# Milk Producers Council

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**DATE: November 1, 2013** **PAGES: 3**
**TO: Directors & Members** **FROM: Rob Vandenheuvel, General Manager**

## *MPC FRIDAY MARKET UPDATE*

| CHICAGO CHEDDAR CHEESE | | |
|---|---|---|
| Blocks | *+$.0275* | $1.9025 |
| Barrels | *+$.0500* | $1.8700 |
| **Weekly Average, Cheddar Cheese** | | |
| Blocks | *+$.0210* | $1.8835 |
| Barrels | *+$.0415* | $1.8360 |

| CHICAGO AA BUTTER | | |
|---|---|---|
| Weekly Change | *+$.0575* | $1.5325 |
| Weekly Average | *+$.0245* | $1.4965 |
| **DRY WHEY** | | |
| **Dairy Market News** | w/e 11/01/13 | $.5625 |
| **National Plants** | w/e 10/26/13 | $.5604 |

| NON-FAT DRY MILK | | |
|---|---|---|
| **Week Ending 10/25 & 10/26** | | |
| Calif. Plants | $1.8219 | 8,096,781 |
| Nat'l Plants | $1.8457 | 15,360,130 |
| ***Prior Week Ending 10/18 & 10/19*** | | |
| *Calif. Plants* | *$1.8320* | *7,364,636* |
| *Nat'l Plants* | *$1.8431* | *15,797,397* |

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### FRED DOUMA'S PRICE PROJECTIONS…

| | | | | |
|---|---|---|---|---|
| **Nov 1 Est:** | **Quota cwt. $20.33** | **Overbase cwt. $18.63** | **Cls. 4a cwt. $19.96** | **Cls. 4b cwt. $17.76** |
| **Oct '13 Final:** | **Quota cwt. $19.79** | **Overbase cwt. $18.10** | **Cls. 4a cwt. $20.00** | **Cls. 4b cwt. $16.82** |

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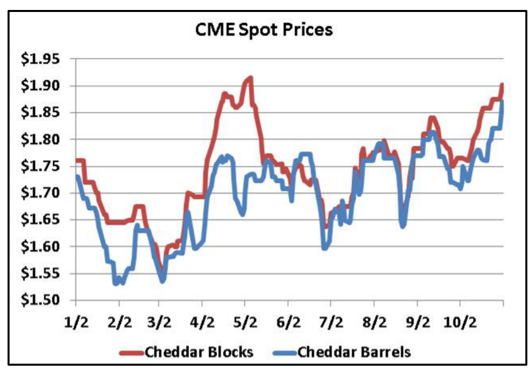
**MARKET COMMENTARY:** *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

*Milk & Dairy Markets*

CME spot dairy product prices are in relatively unfamiliar waters. Both Grade A and Extra Grade nonfat dry milk (NDM) stand at multi-year highs. Grade A added a penny this week and Extra Grade NDM held steady. After floundering last week, the spot butter market also looks buoyant. It gained 5.75¢, closing at $1.5325. Butter futures firmed all week. Class IV futures ended mixed.

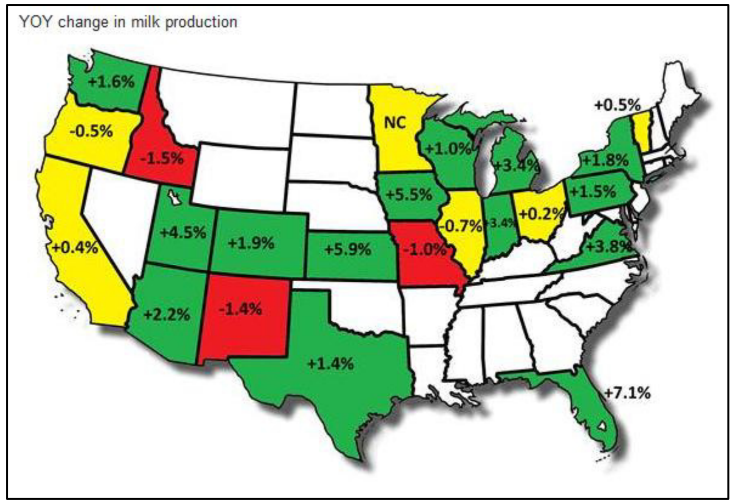
Cheddar blocks closed above $1.90/lb. for the first time in nearly six months. The previous foray was brief. Blocks only spent four days at or above $1.90 in early May, and then they plunged, losing more than a dime in less than a week. Perhaps with the support of holiday demand and the strength in the barrel market, they will be able to sustain recent gains for a bit longer this time. Barrels scored fresh calendar highs, settling at $1.87/lb., up a nickel. The Class III market followed suit; December futures added 33¢. Gains were smaller in the other months.



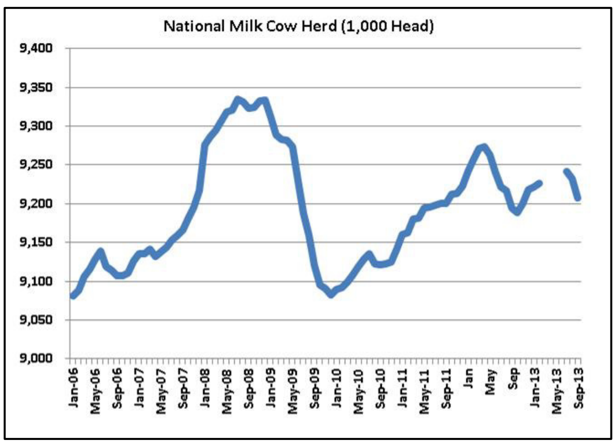

The October California 4a milk price was $20.00/cwt., up 53¢ from September. The 4b price was announced at $16.82, up 17¢. Milk powder prices continue to support gains in 4a and Class IV milk. USDA announced October Class IV milk at $20.17, up 74¢ from September and up $1.63 from a year ago. Producers in heavy cheese-producing areas earned the much lower Class III price of $18.22. This was 8¢ higher than September but down $2.80 from a year ago.

With rising milk prices and falling feed prices, margins are improving everywhere. Even in California, where forage costs have barely fallen from last year, projected profit margins are better than they have been in years. With California 4a and Class IV milk at $20 and European and New Zealand payouts even higher, milk will be flowing in the months to come.

But margins weren't quite so lofty in September, and milk production increases were more measured. U.S. milk output in September totaled 15.8 billion lbs., up only 1% from a year ago. This was the smallest national year-over-year increase since April, and it fell short of market expectations, suggesting that milk prices may rally further next week. Only five states – Idaho, New Mexico, Missouri, Illinois and Oregon – reported declines in output in September relative to the prior year.



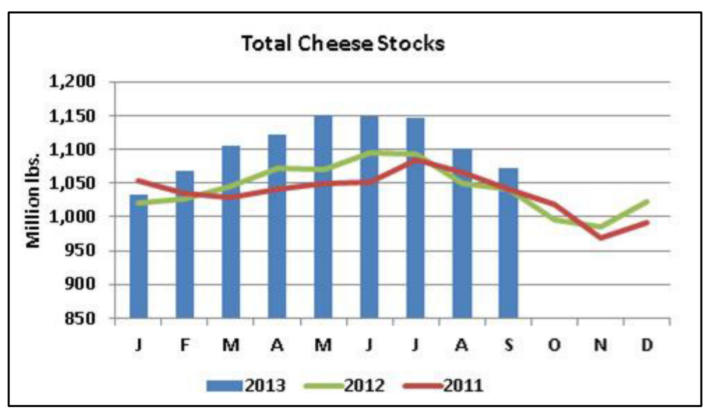

California milk production exceeded last year by 0.4%. This was not as impressive as the 2.7% gain in August, but it still suggests a gradual recovery. Wisconsin milk production was only 1% higher than last year, but this compounds the robust 3.5% increase in the Dairy State's milk production in September 2012. Milk production in Idaho, the third largest dairy state, was 1.5% lower than last year, largely due to a 9,000-head drop in the state's milk cow population.




For the first time since the sequester took effect in March, USDA estimated the size of the milk cow herd. USDA also provided estimates of milk cow numbers in July and August. The dairy herd remains 12,000 head larger than last year, but the bulk of September's milk production growth was due to improved production per cow. Despite regional increases in milk production, the Northeast has not added any cows in the past year.

USDA's spotty data suggests that the herd grew over the summer, reaching 9.24 million head in July before declining to 9.21 million in September. Contraction was particularly pronounced from August to September. California was the only state to add cows in September. Dairy slaughter numbers have been slowing, so the decline in the dairy herd may also slow in the fourth quarter. Weekly dairy cow slaughter totaled 60,263 head, down 3.8% from the same week last year. Year to date slaughter is 2% higher than 2012.

According to USDA's Cold Storage report, butter and cheese inventories are still plentiful, but export demand is helping to trim away the excess. Cheese stocks totaled 1.07 billion lbs., up 3% from a year ago, but down 2.6% from August. The August to September inventory draw-down was larger than average. Similarly, butter stocks of 233.3 million lbs. are 19% larger than last year, but down 12% from August. Holiday demand is reportedly helping to further cut into butter supplies, although domestic cheese demand is off to a less festive start. Once the holiday cheer has faded, the U.S. will likely face stiffer competition in the export market due to rebounding production overseas.




*Grain Markets*

Corn prices fell to new lows, closing at $4.27/bushel, down 13¢ from last week. The corn market is looking forward to next week's World Agriculture Supply and Demand Estimates, so they are focused almost exclusively on estimates of the size of the corn crop. Informa expects the corn crop to total 14.22 billion bushels, based on a 161.2 yield. F.C. Stone is also calling for a 161.2 average yield, but they did not reduce harvested acreage, and so they expect USDA to forecast a 14.37 billion bushel crop. Both figures are well above the USDA's dated estimate of a 13.84 billion bushel crop.

Soybean prices also tumbled. November futures dropped 34¢ to $12.66. December soybean meal futures lost $34/ton, falling to $395. Informa raised their estimate of the soybean yield to 43.3 bushels per acre, putting production at 3.3 billion bushels. They also increased their estimate of Argentine soybean production, likely because the weather encouraged increased soybean planting. F.C. Stone expects a more modest U.S. soybean crop. They are calling for production of 3.27 billion bushels given a 42.8 yield. Soybeans are not as plentiful as corn, and exports remain strong. But both crops are much larger than was assumed only a few weeks ago, and the bears rule the trading floor.

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**CONGRESS OFFICIALLY CONVENES A FARM BILL CONFERENCE COMMITTEE; NOW THE REAL NEGIATIONS BEGIN:** *(By Rob Vandenheuvel)* This week, a public meeting of the Farm Bill Conference Committee was held. While the meeting consisted primarily of opening statements by the Committee members, it was significant in that it marked the formal start to this process of negotiating a compromise Farm Bill that can hopefully be approved by both the House and Senate and ultimately signed by the President.

**Specific to the dairy industry, there continues to be a lobbying war between those who support the Senate-passed Farm Bill (which includes the Dairy Security Act) and those who support the House-passed version (which stripped out the market stabilization program and left a stand-alone margin insurance program).** The International Dairy Foods Association (IDFA), on behalf of many of the nation's processors – continued their fear-mongering this week, with a press release about unsupported claims of milk price spikes and job losses if the Dairy Security Act is included in the final Farm Bill.

What is never acknowledged in IDFA's press release is the fact that the market stabilization program – which they claim is a "milk quota" *(Dirty Lobbying 101: use terms that sound really bad, even if they're not accurate)* – is a standby program that *only* goes into effect if the nation's dairy farmers aren't receiving a price that at least covers their basic costs. So moral of the story: **as long as IDFA's processors are paying a milk price that at least covers dairy farmers' costs, there's no reason to even worry about the market stabilization program!**

Of course, this has never been about IDFA worrying about dairy farmers and our ability to grow. Regular readers of this newsletter know that **this has always been – and continues to be – about who controls the nation's milk production.** IDFA would prefer the status quo: a constant supply of all the milk they need, even if the price they're paying for that milk is less than what it costs dairy farmers to produce it. And who could blame them?

Our job as dairy farmers is to make sure the members of the Conference Committee understand IDFA's true motives, and makes the right decision to empower the dairy industry with the ***voluntary*** tools to quickly respond to negative margins by making common sense, temporary adjustments to our national milk production.

We already make those adjustments now; it just takes longer and results in massive equity losses on the farm. Imagine what this industry could look like if we had a tool to make those temporary adjustments more quickly rather than "hoping" that production drops due to weather or other factors. No need to imagine – it's within our reach in the Farm Bill Conference Committee! And IDFA knows it, which is why their rhetoric continues.

**LATEST DAIRY CARES COLUMN: DAIRIES AND OUR "CARBON FOOTPRINT":** *(By Rob Vandenheuvel)* The October 2013 Dairy Cares Column has been posted on our website at: http://www.milkproducerscouncil.org/cares.htm. This month's column takes a look at a recent report from the Food and Agriculture Organization (FAO) of the United Nations, specifically with respect to the dairy industry's "carbon footprint." As stated in the report, the U.S. dairy industry – through improvements in dairy cow productivity due to better management practices – has been able to reduce our carbon footprint by 63% in the past 65 years.