



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 26, 2013
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0150 \$1.7625
 Barrels +\$.0200 \$1.7600

Weekly Average, Cheddar Cheese

Blocks +\$.0565 \$1.7545
 Barrels +\$.0475 \$1.7285

CHICAGO AA BUTTER

Weekly Change - \$.0575 \$14325
 Weekly Average - \$.0465 \$1.4385

DRY WHEY

Dairy Market News w/e 07/26/13 \$.5913
 National Plants w/e 07/20/13 \$.5835

NON-FAT DRY MILK

Week Ending 7/19 & 7/20

Calif. Plants \$1.7085 7,238,119
 Nat'l Plants \$1.7357 15,170,835

Prior Week Ending 7/12 & 7/13

Calif. Plants \$1.6732 10,967,840
 Nat'l Plants \$1.7189 18,946,768

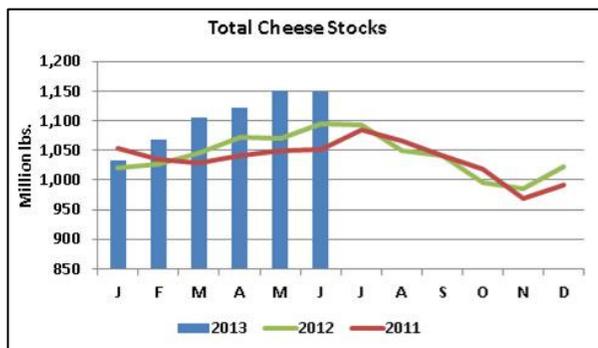
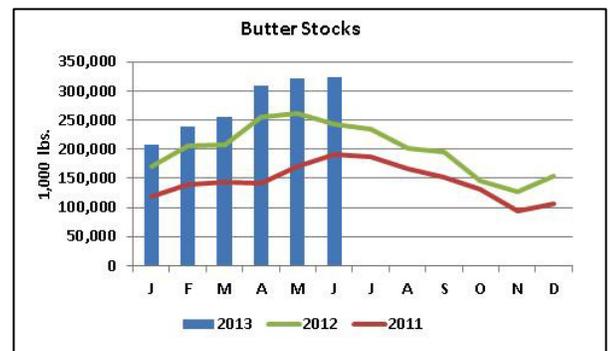
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

Class III and IV futures settled sharply lower after steep losses Friday. Class III futures lost between 31 and 66¢/cwt., with September again reporting the largest setback. Most Class IV contracts posted double digit declines. CME spot Cheddar and nonfat dry milk (NDM) prices moved incrementally higher, but butter dropped 5.75¢/lb.

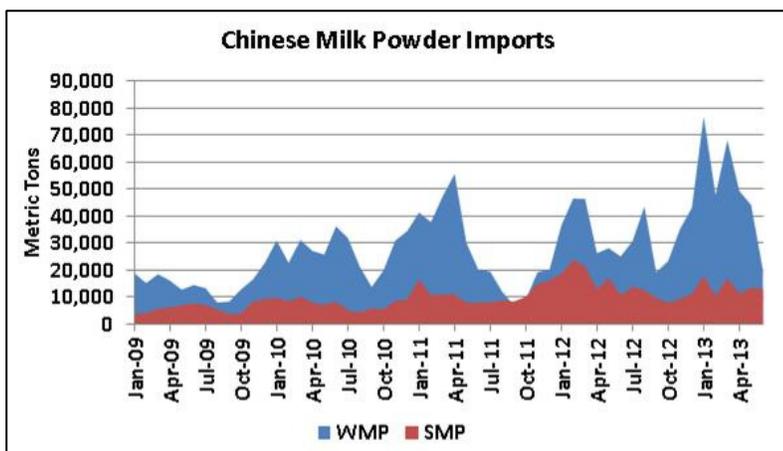
It is still hot in California and Idaho, but the rest of the country is enjoying cooler than normal temperatures, which has had a similarly cooling effect on milk prices. However, Midwest milk production volumes are stunted after two weeks of heat. Production shortages in California are severe enough that they have prompted one major cooperative to offer its members a premium on all milk above their June 26 through July 10 production average. The \$1.50/cwt. premium will be paid on up to 1.5 million lbs. of milk per day through mid-September.

USDA's Cold Storage report contributed to weakness in the butter market. Butter stocks increased slightly in June to fresh 20-year highs. Inventories totaled 324 million lbs., 33% higher than in June 2012. Stocks likely peaked in June, as seasonal declines in milk production and component levels reduced the amount of cream available for churns in July. But it will take more than declining production to reduce butter inventories to historical norms. Butter prices are unlikely to find support without evidence of firming demand.



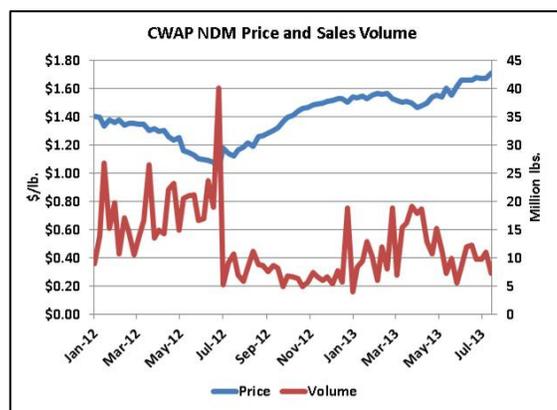
There were 1.15 billion lbs. of cheese in storage in June, which was basically steady with the prior month. Inventories are 5% larger than they were a year ago. For the first time this year, American cheese stocks posted a month-to-month decline, falling 1.3% from May. American cheese stocks remain 6.5% higher than June 2012. The Cold Storage report revealed an uptick in demand for cheese and set the tone for active bidding at the CME spot market this week.

Chinese milk powder imports in June totaled 32,679 metric tons (MT), the lowest volume in eight months. This was 8% lower than a year ago. The slowdown is likely due to higher prices and decreased supplies available from New Zealand, China's preferred supplier. New Zealand's dairy product exports were 18% lower in the second quarter than in the same period in 2012. For the first half of the year, Chinese imports of skim milk powder (SMP) are 20% lower than in 2012, but whole milk powder (WMP) imports are up 47%.



With New Zealand dairy product sales restricted due to the drought and a seasonal lull in production, the U.S. made considerable inroads into the Chinese market. U.S. SMP exports of 3,964 MT represent 31% of total Chinese SMP imports, the U.S.'s largest share of that market in two years. Europe exported record volumes of dairy products to China in May, but total European dairy product exports were 9% lower than a year ago.

Chinese whey imports remained strong. June imports of 38,853 MT were 3% higher than May and 37% higher than a year ago. Year to date Chinese whey imports are up 9% from the first half of 2012.



The California Weighted Average Price for NDM topped \$1.70/lb. for the first time since 2008. It averaged \$1.7085, up 3.53¢ from the prior week. Sales volume waned.

Dairy producers culled 220,000 cows in June, according to USDA's Livestock Slaughter report. June dairy cow slaughter was 8.3% lower than May on a daily average basis and 3.9% lower than the prior year. For the week ending July 13, dairy cow slaughter totaled 56,572 head, down 0.7% from a year ago. Year to date slaughter is 3.4% higher than a year ago.

For the past year, high feed costs and strong beef prices have encouraged dairy producers to cull aggressively. Forced liquidations have also increased slaughter volumes, particularly in California. The cull rate from July 2012 to June 2013 was 5.8% higher than in the previous 12 months. Now the dairy herd is young and healthy and producers face the promise of much lower feed costs and stronger profit margins. In the months to come, slaughter rates will likely continue to fall from recent high levels.

Grain and Hay Markets

As corn prices move lower, feeder cattle prices are moving higher. Prices for Holstein steer calves at the Overland Stockyard monthly feeder sale were generally \$12-\$15/cwt. higher than the June auction. There were plenty of willing buyers and all lots were sold, which was not the case at the May and June auctions. Cattle supplies are tight and beef prices will likely remain at historically high levels. Dairy producers could continue to enjoy higher than normal revenue from the sale of cull cows and bull and steer calves.

Basis prices for corn, soybeans and soybean meal remain at historically high levels, but this week they finally showed some signs of capitulation. The soybean basis was particularly weak, and both soybeans and soybean meal futures responded with precipitous declines. August soybean meal futures settled limit down on Wednesday and Thursday, losing \$20/ton in each session. They shed 11% of their value over the course of the week. Soybean futures closed 10% lower, marking their worst week since September 2009.

It is unusually early for a decline in the basis, as this is usually caused by harvest pressure. Some of the weakness was spurred by unconfirmed rumors that China will release up to three million MT of soybeans from reserve

stocks, which would pressure Chinese soybean prices and reduce import demand. Additionally, soybean processors reduced basis levels amidst concerns that end users will limit soybean meal purchases until cheaper new crop supplies are available, which could leave processors holding expensive inventories.

December corn settled at \$4.76/bushel, nearly 25¢ lower than last Friday. Weather has been generally favorable, and harvest is looming in the South. The only real threat this crop still faces is frost. Thus, the weather premium has eroded in the corn market. Soybeans are in decent condition, but development is lagging after a late start, and so there is more concern about the potential for adverse weather to harm the crop.

FRED DOUMA'S PRICE PROJECTIONS...

July 26 Final:	Quota cwt. \$18.64	Overbase cwt. \$16.94	Cls. 4a cwt. \$18.54	Cls. 4b cwt. \$15.65
Last Week:	Quota cwt. \$18.61	Overbase cwt. \$16.92	Cls. 4a cwt. \$18.48	Cls. 4b cwt. \$15.64

HEARING PETITION FILED WITH CDFA: *(By Rob Vandenheuvel)* This week, a petition was submitted to the California Department of Food and Agriculture (CDFA) for a hearing to consider changes to the Class 4b pricing formula. This petition is the result of negotiation discussions that have been occurring in Sacramento between Dr. Richard Pan (D-Lodi), dairy farmer organizations and the Dairy Institute (on behalf of the State's cheese manufacturers).

As our regular readers know, California's milk pricing policies have been a point of discussion in Sacramento this year. AB 31 (Pan) was introduced at the beginning of the session, in hopes that the Legislature would be willing bring our Class 4b milk price in a closer relationship with the Federal Order Class III monthly price (the benchmark price for milk sold to cheese manufacturers around the country). Unfortunately, it became clear through that debate that many members of the Legislature were not comfortable making those changes at this time, particularly with the State's cheese manufacturers strongly opposing such a change.

However, Dr. Pan continued to pursue some level of short-term relief, while the industry continues to work towards long-term reforms that will provide our dairies with a sustainable, profitable milk price. To that end, Dr. Pan was able to secure an offer by the Dairy Institute for a milk price relief proposal that they would support. That offering from the Dairy Institute, which was expressed in a July 8th letter to Dr. Pan, can be found on our website at: <http://www.milkproducerscouncil.org/070813dairyinstitute.pdf>. As you can see in the letter, the Dairy Institute proposed relief in two areas, both within the California Class 4b pricing formula:

- (1) Emergency price relief, temporarily raising the Class 4b price by \$0.46 per hundredweight
- (2) Modifying the "dry whey scale factor" to implement an additional increase of the Class 4b price of up to \$0.25 per hundredweight

For anyone that has been following this discussion, these proposed adjustments, which would provide a increase to the Class 4b price of up to \$0.71 per hundredweight, fall well short of what California's dairy families have been advocating for in recent years. Remember, our California Class 4b price has lagged below the Federal Order Class III price by \$1.90 per hundredweight over the past two years. **HOWEVER, despite that significant concession on the part of the California dairy families, our organizations decided to accept the Dairy Institute's proposal in the interest of providing much-needed short term milk price relief.**

Earlier this month, the Senate Agriculture Committee approved AB 1038, which referenced this processor-proposed agreement. While that bill had no "teeth" to actually implement the change, it stated that Legislature "encouraged" CDFA to grant the relief. In order to actually implement the change, a petition needed to be submitted to CDFA, who solely has the authority to hold a hearing and quickly implement the change. That's the reason the petition was submitted this week.