



Milk Producers Council

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DATE: April 5, 2013
TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0700 \$1.7625
Barrels +\$.0950 \$1.6925

Weekly Average, Cheddar Cheese

Blocks +\$.0211 \$1.7155
Barrels +\$.0379 \$1.6435

CHICAGO AA BUTTER

Weekly Change +\$.0800 \$1.7100
Weekly Average +\$.0170 \$1.6645

DRY WHEY

Dairy Market News w/e 04/05/13 \$.5600
National Plants w/e 03/30/13 \$.5816

NON-FAT DRY MILK

Week Ending 3/29 & 3/30

Calif. Plants \$1.4982 19,067,843
Nat'l Plants \$1.5066 30,768,989

Prior Week Ending 3/22 & 3/23

Calif. Plants \$1.5083 16,192,151
Nat'l Plants \$1.5100 29,875,321

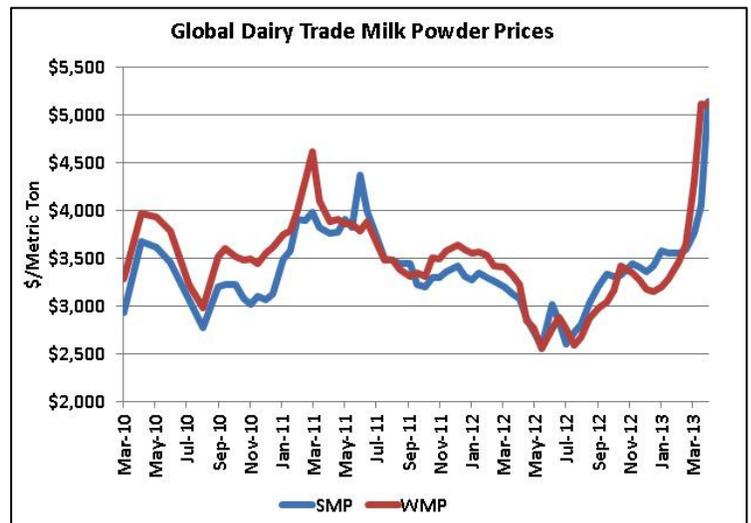
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

Spring has arrived and milk production is rising along with the temperature, particularly in the Midwest. However, while existing dairy product supplies remain more than ample, the market is focused on falling global production, and prices are moving higher. Spot prices reversed course after losing ground last week. CME spot butter was rose 8¢/lb. to \$1.71, making up for its 6.5¢ loss the week before. Cheddar blocks and barrels added 7¢ and 9.5¢, respectively. Nonfat dry milk (NDM) prices rose to their highest level since September. Grade A NDM was up 12.25¢ and Extra Grade NDM added 3¢.

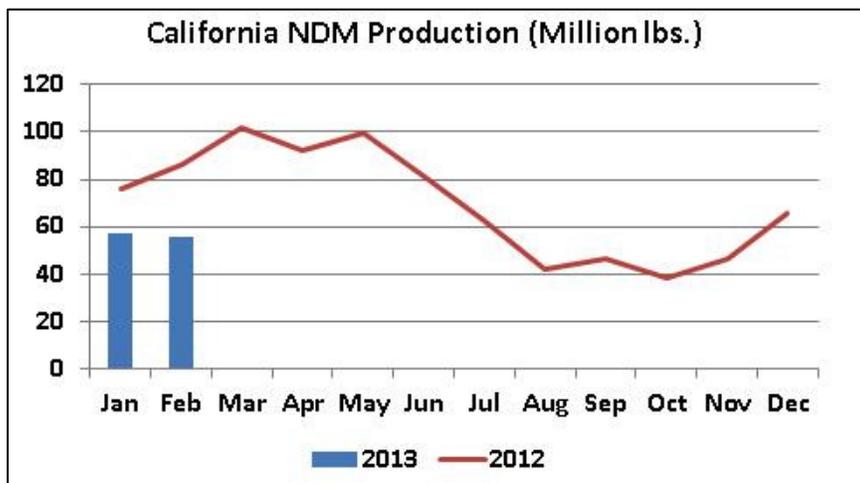
Rising global milk powder prices spurred Class IV futures to post significant gains. July through October futures added a dollar or more, and settled at \$20 or better. Class III futures also moved higher, but most contracts posted much milder gains around 25¢. The current environment offers improved competitiveness for milk producers in California and other markets heavily influenced by milk powder prices relative to the Midwest, where the cheese price is the primary driver.

With the exception of butter, all products at the Global Dairy Trade auction moved notably higher. The weighted average of all products traded was up 14.2%, to the highest level on record. Skim milk powder (SMP) prices were particularly strong, increasing 27.8% from the auction held on March 19. Whole milk powder (WMP) was up 7%, compounding steep gains at the previous auction. Cheddar prices increased 6.6%. SMP, WMP, Cheddar and butter averaged \$2.40, \$2.31, \$2.10 and \$1.96 per pound, respectively, marking a significant premium to U.S. dairy product prices. Fonterra is reportedly making plans to ration milk powder sales in an effort to fully serve key customers.



USDA's Dairy Products report was generally neutral, showing stronger national butter and cheese production in February. U.S. butter production was up 4.7% from last year and up 0.8% from January on a daily average basis. However, given that February is a shorter month, production was lower than January in absolute terms. U.S.

cheese production was up 3.6% from February 2012 and up 1.4% from January. Combined NDM/SMP production was up 4.9% from January, but down 1.6% relative to the prior year. Dry whey production was down 1.3% from last month and 6.3% below year ago levels.



While national dairy product production was mostly higher than last month and last year, this was not the case in the Golden State. California butter production was up slightly from January, but was 12.4% lower than a year ago. Cheese production was down 1.8% from February 2012 and down slightly compared to January. Nonfat dry milk production was particularly soft, falling 36% from a year ago and holding steady with January's production levels.

USDA revised its estimate of January NDM stocks from a shockingly large 249.44

million lbs. to 198.18 million lbs. But February stocks were 225.15 million lbs., up 16.5% from a year ago. Dry whey stocks increased 4.5 million lbs., and are 7% higher than in January and 32% higher than the prior year. The U.S. is the only major global dairy exporter with stronger production than a year ago in 2013, and with plentiful dairy product inventories, the U.S. is poised to capitalize on attractive prices and strong demand in the global export market. Both the U.S. Dairy Export Council and Rabobank forecast a 5% increase in dairy product exports this year.

The California Weighted Average Price for milk powder fell 1.01¢/lb. last week, to \$1.4982. Sales volume totaled 19.07 million lbs., the highest weekly volume since June. California's powder manufacturers appear to be discounting offers to move product quickly.

Weekly dairy cow slaughter was 64,383 head, up 4.7% from the same week a year ago. Year to date slaughter is up 5% from a year ago. Dairy cow slaughter in Region 9 was slightly lower than last year.

USDA's National Agricultural Statistics Service (NASS) will report monthly milk production estimates using administrative data, but NASS will not conduct the two remaining quarterly producer surveys. They will not report milk cow and milk per cow statistics until the new federal fiscal year begins in October.

Grain and Hay Markets

Feed prices continued to slide this week, as the market adjusted to last week's news that corn supplies are not nearly as tight as assumed. Nearby corn futures shed 65¢ per bushel. Soybeans dropped 45¢. In contrast, wheat prices moved higher this week, as it is probable – but not confirmed – that China has stepped in to purchase U.S. soft red winter wheat. Furthermore, the French National Institute for Agricultural Research warned that French wheat yields could drop 5-6% if the current wave of cold weather lasts beyond mid-April. Last month, France experienced its coldest March since 1987. Cold weather could damage the wheat crop in neighboring Germany as well. Paris wheat futures moved higher this week. Given the dramatic shift in the relationship between corn and wheat prices, livestock producers will likely reduce substitution of wheat for corn in feed rations. While livestock producers generally are enjoying much cheaper feed, they still face very high forage costs.

Although USDA reported larger than expected stocks, grain and oilseed inventories remain tight. Bunge will cease operations at its Emporia, Kansas, soybean crushing facility on May 1 and remain closed until harvest due to a shortage of available soybeans to crush. Feed buyers will likely face a very strong basis and tight soybean meal and canola supplies until fall.

Chinese officials slaughtered 20,000 birds at a market in Shanghai, as flocks in the region are infected with avian influenza. Officials are closing down live poultry markets in several cities. Chinese soybean meal demand was already showing signs of weakness, and it will likely slow from current levels. The Chinese are hypersensitive to signs of danger in the food supply. Chinese demand for pork and poultry has already fallen significantly, which could dampen global meat prices.

Soil temperatures are warming, and planters are rolling in the southern Corn Belt. From now until harvest, new crop grain and oilseed futures could be quite volatile, changing course with the forecast.

FRED DOUMA’S PRICE PROJECTIONS...

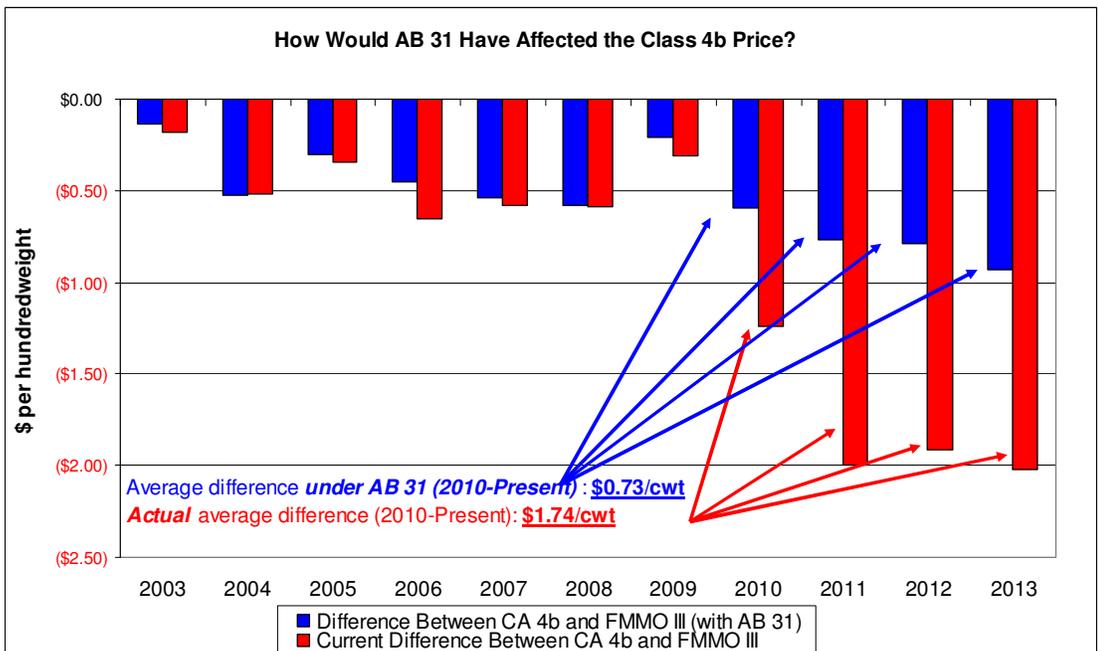
Apr 5 Est: **Quota cwt. \$18.76** **Overbase cwt. \$17.06** **Cls. 4a cwt. \$18.02** **Cls. 4b cwt. \$16.36**
Mar '13 Final: **Quota cwt. \$18.03** **Overbase cwt. \$16.33** **Cls. 4a cwt. \$17.87** **Cls. 4b cwt. \$15.02**

WITH HEARING ON AB 31 COMING UP, PRODUCERS GET YET ANOTHER REMINDER OF THE “CALIFORNIA DISCOUNT”: *(By Rob Vandenheuvel)* The California Assembly Agriculture Committee is scheduled to meet on Wednesday, April 17th to consider several bills, including AB 31 (Pan), which would set California Class 4b price (for milk sold to California’s cheese manufacturers) in a closer relationship with the Federal Order Class III price (which is used as the benchmark price for comparable milk sold around the country). With that hearing as a backdrop, the price announcements for March 2013 give us yet another reminder of just how generous the “California discount” is for milk California-produced milk being sold to California’s cheese manufacturers.

As you can see in this chart, our California Class 4b price once again lagged below the Federal Order Class III price by \$1.91 per hundredweight (and \$1.74/cwt since 2010, when this disturbing trend first began).

The “California Discount” for our State’s Cheese Manufacturers		
	February 2013	Jan '10 - Present
California Class 4b Price	\$15.02	\$15.05
FMMO Class III Price	\$16.93	\$16.79
Difference	(\$1.91)	(\$1.74)
The “California Discount”: <u>\$798,000,000</u> since January 2010		

What does this mean in real dollars? It means that the “California Discount” being enjoyed by California’s 57 cheese manufacturers has now reached more than \$798,000,000 since January 2010, all on the backs of the roughly 1,600 dairy farms left in California. That represents almost \$472,000 per 1,000-cow dairy!



In 12 days, California’s dairy farmers will have the opportunity to make our case to the Assembly Agriculture Committee that this issue needs to be addressed. AB 31 is the bill before the Committee that would have a direct impact on this huge disparity.

As you can see from the chart, AB 31 is an extremely generous offering from the dairy farmers. It would result

in a Class 4b price that continues to fall short of the Federal Order Class III price, but significantly closes that gap. AB 31 also exempts the first 100,000 lbs of milk a plant purchases per day from paying the “dry whey factor,” which means for that volume of milk (which for about half the plants in California is their entire milk supply), their price per hundredweight would actually go DOWN from the current Class 4b price.

One would hope that with such a generous proposal, perhaps the State’s processors and their lobbyists at the Dairy Institute of California would support the legislation. **WRONG. The Dairy Institute is fighting AB 31 with all their strength. They are working hard to ensure that California’s cheese plants continue to get as much as possible out of the “California discount.”**

That’s why dairy farmers need to do everything they can to come out to the April 17th Assembly Ag Committee hearing. We need to send a strong message to the Committee members: California’s dairy farmers deserve a fair price for the milk they sell!

CALIFORNIA MILK MARKETING ORDER ACT INTRODUCED IN THE U.S. SENATE: *(By Rob Vandenheuvel)* Two weeks ago, we announced that Congressman David Valadao (R-Hanford) had introduced H.R. 1396 in the U.S. House of Representatives, a bill that would give California dairy farmers the flexibility to propose a California Federal Milk Marketing Order, while maintaining the State’s quota system. What was inadvertently left out is that Senator Dianne Feinstein (D-California) introduced identical language in the U.S. Senate the very next day.

Milk Producers Council, which supports the legislation, greatly appreciates the leadership of Senator Feinstein in introducing this important bill. We look forward to working with all our California Congressional members as we seek opportunities to get this legislation signed into law, opening up more opportunities for reforming the California pricing system. As we see in the previous article, this work in Washington, DC cannot happen fast enough.