



Milk Producers Council

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DATE: December 6, 2013
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0075 \$1.8725
 Barrels + \$.0550 \$1.8325

Weekly Average, Cheddar Cheese

Blocks + \$.0335 \$1.8985
 Barrels + \$.0630 \$1.8280

CHICAGO AA BUTTER

Weekly Change - \$.0050 \$1.6460
 Weekly Average - \$.0190 \$1.6410

DRY WHEY

Dairy Market News w/e 12/06/13 \$.5813
 National Plants w/e 11/30/13 \$.5930

NON-FAT DRY MILK

Week Ending 11/29 & 11/30

Calif. Plants \$1.8893 7,313,901
 Nat'l Plants \$1.9092 11,365,234

Prior Week Ending 11/22 & 11/23

Calif. Plants \$1.8889 9,043,024
 Nat'l Plants \$1.9023 14,383,219

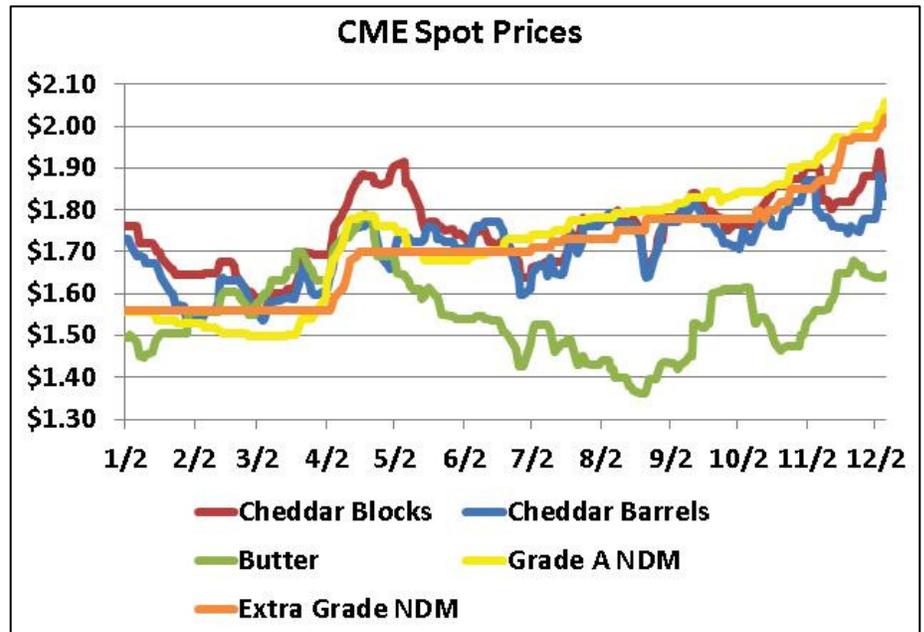
FRED DOUMA'S PRICE PROJECTIONS...

Dec 6 Est: Quota cwt. \$20.73 Overbase cwt. \$19.04 Cls. 4a cwt. \$21.01 Cls. 4b cwt. \$17.58
 Nov '13 Final: Quota cwt. \$20.32 Overbase cwt. \$18.63 Cls. 4a cwt. \$20.63 Cls. 4b cwt. \$17.30

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

Milk & Dairy Markets

Milk powder prices are moving relentlessly higher. The gains have been nothing short of astounding. CME spot Grade A nonfat dry milk (NDM) has rallied 7.25¢ in the past two weeks; it stands at \$2.0575/lb. Extra Grade NDM rose to \$2.0225, up 4.75¢. Extra Grade NDM has been steady or higher in every CME spot session except one this year. The California Weighted Average Price for NDM rose to \$1.8893, the highest weekly average in more than six years. Meanwhile, skim and whole milk powder prices gained 5.6% and 3.4%, respectively, rising from already high levels at the Global Dairy Trade auction. Class IV futures followed milk powder higher. 2014 contracts gained an average of \$1.05 in the past two weeks. The March contract added \$1.70 over the period.

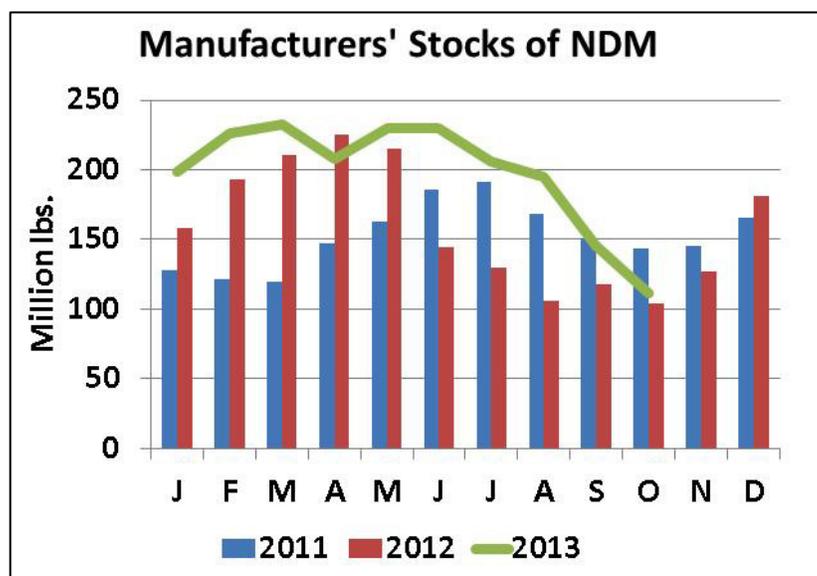


CME spot butter rose to \$1.68/lb. before Thanksgiving, but could not hold despite robust holiday demand. It closed today at \$1.645. Cheddar blocks made a brief foray above \$1.90/lb., but they too lacked staying power. Blocks closed at \$1.8725, almost 7¢ below Wednesday's high water mark, but still 3.75¢ above the levels of two

weeks ago. Barrels established new 2013 highs but, like blocks, fell quickly after testing uncharted ground. They closed 7.75¢ higher than two weeks ago. Class III futures whipsawed along with the cheese market. After much volatility, they too gained some ground. December through February contracts added a dollar or more in only two weeks.

After months of hand-to-mouth purchasing, it seems that milk powder buyers have given up waiting for lower prices and are working to secure supplies before prices go higher still. At some point, the milk powder market will succumb to demand resistance or increased supplies, but for now the sheer momentum of this rally suggests that there is still room to run.

There is plenty of fodder for milk powder bulls. A hot summer and years of financial losses have taken their toll on the Chinese dairy herd, and milk production is estimated to be 15-20% lower than last year. China reduced imports of milk powder from New Zealand in the wake of the drought and now the Chinese and others are restocking inventories. European and Kiwi milk production is strong, but at the moment pent-up demand outweighs the potential for oversupply. Australian milk production has disappointed, helping to slow supply growth in Oceania.



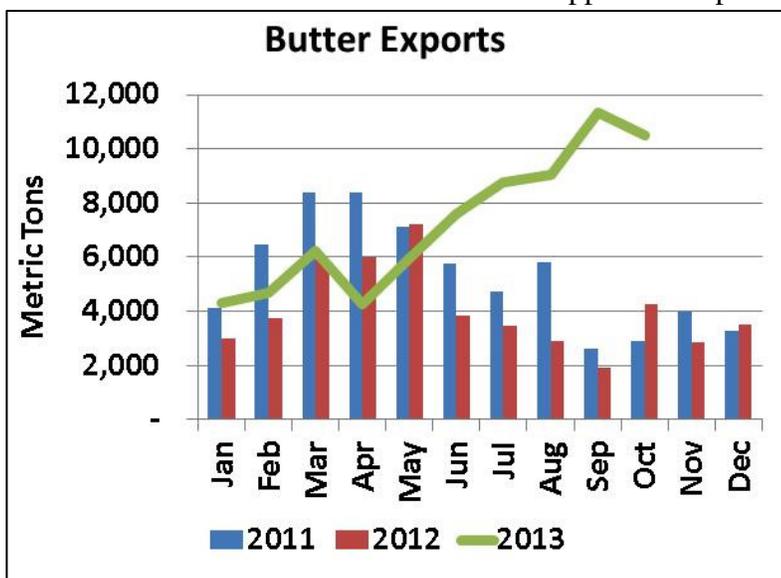
The U.S. has clearly benefited from the global clamor for milk powder. U.S. exports of NDM and skim milk powder (SMP) reached 114 million lbs. in October, up 9.7% from September and up 56% from a year ago. Nearly 60% of 2013 U.S. milk powder production has left our shores. Year to date sales of NDM and SMP are up 22% from 2012. The U.S. increased production of milk powders in October to meet export demand. For the first time since April, U.S. NDM/SMP production exceeded year ago levels. At 148 million lbs., production was 5% higher than last year and 11.6% greater than September on a daily average basis. But thanks to thriving demand, manufacturers' stocks of NDM fell 34 million

lbs. to 111.4 million lbs., a decline of 23% to new lows for the year.

U.S. cheese production totaled 950 million lbs. in October, up 2.1% from last year and 3.2% higher than September. Cheese makers continue to favor Italian varieties to meet the world's voracious appetite for pizza. Mozzarella production was 7.7% higher than last year. October cheese exports of 567 million lbs. were up 1.6% from September and 42% from October 2012.

U.S. butter production reached 146 million lbs., up 1.2% from October 2012 and 6.6% higher than September. Butter exports are booming and are on pace to reach 20-year highs. October exports totaled 23.2 million lbs. They fell short of September volumes but exceeded October 2012 by 156%.

The impact of U.S. dairy exports on the industry can hardly be overstated. The value of U.S. dairy exports in 2013 already exceeds 2012 revenue



with two months left to accrue. With sharply lower feed costs and still rising milk prices, the market is almost shouting at dairy producers to crowd in as many cows as possible, optimize rations and to use BST where permissible. Exports currently lap up more than 16% of U.S. milk solids production, but if the almost inevitable increase in milk production arrives and exports falter, milk prices could move sharply lower. However, with lower feed costs, milk prices could settle at levels that keep both consumers and producers happy.

Weekly dairy cow slaughter totaled 63,499 head. The comparison to last year is skewed by Thanksgiving, and it is likely that dairy producers culled heavily ahead of the holiday, but the figure is nonetheless impressive. It implies surprisingly high cull rates given the dramatic improvement in margins over the past couple months.

Grain Markets

December corn futures closed at \$4.24 per bushel, little changed over the past couple weeks. Corn futures have proven resilient to news that China rejected 120,000 metric tons (MT) of U.S. corn this week and unspecified volumes of corn last month. It's unclear why the Chinese are raising a fuss over traces of an unapproved strain of GMO corn. The Chinese recently approved GMO corn imports from Argentina and have not complained of problems with U.S. corn until last month. The U.S. accounted for more than 98% of Chinese corn imports last crop year despite the drought. If the Chinese choose to press the issue, it could hinder future export sales and endanger those already on the books. A slowdown in the U.S. corn exports could make for a larger domestic surplus and lower grain prices.

Soybean and soybean meal futures moved sharply higher last week and moderated this week. South American weather has been nearly ideal. However, the Argentine forecast looks a little dry over the next fourteen days. But the promise of a large crop in a few months cannot solve the problem of tight supplies now. After last year's logistics troubles in South America, China is not holding out for cheaper supplies in a few months. They are buying huge volumes of U.S. soybeans, and prices are running higher to discourage the Chinese and others from buying more than the U.S. can afford to sell.

THE CALIFORNIA DISCOUNT CONTINUES; FORTUNATELY, CHANGE IS IN THE WORKS: (By Rob Vandenheuvel) It's been a couple months since we took a close look at California's milk prices and how they compare to the prices paid for comparable milk around the country, so this week's announcement of the California and Federal Milk Marketing Order (FMMO) prices for November give us a good opportunity to reexamine the facts.

This past month, our State-announced Class 4b price (which applies to milk sold to California's cheese manufacturers) was "only" \$1.53 per hundredweight below the FMMO Class III price (the benchmark price for milk sold to cheese manufacturers around the country). Now of course, the word "only" is a response to the fact that we've seen gaps as large as \$3.63 per hundredweight in the past few years. However, a discount of \$1.53 per hundredweight is obviously a huge advantage to California's cheese manufacturers, all on the backs of roughly 1,500 dairies who are still collectively sitting on a mountain of debt and desperately need as much of this market-based revenue they can get.

Looking at 2013 as a whole, we've seen an average "California discount" on milk sold to cheese plants of \$1.62 per hundredweight through the first 11 months of the year. So what does that mean in real dollars? \$1.62 per hundredweight equates to a \$0.75 per hundredweight reduction in the State-announced Overbase price, or about \$250,000,000 less pooled revenue paid out to California dairy farmers in 2013 alone, and that's only through October (Novembers Class 4b usage hasn't been announced yet).

The "California Discount" for our State's Cheese Manufacturers		
	Nov '13	Jan – Nov '13
California Class 4b Price	\$17.30	\$16.28
FMMO Class III Price	\$18.83	\$17.90
Difference	(\$1.53)	(\$1.62)
The "California Discount": \$253,000,000 just in 2013 alone... ...and counting		

Of course, this newsletter has also written in the past about “the story behind the story.” By that, I mean the ramifications this State-sponsored discount has had on the flow of money both to and from the various manufacturers. Several months ago, we went into more detail on this; if you missed that article, I encourage you to check it out on our website at: <http://www.milkproducerscouncil.org/083013pooling.htm>.

As an update to the numbers in that article, California’s cheese manufacturers have been on **the receiving end of about \$147 million this year alone** from the pool (through October), while our other four classes – most notably the other major manufacturing class (California’s butter/powder manufacturers) – have been on the other side of the ledger – collectively paying that \$147 million *into* the pool. *Remember, all these plants have to pay their dairy farmer suppliers the Overbase price, but manufacturers of Class 1, 2, 3 and 4a products have been paying additionally into the pool, with that money being immediately sent to the cheese manufacturers.* **We need to keep this in mind when our cheese-manufacturing friends try to lecture dairy farmers about “free-market principles.”**

Had there not been a State-sponsored discount on Class 4b milk, California cheese manufacturers would still have been entitled to a payment from the pool, but it would have been about \$10 million (not the \$140 million they actually got). So it’s probably safe to assume that CDFA is on the Christmas card list of most California cheese manufacturers...

At the end of the day, however, this is all just the latest in what has become an all-too-common State-sponsored fleecing of California dairy farmers. That’s why the three major California cooperatives have come together to craft a Federal Milk Marketing Order in California. Earlier reports indicate that we should be getting closer to seeing a petition that can be submitted to the U.S. Department of Agriculture, which begins the approximately-year-long deliberation process in Washington, DC. Given the consistent “cheap milk” policy perpetuated by CDFA, this serious push for a fundamental change in California cannot come fast enough. So stay tuned...

CENTRAL VALLEY DAIRY PRODUCERS: WATCH MAILBOX FOR MONITORING PROGRAM BALLOTS: (By James Garner, Dairy Cares, <http://www.dairycares.com/>) The Central Valley Dairy Representative Monitoring Program (CVDRMP, more information at www.DairyCares.com/CVDRMP) is conducting its annual elections to fill open seats for its Board of Directors. All CVDRMP members in good standing will receive an official ballot and instructions by U.S. mail. Materials were mailed to members on November 22.

Eligible voters must return the enclosed self-addressed, postage-paid ballot postcard as soon as possible. Voting is important, but quick and easy, and can be done in less than a minute. Ballots must be received by December 20, 2013; ballots received after December 20, 2013 will not be counted, regardless of postmark.

One seat is available for election in each CVDRMP district and one seat is available at-large. Director terms are two years, beginning in January 2014.

For more information or questions, call 916-441-3318 or email dairycares@aol.com.