



# Milk Producers Council

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DATE: December 27, 2013  
 TO: Directors & Members

PAGES: 3  
 FROM: Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$2.0000
Barrels	+\$0.0200	\$1.9700

### Weekly Average, Cheddar Cheese

Blocks	+\$0.0330	\$2.0000
Barrels	+\$0.0810	\$1.9675

### CHICAGO AA BUTTER

Weekly Change	-\$0.0325	\$1.5500
Weekly Average	+\$0.0215	\$1.5800

### DRY WHEY

Dairy Market News	w/e 12/27/13	\$5.888
National Plants	w/e 12/21/13	\$5.761

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### NON-FAT DRY MILK

#### Week Ending 12/20 & 12/21

Calif. Plants	\$1.9321	7,816,839
Nat'l Plants	\$1.9625	17,171,041

#### Prior Week Ending 12/13 & 12/14

Calif. Plants	\$1.9190	6,729,853
Nat'l Plants	\$1.9472	16,618,631

## FRED DOUMA'S PRICE PROJECTIONS...

Dec 27 Final:	Quota cwt. \$20.99	Overbase cwt. \$19.29	Cls. 4a cwt. \$21.16	Cls. 4b cwt. \$18.03
Last Week:	Quota cwt. \$20.97	Overbase cwt. \$19.27	Cls. 4a cwt. \$21.06	Cls. 4b cwt. \$18.07

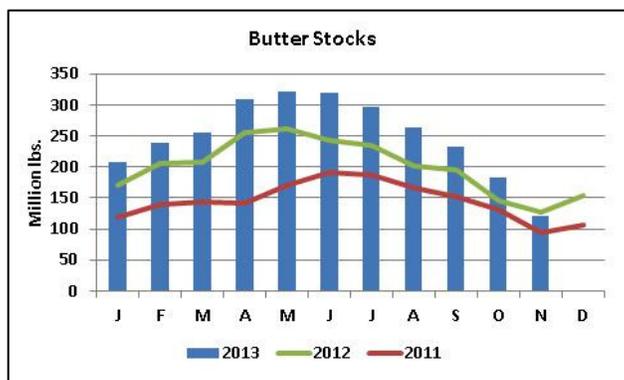
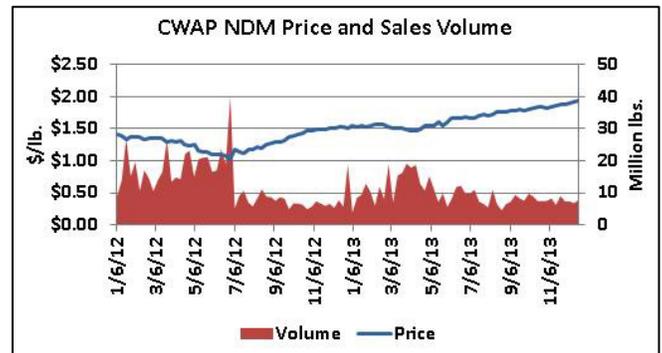
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MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

Like many of us, the dairy markets have been a bit sluggish since Christmas. The block Cheddar market was untested this week and held at \$2.00. Barrels gained a penny on Monday and another on Tuesday. They settled at \$1.97/lb. Class III futures were not particularly impressed. January through May contracts posted double digit losses, while most contracts in the second half of next year added a few cents.

Spot nonfat dry milk (NDM) went nowhere this week, although scattered bids and offers confirmed that traders are comfortable with Grade A NDM at \$2.11 and Extra Grade NDM at \$2.09. The California Weighted Average Price for NDM continued its relentless trek upward. It added 1.3¢ this week, averaging \$1.9321/lb.

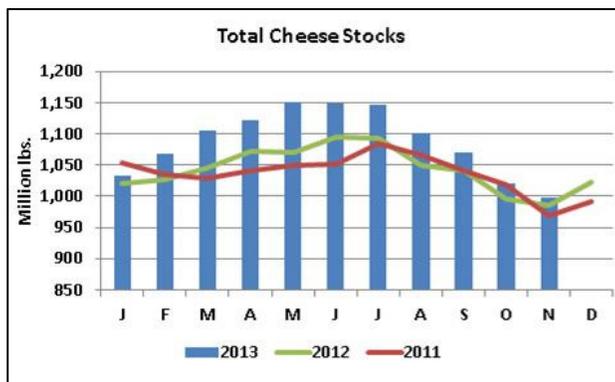


The butter market was more Scrooge-like. Spot butter ended at \$1.55, down 3.5¢ from last Friday and a nickel off Monday's high. Months of tremendous butter exports and strong domestic demand for butter and cream have reduced inventories to manageable levels. Indeed, butter stocks declined 60.4 million pounds or 33% in November to 121.4 million lbs. This drawdown, the largest in two decades, puts butter stocks down 4.6% from November 2012, the first year-over-year decline in inventories since July 2011. The Cold Storage report was viewed as bullish for the butter market. Nonetheless, while Cheddar and NDM are poised to end the

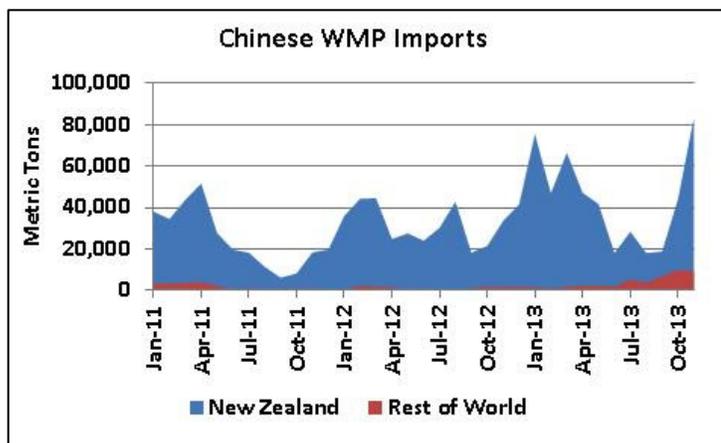
year at their respective peaks, CME spot butter is nearer its 2013 lows than its highs.

Cheese stocks in cold storage fell 2.1% in November but remain 1.3% larger than a year ago, at 998.5 million pounds. This is the first time in a year that cheese stocks have fallen below one billion pounds.

With butter prices falling, it is clear that milk powder is driving the still-strong Class IV market. Prices remain well supported by a world that is hungry for milk powder, led, of course, by China. And Chinese demand is not likely to wane anytime soon. The middle class there continues to grow, as does their dairy product consumption.



Chinese imports are growing further due to a decline in domestic milk output. While data on the Chinese dairy industry is murky at best, there are widespread reports of declining cow numbers and milk production deficits. One Chinese official estimates that, due to high beef prices and poor farm-level economics, the Chinese dairy herd has lost two million cows in the past year. The same official estimates that milk production is 20% lower than a year ago. If China has indeed suffered such a decline in milk output, then the pent-up demand for milk powder could be astounding. Chinese milk powder buyers kept imports minimal this summer and fall in the wake of the New Zealand drought. Now that their preferred supplier is back in the game the Chinese are buying with abandon.

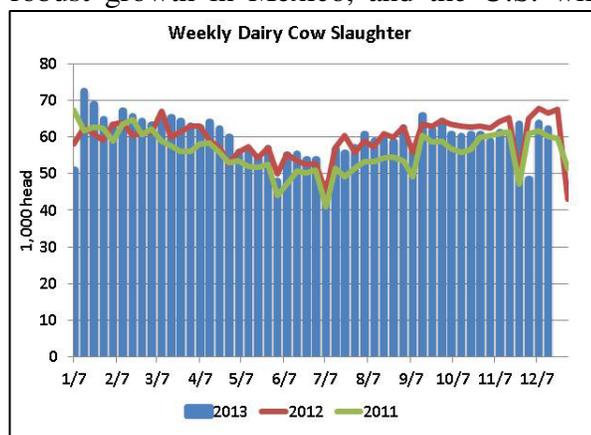


China purchased a record-breaking 93,151 metric tons (MT) or 205 million lbs. of whole milk powder (WMP) in November, up 72% from already high import volumes in October. Chinese WMP imports were nearly three times higher than in November 2012. New Zealand accounted for more than 90% of the total, sending a record-large 83,552 MT (184 million lbs). China imported 23,158 MT (51 million lbs.) of skim milk powder in November, up 5.3% from October and 152% greater than November 2012.

As China laps up milk powder from Oceania, there is more room for U.S. exports elsewhere. American dairy products are competitively priced and they gained a further edge this week. On Friday the euro reached its highest level against the U.S. dollar since October 2011 amidst thin holiday trading. The global economy is expected to improve next year, and global trade will likely rise accordingly.

Political and economic reforms are likely to foster particularly robust growth in Mexico, and the U.S. will continue to enjoy a strong trade partnership with its southern neighbor. Mexico has added more than two million jobs since 2010, and its middle class is growing. Mexico recently opened up its oil industry to foreign, private investment for the first time since 1938. The modernization of the Mexican oil industry promises more jobs and rising incomes. While this will likely spur increased demand for U.S. dairy products, it could also slow the flow of Mexican laborers to the U.S., which would spur an increase in agricultural wages.

Dairy producers culled 62,257 head in the week ending December 14, down 6.5% from the same week a year ago.



Slaughter was especially high at this time last year due to high beef prices and liquidations throughout the West.

### Grain Markets

Corn futures lost a nickel this week. China continues to reject U.S. corn and DDG shipments, and comments from Chinese officials suggest they are in no rush to approve the GMO strain in question. This week U.S. corn that was originally booked to China was sent instead to Japan, South Korea, Taiwan, Vietnam and Egypt. While these countries will have less need of U.S. corn in the future, China will need more, so the market impact has been muted. Despite the drama in Asia, U.S. corn export sales have been formidable. Ethanol production remains strong as well.

Soybean prices dropped 15 to 20 cents this week. Crop conditions remain nearly ideal in Brazil, and some farmers are talking about planting soybeans after the early harvest this year. Brazilian farmers have harvested two corn crops in recent years, but a double soybean crop would be a first. Today's prices are sending clear signals to farmers in both hemispheres to plant oilseeds. Cotton prices have been rising lately in a bid to gain some acreage in the U.S. They will have to maintain these gains for a few months more in order to do so.

It's still dry in Argentina, although a few scattered showers fell this week. There are better chances for rains Sunday and Monday, with light showers possible through mid-next week. Conditions look hot and dry thereafter, so this weekend's rainfall will be an important determinant of the soybean prices.

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