Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

DATE: April 4, 2014 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0350*	$2.3500
Barrels	*- $.0650*	$2.2250
Weekly Average, Cheddar Cheese		
Blocks	*- $.0305*	$2.3855
Barrels	*- $.0945*	$2.2410

CHICAGO AA BUTTER		
Weekly Change	*- $.0300*	$1.9700
Weekly Average	*+$.0170*	$1.9870
DRY WHEY		
Dairy Market News	w/e 04/03/14	$.6463
National Plants	w/e 03/29/14	$.6672

NON-FAT DRY MILK		
Week Ending 3/28 & 3/29		
Calif. Plants	$2.0262	17,642,788
Nat'l Plants	$2.0734	20,144,671
Prior Week Ending 3/21 & 3/22		
Calif. Plants	*$2.0332*	*12,751,885*
Nat'l Plants	*$2.0892*	*16,787,532*

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FRED DOUMA'S PRICE PROJECTIONS…

April 4 Est:	**Quota cwt. $24.49**	**Overbase cwt. $22.80**	**Cls. 4a cwt. $23.54**	**Cls. 4b cwt. $22.56**
March '14:	**Quota cwt. $24.18**	**Overbase cwt. $22.49**	**Cls. 4a cwt. $23.37**	**Cls. 4b cwt. $22.16**

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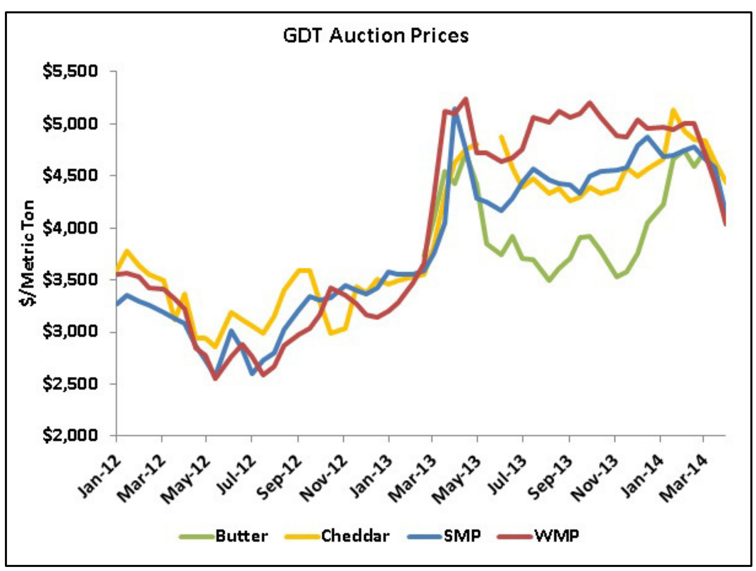
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

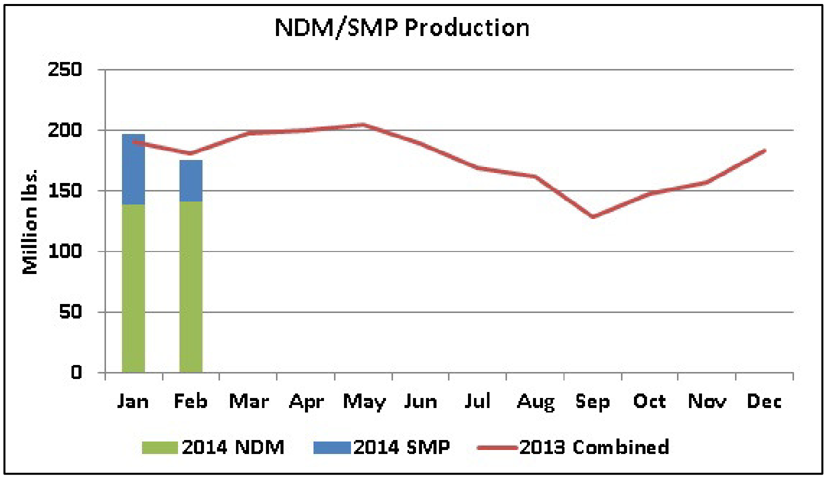
CME spot dairy product prices moved universally lower this week, but they did so in varying fashions. Spot butter prices climbed Tuesday and then leaked away, shedding 2.5¢ Wednesday and another 1.5¢ Thursday. Butter settled at $1.97/lb. Nonfat dry milk (NDM) dropped 3.25¢ on Tuesday and then held at $1.9975. Most Class IV contracts posted double-digit losses, and May futures were 49¢ lower than last Friday.

The Cheddar barrel market moved consistently lower; it lost 4¢ Monday, another 2¢ Thursday and 0.5¢ Friday to close out the week at $2.225. The real fireworks were in the block trade. Blocks rallied Thursday to $2.4225, up 3.75¢ on the day and within a penny of the all-time highs. But buyers suddenly lost interest Friday and blocks were offered precipitously lower. They settled at $2.35, down 7.25¢ on the day and 3.5¢ lower than last Friday. While barrel supplies are adequate, blocks have been scarce and, until Friday, buyers with immediate needs desperately bid the market higher. Despite the big move to close the week, blocks still hold a historically wide premium of 12.5¢ over the barrel market. Class III futures plunged after the startling decline in block prices. On Friday the May contract settled nearly limit down. Nonetheless, April through June Class III futures ended higher than last Friday, and later contracts were mixed. Second quarter whey futures were notably strong this week, which helped to support Class III futures.



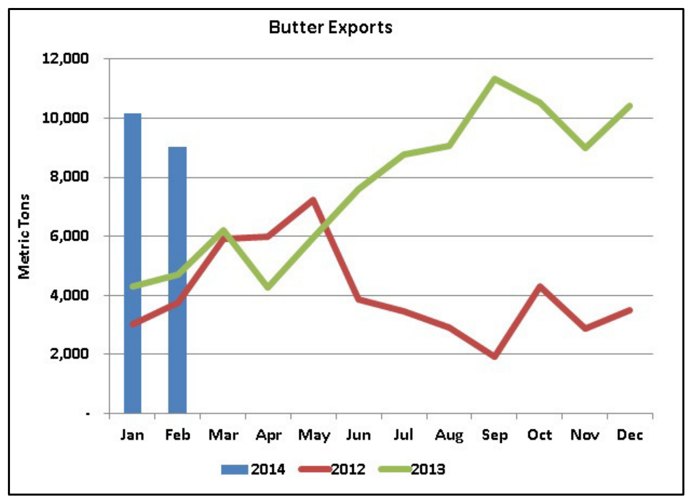
USDA announced March Class III milk at $23.33/cwt. down 2¢ from February but a formidable $6.40 higher than February 2013. Class IV milk was

$23.66, up 20¢ from last month and $5.91 higher than last year. California 4b milk was $22.16, up $1.02 from last month and up $7.14 from last year. California 4a milk was $23.37, 28¢ higher than February and up $5.50 from a year ago.

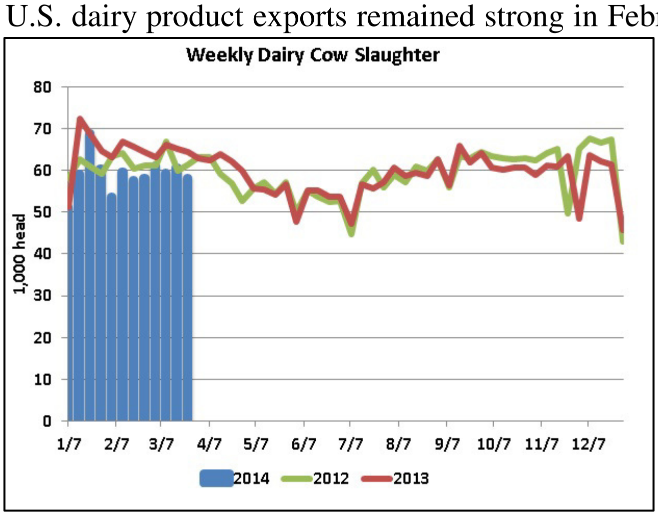


Prices were sharply lower at the Global Dairy Trade (GDT) auction. The GDT index fell 8.9%, its steepest drop since April 2012. Butter lost 11%, and Cheddar declined 3.5%. Tuesday's average winning prices for skim milk powder (SMP) and whole milk powder (WMP) were the lowest in over a year. SMP dropped 9.6% while WMP fell 8.4%. The global milk powder market is clearly faltering. Similar weakness looms in the other dairy markets. The temporary shortage of fresh cheese has propped up nearby cheese prices in the U.S., but the spring flush is nearly upon us, and overseas production is growing. As the futures curve demonstrates, dairy product prices have likely peaked and are expected to decline with each passing month.

This week marks the start of the final quota year for the European Union. Dairy producers in northern Europe have been gleefully ignoring quota limits as margins there are excellent, and a mild winter has allowed for very strong production. Margins in the U.S. are equally favorable, but Mother Nature has not been so kind. The polar vortex seems to have chilled dairy producers' efforts to ramp up milk production in much of the country. Milk supplies are growing seasonably, but not in large volumes. Thus, February butter, cheese and milk powder production was a little higher than January on a daily average basis, but production was significantly lower than in February 2013. Production of American cheese varieties fell to its lowest level since September 2011, which helps to explain the tight block market. SMP production was almost 20% lower than last year, as driers switched their focus to NDM, which takes less time to process.



U.S. dairy product exports remained strong in February. Butter exports declined slightly from January on a daily average basis but were nearly twice as strong as February 2013. Cheese exports were 8% higher than in January and 44% greater than February 2013. Milk powder exports were 3% higher than a year ago and just over 3% stronger than the previous month. But NDM exports could fade in the months to come. Europe is gaining market share much more quickly than the U.S. European SMP exports grew 43% in January compared to the prior year. Meanwhile, key buyers of U.S. powder are taking a step back. U.S. NDM exports to Mexico in February were 33% lower than last year. Even before a potential decline in total milk powder exports, inventories are growing. Manufacturers' stocks of NDM rose to six month highs.



Dairy producers culled 58,252 head in the week ending March 22. This was 9.5% lower than the same week in 2013. Year-to-date slaughter is 8.6% lower than at this time last year.

Grain Markets
Nearby corn futures gained almost a dime this week and settled at $5.0175/bushel. The fundamentals of the corn market remain largely unchanged. Prices are not high enough to entice end users to slow corn demand. The ethanol and livestock industries are enjoying excellent margins and exports remain robust. But grain supplies are more than adequate to satisfy that demand. Fields in much of the Corn Belt are cold and wet, which could spark concerns about planting delays and reduced corn acreage in the weeks to come.

Soybean futures added nearly 40¢ this week. Soybeans are likely to gain acreage based on today's prices, and weather delays will only tip the scales further toward oilseeds. But for now, crushing demand has not slowed enough to preserve domestic soybean supplies through harvest. Soybean meal exports were surprisingly large this week, which pushed soybean meal prices to climb ever higher. This increased the incentive for crushers to process even more of the dwindling soybean supply while reducing stocks of soybean meal available for domestic users. For dairy producers and other soybean meal users, harvest and the prospect of lower oilseed prices is painfully distant.

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MANAGER'S NOTE: Last week, we began a series on the new Margin Protection Program. You can find that article at: http://www.milkproducerscouncil.org/032814dpmpp.htm. Next week, we'll continue that multi-part series, delving deeper into the details of how the program works and its potential impact on producers.

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IT'S THAT TIME OF THE MONTH AGAIN; WHAT WAS LAST MONTH'S "CALIFORNIA DISCOUNT"?: *(By Rob Vandenheuvel)* March is now in our rear view mirror, so once again, it's time to calculate the State-Sponsored Discount lavished upon California's cheese manufacturers.

The "California Discount" for our State's Cheese Manufacturers		
	March '14	2010 – Mar '2014
California Class 4b Price	$22.16	$15.72
FMMO Class III Price	$23.33	$17.38
Discount	($1.17)	($1.66)
The "CA Discount": More than $1.26 Billion since January 2010.		

The table to the right compares the California Class 4b price (for milk sold to CA cheese manufacturers) to the Federal Order Class III price (the benchmark price for milk sold to cheese manufacturers around the country). Since 2010, more than $1.26 Billion have stayed in manufacturer's pockets rather than being paid into the California pool. What does that mean for the average CA dairy? If you're a 1,000-cow dairy producing 65 lbs of milk/cow/day, this $1.26 Billion represents **more than $730,000 since 2010 to your dairy alone!** Efforts to fix this, such as the development of a California Federal Milk Marketing Order discussed below, continue to move forward. This problem isn't going to solve itself.

KEEPING OUR EYES ON THE BALL: *(By Rob Vandenheuvel)* Staff from the three major California cooperatives – California Dairies Inc., Dairy Farmers of America and Land O'Lakes – continue their work towards finalizing language to be submitted to the U.S. Department of Agriculture (USDA) that would establish a Federal Milk Marketing Order (FMMO) in California. There are ten FMMOs around the country (a map can be found at: http://goo.gl/DTvyVf), and while there are some things that are the same in all ten of those Orders (such as the Class II, III and IV prices), there are other things that are unique to each order. While USDA ultimately decides what to include in the final Order language, the three cooperatives are looking closely at those unique aspects of a potential California FMMO as they put together their draft language to be submitted to USDA.

In the meantime, just because there are many details "T.B.D.," that hasn't stopped some from analyzing and pontificating about what could possibly be in the final draft, and how that could impact both producers and processors in California. One such analysis was published last week by a trio of dairy economists: John Newton from the Univiersity of Illinois, Cameron Thraen from The Ohio State University and Andrew Novakovic from Cornell University. Their full publication can be read at: http://farmdocdaily.illinois.edu/pdf/fdd270314.pdf.

Much of the five-page report was factual in nature, and certainly highlights some of the issues that will be debated at length in a USDA hearing process. **However, there was a recurring theme that really caught my attention, and will undoubtedly be repeated many times throughout this process.** The report stated, *"What's commonly overlooked in the debate of the milk price divergence are the implications of imposing higher FMMO classified prices on California's competitive position in the dairy processing sector."*

Let me rephrase: Apparently, the California dairy producers are failing to consider whether California's cheese manufacturers can survive if they have to pay a price for their milk that is in line with what their out-of-state competition has to pay.

California dairymen face some of the highest feed costs in the country. Our environmental and labor regulations (and their associated costs) are second-to-none. Our taxes are high, our fees are obscene, and every year, the State Legislature seems to find new ways to make doing business in California more difficult. **And yet, according to this line of thinking – and this is not the first, nor will it be the last time we see this – <u>one additional major consideration should be how we can provide the lowest cost milk in the country to our manufacturers</u>. Really?!?**

Sure, we're a long ways from U.S. population centers of the East Coast. Wisconsin's got us beat on that. But we have a pretty optimal geographic advantage in selling to Mexico or our overseas markets to the West. How is it that cheese manufacturers in Washington, Oregon, or Arizona are able to operate in FMMOs, subject to those pricing regulations? What is it about our California manufacturers that make them so vulnerable that they need a huge "State-sponsored discount" on the milk they buy, or else they could be forced to close up shop and move somewhere else? *(And of course, what price do we think they would be paying for their milk somewhere else??)*

Through all the analysis that we will undoubtedly hear in the months to come, remember this key reality: **In order for the California dairy industry to have a sustainable future, our dairymen need to receive a price for their milk that is: (1) profitable; and (2) in reasonable alignment with what our out-of-state competition receives for the comparable milk they produce.** California's Department of Food and Agriculture (CDFA) is capable of facilitating these needs – in fact, they are directed by law to do so. But as we have unfortunately seen, they have been unwilling to make the necessary changes, resulting in this critical effort to develop a California FMMO.

We must never lose sight of these realities.