Milk Producers Council

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DATE: July 18, 2014 **PAGES: 3**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	*+$.0575*	$2.0275
Barrels	*+$.0825*	$2.0700

Weekly Average, Cheddar Cheese

Blocks	*+$.0545*	$2.0100
Barrels	*+$.0770*	$2.0415

CHICAGO AA BUTTER

Weekly Change	*+$.1075*	$2.4800
Weekly Average	*+$.0325*	$2.4170

DRY WHEY

Dairy Market News	w/e 07/18/14	$.6700
National Plants	w/e 07/12/14	$.6876

NON-FAT DRY MILK

Week Ending 7/11 & 7/12

Calif. Plants	$1.8043	11,695,253
Nat'l Plants	$1.8845	18,618,029

Prior Week Ending 7/4 & 7/5

Calif. Plants	*$1.8161*	*14,233,424*
Nat'l Plants	*$1.8585*	*22,306,200*

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FRED DOUMA'S PRICE PROJECTIONS…

July 18 Est:	**Quota cwt. $22.75**	**Overbase cwt. $21.05**	**Cls. 4a cwt. $23.53**	**Cls. 4b cwt. $18.73**
Last Week:	**Quota cwt. $22.60**	**Overbase cwt. $20.90**	**Cls. 4a cwt. $23.39**	**Cls. 4b cwt. $18.50**

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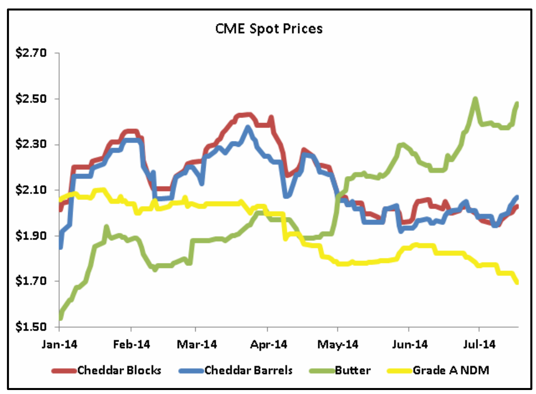
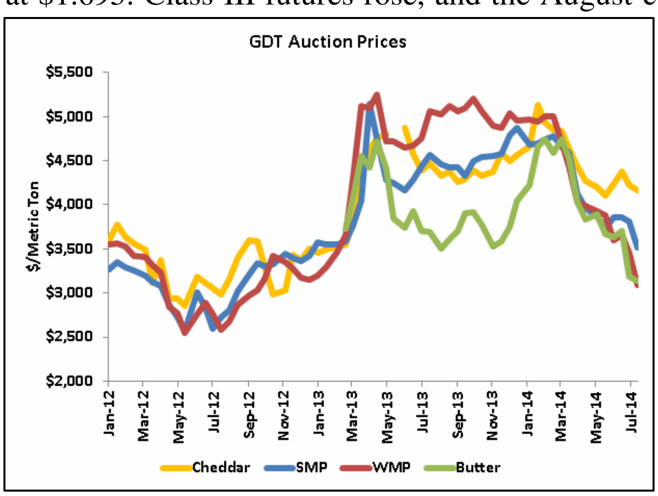
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

<u>*Milk & Dairy Markets*</u>

In spite of falling overseas markets, domestic butter and cheese prices held firm. Indeed, spot butter climbed to $2.48/lb., up 10.75¢ from last week. Cheddar blocks rallied 5.75¢ to $2.0275 and barrels added 8.25¢ at $2.07. Trading was brisk. Twenty-four loads of butter changed hands, and the block and barrel markets exchanged 20 loads apiece.

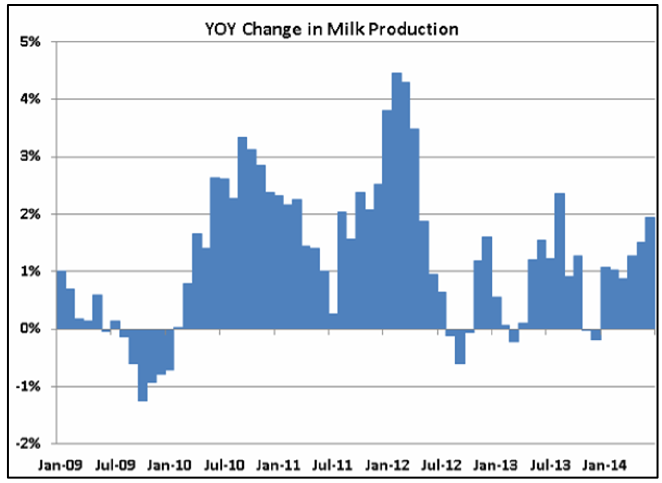


In contrast, nonfat dry milk (NDM) was quietly lower. Just two loads traded this week, and the spot market lost 4¢, falling to 13-month lows at $1.695. Class III futures rose, and the August contract added 66¢. July through November Class IV contracts were also higher, with strong gains in August and September. Deferred Class IV futures retreated.



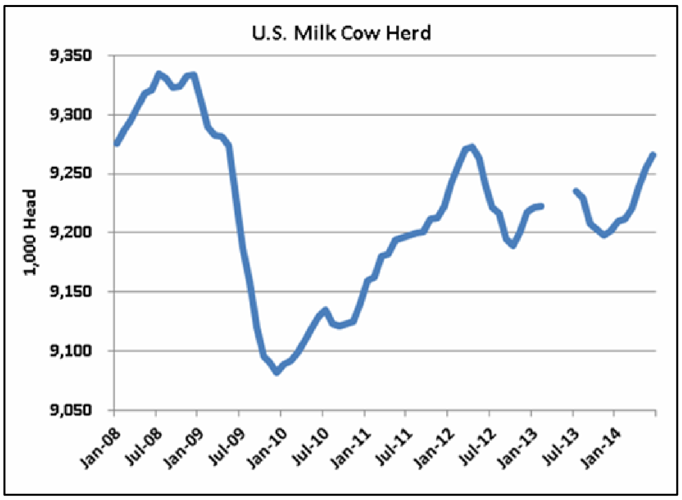
The Global Dairy Trade (GDT) index plunged to 21-month lows after a stunning 8.9% decline on Tuesday. All products lost ground, and milk powder was particularly weak. Whole milk powder (WMP) dropped 10.9% and skim milk powder (SMP) fell 7.1%. Milk powder prices have not been this low at the GDT since late in 2012. The global milk powder market appears vulnerable to further declines as Chinese imports wane.

Anhydrous milk fat was anemic at the GDT; the average winning price was 10% lower than the previous auction. Butter held relative firm with losses of just 1.1%. Cheddar was 1.6% lower.



Dairy Market News added to the pressure from the GDT, confirming declines in the price of nearly all dairy products in both Oceania and Western Europe. The poor showing at the GDT sparked a slide in the New Zealand dollar. Meanwhile, the euro is falling amidst geopolitical uncertainty and a resurgence of credit risks on the continent. As these currencies weaken relative to the greenback, the U.S. becomes even less competitive in the export market.

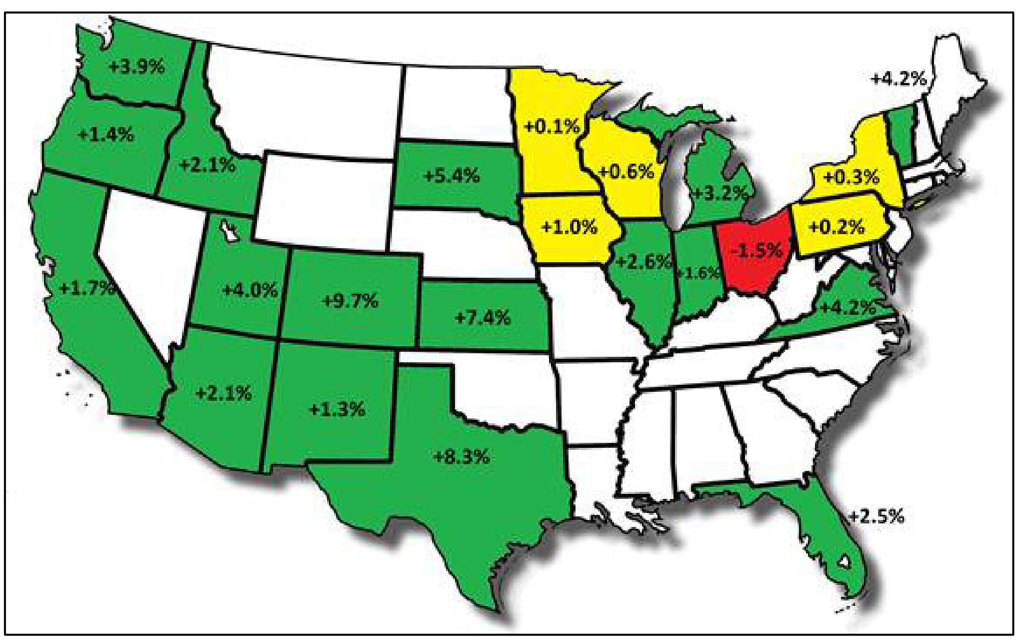
But in the U.S., the cheese and butter markets have proven impressively resilient. Milk checks remain large and dairy producers are responding by adding cows and increasing output. U.S. milk production reached 17.265 billion pounds in June, up 1.9% from last year. This is the largest year-over-year increase in milk output in ten months. Dairy producers added 11,000 cows in June, bringing the milking herd up to 9.27 million head. This figure is 14,000 cows larger than the previous report, as USDA revised its estimate of the May milking herd upward by 3,000 head.



Production was particularly strong in the West. Colorado production was 9.7% higher than last year and Texas reported an 8.3% increase. California output was 1.7% greater than last June, at 3.55 billion pounds. Most Midwestern states are finally reporting greater production than last year, although Ohio is still lagging. Growth in the cheese states remains tepid. Wisconsin production was up 0.6% from last year, and Minnesota output rose just 0.1%.

Hot weather has temporarily crimped milk output in the West. The forecast calls for triple digit highs in Central California. But overnight lows are expected in the 60s and low 70s, which is hardly oppressive for mid-July. The Midwest expects its first real blast of heat next week, but cooler temperatures are expected thereafter.

As the mercury rises, some manufacturers have reported difficulty securing enough milk to operate at capacity. This has slowed cheese output, and barrel supplies are tightening. Butter output also remains slow, and churn operators continue to sell cream, as ice cream manufacturers are willing to pay quite a premium. Butter makers will soon have to increase churn rates in order to stock up ahead of holiday demand. The cream market is likely to remain well-supported.



For the week ending July 5, dairy cow slaughter totaled 41,630 head. Culling was particularly light due to Independence Day. The holiday notwithstanding, slaughter volumes were 11.9% lower than the same week in 2013. So far this year, dairy cow culling is 10.7% lower than last year. Feed prices continue to fall which will allow for strong margins even if milk prices fall. Thus, the slow cull rate is likely to continue.

Grain and Hay Markets

The weather has been nearly ideal for crop production. A slightly drier pattern has developed in the Corn Belt, allowing saturated fields to dry out. Next week will be a little warmer, but the heat spell shouldn't last too long. Earlier this week, welcome rains wetted the Southern Plains. On Monday, USDA reported that 76% of the corn crop and 72% of the soybean crop is in good or excellent condition. By this measure, the corn and soybean crops are off to their best start in 20 years. With that, corn futures fell to new contract lows. The September contract lost 7¢ this week, falling to $3.7125/bushel. August soybean futures dropped 19¢, settling at $11.7675.

Dairy producers in California still have to pay up for milk cow quality hay. However, with the prices of substitute feeds falling quickly, the cost of dry cow hay is receding. The potential for abundant grain and protein supplies in the Midwest is slowly beginning to impact the western forage market.

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SILAGE CORN STRIP-TILL COACH TOUR OFFERED IN AUGUST: *(By Kevin Abernathy, Director of Regulatory Affairs)* Next month, producers in the Central Valley will have an opportunity to learn more about the "strip-till" approach to producing corn silage for your dairy. A tour of strip-tilled fields in Merced and Madera, along with a group discussion and luncheon, is being offered on August 5th for interested parties. As described in the event flyer (which is posted at: http://www.milkproducerscouncil.org/striptillsilage.pdf):

> *"The strip till approach to producing high quality silage corn is becoming well established on dairy farms in Merced and Madera counties. You can lower labor and equipment costs, reduce moisture requirement by planting sooner, and still maintain yields! You are invited to a free coach tour to see fields for yourself! Implements will be on display and you can hear directly from experienced farmers."*

The details of the event are below (and included in the printer-friendly flyer linked above):

Date: Tuesday, August 5th, 2014
Departure location: Hilmar Cheese Visitor Center (9001 Lander Ave, Hilmar, CA 95324)
Departure time: 7:00am
Return time: 12:30pm (Luncheon12:30-1:30pm)
Tour locations: Strip tilled fields in Merced and Madera
Tour & luncheon cost: Free with early booking

Producers interested in attending this tour should RSVP to Ladi Asgill at Sustainable Conservation either by email (lasgill@suscon.org) or by phone (209-576-7729) before Friday, July 25th.