



Milk Producers Council

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DATE: November 7, 2014
TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0600 \$2.2000
Barrels +\$.0100 \$2.1200

Weekly Average, Cheddar Cheese

Blocks +\$.0520 \$2.1780
Barrels +\$.0945 \$2.1290

CHICAGO AA BUTTER

Weekly Change +\$.1175 \$2.0075
Weekly Average +\$.1685 \$2.2285

DRY WHEY

Dairy Market News w/e 11/07/14 \$.5888
National Plants w/e 11/01/14 \$.6417

NON-FAT DRY MILK

Week Ending 10/24 & 10/25

Calif. Plants \$1.4892 8,539,287
Nat'l Plants \$1.4578 17,067,915

Prior Week Ending 10/24 & 10/25

Calif. Plants \$1.4939 9,290,632
Nat'l Plants \$1.4915 17,053,007

FRED DOUMA'S PRICE PROJECTIONS...

Nov 7 Est: Quota cwt. \$21.89 Overbase cwt. \$20.18 Cls. 4a cwt. \$18.81 Cls. 4b cwt. \$20.47
Last Week: Quota cwt. \$21.58 Overbase cwt. \$19.88 Cls. 4a cwt. \$18.43 Cls. 4b cwt. \$20.04

Manager's Note: (By Rob Vandenheuvel) As regular readers of our newsletter know, Sarina Sharp provides our regular weekly market commentary. Last week, Sarina and her husband were blessed with the birth of their daughter Sophia Ann Sharp. We extend our heartfelt congratulations to Sarina and her family for this beautiful blessing. Sarina will understandably be taking a break from writing our weekly commentary as she has a much higher priorities for the time being. While we look forward to having Sarina back in the future, we greatly appreciate her colleagues at Daily Dairy Report for "pinch hitting" in the meantime.

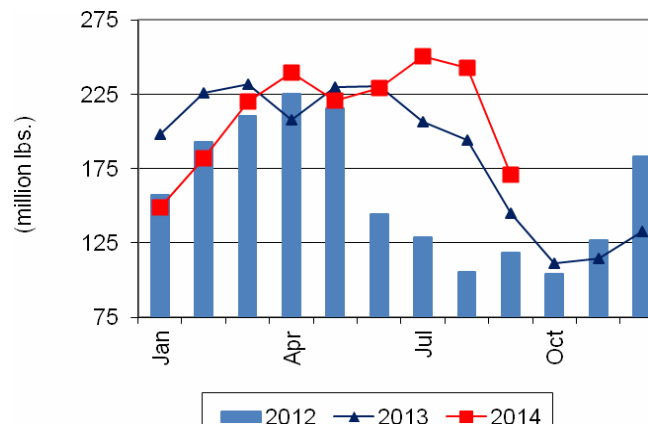
MARKET COMMENTARY: (By Daily Dairy Report staff, www.dailydairyreport.com)

Milk & Dairy Markets

Ample milk production and weaker exports are weighing on domestic dairy product markets. The Chicago Mercantile Exchange (CME) spot NDM market came under additional price pressure this week, giving up 8.25¢ and closing at \$1.16/lb., during Friday's trading session. This is the lowest spot NDM price since May 2012. NDM/SMP exports of almost 71 million pounds in September were 27% lower than August 2014 and down 29% compared to September 2013. Combined NDM/SMP production totaled 155 million pounds in September, down 6.9% vs. August but 20.9% more than last year. Manufacturers' stocks of NDM recorded their largest drawdown this year of nearly 72 million pounds to 171 million pounds.

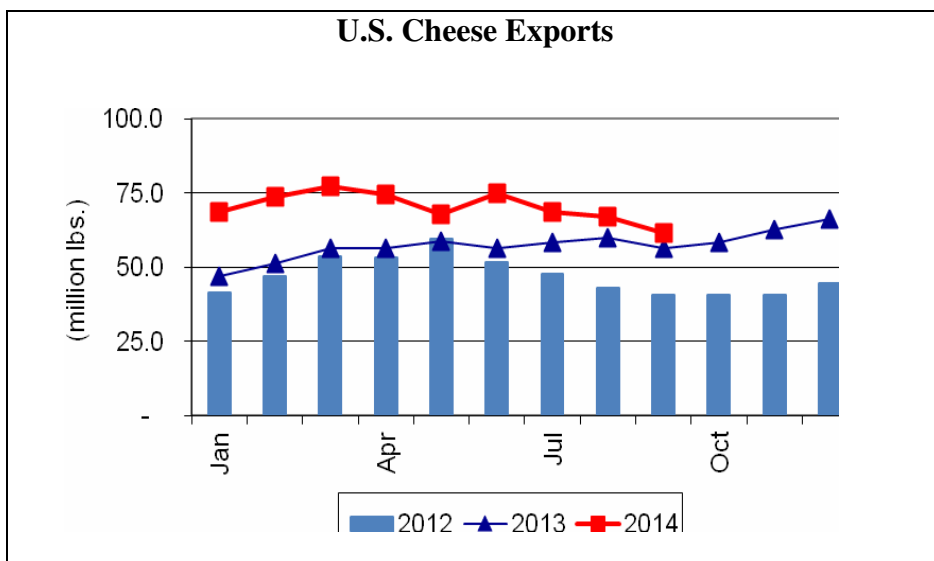
Some sellers have moved large quantities of NDM/SMP at discounted prices to management inventories. It may

Manufacturers' Stocks of Nonfat Dry Milk



take several weeks for the significantly lower spot NDM prices to be reflected in the California Weighted Average Price (CWAP). For the week ending Oct. 31, the CWAP averaged \$1.4892, down 0.47¢. Sales volume totaled 8,539,287 pounds, which was 751,345 pounds less than the prior week.

The CME Cheddar block and barrel prices finished the week higher. In particular, the block price gained 6¢ to close at \$2.20/lb. The barrel market struggled to preserve mid-week gains nonetheless closed the week a penny higher at \$2.12. Milk supplies are building across the United States and price discounts of \$2.50/cwt. are not uncommon. Cheese plants are operating at capacity, but manufacturers are cautious about building inventories. September 2014 cheese production surged 3.5% from August on a daily average basis to 941.6 million pounds and was 4.7% or 42 million pounds, more than last year. Mozzarella cheese production at 330 million pounds rose 7.5% vs. the prior month and was 9.3% or 28.4 million pounds, more than September 2013. American cheese output was lower than the prior month but greater than September 2013. American cheese production in September totaled 361.1 million pounds, down 0.2% vs. August but 4% more than last year. Cheese exports have supported the domestic market for most of the year. However, cheese exports in September declined for the third consecutive month. At 61.4 million pounds, September cheese exports were at their lowest level in a year. Looking forward there is a strong likelihood that increased cheese imports in Q4 and into Q1 2015 will curb domestic prices.



The CME spot butter market gained 11.75¢ during the week and closed at \$2.0075/lb. Trading activity was light with five loads exchanging hands during the week. There was an uncovered offer left on the board after Friday’s trading session – an indication that manufacturers have product to sell. At \$2.0075/lb., U.S. spot butter prices are more than \$1 lower than the peak reached in September. Still, U.S. domestic butter prices are at a 90-cent premium to the Global Dairy Trade (GDT) auction price (on an 80% butterfat U.S.-equivalent basis). U.S. prices also exceed European prices by nearly 50 cents per pound. These wide disparities suggest that domestic and world prices will have to converge in coming months due in part to greater butter and milkfat imports. Butter and milkfat imports surged in August to 5.5 million pounds, the highest monthly volume in more than three years. September butterfat imports declined to 3.7 million pounds but were still 145% greater than last year. Meanwhile, U.S. butter and milkfat exports dwindled to 5.3 million pounds in September – the lowest monthly export volume since September 2012.

Dry whey prices reported by *Dairy Market News* were lower for the week ending Nov. 7. The West mostly range, 54¢ to 63.75¢, is down 0.875¢ vs. the prior week. The dry whey market has a weak undertone due to cheese plants operating at capacity levels and a slow down in U.S. dry whey exports. U.S. prices are higher than global whey prices and limiting export opportunities.

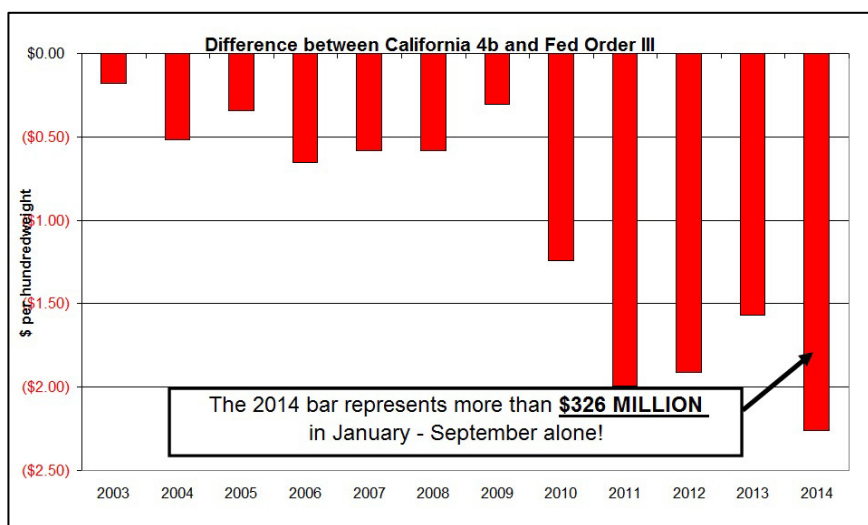
Grain Markets

Nearby corn futures closed lower on the week, while the soybean and meal markets continue to escalate. DEC corn futures settled 3.75¢ lower at \$3.675/bu. today, which was still 6¢ lower than Monday’s close. DEC soybean meal finished the week at \$390.40/ton, up nearly \$20 since Monday.

ANOTHER MONTHLY UPDATE: SEPTEMBER'S "CALIFORNIA DISCOUNT" ON CHEESE MILK HITS \$2.88 PER CWT: *(By Rob Vandenheuvel)* Like a broken record, we are once again forced to report that the "California Discount" bestowed by the California Department of Food and Agriculture (CDFA) upon our State's cheese manufacturers was \$2.88 per hundredweight in September. As regular readers of our newsletter already know, this California Discount is the result of the State's pricing policies that result in our Class 4b price (which applies to milk sold to California's cheese plants) consistently lagging significantly below the Federal Order Class III price, which is the benchmark price used to value milk sold to cheese manufacturers throughout the country.

The "California Discount" for our State's Cheese Manufacturers		
	Oct '14	2010 – Oct '14
California Class 4b Price	\$20.94	\$16.27
FMMO Class III Price	\$23.82	\$18.05
Discount	(\$2.88)	(\$1.78)
The California Discount: \$1.54 Billion since January 2010.		

Last month, California's Class 4b price was \$2.88 per hundredweight below the Federal Order Class III price. Since 2010, the gap represents more than **\$1.54 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 \$1.54 Billion represents **more than \$900,000 since 2010 to your dairy alone!**



The status quo is unacceptable, **and only you as dairy producers pay the price of inaction.** We continue to hear reports that the three main California cooperatives have been developing a proposed California Federal Milk Marketing Order that could put California producers on an even playing field with their out-of-state colleagues. While we understand that is a lengthy process, producers need that effort to come to fruition so they can have that as a real option. We've look forward to seeing that process unfold in the hopefully very near future.

DAIRY FARMERS ASKED TO PARTICIPATE IN AN ANONYMOUS LABOR SURVEY: *(By Rob Vandenheuvel)* With immigration reform continuing to be a hot-topic in Washington, DC, the National Milk Producers Federation (NMPF) is currently conducting a producer survey of labor costs and other labor issues as they relate to dairy farming in the U.S. You may have already receive this request from your cooperative, but if not, NMPF is asking that willing producers take 5-10 minutes to fill out this survey, the results of which will remain anonymous, but will be used collectively with other responses to serve as a valuable information source as future labor and immigration policies are established. Producers able/willing to participate in this survey can send me an email at rob@milkproducers.org and I can provide you with the weblink or document you need to answer the brief questionnaire.

NOTE: *(By Rob Vandenheuvel):* This past Tuesday, our nation witnessed a very interesting election night, with major changes to the leadership of this country. As is sometimes the case, we are still waiting to hear about a few races that continue to be "too-close-to-call." Next week, hopefully with some more clarity, we'll take a closer look at the results of Tuesday's election.

MPC's Board and Staff would like to wish you all a wonderful Veteran's Day next Tuesday. We are eternally grateful to all of those who have served in our Armed Forces.