



Milk Producers Council

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DATE: September 25, 2015
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.1025 \$1.5900
 Barrels +\$.0075 \$1.5500

Weekly Average, Cheddar Cheese

Blocks - \$.0680 \$1.6015
 Barrels - \$.0340 \$1.5190

CHICAGO AA BUTTER

Weekly Change +\$.4175 \$3.1350
 Weekly Average +\$.3325 \$2.9695

DRY WHEY

Dairy Market News w/e 09/25/15 \$2.100
 National Plants w/e 09/19/15 \$2.351

NON-FAT DRY MILK

Week Ending 9/18 & 9/19

Calif. Plants \$0.8475 10,854,124
 Nat'l Plants \$0.8257 21,036,435

Prior Week Ending 9/11 & 9/12

Calif. Plants \$0.7888 12,707,760
 Nat'l Plants \$0.8025 19,347,588

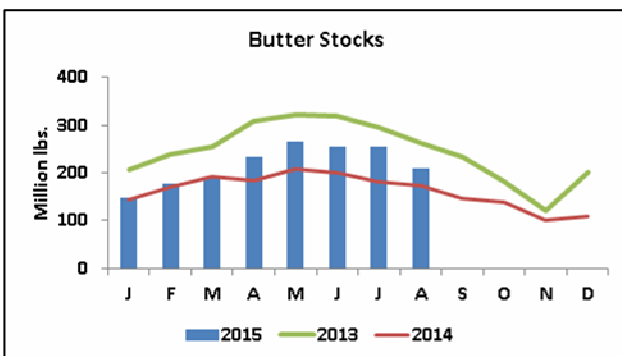
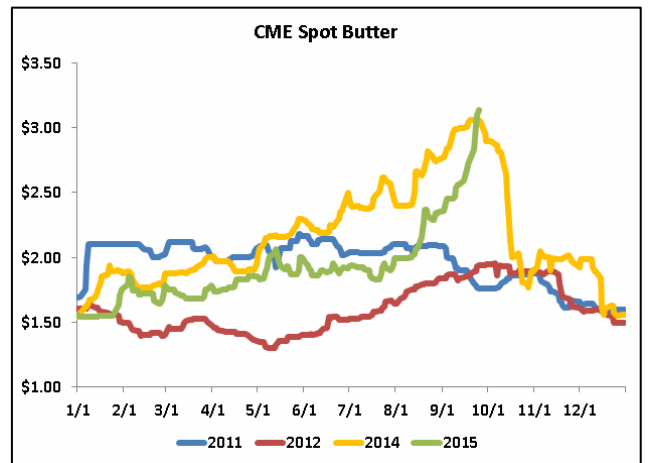
FRED DOUMA'S PRICE PROJECTIONS...

Sept 25 Final: Quota cwt. \$16.60 Overbase cwt. \$14.90 Cls. 4a cwt. \$15.38 Cls. 4b cwt. \$14.94
 Last Week: Quota cwt. \$16.60 Overbase cwt. \$14.90 Cls. 4a cwt. \$15.00 Cls. 4b cwt. \$15.15

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

Milk & Dairy Markets

The spot butter market surged to \$3.135/lb., surpassing the all-time high set at this time last year. Since last Friday it has climbed an astounding 41.75¢. Supplies are dwindling; from July to August stocks declined more than 45 million pounds or 17.7%, compared to a five-year average drawdown of 26.7 million pounds. But while demand is formidable the cupboards are far from bare. Butter inventories on August 31 totaled 209.3 million pounds, up 21.1% from the scanty volumes of a year ago. The bulls are bellowing in the CME spot pit. The bears are whispering anxiously about the butter market's cliff dive last October and wondering if history will rhyme, as it so often does. October and November butter futures are calling for a decline, but one that is much less steep than last year's collapse.

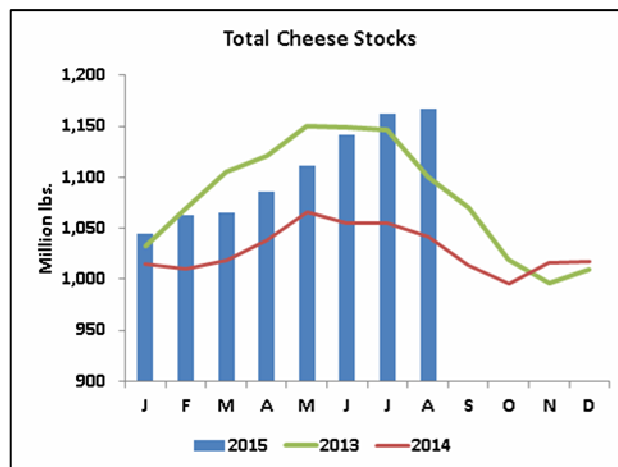


The milk powder market also climbed this week, albeit in less dramatic fashion. Spot nonfat dry milk closed Friday at 94¢, up 3¢ from a week ago but down 4¢ on the day. Most Class IV futures contracts posted double digit gains this week. The November contract jumped 88¢.

The cheese markets diverged. Spot Cheddar blocks finished 10.25¢ lower than last Friday at \$1.59, a five-month low. Barrels regained 0.75¢ and closed at \$1.55. Domestic cheese

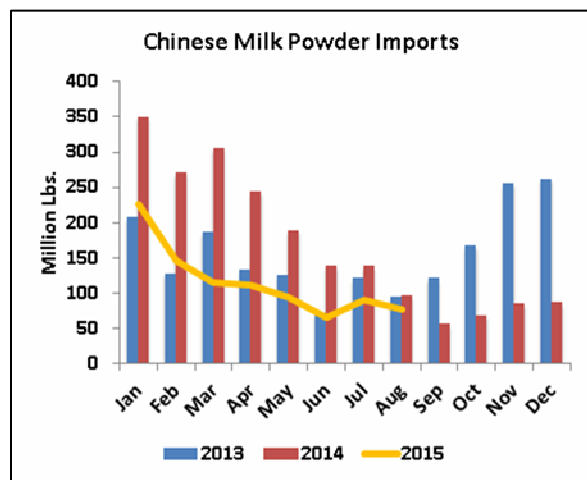
demand remains robust. *Dairy Market News* reports that pizza makers are hungrily consuming mozzarella, and “Most near-term production is fully committed to near-term customers’ needs.” But with milk still flooding the center of the country and imports growing, commodity cheese is abundant.

On August 31, inventories of all cheese varieties totaled 1.17 billion pounds, and American cheese stocks reached 708.9 million pounds, up 9.3% from a year ago. Cheese supplies typically peak in June or July and ebb throughout the autumn. This year, for the first time since 1986, American cheese stocks grew in August, rising 10.8 million pounds or 1.5%. American cheese stocks have not been this high in the month of August since the days of Ronald Reagan, shoulder pads and the federal cow kill program.



Class III and cheese futures managed to largely shrug off what seemed a very bearish Cold Storage report. October Class III futures dropped 31¢ this week, but most other contracts gained a few cents. Perhaps the Class IV market – which stands significantly higher than Class III for October and November – is supporting Class III prices. The spot butter market is nearly twice as high as spot Cheddar.

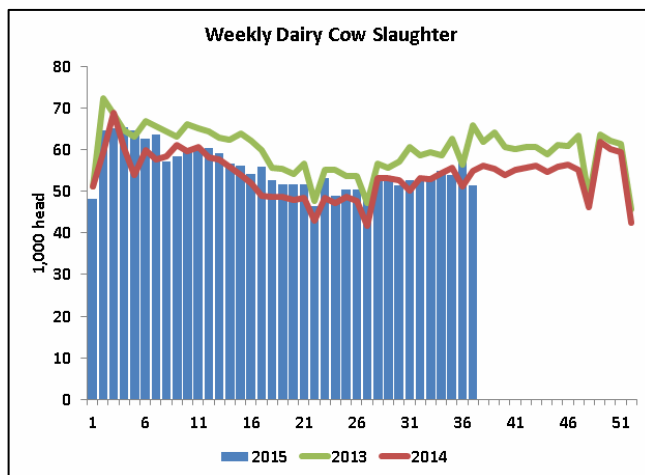
In theory manufacturers will respond to market signals and make significantly more butter and less cheese. But cheese makers who don’t also own butter and milk powder facilities will simply embrace lower Class III prices and continue to fill their vats. Competing cream products, geography and capacity have further limited a shift in the product mix. According to *Dairy Market News*, “Some northeastern cheese manufacturers say they would make more cheese if they could get more milk.” Furthermore, “The availability of cream is thwarting [butter] production as other cream-based products are also in high demand right now.”



Whey prices have dropped precipitously for months, but buyers are finally stepping in and the market bounced this week. This news is particularly welcome in California, where the temporary increase to the whey factor has been less of a boon for milk checks than it might have if the whey market weren’t so anemic.

Dairy product prices are climbing in Europe. The gap between U.S. and global cheese and milk powder prices is narrowing, and skim milk powder (SMP) prices are back above the levels at which the government will make intervention purchases. The chasm between the domestic and overseas butter markets grows ever wider.

It’s early in the season, but there are signs that milk production is slowing in New Zealand. Beef prices are high and dairy producers have culled at much higher rates than last year. After eight months, beef and dairy cattle slaughter is 21% ahead of last year’s pace. With milk powder prices climbing, Fonterra raised its milk payout forecast from \$3.85/kg of milk solids to \$4.60/kg. Dairy producers can recoup dividends worth 40 to 50¢, putting the full payout at roughly \$10.45/cwt.



China’s appetite for milk powders remained suppressed in August. China imported 76.9 million pounds of whole milk powder (WMP) and SMP last month, which was 12.7% less

than July and 20.7% lower than prior-year volumes. Shipments of SMP to China are beginning to improve. In August they were up 11.2% from a year ago and 10.1% from July.

For the week ending September 12, which included Labor Day, dairy cow slaughter totaled 51,466 head. So far this year, dairy culling is 3.7% ahead of last year's pace.

Grain Markets

The entire grain complex rallied on Friday. December corn futures settled at \$3.89/bushel, up more than a dime from last Friday. November soybeans closed at \$8.8925, up 12.25¢ on the week. The wheat market was particularly strong, and it helped to buoy the price of competing grains like corn. After years of nearly perfect weather in all the major wheat areas, dryness in Australia and parts of Russia may be taking its toll on global wheat output. In the U.S., the corn and soybean harvest is in full swing and the weather is largely cooperating.

The soybean market was supported Friday by the prospect of improved export demand. Chinese trade delegates made their annual pilgrimage to Iowa, where they signed an agreement to purchase 13 million metric tons of U.S. soybeans over the next couple years. This agreement is largely a ceremonial celebration of business that would have taken place anyway, but the headlines garnered some attention nonetheless. Perhaps of greater importance, the Brazilian real finally stopped falling relative to the U.S. dollar, which could help U.S. exporters to remain competitive. Agricultural inspectors in Brazil have gone on strike, which could slow the flow of grains and oilseeds out of South America. However, it hasn't had much of an impact yet.

FIRST WEEK OF THE CA-FMMO HEARING WRAPS UP...MUCH, MUCH MORE TO COME: *(By Rob Vandenheuvel)* As you all know by now, this past Tuesday marked the beginning of the U.S. Department of Agriculture's (USDA) hearing to consider proposals that would create a California Federal Milk Marketing Order (CA-FMMO). This hearing in Clovis, CA will run from 9 am-5 pm every weekday until all testimony is received *(excluding any Federal Holidays that may occur during the length of the hearing, or in the event of a Federal Government shutdown)*.

As the process wrapped up its first week, testimony on the actual proposals had only just begun this afternoon. The first 3½ days of the hearing were focused on procedural matters and USDA entering various economic and statistical data into the record. On Friday afternoon, the first witness in support of the cooperatives' proposal – Elvin Hollon from Dairy Farmers of America – took the stand to present testimony. That is where the hearing ended on Friday, with a continuation of that testimony to be picked up on Monday.

For anyone who has not attended a previous FMMO hearing or one of the first four days of this hearing, you may be wondering why the process is so drawn out. USDA describes this as an “inclusive hearing process,” and that is no understatement. Not only can anyone testify on the relevant subject matter of the matter of the hearing – without any time limit on testimony – but anyone in attendance can also ask questions of any witness. In our limited sample size of four days, this cross-examination has been much more time-consuming than the actual testimony itself; and I would expect that trend to continue throughout the hearing.

Going forward, with the USDA-related evidence entered into the record, the general plan for the upcoming days/weeks of the hearing includes:

- Continue moving through testimony in support of “Proposal #1,” which was submitted by California Dairies, Inc., Dairy Farmers of America and Land O'Lakes *(and supported by California Dairy Campaign, MPC and Western United Dairyman)*. This is a complete proposal – in other words, the proposal includes all the provisions needed for a CA-FMMO.
- After that, testimony will be given by the authors and supporters of “Proposal #2,” which was submitted by the Dairy Institute of California, on behalf of their dairy processor members. This is also a complete proposal, although it obviously has dramatic differences in key areas from the cooperative proposal.

- Next, testimony will be given by the authors and supporters of “Proposal #3,” which was submitted by the California Producer Handlers Association. This proposal focuses only on the producer-handler provisions being considered.
- Testimony will then be given by the authors and supporters of “Proposal #4,” which was submitted by Ponderosa Dairy, a dairy located in Nevada. This proposal focuses only on provisions accounting for handlers located within California that purchase milk from outside California.

Throughout this process – which is likely to take several weeks or even months – dairy farmers can typically testify at any point, regardless of what other witnesses may be scheduled for that day. In fact, during the first four days of the hearing, Administrative Law Judge Jill Clifton – who is overseeing these proceedings – asked on multiple occasions if there were dairy farmers in the room interested in testifying, and went on to state that dairy farmers who come to future hearing days will be given the opportunity to testify whenever they are able to attend, regardless of what else is being discussed that day.

So while we’ve written this in prior issues of this newsletter, I will say it again: I would strongly encourage any interested California dairy farmer to make the trip to Clovis to participate in this hearing process and add your testimony to the hearing record. If you have any questions on the process, I would encourage you to contact MPC or any of the cooperatives/trade associations you are a member of.

For those interested in listening in, USDA has made a live audio feed available for the hearing at: <http://tinyurl.com/camilkhearing>. The audio feed does not record, but if you’re available and interested anytime between 9 am and 5 pm, you can catch portions of the hearing that way. Otherwise, we will obviously continue to keep our readers posted through this newsletter each week.

DEADLINE TO SUBMIT MARGIN PROTECTION PROGRAM PAPERWORK EXTENDED TO NOVEMBER 20TH: *(By Rob Vandenheuvel)* For those of you who love to wait until deadlines, the previous date of September 30th to submit your Margin Protection Program (MPP) paperwork to your Farm Services Agency (FSA) office has been extended to Friday, November 20th. Regardless of whether you are opting to enroll in the basic \$4 per cwt margin level or a higher level that requires a premium, you must have your paperwork and the \$100 administrative fee into your local FSA office by November 20th.

MPC members that need any assistance should contact Kevin (kevin@milkproducers.org), Betsy (betsy@milkproducers.org) or myself (rob@milkproducers.org) or call the MPC office at (909) 992-9529.

REMINDER – UPCOMING DEMONSTRATION OF ELECTRIFIED FEEDING STATION: *(By Kevin Abernathy, Director of Regulatory Affairs)* As a friendly reminder, next month MPC will join Philip Verwey Farms in Hanford, California for an open house demonstrating an electrified stationary feed mixing operation. This alternative to traditional diesel-powered mixer trailers was part of a Technology Advancement Program, which is the San Joaquin Air Pollution Control District’s “strategic approach to encouraging innovation and development of new emission reduction technologies” (from their website). MPC was able to work with Philip Verwey Farms to secure the grant funding, and the project is now fully operational.

The open house will take place at **10 am on October 7th at Philip Verwey Farms #2, located at 19765 13th Avenue in Hanford.** I’d encourage any interested folks to mark their calendars to come check out this demonstration. If you have any questions, please contact me at kevin@milkproducers.org or 209-678-0666.