



Milk Producers Council

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DATE: March 8, 2013
TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0250 \$1.6000
Barrels +\$.0200 \$1.5800

Weekly Average, Cheddar Cheese

Blocks - \$.0250 \$1.5720
Barrels - \$.0185 \$1.5595

CHICAGO AA BUTTER

Weekly Change +\$.0550 \$1.6300
Weekly Average +\$.0485 \$1.6075

DRY WHEY

Dairy Market News w/e 03/08/13 \$.5625
National Plants w/e 03/02/13 \$.6351

NON-FAT DRY MILK

Week Ending 3/1 & 3/2

Calif. Plants \$1.5288 18,841,328
Nat'l Plants \$1.5510 24,095,399

Prior Week Ending 2/22 & 2/23

Calif. Plants \$1.5660 8,078,002
Nat'l Plants \$1.5744 15,347,954

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

Milk & Dairy Markets

The dairy market bull is alive and well, feeding on news of falling production in Oceania and salivating at the prospect of stronger dairy product exports. Class III futures bounced back this week and then some, posting double digit gains. Class IV futures showed similar strength, thanks in large part to a surging butter market. CME spot butter added 5.5¢/lb., ending the week at \$1.63. After falling to eight-month lows last week, CME Cheddar blocks added 2.5¢, settling at \$1.60. Cheddar barrels ended 2¢ higher.

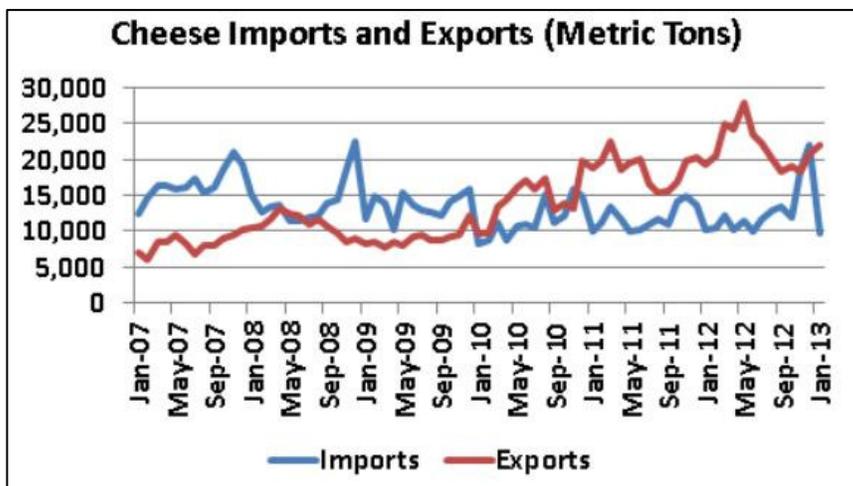
The Global Dairy Trade auction continued its streak of higher prices, and the weighted average of all products traded increased by 10.4% from the previous event. Whole milk powder prices jumped 18% and butter was up nearly 10%. Prices for all products were particularly firm in June through August, suggesting that buyers are most worried about product availability this summer.

Please refer to the table for a summary of January dairy product production, exports and dry product stocks. January butter production of 185 million lbs. was record large as cream was plentiful in the Midwest and Northeast, encouraging production there. In contrast, California butter production was down 5.5% from the same month a year ago. Similarly, the Golden State produced less cheese, whey and notably less nonfat dry milk (NDM) than in January 2012.

	January-12	December-12	January-13	Change from Dec. 2012	Change from January 2012
U.S. Butter Production (Thousand lbs.)	180,586	173,154	185,241	7.0%	2.6%
California Butter Production (Thousand lbs.)	62,657	57,057	59,189	3.7%	-5.5%
U.S. Butter Exports (Metric Tons)	3,003	3,503	4,313	23.1%	43.6%
U.S. Cheese Production (Thousand lbs.)	910,467	951,247	932,696	-2.0%	2.4%
California Cheese Production (Thousand lbs.)	196,286	194,578	194,964	0.2%	-0.7%
U.S. Cheese Exports (Metric Tons)	20,436	18,431	20,901	13.4%	2.3%
U.S. NDM/SMP Production (Thousand lbs.)	193,769	195,798	191,381	-2.3%	-1.2%
California NDM Production (Thousand lbs.)	75,614	65,887	56,867	-13.7%	-24.8%
U.S. NDM Exports (Metric Tons)	38,713	32,454	31,671	-2.4%	-18.2%
U.S. NDM Stocks (Thousand lbs.)	158,636	181,041	249,444	37.8%	57.2%
U.S. Whey Production (Thousand lbs.)	90,103	84,770	82,780	-2.3%	-8.1%
West Region Whey Production (Thousand lbs.)	28,077	23,853	22,884	-4.1%	-18.5%
U.S. Whey Exports (Metric Tons)	39,599	35,858	38,298	6.8%	-3.3%
U.S. Whey Stocks (Thousand lbs.)	52,095	56,861	61,201	7.6%	17.5%

January butter exports were impressive, especially as the 23% increase in sales volume was accompanied by stronger prices. At \$1.66/lb., the average price for butter exported in January was 8¢ higher than December. Rising butterfat prices in Oceania allowed for the uptick in both volume and price.

Cheese exports strengthened amidst lower prices and, import volumes were sharply lower. The U.S. was a net importer in December, but net cheese export volumes in January reached a seven-month high. Whey exports increased from December, as a more than 10% decline in the average export price encouraged China and other importers to step up their purchases. Whey exports to China topped 14 million lbs., the highest level in nearly eight years.



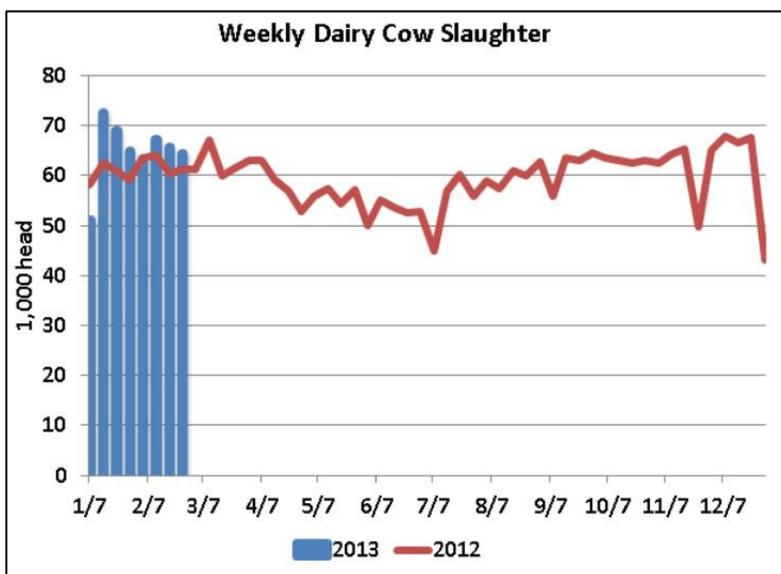
Despite a decline in milk powder production, NDM stocks grew by 68 million lbs. to a three-year high, according to USDA's Dairy Products report. However, *Daily Dairy Report* analysts' calculations using December stocks and January production, imports, exports and domestic demand imply a slight decline in January NDM stocks. This eye-popping stocks number may mistakenly include skim milk powder inventories and could be revised lower on next month's report.

The California Weighted Average Price for NDM was \$1.5288/lb. in the week ending March 1. This was down 3.72¢ from the prior week, but sales volume increased to the highest level since last June.

Five regions in New Zealand's North Island are now officially in drought condition, and without rains, the drought could soon engulf the whole island. Dairy producers continue to dry cows early and cull aggressively. The U.S. is now the only major exporter with milk production exceeding last year's volumes. As global demand for dairy products remains strong, U.S. exports will likely continue to grow.

But while the anticipation of larger exports is supporting the dairy markets, expect a bumpy road to higher prices. The market is currently well-supplied, so nearby strength may be fleeting. Domestic price indicators like *Dairy Market News* appear immune to higher futures prices; they moved slightly lower this week. Renewed concerns about the European economy have weakened the euro relative to the U.S. dollar, and Japan cannot seem to devalue its currency fast enough. The stronger greenback makes U.S. dairy products less attractive to importers. However, this is not enough to overcome the fact that dairy product prices are rising faster in Oceania than in the U.S.

Agricultural Secretary Vilsack warned this week that dairy exports could plunge by \$500 million due to sequester cuts, which he says will reduce USDA's promotional budget. Vilsack may be referring to money that the U.S. Dairy Export Council (USDEC) receives from USDA's Foreign Agricultural Service (FAS). For years, FAS and USDEC have planned for proposed cuts to funding, and USDEC has taken numerous steps to absorb the reduction without impacting U.S. dairy product exports. This warning appears to be more political flash than substance.



Weekly dairy cow slaughter totaled 64,369 head, holding at levels that signal contraction in the herd. Year to date dairy cow slaughter is 5.6% ahead of last year's slaughter pace. As dairy producers face a few months of lower milk checks, dairy cow slaughter will likely remain elevated.

Grain and Hay Markets

Feed prices were little changed from last week. USDA's World Agricultural Supply and Demand Estimates were slightly bearish for soybeans and slightly bullish for corn prices. USDA made no changes to its domestic soybean balance sheet. Export and crushing demand remain very strong. However, USDA had little room to make any net additions to demand, because ending stocks are already forecast at minimal levels.

USDA's estimates of ending corn stocks was unchanged, as a 100 million bushel increase in estimated feed demand was offset by a 75 million bushel reduction in export demand and a 25 million bushel increase in corn imports.

USDA lowered its estimate of wheat exports by 25 million bushels. The spread between wheat and corn prices has narrowed to unusually low levels, and livestock producers are likely substituting wheat for corn wherever possible. POET Biorefining bid on soft red winter wheat this week to grind for ethanol, highlighting the price disparity. USDA increased its estimate of global feed wheat demand by more than one million metric tonnes this month, as U.S. livestock producers are not the only ones taking advantage of relatively cheap wheat. There were no changes to domestic feed wheat demand estimates; USDA is likely waiting for confirmation of increased use in the quarterly Grain Stocks report due out at the end of the month.

While USDA made slight reductions to its forecasts of Argentine corn and soybean production, they remain higher than private estimates. Argentina's crops have suffered from dry conditions for the past few months. The Brazilian crop is in good shape, but exporters are struggling to move soybeans out fast enough to satisfy some importers. New laws have restricted truck driver hours, increasing the time and cost required to move soybeans to port. Port facilities are small and outdated, and ship-loading wait times are approaching 60 days. The delays have temporarily boosted U.S. soybean exports, as some buyers in China are worried about running short of supplies while their ships languish in line at Brazil's ports.

FRED DOUMA'S PRICE PROJECTIONS...

March 8 Est:	Quota cwt. \$17.98	Overbase cwt. \$16.29	Cls. 4a cwt. \$18.01	Cls. 4b cwt. \$14.83
Feb '13 Final:	Quota cwt. \$18.30	Overbase cwt. \$16.60	Cls. 4a cwt. \$18.01	Cls. 4b cwt. \$15.41

MPC SUBMITS PROPOSAL TO SPLIT COST OF TRANSPORTATION SUBSIDIES WITH THE MARKET: *(By Rob Vandenheuvel)* On April 4th, the California Department of Food and Agriculture (CDFA) is holding a hearing to consider modifications to the State's transportation allowance program, which is included in our "Pooling Plan." MPC submitted an alternative proposal this week that would keep the transportation allowance program in place, but have it funded jointly by both producers and processors, as opposed to the current structure that funds the program entirely by producers. To see the proposal submitted by MPC, you can find it here: <http://www.milkproducerscouncil.org/030713mpcproposal.pdf>.

For those of our readers unfamiliar with California's transportation allowance program, the concept is to provide a subsidy to dairy farmers and cooperatives who incur higher transportation costs associated with hauling their milk to Class 1, 2 or 3 plants. These subsidies are designed, in theory, to encourage milk to be hauled to the higher-value Class 1, 2 and 3 plants, even if a Class 4a or 4b manufacturing plant is closer to the dairy.

MPC's proposal was not aimed at criticizing the transportation allowance program, but rather the method in which the program is funded. Currently, the transportation allowance program is funded 100% out of the

California dairy farmers' "pool revenues," and the amount pulled out of the pool each month is significant. Last year, **more than \$34 million was pulled out of producer revenues** (an average of \$2.85 million per month) to fund the transportation allowance program. Stated another way, this equates to an estimated \$.35 per hundredweight being pulled out of our Class 1, 2 and 3 revenues in order to pay for this subsidy.

In our letter to CDFA this week, MPC proposed that ½ of the funds needed to operate the transportation allowance program be paid through higher prices in the market. To that end, our proposal would increase the Class 1, 2 and 3 prices by about \$.17 per hundredweight as a "transportation surcharge."

The time has come (in fact, it's long overdue) for CDFA to modify the transportation allowance program and demand that the market bear some responsibility for subsidizing the larger hauling costs faced by our State's dairy farmers. The State's processors will undoubtedly oppose this proposal, but let's break this down step-by-step:

1. Processors have done everything they can to keep California milk prices low.
2. A growing number of California dairy farmers, unable to sustain the financial massacre, move out of state or shut down completely.
3. While the milk supply diminishes, the processors continue to need their milk supply. This results in longer hauls, which costs dairy farmers more and more money.
4. When the transportation allowance program needs to be updated to reflect these new longer hauls, who is asked to fork over more money to fund the expanding program? **DAIRY FARMERS**. Of course, this continues to erode dairy farmer milk checks, which brings us back to point 2 above with more financial stress. And around and around we go.

Does anything seem wrong with this? It's time to change our policy of constantly eroding the dairy farmers' revenue, and engage in an equitable cost-share between producers and the market in order to cover the costs associated with the transportation allowance program. MPC's alternative proposal would do just that, and hopefully CDFA allows this discussion on April 4th and takes it to heart.

MEETING WITH OUR ELECTED OFFICIALS ON THE NEED FOR AB 31: *(By Rob Vandenheuvel)*

This week, Milk Producers Council joined our fellow dairy trade associations and cooperatives in visiting our elected officials in Sacramento, urging their support for AB 31. As you've all read by now, AB 31 would add a provision in California law that would require the California Department of Food and Agriculture to keep our monthly Class 4b price (for milk sold to cheese manufacturers) in a much closer relationship to the Federal Order Class III price. If you missed our article from a couple weeks ago on the importance of AB 31 and having an appropriate Class 4b price, go to: http://www.milkproducerscouncil.org/022213_CaliforniaPooling.htm.

The indication coming from Sacramento is that a hearing on AB 31 could be held by the Assembly Agriculture Committee in the next 30-45 days, so dairy farmers throughout the State should be prepared to come to the Capital when that hearing is held and make sure the Assembly Agriculture Committee understands the critical condition of the California dairy producers and why AB 31 is needed. As this bill moves through the Legislative process, we'll also need dairy families to step up and communicate to their local Assembly representatives how important AB 31 is to our future. So stay tuned...

If you have any questions, please don't hesitate to contact MPC at (909) 628-6028.