



Milk Producers Council

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DATE: August 23, 2013
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.1075 \$1.6700
Barrels - \$.1225 \$1.6425

Weekly Average, Cheddar Cheese

Blocks - \$.0815 \$1.6900
Barrels - \$.0920 \$1.6730

CHICAGO AA BUTTER

Weekly Change +\$.0250 \$1.3950
Weekly Average - \$.0155 \$1.3695

DRY WHEY

Dairy Market News w/e 08/23/13 \$.5850
National Plants w/e 08/17/13 \$.5762

NON-FAT DRY MILK

Week Ending 8/16 & 8/17

Calif. Plants \$1.7564 6,389,435
Nat'l Plants \$1.7713 13,694,371

Prior Week Ending 8/9 & 8/10

Calif. Plants \$1.7336 10,920,629
Nat'l Plants \$1.7595 17,135,674

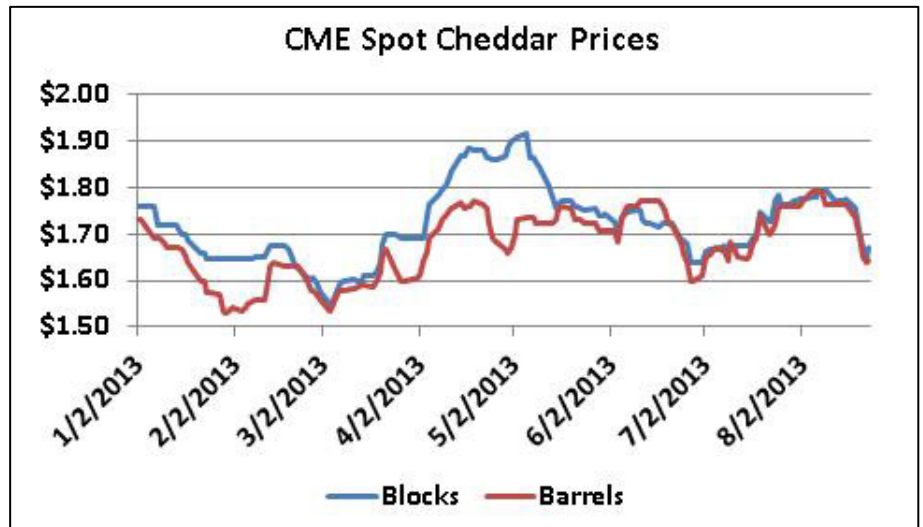
FRED DOUMA'S PRICE PROJECTIONS...

Aug 23 Final: Quota cwt. \$19.04 Overbase cwt. \$17.34 Cls. 4a cwt. \$18.79 Cls. 4b cwt. \$16.32
Last Week: Quota cwt. \$19.08 Overbase cwt. \$17.38 Cls. 4a cwt. \$18.59 Cls. 4b cwt. \$16.53

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

Milk & Dairy Markets

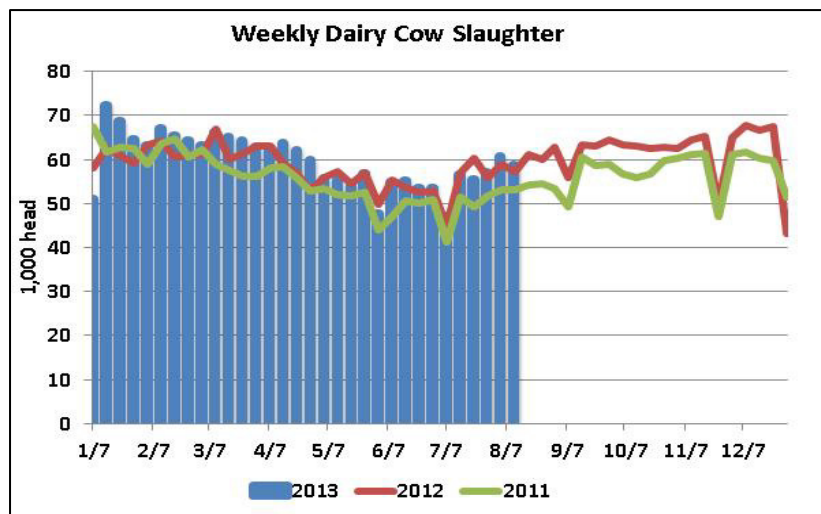
Cheese buyers were scarce and patient, and the spot Cheddar market languished for much of the week. Nearby Class III futures followed cheese lower. Both markets finally perked up Friday in the wake of the Cold Storage report. Still, Cheddar blocks closed 10.75¢ lower than last Friday's settlement. Barrels dropped 12.25¢. September Class III futures shed nearly a dollar this week, and the October and November contracts also settled lower. In contrast, Class IV contracts were generally higher. CME spot Grade A nonfat dry milk (NDM) added a half cent, and Extra Grade settled 3¢ higher. The butter market finally showed some signs of life this week. Spot butter closed at \$1.395/lb., up 2.5¢ on the week.



It's back-to-school time, and fluid milk demand is rising accordingly. As they do every year, fluid processors are pulling milk away from balancing plants. Some milk powder plants are nearly idle despite firm demand for milk powder and prices at multi-year highs. Meanwhile, cheese production remains strong and prices are weakening. This regional disparity has widened the spread between Class III and Class IV milk prices. For the remainder of 2013, current futures offer a \$1.67/cwt. premium on average for Class IV milk, representing a growing advantage

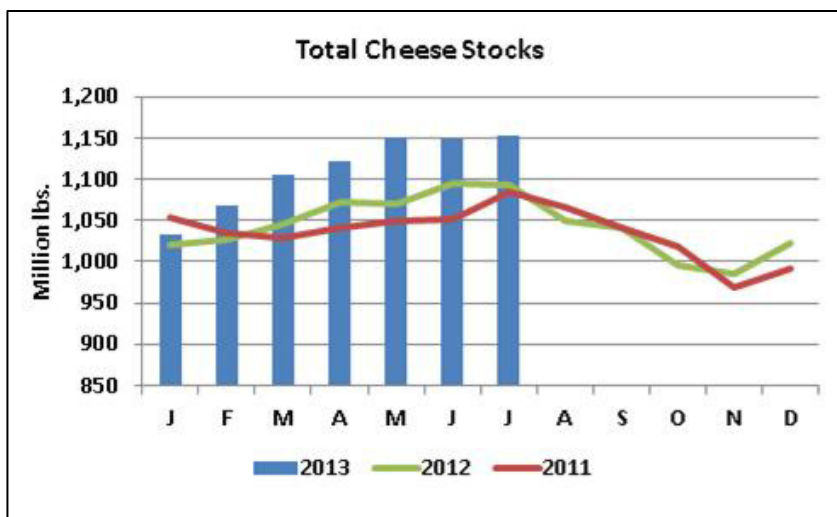
for producers in areas like California with high butter and milk powder production. Producers in the Midwest have milk checks that are tied to a sinking cheese market.

July milk production totaled 16.8 billion lbs., which was 1.1% higher than a year ago. Coming on the heels of a cool June, the July heat precipitated a steep decline in milk production. Output fell 4.1% on a daily average basis. California milk production totaled 3.375 billion lbs., down 3.5% from July 2012. This was the Golden State's 13th consecutive month of year-over-year declines. It was also the largest decline of any state. The other states with lower output were Arizona (down 2%), Idaho (down 1.1%) and Oregon (down 0.9%). All other major milk producing states reported stronger production.



Due to the sequester, USDA did not report cow numbers on its Milk Production report. However, monthly slaughter data suggests that lower cow numbers may be partially to blame for declining milk production in the West. USDA's monthly Livestock Slaughter report showed July dairy cow slaughter at 251,000 head, the highest July slaughter in more than a decade. Culling in Region 9, which includes California and Arizona, was particularly strong, exceeding July 2012 by 12%. Weekly dairy cow slaughter totaled 58,781 head. Year to date slaughter is 2.9% higher than at this time in 2012.

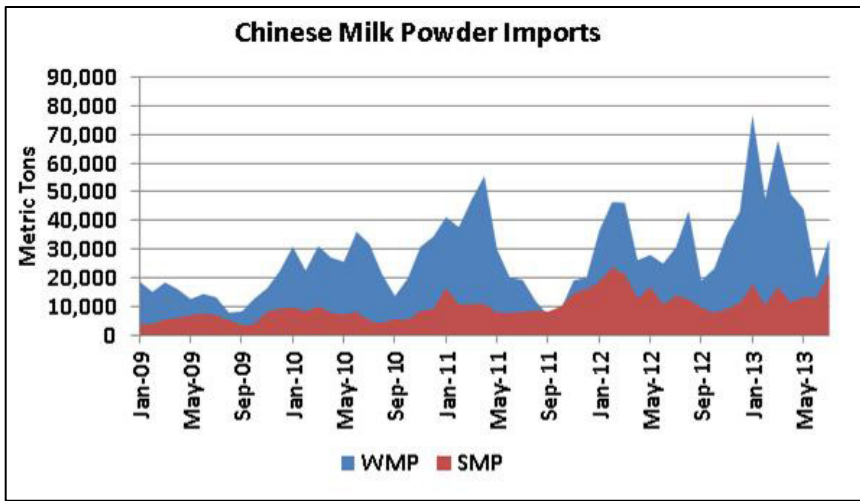
USDA reported smaller than expected cheese and butter inventories in its Cold Storage report on Thursday afternoon. Cheese inventories totaled 1.15 billion lbs., up 5.4% from a year ago and slightly higher than in June. Cheese stocks are clearly ample, and CME spot market weakness suggests there is no shortage of fresh cheese. However, stock levels have been stagnant since May, implying that firm demand has allowed cheese processors to avoid a typical seasonal inventory build.



Butter stocks totaled 295.8 million lbs. This is 26% higher than last year, but inventories were 7% lower than in June. Butter stocks typically decline in July, but this year's 23 million lb. drawdown was the largest in nearly two decades. Butter futures rallied on Friday in response. Domestic butter prices remain well below the international market, which is helping to send U.S. butter supplies overseas. Continued strength in butter exports will be needed to return stocks to normal levels.

Prices rebounded at the Global Dairy Trade auction. After falling 2.4% at the previous auction, the trade weighted average of all products increased 2.3%. Anhydrous milkfat prices increased most, adding over 7%. Butter followed, adding 3.3% at an average price of \$1.60. Dairy America was able to sell butter for September delivery at an average price of \$1.56/lb., a 16.5¢ premium to current CME spot butter prices. Skim milk powder (SMP) was the only product to move lower; it slipped 0.7%.

Chinese imports of dry dairy products were very strong in July. Whey imports totaled 48,064 metric tons (MT), up 24% from June and 47% higher than a year ago. So far this year, Chinese whey imports are 15% higher than



in 2012. Chinese whole milk powder (WMP) imports totaled 33,609 MT, up 10% from a year ago and up 71% from June. Year-to-date WMP imports are 42% higher than last year. SMP imports were notably higher than the prior month and year, but January through July imports remain 12% lower than last year. The U.S. sent a record-high 7,989 MT of SMP to China in July and accounted for over 37% of total Chinese SMP imports. This was the U.S.'s largest share of the Chinese SMP market in over five years.

Grain and Hay Markets

Corn futures settled a little higher than last week after much back and forth. This week's weather and the forecast are bittersweet. Dry conditions worsened early in the week, but good rains in much of Iowa and southern Minnesota brought relief. There are chances for more rain over the weekend, although coverage looks spotty. It will be hot next week, which will exacerbate dryness but will also help to further the crop. Now that it feels like summer again, there is less talk about the potential for an early frost, although the possibility remains.

Soybean and meal futures moved higher this week. November soybean futures added 69¢. The lack of moisture will have a larger impact on the late-developing soybean crop than on the corn crop, which is nearer maturity. China has been active in the export market, locking up new crop soybeans. This has also supported soybean prices.

Statistics Canada estimates the 2013 canola crop at a record large 14.7 million tons, up 11.5% from last year. The large canola crop will help to mitigate uncertainty about new crop protein supplies, as the U.S. soybean crop is variable and vulnerable to frost, and the South American crop is not even in the ground yet.

USDA's Cattle on Feed report on Friday afternoon showed smaller than expected cattle inventories and could support live cattle and beef prices next week.

CONGRATULATIONS TO MPC'S KEVIN ABERNATHY ON USDA APPOINTMENT: (By Rob Vandenheuvel) This week, U.S. Department of Agriculture Secretary Tom Vilsack announced the renewal of the Agricultural Air Quality Task Force. MPC's Director of Regulatory Affairs, Kevin Abernathy, was among the 27 individuals from around the country selected to serve on the task force for the 2013-2015 term.

This task force gives U.S. agriculture a prominent voice in promoting USDA research efforts and providing guidance in hopes of better coordinating the activities and resources used by USDA agencies, as well as other agencies like the Environmental Protection Agency. In this era of increasing environmental regulations, it is obviously critical that agriculture have a seat at the table and an opportunity to advocate common sense and sound science.

So congratulations are certainly due to Kevin. Our industry is well-served to have him active on this task force. You can see the press release announcing the task force and its members on USDA's website here:

<http://www.nrcs.usda.gov/wps/portal/nrcs/detail/national/newsroom/releases/?cid=STELPRDB1176746>.