



Milk Producers Council

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DATE: June 7, 2013
TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0025 \$1.7475
Barrels +\$.0525 \$1.7600

Weekly Average, Cheddar Cheese

Blocks - \$.0135 \$1.7315
Barrels +\$.0137 \$1.7250

CHICAGO AA BUTTER

Weekly Change +\$.0050 \$1.5450
Weekly Average - \$.0003 \$1.5410

DRY WHEY

Dairy Market News w/e 05/31/13 \$.5850
National Plants w/e 06/01/13 \$.5813

NON-FAT DRY MILK

Week Ending 5/31 & 6/1
Calif. Plants \$1.6159 5,553,499
Nat'l Plants \$1.6690 13,704,377

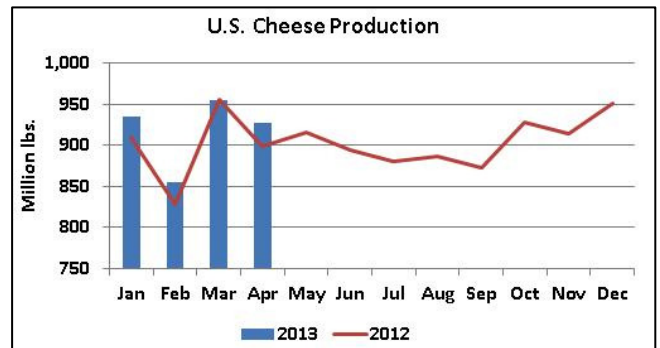
Prior Week Ending 5/24 & 5/25
Calif. Plants \$1.5505 9,835,175
Nat'l Plants \$1.6560 15,099,531

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

Milk & Dairy Markets

Class III markets moved 10-30¢ higher this week, as a flurry of bids in the spot Cheddar market ignited a rally on Wednesday. Buyers left the CME with 50 loads of Cheddar blocks this week, the largest weekly volume since March 2011. There is plenty of fresh cheese around, but buyers are happy to secure product in the low- to mid-\$1.70s. Blocks settled at \$1.7475/lb., up 0.25¢ from last week. Barrels added 5.25¢, rising to \$1.76 after four trades.

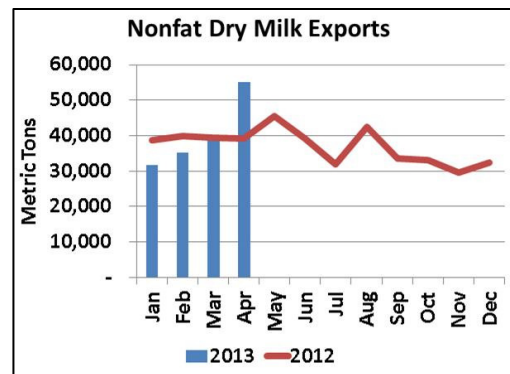
U.S. cheese production totaled 928.2 million lbs. in April, slightly higher than March on a daily average basis. Production was 3.2% higher than a year ago. This helped to explain the large increase in inventories and calm fears of poor demand which have weighed on the market since the Cold Storage report two weeks ago. Cheese production will likely continue to exceed year ago levels as temperatures in the Midwest and Northeast are mild, and milkflows remain strong. Temperatures are expected to exceed 100° this weekend in the Central Valley, but nighttime cooling should help to mitigate heat stress. Schools are letting out for summer, and fluid milk demand is waning seasonally. Much of that displaced milk will move to cheese vats and cheese will likely continue to make its way to the CME and export markets. April cheese exports totaled 25.6 million lbs., 6% higher than last year and slightly lower than March on a daily average basis.



Butter added 0.5¢ at the CME spot market after 20 trades. Class IV futures were similarly little changed. April butter production totaled 169.4 million lbs., slightly lower than a year ago and 3.8% lower than March on a daily average basis. California butter production totaled 56.8 million lbs., down 5% from a year ago and 1.6% lower than March. Slowing production and increasing stocks suggest weak demand for butter. April butter exports disappointed at 4,267 metric tons. This was 29% lower than last month and last year. Cream multiples remain low as ice cream demand has been lackluster given the less than sunny weather. There is plenty of cream available for butter churns.

CME spot Grade A nonfat dry milk (NDM) prices climbed to \$1.6925/lb. this week, up 1.25¢. Combined NDM/skim milk powder (SMP) production totaled 200.2 million lbs. in April, up 4.5% from March on a daily

average basis but down 4.4% from a year ago. NDM exports were record large at 55,187 metric tons (121.7 million lbs.) with increasing sales to Southeast Asia. The verification of export demand likely came as a relief to milk powder bulls, as exports failed to impress earlier this year in light of the much touted shortage of Oceania production. Exports helped to reduce NDM stocks from record high levels in March to a more manageable 193 million lbs. in April. April 30th inventories were 14.4% lower than a year ago and 17% lower than the prior month. The California Weighted Average Price for NDM bounced back this week, averaging \$1.6159/lb., up \$0.0654.



USDA announced the May Class III milk price at \$18.52/cwt., up \$3.29 from May 2012 and 93¢ higher than April. May Class IV was \$18.89, up 79¢ from April and \$5.34 greater than last year. California 4a and 4b prices are \$18.24 and \$17.20, respectively, up 22¢ and 28¢ from March. Current NDPSR prices suggest that June cheese, butter and Class III prices will be atypically lower than May, barring a sudden increase in spot market prices.

U.S. dairy product prices remain globally competitive and export demand will likely hold firm. Prices are declining from still high levels in Oceania but in Western Europe dairy product prices are creeping higher. European butter stocks are 42% lower than year ago levels. The Global Dairy Trade (GDT) index fell 5.3% this week. SMP and WMP fell 3.2% and 7.1%, respectively, from the previous auction. It appears that Fonterra is pushing all available milk to driers. In order to preserve their milk powder market share, they have sacrificed production and sales of competing dairy products. At this week's GDT, Fonterra did not offer any casein. They have not offered Cheddar in the two most recent auctions and they have not sold milk protein concentrate since March. This, coupled with strong U.S. milk powder exports, reveals just how tight Oceania dairy product supplies have become.

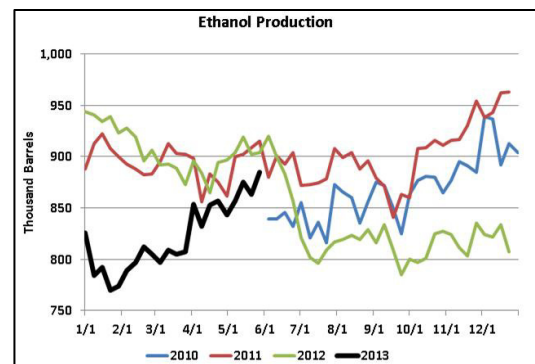
Dairy cow slaughter continues to slow seasonally. Weekly slaughter totaled 56,828 head, down 0.5% from the same week a year ago. Year to date slaughter is 4% higher than a year ago.

The prices dairy producers receive for cull beef is moving lower although beef and live cattle prices are holding relatively steady. Premium beef cuts are in short supply, but lean ground beef is plentiful and the spread between Choice and Select beef is unusually wide. The market has been inundated with supplies from New Zealand due to heavy slaughter there. New Zealand shipped a record amount of beef to China in April but still had plenty of excess to send to our shores. U.S. beef imports in April were 7% higher than in March and 9% larger than last year. The lean beef discount is hurting the profitability and demand for feeder calves with dairy genetics. Only 3,100 of the 18,000 steer calves offered at the monthly Overland Stockyard video auction were sold. Prices were about \$10/cwt. lower than last month.

Grain and Hay Markets

After much back and forth, corn prices ended mixed and little changed. The corn crop was 91% planted as of Sunday, June 2nd. Farmers likely made a little progress this week, although they are still hoping for more sunshine. Analysts estimate that planted acreage will be 1-2 million acres lower than farmers intended.

Ethanol production remains strong. It averaged 885 thousand barrels per day last week, a 50-week high. This has pressured DDG prices, which are falling relative to the price of corn.



New crop soybean prices moved higher this week, as weather concerns are now focused in the soy complex. By Sunday, 57% of the crop was in the ground. Weekend weather and Monday's planting estimate will be a key determinant of soybean prices next week.

FRED DOUMA’S PRICE PROJECTIONS...

June 7 Est: Quota cwt. \$18.74 Overbase cwt. \$17.04 Cls. 4a cwt. \$17.91 Cls. 4b cwt. \$16.06
Last Week: Quota cwt. \$18.64 Overbase cwt. \$16.94 Cls. 4a cwt. \$17.62 Cls. 4b cwt. \$16.08

THE CALIFORNIA DISCOUNT CONTINUES; WILL CDFA ADDRESS IT THIS MONTH? (By Rob Vandenhuevel) The California Department of Food and Agriculture (CDFA) held a hearing on May 20th to discuss possible increases to the California milk prices. It is anticipated that CDFA’s decision about any price increases will be announced later this month.

With that as the backdrop, the price announcements for May 2013 give us yet another reminder of just how discounted our California Class 4b (for milk sold to cheese manufacturers) price is relative to the Federal Order Class III price (which is the benchmark price for milk sold to cheese manufacturers throughout the country).

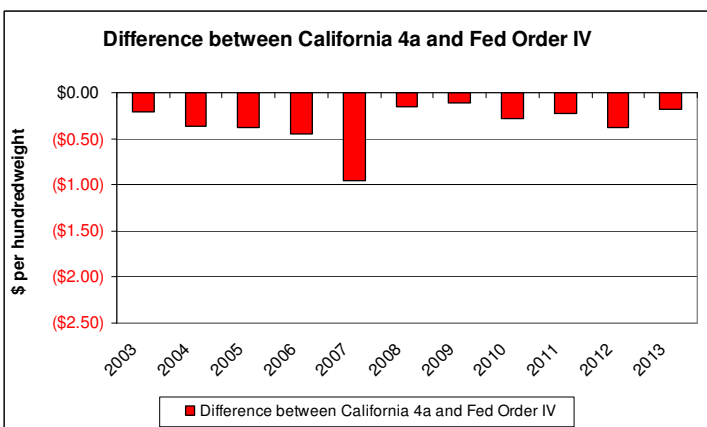
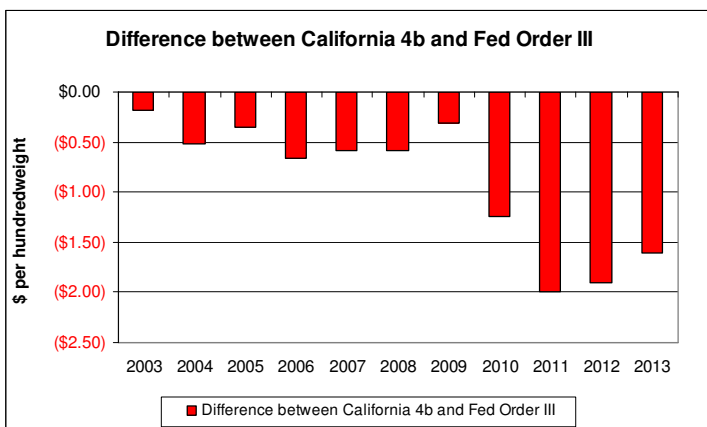
As you can see in this chart, our California Class 4b price once again lagged below the Federal Order Class III price by \$1.32 per hundredweight (and \$1.70/cwt since 2010, when this disturbing trend first began).

The “California Discount” for our State’s Cheese Manufacturers		
	May 2013	Jan ’10 - Present
California Class 4b Price	\$17.20	\$15.15
FMMO Class III Price	\$18.52	\$16.85
Difference	(\$1.32)	(\$1.70)
The “California Discount”: \$846,000,000 since January 2010		

What does this mean in real dollars? It means that the “California Discount” being enjoyed by California’s roughly 60 cheese manufacturers has now reached about \$846,000,000 since January 2010, all on the backs of the roughly 1,600 dairy farms left in California. That represents almost \$500,000 per 1,000-cow dairy!

California’s dairy families have long argued that this gap runs directly against the guidelines in California law that require our prices to be in a “reasonable and sound economic relationship” with what comparable milk is sold for around the country. The State’s cheese manufacturers come up with excuse after excuse about why it’s perfectly appropriate to have this huge discount in the price they pay for milk, but the facts simply don’t support their claims.

About 75 percent of California’s milk production is sold to make either cheese or butter/nfdm. These are our two main manufacturing classes. Those two types of manufacturers have two separate prices they must pay for the milk they buy: Class 4a (butter/nfdm) and Class 4b (cheese). Below are two charts showing how those two prices have compared to the comparable Federal Order prices: Class IV (butter/nfdm) and Class III (cheese):



Notice anything about these two charts? There is a huge difference in what is considered a “reasonable and sound economic relationship” for these two class prices! While the California Class 4b price averaged about \$0.45/hundredweight less than the Federal Order Class III price from 2003-09, the gap has blown up to \$1.70/hundredweight in the three-plus years since then. On the other side of the ledger, the Class 4a price has averaged \$0.34/hundredweight below the Federal Order Class IV price during the entire ten year period.

So why is it “reasonable” to have a \$0.34/hundredweight gap for our butter/nfdm manufacturers, while allowing the gap to grow to \$1.70/hundredweight for our cheese manufacturers? We submit that it is NOT. While we can’t do anything about the past, CDFA has an opportunity to turn the page and bring our Class 4b price into closer alignment with the prices paid for comparable milk around the country, and for a dairy farming sector that has hemorrhaged equity over the past four years, the change cannot come fast enough!

ON THE VERGE OF TWO CRITICAL VOTES ON THE 2013 FARM BILL: (By Rob Vandenheuvel) The U.S. Senate has been debating their version of the 2013 Farm Bill this past week, and has taken the steps necessary to get to a final vote, which will occur on Monday, June 11th. The U.S. House of Representatives is expected to begin the debate on their version of the Farm Bill – ultimately leading to a vote – in less than two weeks.

Both the House and Senate versions of the Farm Bill currently include the “Dairy Security Act” provisions, which MPC and dairy organizations/cooperatives around the country are strongly supporting. The job now is to make sure those provisions remain in the bill over the next two weeks. The biggest threat to those provisions appears to be in the House of Representatives, where it is expected that the Goodlatte/Scott Amendment – which would substantially weaken the dairy portion of the bill, but has already been defeated twice in the House Agriculture Committee – will be offered one more time for a vote by the full House of Representatives. MPC is working with our coalition partners to ensure that the Goodlatte/Scott Amendment is once again defeated if it comes up for a vote.

If you missed last week’s article on the lobbying efforts by the nation’s processors, I’d encourage you to go back and check it out (http://www.milkproducerscouncil.org/053113_ShamelessLobby.htm). We are fighting against an opponent that is extremely motivated to do everything they can to keep milk prices as low as possible, so it is going to take a strong, coordinated effort to defeat them.

MPC strongly encourages dairies to send a message to their Member of Congress, urging them to support the Dairy Security Act, and oppose any effort to remove it from the current versions of the Farm Bill. You can send that message through the following website, with either a pre-written or customized letter: <http://capwiz.com/nmpf/issues/alert/?alertid=62582126&PROCESS=Take+Action>. We all need to do our part if the processor lobby is going to be defeated in their efforts to gut the dairy provisions from the Farm Bill!

MARK YOUR CALENDARS - MPC AREA MEETINGS SCHEDULED FOR THIS MONTH: (By Rob Vandenheuvel) Milk Producers Council has scheduled area meetings this month throughout the Central Valley. These meetings – which are open to MPC members, other interested dairymen and allied industry folks – are an opportunity to hear the latest on many of the issues facing the California dairy industry, such as our challenges in California and the status of the U.S. Farm Bill.

The schedule for meetings is:

- **Monday, June 17th @ 4:00 p.m.** – Bidart Dairy (20400 Old River Road in Bakersfield)
- **Tuesday, June 18th @ 1:00 p.m.** – Rancho Teresita Dairy (21744 Road 152 in Tulare)
- **Tuesday, June 18th @ 4:00 p.m.** – Maddox Dairy (12863 W. Kamm Avenue in Riverdale)
- **Tuesday, June 25th @ 11:00 a.m.** – Vista Ranch & Cellars (7326 California 140 in Merced)
- **Tuesday, June 25th @ 4:00 p.m.** – Van Exel Dairy (18630 N. Thornton Road in Lodi)

If you plan to attend, please shoot an email to Kevin Abernathy (Kevin@milkproducers.org) or myself (Rob@milkproducers.org). Or you can call the MPC office at (909) 628-6018.