



Milk Producers Council

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 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	- \$.0750	\$1.7700
Barrels	+.0375	\$1.7600

Weekly Average, Cheddar Cheese

Blocks	- \$.0950	\$1.7745
Barrels	+.0080	\$1.7380

CHICAGO AA BUTTER

Weekly Change	+.0050	\$1.6150
Weekly Average	-.0265	\$1.6015

DRY WHEY

Dairy Market News	w/e 05/17/13	\$.5825
National Plants	w/e 05/11/13	\$.5776

NON-FAT DRY MILK

Week Ending 5/10 & 5/11

Calif. Plants	\$1.5394	11,250,666
Nat'l Plants	\$1.6396	16,476,523

Prior Week Ending 5/3 & 5/4

Calif. Plants	\$1.5542	15,242,919
Nat'l Plants	\$1.6049	21,574,926

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

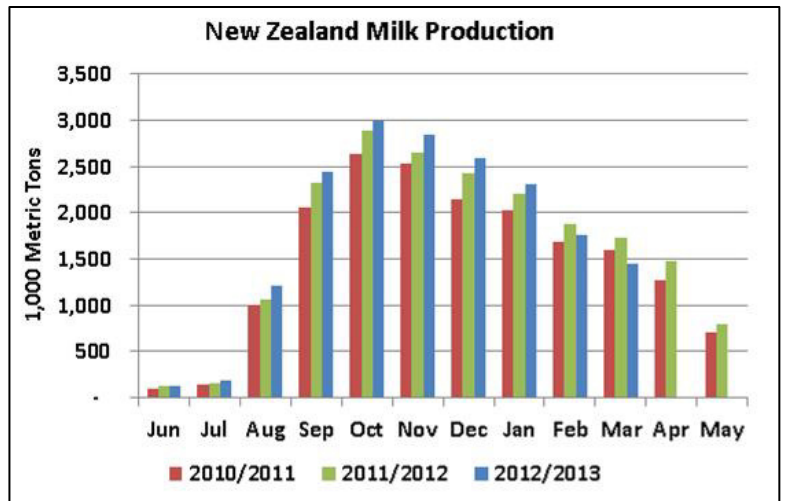
Milk & Dairy Markets

Class III futures took a roundabout path to settle with little change this week. Double digit gains on Wednesday and Thursday offset losses on Monday, Tuesday and Friday. Class IV markets moved consistently lower. The CME spot markets were mixed. The block-barrel spread narrowed considerably, as blocks lost 7.5¢/lb. this week and barrels added 3.75¢. Butter added a half cent this week, and Grade A nonfat dry milk (NDM) shed 2¢.

National Dairy Product Sales Report prices were similarly mixed, with butter, Cheddar barrels and whey prices moving lower while the average price of blocks and NDM increased. The California Weighted Average Price for NDM dropped 1.48¢/lb., averaging 1.5394, more than a dime lower than the national average price reported by NDPSR.

New Zealand milk production declined 16.75% in March relative to a year ago. The decline was broadly anticipated and came as no surprise. Season to date production is 2.7% higher than a year ago.

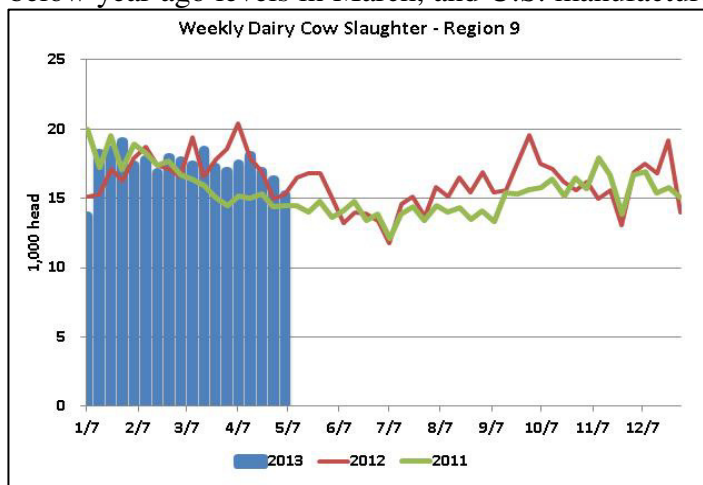
Prices moved mostly lower at the Global Dairy Trade Auction, as expected. The trade weighted average of all products traded declined 2.1%. Butter was particularly weak, averaging \$1.70/lb. This is down 12.4% from the previous auction. Prices declined for all dairy products for delivery in September, October and November, suggesting that end users expect dairy product supplies to be adequate this fall.



But concerns over near-term supplies for certain products remain. Anhydrous milkfat (AMF), casein, and whole milk powder (WMP) prices were steady to higher for product delivered in July and August. The run-up in prices has encouraged milk powder manufacturers in the U.S. and EU to increase WMP production to counteract the shortfall in New Zealand. However, milk production in Europe is also lower than a year ago, and manufacturers have largely set their production schedules for the next few months. EU WMP production is not likely to increase much until the second half of the year. U.S. manufacturers face similar hurdles. Additionally, WMP is a recent

product addition in the U.S., and a notable increase in production from current levels will be difficult in the short term.

Manufacturers in New Zealand are likely to push butterfat supplies into WMP production, and butter stocks there should remain low. Stocks in Europe are also small. European manufacturers have put only 69.4 million lbs. of butter into the Public Storage Aid (PSA) program since it opened in March. EU butter stocks are 44% lower than a year ago. The Irish have been notably absent, remaining outside the PSA for the time being. Last year Irish butter represented 18% of PSA inventories. In contrast, butter stocks in the U.S. are heavy, and next week's Cold Storage report will likely show another sizeable inventory build. However, combined EU and U.S. stocks were below year ago levels in March, and U.S. manufacturers would have to increase butter stocks by 20% or more to



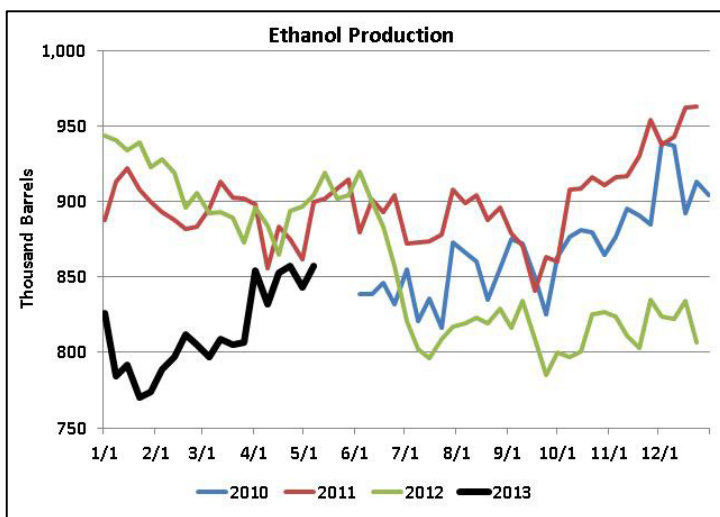
offset declines in Europe. While domestic butter inventories could increase seasonally in the next few months, manufacturers will likely be able to export significant volumes. U.S. butter is trading at a 40-70¢ discount to supplies from Oceania and Europe.

In the long run, the price of butter and other dairy products is largely dependent on the weather. A hot summer could increase ice cream consumption and push more cream away from butter churns and into ice cream vats. It could also reduce milk production due to heat stress.

Dairy cow slaughter declined again last week, falling to 55,758 head, steady with a year ago. Slaughter in Region 9, which includes California and Arizona, totaled 15,300 head, 10-15% lower than the levels prevailing in the past few months.

Grain and Hay Markets

Rains in the Corn Belt were hit or miss – but mostly miss – this week. Farmers were able to make considerable corn planting progress, and there is much less concern about acreage switching than there was only a week ago. New crop corn price moved lower accordingly. Old crop corn prices, on the other hand, added nearly 20¢ this week. Much of the increase came late in the trading session on Friday, and it may simply be end of the week repositioning. Fundamentally, the corn market has been supported by a sustained increase in ethanol production. Last week, ethanol production averaged 857 thousand barrels per day, the largest weekly average in nearly a year. Refiners are actively blending ethanol into the fuel supply, and ethanol stocks have fallen to their lowest levels since December 2010.



Soybean prices moved notably higher this week, supported by continued strength in soymeal demand. The National Oilseed Processors Association reported the April soybean crush at 120.1 million bushels, which was lower than analysts had anticipated. However, while soybeans are scarce, crushing margins are positive, and processors are doing all they can to entice farmers to sell. The basis is very strong as processors compete with exporters for dwindling domestic supplies. While April crushing activity was 8% lower than a year ago, the crush will have to be 20% lower than last year in the remaining five months of the season in order to meet USDA's soybean crush demand forecast.

U.S. soybeans are still making their way to the ports and on to foreign buyers, as U.S. soybean prices remain below South American prices. Brazil has largely overcome the backlog of ships that slowed exports at the peak of harvest. However, on Thursday the Brazilian Congress passed legislation to privatize its ports. This would allow for badly needed infrastructure upgrades. It would also free the grip that union workers currently hold on the ports, and so the new legislation could encourage a broadening of labor strikes already in effect. If these strikes become more widespread, the U.S. could face even less competition in the soybean export market for a time.

The Choice beef cutout increased to \$209.51/cwt. on Friday, setting a new record high for the seventh time in eleven days. While these higher beef prices may be slowing export demand, domestic sales remain brisk. Competing meat prices also moved higher. Boneless, skinless chicken breast prices are at their highest weekly average prices since August 2004. Prices have increased 30% since early April.

FRED DOUMA'S PRICE PROJECTIONS...

May 17 Est:	Quota cwt. \$19.15	Overbase cwt. \$17.45	Cls. 4a cwt. \$18.17	Cls. 4b cwt. \$17.22
Last Week:	Quota cwt. \$19.33	Overbase cwt. \$17.63	Cls. 4a cwt. \$18.23	Cls. 4b cwt. \$17.57

THE DAIRY SECURITY ACT TAKES A HUGE STEP FORWARD IN CONGRESS: (By Rob Vandenheuvel) This week, both the Senate and House Agriculture Committees approved their versions of the 2013 Farm Bill. While the two bills certainly have differences, the Dairy Titles of both bills contain the Dairy Security Act, a package of dairy reforms supported by MPC and dairy organizations and cooperatives around the country.

As a quick reminder, the Dairy Security Act:

- Would replace our current “safety net” programs of the Milk Income Loss Contract (MILC) and Dairy Product Price Support Program (DPPSP).
- Includes two main pieces: (1) the **Dairy Producer Margin Protection Program (DPMPP)** and the **Dairy Market Stabilization Program (DMSP)**. Participation in these programs is **voluntary**.
 - The DPMPP – often referred to as the “margin insurance program” – would provide dairies that sign up with direct payments when national “milk-price-over-feed-cost” margins fall below certain thresholds. Dairy farmers could sign up for the basic program or opt for an enhanced program that requires producer premiums, but provides more frequent and larger payments.
 - The DMSP is a standby program that would only be triggered in during periods of low-margins and would incentivize dairies to temporarily cut back milk production in order to restore milk and dairy product supply/demand balance in the marketplace. **The DMSP only applies to dairies that opt to enroll in the taxpayer-funded DPMPP.**

While there was not much discussion about the Dairy Security Act in the Senate Agriculture Committee markup, the issue was front and center in the House Agriculture Committee. The first amendment up for debate in the House Committee was on the “Goodlatte/Scott Amendment,” which would have gutted the Dairy Security Act by removing the Dairy Market Stabilization Program from the bill. **After a lengthy debate, the Committee ultimately rejected the Goodlatte/Scott Amendment by a vote of 20-26, which kept the Dairy Security Act in the Committee’s version of the Farm Bill.** The overall Farm Bill was later approved by the Committee with a strong vote of 36-10.

MPC greatly appreciates our California Representatives on the Committee who supported the Dairy Security Act and opposed the Goodlatte/Scott Amendment:

- **Rep. Jim Costa (D-Fresno)**
- **Rep. Gloria Negrete McLeod (D-Ontario)**
- **Rep. Juan Vargas (D-El Centro)**
- **Rep. John Garamendi (D-Sacramento)**

While this was a very important and positive step for the Dairy Security Act, **we are still a long ways from the end of the process.** The next step is for these two Committee-passed bills to be considered by the full Senate

and House of Representatives. The Senate is expected to begin debate on their bill on Monday, with the House rumored to be taking their version of the bill up in June. Once that occurs, the House and Senate will need to negotiate a compromise bill that can be approved by both the House and Senate later this year. **Obviously, MPC will be joining the other supporters of the Dairy Security Act in working to ensure that the Dairy Security Act stays in the Farm Bill during this entire process.**

Last week, we discussed why Milk Producers Council is supporting the Dairy Security Act and is adamantly opposed to the Goodlatte/Scott Amendment. In case you missed that article, you can find it on our website at: http://www.milkproducerscouncil.org/051013_GoodlatteScott.htm. The bottom line is that when the supply of milk and dairy products exceeds profitable demand, the national milk prices drop. That's the market's way of saying there is too much milk and that the industry needs to temporarily cut back some of our production. What the Goodlatte/Scott Amendment would have done is create a stand-alone "margin insurance" program that "hides" that surplus by providing taxpayer-subsidized direct payments to dairy farmers. If the ultimate goal is to restore market balance – and therefore restore profitable milk prices – there is **nothing** in the Goodlatte/Scott Amendment that would do that. *(In fact, it would make things worse by hiding the actual market signals behind taxpayer-subsidized direct payments, resulting in lengthier periods of surplus, as well as higher taxpayer liability in making direct payments.)*

The Dairy Security Act, on the other hand, would take a two-step approach. Taxpayer-subsidized margin insurance is also included in the Dairy Security Act, but the second part of the program – the Dairy Market Stabilization Program – would go a step further in **actually addressing the underlying problem of overproduction.** The DMSP would create an immediate incentive for dairies receiving the margin insurance payments to temporarily cut back milk production by 2-4%, depending on how low the margins are. That would do two things: shorten **the periods of surplus and limit the taxpayer liability, since the taxpayer-subsidized direct payments are based on low dairy farmer margins.** It's a win-win for dairy farmers and taxpayers. Of course, this leaves the nation's processors with having to pay a price that actually covers dairy farmers' costs – a novel concept, huh? They have loudly supported the Goodlatte/Scott Amendment, as they would apparently prefer an oversupply of milk that results in the lowest possible market prices for milk, with the taxpayers on the hook for "making up the difference" through taxpayer-subsidized margin insurance. **The amazing thing is not that the processors – through their lobbyists (International Dairy Foods Association, or IDFA) – are advocating this anti-market position, but rather that there are still Members of Congress who don't realize the true motives of this position.**

Fortunately, a majority of the House Agriculture Committee recognized the value of the Dairy Security Act and rejected the Goodlatte/Scott Amendment. While we would hope that the debate on this issue is settled (this is the 2nd time in the past year that the Amendment has been rejected by the House Ag Committee), it is certainly possible that the Amendment could come up in future debate over the Farm Bill. **It will take dairy farmers contacting their Members of Congress, urging them to keep the Dairy Security Act in the Farm Bill, in order to see this process all the way through.** So be ready to pick up the phone or send in emails/faxes in the coming weeks as we try to make **common-sense reforms that are based on MARKET principles, rather than a taxpayer-funded scheme that sounds a lot like corporate welfare.**

CDFA HEARING ON MONDAY TO CONSIDER TEMPORARY PRICE INCREASES: *(By Rob Vandenheuvel)* Last December, the California Department of Food and Agriculture (CDFA) held a hearing to consider temporary, emergency milk price relief in California. The result of that hearing was a four-month (February – May 2013) increase in the Class 1 (\$0.05/cwt), Class 2 (\$0.10/cwt), Class 3 (\$0.10/cwt), Class 4a (\$0.30/cwt) and Class 4b (\$0.30/cwt) prices. Overall, the state Overbase price was increased by about \$0.25/cwt through these changes. On Monday, CDFA will conduct another hearing to consider temporary, emergency milk price relief beyond the initial four month period. Of course, our readers are well-aware that MPC has joined with all the California dairy farmer organizations and cooperatives in advocating for longer-term changes to our Class 4b formula in order to maintain better alignment with the prices paid for comparable milk around the country. But while we continue to work on those changes – which are the focus of AB 31 in the California legislature – we look forward to the opportunity to demonstrate to CDFA why on-the-farm price relief is needed for our dairies.