



# Milk Producers Council

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DATE: January 11, 2013  
TO: Directors & Members

PAGES: 4  
FROM: Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0400 \$1.7200  
Barrels - \$.0475 \$1.6725

### Weekly Average, Cheddar Cheese

Blocks - \$.0320 \$1.7280  
Barrels - \$.0370 \$1.6855

### CHICAGO AA BUTTER

Weekly Change - \$.0450 \$1.4550  
Weekly Average - \$.0394 \$1.4575

### DRY WHEY

Dairy Market News w/e 01/11/13 \$0.6250  
National Plants w/e 01/05/13 \$0.6482

### NON-FAT DRY MILK

#### Week Ending 1/4 & 1/5

Calif. Plants \$1.5435 3,872,417  
Nat'l Plants \$1.5766 11,996,797

#### Prior Week Ending 12/28 & 12/29

Calif. Plants \$1.5013 18,799,127  
Nat'l Plants \$1.5193 22,967,867

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

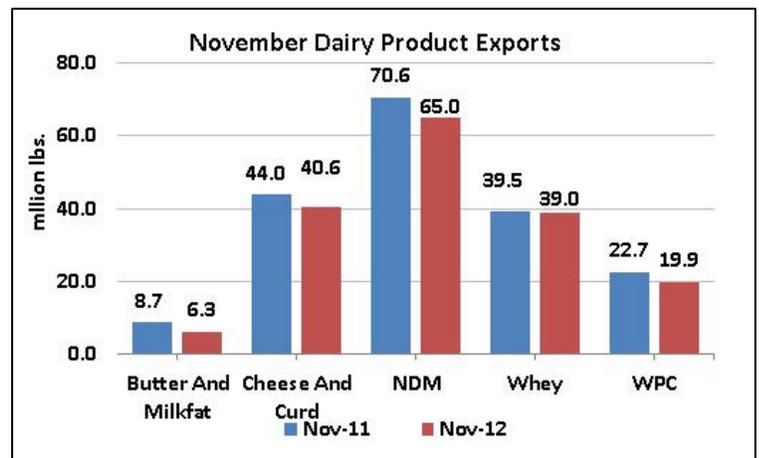
### Milk & Dairy Markets

Milk prices moved lower this week. February through April Class III contracts settled at or below \$18.00/cwt., losing roughly 50-80¢. Futures prices for the second half of the year were steady to slightly softer. Dairy product prices were also mostly lower. CME spot butter and Cheddar prices were 4-4¾¢ lower than last week's settlements. Grade A nonfat dry milk (NDM) shed 2¼¢. Heavy milkflows, particularly in the Midwest have made for plentiful supplies, and buyers seem in no hurry to secure products to satisfy eventual needs.

Dairy Market News dry product prices were mostly lower, with the exception of the less widely followed products. Buttermilk powder, lactose and whole milk powder moved higher. The National Dairy Products Sales Report showed notably lower prices for all products except NDM, which was 5.73¢ higher at \$1.5766/lb. Butter was the biggest loser, falling 2.32¢ and averaging \$1.534. Cheddar blocks shed 1.77¢ and averaged \$1.747. Barrels dropped by a fraction of a cent, averaging \$1.703. Whey prices lost nearly a penny, falling to \$0.648.

The California Weighted Average Price of NDM for the week ending January 4 was \$1.5435/lb., up 4.22¢ from the final week of 2012. Sales volume was very light. It appears manufacturers booked heavy sales at the end of the year, accepting discounts to clean up inventories. The current price is the highest weekly average since September 2011.

U.S. dairy product exports moved markedly lower in November. Butter and milkfat exports totaled 6.29 million lbs., 28% lower than November 2011. Whey protein concentrate exports of 19.95 million lbs. were 12% lower than the prior year. Whey exports were 1% lower. NDM exports were 64.99 million lbs., down 8% from November 2011. Cheese and curd exports totaled 40.6 million lbs., down 8% from the previous November and only slightly higher than monthly cheese imports which topped 40 million lbs. U.S. dairy products in general, and cheese in particular, were priced sharply higher than the global market in November. This pushed cheese imports to a 5-year high. New Zealand took the opportunity to gain traditionally American marketshare and exported nearly 81 million lbs. of cheese in November, a single month record. As U.S. cheese prices encouraged production



overseas, they also increased whey production, which may explain recent pressure on global and domestic whey prices.

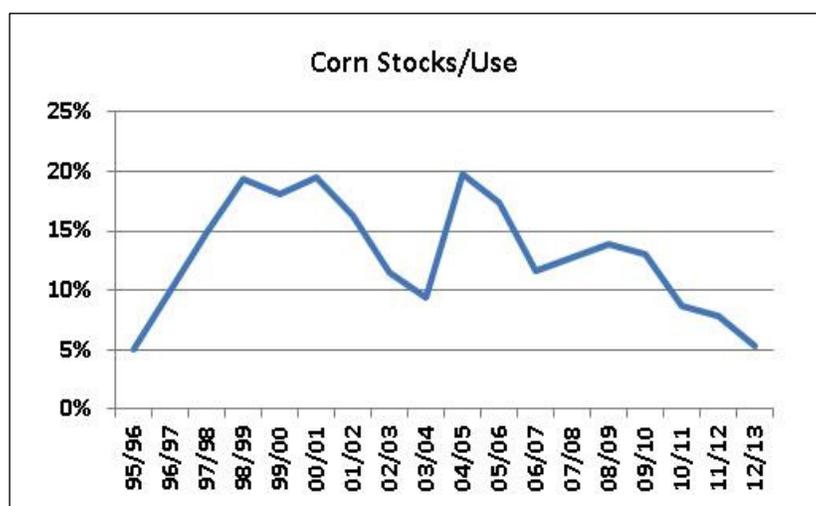
For the final week of 2012, dairy cow slaughter totaled 43,118 head, a total which was lower than normal as slaughter plants operated with reduced hours over the Christmas holiday. 2012 dairy cow slaughter was 6.1% higher than 2011. Dairy cow slaughter in the Southwest was 16.9% higher than 2011. Dairy producers nationwide have been culling aggressively for nearly a year, and the herd is young and productive. Strong per cow production is obscuring the effects of smaller dairy cow supplies for now. However, this trend will eventually lead to tighter milk supplies and stronger dairy prices. Given reduced sexed semen usage and lower heifer retention, dairy producers will not be able to rebuild the herd quickly despite the prospect for a sustained period of better margins. Heifer and dairy cow prices should be well supported in the future.

With the exception of dairy, the national livestock herd is larger than analysts anticipated it would be when the drought began in earnest. Limited feed supplies and high prices have not led to massive reductions in the beef or hog herds or the poultry flock. While years of liquidation in the cattle industry will lead to tight supplies eventually, for now beef producers are feeding cattle to record heavy weights. Pork producers are retaining sows in order to expand the herd. And egg sets and chick placements have been generally steady to a little higher than the prior year for months. It all adds up to stronger than expected feed demand.

### Grain Markets

Quarterly stocks of corn, wheat and soybean meal were smaller than anticipated, implying very large feed usage in the first quarter of the 2012-2013 crop year which began in September. December 1 stocks of corn totaled 8.03 billion bushels. Given production of 10.78 billion bushels, this implies use of 3.76 billion bushels. After subtracting export sales and food, seed and industrial use, this implies quarterly feed demand of 2.06 billion bushels or more than 46% of USDA's full year feed demand forecast even after USDA added 300 million bushels to its projection. This suggests that feed demand estimates could move higher still in subsequent reports.

<b>Q1 Supply and Demand (Million bushels)</b>	
<b>Sep 1. to Dec 1.</b>	
2011-2012 Carry-in	988
2012-2013 Production	10,780
Q1 Imports	22
<b>Q1 Supply</b>	<b>11,790</b>
Q1 Feed & Residual Demand	2,061
Q1 Food, Seed & Industrial Demand	1,478
Q1 Exports	221
<b>Q1 Use</b>	<b>3,760</b>
<b>December 1 Stocks</b>	<b>8,030</b>
2012-2013 Feed & Residual Demand	4,450
Q1 Feed Demand as a % of Annual	46.3%



USDA increased its estimate of the corn yield to 123.4 bushels/acre, raising production to 10.78 billion bushels from 10.725 in its December World Agricultural Supply and Demand Estimates report. USDA also reduced its estimate of corn exports to 950 million bushels, which, if fulfilled, would mark the first year that U.S. corn exports have fallen short of 1 billion bushels since the 1971-72 crop year. But the increase to feed demand outweighed these changes, and corn ending stocks fell to a minimal 602 million bushels. Ending stocks represent only 5.3% of annual demand, the lowest stocks/use ratio since 1995-96.

USDA also increased its estimate of the soybean yield to 39.6 bushels/acre, raising production to 3.015 billion. USDA increased its forecast for soybean crushing to 1.605 billion bushels, which is consistent with stronger feed demand and the firm soybean basis. However, the increase to production was larger than increased demand, so soybean ending stocks of 135 million bushels are slightly higher than they were on the December report.

Nearby corn and wheat prices moved higher after the reports, and January soybean futures followed corn higher. However, March and later soybean futures moved lower, and they will likely remain under pressure as the South American soybean crop remains in good condition and harvest approaches. New crop corn futures also moved lower, as corn prices are strong relative to soybean prices and there is no apparent fight for acres looming this year. Farmers will likely choose to plant corn over soybeans as much as rotations allow, and assuming normal weather, the fall corn harvest could be huge. \$7 corn is certainly justified in the near term given strong feed demand. But feed prices will likely be much lower by fall.

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**FRED DOUMA’S PRICE PROJECTIONS...**

**Jan 11 Est:**        **Quota cwt. \$18.33**    **Overbase cwt. \$16.63**    **Cls. 4a cwt. \$16.82**    **Cls. 4b cwt. \$16.00**  
**Last Week:**       **Quota cwt. \$18.48**    **Overbase cwt. \$16.79**    **Cls. 4a cwt. \$16.93**    **Cls. 4b cwt. \$16.26**

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**BIG SURPRISE...ANOTHER MONTH OF THE “CALIFORNIA DISCOUNT” FOR OUR CHEESE MANUFACTURERS:** *(By Rob Vandenheuvel)* As we eagerly await a decision from the California Department of Food and Agriculture (CDFA) with respect to their December 21, 2012 hearing on the five California milk pricing formulas, we are once again reminded of the generous “California Discount” lavished upon our state’s cheese manufacturers, courtesy of CDFA.

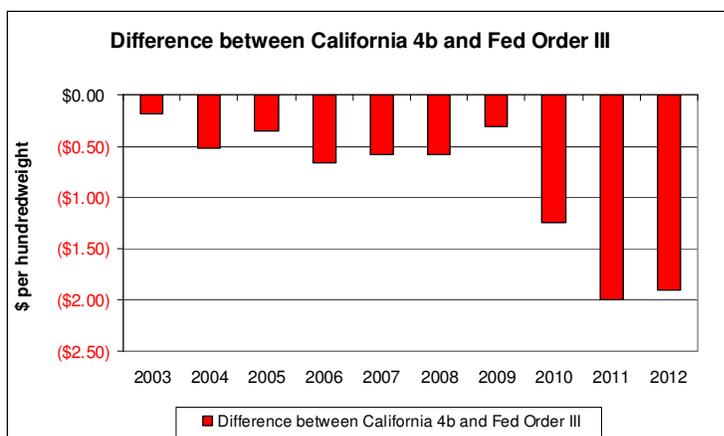
The final Class 4b price for December 2012 – which is the minimum price that must be paid for the milk produced in California and sold to our cheese manufacturers – was \$16.30

<b>Another Month of the “California Discount” on Milk Sold to California Cheese Manufacturers</b>			
	<b>December 2012</b>	<b>Jan–Dec 2012</b>	<b>2010-Present</b>
<b>CA Class 4b price</b>	\$16.30	\$15.54	\$15.02
<b>FMMO Class III price</b>	\$18.66	\$17.44	\$16.74
<b>“California Discount”</b>	<b>(\$2.36)</b>	<b>(\$1.90)</b>	<b>(\$1.72)</b>

per hundredweight. By comparison, much of the milk sold to cheese manufacturers throughout the country is in Federal Milk Marketing Order (FMMO) areas. For cheese plants that are regulated by the FMMOs, the Class III price is their minimum price, which in December was \$18.66 per hundredweight, a full **\$2.36 per hundredweight above the California Class 4b price.**

*What does that \$2.36 per hundredweight “state-sponsored discount” mean in real dollars?* While we don’t have the final figures yet on how much milk was purchased in December by California’s cheese manufacturers, even a conservative estimate of 1.3 billion pounds of milk equates to more than **\$30,600,000 in December alone** that our cheese manufacturers did **NOT** have to put into the California “pool” because of CDFA’s unwillingness to keep our prices closer to the prices paid around the country.

Of course, December is only the latest evidence of a devastating trend that we’ve seen over the past three years. The chart here shows the difference between the California Class 4b and FMMO Class III prices over the past 10 years. While California’s Class 4b price has lagged below the FMMO Class III price in each of the 10 years, the gap averaged \$0.45 per hundredweight for 2003 – 2009. Since January 2010, that gap has blown up to **\$1.24 per hundredweight in 2010**, **\$2.00 per hundredweight in 2011**, and **\$1.90 per hundredweight in 2012**. All told, we’ve calculated that California’s cheese manufacturers have been given a gift in the form of CDFA-



sponsored discounted milk to the tune of **more than \$715,000,000 since January 2010**, all on the backs of the roughly 1,600 dairy farms that are left in California. **That’s more than \$423,000 for a California dairy milking 1,000 cows and producing 65 pounds of milk per cow per day!**

While CDFA has an opportunity to close this gap with their hearing announcement in the coming days, they have already indicated that any changes they make to the California formulas will be temporary (no more than 6 months in duration). **Obviously with the feed costs being faced by our State's dairy families, we cannot continue to be the source of the lowest-priced milk in the country.** MPC and other dairy organizations/cooperatives in California need to re-double our efforts in 2013 to find ways to increase the prices paid for California-produced milk. So stay tuned...

**REMINDER: CENTRAL VALLEY WORKSHOPS SCHEDULED FOR DAIRIES INTERESTED IN LEARNING MORE ABOUT TRACTOR REPLACEMENT FUNDING:** *(By Kevin Abernathy, Director of Regulatory Affairs)* We've written articles in recent issues of this newsletter about funding that's available from the Central Valley Air Board to help farmers replace some of their older tractors. A series of workshops on this issue has been scheduled for next week (January 14<sup>th</sup> – 17<sup>th</sup>) throughout the Central Valley. A flyer with more information on the workshops can be found at: <http://www.milkproducerscouncil.org/2013tractor.pdf>. **Dairies are strongly encouraged to send a representative to one of these workshops to learn more about this valuable opportunity.** The workshops will be held at:

- Kings County Multi-Purpose Room – Administrative Building (1400 W. Lacey Blvd., Hanford) on **Monday, January 14<sup>th</sup> from 9 – 11 a.m.**
- Fresno County Farm Bureau (1274 W. Hedges, Fresno) on **Monday, January 14<sup>th</sup> from 1 – 3 p.m.**
- San Joaquin County Ag Center (2101 E. Earhart Avenue, Stockton) on **Tuesday, January 15<sup>th</sup> from 9 – 11 a.m.**
- Stanislaus County Farm Bureau (1201 L Street, Modesto) on **Tuesday, January 15<sup>th</sup> from 1 – 3 p.m.**
- Merced County Farm Bureau (646 California 59, Merced) on **Wednesday, January 16<sup>th</sup> from 9 – 11 a.m.**
- Madera County Farm Bureau (1102 South Pine Street, Madera) on **Wednesday, January 16<sup>th</sup> from 2 – 4 p.m.**
- Kern County Cooperative Extension (1031 S. Mount Vernon Avenue, Bakersfield) on **Thursday, January 17<sup>th</sup> from 9 – 11 a.m.**
- Tulare County Ag Commissioners Office (4437 S. Laspina, Tulare) on **Thursday, January 17<sup>th</sup> from 1 – 3 p.m.**

MPC members with any further questions should give me a call at (209) 678-0666.

**DAIRYMEN REMINDED TO LOG YOUR DECEMBER 31, 2012 ODOMETER READING ON YOUR CARB-REGISTERED DIESEL TRUCKS:** *(Kevin Abernathy, Director of Regulatory Affairs)* Over the past couple years, most of the dairies in California registered their heavy-duty diesel engine trucks with the California Air Resources Board (CARB). With CARB in the process of requiring equipment upgrades to these vehicles to reduce emissions, dairies and other agricultural interests were able to enroll in a temporary exemption program that delayed implementation of these upgrades until 2017 or later. As part of that process, the owners of these agricultural trucks must log their December 31 odometer readings and report them on CARB's website.

The deadline to report the 2012 annual odometer reading is January 31, 2013. More information can be found on CARB's website at <http://www.arb.ca.gov/msprog/onrdiesel/reportinginfo.htm>. MPC members that have any questions about their dairy's compliance can contact Rob Vandenheuvel at (909) 628-6018, Betsy Hunter-Binns at (661) 205-6721 or Kevin Abernathy at (209) 678-0666.