



Milk Producers Council

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DATE: May 8, 2015
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0025 \$1.6125
 Barrels +\$.0025 \$1.6200

Weekly Average, Cheddar Cheese

Blocks +\$.0005 \$1.6105
 Barrels +\$.0100 \$1.6280

CHICAGO AA BUTTER

Weekly Change +\$.1350 \$1.9850
 Weekly Average +\$.0390 \$1.8910

DRY WHEY

Dairy Market News w/e 05/08/15 \$1.4350
 National Plants w/e 05/02/15 \$1.4649

NON-FAT DRY MILK

Week Ending 5/1 & 5/2

Calif. Plants \$0.9557 14,988,436
 Nat'l Plants \$0.9506 19,773,154

Prior Week Ending 4/24 & 4/25

Calif. Plants \$0.9360 26,940,500
 Nat'l Plants \$0.9527 39,623,920

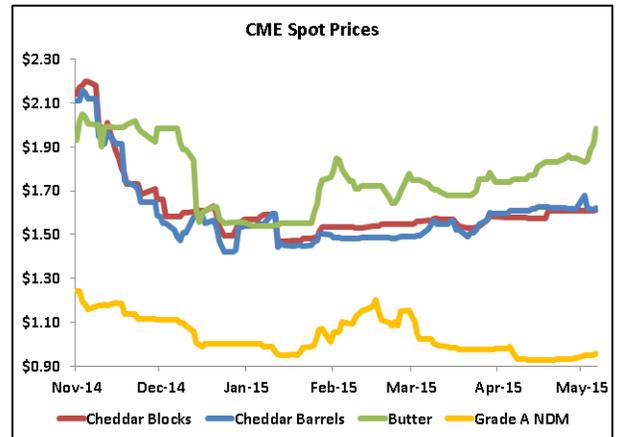
FRED DOUMA'S PRICE PROJECTIONS...

May 8 Est: Quota cwt. \$15.85 Overbase cwt. \$14.15 Cls. 4a cwt. \$13.89 Cls. 4b cwt. \$14.56
 Last Week: Quota cwt. \$15.72 Overbase cwt. \$14.03 Cls. 4a cwt. \$13.53 Cls. 4b cwt. \$14.55

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

Milk & Dairy Markets

The butter market exploded this week. After slipping on Monday, CME spot butter gained a penny on Tuesday, a nickel on Wednesday, 2¢ on Thursday and an astounding 7.5¢ on Friday. All told, spot butter climbed 13.5¢ this week to \$1.985/lb. This pushed a number of futures contracts to settle at their upward daily trading limits on both Thursday and Friday, and with the exception of the May contract, butter futures settled at new contract highs across the board. The spot nonfat dry milk (NDM) market was quiet in comparison; it closed at \$0.9575, up 2¢ on the week. 2015 Class IV futures contracts gained between 18 and 61¢ this week.

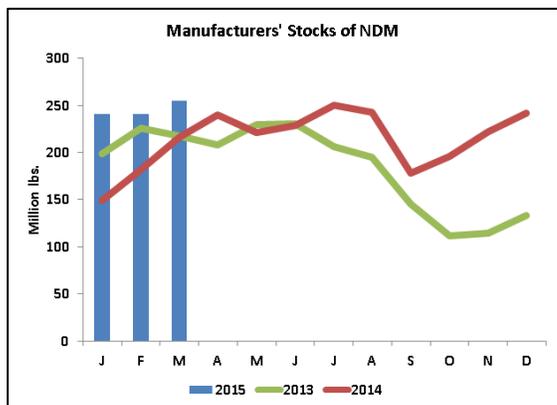
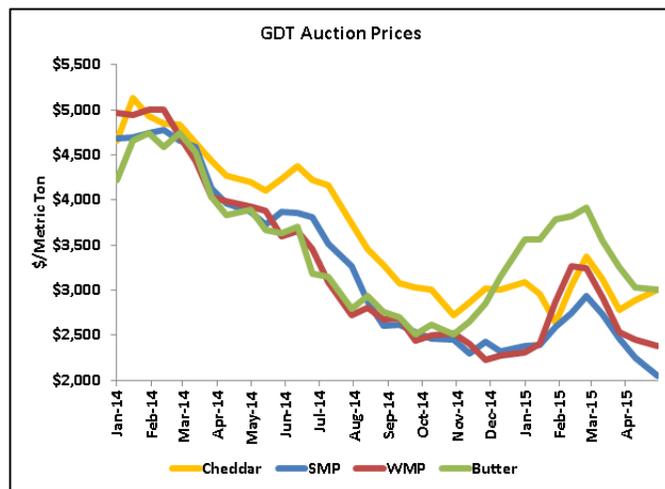


On the surface, the spot Cheddar market appears placid. Both blocks and barrels ticked up 0.25¢. But the week-to-week calm belies a rather volatile day-to-day trade. Barrels jumped 6¢ on Monday only to lose it all and then some Tuesday. The head-fake left the trade momentarily stunned, but it recovered quickly. Class III futures marched relentlessly upward in the latter half of the week and settled notably better than last Friday. The June and July contracts tested new highs.

Meanwhile, dairy product prices continued to slip at the Global Dairy Trade (GDT) auction. The GDT index fell 3.5% to its lowest level since August 2009. Skim milk powder (SMP) prices dropped 75% to their lowest average price in a more than five year history at the GDT. Whole milk powder (WMP) prices dropped 1.8% and butter fell 0.8% from the previous auction. Only Cheddar moved higher; it gained 9.1%. However, at \$1.37/lb., it remains well below the U.S. market and is unlikely to offer much support to domestic cheese prices.

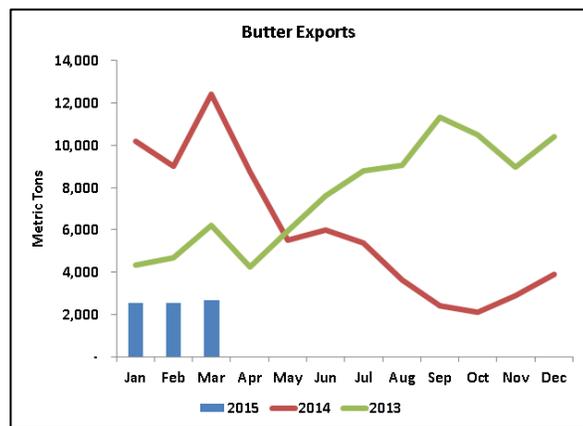
The GDT may be weighing on U.S. milk powder prices, or perhaps it is the other way around. In any case, there is no shortage of milk powder anywhere in the world. U.S. production of NDM and SMP reached 219.6 million pounds in March, up 4% from the prior year and 8.2% more than February on a daily average basis. Despite robust exports, manufacturers' stocks of NDM rose to a new record high of 254.5 million pounds, up 17.8% from March 2014.

Cheese production remains strong, thanks in large part to booming milk production in the Upper Midwest. March output totaled 987.2 million pounds, exceeding March 2014 by 1.8% to establish a new record for the month. Milk continues to flow to cheese vats rather than butter churns. Butter production totaled 161.7 million pounds in March, down 3% from March 2013. First quarter butter output was 3% lower than 2014 and 8.3% lower than Q1 2013. As the *Daily Dairy Report* noted this week, "Geography alone does not explain the shift away from butter and toward cheese production. Even in the Central region, where heavy milk flows were reportedly straining processing capacity, butter output in Q1 was 3.7% lower than a year ago and 9.5% lower than March 2013."



Butter production totaled 161.7 million pounds in March, down 3% from March 2013. First quarter butter output was 3% lower than 2014 and 8.3% lower than Q1 2013. As the *Daily Dairy Report* noted this week, "Geography alone does not explain the shift away from butter and toward cheese production. Even in the Central region, where heavy milk flows were reportedly straining processing capacity, butter output in Q1 was 3.7% lower than a year ago and 9.5% lower than March 2013." Now that spot butter is within a stone's throw of \$2/lb., maybe the product mix will change.

U.S. dairy product exports improved in March to their best level in nine months. According to the U.S. Dairy Export Council, exports accounted for 15.9% of total milk solids production in March, the highest share since July of last year. NDM exports were particularly robust. They reached 121.3 million pounds, 7% more than March 2014 and 40% above daily average exports in February. The increase was driven by a surge in shipments to Mexico. U.S. exporters sent a record-breaking 57.8 million pounds of NDM to Mexico in March, 67% more than a year ago. The big jump in NDM exports demonstrates that the U.S. can remain competitive despite its strong currency. However, with global markets falling, domestic prices will have to keep pace or the U.S. will lose marketshare. U.S. NDM exports fetched an average of \$1.23/lb. in March, down from \$1.93 the year before.



In contrast, U.S. butter exports were anemic. Shipments fell 79% in March relative to last year. Low oil prices may be partly to blame. The top five markets for U.S. butter in 2014 were Saudi Arabia, Iran, Morocco, Mexico and Egypt. In the first quarter of the year, shipments to these oil-producing nations are 70% below Q1 2014.

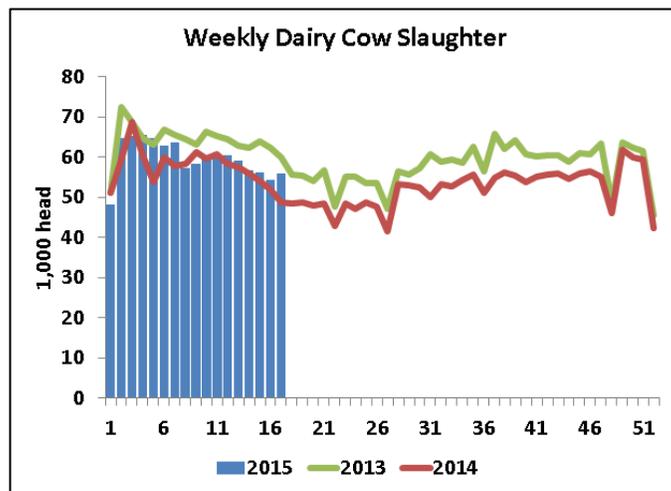
U.S. cheese exports were surprisingly resilient in March. They totaled 75.6 million pounds, 4.7% better than February on a daily average basis abut 5.1% below March 2014 volumes. Pent-up shipments due to the previous backlog at West Coast ports probably augmented the total. Still, given the strong dollar, these volumes are impressive.

For the week ending April 25, dairy cow slaughter totaled 55,852 head, up 14.3% from the same week in 2014. So far this year, dairy cow slaughter is 3.6% ahead of last year's pace. The cull rate remains below levels that signal sustained contraction in the national dairy herd.

Grain Markets

The grain markets are quiet, with little news to push them in either direction. May corn futures slipped 1.25¢ this week to \$3.585/bushel. Strong export sales pushed May soybean futures up to \$9.845, up 16¢ from last Friday. The weather is largely favorable for both crops, although there are some concerns about the slow planting pace in Kentucky and Tennessee.

Farmers still hold much of last year's corn, and soybeans have been moving to processors at a glacial pace. This has slowed the flow of soybean meal to end users. Cash soybean and soybean meal prices have remained elevated despite large inventories in both the U.S. and South America. Eventually, these supplies will weigh on the market, but for now the lack of farmer selling in both hemispheres is supporting prices.



LATEST DAIRY CARES REPORT POSTED ON OUR WEBSITE: (By Rob Vandenhuevel) The April 2015 Dairy Cares Newsletter has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the recent efforts by the California dairy industry to do its part in protecting the Tricolored Blackbird. As we've written in previous issues of our newsletter, the Tricolored Blackbird received a temporary emergency listing under the California Endangered Species Act. Many of these birds choose fields growing dairy-related crops for their nesting process, which occurs around this time of year. Working with local biologists in the NRCS offices, a number of dairies who have found colonies of these nesting birds have been able to delay harvest of their field in order to allow the nesting process to complete. It is obviously our hope as an industry that these efforts can result in stronger Tricolored Blackbird populations and avoiding permanent listing as an Endangered Species.

FOLLOWING UP ON THIS WEEK'S "OUTREACH MEETINGS" ON THE CA-FMMO: (By Rob Vandenhuevel) The U.S. Department of Food and Agriculture (USDA) conducted their "Outreach Meetings" this week on the issue of a California Federal Milk Marketing Order (FMMO). The meetings, which were held in Chico, Fresno and Palmdale, drew a crowd of dairy farmers, processors and other allied industry folks.

The meetings covered a number of issues, including: (1) an explanation of the FMMO hearing process; (2) a presentation from the proponents of each of the four proposals; and (3) a time of questions and answers. I was personally able to attend the Fresno and Palmdale meetings, and believe it was a very worthwhile meeting for those who were able to attend. For those who were not, USDA has posted the presentations from the meeting on their website at: <http://www.ams.usda.gov/AMSV1.0/CAOutreach>.

USDA's presentation was largely focused on the process of conducting a Federal Order hearing. USDA staff noted in their presentation that they have some additional work to do in assessing whether or not to conduct a hearing, including economic analysis of the proposals. A decision on holding a hearing is likely to come "late summer." Assuming there is a hearing scheduled, it would occur at least 30 days after that announcement.

Following the presentation by USDA, there were presentations on the cooperative's original proposal (which has garnered the support of all three producer trade associations), followed by presentations on the three alternative proposals submitted by: (1) the State's dairy processors, (2) producer-handlers and (3) an out-of-state dairy farm. Future issues of this newsletter will delve into more details on those other three proposals. So stay tuned...