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DATE: March 29, 2013 **PAGES: 3**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0075*	$1.6925
Barrels	*- $.0675*	$1.5975
Weekly Average, Cheddar Cheese		
Blocks	*+$.0439*	$1.6944
Barrels	*- $.0199*	$1.6056

CHICAGO AA BUTTER		
Weekly Change	*- $.0650*	$1.6300
Weekly Average	*- $.0435*	$1.6475
DRY WHEY		
Dairy Market News	w/e 03/29/13	$.5600
National Plants	w/e 03/23/13	$.5916

NON-FAT DRY MILK		
Week Ending 3/22 & 3/23		
Calif. Plants	$1.5083	16,192,151
Nat'l Plants	$1.5100	29,875,321
Prior Week Ending 3/15 & 3/16		
Calif. Plants	*$1.5011*	*15,421,560*
Nat'l Plants	*$1.5169*	*26,125,969*

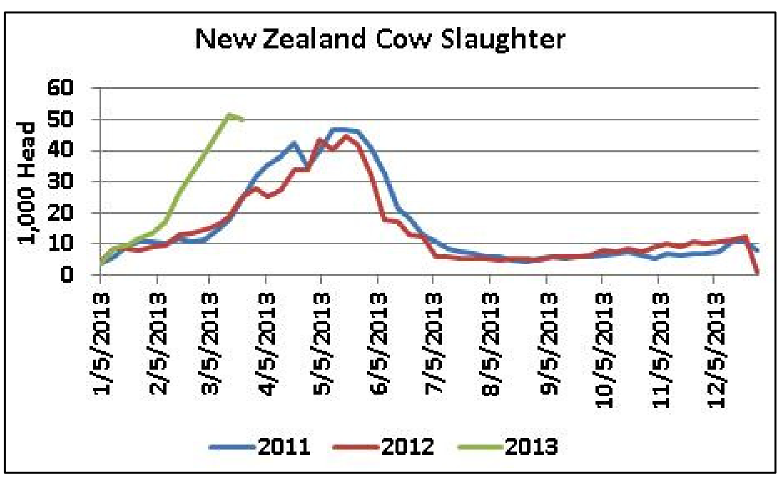
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

Dairy product prices put in a mixed performance this week, but feed prices moved sharply lower, offering dairy producers the promise of better margins. Burdensome dairy product inventories are pushing the physical markets lower. CME spot butter lost 6.5¢/lb. this week. Cheddar blocks dropped 0.75¢ and barrels shed 6.75¢. Milk powder prices continued to climb; Grade A nonfat dry milk (NDM) added 2¢.

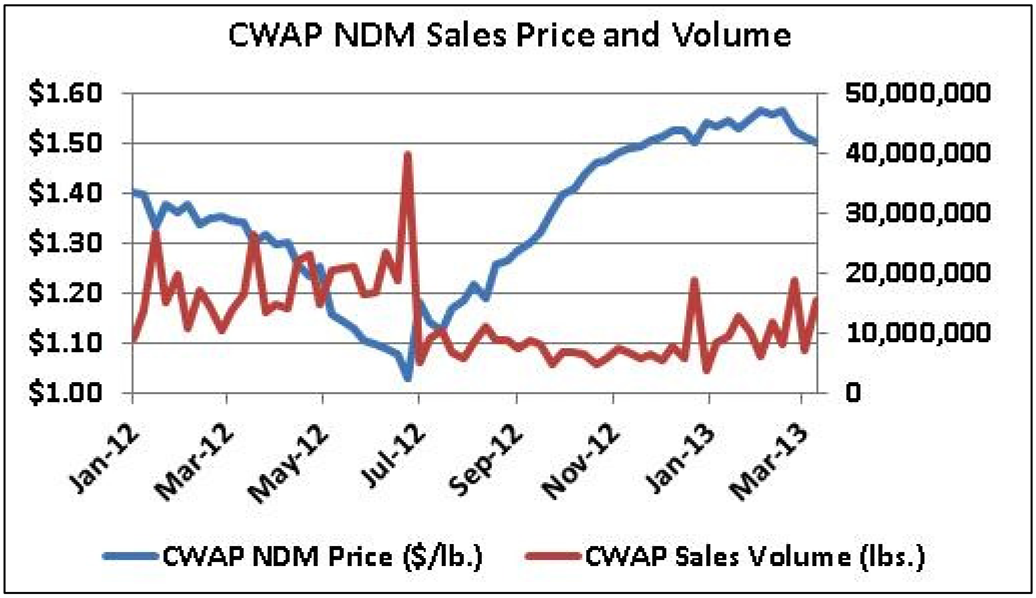
Global dairy product prices are still rising, with whole milk powder (WMP) leading the way. *Dairy Market News* reported WMP prices up 20.7% in Oceania and 5.5% in Europe over the past two weeks. Butter prices were up 6.9% and 5.2%, respectively. Cheddar rose 6.1% in Oceania.

The drought that has catalyzed much of the gain in global prices is clearly affecting milk production in New Zealand and Australia. Australia produced 615.5 million liters of milk in February, 6% less than the year before after adjusting for Leap Day. Season to date production is down 1% from the prior year. New Zealand has not yet reported February milk production, but it is sure to have suffered due to the drought.



Dairy producers in New Zealand and Australia have been slaughtering cattle at a heady pace as they seek to preserve feed stocks for their remaining livestock. In New Zealand, this season's cow slaughter is 76.7% ahead of last year and 52% higher than the 5-year average slaughter pace. In the Australian state of Victoria, which accounts for the majority of dairy production, cattle slaughter is 15% higher than a year ago.

For some time, U.S. dairy producers have been of the mindset that milk prices are unlikely to go much higher without a significant reduction in the national milk cow herd. But with falling global production, domestic producers could possibly enjoy larger milk checks even without lower cow numbers. The U.S. Dairy Export Council expects a 5% increase in U.S. dairy product exports due to the struggles of dairy producers around the world. This presents a huge opportunity for the U.S. dairy industry.



But for the moment, there is no shortage of dairy products. The tension between heavy inventories and forecast tightness has fostered volatility, and that is likely to continue. The industry is in an inventory drawdown phase, using attractive sales prices to encourage higher sales volume. The California Weighted Average Price for NDM rose slightly in the week ending March 22, to an average price of $1.5083. Prices in the past two weeks represent the lowest prices of the year. Sales volume was solid as the U.S. has become the low cost provider for NDM, and buyers have stepped up purchases. Once inventories are used up, the stage could be set for a more sustained price rally.

Weekly dairy cow slaughter totaled 65,261 head, up 8.8% from the same week a year ago. Year to date slaughter is up 5% from last year. Slaughter in Region 9, which includes California, tied for the second highest weekly slaughter volume of the year.

Overland Stockyard offered nearly 2,700 light Holstein heifers in its monthly feeder cattle sale. High beef prices and the shortage of beef cattle replacements have provided a ready market for what might otherwise have been an overwhelming amount of dairy replacements as dairy liquidations continue. Dairy producers have also been incented to cull aggressively and replace inefficient cows with readily available heifers. The beef and dairy industries are thus reducing heifer supplies. For now, the impact has been muted as some dairy producers sell off heifer rotations or entire herds. Eventually, strong demand for heifers by dairymen with high cull rates and beef cattle feedlots could lead to a much tighter dairy heifer market.

After weeks of losses, live cattle prices moved higher this week, led by strength in the cash market. The structure of the cattle futures market, coupled with high feed prices and little advantage for higher beef grades have encouraged cattle feeders to pull cattle ahead, sending them to slaughter as quickly as possible. Some of those trends are coming to an end, and cattle supplies will likely tighten from here. Beef prices look poised to move higher.

Grain and Hay Markets

Feed prices moved sharply lower this week, as USDA's quarterly Grain Stocks report surprised the market with larger than expected corn inventories. March 1 corn stocks of 5.4 billion bushels were 10% smaller than last year and the lowest inventories on that date since 2004. However, the inventory drawdown from December 1 to March 1 was stunningly low, implying a 30% drop in feed demand when compared to the same quarter a year ago. Recent reports of strong feed demand had the market primed to expect minimal stocks, and when the report showed otherwise, nearby corn prices plunged their 40¢ limit, settling below $7.00/bushel. Options values indicate that without the limit, old crop corn prices would have fallen as much as 60¢. Wheat and soybean prices also moved sharply lower, but remained within their daily trading limits. Wheat and soybean inventories were larger than anticipated, but reported stocks were within the range of expectations.

USDA's Prospective Plantings report showed only slight adjustments in the amount of acreage farmers intend to plant to corn, soybeans and wheat. Cotton area is expected to decline by more than two million acres. Corn area is expected to increase 127,000 acres to 97.28 million acres. With this kind of acreage, and assuming normal abandonment, 2013-14 corn production could be record large even with yields as low as 145 bushels per acre.

This is obviously higher than last year's drought-stricken 123 yield, but with that exclusion, it would be the lowest average yield since 2003-04. Soybean production could be record large with a yield over 44 bushels per acre.

The stocks report makes it clear that high prices have rationed demand. Indeed, after nearly three years of high prices, corn demand in the 2012-13 marketing year is forecast to be 14% lower than in 2009-10 due to sharp declines for ethanol (-2%), feed (-13%) and exports (-55%). Soybean usage has fallen 8% over the same period. While export demand will likely rebound, feed usage can only increase marginally because the national livestock herd is considerably smaller. Demand for corn for ethanol use will be limited by waning gasoline consumption. The combination of potentially huge crops and reduced demand suggests corn prices could fall to very low levels by harvest. But with minimal stocks and a lot of time and uncertainty between now and then, feed prices could spike several times before a large crop is assured.

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FRED DOUMA'S PRICE PROJECTIONS…

Mar '13 Final:	**Quota cwt. $18.03**	**Overbase cwt. $16.33**	**Cls. 4a cwt. $17.89**	**Cls. 4b cwt. $15.02**
Last Week:	**Quota cwt. $18.07**	**Overbase cwt. $16.37**	**Cls. 4a cwt. $18.00**	**Cls. 4b cwt. $15.02**

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HEARING ON AB 31 OFFICIALLY SCHEDULED FOR APRIL 17TH: *(By Rob Vandenheuvel)* The California Assembly's Committee on Agriculture has officially scheduled **a hearing to discuss AB 31 on April 17th at 1:30 p.m. in the California State Capitol, Room 126**. We've written about AB 31 in prior issues of this newsletter (http://www.milkproducerscouncil.org/120512_dairybill.htm), but the bottom line is that this legislation is crafted to bring our California Class 4b price (the price paid for milk sold to California cheese manufacturers) in a closer relationship with the prices paid for comparable milk sold to cheese manufacturers around the county.

We've mentioned some of the claims and public relations arguments being made by the Dairy Institute, on behalf of the State's cheese manufacturers, but we've recently seen evidence that additional help has also been recruited. The "California Teamsters" recently put out a memo to the members of the Assembly Agriculture Committee urging a "no" vote on AB 31. Why do they not support the bill? As stated in their memo, "AB 31 would bypass the long-established minimum price setting system at the Department of Food and Agriculture for the purpose of radically raising the cost of milk used in dairy products." *(A copy of the full memo to the Committee members can be found at: http://www.milkproducerscouncil.org/031513teamsters.pdf)*

I have attended every CDFA pricing hearing since beginning my time at Milk Producers Council in 2007. During those six years, I have never seen or heard from any representative of the California Teamsters at any of those hearings. And yet here in 2013, they are arguing that AB 31 should be opposed because we need to protect the "long-established minimum price setting system" at CDFA.

So what is my point? **The Dairy Institute and the State's cheese manufacturers are pulling out all the stops, spoon-feeding organizations like the California Teamsters (and likely others) with their own version of the facts, all in an attempt to prevent a bill that as we noted in our newsletter two weeks ago, would still give the California cheese manufacturers the lowest regulated milk price in the country.**

What should this mean to the dairy families in California? **Make plans to attend the April 17th Committee hearing in Sacramento.** Show the Agriculture Committee Members how important this issue is for the roughly 1,600 dairies left in California. **We are battling against an opponent that will do everything they can to protect the status quo – a "California Discount" of more than $750 million since 2010**. Dairymen cannot afford to sit passively by and simply hope the Committee does the right thing.

On behalf of the MPC Board and Staff, we wish all of you a wonderful Easter weekend!