



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: November 21, 2012
TO: Directors & Members

PAGES: 3
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE – SPECIAL WEDNESDAY EDITION

CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$1.8250
Barrels	+.0225	\$1.7450

Weekly Average, Cheddar Cheese

Blocks	-.0290	\$1.8250
Barrels	-.0572	\$1.7308

CHICAGO AA BUTTER

Weekly Change	-.1050	\$1.6900
Weekly Average	-.1627	\$1.7033

DRY WHEY

Dairy Market News	w/e 11/21/12	\$1.6300
National Plants	w/e 11/17/12	N/A

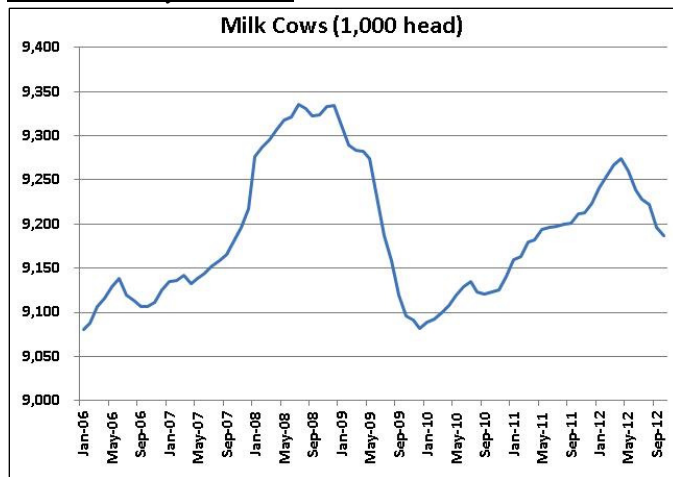
NON-FAT DRY MILK

Week Ending 11/16 & 11/17		
Calif. Plants	\$1.4921	6,635,135
Nat'l Plants	N/A	N/A

Prior Week Ending 11/9 & 11/10		
Calif. Plants	\$1.4826	7,349,257
Nat'l Plants	\$1.5057	14,753,322

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

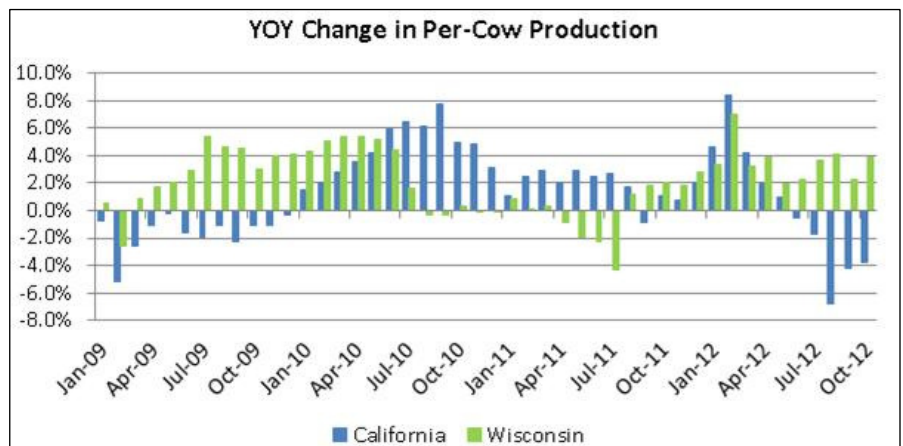
Milk & Dairy Markets



October milk production was only 0.1% lower than last year. Given the high slaughter pace, continuing herd liquidations and the cost and scarcity of quality forage, the decline was expected to be larger. Monday's Milk Production report showed a 0.1% increase in per-cow production. The milk cow herd totaled 9.187 million head, down 25K from October 2011 and 9K head fewer than September. The dairy herd has lost 87K head since peaking at 9.274 million cows in April. Market reaction to the somewhat bearish report was muted, suggesting that milk and dairy product prices had fallen far enough in the weeks preceding the report.

Production and herd declines were concentrated in the West, in keeping with regional disparities in profitability. California shed 1K cows last month, but the herd is still 2K head larger than it was a year ago. Statewide milk production was down 3.5% from last year, given a 3.6% decline in per-cow production. But California is not alone. Relative to last year milk production fell 5.9% in New Mexico, 5.0% in Texas, and 4.5% in Arizona.

Most Midwestern states showed an increase in both production and cow numbers. Wisconsin's herd is 7K head larger than it was a year ago, and production was 4.7% higher. Continued heavy milk flows in the Midwest will likely increase cheese production and could pressure that market. However, cheese prices appear to be stabilizing after steep declines. Buyers seem happy to purchase cheese at these levels, and U.S. cheese is now more competitive in the export market than it has been in some time. Cheddar prices at the biweekly Global Dairy Trade auction rose by an impressive 12.4% on Tuesday. Still, the average price of \$3,436/mt or \$1.56/lb. remains well below domestic cheese prices.



Butter prices, in contrast, are still fumbling about for a bottom. Spot butter fell 7 ½¢ on Monday, 2¢ on Tuesday and 1¢ on Wednesday. There is plenty of cream available to move to the churn given cheap imports and tepid domestic demand for butterfat. Holiday demand is waning, and butter prices are likely moving lower still. They will have to in order to compete with supplies from New Zealand, where milk production remains well above record-breaking 2011 levels.

Heavy New Zealand milk production will lead to increased milk powder supplies as well, but for the moment global inventories are low. With the production shortfall in the West, U.S. milk powder export volumes are likely to fall. The California Weighted Average Prices for nonfat dry milk added 0.95¢ to \$1.4921, but sales volume remains light. Whole and skim milk powder prices fell nearly 2% at the Global Dairy Trade auction, and nonfat dry milk prices increased 1.1¢ in the week ending November 17, according to the National Dairy Product Sales Report. Grade A nonfat dry milk prices shed ½¢ at the CME spot trade this week. Extra Grade prices held steady.

Grain Markets

Feed prices bounced back this week, as it appears that corn and soybean market bears have overstayed their welcome. Even with the bounce, soybean prices remain at the low end of their recent range. Conditions in South America remain generally favorable although not ideal for planting. Planted acreage may fall short of intentions. Widely followed analyst group Oil World cautioned that it may lower its global oilseed production estimate, which currently calls for a 12% increase from last year's production. It is simply too soon to count on a huge South American crop, although it is off to a solid start. Meanwhile, U.S. soybean exports remain strong despite terrible soybean processing margins in China and rumors – never verified – of cancelled Chinese soybean imports. In fact, the USDA reported export sales of both soybeans and soybean oil to China Wednesday morning. If South American production falls short of expectations, U.S. soybean exports will likely exceed forecasted demand by a considerable margin.

Corn prices have returned to the middle of their well-established \$7.20-\$7.60 range. U.S. corn exports are lackluster, as domestic corn prices are simply uncompetitive. However, the Brazilian corn basis is rising, and its discount to U.S. corn is narrowing. Brazilian corn supplies are dwindling, and congestion in the ports has led to delays in shipments. Some buyers will forgo the Brazilian corn market rather than put up with delays. U.S. corn exports could benefit from this demand for timely exports, however the U.S. faces logistical issues of its own. The Mississippi River is low and barge traffic is already operating with weight restrictions. If water levels fall enough this winter, barge traffic could be limited and the flow of grain from the Corn Belt to the port could slow, resulting in a stronger corn basis at the port and a weaker corn basis in the Midwest. It would also do little to encourage corn exports, and could keep supplies on our shores. In the absence of a slowdown in barge traffic, U.S. corn exports should increase in the first few months of next year as Brazil will have little to offer. A noted increase in corn exports could push corn prices higher.

FRED DOUMA'S PRICE PROJECTIONS...

Nov 21 Final:	Quota cwt. \$20.19	Overbase cwt. \$18.49	Cls. 4a cwt. \$18.21	Cls. 4b cwt. \$18.48
Last Week:	Quota cwt. \$20.15	Overbase cwt. \$18.45	Cls. 4a cwt. \$18.13	Cls. 4b cwt. \$18.48

EPA REJECTS REQUESTS FOR MODIFYING THE "ETHANOL MANDATE": *(By Rob Vandenheuvel)*

Last week, the EPA announced that they would *not* be revising the Renewable Fuel Standard (a.k.a. the RFS, or the "ethanol mandate"), as requested by nine Governors, 34 U.S. Senators, 156 House members and a coalition of livestock, poultry and dairy organizations. *(A press release from the livestock, poultry and dairy coalition can be found at: <http://www.nationalchickencouncil.org/livestock-poultry-dairy-producers-say-rfs-is-broken/>).* As we've discussed in previous issues of this newsletter, when Congress created the Renewable Fuel Standard, which creates a mandatory volume of renewable fuel that must be blended with our nation's transportation fuel each year, they gave EPA the authority to temporarily waive the RFS – in whole or in part – during periods when they determined it was causing "severe" economic or environmental harm.

Livestock, poultry and dairy farmers around the country are certainly feeling “severe economic harm” as a result of diminished feed availability and historically high prices for the crops that are available, while more than 40% of our nation’s corn continues to be consumed for the “government-mandated” demand of corn-based ethanol. However, EPA has broad discretion to define what “severe economic harm” is and what is causing it. In the end, EPA acknowledged that while certain sectors of the economic have seen “significant hardships” in 2012, they determined that those hardships were created exclusively by the drought, rather than the RFS, which by EPA’s interpretation does not allow them to waive the RFS requirements.

While this is extremely disappointing to those of us who hoped EPA could provide some regulatory relief, it wasn’t totally surprising. The bottom line is that Congress created the RFS, and if the RFS is going to be ultimately modified, it will be up to Congress to take up the task. That process has already begun, with the introduction last year of the “RFS Flexibility Act” (H.R. 3097). The bill will need to be re-introduced by the newly-elected Congress next year, but that is likely our best option for addressing the “ethanol mandate” long-term. The bill would create a schedule for modifying the portion of the RFS that corn-based ethanol qualifies for (which is currently a vast majority of the RFS) during periods of time when our national stocks of corn are at severely low levels, like they are right now. So hopefully we can make some progress in this effort when the new Congress begins in 2013.

A SPECIAL THANKS TO OUR 2012 MPC ASSOCIATE MEMBERS: *(By Rob Vandenneuvel)* While a majority of the funding for Milk Producers Council comes from the dairy families we represent, MPC is proud to have strong support from other businesses and individuals that have an interest in maintaining a vibrant dairy industry in California. These Associate Members recognize the value MPC brings to the California and U.S. dairy industry and their financial support plays an integral role helping us be a strong voice our members. **A special thanks on behalf of the MPC board of directors, members and staff goes out to:**

Platinum Associate Member:

Rico Trucking

Gold Associate Members:

Advance Milk Commodities
American Ag Credit
Bank of the West

Corona Cattle, Inc.
Farm Credit West
Frazer LLP

Genske Mulder & Co., LLP
Gordon Hay Company
Northern California Holsteins

Silver Associate Members:

Alta EM, Inc.
Anker Trucking
B&G Hay
Calf Nursery Association
CALM Management, Inc.
Cardoza Company, Inc.
Chino Livestock Market
Citizens Business Bank
Conestoga Rovers & Associates
Darling International

John Dominguez
Eagle Livestock, Inc.
Glen Durrington
Mrs. Jake Engelsma
Innovative Ag Services
J.D. Heiskell & Co.
Kellogg Supply Inc.
Laird Manufacturing
Dr. Ron Meninga, DVM
Jack & Bea Moons

O K Cattle
Security Milk Producers Assoc.
Standard Feeding
Stiles Animal Removal Inc.
Val-U Meat Packing Inc.
Bill Van Leeuwen
Wells Fargo Bank
Wiechelman & Associates
Xavier Aphessetche

Thanks again to all of our Associate Members for your support!

Anyone else interested in supporting MPC with an associate membership should visit our website (www.milkproducers.org) or contact us directly at office@milkproducers.org or (909) 628-6018. **Our dairy members greatly appreciate all the support we get.**

**On behalf of the Board and Staff of MPC, we want to wish
you and your family a wonderful Thanksgiving!**