



Milk Producers Council

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TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0750 \$1.8375
Barrels +\$.0625 \$1.7550

Weekly Average, Cheddar Cheese

Blocks +\$.0935 \$1.8090
Barrels +\$.0950 \$1.7385

CHICAGO AA BUTTER

Weekly Change +\$.0300 \$1.7400
Weekly Average +\$.0695 \$1.7340

DRY WHEY

Dairy Market News w/e 04/12/13 \$.5625
National Plants w/e 04/06/13 \$.5873

NON-FAT DRY MILK

Week Ending 4/5 & 4/6

Calif. Plants \$1.4651 17,867,560
Nat'l Plants \$1.4920 28,639,848

Prior Week Ending 3/29 & 3/30

Calif. Plants \$1.4982 19,067,843
Nat'l Plants \$1.5066 30,768,989

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

Milk & Dairy Markets

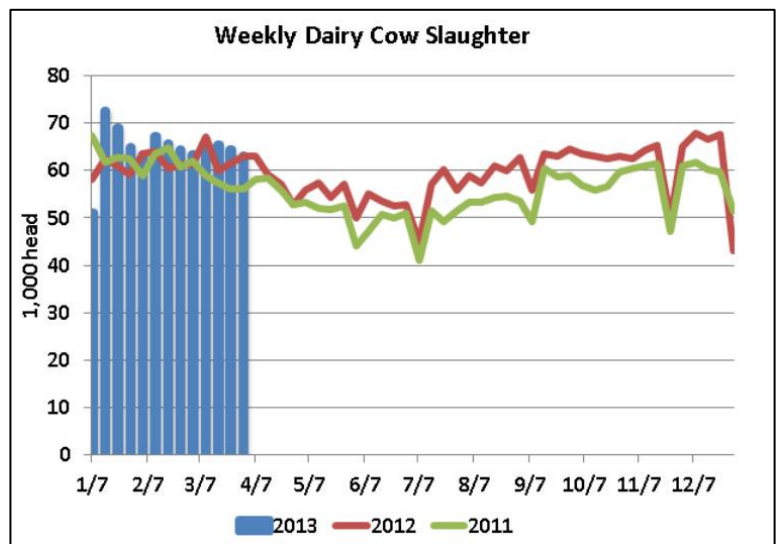
Dairy product markets and Class IV futures moved higher again this week. Class III futures were mixed, with gains in April to June and losses in the second half of the year. Milk powder prices continue to lead the rally. CME spot market Grade A nonfat dry milk (NDM) added 9.75¢/lb. this week, trading 12 times. Extra Grade NDM was up 9¢. Spot NDM prices have reached levels not seen since May 2011. Cheddar blocks and barrels were 7.5¢ and 6.25¢ higher, respectively, while butter added 3¢.

Slowing international production remains the catalyst for rising prices. Fonterra reported March milk collections in New Zealand down 16.3% from a year ago. February collections were down 2.3%. Still, collections are 2.8% higher than the prior year in the first ten months of the season. European milk production has been lower than the previous year in every month since July. January milk production in the Eurozone was 2.2% lower than a year ago. Anecdotal reports suggest that production in February and March remained notably below a year ago. Cold weather is prevailing in Western Europe with no regard for the calendar, and the spring flush has been delayed.

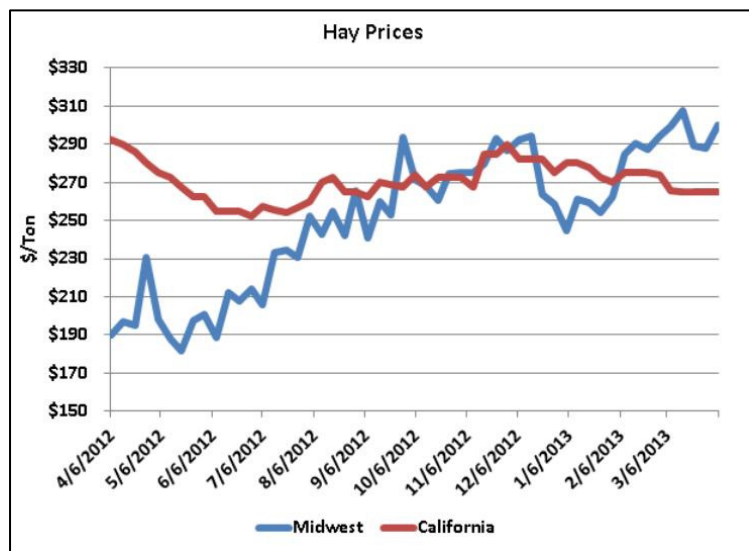
With production waning, buyers are stepping up to secure product at ever higher prices. German skim milk powder (SMP) prices increased €125 per ton in the past week. USDA's Dairy Market News reported a 9-14% increase in butter and powder prices in Western Europe in the past two weeks. SMP prices were up 36% in Oceania, and whole milk powder (WMP) prices increased 11%. Oceania AMF prices topped \$2.00/lb. for the first time since August 2011, averaging \$2.05.

U.S. milk powder prices are also moving higher in fits and starts. U.S. dairy product supplies remain ample. Lagging price indicators like the USDA's NDPSR moved lower this week. Similarly, the California Weighted Average Price for NDM averaged \$1.4651/lb., more than 3¢ lower than last week. Sales volume remains strong.

Weekly dairy cow slaughter was 62,977 head, slightly lower than the same week a year ago. Year



to date slaughter is up 4.6% from a year ago. Regional trends are beginning to change, with slaughter slowing from very high levels in the West and accelerating in the Midwest.



Perhaps the regional changes in dairy cow slaughter are an indication of changing forage prices and their impact on dairy profit margins. Hay prices have stabilized in the West, but continue to rise in the Midwest. According to the University of Wisconsin Extension’s Weekly Hay Market Report, large square hay bales averaged over \$300/ton in the Midwest last week. Midwest hay prices have surpassed California hay prices in the past couple months, which is unusual as hay in the Midwest is of variable quality and the average price is typically lower than the California market.

As noted previously, the strength of the powder market relative to the cheese market represents another shift in regional advantages that improves competitiveness in California relative to cheese-producing states in the Midwest. This too may be a factor behind the changing slaughter trends.

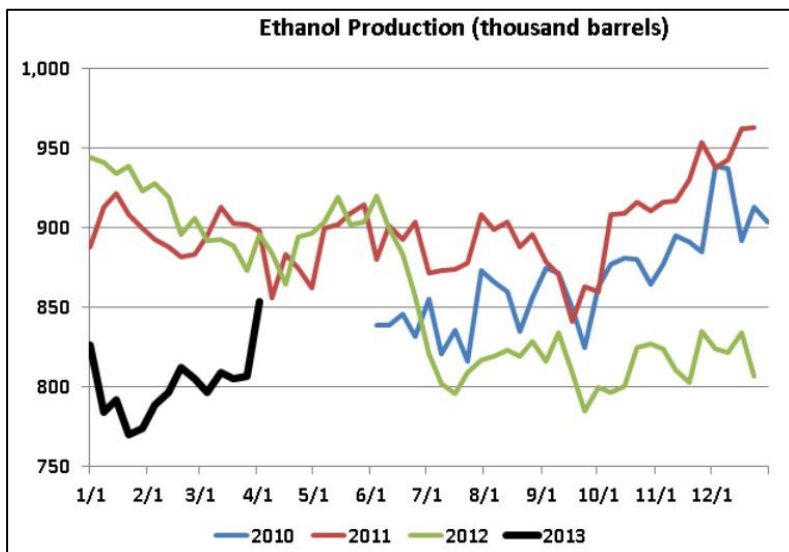
Grain and Hay Markets

Feed prices rebounded this week, as market bears wore out their welcome. Corn prices remain well below the levels that prevailed ahead of the shockingly large Grain Stocks report, but they regained 30¢ this week. Wheat prices were up 15¢ and soybeans added a half dollar. Chinese wheat prices are at record highs, allowing a margin for U.S. imports. Indeed, USDA announced a sale of 13.2 million bushels of new crop soft red winter wheat to China. That is the largest Chinese purchase of U.S. winter wheat since 1994, but before the sale was confirmed, the rumor mill had been well greased with tales of huge wheat sales to China, and the final sales volume was actually disappointing.

Chinese soybean imports in March totaled 3.84 million metric tons (MMT), up 2.9 MMT from February. However, January through March imports are 13% lower than last year, and China’s National Grain and Oils Information Center said 2012-13 soybean imports could fall below year ago levels for the first time in nearly a decade. The bird flu has claimed the lives of ten people and killed demand for poultry. Yum! Brands reported a 16% slide in sales at KFC stores in China. In some provinces, tens of thousands of birds have been slaughtered, and this is reducing feed demand for soybean meal.

Corn futures were supported this week by a sharp uptick in weekly ethanol production. For the week ending April 5, production averaged 854 thousand barrels per day, the highest weekly production level since June, before the drought raised corn prices.

Aside from a brief warm spell, it has been cold and dreary in the Midwest. This has helped to recharge soil moisture, but it has also delayed the start of planting season. It is too early for this delay to impact acreage decisions or yields, but it is never too early for delays to cause farmers concern. Bitter colds in the Plains are a bigger issue for the moment. The winter wheat crop has been exposed to lows in the 20s as far south as



Texas and more cold weather is expected late next week. Snow storms have walloped the Northern Plains just in time for calving season. Since Monday, Rapid City, South Dakota has received over 28" of snow. There is more in the forecast for next week. This year's beef calf crop was already the smallest on record since 1949. If these storms cause heavy death losses in cattle country, it will slow the necessary expansion of the beef cattle herd for another year, keeping beef supplies tight and prices high. This will put a floor under dairy cow prices and support cull cow revenue long into the future.

FRED DOUMA'S PRICE PROJECTIONS...

Apr 12 Est:	Quota cwt. \$18.95	Overbase cwt. \$17.25	Cls. 4a cwt. \$18.02	Cls. 4b cwt. \$16.77
Last Week:	Quota cwt. \$18.76	Overbase cwt. \$17.06	Cls. 4a cwt. \$18.02	Cls. 4b cwt. \$16.36

HEARING ON AB 31 RESCHEDULED FOR MAY 1ST: *(By Rob Vandenheuvel)* This week, it was announced that the Assembly Ag Committee's hearing on AB 31, introduced by Assemblyman Richard Pan (D-Lodi), would be postponed until **Wednesday, May 1st at 1:30 pm in Room 126 in the State Capitol Building.** As a reminder, AB 31 would result in the California Class 4b price (for milk sold to California's cheese manufacturers) tracking in a closer relationship with the Federal Order Class III price (which is used as the benchmark price for comparable milk sold around the country).

For those making plans to attend the hearing – *which is hopefully a significant number of dairy farmers* – please update your schedules to reflect the new hearing date. We look forward to presenting our case to the seven members of the Assembly Ag Committee that our state law needs to be updated to ensure that California dairy farmers are able to operate under a pricing structure comparable to our colleagues around the country. So stay tuned...

BIPARTISAN CONGRESSIONAL COALITION INTRODUCES BILL TO REFORM THE ETHANOL MANDATE: *(By Rob Vandenheuvel)* This week, H.R. 1462, the "RFS Reform Act of 2013," was introduced in the U.S. House of Representatives. The bill, which would remove corn-based ethanol from the "Renewable Fuel Standard" (RFS, also referred to as the "ethanol mandate"), was introduced by a bipartisan coalition of 22 members of Congress.

The RFS has become an increasingly controversial issue in Washington, DC, as more and more of our valuable corn supply continues to make its way into ethanol plants, largely due to the government's role in mandating it through the RFS. Combine the government-mandated demand for corn-based ethanol with last year's drought-diminished crop, and we have seen (and felt) the results: record high feed costs for our nation's dairy farms. MPC would like to thank the following California Congressmen who have already co-sponsored H.R. 1462:

- Rep. John Campbell (R-Irvine)
- Rep. Doug LaMalfa (R-Redding)
- Rep. Jim Costa (D-Fresno/Merced)
- Rep. David Valadao (R-Hanford)

For the past couple years, MPC has been working on this important issue with a broad coalition in Washington, DC. The coalition represents not only livestock agriculture (including dairy, turkey, meat, chicken, etc.), but also taxpayer advocates, restaurant groups, environmental organizations, hunger advocates and boating groups. We want to thank these organizations for their tireless work in keeping this issue on the forefront and working with Members of Congress throughout the U.S. as we try to address this policy that has been devastating to the end-users of our valuable national corn supply. Below are the members of this coalition that have thrown their support behind H.R. 1462:

- Action Aid USA
- American Frozen Food Institute
- American Meat Institute (AMI)
- **California Dairy Campaign**
- California Poultry Federation
- Chicken and Egg Association of Minnesota
- Competitive Enterprise Institute
- **Dairy Producers of New Mexico**
- **Dairy Producers of Utah**
- Environmental Working Group

- Friends of the Earth
- **Idaho Dairymen's Association**
- Indiana State Poultry Association
- **Milk Producers Council**
- Minnesota Turkey Growers Association
- National Chicken Council
- National Council of Chain Restaurants
- National Marine Manufacturers Association
- National Restaurant Association
- National Taxpayers Union
- National Turkey Federation
- **Nevada State Dairy Commission**
- North American Meat Association
- North Carolina Poultry Federation
- **Northwest Dairy Association**
- **Oregon Dairy Farmers Association**
- **Southeast Milk, Inc.**
- Specialty Equipment Market Association
- Taxpayers for Common Sense
- Texas Poultry Federation
- The Poultry Federation
- Virginia Poultry Federation
- **Washington State Dairy Federation**

CLEARING UP MISINFORMATION ABOUT THE CENTRAL VALLEY WATER BOARD AND THEIR GENERAL ORDER FOR DAIRIES: *(By Kevin Abernathy, Director of Regulatory Affairs)* This week, Dairy Cares – a coalition of California dairy producers, cooperatives and processors – sent out information clearing up some false rumors and misinformation that has apparently been spreading around the Central Valley. It relates to the recent appellate court decision that will result in some revisions to the General Order for Dairies that is administered by the Central Valley Water Board.

According to Dairy Cares, dairy operators in the Central Valley should be aware that:

1. *The General Order remains in place and all Central Valley dairies should continue their compliance efforts.*
2. *The Central Valley Water Board has stated clearly that “in no way, shape or form” do they intend to set aside the General Order until a new, revised Order has been adopted.*
3. *It remains our assessment that most of the changes planned for the Order will not substantially change what dairies are actually required to do anytime soon.*

Unfortunately, it's been reported to us that some dairy producers may be receiving misinformation and are possibly being advised that they no longer need to comply with the General Order “because it's going to be set aside.” For the reasons explained above, this amounts to advising producers to violate the Order and is based on a mischaracterization of what is occurring.

To help insulate producers from ill-advised actions, we want to emphasize that the Order remains in place and compliance efforts should continue as usual.

CDQAP ENVIRONMENTAL STEWARDSHIP COURSE ON APRIL 23 & 30: *(By Kevin Abernathy, Director of Regulatory Affairs)* The California Dairy Quality Assurance Program (CDQAP) will be conducting a two-day environmental stewardship course in Merced, CA on April 23rd and 30th (both are 1-4 p.m.). This 6-hour course is a requirement for dairies that are trying to become “environmentally certified,” which entitles those dairies to a 50% reduction in their annual fees paid to the State Water Board. The course will be held at the Merced County Cooperative Extension Cooperative Extension Classroom at 2145 Wardrobe Avenue in Merced, CA.

For dairies interested in participating in this course for the purpose of becoming CDQAP-certified, attendance on both days is required. ***Important note: CDQAP has announced that this will be the ONLY course offered before the September 30th deadline to be eligible for the fee reduction in the coming year.*** More information on the course can be found at: <http://www.milkproducerscouncil.org/mercedcdqap.pdf>.