



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: December 12, 2014
 TO: Directors & Members

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 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0200 \$1.6000
 Barrels - \$.0400 \$1.5100

Weekly Average, Cheddar Cheese

Blocks - \$.0660 \$1.5880
 Barrels - \$.0815 \$1.5015

CHICAGO AA BUTTER

Weekly Change - \$.0950 \$1.8900
 Weekly Average - \$.0385 \$1.9340

DRY WHEY

Dairy Market News w/e 12/12/14 \$5.800
 National Plants w/e 12/06/14 \$5.835

NON-FAT DRY MILK

Week Ending 12/5 & 12/6

Calif. Plants \$1.3653 10,849,869
 Nat'l Plants \$1.3100 19,568,454

Prior Week Ending 11/28 & 11/29

Calif. Plants \$1.3501 9,667,257
 Nat'l Plants \$1.3313 16,846,822

FRED DOUMA'S PRICE PROJECTIONS...

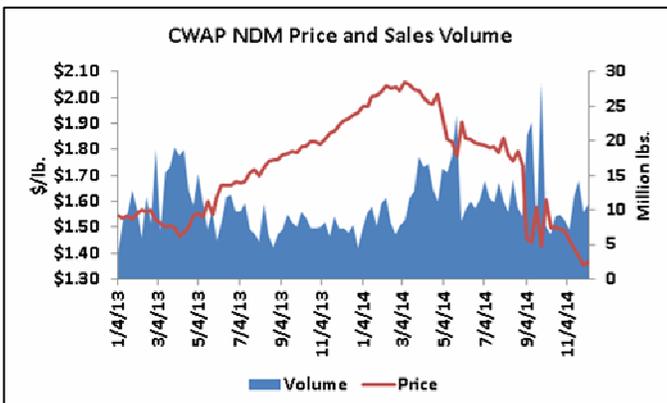
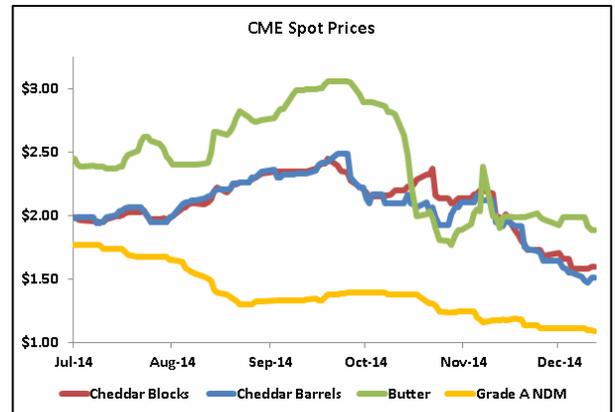
Dec 12 Est: Quota cwt. \$18.63 Overbase cwt. \$16.94 Cls. 4a cwt. \$17.38 Cls. 4b cwt. \$14.93
 Last Week: Quota cwt. \$18.61 Overbase cwt. \$16.92 Cls. 4a cwt. \$17.47 Cls. 4b cwt. \$14.82

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

Milk & Dairy Markets

The spot Cheddar markets diverged this week. The barrel trade was particularly brisk, with 30 loads changing hands, including 27 on Thursday. Barrels slipped below \$1.50 for the first time since May 2012, but they recovered late in the week and settled at \$1.51, down 4¢ from last Friday. Blocks gained 2¢, climbing to \$1.60. Class III futures found the barrel market more convincing. Most contracts lost 30 to 40¢.

Grade A nonfat dry milk (NDM) prices declined to \$1.085, the lowest level for that market since October 2009. The California Weighted Average Price for NDM managed a tepid rally last week, after falling for the previous six weeks. That market now stands at \$1.3653. Demand for milk powders remains weak and inventories are building.



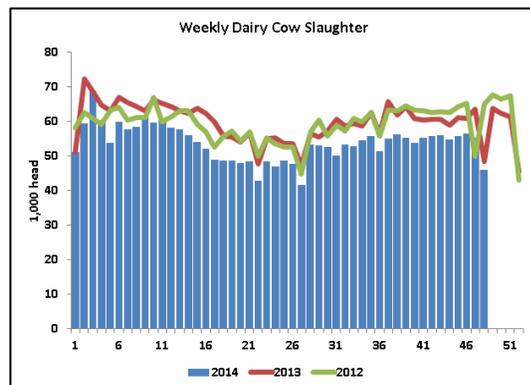
The spot butter market continued to slip, dropping 9.5¢ to \$1.89. Butter demand is currently firm as manufacturers are working to fill holiday orders. However, demand is expected to fade quickly once those needs are satisfied. With both butter and milk powder prices moving downward, nearby Class IV futures dropped but deferred contracts were mostly higher.

U.S. manufacturers are struggling to compete with overseas suppliers, as a stronger dollar and lower foreign markets pressure U.S. dairy product prices. After months

of high input costs, several major co-ops are suffering processing losses. Some have been forced to pass these losses onto producers, resulting in a reduced pay-price. Domestic futures and overseas markets suggest that dairy producers will suffer much lower prices in the coming year.

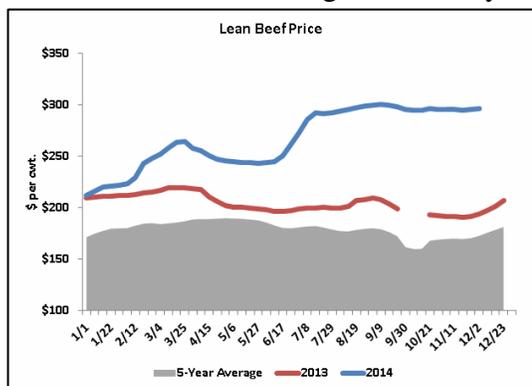
European dairy exports are rising as merchants there can offer much lower prices than their competitors in the U.S. This advantage has been augmented by the weakening euro, and *Dairy Market News* reports that China has been particularly interested in European dairy products. Milk production is rising seasonally, and some producers have added cows in anticipation of the end of the quota era. However, the threat of super-levies may dampen further milk production growth for the next few months.

There is no such market manipulation in New Zealand, where output is running well above year-ago levels. Nonetheless, the kiwis are likely unwilling to take on added expenses to increase milk flows. This week Fonterra lowered its pay price from \$5.30/kg of milk solids to \$4.50, the lowest pay-price since 2007 and a stark 44% decline from last season. This equates to a Class III milk price of \$10.83. *Daily Dairy Report* analysts believe that the combination of much lower revenue and heavy debt loads will force many producers to cut back on supplemental feed and fertilizer use. Some producers may also choose to dry their herds early and cull aggressively to improve cash flows.



For the week ending November 29, dairy cow slaughter totaled 46,090 head. Weekly comparisons to previous years are skewed by the Thanksgiving holiday. In the first eleven months of the year, dairy producers have culled 10.2% fewer cows than during the same period in 2013.

2014 is sure to be remembered as one of the great years for U.S. dairy men. As the calendar turns, producers will face much slimmer margins and they are likely to cull more aggressively. The beef industry will struggle for years to rebuild the herd, and dairy producers will continue to cash large checks every time they send their cows to slaughter. However, beef prices appear to have topped for now. Since peaking just a few weeks ago, live cattle futures have dropped 6%. Beef is pricey and faces stiff competition from pork and poultry. Both of those industries are stepping up production, and consumers are sure to notice as prices fall. Meanwhile, Australia is sending more and more lean beef to the U.S. Lean beef prices are the key determinant of dairy cull cow revenue. They stand at all-time highs for now, but they could soon fall under pressure.



Grain Markets

December corn futures climbed nearly 20¢ to \$3.965/bushel and came within a hairsbreadth of the \$4 mark for the first time since July. The corn market may have gotten a slight boost from USDA's World Agricultural Supply and Demand Estimates (WASDE), which showed slightly lower ending stocks than last month's report. But the real fodder for the bulls came from the chaotic Black Sea Region.

Due to the ruble's demise, Russian wheat exports are running 30% ahead of last year's pace. Russia's Ag Minister has called this trend "worrisome" and the Ag Ministry will consider ways to reduce exports in hopes of preserving domestic grain supplies. A grain shortage could exacerbate the price shocks that Russians face due to sanctions on imports from the West. Meanwhile, suppliers in Ukraine are in danger of defaulting on part of a commitment to deliver 1.1 million metric tons of corn to China by February 2015. Although disruptions of this type are temporary, the market is clearly concerned.

The soybean market gained a few cents this week. USDA increased its estimate of annual soybean exports by more than anticipated. Given the current pace of exports it is hard to argue with an export projection that is much

higher than last year's. However, if Brazil and Argentina are able to begin exporting without major issues, U.S. soybean exports are sure to slow.

SOBERING MILK PRICE FIGURES REPORTED OUT OF FONTERRA THIS WEEK: *(By Rob Vandenheuvel)* As Sarina Sharp referenced in her market commentary, Fonterra – a cooperative owned by 13,000 New Zealand dairy farmers – reduced their “forecast Farmgate Milk Price for the 2014/15 season” to NZ\$4.70 per kgMS (kilogram of milk solids). Given the U.S. dairy industry’s increasing exposure to the global dairy markets (in October, we exported dairy products equaling about 14.4% of our milk production), this news out of Fonterra should be of keen interest to all U.S. dairy farms. This week, *Daily Dairy Report* wrote an article on this announcement out of New Zealand, with some great data and context. With their permission, I am reprinting the article below.

Fonterra Payout to Drop to Seven-Year Lows

By Daily Dairy Report, December 10, 2014

www.dailydairyreport.com

Fonterra’s much-anticipated pay-price revision arrived today, delivering a blow to New Zealand dairy farmers and the country’s economy as well. The New Zealand-based dairy cooperative dropped its 2014-15 seasonal forecast by 11.3%, from \$5.30/kg of milk solids to \$4.70. However, Fonterra did maintain its estimated dividend per share range at 25-35¢. The projected payout of \$4.70 is in stark contrast to last season’s \$8.40 and represents a 44% pay price deterioration from season to season. This latest estimate is the lowest pay price since 2007’s \$3.87, and the first time the pay price has been below \$5/kg since 2009.

Fonterra cited, “falling oil prices, geopolitical uncertainty in Russia and Ukraine, and subdued demand from China” as causes for its lower milk payout projection. Ahead of Fonterra’s release of the projection, the New Zealand dollar faltered and then gave up another 0.5¢ to the greenback following the announcement, moving from 77.1 to 76.6¢. Dairy NZ estimates that the latest payout reduction will remove \$6.8 billion (NZ) from farm income this season. New Zealand’s dairy industry significantly influences the overall economy, and reduced farm incomes are expected to lower the country’s gross domestic product (GDP) by as much as 2.7%. Farms with less income, in turn, could reduce spending thereby dragging down local economies. That said, The New Zealand Herald reported that, “rural confidence had remained surprisingly robust in the face of falling payout forecasts.” Farmers feel they can weather a single-season low pay price.

Dairy NZ’s Economic Survey 2012-13 reported owner-operator farm working expenses at \$4.13/kg. Likely between now and the end of the season New Zealand dairy farms will look to cutback expenses where possible. Total feed and fertilizer costs are two of the biggest spends, at 21% and 14%, respectively, of working expenses. Farms looking to conserve cash could end the season early to avoid spending that may not be justified given the current payout. To put the new projection in perspective, *Daily Dairy Report* analysts estimate that the Fonterra pay price (at 8.51% milk solids and a 77¢ exchange rate) equates to a \$10.83/cwt. price for Class III milk in the United States. The latest Fonterra pay price forecast could be heralding things to come for other dairying regions.

REMINDER: LAST WEEK TO ENROLL IN MARGIN PROTECTION PROGRAM: *(By Rob Vandenheuvel)* At the risk of sounding like the boy who cried wolf, I think we can say with a lot of confidence that this will actually be the last week to enroll in the new “Margin Protection Program,” available through your local Farm Services Agency. While USDA has extended the deadline twice, I do not believe there are any more extensions being considered, so for those of you interested in enrolling, your paperwork must be **received** by your FSA office no later than Friday, December 19th.

As always, any MPC member looking for assistance with this should contact me at rob@milkproducers.org or (909) 628-6018.