



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



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TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0900 \$1.7000
Barrels +\$.0750 \$1.6650

Weekly Average, Cheddar Cheese

Blocks +\$.0475 \$1.6505
Barrels +\$.0390 \$1.6255

CHICAGO AA BUTTER

Weekly Change +\$.0400 \$1.6950
Weekly Average +\$.0540 \$1.6910

DRY WHEY

Dairy Market News w/e 03/22/13 \$.5613
National Plants w/e 03/16/13 \$.6109

NON-FAT DRY MILK

Week Ending 3/15 & 3/16

Calif. Plants \$1.5011 15,421,560
Nat'l Plants \$1.5169 26,125,969

Prior Week Ending 3/8 & 3/9

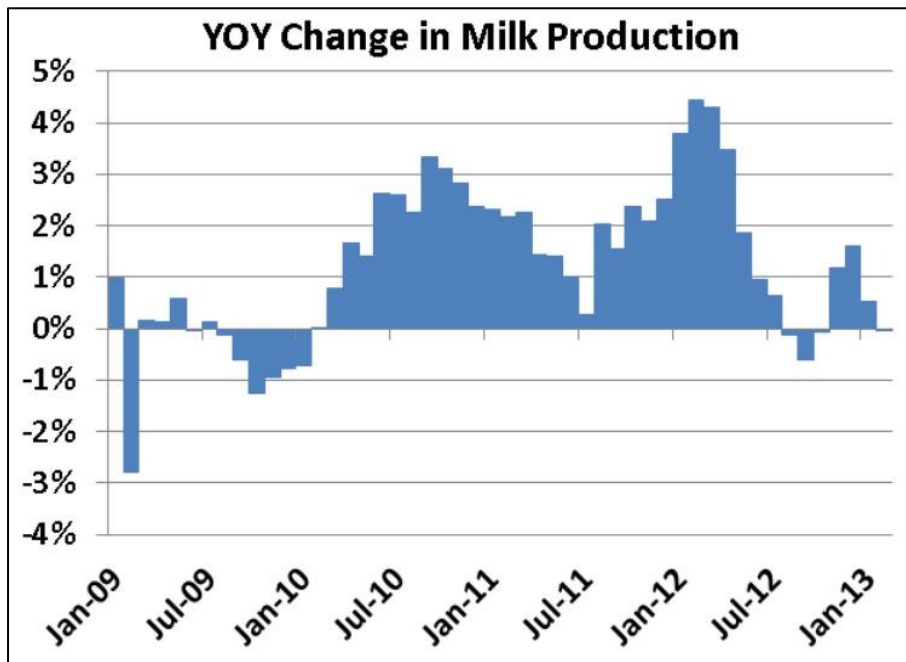
Calif. Plants \$1.5159 6,966,964
Nat'l Plants \$1.5304 16,442,542

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

Milk & Dairy Markets

The dairy markets surged higher earlier this week, spurred by lower than expected milk production in February and a very strong Global Dairy Trade auction. By Wednesday, Class III futures had increased nearly \$1/cwt. from last Friday's settlement. But bull markets must be fed daily, and on Thursday this one was looking a little hungry. The fundamentals that supported the early week rally remain, but the markets may have gone too far, too fast. With double digit losses on Thursday and Friday, Class III futures settled a still impressive 20 to 70¢ higher than last week.

USDA issued its final Milk Production report until the new federal fiscal year which begins in October. Estimates of March through August milk production and dairy cow numbers have fallen victim to the sequester. February milk production totaled 15.74 billion lbs., incrementally lower than a year ago after adjusting for Leap Day. There were 32K fewer milk cows than a year ago, implying very strong per cow milk production. The dairy herd added 2K cows in February.

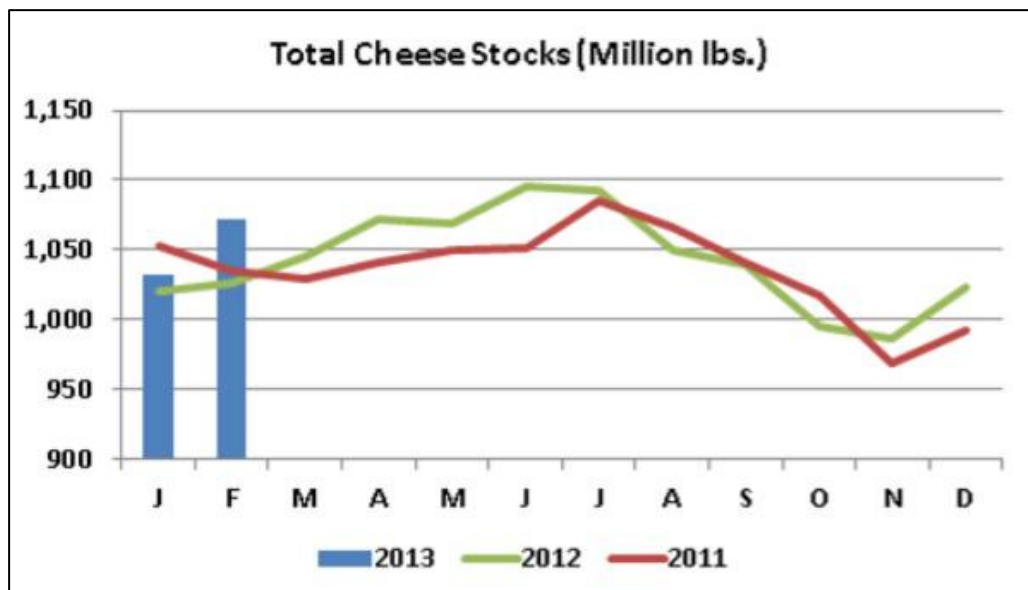


The decline in milk production must be seen in the context of very strong milk production at this time last year due to the abnormally mild winter of 2012. Indeed, a year ago California milk production was so strong that cooperatives were considering ways to limit production, which they implemented a couple months later. California milk production totaled 3.23 billion lbs. last month, 4.7% lower than February 2012 after adjusting for Leap Day. The California dairy herd was down 2K head from a year ago, but up 2K from January according to USDA. Regional trends continue, with California leading a bevy of Western states that reported milk production

declines. Milk production continued to move higher in the Midwest, but gains are slowing. Most states in the region reported increases of 1-2% over a year ago. Milk production in the Midwest has likely slowed further in March, as winter weather persists.

Dairy product prices soared at this week's Global Dairy Trade auction. The weighted average of all products traded increased 14.8%. Whole Milk Powder prices increased 21.2% from the previous event, rising to record highs. Cheddar prices increased 13.7% and butter added 11.5%. The sharp increase in milk powder prices could greatly benefit California dairy producers, and rescind some of the competitive advantage that dairy producers in the Midwest have enjoyed over the past year.

With global prices on the rise, the U.S. has quickly become a competitive exporter. This was not the case in February, and dairy products continued to move into storage last month. Butter stocks of 241 million lbs. were 16% higher than January and 17% higher than a year ago. Cheese stocks totaled 1.07 billion lbs., up 4% from January and up 4.5% from a year ago. Export volumes have picked up notably in the past few weeks, particularly for milk powder. However, these inventory levels show that the U.S. is far from short of dairy products at the moment.



Dairy product prices followed global prices higher at the CME spot trade. Grade A NDM added 4¢/lb. this week. Butter also ended 4¢ higher, although it lost ground Friday. Cheddar blocks moved 9¢ higher and barrels added 7.5¢. The California Weighted Average Price for NDM moved 1.48¢ lower to the lowest level since November. Sales volume was solid.

For the week ending March 9, dairy cow slaughter totaled 66,294 head, down 1% from the same week a year ago. Year to date slaughter is up 4.6% from last year.

According to USDA's Cattle on Feed report, there were 10.9 million cattle in feedlots on March 1. Beef cattle inventories are 7% lower than a year ago. Current beef supplies are only slightly smaller than a year ago as cattle are going to slaughter at very heavy weights. Indeed, beef stocks in cold storage increased 20 million pounds. But beef producers placed only 1.48 million cattle in feedlots in February, the lowest February placement figure since USDA began reporting the series in 1996. Beef cattle placements were down 14% from February 2012. This suggests that there will be considerably fewer beef cattle ready for slaughter this summer and fall, and beef prices should move higher. Dairy producers can already cull and replace cows with springers at a historically low net cost. If beef prices move higher, this will likely encourage dairy producers to continue to cull aggressively. Higher beef prices could provide a rising floor under springer prices.

Grain and Hay Markets

Feed prices moved higher this week, but in general markets were quiet ahead of next week's quarterly Grain Stocks report. Higher feed prices have successfully reduced corn demand. USDA estimates that 2012/2013 corn demand for feed, ethanol and exports will be 2%, 10% and 42% lower than 2011/2012, respectively. Exports have been almost nonexistent, and ethanol production has stagnated along with gasoline demand. But while feed demand is certainly lower than last year, it may not have slowed fast enough to meet the current forecast and

assure minimal ending stocks. The Grain Stocks report will help to determine if corn feeding must slow even further. With no hope for early planting amidst low temperatures and scattered storms, corn users will have little opportunity to pull supplies ahead from new crop.

But when new crop arrives, there will likely be plenty of corn around. Informa forecast 2013 corn acreage at 97.8 million acres, which would be slightly higher than last year. They expect 78.5 million acres of soybeans, compared to 78.8 million acres last year. With this kind of acreage, record large corn and soybean production is possible given anything near average yields. Some of the demand that has been killed off by higher prices will not return. Cattle supplies, for example, will not rebound quickly, and feed demand will remain lower than it has in years past. Given normal weather, feed prices will likely move much lower as soon as a decent crop is assured. But with such tight supplies and a long time until harvest, feed prices could move sharply higher in the interim.

FRED DOUMA'S PRICE PROJECTIONS...

March 22 Est:	Quota cwt. \$18.07	Overbase cwt. \$16.37	Cls. 4a cwt. \$18.00	Cls. 4b cwt. \$15.02
Last Week:	Quota cwt. \$17.99	Overbase cwt. \$16.30	Cls. 4a cwt. \$17.99	Cls. 4b cwt. \$14.87

CONGRESSMAN DAVID VALADAO INTRODUCES IMPORTANT LEGISLATION FOR CALIFORNIA'S DAIRIES: *(By Rob Vandenheuvel)* This week, newly-elected Congressman David Valadao (R-Hanford) introduced the first bill in his young Congressional career: H.R. 1396, the "*California Federal Milk Marketing Order Act.*" The bill, which has already received bipartisan support from Members of Congress around the State, would provide California dairy farmers with additional options in our discussions about joining the Federal Milk Marketing Order (FMMO) system.

In a press release published this week, Congressman Valadao stated, "*Dairy is California's largest Agriculture industry. I'm proud to have introduced this bipartisan proposal as my first piece of legislation in the U.S. House of Representatives. Ultimately, even with this legislation, California dairymen will have the final say regarding their own pricing system. I look forward to working with my colleagues in Congress on this and other issues important to Central Valley Agriculture.*"

Milk Producers Council, which has supported the bill, greatly appreciates Rep. Valadao's leadership on this issue. While California dairy farmers currently have the opportunity to petition the U.S. Department of Agriculture (USDA) for the establishment of a California Order in the FMMO system, current law does not allow USDA to account for the "quota program" that California has operated the past 40+ years. This has been a sticking-point in our previous discussions about joining the FMMO system. H.R. 1396 would specifically address that issue, allowing USDA to craft a California FMMO that recognizes the state-run quota program. Specifically, the bill states, "*the order covering California shall have the right to reblend and distribute order receipts to recognize quota value.*"

The issues surrounding California and the FMMO system are well known. California has maintained our own State Marketing Order for many decades, but recently there has been increasing interest in taking a serious look at joining the FMMO system. Much of that interest has been due to the fact that our State Order, operated by the California Department of Food and Agriculture (CDFA) has consistently announced Class 4b prices that are steeply discounted (*to the tune of \$750 million+ since 2010*) from the FMMO Class III price, which is used as a benchmark price for milk sold to cheese plants throughout the country. In addition, one of the things that doesn't get as much attention is the ability of the FMMO system to capture value from out-of-state milk that is hauled into California, either as packaged or bulk milk, replacing California-produced milk. As many of our readers are aware, the U.S. Constitution gives Congress – and only Congress – the authority to regulate commerce "among the several states," which is why FMMOs are able to regulate milk that crosses state lines while our California State Marketing Order cannot.

At the recent World Ag Expo in Tulare, California, the three major cooperatives in the State (CDI, DFA and LOL) hosted a panel discussion on California and the FMMO system, with strong statements by dairymen and dairywoman in the audience in support of pursuing this option. In addition, those same three cooperatives have commissioned an economic analysis on the issue, which is expected to be available for review in the near future.

The process of petitioning USDA with a proposal creating a California FMMO, scheduling and conducting a USDA hearing on the matter, and ultimately putting the final result before the dairy farmers for a vote (which would require a 2/3 majority for implementation) is a lengthy process, with many opportunities for input from dairy farmers and their representatives. H.R. 1396 wouldn't change that process, but would give us the option to include in our petition a recognition of the State's quota program and the ability to continue operating it, while participating in the FMMO system. **That's the value of H.R. 1396: it provides us with additional options, while still maintaining our full control over whether or not to ultimately choose to accept the move to the FMMO system.** Given that clear flexibility, a vast majority of the California dairy organizations and cooperatives, as well as National Milk Producers Federation, have already stepped up and supported H.R. 1396. Those organizations are:

- California Dairies, Inc.
- California Dairy Campaign
- California Farmers Union
- Dairy Farmers of America
- Land O'Lakes
- Milk Producers Council
- National Milk Producers Federation

As was mentioned above, H.R. 1396 has already received bipartisan support. In addition to Rep. Valadao, MPC would like to thank the following Members of Congress who have already agreed to support the bill:

- Rep. Jim Costa (D-Fresno/Merced)
- Rep. Jeff Denham (R-Modesto)
- Rep. Sam Farr (D-Monterrey)
- Rep. John Garamendi (D-Sacramento)
- Rep. Doug LaMalfa (R-Redding)
- Rep. Kevin McCarthy (R-Bakersfield)
- Rep. Gloria Negrete-McLeod (D-Chino)
- Rep. Devin Nunes (R-Visalia)

This is a critically important time for our industry, as we debate and discuss the best long-term path forward. Dairy families and their organizations throughout California have made it clear that they want a California FMMO on the table, and H.R. 1396 would help give our industry more flexibility in seriously moving forward with that option. MPC looks forward to continuing to work with Rep. Valadao and the other supporters of H.R. 1396 as we build more support for the bill and look for opportunities to implement the bill into law.