



Milk Producers Council

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DATE: October 11, 2013
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0350 \$1.8000
Barrels +\$.0150 \$1.7650

Weekly Average, Cheddar Cheese

Blocks +\$.0100 \$1.7750
Barrels +\$.0190 \$1.7405

CHICAGO AA BUTTER

Weekly Change - \$.0725 \$1.5425
Weekly Average - \$.0535 \$1.5575

DRY WHEY

Dairy Market News w/e 10/11/13 N/A*
National Plants w/e 10/05/13 \$.5805

NON-FAT DRY MILK

Week Ending 10/4 & 10/5

Calif. Plants \$1.8095 9,718,317
Nat'l Plants \$1.8289 N/A*

Prior Week Ending 9/27 & 9/28

Calif. Plants \$1.7866 7,545,322
Nat'l Plants \$1.8196 N/A*

* Due to the shutdown of the Federal Government, these figures are not calculated by USDA.

FRED DOUMA'S PRICE PROJECTIONS...

Oct 11 Est: Quota cwt. \$19.68 Overbase cwt. \$17.98 Cls. 4a cwt. \$19.95 Cls. 4b cwt. \$16.60
Last Week: Quota cwt. \$19.63 Overbase cwt. \$17.93 Cls. 4a cwt. \$20.05 Cls. 4b cwt. \$16.42

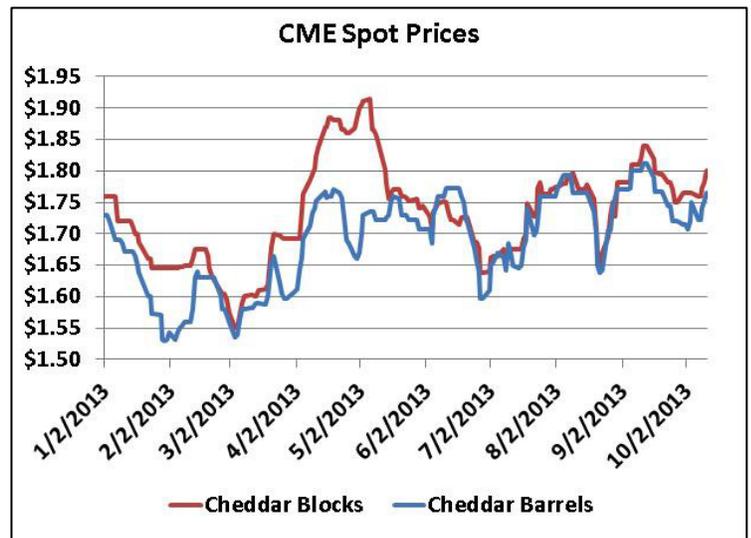
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

With the exception of butter, dairy product prices moved broadly higher this week. Most Class III contracts posted modest gains. November through January futures were particularly strong, adding between 20 and 38¢. 2013 contracts settled at an average price of \$18.03, a nearly three month high. Nearby futures are working to catch up to the spot cheese price, which continued to rally. Cheddar blocks are again probing the high end of the recent trading range. They reached \$1.80 this week for the first time since mid-September, 3.5¢ higher than last week. Barrels settled 1.5¢ higher.

Spot butter prices took a dive on Tuesday, breaking a streak of sixteen sessions without a lower close. They fell further on Wednesday and bounced back on Friday, ending down 7.25¢ from last Friday. Class IV futures largely ignored the butter market's weakness; they logged double digit gains. Contracts in the third quarter of next year advanced more than 50¢ this week. The spot Grade A nonfat dry milk (NDM) market held steady, but Extra Grade NDM added 2¢ on Thursday, the product's first change in price since late August.

The California Weighted Average Price (CWAP) for NDM rose to fresh multi-year highs at \$1.8095/lb., up 2.3¢ from the prior week. Sales volume was solid suggesting that end users are not balking despite the steady upward march in the average price. Demand for U.S. milk powder will likely remain firm unless foreign milk powder prices begin to wane.



The market is clearly heating up ahead of the holidays. The worldwide rally in cheese and milk powder prices that began this spring may have pushed some end users to live hand to mouth. Many likely presumed that a rebound in milk production overseas would have allowed them to secure product at lower prices as the year progressed, but those opportunities have been limited. End users appear to be moving from the sidelines, and their purchases are further supporting dairy product prices.

But there are hints that the rally could face a winter chill. Bull markets must be fed daily, and if end user buying is exhausted, upward momentum would be hard to sustain. Seasonal increases in milk production in Oceania will eventually reach the export market, which could pressure foreign dairy product prices. This would erode the premium that foreign products hold over U.S. dairy product prices, and could reduce U.S. dairy export volumes from their current record-setting pace.

One of the worst blizzards on record tore through western South Dakota late last week, dumping as much as four feet of snow in some areas. Cattle were still grazing in summer pastures and exposed to the unusually early winter weather. Ranchers suffered devastating losses, with some losing as much as half of their herd. Early estimates of cattle death losses total in the tens of thousands.

These death losses reduced an already tight cattle supply. Beef supplies will be further restricted due to heifer retention and the absence of Zilmax-fueled weight gains. Cattle prices remain well supported and feeder cattle prices are on fire. The beef industry will continue to pull on dairy calf supplies and support dairy cull cow and steer calf values.

Grain and Hay Markets

December corn futures posted new multi-year lows. They ended this week a dime lower than where they began, settling at \$4.33 per bushel. November soybean futures lost nearly 30¢, closing at \$12.67. December soybean meal also fell; the contract looks poised to test the waters below \$400/ton next week.

Rumors that China bought around 800 thousand metric tons (MT) of corn prompted a rally in the corn market on Monday, but in the absence of USDA data the sale could not be confirmed. Later in the week a private Chinese firm reported a purchase of 420 thousand MT at a price of \$290/MT delivered to China. The Chinese are likely to continue buying U.S. corn as the market drifts lower. But other buyers who are willing to deal with logistical issues in Brazil and variable quality supplies from the Black Sea region will continue to patronize our competitors, who are offering corn at lower prices than U.S. exporters.



The U.S. corn and soybean crops are mature, and as the harvest winds down the market is turning its focus to South American weather. Regular rains have fallen in southern Brazil and Paraguay. Rainfall in northern Brazil has been hit or miss, but showers are expected in the next few days, and the deferred forecast hints at better moisture. Argentina is dry and, while the forecast holds some chances for rains, coverage looks spotty and promised totals are light. There is the potential for better moisture in a week or more, but at this point, confidence in that forecast is low. A persistent lack of rain in Argentina could push soybean prices back toward \$13.00 per bushel.

The Environmental Protection Agency is reportedly considering a reduction in Renewable Fuel Standards (RFS) blending mandates for 2014 and 2015. At the moment, this is a proposal with many obstacles on the path to ratification. Nonetheless, the corn market has been pressured by the potential for a decline in federally mandated

ethanol demand, which could lower the amount of corn used for ethanol. The price of ethanol blending credits, known as RINs, beat a sharp retreat.

However, cheap corn prices are augmenting ethanol blending margins. The amount of ethanol blended into the fuel supply will likely be dictated by gasoline demand and blending limits rather than the mandate. The proposed change to the RFS acknowledges these limits and does not reflect a lack of political commitment to the ethanol industry.

MEMORIAL SERVICE FOR SCOTT BINNS NEXT WEEK TUESDAY: *(By Rob Vandenheuvel)* Last week, we reported on the sudden passing of Walter Scott Binns III, husband of MPC's Central Valley Representative Betsy Hunter-Binns. A memorial service in his honor has been scheduled for **Tuesday, October 15th at 10 a.m.** The service will be held at **Saint Francis Church (900 "H" Street, Bakersfield, CA 93301).**

As a reminder, some friends of Betsy's have set up a savings account fund to help Betsy and her 1 ½ year old daughter Josette get thru this very difficult time. According to a Facebook message sent out, these funds will initially be used to help pay funeral costs, and the hope is to raise enough money to be able to pay Betsy/Josette's rent for a year to help ease their financial burdens. Any funds left over will be deposited in Josette's college fund. **If you would like to donate, please make checks payable to: "Laurie Haagsma" and reference the account number 511195575.** The checks can be mailed to: Laurie Haagsma, 1900 Morning Rose Dr., Bakersfield, CA 93312.

RESULTS FROM CDFA HEARING EXPECTED IN LESS THAN TWO WEEKS: *(By Rob Vandenheuvel)* The website of the California Department of Food and Agriculture (CDFA) indicates that an announcement should be coming on or before October 22nd on the results of the recent pricing hearing. As a reminder, that hearing was scheduled to consider a **negotiated agreement between producer groups and cheese manufacturers for some modifications to the Class 4b formula (which is for milk sold to California's cheese manufacturers).** The details, as spelled out by the Dairy Institute on behalf of the State's cheese manufacturers, can be found at: <http://www.milkproducerscouncil.org/070813dairyinstitute.pdf>.

The financial impact of those agreed-upon modifications would be an increase of about \$0.65-0.70 per hundredweight in the Class 4b price, depending on the market conditions going forward. Looking at the chart here, you can see that even a \$0.70 per hundredweight adjustment only partially closes the gap between California's Class 4b price and the comparable Federal Order Class III price (which is the benchmark price for milk sold to cheese manufacturers around the country). We are obviously hopeful that CDFA will use it's authority to implement this relatively modest agreement, providing much-needed revenue for California's dairy families in the near term.

The "California Discount" for our State's Cheese Manufacturers		
	Sept 2013	Jan '10 – Sept '13
California Class 4b Price	\$16.65	\$15.24
FMMO Class III Price	\$18.14	\$16.94
Difference	(\$1.49)	(\$1.70)
<i>The "California Discount": More than \$1.1 BILLION since Jan 2010 So what's your share of that discount?</i>		

Long term, the most prominent proposal moving forward right now is the drafting of a USDA petition to create a California Order under the Federal Milk Marketing Order (FMMO) system. That process, which is being led by the three major California cooperatives, is a lengthy process, but one that provides "a regulatory structure that would potentially result in higher farm gate prices" (press release from CDI, DFA and LOL on the results of an economic study performed earlier this year). Many of California's dairy farmers probably attended the meetings held on the issue a few weeks ago, and for those that weren't able to make it, reports indicate that there was strong producer interest in the process, particularly in moving the process along as quickly as possible. So we look forward to seeing that process move forward as quickly as possible. As an industry, California can no longer be the low cost leader when it comes to on-the-farm milk prices, so we need to take whatever steps necessary to provide California's dairy families with a fair and equitable price for the milk they sell.