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@milkproducers.org ~ www.MilkProducers.org

DATE: February 27, 2015 **PAGES: 3**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*N/C*	$1.5450
Barrels	*+$.0075*	$1.4925
Weekly Average, Cheddar Cheese		
Blocks	*+$.0037*	$1.5450
Barrels	*+$.0005*	$1.4855

CHICAGO AA BUTTER		
Weekly Change	*- $.0275*	$1.6950
Weekly Average	*- $.0603*	$1.6610
DRY WHEY		
Dairy Market News	w/e 02/27/15	$.4500
National Plants	w/e 02/21/15	$.5106

NON-FAT DRY MILK		
Week Ending 2/20 & 2/21		
Calif. Plants	$0.9985	13,141,466
Nat'l Plants	$1.0189	27,248,665
Prior Week Ending 2/13 & 2/14		
Calif. Plants	*$1.0112*	*10,750,181*
Nat'l Plants	*$1.0230*	*22,232,140*

***

FRED DOUMA'S PRICE PROJECTIONS…

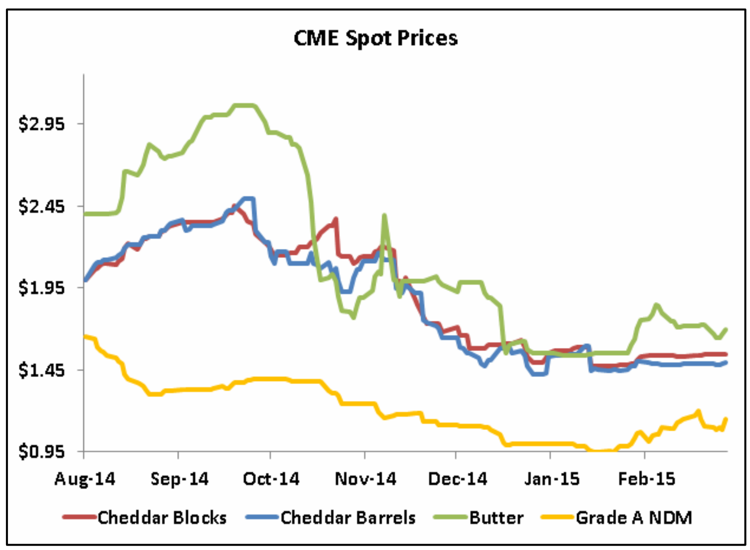
Feb 27 Final:	**Quota cwt. $15.70**	**Overbase cwt. $14.00**	**Cls. 4a cwt. $13.44**	**Cls. 4b cwt. $13.78**
Last week:	**Quota cwt. $15.72**	**Overbase cwt. $14.02**	**Cls. 4a cwt. $13.51**	**Cls. 4b cwt. $13.78**

***

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

Milk & Dairy Markets

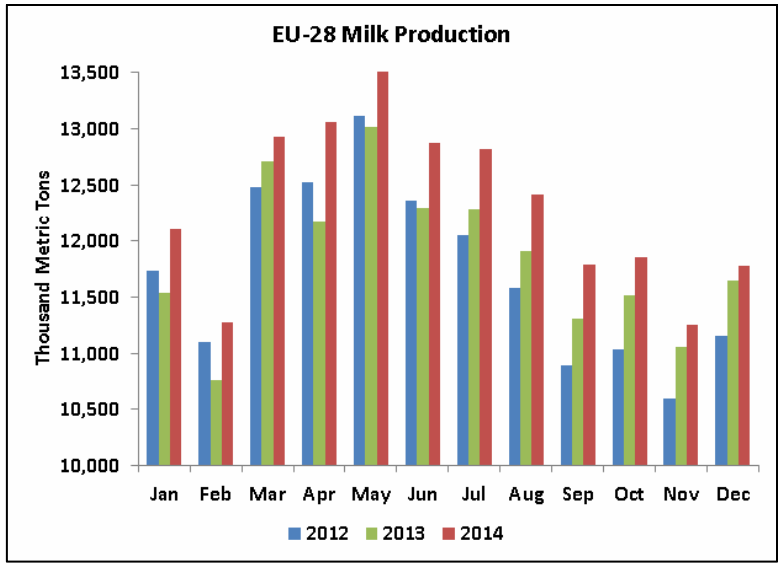
The week began with a whimper. Dairy futures of all varieties settled deep in the red on Monday. But the bulls tip-toed back in on Tuesday and by Friday they were bellowing. Late-week strength was not enough to overcome the early drop in butter prices at the CME spot market. Spot butter closed at $1.695/lb., down 2.75¢ from last Friday. Still, butter futures gained ground this week. Spot nonfat dry milk (NDM) gained 4¢ and reached $1.15. Cheddar barrels gained 0.75¢, rising to $1.4925. Blocks held steady at $1.545, ending the month at the high end of an exceptionally narrow trading range. For now, cheese traders are clearly comfortable with prices right where they are.



Amidst heavy milkflows in the Upper Midwest, a quiet spot cheese market was better than the trade expected, and Class III futures took off. Most contracts settled between 50 and 70¢ higher. Class IV futures were generally higher as well. Most contracts posted double-digit gains, but their week-to-week performance was not as impressive as that of their Class III counterparts.

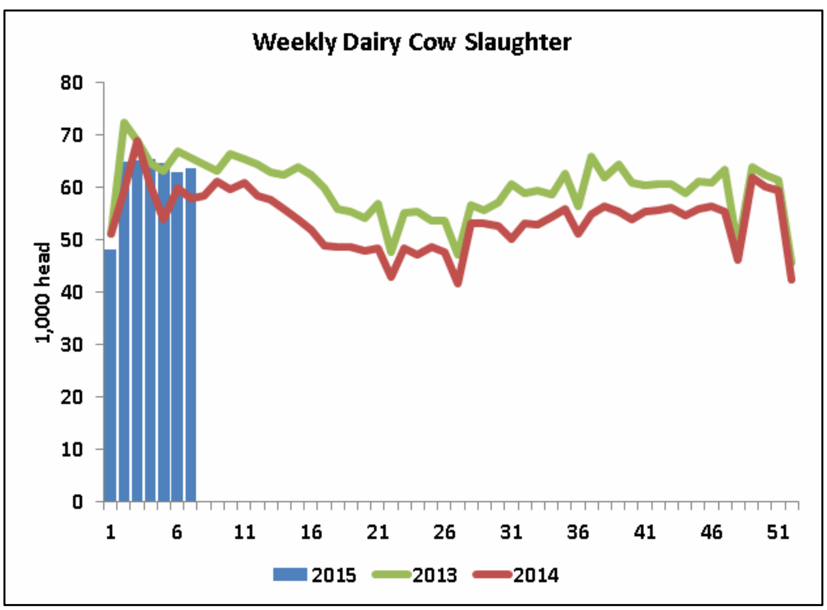
European milk production rose just 1.3% in December relative to the year before. However, it is clear that super-levies in a few key nations put a temporary damper on milkflows. Output in Ireland, for example, fell 16.8% from last year. Quota penalties will be a thing of the past in just 32 days, and while producers in Ireland and elsewhere are unlikely to ignore low pay prices and run with a wide open throttle, they will probably ease off the brakes in April and step on the gas once margins improve.

A growing share of Europe's milk is headed to the drier. European production of skim milk powder (SMP) rose 6.4% in December on a year-over-year basis and was 20% greater than November. There is no shortage of milk powder on either side of the Atlantic, and, while Fonterra has shouted its concerns about drought-restricted supplies, the cooperative has whispered its anxieties about demand. Despite rising global dairy markets, Fonterra held pay-prices steady at NZ$4.70/kg of milk solids, noting weak Chinese demand. They also updated volume forecasts for next week's Global Dairy Trade auction; they are offering 18% more whole milk powder (WMP) for the May contract than at the previous event, although overall their WMP offerings will be lower than last week's auction.



At long last, the West Coast port strike is over. But while ship owners and longshoremen celebrate, the nation's export industries are feeling the hangover. It will take months to clear the backlog at the ports, and in the meantime exporters face damaged reputations, a strong dollar and lower purchasing power among the world's energy economies. The Bank of Mexico lowered its outlook for GDP growth in 2015 from 3-4% to 2.5-3.5%, in part due to the sustained decline in oil revenues. Demand for foreign products is likely to slip south of the border and in places like Saudi Arabia, the largest market for U.S. butter.

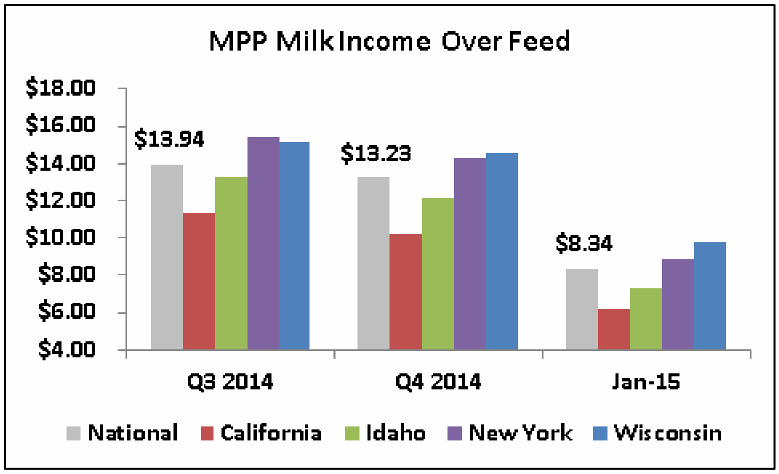
It is bitterly cold everywhere east of the Rockies, and production per cow is down slightly. However, barns are full and there is no shortage of milk. *Dairy Market News* reports, "More milk is going into cheese than would be typical at this time during recent years." Cream is also readily available, and churns are running at or near capacity. The anticipation of Easter demand is likely helping to support the butter market. But a bull needs to eat every day, and, in light of surprisingly large January butter inventories and strong churn rates, demand will need to be formidable indeed to provide further strength in butter prices.



For the week ending February 14, dairy cow slaughter totaled 63,736 head. Slaughter was 10.2% greater than the same week last year, and for the year-to-date it is running 5.7% ahead of last year's pace. This is almost entirely due to higher cull rates in the West. As the *Daily Dairy Report* noted earlier this week, culling in California, Arizona, Idaho, Oregon and Washington "accounts for 96% of the increase in dairy cow slaughter in 2015. The pace of slaughter in these regions is up nearly 17% compared to last year. Meanwhile, dairy culling in the regions that include Michigan, Minnesota and Wisconsin trailed last year by 13,200 head."

USDA's Agricultural Prices report confirmed what the slaughter pace has already hinted: margins are much worse in the West than in other regions. Regional averages can only approximate the cost of production, and they often vary widely from individual producers' margins. But they are useful to illustrate broad trends and they serve as the basis for payments under the new Margin Protection Program (MPP).

According to the MPP formula, California dairy producers were left with just $6.19 per hundredweight of milk revenues to cover all non-feed costs. This is the lowest income over feed costs in the Golden State since August 2013. Producers in Wisconsin, in contrast, had an income over feed margin of $9.76/cwt., a level which does not suggest much economic pressure.



Grain Markets

March soybean futures gained 31.5¢ this week, rallying to $10.3075 per bushel. A truckers' strike in Brazil has snarled traffic there. Although the soybean crop is huge, it is only slowly making its way to the ports, and farmers in many areas are running out of fuel to finish the harvest. This logistical nightmare means that the U.S. could be the preferred market for soybeans for a little while longer, although sales at the Gulf are already beginning to slow.

Wheat prices rallied this week as farmers – and everyone else – complained about cold temperatures, which has likely caused some winter kill. But the corn market simply shrugged at the strength in competing markets. March corn futures dropped a fraction of a cent and settled at $3.845. The corn market's ability to ignore strength in the soybean and wheat markets is curious, particularly as the ratio between corn and soybean prices reaches levels that ought to encourage farmers to plant soybeans at the expense of corn acreage. Agricultural economists have stated clearly that, assuming normal weather, soybean supplies will be plentiful this fall, while corn inventories might feel a little tight. Currently, the price says otherwise.

***

SENATE BILL TO ELIMINATE THE CORN-BASED ETHANOL MANDATE INTRODUCED THIS WEEK: *(By Rob Vandenheuvel)* Last week, we reported on the introduction of H.R. 704, a bill in the U.S. House of Representatives known as the "RFS Reform Act of 2015." This past week, a similar bill was introduced in the U.S. Senate – S. 577, the "Corn Ethanol Mandate Elimination Act of 2015." Both of these bi-partisan bills would eliminate the so-called "corn-based ethanol mandate," which in its current form is helping to drive about 40 percent of the U.S. corn production towards ethanol facilities.

As we wrote last week, there is nothing inherently wrong with renewable fuels, but MPC opposes a government mandate that creates a guaranteed demand for one use of corn, at the expense of the rest. It's time for the RFS to be reformed, putting all the users of our valuable food/feed supply on an even playing field.

A special thanks to California Senator Dianne Feinstein for being a lead sponsor on this bipartisan bill and helping to drive this good-government effort!

***

LATEST DAIRY CARES COLUMN POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The February 2015 Dairy Cares Report has been posted on our website at: http://www.milkproducerscouncil.org/cares.htm. This month's column is entitled, "2015 California drought: Déjà vu all over again." The column discusses the challenges facing California dairies due to the drought, and the fact that dairy families are continuing to do what they do best: "doing more with less," and protecting this "precious, finite resources" while continuing to "produce the affordable, nutritious and delicious dairy products millions of families have come to depend upon and enjoy."

***

EDITOR'S NOTE: Unfortunately, we will not be able to publish an *MPC Friday Market Update* next week. So our next issue will be published on Friday, March 13th.