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: January 23, 2015 **PAGES: 3**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	+*$.0100*	$1.4800
Barrels	- *$.0050*	$1.4450
Weekly Average, Cheddar Cheese		
Blocks	- *$.0430*	$1.4750
Barrels	- *$.0610*	$1.4475

CHICAGO AA BUTTER		
Weekly Change	*N/C*	$1.5500
Weekly Average	+*$.0050*	$1.5500
DRY WHEY		
Dairy Market News	w/e 01/23/15	$.4600
National Plants	w/e 01/17/15	$.5924

NON-FAT DRY MILK		
Week Ending 1/16 & 1/17		
Calif. Plants	$1.0199	15,016,314
Nat'l Plants	$1.0085	25,855,580
Prior Week Ending 1/9 & 1/10		
Calif. Plants	*$1.0155*	*13,139,595*
Nat'l Plants	*$1.0618*	*22,617,053*

***

FRED DOUMA'S PRICE PROJECTIONS…

Jan 23 Est:	**Quota cwt. $16.09**	**Overbase cwt. $14.39**	**Cls. 4a cwt. $13.28**	**Cls. 4b cwt. $13.75**
Last Week:	**Quota cwt. $16.16**	**Overbase cwt. $14.46**	**Cls. 4a cwt. $13.55**	**Cls. 4b cwt. $13.71**

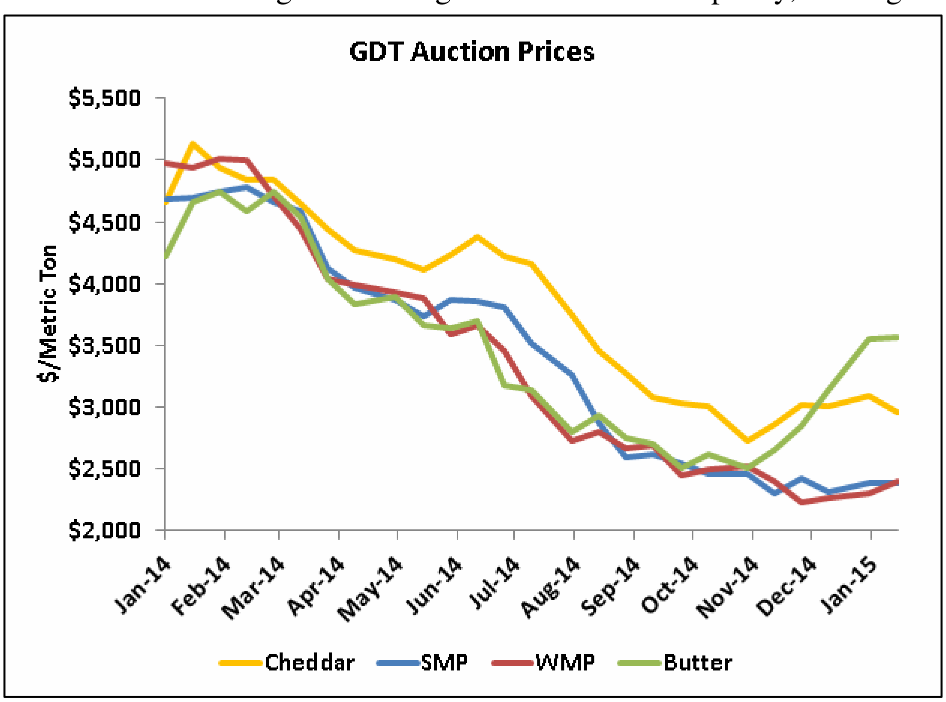
***

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

Milk & Dairy Markets

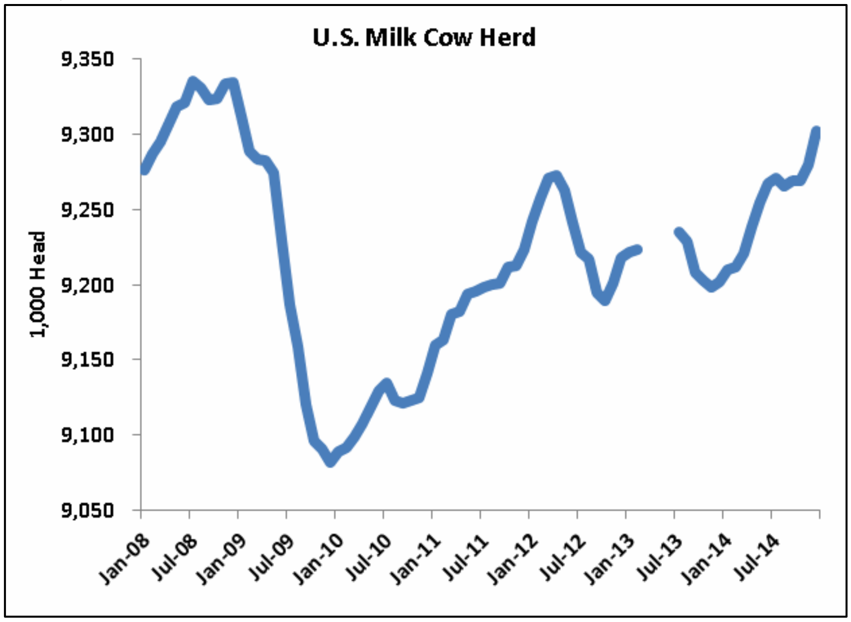
Another positive Global Dairy Trade (GDT) auction and some friendly USDA reports leant support to the dairy markets this week. The CME spot butter market held steady at $1.55/lb. Grade A nonfat dry milk (NDM) dipped back to multi-year lows Wednesday, but after a late-week bounce it ended at 98.25¢, up 3.25¢ from last Friday. After last week's rout, most Class IV futures settled higher; the April contract gained 28¢.

The spot Cheddar markets diverged, but week-to-week changes were slight. Blocks added a penny, closing at $1.48. Barrels dropped a half cent to $1.445. Class III futures moved higher. As was the case for Class IV, the March and April contracts were strongest. They gained 62¢ and 69¢, respectively.



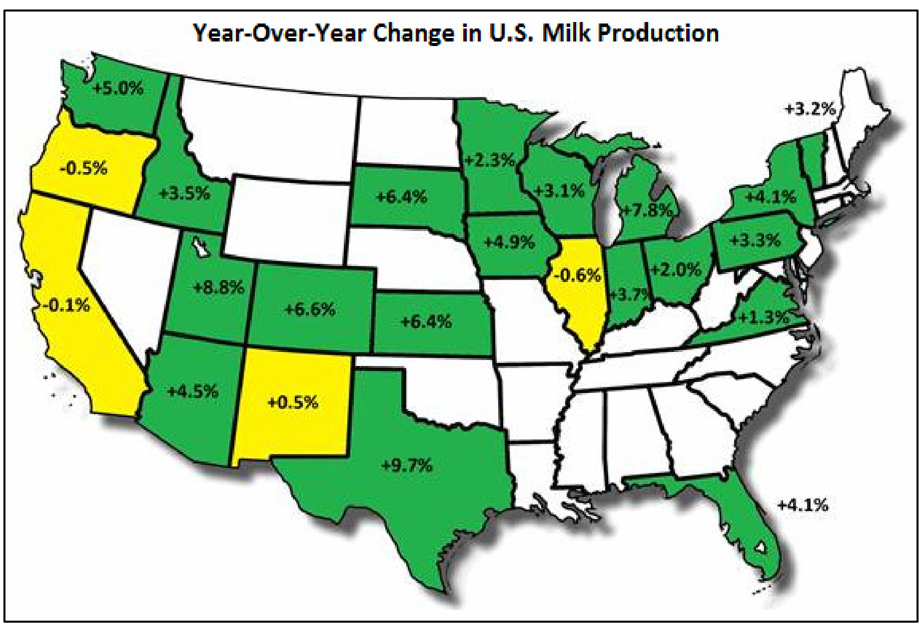
For the third consecutive auction, prices were mostly higher at the GDT. The trade-weighted index gained 1%.Whole milk powder (WMP) prices were 3.8% higher than the previous auction and skim milk powder (SMP) prices climbed 1%. Fonterra offered less WMP than they had previously forecast, which likely helped to support milk powder prices. When China stepped away from the milk powder market early last year, prices plunged. But buyers that China had pushed aside returned to the fore, and New Zealand has actually increased its season-to-date (June to November) WMP exports by 7.5% from the 2013-14 season despite an almost 25% drop in shipments to China. New Zealand's WMP stocks continue to grow, but at a manageable pace.

Butter prices also moved higher at the GDT; they climbed 0.1% and now stand at $1.58/lb. after adjusting to 80% butterfat. This is above the CME spot market butter price, and *Dairy Market News* reports that, with the U.S. butter market finally at a relative discount, export orders are cropping up. USDA reported December 31 butter stocks at 98.7 million pounds, down 2.2% from November and 12.3% lower than December 2013. Strong churn rates could bring butter stocks near year-ago levels by the end of the month.



Cheddar prices fell 4.3% at the GDT to $1.34, well below the U.S. market. According to USDA's Cold Storage report, cheese stocks totaled 1.01 billion pounds at the end of the year. This was 0.3% greater than December 2013 but down 0.4% from November. The month-to-month decline was unexpected, as U.S. cheese exports probably lagged in December. The counter-seasonal drawdown implies strong domestic demand.

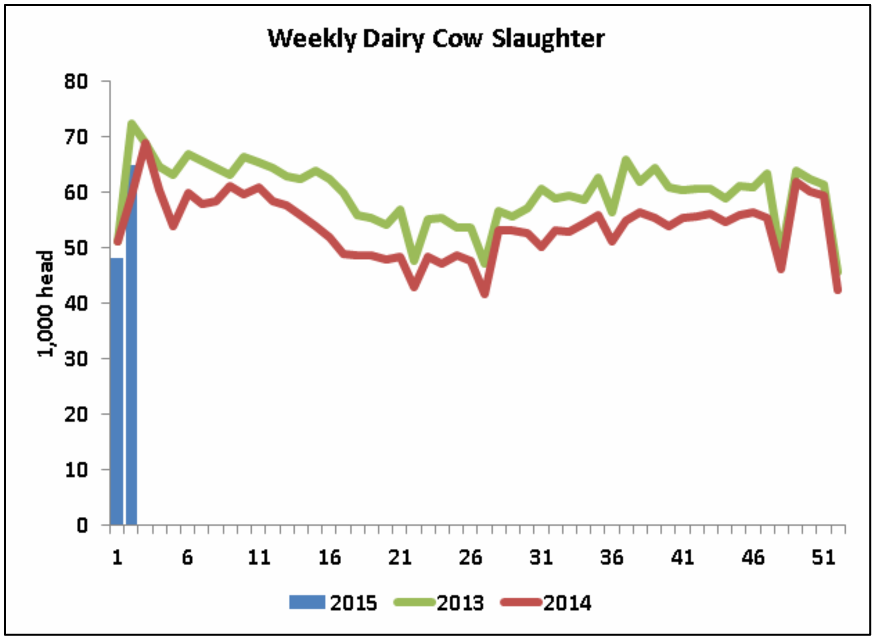
Dry weather in New Zealand and quota penalties in Europe have helped to slow the flow of milk overseas. Eurostat reports that EU-28 milk production in November was just 1.5% higher than November 2013, the smallest year-over-year gain for 2014. Preliminary data suggests that output in a number of Western European countries has fallen below year-ago levels. Producers are stepping up cull rates and changing rations to avoid quota penalties. However, according to *Dairy Market News*, "[European] producers continue to manage their herds in a manner that will allow them to have strong milk production" when quota ends on April 1.



U.S. milk production in December totaled 17.3 billion pounds, up 3.1% from December 2013. The milking herd grew by 22,000 head – the largest monthly increase since 2008 – to 9.3 million. The dairy herd has not been this large since January 2009. Production per cow in the 23 largest dairy states averaged 1,886 pounds, the greatest December average since USDA introduced the 23-state data in 2003. Still, the market expected more, and the Milk Production report was construed as bullish.

With the herd at nearly six-year highs, 2015 promises to be a difficult year for dairy producers. It is inviting comparisons to 2009, when global production overwhelmed demand, and U.S. dairy product exports plunged. But 2015 is unlikely to be as painful as 2009 for a number of reasons. As the *Daily Dairy Report* noted, "Feed costs are much lower than in 2009, so producers may find low milk prices more tolerable than they did six years ago. In other words, lower milk prices could help spur demand for dairy products without necessitating an onslaught of bankruptcies to restore a supply-demand balance."

That balance could come much faster than it did six years ago, thanks to high beef prices. Although the live cattle market has fallen considerably over the past few weeks, it remains at historically high levels, providing producers with the opportunity to sell dairy cows at much better values than is typical during periods of low milk prices. In 2009, dairy producers and their lenders watched helplessly as their cows and facilities devalued. This year, producers have the option to improve cash flows as they make more space in their crowded barns or to exit the business entirely. This process is already underway. A few well-established producers announced liquidation auctions this week.



For the week ending January 10, dairy producers culled 64,804 head, up 9.1% from the same week in 2014. Slaughter is particularly strong in Region 9, which includes California, Arizona and New Mexico. Cull rates are likely to climb in the weeks ahead.

Grain Markets

The corn market was little changed this week. The March contract seems comfortable trading in the mid-$3.80s. The soybean market continued to weaken. March soybean futures dropped 19¢ to $9.73/bushel. Rains in northern Brazil are helping to relieve dry conditions there, and South American crops are expected to be very large this year. This, coupled with the stronger dollar, has pressured the U.S. soybean market, which is likely to lose much of its export business to Brazil in the next few months.

Meanwhile, U.S. corn exports have been booming. After a very strong showing this week, U.S. corn export sales now stand 2% ahead of last year's pace and shipments are 7% ahead of prior year levels. U.S. corn exports are expected to slow dramatically after the South American harvest, but will they fade enough to meet USDA's forecast for a 9% drop relative to last year? Logistics in South America and politics in the Black Sea region have created hurdles for a few key grain exporters. The trade is beginning to question the assumption that plentiful global grain supplies will restrict U.S. corn exports this year. This has allowed the corn market to hold steady even as the soy complex retreats.

***

DAIRYMEN REMINDED TO LOG YOUR DECEMBER 31, 2014 ODOMETER READING ON YOUR CARB-REGISTERED DIESEL TRUCKS: *(Kevin Abernathy, Director of Regulatory Affairs)* This is just a friendly reminder for those of you who registered your heavy-duty diesel engine trucks with the California Air Resources Board (CARB) under their Ag Vehicle Extension program. By January 31st of each year, you are required to report your odometer reading from December 31st of the prior year.

As a reminder, CARB's diesel truck program will eventually require all operating trucks to comply with 2010 emissions standards, but through this Ag Vehicle Extension program, you are able to delay compliance until 2023, provided you comply with their reporting requirements.

More information can be found on CARB's website at http://www.arb.ca.gov/msprog/onrdiesel/onrdiesel.htm. MPC members that have any questions about their dairy's compliance can contact Rob Vandenheuvel at (909) 628-6018, Betsy Hunter-Binns at (661) 205-6721 or myself at (209) 678-0666.