



Milk Producers Council

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DATE: December 5, 2014
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.1025 \$1.5800
 Barrels - \$.0975 \$1.5500

Weekly Average, Cheddar Cheese

Blocks - \$.0602 \$1.6540
 Barrels - \$.1078 \$1.5830

CHICAGO AA BUTTER

Weekly Change +\$.0150 \$1.9850
 Weekly Average - \$.0208 \$1.9725

DRY WHEY

Dairy Market News w/e 12/05/14 \$5.800
 National Plants w/e 11/29/14 \$6.218

NON-FAT DRY MILK

Week Ending 11/28 & 11/29

Calif. Plants \$1.3501 9,667,257
 Nat'l Plants \$1.3313 16,846,822

Prior Week Ending 11/21 & 11/22

Calif. Plants \$1.3839 14,247,064
 Nat'l Plants \$1.3380 22,031,838

FRED DOUMA'S PRICE PROJECTIONS...

Dec 5 Est: Quota cwt. \$18.61 Overbase cwt. \$16.92 Cls. 4a cwt. \$17.47 Cls. 4b cwt. \$14.82
 Nov '14 Final: Quota cwt. \$20.87 Overbase cwt. \$19.17 Cls. 4a cwt. \$18.14 Cls. 4b cwt. \$18.70

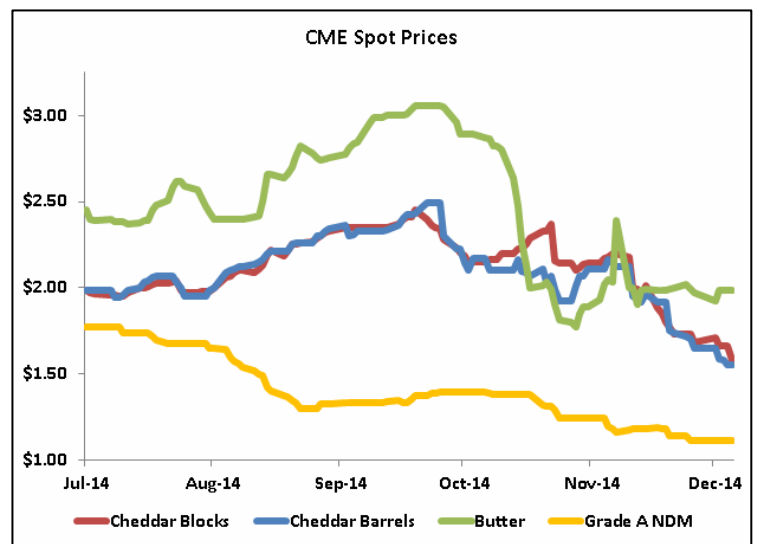
Manager's Note: (By Rob Vandenheuvel) This week we welcome back Sarina Sharp, as she is resuming her weekly Market Commentary for our newsletter. Regular readers of the newsletter will recall that Sarina took a brief – but well-deserved – break as she and her husband welcomed their daughter into the world. Congratulations, once again, and a special thanks to the staff at DailyDairyReport.com who assisted us in Sarina's temporary absence.

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

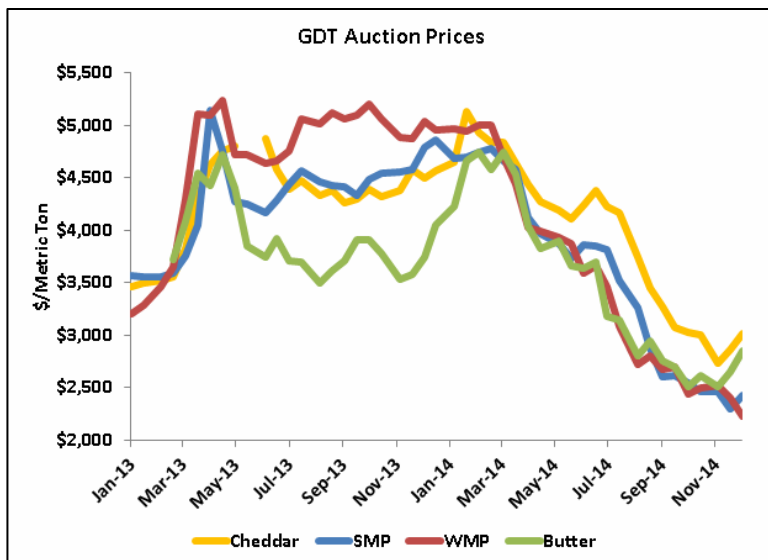
Milk & Dairy Markets

Milk is flowing in the cheese states, and the spot market is falling. Over the past two weeks, Cheddar barrels lost 19¢, slipping to \$1.55/lb. Blocks settled at \$1.58, down 15¢. Class III futures followed the cheese market lower, including limit down declines on Monday. Nearby contracts lost more than a dollar, while the deferred contracts dropped by double digits. 2015 futures are hovering around \$16, a far cry from recent highs. USDA announced the November Class III price at \$21.94, down \$1.88 from October. California 4b milk was \$18.70, down \$2.24.

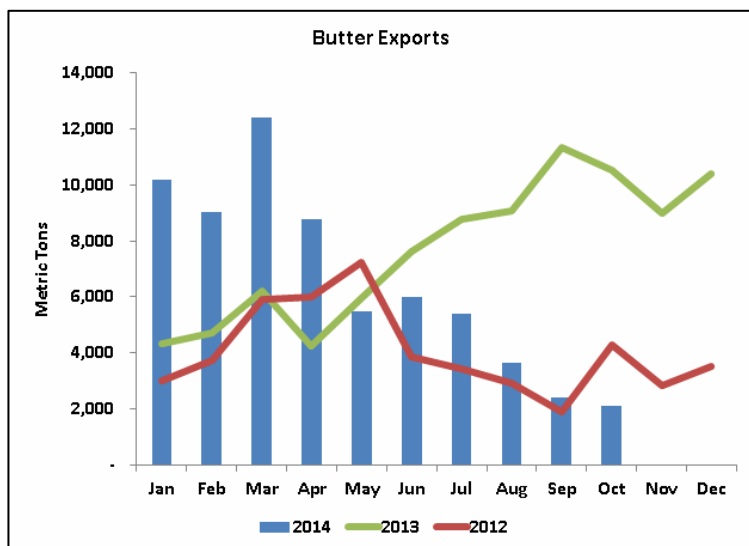
The butter and powder markets are also slipping, but losses there were less pronounced. Spot butter dropped 1.5¢ in the past two weeks, to \$1.985. Grade A nonfat dry milk (NDM) fell 2.75¢ to \$1.11. Class IV futures also moved mostly lower. The March contract spent a few days below \$15/cwt. but has since recovered. USDA announced the November Class IV price at \$18.21, down \$3.14 from October. California 4a milk was \$18.14 for November, down \$3.37 from the previous month.



Most overseas markets also moved lower over the past two weeks, according to *Dairy Market News*. Only butter in Oceania managed to gain ground, but despite a 6.5% rally to \$1.40 it remains 24¢ lower than the European market and nearly 60¢ below the CME spot price. At the Global Dairy Trade (GDT) auction on Tuesday, every product moved upward except for whole milk powder (WMP), which lost 7.1%. Butter prices were 7.3% higher than the prior auction, while Cheddar added 5.2% and skim milk powder (SMP) rose 5.7%. However, because WMP accounted for the bulk of the volume, the GDT Index moved lower once again.



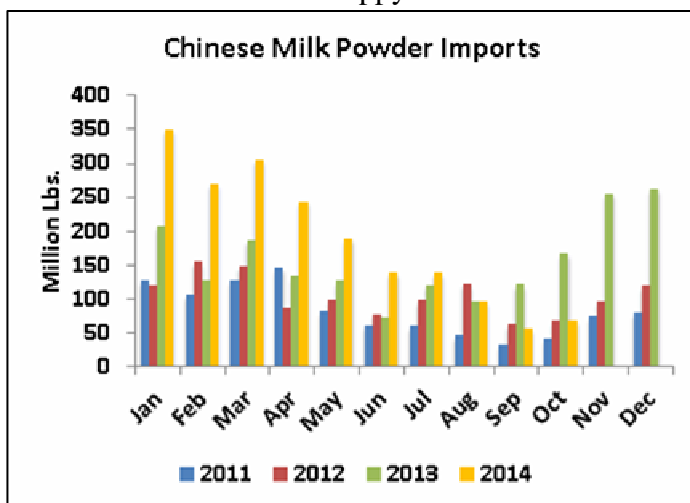
Milk was plentiful in October, leading to across-the-board increases in dairy product output. The U.S. produced 1.5% more butter, 2.3% more cheese and 17% more SMP/NDM than in October 2013. Fading export sales clearly influenced the product mix. While mozzarella and Cheddar output climbed, Gouda production was 28% lower than last year, as manufacturers reduced output of a cheese that is typically exported.



Similarly, milk powder manufacturers shifted production from SMP to NDM, allowing them to better utilize their capacity and build inventories of a product that is more popular in the domestic market. Manufacturers produced 54% more NDM in October than the prior year, and stocks rose to 195.3 million pounds, a new record for the month.

U.S. exports of cheese, butter and milk powder were significantly lower than last year in both September and October. Butter exports in October fell to more than two year lows. With milk output on the rise and export demand all but nonexistent, the dairy product markets are likely to continue to slide. However, after a sustained period of very high prices, end users have made very few forward purchases. They may be enticed to step in on each successive break in prices, which could make for a rather choppy market.

According to the International Monetary Fund, China has overtaken the U.S. as the world's largest economy. However, there are mounting concerns about the health of Chinese economic growth. Chinese milk powder imports may have bottomed in September. In October, China's combined imports of NDM and SMP rose 27% from September levels but remained well below the levels that prevailed early in the year and fell 59% short of October 2013 imports. China may have used up some of its surplus inventories, clearing the way for a rebound in imports. However, they are unlikely to return to the exorbitant volumes seen earlier this year.

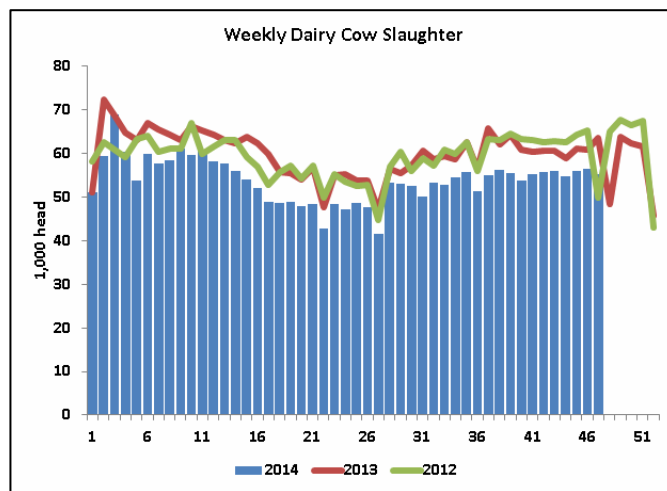


For the week ending November 22, dairy cow slaughter totaled 55,304 head. This was 12.9% lower than the previous week. For the year to date, slaughter is 10.3% lower than last year.

Grain Markets

December corn futures have rallied 8.75¢ over the past two weeks, climbing toward the high end of the recent range. Meanwhile, November soybeans slipped 3¢ to \$10.36. The soybean market rallied late this week, supported by strong export sales and concerns that Argentina may be turning dry. However, conditions in South America are generally favorable for crops.

The National Weather Service increased its estimate of the likelihood of an El Niño event this winter and spring from 58% to 65%. A strong El Niño typically corresponds to a dry summer in New Zealand and above normal precipitation in California. However, during years with an El Niño of weak or average strength, California is typically no wetter than average.



WHETHER PRICES ARE HIGH OR LOW, THE “CALIFORNIA DISCOUNT” CONTINUES: (By Rob Vandenheuvel) This past year has certainly been a period of strong U.S. milk prices. Of course, as we know all-too-well in this volatile industry, nothing lasts forever, and as evidenced by the commodity pricing above and Fred Douma’s December price projections, we are once again watching our average milk prices drop at an alarming pace. Despite this reminder of just how quickly things can change in this industry, our cheese manufacturers can rest assured that one thing remains constant, and that is the commitment the State of California has shown in bestowing upon them a generous “California Discount.”

The final figures for November were announced this week, and once again, California’s Class 4b price (which applies to milk sold to California’s cheese plants) was significantly below the Federal order Class III price, which is the benchmark price used to value milk sold to cheese manufacturers throughout the country. In November, that discount was \$3.24 per hundredweight, the largest gap since 2011.

Since 2010, the gap represents nearly **\$1.6 Billion** in forgone revenue that never made it into the California pool. What does that mean for the average CA dairy? If you’re a 1,000-cow dairy producing 65 lbs of milk/cow/day, this \$1.6 Billion represents **nearly \$930,000 since 2010 to your dairy alone!**

The “California Discount” for our State’s Cheese Manufacturers		
	Nov ‘14	2010 – Nov ‘14
California Class 4b Price	\$18.70	\$16.31
FMMO Class III Price	\$21.94	\$18.11
Discount	(\$3.24)	(\$1.80)
The California Discount: Nearly \$1.6 Billion since January 2010.		

We continue to hear reports that the three main California cooperatives have been developing a proposed California Federal Milk Marketing Order that could put our producers on an even playing field with their out-of-state colleagues. As we get ready to usher in a new year, **we look forward to the opportunity in 2015 to have that process come to fruition and give California producers something they deserve: a tangible alternative to the devastating status quo.**

USDA ANNOUNCES TWO-WEEK EXTENSION OF MPP SIGNUP: (By Rob Vandenheuvel) For those of you who scrambled this week to submit the “Margin Protection Program” forms to your local Farm Services Agency office, consider yourselves ahead of the game. Yesterday, USDA announced a two-week extension of the deadline, which means that dairies now have until December 19th to either submit your forms to FSA or submit revisions (you can change both your volume covered under the MPP and your margin selection up until the December 19th deadline). MPC members looking for assistance in this matter can contact me at (909) 628-6018 or rob@milkproducers.org.