



Milk Producers Council

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DATE: October 17, 2014

TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0900	\$2.2875
Barrels	-\$0.0300	\$2.0700

Weekly Average, Cheddar Cheese

Blocks	+\$0.0715	\$2.2380
Barrels	-\$0.0100	\$2.1040

CHICAGO AA BUTTER

Weekly Change	- \$.8050	\$2.0000
Weekly Average	- \$.5340	\$2.3020

DRY WHEY

Dairy Market News	w/e 10/17/14	\$0.5975
National Plants	w/e 10/11/14	\$0.6665

NON-FAT DRY MILK

Week Ending 10/10 & 10/11	
Calif. Plants	\$1.4987 6,490,122
Nat'l Plants	\$1.4953 16,424,869

Prior Week Ending 10/3 & 10/4

Prior Week Ending 10/3 & 10/4	
Calif. Plants	\$1.6060 7,619,916
Nat'l Plants	\$1.4925 17,334,878

FRED DOUMA'S PRICE PROJECTIONS...

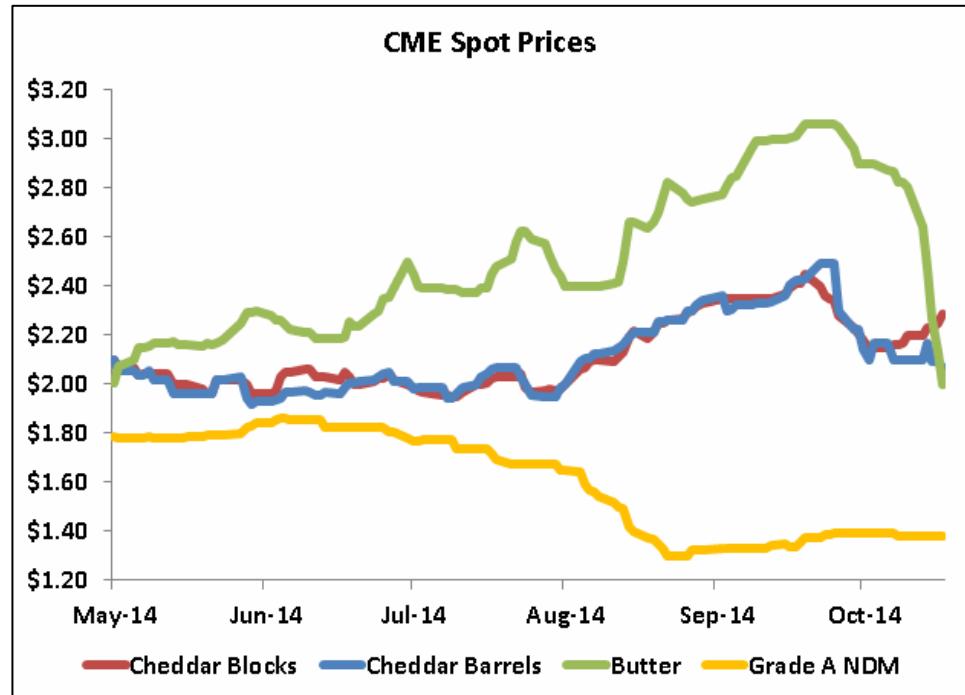
Oct 17 Est: Quota cwt. \$23.20 Overbase cwt. \$21.50 Cls. 4a cwt. \$21.09 Cls. 4b cwt. \$21.04
 Last Week: Quota cwt. \$23.46 Overbase cwt. \$21.76 Cls. 4a cwt. \$22.41 Cls. 4b cwt. \$20.74

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

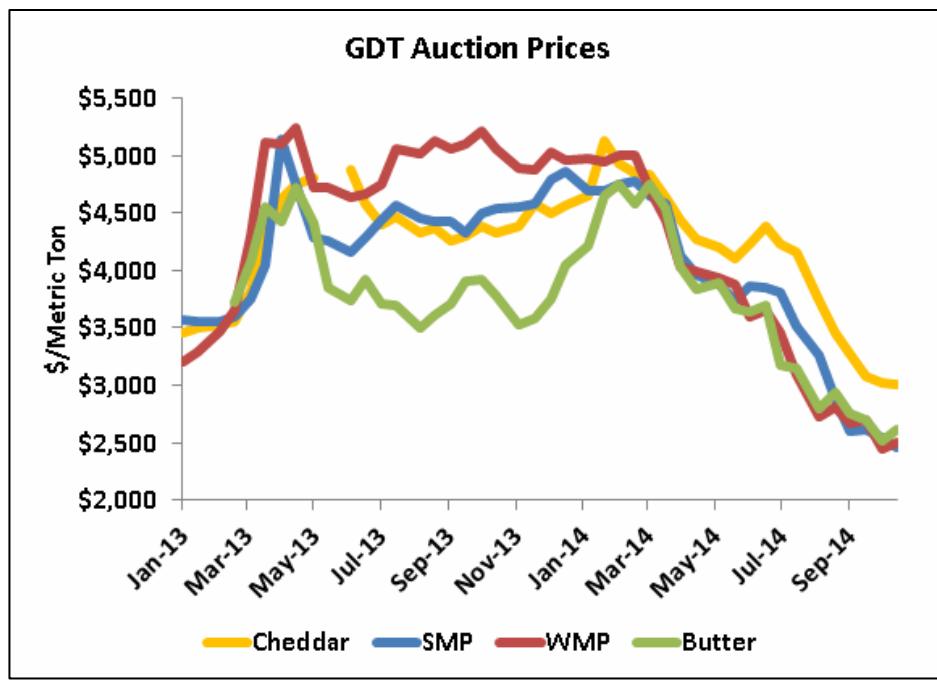
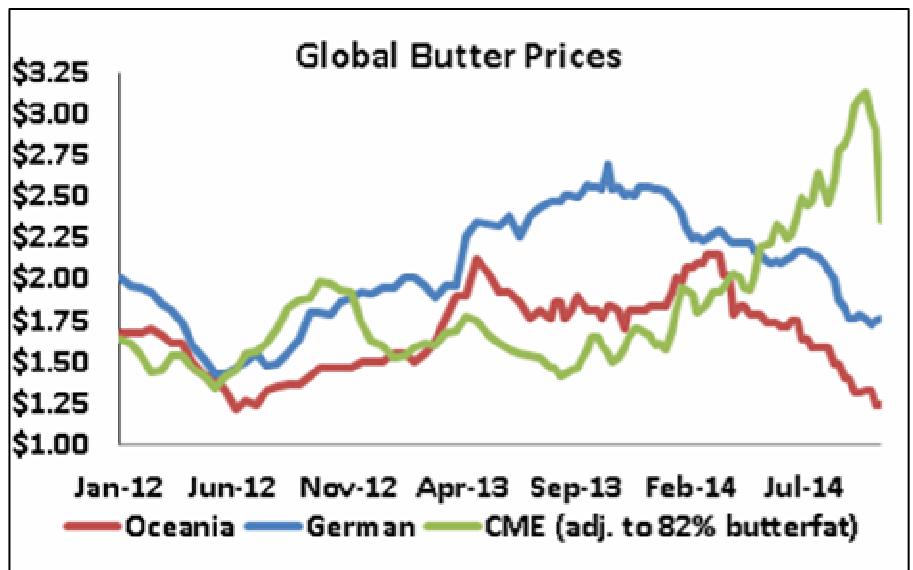
Milk & Dairy Markets

In May, the CME spot butter market undertook an historic climb from \$2.00/lb. to all-time highs at \$3.06. The ascent – which included a number of setbacks – took nearly five months. For a few weeks, butter dithered at the precipice, picking its way gingerly downward. Then, suddenly, it leapt off the cliff. The spot butter market plunged 16.5¢ on Monday and Tuesday and dropped 21¢ on Wednesday. With further declines Thursday and Friday it ended the week back at \$2.00, down 80.5¢ in just five trading sessions.

CME spot nonfat dry milk (NDM) held steady at \$1.38, and Class IV futures plummeted. Compared to last Friday, the November contract lost \$1.08 and the December contract was nearly a dollar lower. Most 2015 contracts posted double-digit losses. The cheese markets diverged this week. Spot Cheddar blocks rose 9¢ to \$2.2875. Barrels slipped 3¢ to \$2.07. Class III futures took their cue from barrels. Most contracts lost a dime or more this week and the December contract dropped 67¢.



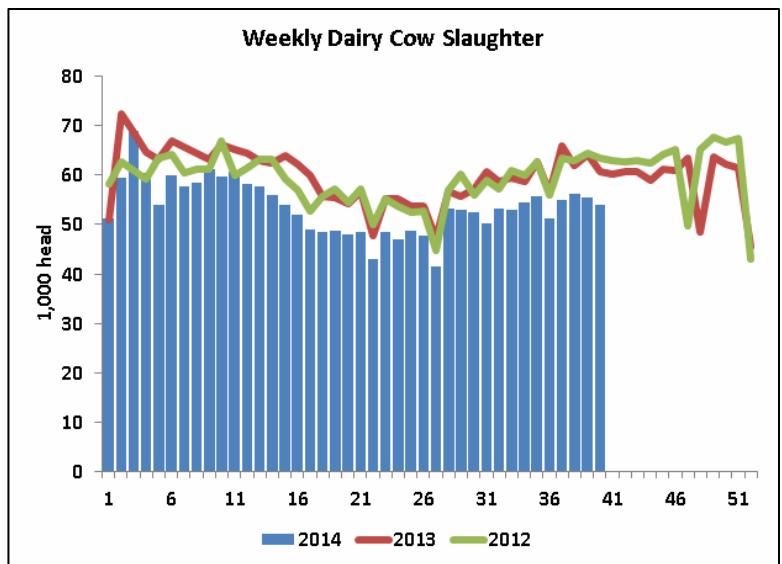
The butter market rout was widely expected given that overseas markets are much lower. But the timing and depth of the drop likely came as a surprise. In other years with similar fundamentals the spot market has typically held until after the holiday buying season concluded in November. But this year U.S. butter prices were high enough for long enough to discourage demand and attract imports, allowing the market to plunge before retailers finished stocking up for the holidays. If butter buyers are enticed by current prices, the market could level out temporarily. However, U.S. butter remains expensive relative to overseas markets. If end users remain patient, the butter market could continue its retreat until the price gap is erased. Thereafter, the market could succumb to continued pressure from imports, which are likely to augment U.S. butter inventories well into next year.



Declining cheese and butter prices are finally working their way into the National Dairy Product Sales Report (NDPSR), which helps to determine minimum pricing for many producers' milk checks. For the week ending October 11, manufacturers sold butter at an average price of \$2.9228/lb. Cheddar blocks and barrels averaged \$2.34 and \$2.33, respectively. This marks the first decline in surveyed cheese and butter prices since August. It will be some time before the recent declines in the spot market are fully reflected in the mailbox milk price. In the meantime, robust margins will urge producers to continue to increase

Dairy product prices were mixed at the Global Dairy Trade (GDT) auction. The GDT index gained 1.4% thanks in large part to a 3.1% increase in the price of whole milk powder. Butter also moved higher, gaining 3.9% from the previous auction. At \$2,614/metric ton, Fonterra is selling butter for the equivalent of \$1.16 after adjusting to 80% butterfat. Cheddar and skim milk powder prices moved lower, dropping 1% and 3.6%, respectively.

For the week ending October 4, dairy cow slaughter totaled 53,860 head. This was 11.3% lower than the same week last year. For the year to date, dairy cow slaughter is 10.7% behind the 2013 pace.



Grain Markets

The grain markets shrugged off last Friday's somewhat bearish crop reports and rallied this week. December corn futures gained 14¢ and spent much of the week above \$3.50 per bushel. November soybeans climbed nearly 30¢. The huge crops are only slowly rolling in, and the weather has propped up the nearby soybean and soybean meal markets. Over the past two weeks it has been very wet in Missouri and throughout the Southeast. Exporters and processors who were counting on early soybeans to fill the pipeline were left without as farmers waited for the sun to shine. Clearer weather in the weeks ahead should alleviate the situation and allow soybean prices to abate. Soybean meal prices could remain firm for a little longer, due to the lag between harvest and increased soybean meal supplies.

Since exporters could not ship soybeans as quickly as they liked, they kept the ports busy with corn cargoes. Corn exports have been larger than anticipated, which likely contributed to this week's rally. As soybeans reach the ports, corn exports are likely to slow.

Harvest delays can have a significant impact on prices in the short-term, but they seem inadequate to justify the whole of the strength in the grain complex this week. The rally was particularly impressive given steep declines in nearly every other market. Perhaps volatility in equities and sharp losses in the energy and livestock sectors played a part in the corn and soybean rally. Fund traders held large short positions in the grains and likely covered positions en masse this week. If this is the reason for the rally, it could soon run out of steam. But whatever the reason, the jump in corn prices gave farmers an opportunity to sell their crops at prices much better than those of the past few weeks. This will help to loosen the cash markets, which have been somewhat tight despite huge stocks and a bin-busting harvest.

DAIRY FARMERS INVITED TO ATTEND UPCOMING “AGRICULTURAL RENEWABLE ENERGY CONFERENCE & EXPO”: (By Kevin Abernathy, Director of Regulatory Affairs) Next month, the Agricultural Energy Consumers Association (AECA), of which Milk Producers Council is a member of, is hosting a Renewable Energy Conference and Expo in Fresno, California. As stated on the event flyer (<http://www.milkproducerscouncil.org/aecaconf.pdf>), “*This one-day Conference and Expo will help farmers, dairy producers and processors better understand renewable energy opportunities and benefits so you can make informed decisions... Learn about new grant programs and energy production incentives firsthand from industry leaders.*”

Registration for this November 12th event is needed, so interested producers should register soon. MPC members with questions about this event should contact me at kevin@milkproducers.org or 209-678-0666.

CENTRAL VALLEY WATER BOARD REQUIRING ELECTRONIC SUBMITTALS: (By Kevin Abernathy) Effective October 22nd, the Central Valley Water Board is asking that “all regulatory documents, submissions, materials, data, and correspondence that you would normally submit to us as hard copies” be sent in electronically as a PDF document. Producers should be receiving a letter to this effect from the Water Board soon. MPC members with any questions about this or in need of assistance should contact either me (info in previous article) or our Central Valley Representative Betsy Hunter-Binns (betsy@milkproducers.org or 661-205-6721).