



Milk Producers Council

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DATE: August 9, 2013
 TO: Directors & Members

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 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0225 \$1.7975
 Barrels - \$.0075 \$1.7650

Weekly Average, Cheddar Cheese

Blocks +\$.0180 \$1.7885
 Barrels +\$.0245 \$1.7870

CHICAGO AA BUTTER

Weekly Change - \$.0425 \$1.3975
 Weekly Average - \$.0165 \$1.4155

DRY WHEY

Dairy Market News w/e 08/09/13 \$.5850
 National Plants w/e 08/03/13 \$.5835

NON-FAT DRY MILK

Week Ending 8/2 & 8/3
 Calif. Plants \$1.6992 5,462,044
 Nat'l Plants \$1.7595 16,255,766

Prior Week Ending 7/26 & 7/27
 Calif. Plants \$1.7219 6,547,295
 Nat'l Plants \$1.7479 16,409,740

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

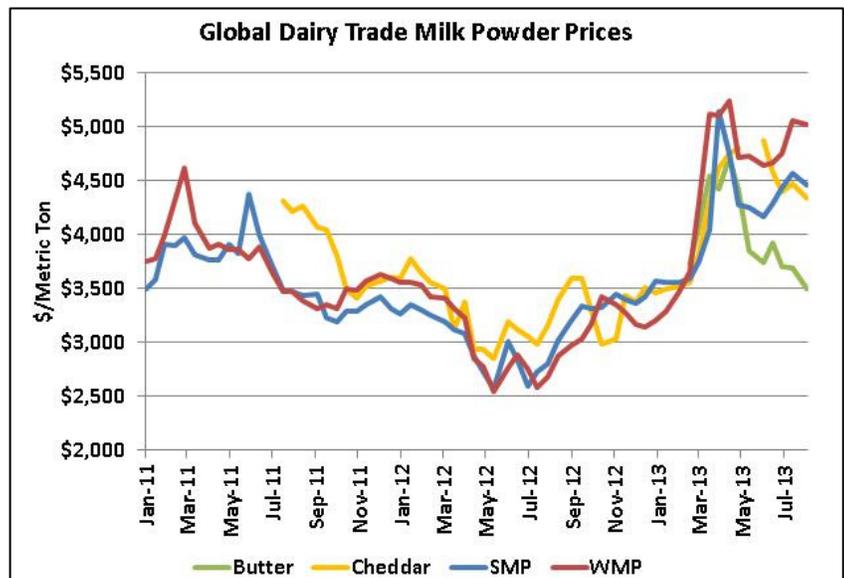
Milk & Dairy Markets

Over the weekend Fonterra announced that three batches of whey had tested positive for a strain of bacteria that can cause botulism. This sparked an onslaught of headlines and speculation that Fonterra's damaged reputation would lead to improved export prospects for its competitors, including the United States. But the attendant rally was tepid and short-lived. After a brief upward spike Monday morning, Class III futures settlements ranged from 5¢ below to 7¢ above Friday's closing values. The lack of follow-through buying revealed the market's bearish bias. Bears dominated the floor on Tuesday, and September Class III futures dropped 70¢. Dairy futures rebounded on Wednesday and to a lesser extent on Thursday, but weakness in the barrel Cheddar market prompted further losses Friday. All told, September through December Class III futures shed 20 to 45¢ this week. 2014 contracts were mixed.

The spot Cheddar market diverged this week. Blocks were up 2.25¢/lb. and barrels lost 0.75¢, restoring the block-barrel spread to a historically normal 3.25¢. The milk powder market continues to strengthen; Grade A nonfat dry milk (NDM) added a penny. Extra Grade NDM settled 2¢ higher thanks to a lone bid on Friday. CME spot butter lost 4.25¢, dropping to \$1.3975/lb., its lowest level since May 2012.

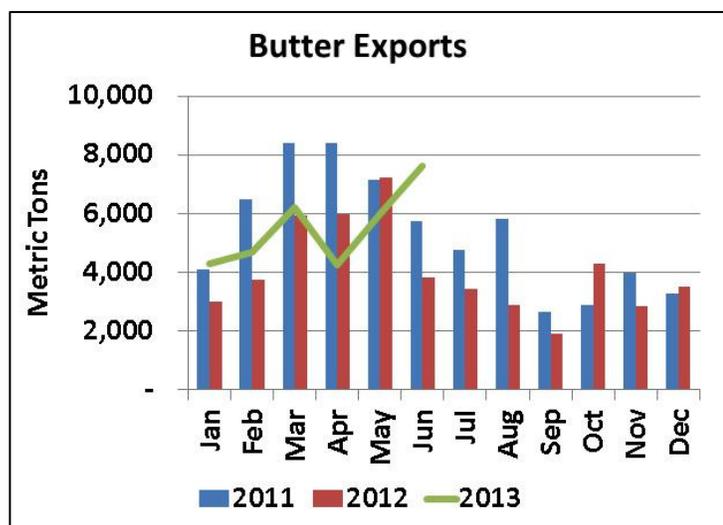
Global Dairy Trade (GDT) auction prices moved mostly lower, with the exception of buttermilk powder and rennet casein. The weighted average of all products traded slipped 2.4%, the first broad decline since the June 4 auction. Butter prices dropped 5.5% to \$1.55/lb., the lowest average butter price since its debut at the GDT in February. Cheddar prices fell 4.4%. Milk powder prices also moved lower; skim milk powder (SMP) dropped 3% and whole milk powder (WMP) prices were 1.6% lower.

Fonterra is working to contain the ill-effects of the sale of 42 tons of tainted whey, and its efforts seem to be working. The contaminated



they protein was produced in March 2012 and sold to eight companies and processed into as much as 1,000 tons of consumer goods. Fonterra has worked with the buyers to locate and recall all adulterated products. Russia has issued a blanket ban on imports of New Zealand dairy products, but China is working closely to maintain its trade relationship with Fonterra. The Chinese have temporarily suspended imports of some products containing whey powder from New Zealand. With China committed to its primary supplier, the botulism scare will likely have only a minimal impact on the global dairy trade in the short-term.

This is the second blemish on Fonterra's reputation this year. In January they discovered traces of dicyandiamide in some products. The agrichemical posed no food safety risk, but it damaged Fonterra's relationship with key customers, including China. Over time scares like these could encourage end users to diversify their sources of product, because dependence on a single provider puts supply chains at risk.

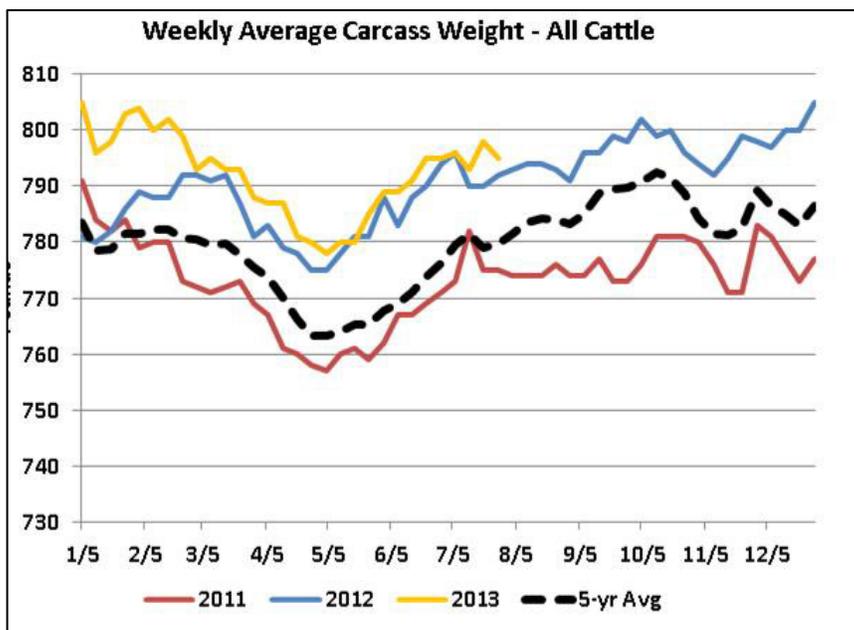


U.S. dairy product exports in June were notably higher than in June 2012. June butter exports totaled 16.8 million lbs., the highest monthly volume since April 2011. This was nearly double export sales in June 2012 and was 32% higher than May on a daily average basis. Cheese and curd exports were up 9.7% from a year ago but down 3.6% from May. Whey exports were slightly larger than May and 3.1% greater than June 2012. Combined NDM/SMP exports of 106 million lbs. were 23% higher than a year ago, but they were 11% lower than daily average export volumes in May. NDM/SMP exports account for half of U.S. milk powder production and are running 11% ahead of year ago levels.

June dairy product exports were the second highest on record in value terms and as a proportion of total national milk solids production. Those records were set in May. June dairy product exports accounted for 16.5% of U.S. milk solids production. In the first half of the year, 14.7% of U.S. milk solids were exported. The U.S. is the only major exporter to report year-over-year gains in dairy product exports. According to the U.S. Dairy Export Council, shipments of dairy products from New Zealand in January through June are 4% lower than a year ago. Exports from Argentina are down 11%. Through May, European and Australian dairy exports are down 9% and 10%, respectively.

Weekly dairy cow slaughter totaled 57,170 head, up 2.3% from a year ago. Year to date slaughter is up 2.9% from last year.

Tyson Foods announced that beginning September 6 it will no longer accept cattle fed Zilmax, a beta-agonist feed additive to promote weight gain. Cattle producers started using Zilmax and competing additives like Optaflexx en masse early last year. The improved efficiency helped to combat rising feed costs and the lack of available pasture in the Plains. Carcass weights have risen notably since, helping to offset declines in the beef cattle herd. An estimated 80% of beef cattle are fed Zilmax and Optaflexx.



If other cattle processors follow Tyson's lead and refuse to accept cattle fed Zilmax and Optaflexx, carcass weights will likely return to historical norms. Cattle producers can offset some of the lost weight by feeding cattle for longer, especially after cheaper and more plentiful feed arrives. Still, a total ban on beta agonists in the U.S. could reduce beef supplies by as much as 2%. For now, however, cattle producers can simply switch from Zilmax to Optaflexx, and those with cattle near more than one processor can switch to a competitor.

Tyson and its competitors may be incented to enact a complete ban of beta agonists in order to access export markets, including China and Russia, that do not allow U.S. beef. Or the beef industry could treat beta agonists much like the dairy industry has responded to BST: with a public push to end its use and appease consumers and then a gradual – and quiet – re-adoption.

Grain and Hay Markets

December corn futures fell to new multi-year lows, settling at \$4.53¼. Disappointing conditions in Iowa have been more than offset by the potential for record-breaking yields in other states, including Illinois and points south. The crop is another week closer to harvest, and the weather premium eroded accordingly. New crop soybean prices were little changed this week. The soybean crop is in solid condition but remains vulnerable to an early frost, which would certainly hamper soybean yields.

FRED DOUMA'S PRICE PROJECTIONS...

Aug 9 Est: Quota cwt. \$19.10 Overbase cwt. \$17.40 Cls. 4a cwt. \$18.47 Cls. 4b cwt. \$16.64

Last Week: Quota cwt. \$19.05 Overbase cwt. \$17.36 Cls. 4a cwt. \$18.55 Cls. 4b cwt. \$16.51

CDFA ANNOUNCES HEARING ON CALIFORNIA'S CLASS 4B FORMULA: *(By Rob Vandenheuvel)*

This week, the California Department of Food and Agriculture (CDFA) announced that on September 12th, they will be holding a hearing to consider the petition filed last month by California producer organizations. As a reminder, that petition – using 2012 data – would have raised the Class 4b price by about \$0.67 per hundredweight, or an increase of about \$0.28 per hundredweight to the Overbase price. The specifics of the petition are based on a letter sent to Dr. Richard Pan (D-Lodi) from the lobbyists representing the Dairy Institute of California (if you haven't seen that letter yet, you can find it at: <http://www.milkproducerscouncil.org/070813dairyinstitute.pdf>).

Of course, regular readers of this newsletter are well-aware that a \$0.67/hundredweight increase in the Class 4b price – while certainly needed by our struggling (*to say the least*) dairy families – represents a significant concession from what California producers have been fighting for in recent years. The final prices for July were announced last week and once again, California's Class 4b price was significantly below the Federal Order Class III price (the benchmark price for milk sold to cheese plants around the country).

The "California Discount" for our State's Cheese Manufacturers		
	July 2013	Jan '10 – July '13
California Class 4b Price	\$15.65	\$15.18
FMMO Class III Price	\$17.38	\$16.89
Difference	(\$1.73)	(\$1.71)
<i>The "California Discount": \$895,000,000 since January 2010</i>		
<i>\$525,800 per 1,000-cow dairy in California</i>		

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This petition, which we sincerely hope CDFA and Secretary Ross will adopt in whole (given that it was proposed by the Dairy Institute in writing and has gotten the support from producer groups), represents a much-needed short term revenue boost for dairy farmers. However, we must continue the efforts toward long-term reforms that will close this gap between California's pay-prices and those around the country. California dairy farmers cannot continue to be the low-cost leaders for milk.

MPC BOARD MEETING TO BE HELD NEXT TUESDAY: *(By Rob Vandenheuvel)* MPC's August board meeting will be held next Tuesday (August 13th). This month's meeting will be held in Bakersfield, CA, in the board room of the Kern County Farm Bureau (801 S. Mount Vernon Avenue, Bakersfield). The meeting will start at 11 am. All current and prospective MPC members and associate members are welcome to attend. Lunch will be provided, so if you plan to attend, please RSVP by calling (909) 628-6018.