



Milk Producers Council

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DATE: June 5, 2015
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0200 \$1.7150
 Barrels - \$.0275 \$1.6425

Weekly Average, Cheddar Cheese

Blocks +\$.0657 \$1.7370
 Barrels +\$.0527 \$1.6865

CHICAGO AA BUTTER

Weekly Change - \$.1050 \$1.9000
 Weekly Average +\$.0296 \$1.9415

DRY WHEY

Dairy Market News w/e 06/05/15 \$4.250
 National Plants w/e 05/30/15 \$4.349

NON-FAT DRY MILK

Week Ending 5/29 & 5/30

Calif. Plants \$0.9343 24,219,529
 Nat'l Plants \$0.9406 37,118,680

Prior Week Ending 5/22 & 5/23

Calif. Plants \$0.9557 12,532,189
 Nat'l Plants \$0.9477 20,046,097

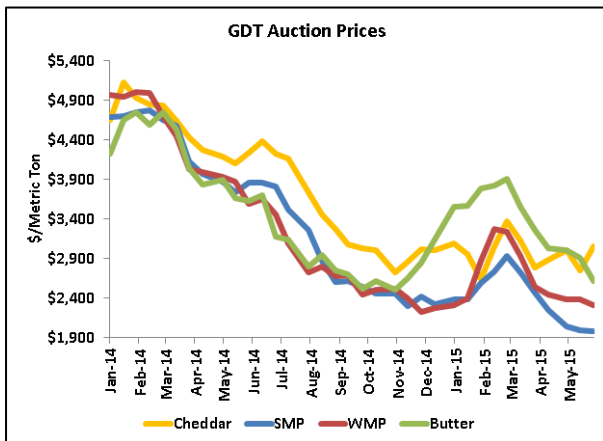
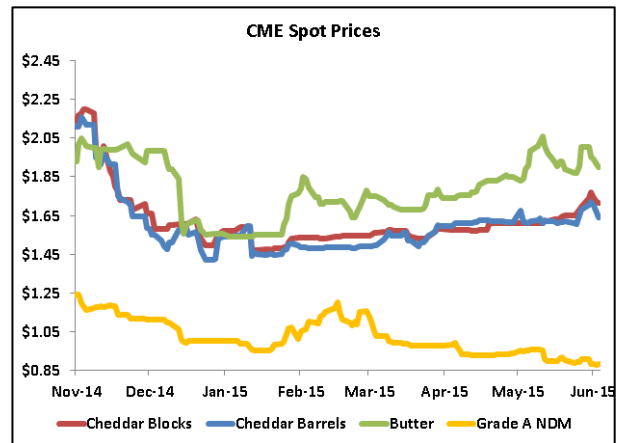
FRED DOUMA'S PRICE PROJECTIONS...

June 5 Est: Quota cwt. \$16.50 Overbase cwt. \$14.80 Cls. 4a cwt. \$13.71 Cls. 4b cwt. \$15.58
 May '15 Final: Quota cwt. \$15.89 Overbase cwt. \$14.20 Cls. 4a cwt. \$13.90 Cls. 4b cwt. \$14.65

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

Milk & Dairy Markets

The cheese market is holding strong in the face of formidable output. CME spot Cheddar blocks reached as high as \$1.77 Tuesday but closed at \$1.715 on Friday, still up 2¢ on the week. Barrels slipped 3.75¢ to \$1.6425. There are clearly plenty of barrels to be had; traders exchanged 31 loads last week and 29 loads this week. Strength in the cheese market is not due to lack of product, but to extraordinary demand. The Class III market has proven less resilient. Most contracts lost 20 to 40¢ this week, and the July contract dropped 51¢. Whey prices anchored Class III values. A number of dry whey futures contracts settled at four month lows on Friday.

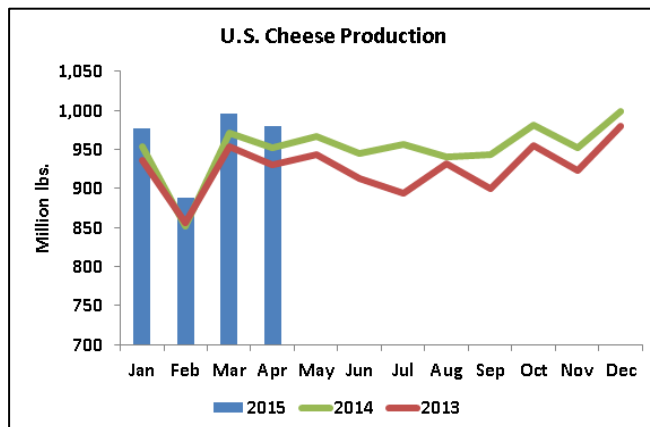


The spot butter market lost nearly all that it had gained last week, dropping 10.5¢ to \$1.90. Spot nonfat dry milk (NDM) also lost ground. It slipped to six-year lows at 88¢, down 2.75¢ from last Friday. Class IV futures posted steep losses; the July contract dropped 86¢.

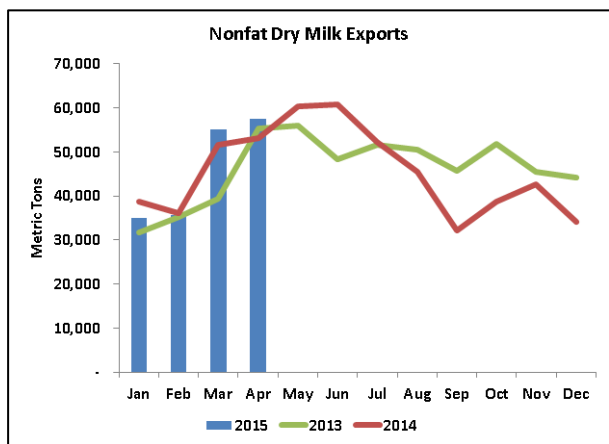
Dairy product prices fared worse than expected at the Global Dairy Trade (GDT) auction. The trade-weighted index fell 4.3% to fresh multi-year lows. Butter and anhydrous milkfat prices dropped 10% and 7.4%, respectively, from the previous auction. Skim milk powder (SMP) prices fell 1.3% to new record lows and whole milk powder (WMP) prices lost 3.1%.

Lower prices overseas could discourage expansion in milk production there. Dairy producers in the U.S. are receiving no such signal. USDA announced the May Class III milk price at \$16.19. Although this is \$6.38 lower than May 2014, it is 38¢ higher than April. At \$14.63, California's 4b milk price is up 41¢ from April. Similarly, the Class IV milk price climbed 40¢ from the month before to \$13.91, but this was down \$8.74 from May 2014. California 4a milk was \$13.91 in May, up 55¢ from April.

Milk continues to flow to cheese vats. Cheese production totaled 979.1 million pounds in April, up 1.9% from a year ago and 1.6% more than March on a daily average basis. Anecdotal reports suggest that output continues to rise. According to *Dairy Market News*, "Some cheese plants in the Midwest have reached production levels not previously thought attainable, straining machinery and human endurance to a degree that can't be maintained in the long run." Such daunting output should also strain the market. The fact that it has not reveals phenomenal domestic demand. Overseas sales are uninspiring. Cheese exports totaled 69.8 million pounds in April, down 4.6% from March on a daily average basis and down 6% from a year ago.



There is also plenty of milk for driers. Combined production of NDM and SMP reached 215.9 million pounds in April, marking the greatest daily average output on record. But as the *Daily Dairy Report* noted earlier this week, "The April 2015 record is not expected to hold for long as powder facilities ran hard in May."



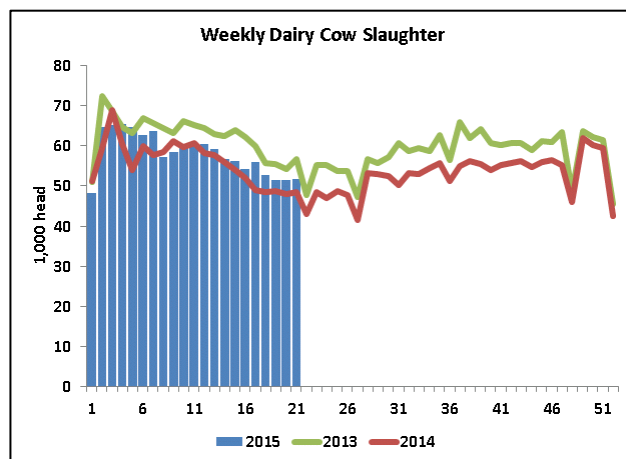
Manufacturers' inventories of NDM dropped 1% in April to 248.6 million pounds, but they remain 3.7% greater than April 2014. Milk powder that manufacturers intend to use in formulating other products is not included in the monthly stocks figure. In a year like this one when cheese manufacturers are holding larger than normal volumes of milk powder for fortification, the monthly inventory figure likely understates total U.S. milk powder supplies.

With prices holding below a dollar, milk powder exports outperformed in April. At 126.5 million pounds, they were 8% greater than a year ago and 7.8% higher than March on a daily average basis.

Ever the bargain shopper, Mexico bought 20% more milk powder in April than the year before. With milk powder exports on the rise, daily average exports of dairy products reached the second highest level ever and accounted for 16.7% of milk solids production in April. Exports of lactose, whey protein isolate and fluid milk all reached record highs.

Given the vast premium in U.S. butter prices, it should come as no surprise that butter exports remained low in April. At 5.4 million pounds, April butter exports were 5.3% lower than March and 72.2% lower than April 2014. Imports of butterfat rose 248% from year-ago levels.

Domestic butter output remains below that of 2014. Production totaled 164.8 million pounds in April, down 1.7% from last year but up 3.7% from March on a daily average basis. The month-to-month increase in butter output is unusual, but not without precedent. The combination of higher monthly output and voluminous imports helps to explain why U.S. butter inventories rose in April.



For the week ending May 23, dairy cow slaughter totaled 51,823, up 7% from the same week a year ago. So far this year, slaughter is up 4.2% from 2014.

Grain Markets

The grain and oilseed markets moved higher. Crops are off to a great start; last week this pushed soybean prices to new contract lows and corn prices to their lowest level since harvest. But this week the trade suddenly remembered that it is only June, and early June at that. A large crop is far from assured. With a renewed focus on the potential for heat during pollination and other adversities, nearby corn futures gained 9¢ this week and July soybean futures gained 3.75¢.

For months, dairy producers and other end users have watched the laborious decline in soybean meal futures and hoped for a commensurate decline in feed costs. While cash soybean meal and canola prices have indeed fallen, they have not matched the futures step-for-step because the basis has firmed. Soybean and canola crushers are beginning to slow production as they undergo routine maintenance, and the basis is likely to remain high throughout the summer. Global oilseed supplies are plentiful, but in the U.S. soybean and canola meal will be relatively scarce until harvest. Feed buyers will have little leverage as they negotiate protein meal contracts. Fortunately for livestock operators, grain costs continue to slip.

CDFA HEARING HAS COME AND GONE, NOW WE WAIT FOR THE RESULTS: *(By Rob Vandenheuvel)* This past Wednesday, the California Department of Food and Agriculture (CDFA) conducted their scheduled hearing on proposed changes to the Class 4b monthly milk price calculation. As we discussed in previous issues of this newsletter, the hearing – which was called by Secretary Karen Ross on her own motion – was limited to considering only temporary proposals for changes to the whey-related calculations in the Class 4b formula.

All the producer testimony at the hearing was in support of the unified joint proposal submitted by California Dairy Campaign, MPC and Western United Dairymen. As you may recall from our previous article on the subject, if that proposal were put in place right now, May's Class 4b price would have been about \$0.93/cwt higher (still below the Federal Order Class III price due to other non-whey-related issues, but much closer), which equates to an increase of about \$0.40/cwt on the Overbase price. A number of individual dairy farmers and all the various producer trade associations and cooperatives came to the hearing to testify on the current financial state of the California dairy farming sector and the need for a meaningful upward price adjustment.

Testimony was also given by representatives from numerous processing companies, as well as their trade association (Dairy Institute) and a whey market consultant. The testimony given by these witnesses supported either no adjustment at all, or the Dairy Institute proposal that, if in place, would have increased May's Class 4b price by about \$0.06/cwt, which equates to an increase of less than \$0.03/cwt on the Overbase price.

For those of you who weren't able to attend the hearing, I've posted MPC's testimony on our website at: <http://www.milkproducerscouncil.org/060315mpctestimony.pdf>. As for the testimony by the cheese manufacturers and their representatives, I can literally sum all their testimony up with two main themes. Virtually all the processor witnesses testified to one or both of these themes.

1. The Class 4b price should be set at low "market clearing" levels. It should not be raised. Let the market move milk prices up, not the State.
2. Small California cheese manufacturers cannot afford to pay any more for the milk they buy.

Of course, both of these points are easily refuted. The whole "market clearing" concept is one that the processors have been feeding to CDFA for years. This fiction is found nowhere in the California Food and Ag Code, which is what dictates the considerations the Secretary must take into account when setting prices. There is one mention of a general policy regarding "orderly" marketing, and for years, processor representatives have insisted this justifies a monthly minimum price significantly below the prices paid for comparable milk around the country

(conveniently ignoring other much stronger requirements in later sections of the Code that state the purpose of California’s involvement in milk pricing is to provide a “reasonable amount of stability and prosperity” in the production of milk, or that the Secretary *shall* maintain prices that are in a “reasonable and sound economic relationship” with national values for manufacturing milk).

As for the small cheese manufacturers, I have no doubt they would like to avoid paying more for the milk that is so integral to their operation. But the reality is that plants – big and small – all over the country are paying the Federal Order Class III price (and often higher!). That was even highlighted in Q&A periods during the hearing. One witness who competes in out-of-state markets had to admit that his competition pays the Class III price for their milk, and another witness who had multiple plants in other regions of the country had to admit that those plants are paying the Class III price for their milk with rare exception. How do those small plants do it? They – like the small plants in California – almost exclusively produce specialty cheese products that garner a premium in the marketplace. Remember that in both the Federal Orders and in California, the basic cheese calculations that generate the prices those plants must pay for milk are based on bulk cheddar cheese prices. So a plant making higher-value specialty cheese products is able to generate significantly more revenue per pound than if they were selling bulk cheddar cheese, yet the milk price they pay is still based on the market price for that bulk cheddar cheese. That is how they can afford to pay the Class III price (or more!) for their milk.

In fact, in a recent brief submitted by the Wisconsin Cheese Makers Association to USDA complaining about Federal Milk Marketing Orders, they wrote about small cheese manufacturers in their state: “These small businesses are forced by federal milk marketing order milk price formulas to pay dairy producers for a product they do not make [dry whey]...**Many small cheese manufacturers survive this dilemma by producing value-added or specialty cheese.**”

Boom! Amazing, isn’t it? Necessity is truly the mother of invention!

The practical reality is that if California’s cheese manufacturers – whether big or small – can truly only survive if they get their milk at deeply discounted prices below what it costs to produce that milk (which appears to be their claim to CDFA in these hearings), we have no future as a California dairy industry. California dairy farmers cannot survive as the “cheap milk State” – our cost of production figures prove that. We are hoping that CDFA, through the testimony given this week, understands that and makes a meaningful move to significantly shrink the California Discount, even if only temporarily while the State’s producers continue to move through the Federal Order hearing process.

A quick update on the California Discount

While we’re on the subject, I might as well add the latest update to the tabulation of the California Discount.

Another month, another \$1.56/hundredweight gap between the California Class 4b and Federal Order Class III prices. The current cumulative discount since 2010: **\$1.81 Billion**. While producers will unfortunately never see that money again, let’s hope CDFA and Secretary Ross use their authority to make a meaningful dent into that gap. Assuming that a formula change will, in fact, be announced, we anticipate that change will be announced around mid-to-late July.

The “California Discount” for our State’s Cheese Manufacturers		
	May ‘15	2010-Present
California Class 4b Price	\$14.63	\$16.11
FMMO Class III Price	\$16.19	\$17.93
Discount	(\$1.56)	(\$1.82)
<i>The California Discount: More than \$1.81 Billion since January 2010.</i>		