



Milk Producers Council

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DATE: October 10, 2014
TO: Directors & Members

PAGES: 3
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0475 \$2.1975
Barrels - \$.0700 \$2.1000

Weekly Average, Cheddar Cheese

Blocks - \$.0155 \$2.1665
Barrels - \$.0580 \$2.1140

CHICAGO AA BUTTER

Weekly Change - \$.0900 \$2.8050
Weekly Average - \$.0720 \$2.8360

DRY WHEY

Dairy Market News w/e 10/10/14 \$6.000
National Plants w/e 10/04/14 \$6.649

NON-FAT DRY MILK

Week Ending 10/3 & 10/4

Calif. Plants \$1.6060 7,619,916
Nat'l Plants \$1.4925 17,334,878

Prior Week Ending 9/26 & 9/27

Calif. Plants \$1.4273 28,386,979
Nat'l Plants \$1.4422 40,800,023

FRED DOUMA'S PRICE PROJECTIONS...

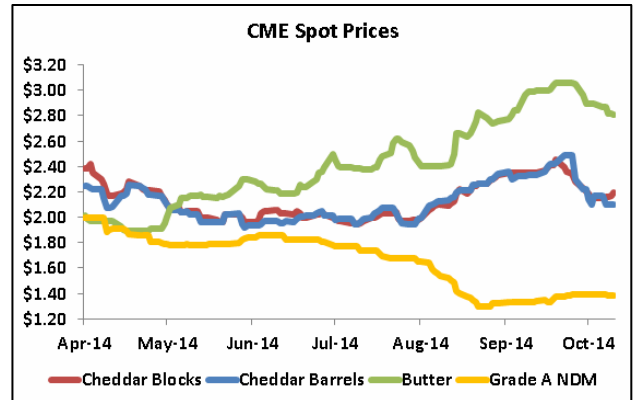
Oct 10 Est: Quota cwt. \$23.46 Overbase cwt. \$21.76 Cls. 4a cwt. \$22.41 Cls. 4b cwt. \$20.74
Last Week: Quota cwt. \$23.28 Overbase cwt. \$21.58 Cls. 4a cwt. \$22.21 Cls. 4b cwt. \$20.48

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

Milk & Dairy Markets

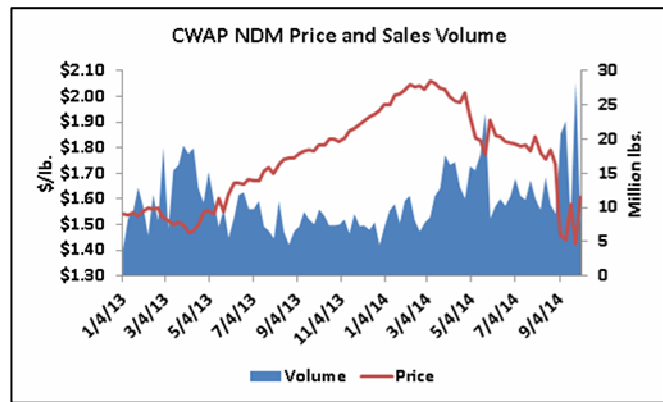
The Cheddar market diverged this week. CME spot blocks gained 4.25¢, ending at \$2.1925/lb. Barrels shed 7¢ on Tuesday and then held at \$2.10. The lack of fresh barrels was the main catalyst for the rally to new highs last month. With evidence that barrels are more readily available, the futures have come under pressure. While November and January Class III futures managed to climb this week, the other contracts deflated.

After nearly a month's hiatus the powder market is slipping again. CME spot nonfat dry milk (NDM) lost 1.5¢, closing the week at \$1.38. The butter market continued its descent, losing 9¢. It closed at \$2.8050, the lowest spot trade in over a month. But concerns about tight inventories persist and butter futures rallied this week. The November, December and January contracts settled a nickel higher on Friday at their upward daily trading limits. Class IV futures were also higher.



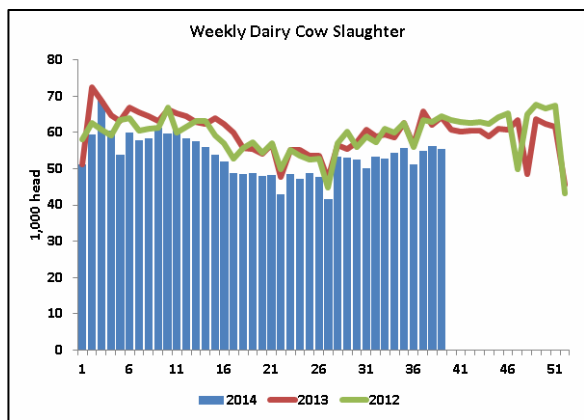
Butter and milk powder prices in Western Europe and Oceania continued to slide over the past two weeks, according to *Dairy Market News*. However, while the spot markets came under pressure and *Dairy Market News* reported lower dry product prices, other indications of domestic markets remain robust. The National Dairy Product Sales Report (NDPSR) reported higher prices for every product except whey. For the week ending October 4, the NDPSR reported an average NDM price of \$1.4925/lb., up nearly a nickel from the previous week. The California Weighted Average Price (CWAP) for NDM rose an astonishing 17.87¢ to \$1.606, posting its largest weekly gain since 2007. Over the past three weeks, the CWAP index has moved violently back and forth. Sales volume has been strong when prices slip to the \$1.40s and much lower on the upswings.

For the first time ever, the NDPSR average butter price has topped \$3/lb. Imports are trickling in and inventories are growing slowly. Manufacturers are wary of putting butter into storage at today's prices, as they'll likely have to sell it eventually for much less. Although cream is more readily available, butter makers are attempting to match churn rates to orders. Many retailers are beginning to stock up for the holidays, but some have chosen to wait in hopes that prices will fall. Retailers are already passing higher prices along to consumers. The national average price for a pound of butter in the week ending October 4 was \$3.68, \$1.23 higher than last year and up 26¢ in just two weeks. As the *Daily Dairy Report* noted, "Retail analysts believe that most consumers who buy butter rather than alternatives like margarine view it as a household necessity. They may alter the timing of their purchases based on price, but they are unlikely to go without. However, given the steep and perhaps prolonged increase in retail prices for creamy dairy products, some consumers are likely to balk."



Global milk production continues to rise, and the industry is surely hoping for a surge in demand to sop up the excess. Falling prices are could provoke an uptick in sales, but there are signs of trouble on the horizon. The U.S. stock market moved violently back and forth this week, posting its largest rally of the year on Wednesday, only to lose it all and then some on Thursday. U.S. and global equity markets are coming under pressure. Germany has suffered a string of disappointing reports, leaving the world to wonder how Europe will recover if its economic engine sputters. The World Bank and International Monetary Fund have warned that Europe could enter its third year of recession in 2015, and they sound less optimistic about growth in the developing world, including China. For a dairy industry already buffeted by Russian sanctions and a lapse in Chinese purchases, a global economic slowdown would be most unwelcome.

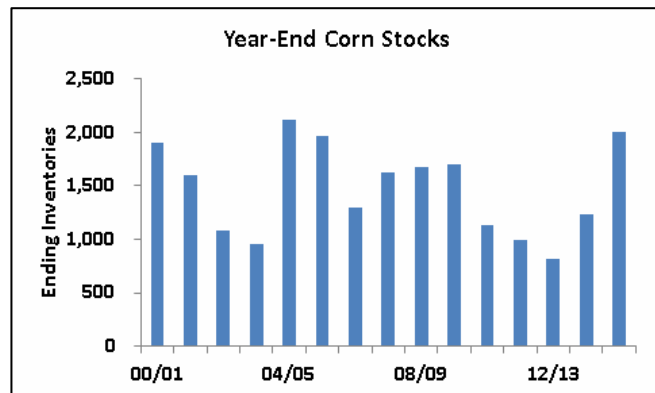
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Grain Markets

Corn futures rallied nearly 11¢ this week. However, the momentum on Friday clearly pointed lower. USDA's World Agricultural Supply and Demand Estimates and Crop Production reports confirmed that the corn and soybean crops are record large. Although USDA's latest forecast calls for slightly lower yields and production than official pre-report expectations, they were greeted by a sell-off. The trade clearly believes that "big crops get bigger" and that crops of this size merit lower prices. USDA estimates the corn yield at 174.2 bushels per acre, with a total crop of nearly 14.5 billion bushels. Grain supplies were adequate before the harvest, and they are quickly becoming burdensome. USDA expects there will be more than 2 billion bushels of corn left over next August. This would be the highest ending inventories since the 2004-05 crop year, when an abundance of cheap grain prompted Congress to pass the ethanol mandate.



Soybean futures settled a dime higher relative to last Friday, but they too were weak in the wake of the reports. USDA expects a soybean yield of 47.1 bushels per acre, with a 3.9 billion bushel harvest. While the reports pressured soybean prices, the soybean meal market rose. As USDA acknowledged in its recent Grain Stocks

report, old crop soybean inventories are smaller than previously thought. Soybean processors and exporters are competing for the first of the crop, and harvest is progressing slowly. As the pipeline is refilled, soybean meal supplies will increase. But for now, they remain scarce, and prices are likely to hold firm for just a little longer.

LATEST DAIRY CARES REPORT POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The September 2014 Dairy Cares Report has been posted at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column goes into some of the natural air quality challenges faced by California's Central Valley, and some of the thankless work that Central Valley dairies have undertaken in doing their part to help improve the region's air quality.

As noted in the column, "record-low levels of ozone were observed for a second straight summer," providing clear evidence of a trend of improving air quality. While the air quality challenges that have faced the Central Valley are largely due to unique geographic features of the region, our local dairy farmers have gone to great lengths to implement "best management practices" in our effort to play our role in improving the local air quality.

The column closes stating, "California dairy families care about clean air, having lived and worked in the San Joaquin Valley for generations. They remain committed to doing their part to improving air quality, while continuing to produce local, sustainable and nutritious dairy products for millions of American families to enjoy."

CDFA INCREASES HERD INSPECTION AND BRAND FEES: *(By Rob Vandenheuvel)* Last week, the California Department of Food and Agriculture (CDFA) announced an increase in the brand inspection-related fees. As you may or may not know, under California law, cattle (including dairy animals) must be inspected by the local brand inspector whenever cattle is sold/transferred, slaughtered, or moved out of state (as well as some other scenarios less common to the dairy industry).

The fee is currently \$1.05 per head for the inspection (with an additional \$1 per head collected, split between the state and national beef check-off programs). As announced last week, that \$1.05 per head will be increased to \$1.25 per head starting November 1st.

While this fee rate has not been increased in quite some time, a 20% increase in those regulatory costs certainly won't be greeted with smiles from the dairy industry. However, **I actually wanted to use this announcement to highlight a related issue not often mentioned** (and likely not widely known amongst the industry). A while back, I worked with a dairyman who decided to bring on the next generation as a minority partner in the dairy operation. For those of you who have gone through that, you know that the dairy needed to be modified from a sole proprietorship to a general partnership, with the original dairyman still the majority owner, but with a new minority partner in place – in this case his son. Under this scenario, CDFA's Bureau of Livestock Identification determined that this was a "change of ownership," requiring an inspection of the entire herd – milking, dry and all support stock – at a cost of \$1.05 per head for each animal. This was despite the fact that the name of the dairy, the location, the composition of the herd and the majority owner all remained the same.

When reading the law, the language that triggers an inspection is quite general: "Whenever cattle are sold or ownership is transferred." CDFA staff took a very literal translation of that language, determining that by transferring or selling a portion of the operation to the next generation, it triggered a whole-herd inspection and the related costly inspection fee. But is this really the intent of this law? Is this really the type of "transfer" that should require a CDFA brand inspection of a family dairy's entire herd?

Recent CDFA Secretaries have talked about the need for the next generation to get involved in farming. Yet here is a clear example where the State's laws are actually creating a direct financial burden on a dairyman who dares to bring the next generation into the business. The Secretary is advised on these matters by a "Livestock Identification Advisory Board," so producers are not without a voice. Perhaps we can work with that Advisory Board to recommend a more family-farm-oriented implementation of this law.