



Milk Producers Council

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DATE: June 13, 2014
TO: Directors & Members

PAGES: 3
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	- \$.0200	\$2.0300
Barrels	N/C	\$1.9675

Weekly Average, Cheddar Cheese

Blocks	+.0285	\$2.0420
Barrels	+.0155	\$1.9650

CHICAGO AA BUTTER

Weekly Change	- \$.0375	\$2.1850
Weekly Average	- \$.0575	\$2.1950

DRY WHEY

Dairy Market News	w/e 06/13/14	\$6.550
National Plants	w/e 06/07/14	\$6.769

NON-FAT DRY MILK

Week Ending 6/6 & 6/7

Calif. Plants	\$1.8454	10,162,093
Nat'l Plants	\$1.8435	22,318,229

Prior Week Ending 5/30 & 5/31

Calif. Plants	\$1.9057	8,383,800
Nat'l Plants	\$1.8901	21,704,687

FRED DOUMA'S PRICE PROJECTIONS...

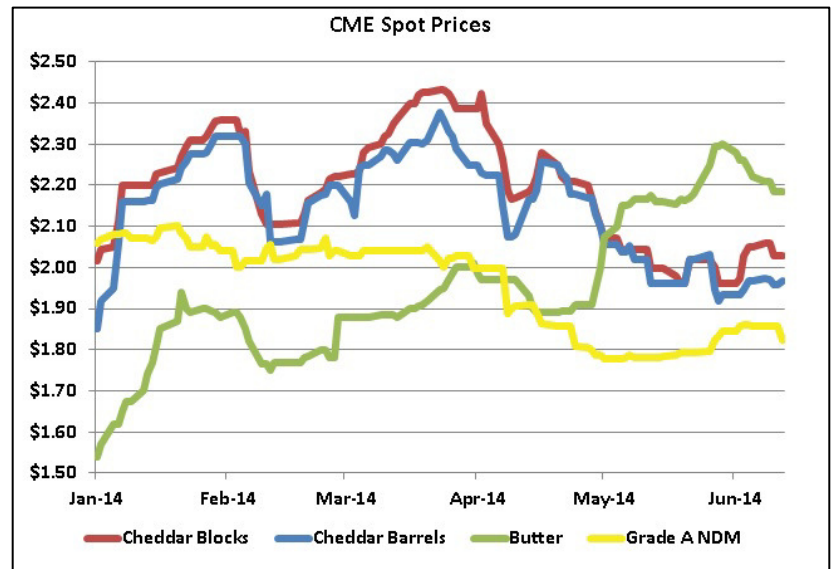
June 13 Est:	Quota cwt. \$22.83	Overbase cwt. \$21.13	Cls. 4a cwt. \$23.23	Cls. 4b cwt. \$19.10
Last Week:	Quota cwt. \$22.90	Overbase cwt. \$21.21	Cls. 4a cwt. \$23.33	Cls. 4b cwt. \$19.20

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

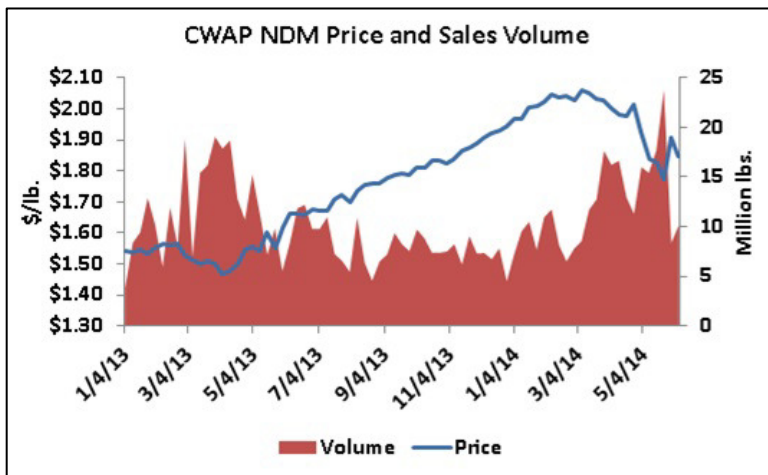
Milk & Dairy Markets

CME spot butter lost 3.75¢ this week, falling to \$2.185/lb., the lowest spot butter price in three weeks. Similarly, spot Grade A nonfat dry milk (NDM) dropped 3.25¢ and closed Friday at \$1.825, marking the lowest price since late May. Class IV futures posted a mixed performance this week, but the largest moves were to the downside. September through December futures posted losses around 30¢ per cwt.

CME Cheddar barrels moved up Monday and lost ground Tuesday and Wednesday. They settled at \$1.9675, steady with last Friday's close. Cheddar blocks fell to \$2.03, 2¢ lower than last week. Losses in the cheese market notwithstanding, Class III futures continued to climb. The July contract was strongest; it gained 55¢ this week.



The sun is shining in most of the country and consumers are reaching for ice cream. Manufacturers are lapping up cream supplies, and this has slowed butter churns. Export sales are also on the decline. However, domestic butter demand continues to best expectations for this time of year, according to *Dairy Market News*. Butter manufacturers are still finding it difficult to build inventories, and this promises to support butter prices in the coming months. July through October futures settled 5¢ higher on Friday, at their upward trading limit.

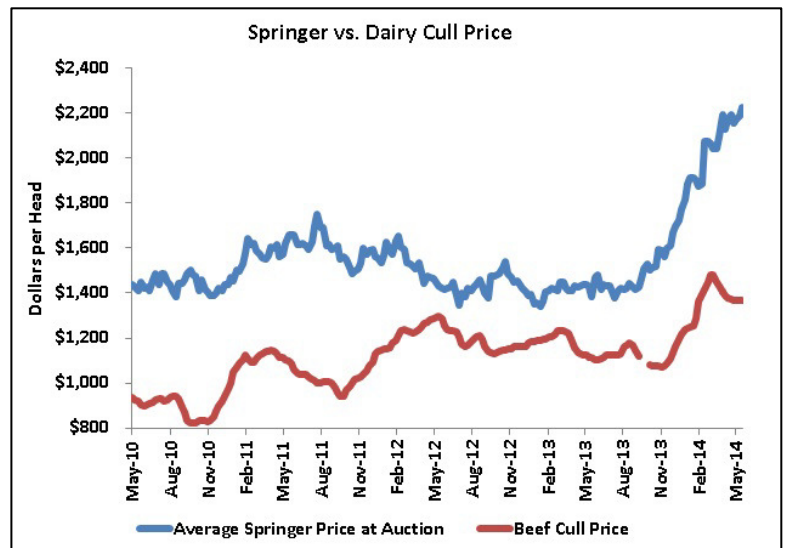


While rising temperatures have slowed milk production in the southern half of the nation, the weather is mild in the Midwest and milk is flowing. Fresh alfalfa is helping to further boost production in areas where last year's substandard forage had depressed milk output. Cheese production is strong. Whey production is also on the rise and whey prices are softening. The European whey market has been dropping for some time, which is also pressuring U.S. prices.

The California Weighted Average Price for NDM fell to \$1.8454 on decent sales volume. This was

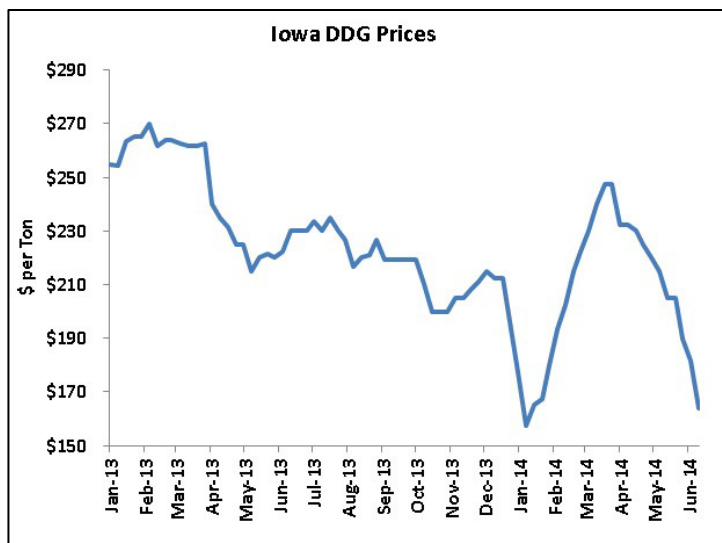
6¢ lower than last week's value, which was sharply higher than that of the preceding weeks. NDM prices were 4.66¢ lower according to the National Dairy Product Sales Report, marking the fifth incidence of lower NDPSR prices in the past six weeks.

Dairy profit margins are excellent, and replacement costs continue to rise. At the Turlock Livestock Auction last week, #1 Holstein springers averaged \$2,225 per head. As the *Daily Dairy Report* noted this week, springer costs have jumped more than \$700 in the past year. For a herd with a 35% cull rate and 75 lbs. of milk, this represents an additional \$1.05/cwt. spent on replacements, or a net of 70¢ net of the \$250 per head increase in cull cow revenue. After years of losing money feeding heifers, dairy producers who maintain a full heifer rotation are finally reaping a reward for their labors. They are also enjoying higher bull calf values equal to roughly 40¢ in ancillary income.



Grain Markets

Corn futures dropped 12¢ this week. Both July and December futures settled at \$4.47. The crop is in excellent condition, but perhaps the bears got a little ahead of themselves. After plumbing four-month lows at mid-week, corn futures regained some ground on Thursday and Friday. There is a lot of weather between here and harvest, and demand for grain appears to be strong. The trade awaits USDA's quarterly Grain Stocks report at the end of the month to confirm its feed demand estimates. The World Agricultural Supply and Demand Estimates report was released Tuesday, but it held no surprises.



With oil prices on the rise, ethanol margins are strong, and production is booming. For the week ending June 6, ethanol production averaged 944K barrels per day, matching the highest weekly level since December 2011. If ethanol production remains robust, it will of course consume more of the corn crop. However, it will also result in greater output of dried distillers grains (DDGs).

DDG prices are already falling thanks to a sudden reduction in Chinese import demand. China has

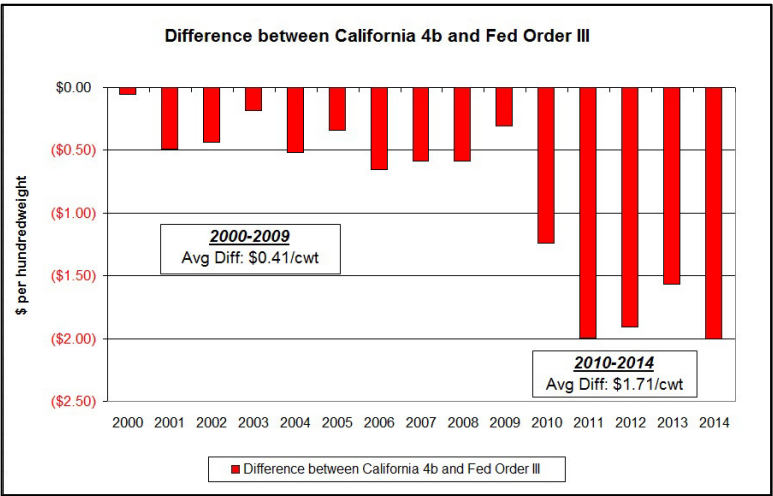
stockpiled too much grain, and domestic prices are lower than the government would like, as Beijing seeks to encourage domestic grain production. Chinese DDG imports reached record levels in April but have since declined. Over the weekend China stopped issuing permits for U.S. DDGs imports, saying that some shipments contain unapproved GMO strains. China has already used this tactic to hold up imports of U.S. corn. Until the situation is resolved, U.S. DDG inventories are likely to rise, and prices could fall further.

July soybean futures lost 31¢ this week. The soybean crop is also in excellent condition, but immediate supplies remain tight. With barges flowing freely, there are more rail cars available to transport feed, and some of the railroad bottlenecks appear to be easing. This has allowed for more canola from Canada to make its way to feed buyers in the U.S. Still, the U.S. cannot afford a sizeable drop in oilseed prices without an equal decline in South American markets. Imports are still needed.

THE CALIFORNIA DISCOUNT – IT HASN’T ALWAYS BEEN LIKE THIS: *(By Rob Vandenneuvel)*
With May 2014 in the books, it’s that time again; time to calculate how our Class 4b price stacks up against the benchmark price for milk sold to cheese manufacturers around the country – the Federal Order Class III price.

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. Since 2010, the gap represents more than \$1.32 Billion in forgone revenue that never made it 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 \$1.32 Billion represents **more than \$763,000 since 2010 to your dairy alone!**

The “California Discount” for our State’s Cheese Manufacturers			
	May ‘14	2010 – Apr ‘2014	2000 – 2009
California Class 4b Price	\$19.34	\$15.90	\$12.87
FMMO Class III Price	\$22.37	\$17.61	\$13.28
Discount	(\$3.03)	(\$1.71)	(\$0.41)
The “CA Discount”: More than \$1.32 Billion since January 2010.			



Also included in the table above is a reminder that we haven’t always had a Class 4b price that is consistently so far below the Federal Order Class III price. **For many years, there was much more balance between the two price series.** From 2000 – 2009, the average gap was \$0.41 per hundredweight. Only in the past four years has the gap blown up to unsustainable levels (see chart to the left).

We need to restore balance and a reasonable relationship between our prices and the prices paid for comparable milk sold all over the U.S. Those efforts are underway, but **producers must continue to pressure their leaders for change.** The status quo is unacceptable, **and only you as dairy producers pay the price of inaction.**