



Milk Producers Council

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DATE: March 21, 2014
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0650 \$2.4275
Barrels +\$.0475 \$2.3100

Weekly Average, Cheddar Cheese

Blocks +\$.0835 \$2.4150
Barrels +\$.0295 \$2.3050

CHICAGO AA BUTTER

Weekly Change +\$.0400 \$1.9200
Weekly Average +\$.0230 \$1.9070

DRY WHEY

Dairy Market News w/e 03/21/14 \$.6488
National Plants w/e 03/15/14 \$.6506

NON-FAT DRY MILK

Week Ending 3/14 & 3/15

Calif. Plants \$2.0490 11,707,965
Nat'l Plants \$2.0984 16,344,887

Prior Week Ending 3/7 & 3/8

Calif. Plants \$2.0594 8,535,939
Nat'l Plants \$2.1032 16,822,501

FRED DOUMA'S PRICE PROJECTIONS...

Mar 21 Est: Quota cwt. \$24.15 Overbase cwt. \$22.46 Cls. 4a cwt. \$23.33 Cls. 4b cwt. \$22.16
Last Week: Quota cwt. \$24.03 Overbase cwt. \$22.33 Cls. 4a cwt. \$23.22 Cls. 4b cwt. \$21.96

MARKET COMMENTARY: (By Mary Ledman, Daily Dairy Report, mary@dailydairyreport.com)

Note: Our regular newsletter contributor, Sarina Sharp, is unavailable this week. We greatly appreciate her colleague, Mary Ledman, providing this week's market commentary. Sarina will be back next week.

Milk & Dairy Markets

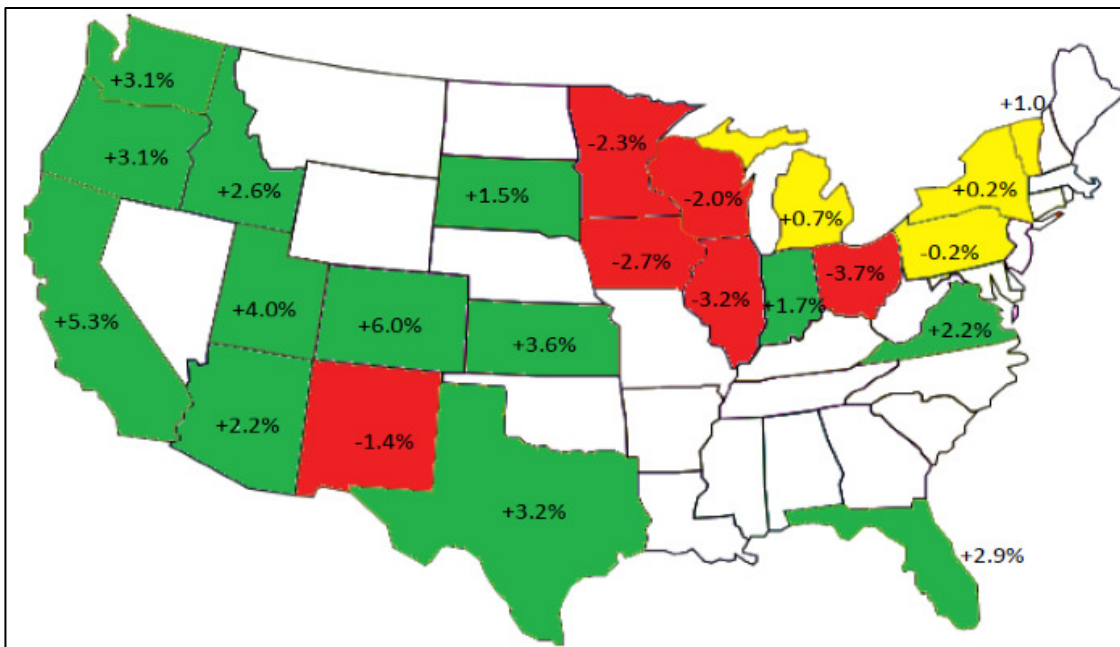
The CME cash dairy product prices closed the week higher on minimal trading activity. The Cheddar block price was bid to a new high of \$2.4275/lb. The Cheddar barrel price settled at more than a dime discount to the block market at \$2.32. Barrel cheese appears to be more ample than blocks and eight trades occurred during the week. CME spot butter and NDM prices closed the week at \$1.92 and \$2.05, respectively. That is 4¢ and 1¢ greater than last week's closing prices. Nearby Class III and IV futures settled higher on the week. In particular, the April Class III and IV futures closed at \$23.53 and \$23.40, up \$1.16 and 7¢, respectively vs. last Friday.

The California Weighted Average Price (CWAP) for NDM fell 1.04¢ for the week ending Mar. 14 to \$2.049/lb. The National Dairy Products Sales Report (NDPSR) price followed suit by slipping 0.46¢ to \$2.0984/lb.

While the U.S. domestic spot dairy markets moved higher during the week, the bi-monthly Global Dairy Trade (GDT) auction suffered its steepest decline since June 4. Casein and anhydrous milk fat prices were particularly weak; each declined 10.7% vs. the prior auction. Skim milk powder (SMP) and whole milk powder prices fell 1.7% and 5.8%, respectively. The recent GDT auction traded dairy products for delivery from April to September. Price declines were spread across all contract periods. Deferred SMP contracts posted larger losses than those for short-term delivery, implying that SMP buyers believe prices will soften throughout the year as global dairy product supplies increase. SMP offered by Dairy America and Land O'Lakes for September delivery settled at \$1.87/lb. and \$1.81, respectively. Fonterra sourced Cheddar cheese settled below \$2.15/lb. in the May through July delivery periods. U.S. dairy product exports were strong in 2013 and into 2014, in part because U.S. dairy product prices were competitive, which is becoming less the case today.

U.S. milk production continues to post robust year-over-year (YOY) gains in the West, while output east of the

Rockies tends to be lower than the prior year or growing at a slower pace than the West. During February 2014, U.S. milk production totaled 15.9 billion pounds, up 1.1% vs. last year. USDA revised January 2014 milk output up a modest 0.1 percentage points, from 0.9% to 1%, and boosted the dairy herd by 2,000 head to 9.211 million cows. USDA held cow numbers steady in February. Greater YOY



milk production was driven entirely by a 1.2% increase in output per cow, which offset a 12,000-head deficit in the U.S. dairy herd vs. February 2013. In the 23 selected states, 16 states posted YOY gains and seven reported declines. In particular, key cheese producing states, Minnesota and Wisconsin, posted YOY declines of 2.3% and 2%, respectively. Milk output in California, the number one milk-producing state, posted a 5.3% YOY increase in output driven primarily by increased milk per cow and a 1,000 head gain in the dairy herd to 1.781 million head.

Through March 8, 2014, weekly dairy cow slaughter has averaged 59,100 head compared to 64,700 in 2013, an 8.7% decline. For the week ending March 8, dairy slaughter in all regions fell below prior-year levels. Of note, culling in region 6, which includes Texas and New Mexico, totaled 6,100 head for the week ending March 8 compared to 9,000 head a year ago, a 32-percent decline. Slaughter in region 9, which includes Arizona and California, totaled 15,800 head, down from 17,400 head last year. Given the current historically strong milk prices, the pace of slaughter will likely continue to moderate as dairy producers look to enhance milk production. Therefore, USDA’s milk cow estimate for February of 9.211 million head, which was unchanged vs. January, is somewhat of a surprise given that year-to-date slaughter is running 50,000 head behind last year.

As expected, cheese and butter stocks as of Feb. 28, 2014, are lower than last year. American cheese stocks totaled 628.1 million pounds as of the end of February, down 0.3% vs. the prior month but 5% less than last year. Lofty cheese prices prevented manufacturers and end-users from building cheese stocks as neither want to be exposed to a severe correction in inventory valuation. Butter stocks increased 26.9 million pounds to 163.7 million pounds, which was just under the five-year average February stock build of 29.5 million pounds but remain 31% less than the prior year.

Anyone looking to understand the Dairy Producer Margin Protection program, also part of the 2014 farm bill, is welcome to register for the University of Illinois Farmdoc webinar, “Introduction and Strategic Implementation of the Dairy Producer Margin Protection Program,” led by Dr. John Newton on Wednesday, March 26, from 8 to 9 a.m., CDT. The webinar is free, but registration is required to participate. For more information go to: http://farmdoc.illinois.edu/webinars/pages/event_260314_Newton.asp.

Grain Markets

Compared to the dairy markets, the corn, soybean, livestock markets were relatively quiet. May corn futures closed the week at \$4.79/bu., the same as Monday’s settlement. Live cattle futures gave up a little ground from their lofty levels but are unlikely to entice more dairy culling given current milk prices. Soybean meal futures settled modestly higher on the week.

REMINDER: 2014 CDQAP “ENVIRONMENTAL STEWARDSHIP” CLASS NEXT WEEK: (By Rob Vandenhuevel) Many California dairies have already participated in past Environmental Stewardship classes hosted by the California Dairy Quality Assurance Program (CDQAP). But for those of you who haven't, your one chance this year for the water quality classes will be next week (the air quality class for Central Valley dairies will be the following week).

Water Quality Class

Thursday, March 27

- Part One: 9 a.m. to 12 noon
- Part Two: 1 to 4 pm
- Southern California Edison Energy Education Center (formerly Edison AGTAC)
4175 South Laspina Street, Tulare, CA

Air Quality Class

Thursday, April 3

- 9:30 a.m. to 12:30 p.m.
- Fresno County Farm Bureau
1274 W. Hedges Avenue, Fresno, CA

For any California dairy that has not already been “environmentally certified” by the CDQAP program, this is your only scheduled opportunity this year. The attendance to these classes, along with a followup on-site inspection of your dairy, is what is required to receive this certification.

Besides the benefit of being recognized as an environmentally responsible dairy operator, the certification also means a 50% reduction in your annual fees paid to the State Water Board for the next five years (which has become a significant discount, as the State continually ramps up these annual fees). While the onsite inspection will cost you \$550, you can see in the table below that with the ridiculous increases in recent years to the annual water quality fee, your dairy's participation pays for itself many times over:

Size of dairy (milking + dry)	Normal Annual Fee	Discounted Annual Fee for Certified Dairies	Five Year Value of Discount
Less than 300	\$747	\$373	\$1,867
300-699	\$1,494	\$747	\$3,734
700-1,499	\$2,988	\$1,494	\$7,471
1,500-2,999	\$6,225	\$3,113	\$15,563
3,000 or more	\$9,960	\$4,980	\$24,900

A flyer with more information on the upcoming classes can be found on our website at: <http://www.milkproducerscouncil.org/2014cdqap.pdf>. MPC members wishing to participate in this program should contact either myself at (909) 992-9529, Betsy Hunter at (661) 205-6721 or Kevin Abernathy at (209) 678-0666.
