



# Milk Producers Council

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**DATE:** March 1, 2013  
**TO:** Directors & Members

**PAGES:** 3  
**FROM:** Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	- \$.0525 \$1.5750	Weekly Change	- \$.0150 \$1.5750	<b>Week Ending 2/22 &amp; 2/23</b>	
Barrels	- \$.0700 \$1.5600	Weekly Average	- \$.0410 \$1.5590	Calif. Plants	\$1.5660 8,078,002
<b>Weekly Average, Cheddar Cheese</b>		<b>DRY WHEY</b>		Nat'l Plants	\$1.5744 15,347,954
Blocks	- \$.0461 \$1.5970	Dairy Market News	w/e 03/01/13 \$1.5650	<b>Prior Week Ending 2/15 &amp; 2/16</b>	
Barrels	- \$.0520 \$1.5780	National Plants	w/e 02/23/13 \$1.6305	Calif. Plants	\$1.5597 11,929,091
				Nat'l Plants	\$1.5577 16,061,249

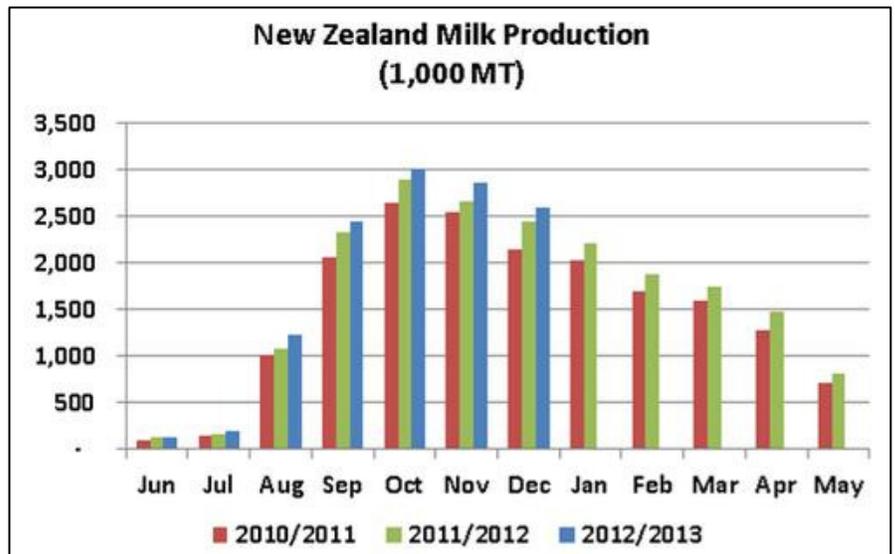
**MARKET COMMENTARY:** (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

Dairy product markets struggled this week, pressured by last Friday's Cold Storage report, which affirmed that for now, there is more than enough cheese and butter to meet demand. CME block Cheddar prices ended the week at an eight-month low of \$1.575/lb., down 5.25¢ from the previous Friday. Barrels lost 7¢. Class III futures followed suit, posting double digit losses for all 2013 contracts. The March contract settled below \$17.00/cwt. Butter prices bounced back from early week declines but still settled 1.5¢ lower than last Friday. The butter market typically strengthens at this time of year.

The minimum price for February Class 4a milk is \$18.01, up 93¢ from January. Class 4b milk fell 43¢ to \$15.41. These prices compare to Federal Order Class III milk at \$17.25 and Class IV at \$17.75, down 89¢ and up 12¢, respectively, from January. California's February through May Class milk prices include temporary price increases. The California Weighted Average Price for nonfat dry milk (NDM) was \$1.566/lb., up 0.63¢ from the prior week. NDM futures moved higher this week, likely supported by news of bad weather in Oceania.

It is still dry in Australia, and conditions in New Zealand are downright awful. After a brief respite in early February, there has been precious little rain on the North Island, and there is none in the forecast. Pasture conditions are deteriorating, and dairy producers are drying or culling milk cows to preserve feed. For the week ending February 25, cow slaughter in New Zealand was 46.5% higher than the same week in 2012 and 26.5% higher than the 5-year average. Season to date slaughter is 17.2% higher than last year, and Agrifax expects full season slaughter to be 8.2% higher than average. Because New Zealand's dairy industry operates within a seasonal system, dairy cows that are culled now will not be replaced until heifers calve in the spring. Therefore, this large early season slaughter is immediately reducing milk production. June to



December milk production was 7% higher than the same period in 2011. However, based on slaughter data, *Daily Dairy Report* analysts estimate that beginning in January and continuing for the rest of the season, milk production will fall below prior year levels. Because export demand easily absorbed surplus milk earlier in the season, the decline will likely create a vacuum in the global dairy markets.

The Commonwealth Bank of Australia noted bad weather as one of a confluence of bullish fundamentals for dairy markets. Production declines in Oceania coincide with rising Chinese demand for dairy products. China imported a record 76,812 metric tons of whole milk powder in January, up 79% from December. There is plenty of room for Chinese demand to continue to grow. Chinese consumption of dairy products is about 40% of the average for developed Asian countries. China is investing in improved milk cow genetics and modern dairy facilities. However, Chinese milk production will be limited by the country's ability to grow enough feed for a thriving dairy industry, and China will continue to rely on imported dairy products.

*Dairy Market News* confirmed that dairy product prices in Oceania are rising, as evidenced by last week's Global Dairy Trade auction. With waning production in the Southern Hemisphere and stronger prices, U.S. cheese and milk powder exports are increasingly competitive. This situation differs starkly from the prevailing environment in late 2012, when U.S. dairy product exports declined sharply, and cheese imports surged. Current low prices are likely encouraging increased export sales, which could help to clear up a portion of burdensome cheese inventories and set the stage for a recovery in prices.

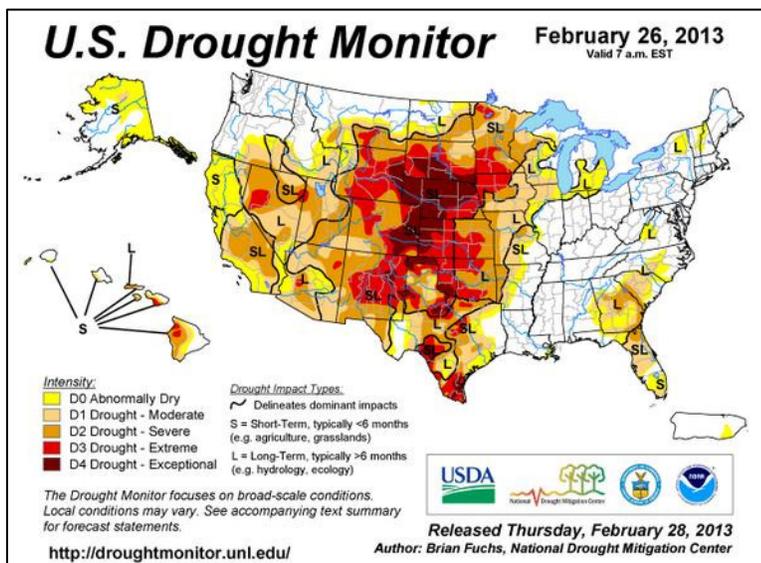
As for domestic demand, signals are mixed. Since the beginning of the year consumers have been hit with an increase in payroll taxes and gas prices that are record high for this time of year, leaving them less to spend on other items, including dairy products. Consumer income fell 3.6% in January relative to last year. Still, consumer spending was up 0.2%, and while Americans may have less money in their pocket, they don't seem worried. The Restaurant Performance Index rose to its highest level in five months in January and topped 100, signaling growth, for the first time in four months. Restaurant operators expressed considerably more optimism about future sales and economic conditions, and if they are right, this bodes well for cream, butter and cheese demand.

For the week ending February 16, dairy cow slaughter totaled 65,600 head, up 8.4% from the same week last year. Year to date slaughter is up 5.6% from 2012 and well above levels needed to cause contraction.

### Grain and Hay Markets

Blizzards moved across the Plains and the Corn Belt this week. Several beef packing plants reduced their hours due to the storms, which will result in a temporary decline in beef production. In the medium term, snowy conditions on feedlots will likely cause a notable drop in carcass weights, as cattle use energy to stay warm rather than gain weight. In the hardest hit areas, death losses among young stock are mounting, which will only exacerbate the looming beef shortage and further support beef prices.

The storms also brought welcome moisture to the center of the country, and winter wheat conditions have improved slightly from their dismal state. Six month precipitation levels are now normal or above in areas east of the Mississippi River, and with planting season around the corner, farmers may even begin to worry about muddy fields. However, over 91% of the High Plains and nearly 56% of the country remains in drought condition according to the National Oceanic and Atmospheric Administration.



Corn prices moved sharply higher this week, with nearby contracts pushing decidedly through the \$7.00 level. Soybean prices were slightly higher. Export sales for both corn and soybeans were better than expected, as Chinese buyers are looking to the U.S. for new crop corn and for near term soybeans. Ethanol production is also moving higher. The Brazilian soybean harvest is progressing, but logistical issues have slowed deliveries, and the more impatient buyers are turning to the U.S. This will likely reduce U.S. exports later this year, as Brazil's soybean supplies will last longer given reduced exports currently. But for the moment, it is supporting soybean prices.

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**FRED DOUMA'S PRICE PROJECTIONS...**

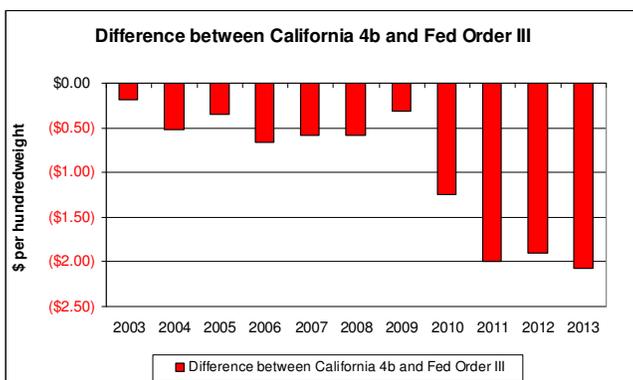
**Feb '13 Final: Quota cwt. \$18.30 Overbase cwt. \$16.60 Cls. 4a cwt. \$18.01 Cls. 4b cwt. \$15.41**  
**Last Week: Quota cwt. \$18.29 Overbase cwt. \$16.59 Cls. 4a cwt. \$17.95 Cls. 4b cwt. \$15.42**

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**DEBATE OVER CALIFORNIA MILK PRICING HEATING UP IN SACRAMENTO:** *(By Rob Vandenhuevel)* As we have written in previous issues of this newsletter, AB 31 is a bill introduced in the California State Assembly that would mandate that our California Class 4b price (which applies to milk sold to cheese manufacturers) must be in much closer alignment with the Federal Order Class III price that is used as a benchmark price for comparable milk sold around the country. There have been indications that a hearing may be held on the bill in the Assembly Agriculture Committee in the coming weeks.

While this debate rages on, the final announcements this week of the final Class 4b (CA) and III (FMMO) prices for February 2013 provided yet another reminder about just how important this issue is. As the table and graph below demonstrate, the "California Discount" being enjoyed by California's 57 cheese manufacturers has now reached **\$775,000,000 since January 2010**, all on the backs of the roughly 1,600 dairy farms left in California. That represents almost **\$458,000 per 1,000-cow dairy!**

The "California Discount" for our State's Cheese Manufacturers		
	February 2013	Jan '10 - Present
California Class 4b Price	\$15.41	\$15.06
FMMO Class III Price	\$17.25	\$16.79
Difference	(\$1.84)	(\$1.73)
<i>The "California Discount": \$775,000,000 since January 2010</i>		



The Dairy Institute of California, representing a majority of the State's manufacturers, has been lobbying aggressively against the bill, putting out material like the flyer we wrote about in our newsletter several weeks ago (<http://www.milkproducerscouncil.org/updates/020813.pdf>).

This week, the Dairy Institute put out another 1-page flyer entitled "Whey'd a minute, AB 31." It can be found at: <http://www.dairyinstitute.org/pdf/Dairy%20AB%2031%20Whey.pdf>. This recent flyer starts out with a quote from a California Department of Food and Agriculture (CDFA)

publication from 2005, which stated, "...the investments required to process [whey] into value-added products are significant and the financial risks...are considerable."

While the flyer contains numerous things producers could respond to, we'll take a simpler approach on this one. What seems to escape our State's cheese manufacturers and their representatives is that **the investments to PRODUCE MILK in California are significant, and the past several years, with dairy farmers sacrificing billions of dollars in hard-earned equity, the financial risks are considerable.** AB 31 is about giving our State's dairy farmers a fair shot by maintaining better alignment with what manufacturers around the country are paying for the milk they buy. We look forward to the opportunity in the coming weeks to make our strong and rational case to the members of the California Assembly Agriculture Committee.