



Milk Producers Council

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TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0325 \$1.6875
Barrels - \$.0350 \$1.6375

Weekly Average, Cheddar Cheese

Blocks - \$.0245 \$1.7035
Barrels - \$.0260 \$1.6595

CHICAGO AA BUTTER

Weekly Change +\$.0500 \$1.5050
Weekly Average +\$.0310 \$1.4885

DRY WHEY

Dairy Market News w/e 01/18/13 \$.6025
National Plants w/e 01/12/13 \$.6566

NON-FAT DRY MILK

Week Ending 1/11 & 1/12

Calif. Plants \$1.5362 8,377,860
Nat'l Plants \$1.5482 17,265,637

Prior Week Ending 1/4 & 1/5

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

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

Milk & Dairy Markets

Nearby milk prices took a hit again this week. March Class III futures suffered most, losing around 50¢/cwt. Futures prices for the second half of the year were unchanged. Meanwhile, feed prices continued to rise in the wake of the bullish supply and demand report, and dairy profit margins deteriorated further.

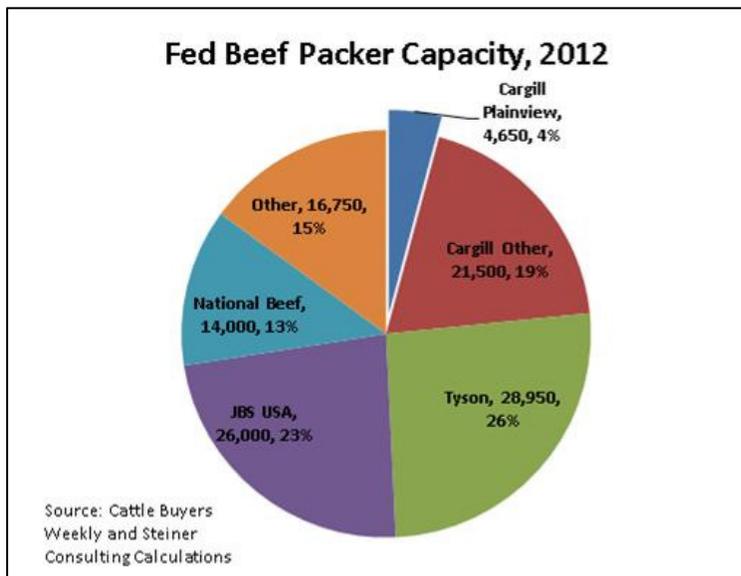
Cheddar blocks and barrels fell in three out of the five spot trading sessions this week, settling at \$1.6875/lb. and \$1.6375, respectively. However, Cheddar moved 0.9% higher at the Global Dairy Trade (GDT) auction, to an average price of \$1.5858. Average Cheddar prices for the National Dairy Products Sales Report (NDPSR) also moved higher, with prices in the low- to mid-\$1.70s reflecting higher cheese prices in December. USDA took pains to note slow demand and soft prices for both cheese and butter in their January Livestock, Dairy and Poultry Outlook, released Thursday.

Butter prices, in contrast, moved higher in every spot trading session this week and settled a nickel higher than last Friday at \$1.5050/lb. Given the gradual but consistent nature of the rise in butter prices, some market analysts believe the bottom has been established and butter is on the path to steady or higher prices. NDPSR butter prices moved slightly lower, averaging \$1.5229/lb. The average price for anhydrous milkfat (AMF) at the GDT auction moved 2.4% higher to \$1.4755. AMF can be substituted for butter in some utilizations.

Grade A nonfat dry milk (NDM) lost a half cent at the CME spot trade on Friday, settling at \$1.53/lb. The Extra Grade market remains untested at \$1.56. The milk powder market feels soft as end users have had plenty of opportunity to contract powder at attractive levels, and heavy milkflows imply strong powder production. GDT skim milk powder prices were slightly lower, but whole milk powder was 2.8% higher, averaging \$1.4914/lb. The average NDPSR price for NDM was nearly 3% lower. For the week ending January 11, the California Weighted Average Price for NDM was \$1.5362/lb., slightly lower than the prior week, but on better sales volume.

Dairy liquidations continue in California and elsewhere, and some beef plants are struggling to keep up with the flow of dairy cull cows. This is in stark contrast to beef processing facilities that strictly handle beef cattle. The beef herd is at its lowest level since 1952, and processors are running below capacity. Cargill announced that it will idle its Plainview, Texas, beef processing facility effective February 1, noting that "the drought has not broken, feed costs remain higher than historical averages, and the herd continues to shrink." This facility represents roughly 4% of processing capacity for fed beef cattle. Cargill could reopen the Plainview facility eventually, but they do not expect growth in the U.S. cattle herd for years.

The Cargill news triggered panicked liquidation in live cattle futures on Thursday amidst uncertainty and concerns that packers would not be forced to pay as much for cattle given reduced competition. However, even without the Plainfield plant, industry slaughter remains well below capacity. This plant closing is an indication of just how tight cattle supplies have become and signals Cargill's well-informed belief that cattle supplies will tighten further. Despite all the talk of beef shortages to date, 2012 per capita beef supplies in the U.S. were only 0.4% lower in 2012 than in 2011 due to a combination of reduced exports and record-large carcass weights. Per capita beef supplies are expected to be 3.5% lower in 2013, and this should support prices. Continued strength in beef prices, coupled with painful dairy profit margins should encourage dairy producers to maintain aggressive cull rates for the foreseeable future.



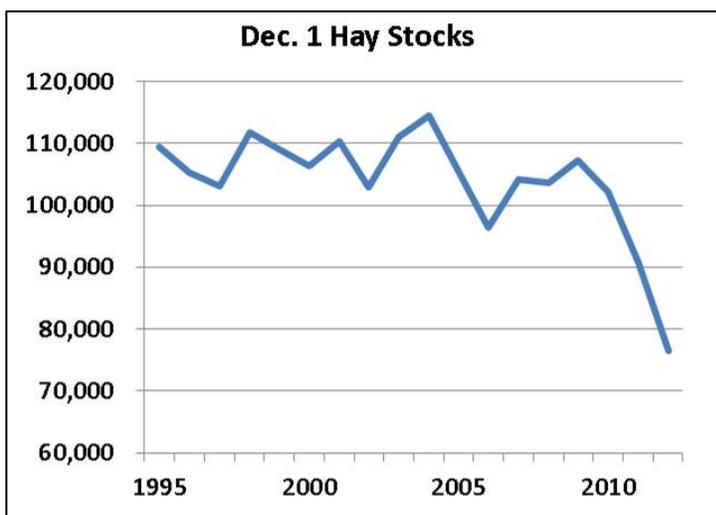
Grain and Hay Markets

The corn market was encouraged to see better than expected export sales reported this week, and prices rose accordingly. However, corn exports remain at very low levels, averaging roughly 7 million bushels per week for the marketing year which began September 1. If they continue at the current pace, full year corn exports would total 750 million bushels, well shy of the USDA's 950 million bushel export forecast. To meet that target, exports would need to average roughly 13 million bushels for the rest of the crop year, or nearly double the current rate. This seems unlikely giving the approaching South American harvest, although the spread between the price of U.S. and South American corn exports for immediate delivery has narrowed considerably. The U.S. may see a slight increase in corn exports for a time, but the price of U.S. corn for later delivery remains significantly more expensive than competing offers in South America.

Two ethanol plants in Nebraska closed their doors this week, and ethanol production has been slow. Ethanol producers are struggling with poor margins and a limit in the amount of gasoline available to blend with ethanol. Ethanol production remains ahead of the pace needed to meet USDA forecasts.

Harvest is nearing in South America, and Argentina and parts of southern Brazil are a little dry. Generally, the crop is in good condition, and production is expected to be strong. Chinese soybean crushers have been increasing imports of both U.S. and South American soybeans of late to nearly double their normal levels, as crushing margins in China have improved. It will be important to see if this is simply in anticipation of strong demand ahead of the lunar New Year's celebration or if it signals a more lasting demand increase.

December 1 hay stocks fell to the lowest level since 1957, down 15.6% from December 1, 2011. 2012 hay acreage was slightly higher than in 2011, at 55.65 million harvested acres, but 2011 and 2012 represent the two lowest hay acreage years since USDA began keeping records in 1919. Alfalfa acreage fell to new lows, down 10% from 2011. 2012 hay production was a record low 119.9 million tons, down 8.6% from 2011. The current crop is vulnerable to damage from



sub-freezing temperatures in the Plains, with little snow – or moisture of any sort – in sight. This lack of moisture is also forcing livestock producers to feed more harvested storage, increasing the demand for hay. Given strong corn prices, hay acreage will probably fall further in 2013, as some alfalfa stands are converted to row crops. This suggests that quality hay could remain scarce and hay prices could remain high for some time.

FRED DOUMA'S PRICE PROJECTIONS...

Jan 18 Est:	Quota cwt. \$18.33	Overbase cwt. \$16.63	Cls. 4a cwt. \$16.99	Cls. 4b cwt. \$15.89
Last Week:	Quota cwt. \$18.33	Overbase cwt. \$16.63	Cls. 4a cwt. \$16.82	Cls. 4b cwt. \$16.00

QUICK NOTE: CDFA EXPECTED TO ANNOUNCE RESULTS OF DECEMBER 21ST HEARING NEXT TUESDAY: *(By Rob Vandenheuvel)* Dairy farmers are anxiously awaiting the results of the December 21, 2012 CDFA hearing on proposed increases to the California classified milk prices. CDFA is expected to announce the results on Tuesday, January 22nd.

MPC has joined dairy organizations and cooperatives throughout California in urging Secretary Karen Ross to make a meaningful increase to the State's monthly minimum prices, particularly the Class 4b price, which applies to the milk sold to cheese manufacturers. We've pointed out the hundreds of millions of dollars in State-sponsored discounts these cheese manufacturers have gotten, courtesy of our significantly discounted Class 4b price relative to the Federal Order Class III price, which is the benchmark price for milk sold to cheese plants around the country.

CDFA has indicated that any changes to the formulas that are announced would be implemented on February 1st. Let's hope Secretary Ross does the right thing and implements a significant and much-needed increase to the California prices.

CENTRAL VALLEY DAIRYMEN, PLEASE MARK YOUR CALENDARS FOR THE CVDRMP ANNUAL MEETING: *(By Kevin Abernathy)* For those Central Valley dairies that are members of the Central Valley Dairy Representative Monitoring Program (or CVDRMP), an annual meeting of the organization is scheduled for January 30th at the Fresno County Farm Bureau. This dairymen-funded initiative has helped reduce the costs for its member dairies by implementing a regional monitoring program (as opposed to a dairy-by-dairy monitoring program, as originally crafted by the Central Valley Water Board). For more information on this annual meeting (including an agenda for the meeting), check out this letter that was recently sent to the member dairies of the CVDRMP: www.milkproducerscouncil.org/cvdrmpmtg.pdf

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.