



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@milproducers.org ~ www.MilkProducers.org



DATE: July 25, 2014

PAGES: 3

TO: Directors & Members

FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0575 \$1.9700
Barrels - \$.1175 \$1.9525

Weekly Average, Cheddar Cheese

Blocks +\$.0010 \$2.0110
Barrels - \$.0170 \$2.0245

CHICAGO AA BUTTER

Weekly Change +\$.1100 \$2.5900
Weekly Average +\$.1670 \$2.5840

DRY WHEY

Dairy Market News w/e 07/25/14 \$.6700
National Plants w/e 07/19/14 \$.6869

NON-FAT DRY MILK

Week Ending 7/18 & 7/19

Calif. Plants \$1.8109 11,116,613
Nat'l Plants \$1.8694 18,913,681

Prior Week Ending 7/11 & 7/12

Calif. Plants \$1.8043 11,695,253
Nat'l Plants \$1.8845 18,618,029

FRED DOUMA'S PRICE PROJECTIONS...

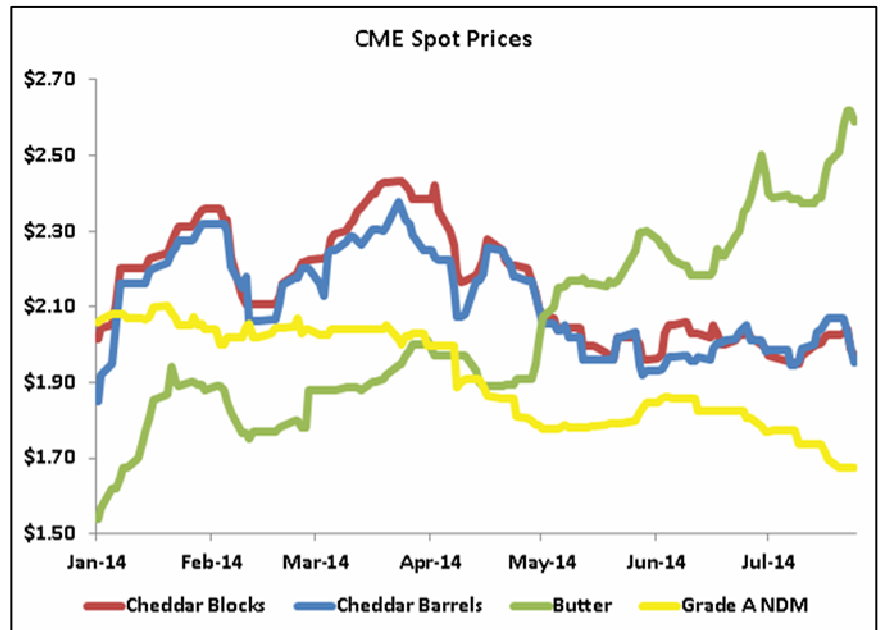
July 25 Final: Quota cwt. \$22.76 Overbase cwt. \$21.07 Cls. 4a cwt. \$23.63 Cls. 4b cwt. \$18.69

Last Week: Quota cwt. \$22.75 Overbase cwt. \$21.05 Cls. 4a cwt. \$23.53 Cls. 4b cwt. \$18.73

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

Milk & Dairy Markets

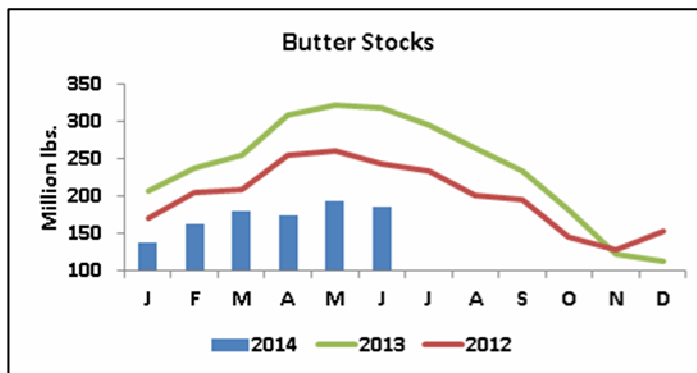
The butter market stands alone as a bastion of strength in the dairy complex. This week CME spot butter traded as high as \$2.62/lb., the highest level since September 1998, before retreating to \$2.59. Despite this modest setback, spot butter prices gained 11¢ this week. The other products weakened. Grade A nonfat dry milk (NDM) dropped 2¢ on Monday and held steady thereafter, closing at \$1.675. For the most part, milk powder buyers are patiently awaiting lower prices. Cheddar blocks fell 5.75¢ to \$1.97 and barrels lost 11.75¢ closing out the week at \$1.9525. Class III and IV futures put in a mixed performance this week, with nearby contracts climbing while 2015 contracts softened.



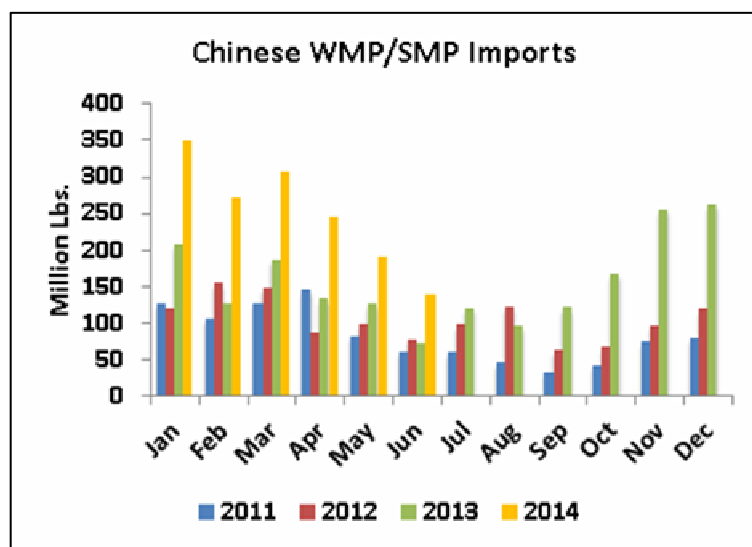
Over the past several months, spot cheese has bounced back quickly after testing the waters around \$1.95. Next week will provide another opportunity for the cheese market to prove its buoyancy. If spot Cheddar continues to slip, Class III futures will likely plunge. The Class III market has been lagging declines in spot cheese until they are confirmed by several days of steady or lower spot activity.

Butter stocks tumbled to 186 million pounds as of June 30, according to USDA's Cold Storage report. This marks the lowest June inventory in almost a decade and the first time that monthly stocks have fallen below the

minimal levels of 2011. Inventories were 3.3% lower than the previous month and 41.6% lower than on June 30 of last year. In the meantime, milk production and component levels have waned seasonally leading to slower butter production. Competition from other cream products has further restricted output. Many butter operators continue to report better returns from selling cream to ice cream and dip makers rather than increasing churning capacity. The decline in butter stocks was larger than the historical average in June, and it seems likely that the July draw-down will follow a similar pattern.



Cheese stocks moved slightly lower in June. Total cheese inventories fell to 1.06 billion pounds, down 0.4% from May and 7.6% lower than June 2013. Inventories of Cheddar and other American-type cheese increased slightly from the previous month. But inventories of other cheese varieties declined on both a month-to-month and year-over-year basis as demand from pizza-type cheese remains robust.



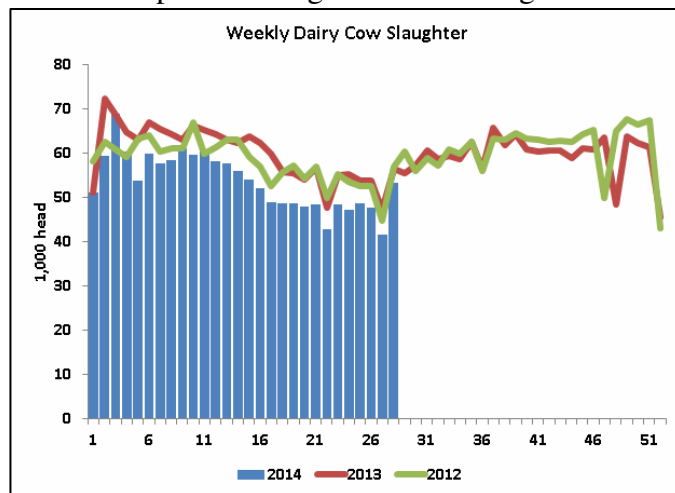
China continues to import huge volumes of milk powder relative to previous years. However, Chinese imports of whole milk powder (WMP) have faded since peaking in January. China purchased 95.7 million pounds of foreign WMP in June. This was 33% lower than average daily imports in May and 64% less than January shipments. China's combined imports of WMP and skim milk powder were 93% greater than last year but 24% lower than in May.

Chinese buyers clearly got ahead of themselves when they brought in such huge volumes of milk powder around the turn of the year. Chinese milk powder inventories are burdensome and the world's most-watched dairy importer will likely need to go through

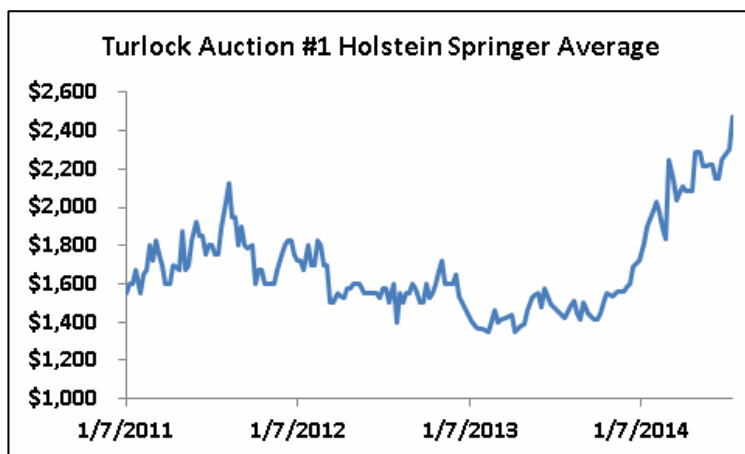
a period of lower purchases to correct its past exuberance. Indeed, as evidenced by the stark drop in global milk powder markets, China began tapping the brakes months ago. While global demand for milk powder should continue to rise in the long run, it may do so in spurts and slumps, rather than the leaps and bounds that seemed possible earlier this year.

The U.S. will likely face stiff competition as it seeks to maintain its share of the global milk powder trade. Milk output remains strong in all the major dairy regions. Australian milk production got off to a rough start this season, but it enjoyed a strong finish. May production down under was 8.2% greater than last year and June output was up 8.9%. Milk production ebbs in Australia from February to August, but thanks to these off-season gains, full-season production was 0.4% greater than in 2012-13. New Zealand has enjoyed a similar trend.

Dairy producers culled 53,333 head in the week ending July 12. This was the largest weekly slaughter since early April, but the figure is somewhat inflated by pent-up cull cows after the holiday the preceding week. Still, slaughter was only 5.8% lower than the same week last year, when the same phenomenon was in effect. So far this year, dairy cow culling is 10.6% lower than last year.



Dairy producers are clearly expanding through a combination of low cull rates and heifer retention and purchases. After years of heavy culling, herds are in great shape and producers can hold back cows without too many health or production issues. But heifer supplies are not large enough to allow producers to expand as quickly as they would like. This has fostered a sustained rise in springer prices. Last week, #1 Holstein springers sold for between \$2,000 and \$2,950 per head at the Turlock Livestock Auction.



Dairy margins were much weaker last year, and, for a time, beef prices were high enough to encourage a steady flow of young heifers to beef feedlots. Many dairy heifers went to slaughter without ever producing a drop of milk. This has diminished heifer supplies, but the reduction is temporary. The economic incentive to sell heifers to the beef industry dried up near the turn of the year. The dairy industry will likely see a gradual increase in the number of heifers available for replacement. However, with heifers in high demand, this does not necessarily mean that springer prices will begin to fall.

Grain Markets

Corn futures dropped to new lows again this week, and settled 8.25¢ lower than last week. The soybean market is more resilient. After much back-and-forth, it closed less than 2¢ lower than last week. Crop scouts continue to report excellent conditions, and many are calling for record yields. August rainfall will be critical for filling corn kernels and soybean pods, but a large crop and low feed prices are all but assured.

This week China demanded that all future shipments of dried distillers grains (DDGs) from the U.S. would require a certificate from USDA stating that they are free of MIR 162, a GMO-strain that is welcome in most countries. USDA has neither the wherewithal nor the inclination to offer such certificates, so the announcement has effectively cut off all U.S. DDG exports to China for the foreseeable future. The already weak DDG market plummeted in response.

A NOTE ON THE FARM BILL AND THE MARGIN PROTECTION PROGRAM: *(By Rob Vandenheuvel)* Over the past weeks/months, I have receive calls and emails from our members regarding the recently-approved Farm Bill and the new Margin Protection Program that is going to be rolled out later this year. The U.S. Department of Agriculture (USDA) has indicated that producers will be able to sign up for the new program this fall, which has rightly triggered a desire by dairymen to learn more about their options.

A couple months ago, MPC began delving into the details of the program in this newsletter, but unfortunately, we are still waiting to hear final details, as Congress left several critical details up to the discretion of USDA in implementing the program. In case you missed any of those previous articles, you can find them here:

- Part One – An introduction: <http://www.milkproducerscouncil.org/updates/032814.pdf>
- Part Two – Decisions a dairy must make: <http://www.milkproducerscouncil.org/updates/041114.pdf>
- Release of an online calculator: <http://www.milkproducerscouncil.org/updates/050914.pdf>

Once we have final details from USDA, MPC will be conducting membership meetings throughout the State to provide details on the program, what options are available, how producers can sign up, and how you can evaluate the best option for your dairy. So stay tuned, as we expect those details to be coming from USDA in the near future.