a series of area meetings to delve into the issue.

MPC invites our members, prospective members and allied industry partners to come out to any one of these meetings. Next week’s meetings are in Bakersfield and the Hanford/Visalia region. The remaining meetings on the schedule are outlined below:

Wednesday, October 1, 2:30 pm

Kern County: Echeverria Farms
(20229 Old River Road in Bakersfield)

Tuesday, October 7, 11 am (lunch provided)

Fresno Region: Maddox Dairy
(12863 W. Kamm Avenue in Riverdale)

Thursday, October 2, 11 am (lunch provided)

Hanford/Visalia Region: Innovative Ag Services
(1201 Delta View Road in Hanford)

Wednesday, October 8, 1 pm

Southern California: Chino Fairgrounds
(5410 Edison Avenue in Chino)

In order to prepare for the meetings, RSVP’s are appreciated. Please send an email to rob@milkproducers.org or kevin@milkproducers.org to let us know you’re coming. We look forward to seeing you there!

CALIFORNIA AIR RESOURCES BOARD RE-OPENS ENROLLMENT IN THE DIESEL TRUCK EXTENSION: (By Kevin Abernathy) Most of you with diesel-powered trucks operating on your dairies have already enrolled in CARB’s “agricultural vehicle extension” program. As a reminder, all diesel-powered trucks will eventually have to meet 2010 emissions standards or better, but agricultural trucks are allowed to wait until 2023 to meet these standards, as long as the vehicles are registered with CARB and annual reporting requirements are met.

This past month, CARB announced that they would be re-opening up the enrollment period until January 1, 2015, allowing diesel-powered agricultural vehicles that have not already registered to be included in the extension. If you have any such vehicles, please get in touch with myself or anyone else at MPC to see how we can get your vehicles registered with CARB. More information on the agricultural extension on CARB’s website at: <http://www.arb.ca.gov/msprog/onrdiesel/documents/fsag.pdf>.