



Milk Producers Council

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DATE: July 12, 2013
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0100 \$1.6750
 Barrels - \$.0200 \$1.6500

Weekly Average, Cheddar Cheese

Blocks +\$.0139 \$1.6720
 Barrels +\$.0157 \$1.6620

CHICAGO AA BUTTER

Weekly Change - \$.0650 \$1.4600
 Weekly Average - \$.0034 \$1.5035

DRY WHEY

Dairy Market News w/e 07/12/13 \$.5925
 National Plants w/e 07/06/13 \$.5818

NON-FAT DRY MILK

Week Ending 7/5 & 7/6
 Calif. Plants \$1.6695 9,791,590
 Nat'l Plants \$1.7060 14,573,488

Prior Week Ending 6/28 & 6/29
 Calif. Plants \$1.6765 9,769,804
 Nat'l Plants \$1.6974 21,536,246

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

Milk & Dairy Markets

Dairy producers and cows suffered through weeks of miserable heat in the West, and this provided some support to dairy markets. However, more pleasant temperatures allowed for still strong milk production in the Midwest and Northeast, and much of that milk will be made into cheese. Thus, Class III futures descended, ending the week 5 to 31¢ lower than last Friday's settlement and mixed relative to where they began the month.

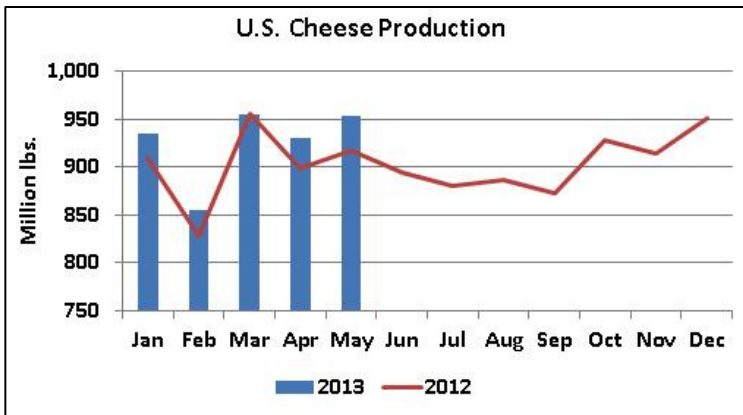
In contrast, Class IV futures have climbed 15 to 70¢ in the past two weeks. Since 2000, roughly three quarters of milk powder production has occurred in the West, and heat stress in that region has provided a floor below Class IV prices. The worst of the sweltering temperatures appear to have passed for now, but highs remain in the upper nineties and low hundreds in the Central Valley.

Dairy Product Prices					
	Year Ago	Prior Week or Month	Latest	Week/Month Change	Annual Change
Class III Milk Price (June)	\$ 15.63	\$ 18.52	\$ 18.02	(\$0.50)	\$2.39
Class IV Milk Price (June)	\$ 13.24	\$ 18.89	\$ 18.88	(\$0.01)	\$5.64
California 4a Milk Price (June)	\$ 13.17	\$ 18.24	\$ 18.36	\$0.12	\$5.19
California 4b Milk Price (June)	\$ 14.65	\$ 17.20	\$ 15.91	(\$1.29)	\$1.26
CWAP NDM Price (week ending July 5)	\$ 1.1801	\$ 1.6765	\$ 1.6695	(\$0.0070)	\$0.4894
NDPSR Butter Price (week ending July 6)	\$ 1.5050	\$ 1.5109	\$ 1.4648	(\$0.0461)	(\$0.0402)
NDPSR Block Price (week ending July 6)	\$ 1.6423	\$ 1.7466	\$ 1.7220	(\$0.0246)	\$0.0797
NDPSR Barrel Price (week ending July 6)	\$ 1.6800	\$ 1.7830	\$ 1.7110	(\$0.0720)	\$0.0310
NDPSR NDM Price (week ending July 6)	\$ 1.1608	\$ 1.6974	\$ 1.7060	\$0.0086	\$0.5452
NDPSR Whey Price (week ending July 6)	\$ 0.4923	\$ 0.5717	\$ 0.5818	\$0.0101	\$0.0895
Global Dairy Trade Butter \$/MT (July 2)	NA	\$ 3,925	\$ 3,707	(\$218)	NA
Global Dairy Trade Cheese \$/MT (July 2)	\$ 3,060	\$ 4,578	\$ 4,395	(\$183)	\$1,335
Global Dairy Trade SMP \$/MT (July 2)	\$ 2,599	\$ 4,284	\$ 4,441	\$157	\$1,842
Global Dairy Trade WMP \$/MT (July 2)	\$ 2,760	\$ 4,668	\$ 4,757	\$89	\$1,997

All spot dairy product markets moved higher in the past two weeks, although butter and Cheddar blocks posted set-backs this week. There were a number of reports and market indicators to influence price direction, including the Global Dairy Trade auction, Dairy Products report, export data, Announcement of Class and Components Prices, National Dairy Product Sales Report and California Weighted Average Price. Please see the tables for a detailed breakdown of those reports.

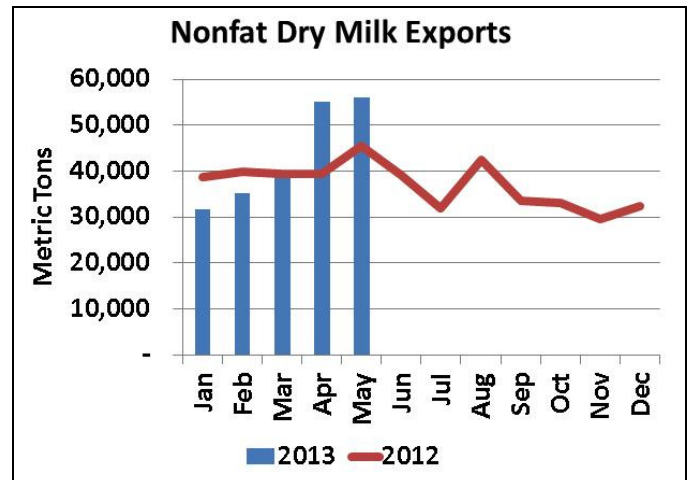
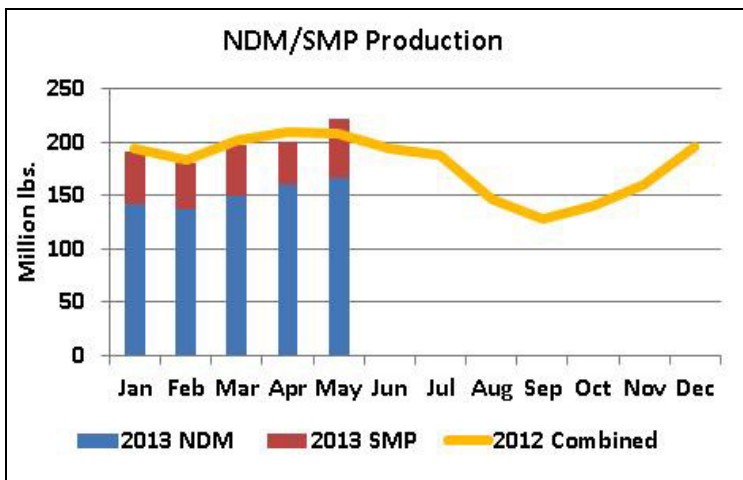
Dairy Product Production, Stocks and Exports					
	May-12	April-13	May-13	Change from April 2013	Change from May 2012
U.S. Butter Production (Thousand lbs.)	164,133	166,937	166,651	-3.4%	1.5%
California Butter Production (Thousand lbs.)	59,734	56,822	56,786	-3.3%	-4.9%
U.S. Butter Exports (Metric Tons)	7,219	4,267	5,956	35.1%	-17.5%
U.S. Cheese Production (Thousand lbs.)	918,053	930,176	953,907	-0.8%	3.9%
California Cheese Production (Thousand lbs.)	194,103	191,616	198,361	0.2%	2.2%
U.S. Cheese Exports (Metric Tons)	27,945	25,551	27,514	4.2%	-1.5%
U.S. Ice Cream Production (Thousand Gallons)	77,726	72,170	77,813	4.3%	0.1%
California Ice Cream Production (Thousand Gal.)	12,737	13,085	13,802	2.1%	8.4%
U.S. Ice Cream Exports (Metric Tons)	5,862	5,712	7,521	27.4%	28.3%
U.S. NDM/SMP Production (Thousand lbs.)	208,037	199,868	222,062	7.5%	6.7%
California NDM Production (Thousand lbs.)	97,752	70,167	58,498	-19.3%	-40.2%
U.S. NDM Exports (Metric Tons)	45,402	55,187	55,985	-1.8%	23.3%
U.S. NDM Stocks (Thousand lbs.)	215,434	207,614	226,718	5.7%	5.2%
U.S. Human Whey Production (Thousand lbs.)	82,452	78,252	74,166	-8.3%	-10.0%
West Region Whey Production (Thousand lbs.)	21,248	17,973	16,289	-12.3%	-23.3%
U.S. Whey Exports (Metric Tons)	45,718	43,058	48,702	9.5%	6.5%
U.S. Whey Stocks (Thousand lbs.)	45,727	66,243	62,153	-9.2%	35.9%

All monthly comparisons are made on a daily average basis



In general, the Dairy Products report showed stronger dairy product production than a year ago, although whey production was lower. California dairy product production in May was mostly lower than April and a year ago, with the notable exception of cheese and ice cream. Cheddar production is particularly strong, and exports have not kept pace. Because heavy supplies of fresh cheese could make their way to the CME spot trade, disproportionately strong Cheddar production could pressure spot cheese and nearby Class III prices.

The value of U.S. dairy product exports set a new record high in May. Nonfat dry milk (NDM) exports were also record large, and cheese exports fell just short of the record set in May 2012. Lactose and whey exports were strong, which helped to reduce U.S. stocks of those products. Whey and butter exports lagged.



Milk powder manufacturers are clearly responding to global demand for skim milk powder (SMP). May SMP production shattered previous records and was nearly three times larger than May 2012. NDM production in May was stronger than April but lower than a year ago, implying that manufacturers shifted some NDM capacity to SMP. USDA revised its estimate of manufacturers stocks of NDM at the end of April from 193.1 million pounds to 207.6 million pounds. This, coupled with strong production put May ending stocks of NDM at 226.7 million pounds, 5.2% higher than year ago levels despite record large NDM exports.

Ice cream production rose along with the temperature in May, totaling 77.8 million gallons, up 4.3% from April. Regular, hard ice cream production got off to a slow start this year due to the lingering winter, leaving plenty of cream available for butter churns earlier this year. Now, with both domestic and foreign ice cream use rising, cream is in demand, which could help to slow butter production. May ice cream exports totaled a record large 7,520 metric tons (MT), exceeding disappointing butter export volumes. January through May ice cream exports are 45% higher than a year ago, and 2012 ice cream exports were record large. Growth in export demand provides a welcome relief for domestic cream supplies.

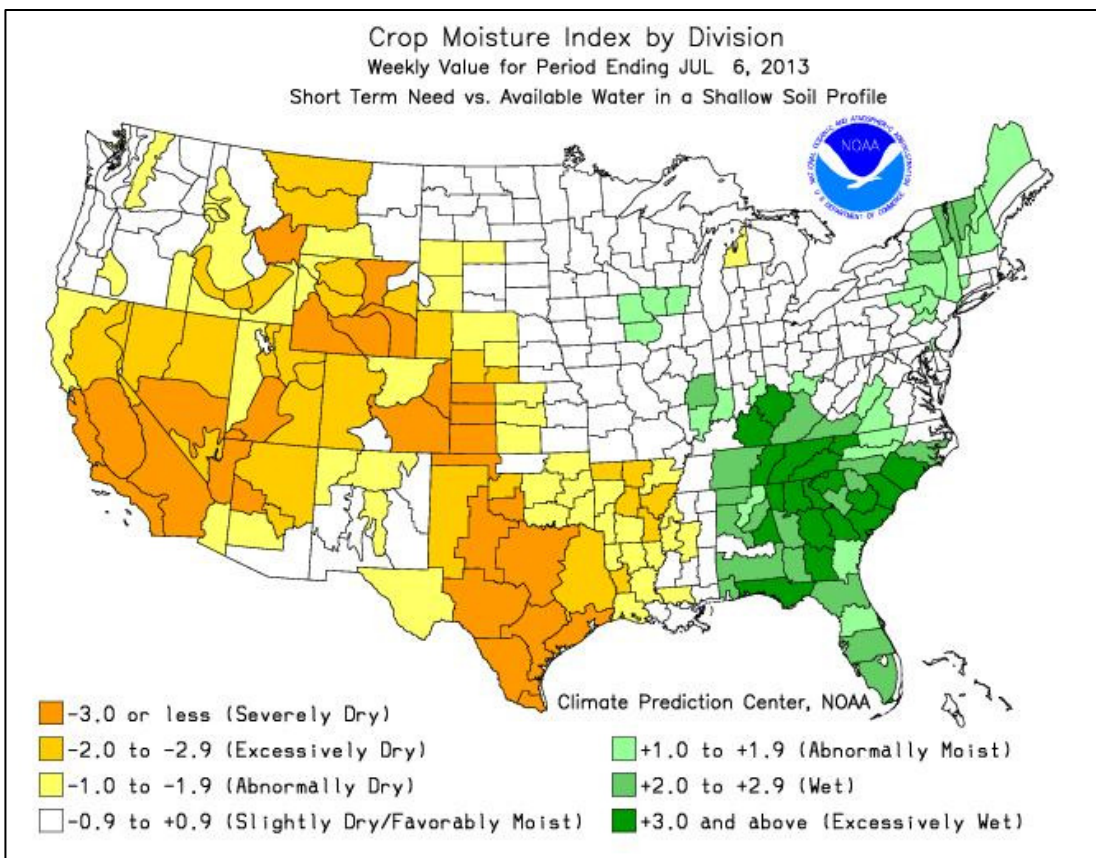
Year to date U.S. butter exports are 1% lower than the first five months of 2012 despite the deficit in butter supplies outside the U.S. Soft demand for U.S. butter is likely due, at least in part, to the differences in color, fat and salt content between U.S. and global butter. However, geopolitics may also be partly to blame. Egypt is the third largest importer of U.S. butter, but due to political and financial turmoil, Egypt has slowed its purchases of most imported goods. U.S. butter exports to Egypt for January through May are 48% lower than a year ago, a deficit of 1,447 MT. Through May, U.S. butter exports are 428 MT lower than last year.

Dairy producers culled 53,732 head in the week ending June 22 and 53,660 head in the week ending June 29. Year to date slaughter is 1.9% ahead of last year's pace.

Grain and Hay Markets

The December corn futures price is only a few cents away from where it began the month, but the market yo-yoed in the meantime, reaching as high as \$5.28 and as low as \$4.90. This is the first sub-\$5 corn price for the December contract since May 2012. USDA reported export sales of nearly 1 million metric tons of new crop corn to China, which helped prices to return to levels well above \$5 this week. Any sustained price hikes will likely result in reduced export sales and a possible return to lower prices, as wheat is a ready substitute for corn, and global grain supplies are expected to be very large this fall.

The corn crop is in good condition as it approaches the pollination stage. For the next several weeks, moisture will be critical for development, and the



market will closely follow the weather forecast. The Western Corn Belt has dried considerably in the past few weeks, and more rain there would be helpful. The forecast holds some hope for rain, albeit light and scattered. Still, after a very wet spring and early summer, topsoil moisture supplies in most areas are adequate for now.

USDA made no change to corn yield estimates in its latest World Agricultural Supply and Demand Estimates report. After adopting the higher acreage and lower carry-in stocks figures implied by the recent Grain Stocks and Acreage reports, USDA increased its estimate of 2013-2014 corn abandonment, resulting in a slightly lower but still record large production estimate. USDA forecasts ending corn stocks near 2 billion bushels, which could eventually result in the lowest corn prices seen in years.

Soybean prices rallied for much of the past two weeks but suffered a steep decline on Friday, resulting in little net change in price since the month began. USDA made no changes to old or new crop soybean balance sheets, except to increase 2013-2014 planted acreage in line with the Acreage report. The soybean crop is in good condition, although soybeans are at an earlier stage of development than corn and are thus more vulnerable to reduced yields from adverse weather going forward. Soybean prices could follow corn lower given normal yields. But concerns remain about the late-planted crop, and given firm demand and tight supplies, the soybean market could quickly run higher at the first sign of trouble in the field.

FRED DOUMA'S PRICE PROJECTIONS...

July 12 Est:	Quota cwt. \$18.50	Overbase cwt. \$16.80	Cls. 4a cwt. \$18.41	Cls. 4b cwt. \$15.44
Last Week:	Quota cwt. \$18.51	Overbase cwt. \$16.82	Cls. 4a cwt. \$18.53	Cls. 4b cwt. \$15.38

HOUSE APPROVES SCALED DOWN FARM BILL; NEXT STEPS UNCLEAR *(By Rob Vandenheuvel)*

As our readers will recall, the U.S. House of Representatives failed last month to approve their version of the 2013 Farm Bill. While the U.S. Senate has approved their version, the failed vote in the House has prevented the two bodies from coming together to negotiate a final bill that can ultimately be passed in identical form by both the House and Senate. This past week, the House took another stab at the issue, although it came with a twist.

Both the Senate-approved version and the original House version of the Farm Bills included provisions extending – and slightly modifying – our nation's "food stamp" program (Supplemental Nutrition Assistance Program, or SNAP). This has been a strategy for a number of years, coupling the farm-related programs and the SNAP program, in an effort to appeal to both rural and urban Members of Congress. However, there has been significant debate in the House of Representatives over the SNAP program, with many conservatives arguing for significant reductions and many liberals arguing that it be left alone.

In an effort to get a bill passed, the Farm Bill considered and approved this week by the House includes no language on the SNAP program. As you might expect, that resulted in a highly partisan vote, with only Republicans voting in support of the bill. Specific to the dairy provisions, the bill includes the processor-supported "Goodlatte/Scott Amendment," which was supported by House members in a vote last month during the original debate.

So what does this mean moving forward? That's a question many people are asking. The Senate has approved a comprehensive bill that includes a continuation of both farm programs and the SNAP program, and the House has a farm program standalone bill. There has been discussion about the House now coming up with a SNAP program standalone bill, but no details are available on that. And it's not clear when the House and Senate will begin their negotiation of a final Farm Bill.

Specific to the dairy provisions, we have a split between the House and Senate, which will have to get ironed out in the final negotiation. The Senate bill includes the Dairy Security Act, which has broad support amongst producer groups, while the House bill includes the Goodlatte/Scott Amendment, which is predominantly supported by processor organizations. So while this week marked some forward movement on the issue, we are still a long ways from a final resolution. So stay tuned...