



Milk Producers Council

P.O. Box 4030 ~ Ontario, CA 91761 ~ (909) 628-6018
 2328 Jonathon Court ~ Escalon, CA 95320 ~ (209) 691-8139
 Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org



DATE: November 16, 2018
TO: Directors & Members

PAGES: 8
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks + \$.0725 \$1.4525
 Barrels + \$.0550 \$1.3600

Weekly Average, Cheddar Cheese

Blocks - \$.0220 \$1.4000
 Barrels + \$.0325 \$1.3505

CHICAGO AA BUTTER

Weekly Change + \$.0825 \$2.2750
 Weekly Average + \$.0185 \$2.2430

DRY WHEY

Dairy Market News w/e 11/16/18 \$4.563
 National Plants w/e 11/10/18 \$4.625

NON-FAT DRY MILK

Week Ending 11/10

Nat'l Plants \$0.8944 13,159,855

Prior Week Ending 11/03

Nat'l Plants \$0.8820 12,376,276

California Federal Milk Marketing Order Price Projections

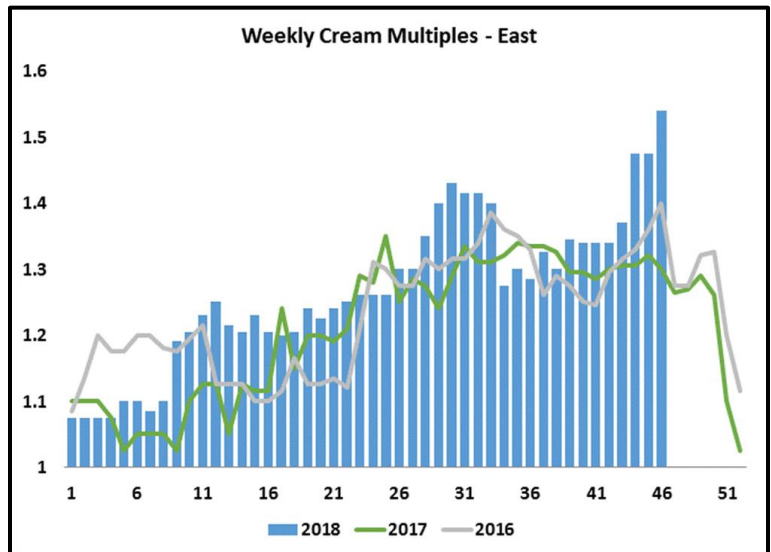
FMMO Pricing	Class I Actual (Range based on location)	Class II Projected	Class III Projected	Class IV Projected
This Week	\$17.12 - \$17.62	\$14.66	\$14.58	\$15.07
Last Week	\$17.12 - \$17.62	\$14.61	\$14.46	\$14.93

Market commentary

By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

The week got off to an inauspicious start. CME spot Cheddar blocks slumped to \$1.35 per pound, their lowest price since May 2016. That was low enough, apparently. Spot cheese spent the rest of the week moving higher. Blocks closed at \$1.4525, up 7.25¢. Barrels added 5.5¢ and reached \$1.36. Bargain basement prices may have helped to attract some buyers, but consumption is far from impressive in light of the calendar and the price-point. Although U.S. cheese is selling for a sizeable discount compared to product from Europe, Dairy Market News reports that “export demand is steady to lower,” and “the weaker euro value and existing trade tariffs on U.S. products are pushing some buyers/end users toward the European market.”



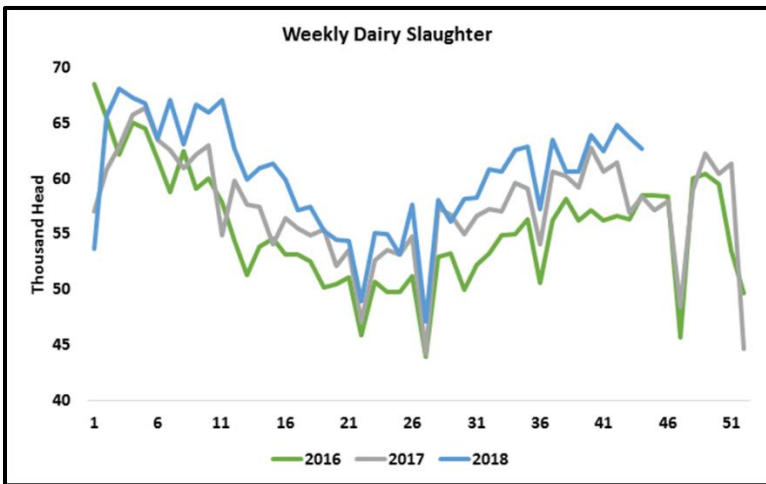
Demand for whey is softening slightly, and prices are slipping. The CME spot market has lost ground every week

since mid-October. Spot whey powder lost another half-cent this week, falling to 43¢. That puts spot whey more in line with regional price indications.

CME spot nonfat dry milk (NDM) climbed 2.5¢ this week to 88.5¢. Milk powder output is likely to climb over the holidays, as other processors pare back production. But in the long run tighter milk supplies in the Southeast, Northeast, and Great Lakes region are likely to reduce drier times there. However, stocks are reportedly growing, and the strong dollar is not helping export prospects.

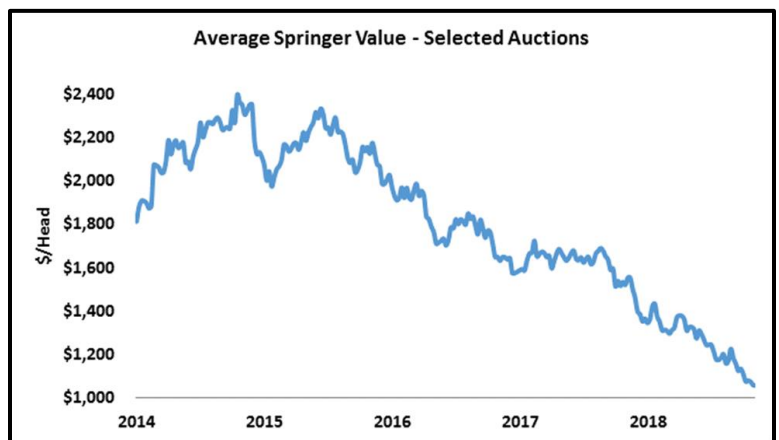
Cream is pricey – even for this time of year – and butter supplies are tightening. CME spot butter jumped 8.25¢ this week to \$2.275.

Class III futures gained back some – but not all – of the ground they ceded last week. Most contracts settled 15¢ to 25¢ higher than last Friday. Class IV futures fared even better, with gains concentrated in the 30¢ to 40¢ range. Class IV is now the higher market in November through March, a stark reversal of fortunes for dairy producers in areas with heavy butter and milk powder output. Based on today’s settlements, Class IV futures are projected to average \$15.83 in 2019, up from \$14.23 in 2018.

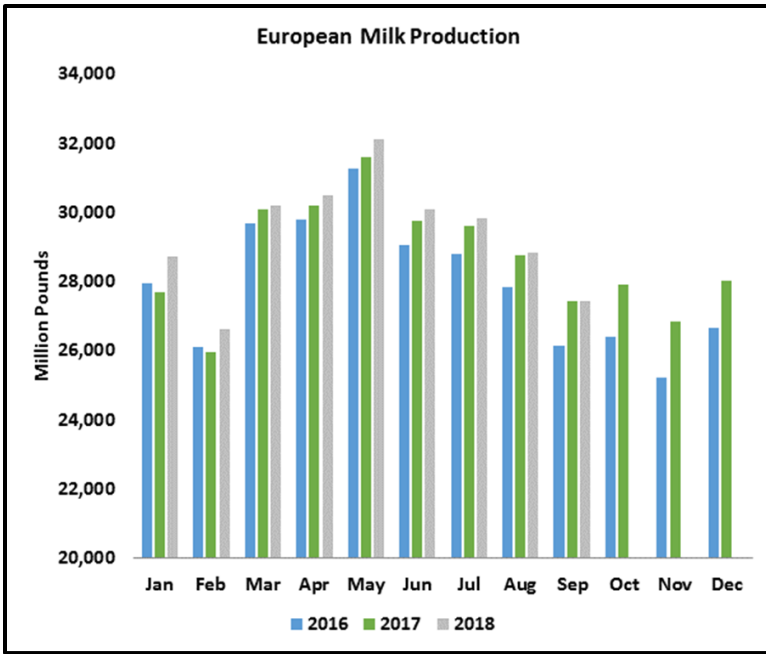


Those prices won’t pave the road to riches, but they offer a more prosperous path than the ruinous course the dairy industry has traversed over the past few years. I have been writing for much of that time about how poor on-farm margins would translate to lower cow numbers and eventually to higher milk prices. After much repetition, those reassurances were likely of little comfort to dairy producers, whose bank accounts and morale sunk a little lower every day.

This painful pruning has taken much longer than I had hoped, but it is now clearly underway. At the risk of beating the same drum, only louder, I will reiterate that slaughter volumes, springer values, and dispersal notices point to contraction. Indeed, slaughter volumes are exceeding year-ago levels by even greater margins in recent weeks. Some dairy producers report wait lists to get cull cows to slaughterhouses, as the packers can buy all the cheap cows they need at the auction. For months, dairies have been selling out at a steady pace, but the effect has been ephemeral, largely offset by a few big expansions and improvements in production per cow. Like snowflakes landing on warm ground, one could watch their fall but the impact quickly melted away. Now, winter’s chill has set in; the snow is falling faster and starting to stick. Dairy producers with operations of all sizes, in all parts of the country, are calling it quits. Sellouts are accelerating and the dairy herd is surely shrinking.



Meanwhile, in Europe, growth in milk output has slowed to a standstill. With a few nations yet to report, September milk collections in the EU-28 were on par with last year, echoing an insignificant year-over-year increase in August but much lower than the robust growth figures reported in much of 2017 and early 2018.

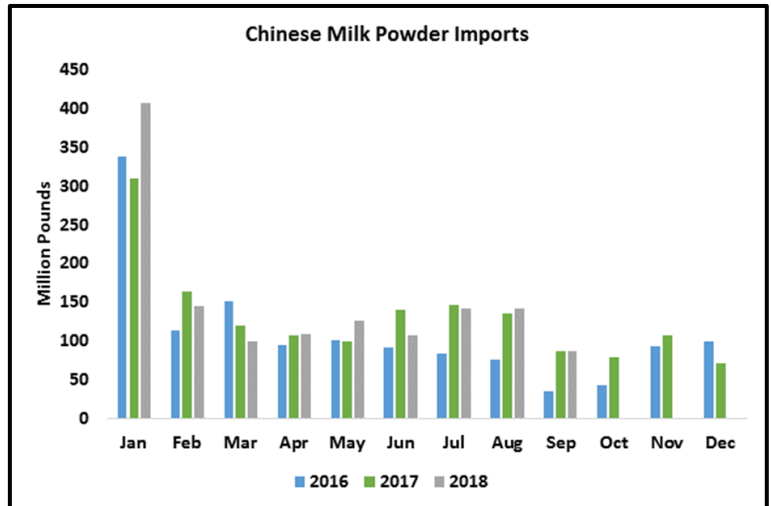


Compared to last year, output was flat in Germany and down 1.7% in France, the worst performance in Europe’s two largest dairy nations since July 2017. Of the major players, only Poland and Ireland reported sizable increases in September.

Slower growth in milk output – or perhaps outright contraction – in the world’s two largest dairy regions will surely be felt. It’s already adding up to tighter cream markets, less discounted milk, and better Class IV pricing. But prices don’t often move sharply higher on the basis of dwindling supplies alone. Demand is usually the main catalyst for a rally.

The outlook for demand is mixed. The U.S. economy is strong, but cheese sales have been spotty. The strong dollar and higher tariffs are a

barrier to trade. Lower oil prices suggest the potential for lower dairy demand from the Middle East and North Africa. Nonetheless, milk powder is moving. The European stockpile is less problematic. Chinese dairy product imports are generally running a little higher than they were a year ago, according to data the government released after a seven-month hiatus. Given waning milk output in China and rising demand, imports are expected to climb throughout the next year. At the moment, demand is likely rising more quickly than supply, putting an admittedly low floor under the market. If global dairy demand perks up and boosts prices further, end users who have grown comfortable with abundance may be suddenly surprised by shortages, setting the stage for a more sustainable rally.



Grain Markets

Corn futures dropped a nickel this week, closing at \$3.6475 per bushel. Soybeans climbed 5.5¢ to \$8.9225. The soybean markets were supported by hopes that the U.S. and China will make progress on a trade deal when Presidents Trump and Xi Jinping meet at the G-20 summit later this month. Predicting the actions of these two regimes is a fool’s errand, but most reports suggest that the two sides are seeking a truce at the G-20, with a plan to try for more comprehensive changes thereafter. That does not mean that either side is ready to repeal the tariffs it has already enacted. Rather, they will refrain from upping the ante. That’s bad news for U.S. soybeans, as it suggests that tariffs will remain in place until after South American farmers have harvested and exported the crops they are planting today.

For now, China’s punitive tariffs are having the desired effect. Weekly soybean exports reached a two-decade low for mid-November. Commitments to export soybeans are down 32% from where they stood at this point a year ago. Without a sweeping new trade deal with China and a repeal of the existing tariffs, exports are likely to remain depressed. The U.S. soybean stockpile will be massive.

Dairy Revenue Protection Program starting to gain traction

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

Dairy RP is a crop insurance style program backed by USDA, which is designed to allow dairymen to purchase policies that guarantee a certain amount of revenue in the future. These revenue guarantees can be purchased virtually every business day after the market closes and are based on the settlement milk futures prices for that day. Policies are based on the simple average of the daily settlement price for the three months of each quarter. So Q1 is the simple average of the settlement prices for January, February and March of 2019 and Q2 is the average of April, May and June, etc. All four quarters of 2019 are available for purchase. USDA subsidizes the premiums and you are not billed for those premiums until AFTER the quarter you purchased coverage for is over, so the premium for Q1 is not due until late April 2019.

You can buy policies based on Class III and/or IV, or a combination of III and IV, or components if that works better for your herd. I am writing this article after the market closed on Friday, November 16, 2018 and the prices that you can buy coverage for from now until 7 a.m. Monday, November 19 are as follows:

- Q1 of 2019 Class III averaged \$15.16 and the trigger price at which a 95% coverage policy will pay is \$14.40. What that means is if the actual average Class III price for Q1 (subject to milk per cow adjustment) is less than \$14.40, the policy will pay you the difference between the actual Class III price and \$14.40. The premium for this coverage after the 44% government subsidy is \$0.0792 per cwt. in California. The Q1 Class IV today averaged \$15.23 and the trigger price at the 95% coverage level is \$14.4685. You can buy that coverage for \$0.0847 per cwt. in California.
- Q2 of 2019 Class III averaged \$15.68 today and the 95% trigger price is \$14.896. You can buy that coverage for \$0.1619 per cwt. Q2 Class IV averaged \$15.69 today and 95% trigger price is \$14.9055. You can buy this coverage for \$0.1781 per cwt. Premium costs increase the further out you buy coverage. So, premiums for Q3 and Q4 are higher still.

While Class III prices for the 1st half of 2019 are a bit weak compared to historical Class III prices for the 1st half of the year, Class IV futures prices are higher in the 1st half of 2019 than historical prices. Dairy RP allows you to put a floor under your milk price for a pretty reasonable cost, with no money due until after the covered quarter has passed.

USDA's Risk Management Agency just released some numbers on policies written to date. You can see it [here](#).

According to USDA, a total of 593 producers nationwide signed up for Dairy RP through November 5 and this group purchased 534 actual endorsements covering almost 1.6 billion pounds of milk production. I know that there has been quite of bit more activity since then.

Dairy RP is only available through a licensed crop insurance agent. There are a number of agents available to talk to you about this. I am licensed as well for California and would be happy to talk to you if you so desire. You can email me at geoff@dairygrossmargin.com or call me at 909-730-1240.

**Interested in attending the California Dairy Sustainability Summit in Sacramento?
MPC has a few complimentary registration spaces available for producer members.
Email Kevin Abernathy at kevin@milkproducers.org. First come, first served!
Checkout the agenda on the following pages or learn more at www.cadairysummit.com.**



Summit Program

Day 1 Dairy's Role in Advancing California's Sustainability Objectives

<p>9:00 AM - 10:00 AM</p>	<p>Opening Session California dairy farmers are true pioneers—using innovation and cutting-edge research to redefine dairy farming for the world.</p> <ul style="list-style-type: none"> • Karen Ross, Secretary of the California Department of Food and Agriculture • Frank Mitloehner, PhD, Professor and Air Quality Specialist, UC Davis Department of Animal Science
<p>10:00 AM - 11:00 AM</p>	<p>Panel 1 - Consumption with a Conscience: The New Playing Field for Food Brands Dive into dairy consumption trends and retail markets, including a discussion on increased consumer interest in the environmental impacts of food choices—from farm to table. Moderator: John Talbot, Chief Executive Officer, California Milk Advisory Board</p> <ul style="list-style-type: none"> • Linda Eatherton, Partner, Managing Director, Global Food & Beverage, Ketchum • Bob Langert, President, Mainstreaming Sustainability Editor at Large, GreenBiz Group, Retired McDonald's VP of Sustainability • David Ahelm, Chief Executive Officer, Hilmar Cheese Company • Alex Palczek, Director of Marketing – Shopper COE, Nestlé
<p>11:00 AM - 11:10 AM</p>	<p>Refreshment and Networking Break Recharge and network during a brief coffee, tea and water break.</p>
<p>11:10 AM - 12:10 PM</p>	<p>Panel 2 - Dairy's Role in a Healthy and Sustainable Diet Explore nutrition in the context of sustainable food production, green eating (including the concept of plant-based eating), and the appropriate balance between the nutrition needs of people and the stewardship of our planet's resources. Moderator: Tammy Anderson-Wise, Chief Executive Officer, Dairy Council of California</p> <ul style="list-style-type: none"> • Katie Brown, EdD, RDN, Senior Vice President Sustainable Nutrition, National Dairy Council • Cindy Schweitzer, PhD, Principal, Schweitzer Consulting LLC • Marianne Smith Edge, MS, RDN, LD, FADA, FAND, Founder and Principal, The AgriNutrition Edge • Lynn Giacomini Stray, Co-Owner, Point Reyes Farmstead Cheese Co.
<p>12:10 PM</p>	<p>Lunch Enjoy a buffet lunch and time to network with dairy sustainability leaders.</p>
<p>1:00 PM - 1:30 PM</p>	<p>Dairy 2.0 - The Journey From Sustainable to Relevant Linda Eatherton, Partner, Managing Director, Global Food & Beverage, Ketchum</p>
<p>1:30 PM - 2:30 PM</p>	<p>Panel 3 - Planet-Smart Dairy: California Leading the World California dairy farmers are world leaders in sustainable farming practices. Discover how dairy farmers are partnering to enhance water supply/quality, improve air quality, and protect our climate, while continually working to ensure the best possible animal care. Moderator: Michael Boccadoro, Executive Director, Dairy Cares</p> <ul style="list-style-type: none"> • Frank Mitloehner, PhD, Professor and Air Quality Specialist, UC Davis Department of Animal Science • Annette Jones, DVM, Director and State Veterinarian, California Department of Food and Agriculture • Tyler Bennett, President, Bennett Environmental, Inc. & Bennett Water Systems • Steve Maddox Sr., Managing Partner, Maddox Dairy • Sahar Kamali, Director, Business Development, Clean Energy Renewables
<p>2:30 PM - 2:40 PM</p>	<p>Refreshment and Networking Break Recharge and network during a brief coffee, tea and water break.</p>

Summit Program

Day 1 Dairy's Role in Advancing California's Sustainability Objectives

- 2:40 PM - 3:45 PM** **Panel 4 - Encouraging Sustainable Food Production: A Workable Regulatory Approach**
Using past achievements as a guide, panelists will discuss the appropriate role of regulatory versus voluntary, incentive-based actions to improve sustainability. Looking ahead, regulatory and dairy industry leaders will strategize about how to ensure the sustainability of California's dairy farms, while advancing environmental protections.
Moderator: **Richard Matteis**, Administrator, California Farm Bureau Federation
- **Jenny Lester Moffitt**, Undersecretary, California Department of Food and Agriculture
 - **Ashley Boren**, Executive Director, Sustainable Conservation
 - **Samir Sheikh**, Executive Director, San Joaquin Valley Air Pollution Control District
 - **Richard Corey**, Executive Officer, California Air Resources Board
 - **Patrick Pulupa**, Executive Officer, Central Valley Regional Water Quality Control Board
- 3:45 PM - 4:00 PM** **Purpose Led, Performance Driven - Sustainability**
David Blakemore, President, Animal Nutrition & Health, DSM
- 4:00 PM - 6:00 PM** **Expo Hall Opening Reception**
Join us for refreshments, including Real California Cheese. Network with dairy farmers and industry leaders. Connect with technology and service suppliers that can help the dairy industry continue to address environmental challenges with cost-effective solutions.

Day 2 Strategies and Tools to Advance Sustainability, Improve Efficiency, and Reduce Costs

- 8:00 AM - 9:00 AM** **Expo Hall Breakfast**
Start your morning with some tasty treats and a walk around expo hall while networking with dairy farmers and industry leaders.
- 8:30 AM - 8:45 AM** **Welcome Remarks**
- **Felicia Marcus**, Chair, State Water Resources Control Board
- 8:45 AM - 9:15 AM** **Opening Session - Achieving True Sustainability: Perspectives from the Major Dairy Cooperatives**
- **Matt Carstens**, Senior Vice President, Land O'Lakes, Inc.
 - **Rob Vandenheuvel**, Vice President of Industry and Member Relations, California Dairies Inc.
 - **Francis Pacheco**, Vice President of Membership and Public Affairs, Dairy Farmers of America
- 9:30 AM - 10:20 AM** **Breakout Sessions**
- The Next Generation of Digesters: Electricity, Transportation Fuel, and Beyond**
Find out how development companies, state agencies, dairy farmers, and utilities are working collaboratively to voluntarily meet the state's manure methane reduction target, while boosting economic sustainability, and helping achieve California's increasingly ambitious clean energy goals.
Moderator: **Cliff Gladstein**, President, Gladstein, Neandross & Associates
- **Neil Black**, President, California Bioenergy
 - **Daryl Maas**, Founder and Chief Executive Officer, Maas Energy Works
 - **Kevin Dobson**, Vice President, Business Development, DTE Biomass Energy
 - **Tyler Henn**, Vice President & General Manager, Clean Energy Renewables
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- Automation on the Farm: Robotic Systems and Increasing Efficiency**
Two California dairy farmers, a nutritionist, and a veterinarian will share their experience implementing robotic milking systems and how these investments are benefiting animal well-being and farm economics.
Moderator: **William Ray**, Vice President/ Senior Relationship Manager, Yosemite Farm Credit
- **Jonathon Postma**, Managing Partner, Pete Postma and Sons Dairy, GP
 - **Halley Fobes**, Consulting Veterinarian, Lander Veterinary Clinic
 - **Rick Jones**, Partner, Jones Family Farm
 - **Steve Riesenbeck**, Consultant, Dairy Works

Summit Program

Day 2 Strategies and Tools to Advance Sustainability, Improve Efficiency, and Reduce Costs

9:30 AM - 10:20 AM

Breakout Sessions (continued)

Money from manure? How do we get there?

A diverse panel of experts from the private sector, NGOs, and the research community will discuss opportunities to transform surplus manure into environmental and economic benefits.

Moderator: **J.P. Cativiela**, Regulatory Director, Dairy Cares, Executive Director, CVDRMP

- **Mark Stoermann**, Chief Operating Officer, Newtrient LLC
- **Ryan Flaherty**, Director of Business Partnerships, Sustainable Conservation
- **Denise Mullinax**, Interim Director, California Dairy Research Foundation, Assistant Director, CDQAP
- **Ruihong Zhang**, PhD, Professor, UC Davis Department of Biological and Agricultural Engineering

10:30 AM - 11:20 AM

Breakout Sessions

Take Control of Your Energy Destiny: Manage Rising Costs through Efficiency and Renewable Energy

Representatives from major utilities and renewable technology providers will highlight opportunities for dairy farmers to combat rising energy costs through energy efficiency and on-site energy technologies.

Moderator: **Michael Boccadoro**, Executive Director, Dairy Cares & Agricultural Energy Consumers Association

- **Justin Witte**, Senior, Customer Relationship Manager, AG/Food Processing, Pacific Gas & Electric Company
- **Traeger Cotten**, Field Engineer, Southern California Edison
- **Dean Swanson**, Director, Business Development, Sunworks Solar Power

Water-Smart Dairy: Strategies to Survive Increasing Water Scarcity

A diverse panel of experts will discuss what's being done to address water scarcity challenges, including the development and expansion of drip irrigation to increase water-use-efficiency and improve yields.

Moderator: **Ryan Flaherty**, Director of Business Partnerships, Sustainable Conservation

- **Tyler Bennett**, President, Bennett Environmental Inc. & Bennett Water Systems Inc.
- **John Cardoza**, Project Manager, Sustainable Conservation
- **Geoffrey Vanden Heuvel**, Director of Regulatory and Economic Affairs, Milk Producers Council

Feed Additives: Can they Reduce Methane and Improve Your Bottom Line?

Panelists will discuss research efforts, feed additives, and other ways to reduce enteric emissions, and how these efforts might impact feed efficiency, milk production, and animal health.

Moderator: **Michael FitzGibbon**, Research Division's Climate, Atmospheric Science, & Economic Studies Branch Chief, California Air Resources Board

- **Ermias Kebreab, PhD**, Professor and Sesnon Endowed Chair, Sustainable Animal Agriculture Department of Animal Science, UC Davis
- **Thomas Hafner**, Chief Executive Officer, Mootral
- **Todd Armstrong**, Head, North American Ruminant Operations and Strategy, DSM

11:30 AM - 12:10 PM

Breakout Sessions

Managing Employment Trends, Retention, and Costs

Learn about dairy labor trends, challenges, and opportunities, and hear from dairy farmers as they discuss hiring, training, and retaining employees and providing valuable career opportunities.

Moderator: **Anja Raudabaugh**, Chief Executive Officer, Western United Dairymen

- **Frank Cardoza**, Consultant, Dairy Works, Farm Manager, Phillip Verwey Farms
- **Aaron Wickstrom**, Managing Partner, Wickstrom Dairies L.P. and Valsigna Farms
- **Landon Fernandes**, General Manager, Fernjo Farms

Increasing Nutrient Use Efficiency for Survival and Profit

Dairy producers and experts will talk about practical, innovative solutions for gaining more value from manure applications, improving water and nutrient distribution, and streamlining recordkeeping for daily decision making.

Moderator: **Deanne Meyer, PhD**, Livestock Waste Management Specialist, Department of Animal Science, UC Davis & UC ANR

- **Bob Hutmacher, PhD**, UC Cooperative Extension Specialist and Center Director, West Side Research and Extension Center
- **Blake Alexandre**, Owner, Alexandre Family Farm
- **Michelle Tacherra**, Environmental Manager, Morning Star Dairy, Inc.
- **Simon Vander Woude**, Owner, Vander Woude Dairy

Summit Program

Day 2 Strategies and Tools to Advance Sustainability, Improve Efficiency, and Reduce Costs

11:30 AM - 12:10 PM Breakout Sessions (continued)

Genetic Opportunities: Setting Your Strategy for Long-Term Success

Dairy farmers will discuss tools and strategies for continuing to advance environmental and economic sustainability through genetic progress—further increasing milk production and improving animal health.

Moderator: **Stanley Henderson, PhD**, Professor Emeritus, Cal Poly, San Luis Obispo

- **Brian Fiscalini**, Chief Executive Officer, Fiscalini Farms and Cheese Company
- **Frank Denis**, Herd Manager, Charles Ahlem Ranch
- **Wayne Glaeser**, Member Owner, Glaz-Way Enterprises, LLC

12:10 PM - 1:40 PM

Lunch in the Expo Hall

Enjoy a buffet lunch and time to network with dairy sustainability leaders.

1:40 PM - 2:30 PM

Breakout Sessions

Water Quality: What's Coming Next, and How to Prepare for the Challenges and Opportunities

Legal, regulatory, and technical experts will discuss what California dairies can expect with the changes in water quality regulations coming next year, as well as potential strategies to help navigate the challenges and opportunities that lie ahead.

Moderator: **Justin Gioletti**, Vice President, Robert Gioletti & Sons Dairy

- **Doug Patteson**, Confined Animal Facilities Program Manager, Central Valley Regional Water Quality Control Board
- **J.P. Cativiela**, Executive Director, CVDRMP, Regulatory Director, Dairy Cares
- **Theresa "Tess" Dunham**, Managing Shareholder, Somach Simmons & Dunn
- **Till Angermann**, Hydrogeologist and Technical Program Manager, Central Valley Dairy Representative Monitoring Program

Funding Incentives to Boost Economic and Environmental Sustainability

Learn about significant funding incentives available from regional, state, and federal agencies and how these can help dairy farmers invest in environmental and economic sustainability projects on their farms.

Moderator: **Paul Sousa**, Director of Environmental Services and Regulatory Affairs, Western United Dairymen

- **Amrith Gunasekara, PhD**, Science Advisor, California Department of Food and Agriculture
- **Kevin Abernathy**, General Manager, Milk Producers Council
- **Todd DeYoung**, Manager, Strategies and Incentives, San Joaquin Valley Air Pollution Control District

Optimizing Cow Health and Comfort: Emerging Technologies and Strategies

Panelists will discuss milestones to date, and new developments both within and beyond the FARM program, including the use of cow monitoring devices, tools for employee training, and other strategies to further improve animal health and comfort.

Moderator: **Michael Payne, DVM, PhD**, Program Director, California Dairy Quality Assurance Program, Dairy Program Coordinator, Western Institute of Food Safety & Security (WIFSS)

- **Frank Cardoza**, Consultant, Dairy Works, Farm Manager, Phillip Verwey Farms
- **Dr. Robert Hagevoort**, Associate Professor & Extension Dairy Specialist, New Mexico State University
- **Nicole Ayache**, Director, FARM Environmental Stewardship and Workforce Development, National Milk Producers Federation

2:40 PM - 3:00 PM

Closing Remarks

Marcus Benedetti, Chairman and CEO, Clover Sonoma

3:00 PM - 5:00 PM

Expo Hall Reception

Join us for refreshments and networking with dairy farmers and industry leaders. Connect with technology and service suppliers that can help the dairy industry continue to address environmental challenges with cost-effective solutions.