Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

DATE: September 30, 2016 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	*- $.0275*	$1.5325
Barrels	*N/C*	$1.5100

Weekly Average, Cheddar Cheese

Blocks	*- $.0420*	$1.5365
Barrels	*- $.0215*	$1.4810

CHICAGO AA BUTTER

Weekly Change	*- $.1300*	$1.8975
Weekly Average	*- $.0550*	$1.9285

DRY WHEY

Dairy Market News	w/e 09/30/16	$.3263
National Plants	w/e 09/24/16	$.3097

NON-FAT DRY MILK

Week Ending 9/23 & 9/24		
Calif. Plants	$0.8743	9,088,116
Nat'l Plants	$0.9022	13,481,957
Prior Week Ending 9/16 & 9/17		
Calif. Plants	*$0.8710*	*12,245,635*
Nat'l Plants	*$0.8984*	*15,423,762*

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FRED DOUMA'S PRICE PROJECTIONS…

Oct '16 Est:	**Quota cwt. $15.57**	**Overbase cwt. $13.87**	**Cls. 4a cwt. $13.14**	**Cls. 4b cwt. $13.93**
Sept '16 Final:	**Quota cwt. $16.40**	**Overbase cwt. $14.71**	**Cls. 4a cwt. $13.56**	**Cls. 4b cwt. $15.24**

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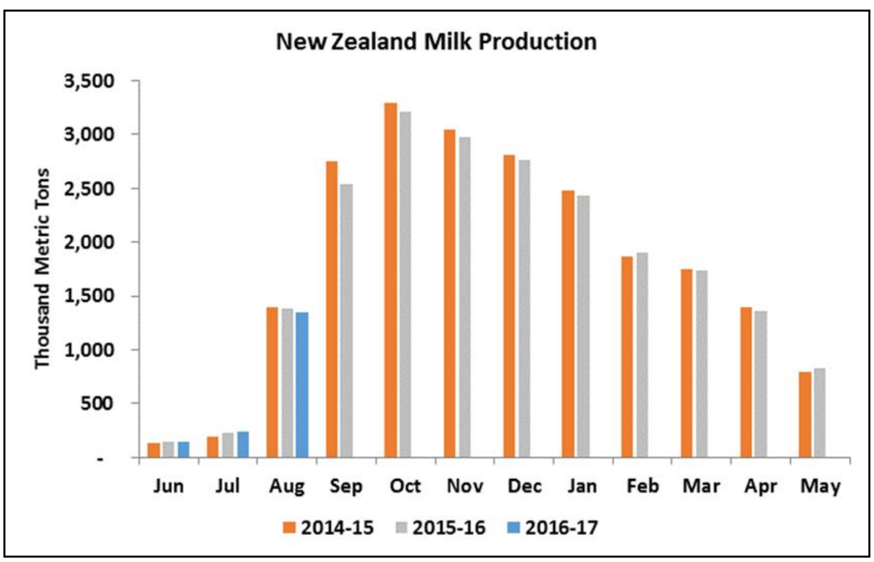
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

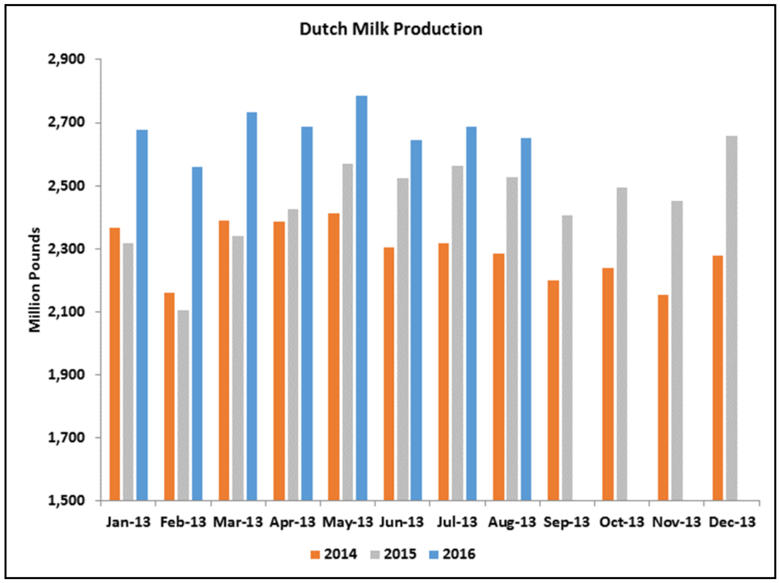
Under the weight of heavy stocks and plentiful cream, the butter market continues to sink. This week CME spot butter fell 13¢ to $1.8975/lb., the lowest price in more than 14 months. Spot Cheddar blocks also slipped, falling 2.75¢ to $1.5325. Barrels finished flat at $1.51. Only the milk powder market is gaining ground. Spot nonfat dry milk (NDM) climbed a penny this week to 94.5¢. This was not enough to boost Class IV futures; they settled 25 to 55¢ lower than last week. Class III futures fared only a little better. Most contracts lost between 15 and 35¢.

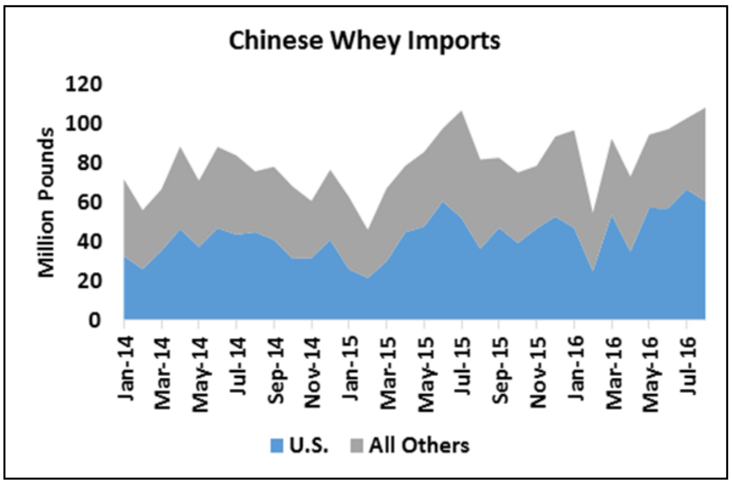
Overseas, prices continue to move higher for the most part, albeit with less enthusiasm. Strength abroad is likely to provide support at home, eventually. It is already helping to boost the milk powder market. For now, U.S. cheese, whey, butter, and milk powder are looking relatively inexpensive, providing the potential for exports to whittle away domestic stockpiles.



Milk production deficits among the other major dairy exporters could augment America's export opportunities. In New Zealand, August milk output fell 2.7% short of year-ago volumes, bringing season-to-date contraction to 2%. The European Commission has revised its estimates for July collections downward; they now show a 1.3% year-over-year shortfall, rather than the 1.1% drop they reported initially. Going forward, the deficit is likely to grow.

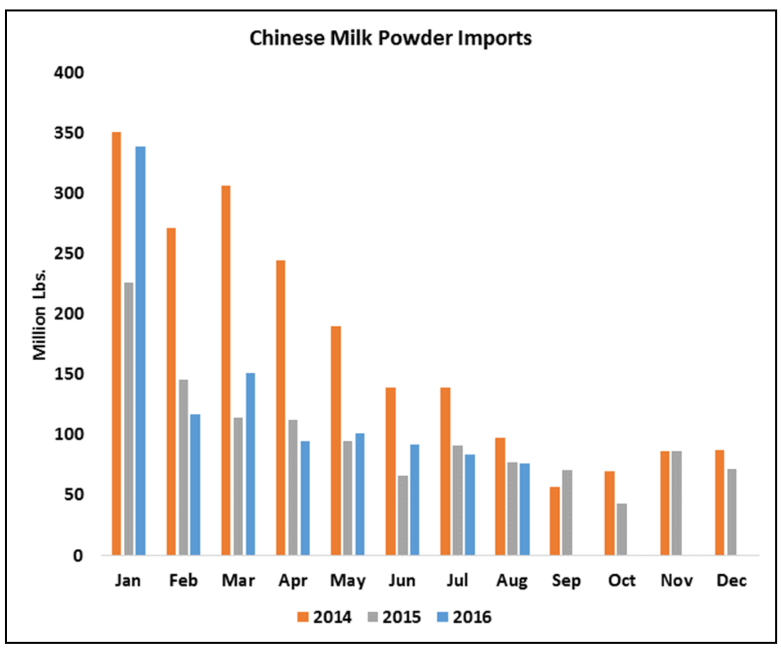
The European Commission has set aside €150 million to dole out to the more than 52,000 dairy producers who enrolled in its milk production reduction scheme. In exchange for a bonus of roughly $7 per hundredweight, producers pledged to reduce milk output by 2.33 billion pounds in the next three months compared to the fourth quarter of last year. Dutch cooperative Friesland-Campina has sweetened the deal, offering its members an additional $5 per hundredweight for reductions in October through March. That's a hefty incentive to put on the brakes. Outside of the Netherlands, "producers can cash in with little change to the status quo," according to the *Daily Dairy Report*. The program was most popular in Ireland, where producers have been culling heavily, and in nations like Belgium, France, and Portugal, which were already reporting sizeable contractions relative to last year.





China imported a record-breaking 108 million pounds of dry and modified whey in August. The Chinese have made America great again in the global whey market; the United States accounted for 56% of China's August shipments, and volumes were the second largest on record for the U.S., behind only July. So far this year, Chinese whey imports are 15% higher than the same period in 2015, and U.S. shipments to China are up 26%. Based on National Dairy Product Sales Report prices, the U.S. whey market has climbed 32% this year. Chinese imports have surely helped spur that recovery.

China continues to import impressive volumes of ultra-high temperature (UHT) fresh milk and cheese. In August, Chinese cheese imports were 64% higher than the same month a year ago. Imports of UHT milk were up 27%. Milk powder imports were less impressive. In August, China imported 35.2 million pounds of skim milk powder (SMP) and 40.9 million pounds of whole milk powder (WMP). Combined milk powder imports were down 1.1% from a year ago in August. For the year-to-date, Chinese milk powder imports are down 39.6% from last year after adjusting for Leap Day.



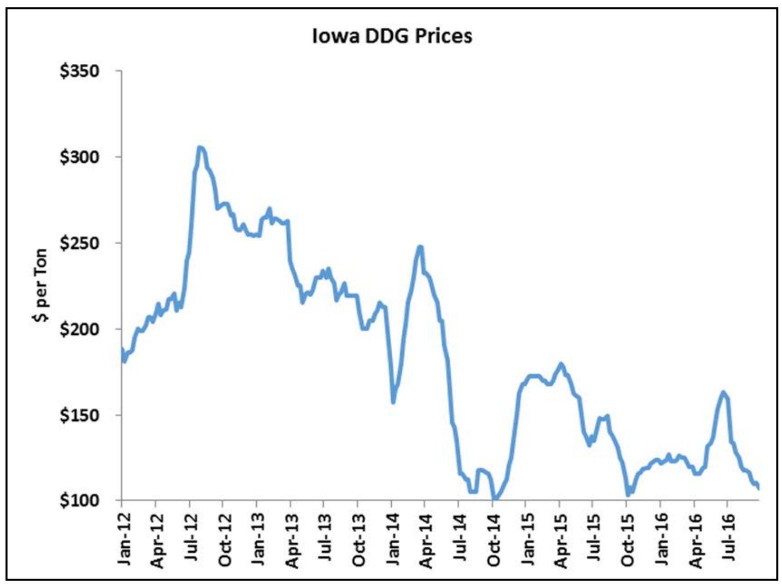
Dairy producer margins averaged $9.26/cwt. in excess of feed expenses in August thanks to higher milk prices and lower feed costs than the preceding months. Margins were strong enough to stave off an indemnity payment in the July-August period of the Margin Protection Program; they averaged $8.43.

In much of the U.S., milk production has expanded substantially and processing capacity has failed to keep pace. The lack of processing capacity is perhaps most severe in Michigan, and it is taking a toll on milk checks there. In August 2015, dairy producers in Michigan took home $16.00/cwt., exactly as much as producers in Washington and 77¢ more than their competitors in California. But this year, Michigan usurped California's long-held last-place ranking in the All-Milk price. The All-Milk price slumped to $15.60 in Michigan in August, 36¢ less than California's All-Milk price and $1.60 behind Washington. Perhaps dairy producers in oversupplied regions will finally get the signal to slow output.

For the week ending September 24, dairy cow slaughter reached 56,185 head, down 6% from the same week a year ago. This puts year-to-date slaughter down 1.5%.

Grain Markets

The grain markets covered a lot of ground this week but ended right where they started. December corn futures settled at $3.3675 per bushel, up a quarter cent from last Friday. November soybeans closed at $9.54, down a penny. USDA's quarterly Grain Stocks report contained few surprises; stocks of corn and soybeans on September 1 were a little higher than the year before and within the range of pre-report guesses. Next year's stocks are likely to be much bigger. Combines are rolling, and yields are high. Dairy producers have the opportunity to buy almost every feed in their ration for prices much lower than they've seen in years.



Dried distillers grains (DDGs) are nearing $100 per ton in western Iowa. Historically, when DDG prices have dropped to this level, China has swooped in to stock up. They show no inclination to do so this time. Last week, China accused the U.S. of dumping cheap DDGs in China at artificially low prices; they announced a 33.8% anti-dumping duty. This week, they added anti-subsidy duties of between 10 and 10.7%, saying that government meddling in the biofuels market and federally subsidized crop insurance put Chinese grains and oilseeds at a disadvantage to U.S. crops. An official from China's Ministry of Agriculture stated that the government should use anti-dumping and other measures to similarly control soybean imports. Chinese officials are wary of a restive populace and maintain huge feed stockpiles to keep food costs low. If China feels burdened with overabundance, global supplies are truly massive.

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CALIFORNIA'S NEW AG OVERTIME LAW – GOT QUESTIONS? SEND THEM OUR WAY!: *(By Rob Vandenheuvel)* As has been reported in this newsletter along with many other publications, California's Legislature approved revisions to the overtime regulations applicable to agricultural employees. As a reminder, the newly-signed legislation (AB 1066) would implement the following phase-in of ag overtime regulations:

Current regulation: Overtime wages must be paid for work above 10 hours/day or 60 hours/week.

Future Changes – For "large farms" (defined in the bill as more than 25 employees):

- Starting January 1, 2019, overtime wages must be paid for work above 9.5 hours/day or 55 hours/week.
- Starting January 1, 2020, overtime wages must be paid for work above 9 hours/day or 50 hours/week.
- Starting January 1, 2021, overtime wages must be paid for work above 8.5 hours/day or 45 hours/week.
- Starting January 1, 2022, overtime wages must be paid for work above 8 hours/day or 40 hours/week. Further, any work above 12 hours in a single day must be paid double the normal wage.

Future Changes – For "small farms" (defined in the bill as 25 employees or less):

- Starting January 1, 2022, overtime wages must be paid for work above 9.5 hours/day or 55 hours/week.
- Starting January 1, 2023, overtime wages must be paid for work above 9 hours/day or 50 hours/week.
- Starting January 1, 2024, overtime wages must be paid for work above 8.5 hours/day or 45 hours/week.
- Starting January 1, 2025, overtime wages must be paid for work above 8 hours/day or 40 hours/week. Further, any work above 12 hours in a single day must be paid double the normal wage.

This, of course, is on top of the minimum wage increases that were approved in the Legislature earlier this year (SB 3), which establishes the following schedule of minimum wage increases throughout the state for all industries:

Year	**For "Large Employers" (>25 employees)**	**For "Small Employers" (25 or less employees)**
2016	$10.00 per hour	$10.00 per hour
2017	$10.50	$10.00
2018	$11.00	$10.50
2019	$12.00	$11.00
2020	$13.00	$12.00
2021	$14.00	$13.00
2022	$15.00	$14.00
2023 and thereafter	$15.00	$15.00

Beyond this general explanation of the new ag overtime regulations, we have already begun to hear some questions about the implementation of these new rules. Each dairy operates just a little bit differently, and the devil is in the details with regard to ultimate implementation on your individual farm. **So I am asking our readers to email us any specific questions you may have on the new wage/overtime laws approved by the Legislature this year. You can send the emails to AgOvertime@milkproducers.org, and MPC will work with our strategic partners on labor-related issues – Weintraub Tobin, a California law firm specializing in employment law – to compile responses to those questions for a future article in this newsletter.**

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A HEAD'S UP FOR OUR SAN JOAQUIN VALLEY FARMERS – YOU MAY BE GETTING A CALL: *(By Kevin Abernathy, Director of Regulatory Affairs)* We have written about them before, but Sustainable Conservation is an industry partner that works on initiatives aimed at promoting environmental conservation in a way that makes sense from a business perspective. They are currently gathering information with respect to "conservation tillage systems," and will be conducting brief phone interviews with selected farms in the San Joaquin Valley. Below is a description of the survey, and **I would encourage any of you who are contacted by Sustainable Conservation to participate in the brief survey. The information gathered in these efforts can be very helpful in efforts to promote measures that benefit both the environment and the farm.**

From Sustainable Conservation: *California farmers are increasingly adopting conservation tillage systems. The practice decreases time spent preparing a field for planting, reduces labor and equipment costs, and builds soil health while still maintaining yields. Sustainable Conservation, a California non-profit organization dedicated to helping steward the state's land, air, and water, is conducting an anonymous survey to track the rate of conservation tillage adoption in the San Joaquin Valley.*

The survey will help showcase agriculture's important and positive impacts on the Valley, showing how increasing numbers of farmers are utilizing beneficial practices like conservation tillage to reduce dust in the air. Sustainable Conservation will be requesting participation of selected farms in a five minute phone interview. Any individual answers shared during the survey will be held strictly confidential. Results will be aggregated to the county level.

The interview will also be an opportunity to schedule a follow up discussion, if interested, to determine if a conservation tillage system is suitable for your specific farming needs.