



Milk Producers Council

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TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0075 \$1.7450
Barrels - \$.0150 \$1.7075

Weekly Average, Cheddar Cheese

Blocks - \$.0150 \$1.7450
Barrels - \$.0222 \$1.7113

CHICAGO AA BUTTER

Weekly Change - \$.0100 \$1.5400
Weekly Average - \$.0297 \$1.5413

DRY WHEY

Dairy Market News w/e 05/31/13 \$.5813
National Plants w/e 05/25/13 \$.5742

NON-FAT DRY MILK

Week Ending 5/24 & 5/25

Calif. Plants \$1.6019 7,163,589
Nat'l Plants \$1.5505 9,835,175

Prior Week Ending 5/17 & 5/18

Calif. Plants \$1.6019 7,163,589
Nat'l Plants \$1.6338 17,133,979

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

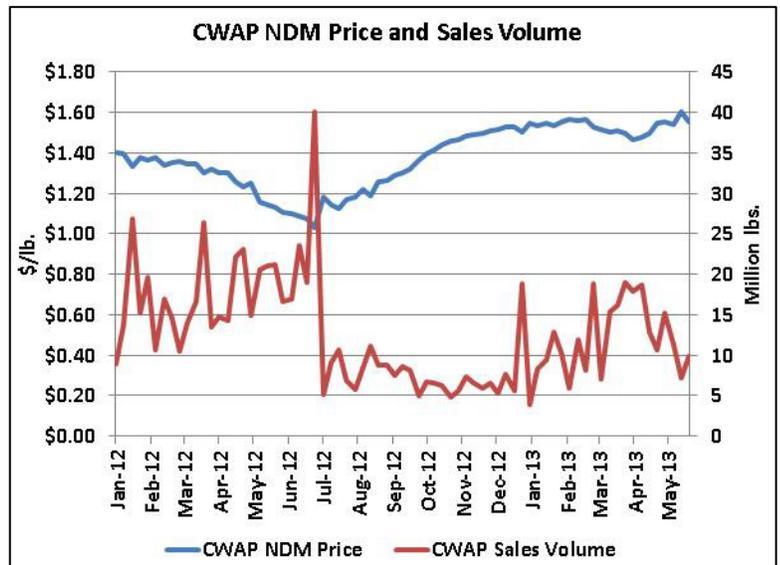
Milk & Dairy Markets

Dairy markets moved quietly lower during this holiday-shortened week. Class III futures lost a dime or so. Class IV futures were steady to a nickel lower. CME spot butter lost a penny, while Cheddar blocks dropped 0.75¢ and barrels fell 1.5¢.

National Dairy Products Sales Report Prices were mixed, Butter and Cheddar blocks posted declines, while barrels, nonfat dry milk (NDM) and dry whey prices increased. The California Weighted Average Price NDM was \$1.5505/lb., more than a nickel lower than the prior week. However, sales volume improved from just over 7 million lbs. to nearly 10 million lbs. Last week's sales volume was the lowest since early March, demonstrating that while demand has picked up notably from the levels prevailing in the second half of last year, milk powder buyers are resistant to substantial price increases.

Dairy product prices remain range-bound, pressured by burdensome stocks at home and supported by tight supplies and diminished production abroad. Cool, wet weather persists, dampening demand for ice cream and cheeseburgers. There is plenty of milk available, and processing plants are running full. Cream continues to make its way to the butter churn rather than the ice cream vat, and butter stocks are at record highs and growing. Butter futures have fallen accordingly.

U.S. exports have done little to slow inventory builds despite global supply disparities. U.S. manufacturers remain well-positioned to export product quickly and in large volumes. The fact that they have not done so yet has cowed the bulls and pushed Class III futures roughly \$1.50 below the highs established last month. If exports do not pick up later this year, U.S. dairy product stocks will seem even more burdensome and prices could fall under further pressure. Conversely, an uptick in exports could quickly revive bullish fervor.



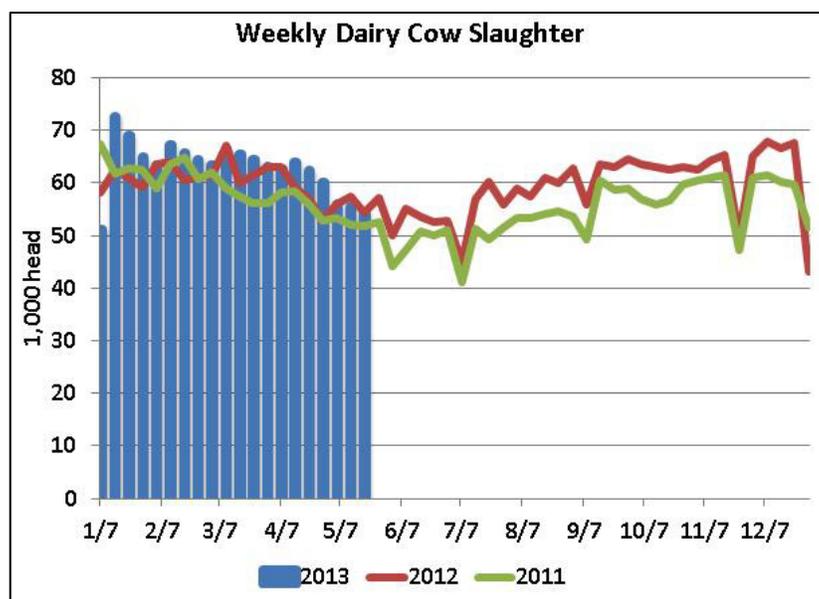
Weather permitting, Oceania's dairy producers will likely do all they can to increase milk production later this year. Fonterra announced a record-high forecast for farmgate milk prices in the new season at \$7 per kilogram of milk solids, a significant increase from the current \$5.80/kg pay price. Dairy Australia announced an opening price of \$5.80/kg, up from \$5.00 currently. Fonterra attributes the strong forecast to global production shortfalls. The co-op expects the 15 largest dairy exporting nations to increase supply by just 0.5% this year, compared to 1.8% growth in 2012.

While the hope of high milk checks could inspire thoughts of expansion, New Zealand's dairy producers have basically run out of room. The U.S. Dairy Export Council notes in its May Export Profile that the islands are home to 6.5 million dairy cattle. Producers there have managed to pasture a national herd equaling the combined dairy herds of California, Idaho, Michigan, Minnesota, New Mexico, New York, Pennsylvania, Texas and Wisconsin. The dairy industry competes for land with more than 31 million sheep and 3.7 million beef cattle. Kiwi dairy producers can increase milk production – and likely costs – by supplementing grass with grain, but they will not be able to add many cows.

The California Department of Food and Agriculture estimates that Golden State dairy producers were paid an average of \$16.59/cwt. last year, down from \$18.52 in 2011 according to their annual Cost of Production report for 2012. Meanwhile, costs increased 11.2% year over year and feed costs grew by 13.7% to an average of

\$11.48/cwt. Milk checks were clearly inadequate to cover costs for California dairy producers in 2012, leading to the heavy slaughter pace and a torrent of liquidations. That flood of sellouts continued earlier this year, but it has slowed to a trickle as margins have improved. As a result, there are fewer replacement heifers available for purchase. This, along with sustained profit margins, could lead to an increase in heifer prices.

The dairy cow slaughter pace continues to decline in line with seasonal trends. Weekly dairy cow slaughter for the week of May 18 totaled 54,122 head, down 0.6% from last year. Year to date slaughter is 4.3% higher than a year ago.



Grain and Hay Markets

Storm clouds and soggy fields kept most farmers out of the field this week. The corn crop was 86% planted by Sunday, but little progress was made in prime farming areas of the Northwest Corn Belt thereafter. Some ground remains fallow and part of the newly planted crop is underwater. Farmers are now deciding whether to risk a later than recommended planting date, switch acreage to other crops or take prevent planting insurance. Corn acreage is likely to fall short of the 97.3 million acres that farmers intended to plant, and this has raised the potential floor in new crop corn prices. After nearing \$5.00 per bushel last week, December corn futures raced higher, closing



out the month at \$5.67 ¼. Soybean prices followed corn higher, despite the fact that there will likely be more ground planted to soybeans.

The decline in acreage and effect on yield potential is significant, especially considering the very tight stock situation. However, even if corn acreage fell 10% short of intentions and the average yield was 5 bushels per acre lower than USDA's most recent forecast, the U.S. would still produce a corn crop on par with those in recent years, excluding last year's drought-restricted crop. The new crop corn balance sheet has tightened considerably in the past week, but two full years of very high corn prices have greatly restricted demand. High prices have also encouraged production overseas. Drought and flooding plagued farmers in the world's other major grain regions last year as well, and this year grain prospects around the world are much improved, despite some minor weather issues. A few days of sunshine in the Corn Belt and a drying wind could ease concerns and prices from their current heady levels. A stretch of hot, dry days in July could just as quickly send prices surging again. As always, much depends on the weather.

FRED DOUMA'S PRICE PROJECTIONS...

June '13 Est:	Quota cwt. \$18.64	Overbase cwt. \$16.94	Cls. 4a cwt. \$17.62	Cls. 4b cwt. \$16.08
May '13 Final:	Quota cwt. \$19.19	Overbase cwt. \$17.49	Cls. 4a cwt. \$18.30	Cls. 4b cwt. \$17.20

A REMINDER OF JUST HOW SHAMELESS THE PROCESSOR LOBBY IS: *(By Rob Vandenheuvel)*
We've all heard the statement before: "Processors need producers and producers need processors." There's a fundamental truth behind that statement, but it glosses over some of the fundamental differences between the producer and processor sectors of our industry. **Every once in a while, we get a clear reminder of just how fundamentally different our priorities are from the processors, and this week was another one of those reminders.**

Earlier this week, the International Dairy Foods Association (IDFA) published and distributed a one-page document entitled: *"Dairy Security Act Would Raise Prices on Consumers and Reduce Government Nutrition Program Assistance."* The document is a direct attack on the Dairy Security Act, arguing that the program – which has been included in the 2013 Farm Bills that were approved by the House and Senate Agriculture Committees – would result in milk price increases that "would hurt rather than help middle class Americans when they need it the most."

IDFA's shameless propaganda can be found on their website at: <http://www.idfa.org/key-issues/category/dairy-policy--economics/farm-bill/details/8229/>. According to the document, the Dairy Security Act "would have raised the price of a gallon of milk by over 35 cents at the peak of the 2009 recession, when more than 15 million Americans were unemployed." IDFA is attempting to convey a message that U.S. dairy farmers – who collectively lost **billions** of dollars in 2009 due to milk prices that failed to cover the costs of producing that milk – have a responsibility to make sure that dairy products are as cheap as possible for all who buy them, and they are shamelessly pointing to government assistance programs as the folks who would have to pay more for their dairy products.

This line of arguments coming from IDFA should both offend and anger every dairy farmer in the country. Before getting into the specific claims made in the document, let's get a couple things straight.

1. When milk prices drop, processor margins are protected; producer margins are not.

For a vast majority of the country, the milk produced by dairy farmers is based on the market values for four main dairy products: cheddar cheese, butter, nonfat dry milk and dry whey. When the value of those products drops, as they did in 2009 when we had a significant surplus in dairy products, it obviously impacts the prices a dairy product manufacturer can get for their products in the marketplace. HOWEVER, it also reduces the cost of

the milk they must purchase (the price you as a dairyman receives for your milk). The margin in the middle is protected. **What a great deal huh? It's like having your milk price and feed costs connected; how great would it be to have a built in government-supported system that ensured your feed costs would go down whenever your milk prices dropped?**

That's exactly what our nation's processors benefit from, and the reason that they see no problem with prolonged periods of low milk and dairy product prices, even if that means dairy farmers are losing money. **Processors understand this reality, but they are working hard to make sure that the folks in the U.S. Congress don't realize it.**

2. The government buys milk and dairy products just like other private sector customers. It's not some sort of charitable act by the processors!

IDFA shamelessly tries to paint supporters of the Dairy Security Act as heartless individuals trying to "reduce government nutrition program assistance." But in 2009, when consumers of dairy products – whether in the private sector or government buyers – were able to buy their dairy products at lower prices, was it because processors decided to take a financial hit and sell their products at a loss for some charitable cause? Of course not! Those lower prices for milk, cheese, butter and other dairy products came at the expense of the roughly 60,000 dairy farmers who were around at the time, to the tune of BILLIONS of dollars! Processors, on the other hand, were able to sell low-cost dairy products to consumers and the government, all the while protecting their margins since they were able to buy their main input – milk – at a price that was costing dairy farmers their hard-earned equity.

So what is it about the Dairy Security Act that has IDFA and the processors they represent so scared?

Had the Dairy Security Act been in place in 2009, the on-the-farm losses experienced that year would have triggered a *temporary* "market stabilization program," which would have resulted in the dairies enrolled in the program slightly cutting back milk production by 2-4%. The goal of this cutback? Restore supply/demand balance, thereby restoring cheese, butter, nonfat dry milk and dry whey prices that would support a profitable milk price in the U.S.

We have already explained why IDFA doesn't worry about low milk and dairy product prices: because their margins are protected. But they do worry about something else: not having enough milk for their manufacturing operation. And the prospects of tens of thousands of dairy farmers around the country being able to collectively (and temporarily) cut back milk production when the milk prices aren't covering our costs is something they've never had to worry about and don't want to ever worry about. They just want your milk, whether the prices they pay covers your costs or not.

And as if all of this wasn't offensive enough, IDFA exploits the most vulnerable members of society they can find – women, children, and recipients of government assistance programs – and accuses dairy farmers of trying to take food out of their mouths, all while they are generating a profit on their sales to these programs. Absolutely shameless.

How do we beat this kind of propaganda machine? We need dairy farmers to be ready to call/write into your Congressman's office, and urge them to support the sensible, market-based reforms in the Dairy Security Act. The House of Representatives will be debating the issue next month, so be ready to do your part to ensure that IDFA's shameless campaign doesn't succeed in killing this critical effort.