



Milk Producers Council

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DATE: January 2, 2015
 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0750 \$1.5700
 Barrels +\$.1200 \$1.5400

Weekly Average, Cheddar Cheese

Blocks - \$.0275 \$1.5344
 Barrels - \$.0181 \$1.4794

CHICAGO AA BUTTER

Weekly Change N/C \$1.5550
 Weekly Average - \$.0400 \$1.5550

DRY WHEY

Dairy Market News w/e 01/02/15 \$4.900
 National Plants w/e 12/27/14 \$5.866

NON-FAT DRY MILK

Week Ending 12/26 & 12/27

Calif. Plants \$1.1997 4,659,420
 Nat'l Plants \$1.1700 11,458,771

Prior Week Ending 12/19 & 12/20

Calif. Plants \$1.2561 6,844,052
 Nat'l Plants \$1.2499 16,796,447

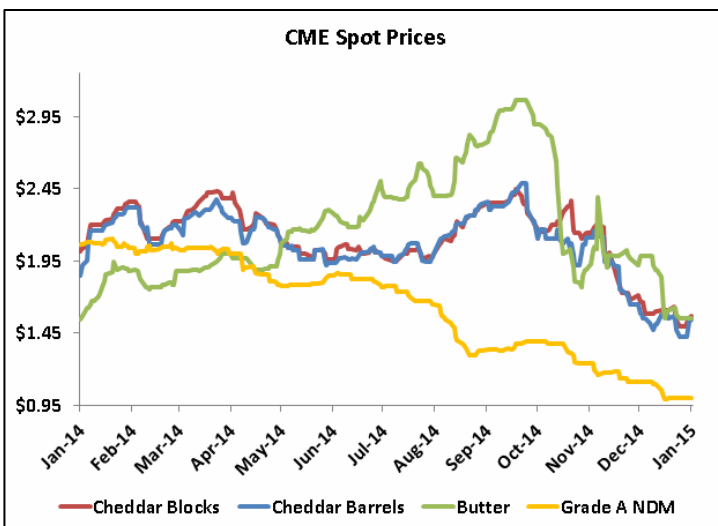
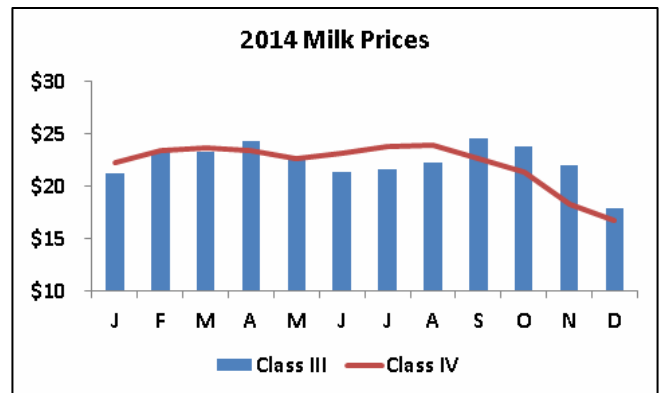
FRED DOUMA'S PRICE PROJECTIONS...

Jan 2 Est: Quota cwt. \$16.64 Overbase cwt. \$14.95 Cls. 4a cwt. \$14.55 Cls. 4b cwt. \$14.04
 Dec '14 Final: Quota cwt. \$18.30 Overbase cwt. \$16.60 Cls. 4a cwt. \$16.57 Cls. 4b cwt. \$14.78

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

Milk & Dairy Markets

Dairy producers will remember 2014 as a year of epic but ultimately unsustainable prosperity. Dairy product prices soared to new heights and then floundered after months in unfamiliar territory. U.S. dairy producers were the last to the party, but they stayed longest; the Class III market peaked in September at \$24.60 and ended the year at \$17.82. This was down \$4.12 from November, the largest monthly drop since January 2009. Further declines are looming; the average Class III futures price for the first quarter of 2015 is \$15.56.

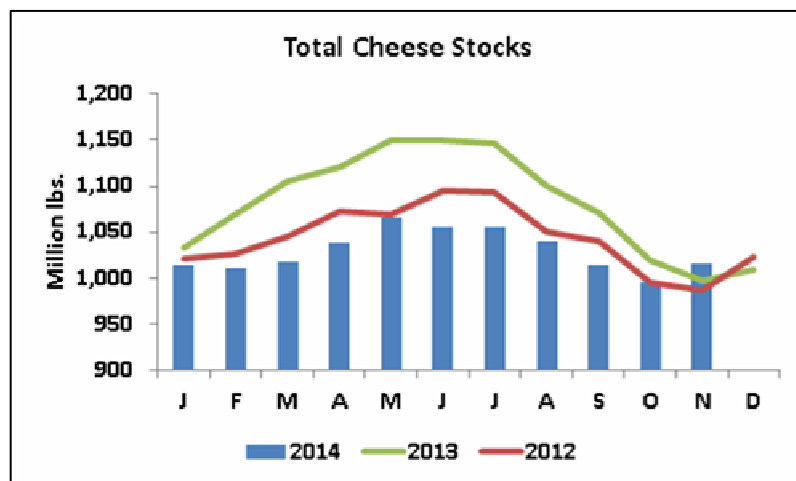
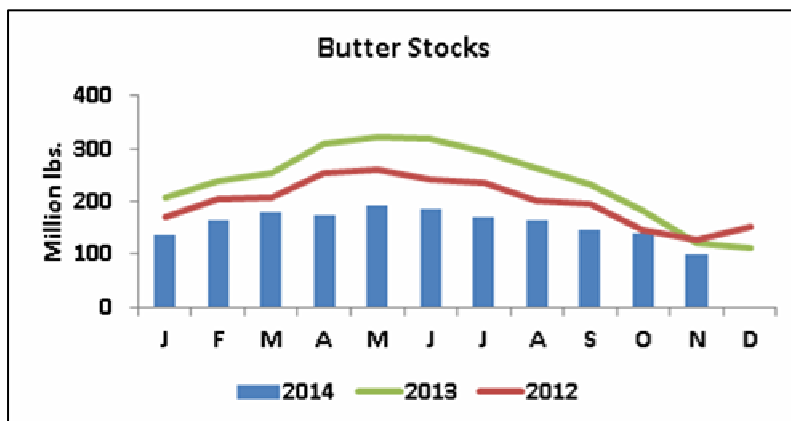


USDA announced the December Class IV price at \$16.70, \$1.51 lower than November and \$4.84 below December 2013. USDA reported the December All-Milk price at \$20.30, down \$2.70 from last month and \$1.70 below that of December 2013. For the year, the All-Milk price averaged a record-high \$23.91. Although the All-Milk price can vary widely from individual producers' pay-prices, it will be more closely watched in the future because it serves as the basis for margin calculations under the new Margin Protection Plan.

Over the past two weeks, all CME spot dairy product prices retreated. Butter lost 5.5¢ and settled at \$1.555. Cheddar blocks dropped 4¢ to \$1.57. Barrels lost a

penny, falling to \$1.54 after an impressive recovery on December 31. Grade A nonfat dry milk (NDM) slipped 0.25¢ just before Christmas and has since held at \$1.00. Class III futures were mixed, with contracts for the first half of the year posting double digit losses, while deferred futures were higher. Class IV futures were also mixed with no discernible pattern.

Milk continues to flow and, now that the holidays are over, there is no one to lap up all the cream. Butter churns are active, and exports are practically nonexistent. *Dairy Market News* reports that while butter sales have slowed seasonally, orders are better than anticipated. According to USDA's Cold Storage report from early last week, butter stocks totaled 100.9 million pounds on November 30, down 17% from November 2013. Butter stocks declined by very little in October but fell at the normal rate in November after a steep drop in prices. The *Daily Dairy Report* projects that the December draw-down could be larger than normal as continued price declines may have encouraged bargain shoppers.

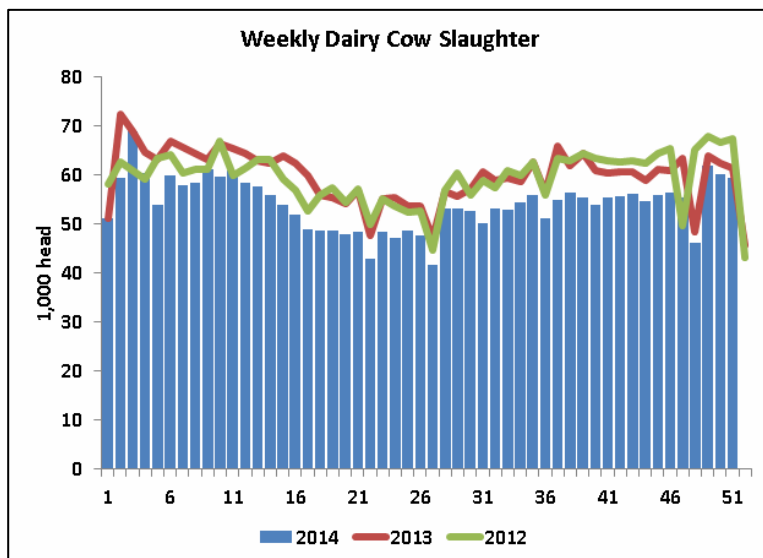


Cheese demand could hold firm throughout the football playoff season, but after the Super Bowl cheese sales will likely diminish. Meanwhile, production remains strong and some manufacturers are able to buy milk at a discount to the Class III market. USDA revised its estimate of October American cheese stocks upward and reported a 1.8% increase in November cheese inventories. On November 30, cheese supplies totaled 1.02 billion pounds. Strong production and lackluster imports are to blame for the counter-seasonal uptick in cheese stocks. At today's prices, manufacturers are

likely to favor aging cheese, so cheese inventories should continue to climb.

Milk flows remain heavy overseas as well. However, months of lower prices are beginning to impact output. European milk production in October was 3.4% higher than last year. This is much higher than the typical 1-2% growth rate but well below the 5-7% gains of early 2014. In Australia, season-to-date milk production is 3.5% ahead of last year. Dairy Australia forecasts a 2% increase for the full season, which would require a significant slowdown in the months to come. The combination of drought, low milk prices and high cull cow prices is likely to reduce 2015 milk output in the land down under.

Through December 20, dairy cow slaughter is 9.8% lower than the previous year. For the most recent two weeks reported, slaughter has been just 3.5% behind year-ago levels. Dairy producers are culling more aggressively, and they seem less eager to purchase replacements. Springer prices are starting to fade from recent highs, although in most cases



they remain north of \$2,000 per head. It is only a matter of time before dairy replacement costs realign at lower levels in light of the projected decline in dairy profit margins.

Grain Markets

Corn futures have slipped nearly a dime over the past two weeks, while soybean futures dropped more than 30¢. The bulk of the declines occurred during the last few sessions. The very strong dollar and favorable weather in South America could limit U.S. grain and soybean exports going forward, and this sentiment may have pressured the corn and soybean markets this week. However, it is difficult to interpret price changes at the end of the year. As investment funds reposition themselves, they can cause temporary shifts in the market that will be corrected over the next several sessions.

A SPECIAL THANKS TO OUR 2014 MPC ASSOCIATE MEMBERS: *(By Rob Vandenheuvel)* As we turn our calendars to a new year, we are reminded of the generous support our organization has received from our numerous associate members. While a majority of the funding for Milk Producers Council comes from our committed membership of dairy families we are humbled and honored to represent, MPC is proud to have strong support from other businesses and individuals that have an interest in maintaining a vibrant dairy industry in California. These Associate Members recognize the value MPC brings to the California and U.S. dairy industry and their financial support plays an integral role helping us be a strong voice our members. **A special thanks on behalf of the MPC board of directors, members and staff goes out to:**

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Thanks again to all of our Associate Members for your support!

Anyone else interested in supporting MPC with an associate membership should visit our website (www.milkproducers.org) or contact us directly at office@milkproducers.org or (909) 628-6018. **The dairy families we represent greatly appreciate the support.**