# Milk Producers Council

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**DATE: February 14, 2014** **PAGES: 3**
**TO: Directors & Members** **FROM: Rob Vandenheuvel, General Manager**

*MPC FRIDAY MARKET UPDATE*

| **CHICAGO CHEDDAR CHEESE** | | |
|---|---|---|
| Blocks | *- $.1275* | $2.1050 |
| Barrels | *- $.1425* | $2.0625 |
| **Weekly Average, Cheddar Cheese** | | |
| Blocks | *- $.2115* | $2.1100 |
| Barrels | *- $.1895* | $2.1035 |

| **CHICAGO AA BUTTER** | | |
|---|---|---|
| Weekly Change | *- $.0500* | $1.7700 |
| Weekly Average | *- $.1020* | $1.7640 |
| **DRY WHEY** | | |
| **Dairy Market News** | w/e 02/14/14 | $.6150 |
| **National Plants** | w/e 02/08/14 | $.6200 |

| **NON-FAT DRY MILK** | | |
|---|---|---|
| **Week Ending 2/7 & 2/8** | | |
| Calif. Plants | $2.0452 | 11,731,945 |
| Nat'l Plants | $2.0692 | 23,417,968 |
| ***Prior Week Ending 1/31 & 2/1*** | | |
| *Calif. Plants* | *$2.0243* | *10,967,750* |
| *Nat'l Plants* | *$2.0638* | *16,707,594* |

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**FRED DOUMA'S PRICE PROJECTIONS…**

| | | | | |
|---|---|---|---|---|
| **Feb 7 Est:** | **Quota cwt. $23.24** | **Overbase cwt. $21.54** | **Cls. 4a cwt. $22.93** | **Cls. 4b cwt. $20.97** |
| **Last Week:** | **Quota cwt. $23.56** | **Overbase cwt. $21.86** | **Cls. 4a cwt. $22.95** | **Cls. 4b cwt. $21.66** |

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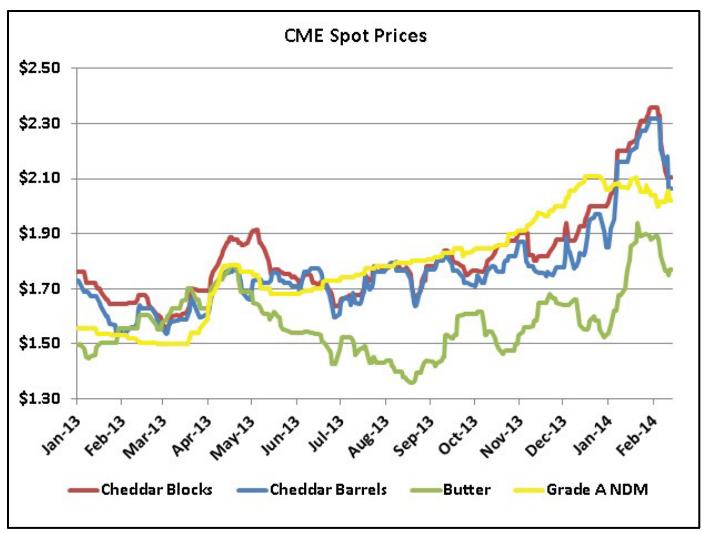
**MARKET COMMENTARY:** *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

*Milk & Dairy Markets*

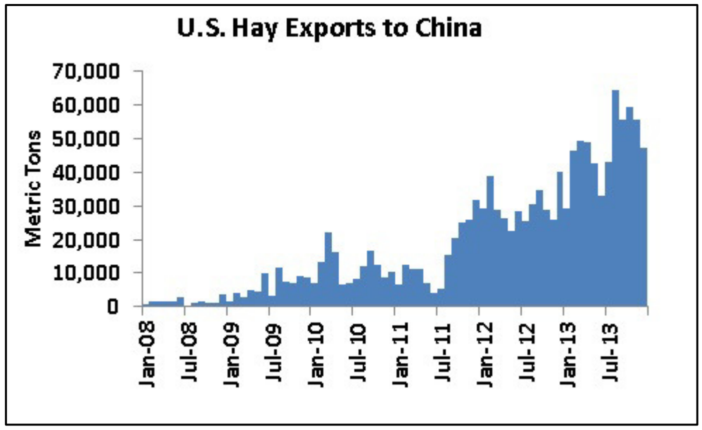



The CME spot Cheddar market fell apart earlier this week. Blocks lost 10.25¢ on Monday and barrels lost 5.25¢. The cheese market was much quieter late in the week, and by Friday blocks closed at $2.105/lb., down 12.75¢ from the prior week. Barrels lost 14.25¢, closing at $2.0625. With lower prices came higher volume. A total of 24 block and 16 barrel loads changed hands. Class III futures were apparently immune to the flailing cheese market. Most contracts gained ground this week, and February through June futures added at least 20¢.

Spot butter also plunged on Monday, but it regained some ground late in the week. Butter closed at $1.77, down a nickel from last Friday. Butter prices in Europe fell to the lowest level in more than ten months. However, butter prices continue to rise in Oceania. The U.S. remains the obvious source for butter; prices here are about 50¢ lower than that of competing export markets.

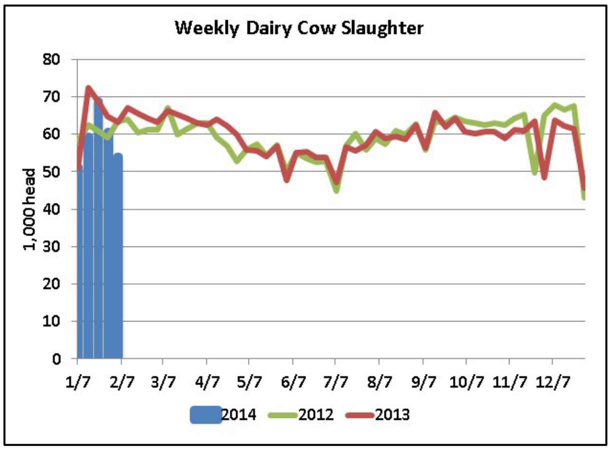
The milk powder market started the week on a strong note but faded Thursday. Spot nonfat dry milk (NDM) closed at $2.02, up 0.25¢ from last week. The California Weighted Average Price for NDM gained another 2.1¢ this week, averaging $2.0452. Sales volume reached the highest level since June. It seems that high prices are not slowing milk powder demand for now. Class IV futures added between 10 and 41¢ since last Friday.

Recent rains in California were welcomed but woefully insufficient. In the aftermath of the worst drought on record Golden State dairy producers will struggle with a lack of local forage and very high feed costs. But for now, they are enjoying an early spring. Corrals are dry, cows are comfortable and milk production is high. Dairy producers around the nation are trying to increase production in response to high milk prices and positive margins. But severe weather has hampered efforts to grow the milk supply in much of the country. The mild winter has given California producers a short-term advantage but there may be a painful reckoning later this year.




Chinese government statistics confirmed what the market has suspected for some time. Chinese milk output fell 5.7% in 2013 from 2012. Chinese dairy producers have thinned the herd amidst poor margins and disease. But USDA statistics suggest that the lack of growth in production per cow is a larger force behind the Chinese milk deficit. Since 2009, Chinese milk output per cow has grown at roughly half the rate of the mature U.S. dairy industry.

Growth in China is slow despite their considerable efforts to modernize the dairy industry there. They have imported the Western dairy model and Holstein genetics. But a balanced dairy ration is expensive and quality forage supplies are scarce. China imported 575,282 metric tons of alfalfa from the U.S. in 2013, up 60% from the year before and nearly eight times as much as in 2009. But it is not enough. Very little of China's precious water and farmland is devoted to dairy quality forage. China will likely continue to import growing volumes of alfalfa and dairy products as long as Chinese incomes continue to rise.




Weekly dairy cow slaughter totaled 53,911, down 14.7% from the same week a year ago. Dairy producers are clearly slowing cull rates in an effort to expand milk production and avoid paying ever more for replacement heifers. At the weekly dairy sale in Turlock, the average price of #1 Holstein springers topped $2,000.

*Grain Markets*

Corn futures went nowhere this week. USDA increased its estimate of corn, wheat and soybean exports in its monthly revisions to the World Agricultural Supply and Demand Estimates. It seems that global grain buyers are restocking after years of very tight supplies. But there is more than enough grain in the world, and the change has had little impact on corn prices.

Soybean and soybean meal futures climbed again this week. The South American crop is large, and harvest is underway. Brazil is exporting beans at a record pace. But U.S. bean exports remain strong. Chinese buyers are looking to cancel some U.S. soybean cargoes and switch their business to the Southern Hemisphere. But ships are lined up in U.S. ports, and it is simply too late for cancellations. Chinese authorities are more aggressively looking for traces of unapproved GMOs in soybean cargos, perhaps as an excuse to undo their contracts. Soybeans will continue to leave the country well into March.

U.S. bean supplies are tight, and unless the domestic crush slows or imports rise significantly, supplies will be impossibly tight by the time new crop supplies arrive. The weather is indeed slowing the U.S. crush, which could help to ease soybean supplies later this year, but for now it is propping up soybean meal prices. High soybean and soybean meal prices will encourage farmers to plant more soybeans this year, but it will be some time before the potential for a large U.S. soybean crop can pressure prices.

Argentina's political uncertainty represents a wild card for global soybean prices. Argentine farmers are still holding most of last year's crop, and they are reticent to sell. Soybeans are the best hedge against rampant inflation and the government-manipulated peso, so most farmers won't sell until they need cash. But the Argentine government is running out of funds and may soon be forced to default on its debt. The Peronist government has no fondness for soybean farmers, and the soybean industry may represent the most tempting source of income for the debt-laden government. If Argentina's politicians intervene, they could pry some soybeans away from farmers and export them. In the meantime, however, increasing instability is sending a clear signal to Argentina's farmers to hunker down and hold onto their soybeans. They will likely continue to hoard their most liquid asset.

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**ANOTHER UPDATE ON THE CALIFORNIA DISCOUNT:** *(By Rob Vandenheuvel)* While projected milk prices have retreated somewhat from their recent highs, the pay price for milk sold throughout the U.S. is certainly at historically high levels. While this is very welcome news, and we hope that pay prices will continue to be profitable for the foreseeable future, from a policy perspective we need to keep in mind that our California dairy families deserve a fair price for their milk, and under our current system, there continues to be a significant "California Discount" on the milk we sell to our State's cheese manufacturers.

| The "California Discount" for our State's Cheese Manufacturers | | |
|---|---|---|
| | January '14 | 2010 – Jan '2014 |
| California Class 4b Price | $20.31 | $15.47 |
| FMMO Class III Price | $21.15 | $17.13 |
| Difference | ($0.84) | ($1.66) |
| *The "California Discount": More than $1.2 Billion since January 2010. Yes, that's more than $1,200,000,000 in a State-sponsored discount.* | | |

As you can see from the table, there continues to be a significant discount in the California Class 4b price compared to Federal Order Class III price – the benchmark for milk sold to cheese plants around the country. Since this discount really began to grow in 2010, more than $1.2 Billion have stayed in manufacturer's pockets rather than being paid into the California pool. What does that mean for the average CA dairy? For a 1,000-cow dairy producing 65 lbs of milk/cow/day, this $1.2 Billion represents **more than $715,000 since 2010 to your dairy alone!!**

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**A CHANCE TO DO SOMETHING ABOUT IT - FARM BILL PROVISION FOR CALIFORNIA:** *(By Rob Vandenheuvel)* Understandably, much of the discussion about the dairy provisions in the newly-signed Farm Bill law have focused on the new Dairy Margin Protection Program that will be launched later this year. We will be discussing this program in more detail in the coming months, as dairy producers will eventually be asked if they want to participate in the program, and if so, how they want to craft their dairy's participation.

But one thing that hasn't been talked about much is a short but significant provision included in the bill dealing with California and the options our industry and USDA has in crafting a California Federal Milk Marketing Order. Specifically, the Conference Report for the Farm Bill states that *"the provision provides the Secretary of Agriculture with the discretion, if a California Federal milk marketing order is requested, to recognize the longstanding California quota system, established under state marketing regulations, in whatever manner is appropriate on the basis of a rulemaking hearing record."* In shorthand, **this gives the U.S. Department of Agriculture the authority to craft a California Federal Order that incorporates our state-run quota program**.

Having this provision in current law provides the authority the three major California cooperatives (CDI, DFA and LOL) have demanded in order to push forward with the consideration of a California Federal Order. The cooperatives have been very clear from the start that their willingness to support a California Federal Order was contingent on this authority to maintain our state-run quota program. Now that the necessary authority is signed into law, the cooperatives have the certainty they were looking for. The next major step in this process is the submittal of a petition and draft order language to USDA in order to launch the hearing process that can ultimately lead to the implementation of a new California Federal Order. Some have pointed out that this is a lengthy process (the hearing process can take up to 14 months), but **after *years* of painfully unsuccessful efforts to fix this egregious issue at the State level, what's another 14 months if it can result in putting California dairy families on an even playing field with our fellow dairy farmers around the country?**