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: February 16, 2018 **PAGES: 6**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	+ *$.0300*	$1.5400
Barrels	+ *$.1200*	$1.4800
Weekly Average, Cheddar Cheese		
Blocks	+ *$.0005*	$1.5175
Barrels	+ *$.0435*	$1.4025

CHICAGO AA BUTTER		
Weekly Change	+*$.0725*	$2.1000
Weekly Average	+ *$.0280*	$2.0955
DRY WHEY		
Dairy Market News	w/e 2/16/18	$.2400
National Plants	w/e 2/10/18	$.2528

NON-FAT DRY MILK		
Week Ending 2/9 & 2/10		
Calif. Plants	$0.7186	11,351,537
Nat'l Plants	$0.7130	21,617,960
Prior Week Ending 2/2 & 2/3		
Calif. Plants	$0.7195	9,665,520
Nat'l Plants	$0.6980	22,229,490

***

Fred Douma's price projections…

Feb 16 Est:	**Quota cwt. $14.69**	**Overbase cwt. $13.00**	**Cls. 4a cwt. $12.67**	**Cls. 4b cwt. $13.41**
Last Week:	**Quota cwt. $14.61**	**Overbase cwt. $12.91**	**Cls. 4a cwt. $12.56**	**Cls. 4b cwt. $13.32**

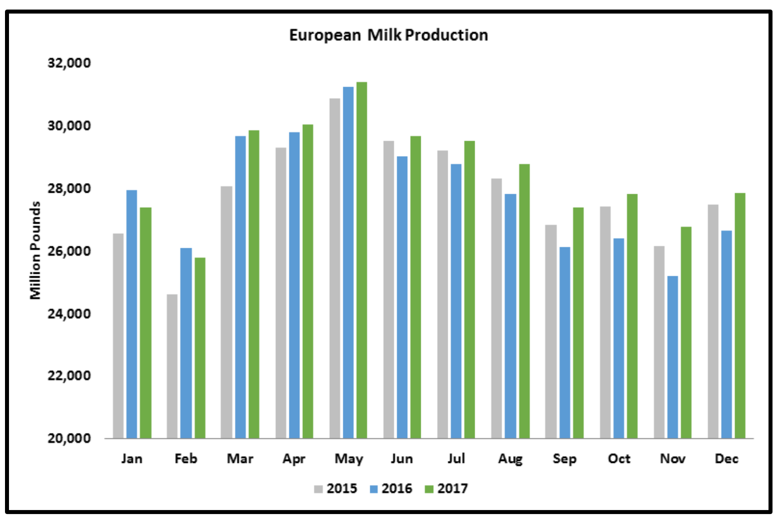
***

Market commentary

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

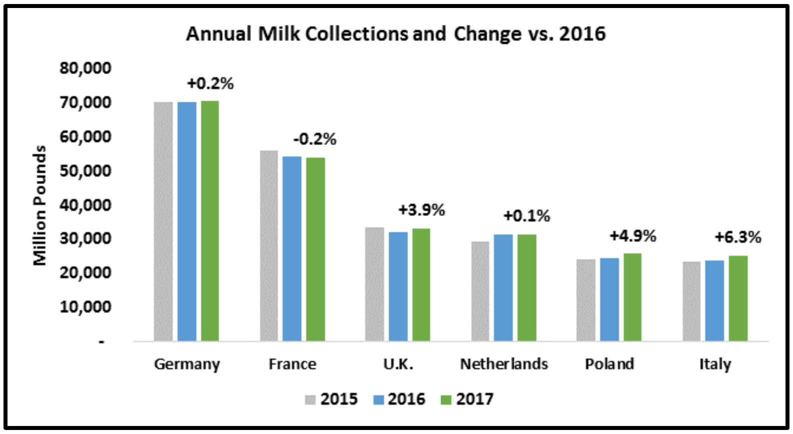
Milk & Dairy Markets

After a harsh winter, the dairy markets seem to be enjoying a bit of an early-spring thaw. Overseas markets offered some warmth. USDA's *Dairy Market News* characterized European butter demand as "brisk" and reported tightening whey powder supplies. In New Zealand, prices are firming for all categories of dairy product. The weather has been less than ideal, and milk production is lower than kiwi dairy producers had anticipated when the season began.



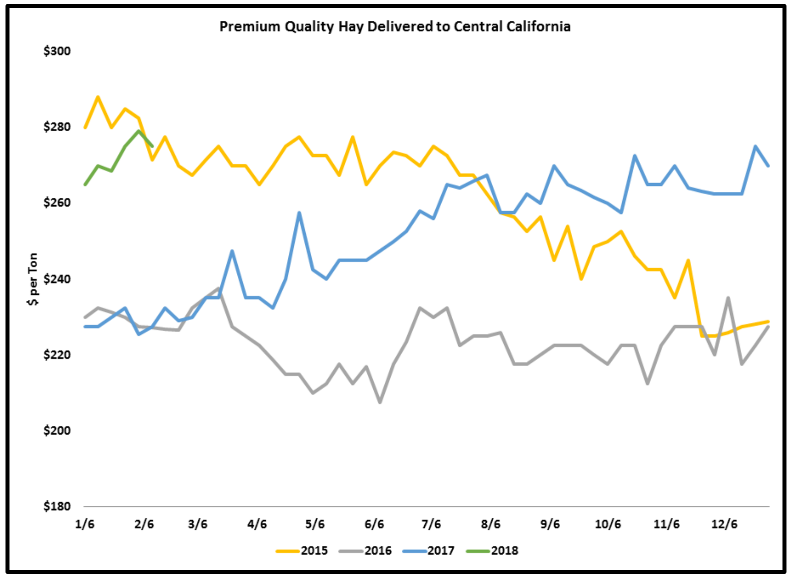
However, in Europe, milk output remains strong. Assuming steady trends in Sweden and Italy, which have yet to report December collections, EU-28 milk production reached 27.9 billion pounds in December. That is up 4.5% from the previous year – when the European Commission was paying dairy producers to limit output – and up 1.4% from the record-breaking volumes of December 2015.

For the year, European milk collections were 2.2% greater than 2016 and 2.4% greater than 2015. Up-and-comers like Poland and Ireland have fostered impressive growth. Compared to two years ago output is up 13.6% in the Emerald Isle and 7.2% in Poland. The Netherlands improved on its long-running dairy tradition, boosting milk output by 7.3% from 2015 to 2017, although nearly all of the growth occurred in 2016. Over the same two-year period, milk output is up a scant 0.2% in top-ranked Germany, down 3.3% in France, and down 0.8% in the

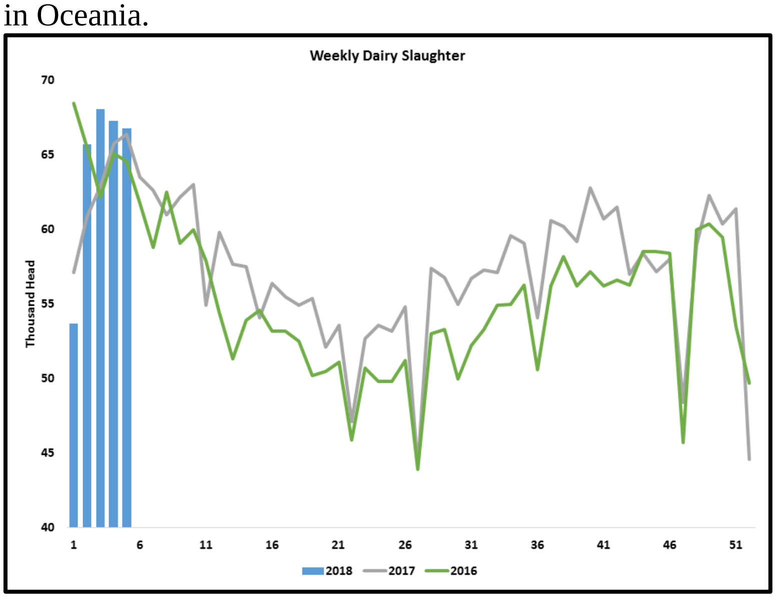


United Kingdom. Unexpectedly, Southern Europe has more than picked up the slack. Compared to 2015, production is up 7.3% in Italy and 4.4% in Spain.

In 2017, Europe sent 1.7 billion pounds of skim milk powder (SMP) overseas, an increase of 49.6% from 2016. Sales of SMP from Europe to Mexico were up nearly four-fold, eroding U.S. market share. Merchants also sold 67.6 million pounds of SMP to the government's Intervention storage program last year, adding to the 826.3 million pounds accumulated in 2015 and 2016. After a few small sales the European Commission has been able to whittle its holdings down to 889 million pounds, still a veritable mountain of milk powder. However, the bulk of the government's SMP is getting stale. "Week by week, less of the aging Intervention stocks are of interest to many buyers of SMP for human consumption," according to *Dairy Market News*. Intervention stockpiles will likely continue to weigh on the low end of global protein markets, but they are becoming less relevant to nonfat dry milk (NDM) and SMP pricing.



NDM prices slipped 3¢ this week at the CME spot market to 70.5¢ per pound. NDM futures retreated in each trading session. Stocks are heavy and production is outpacing demand. However, the U.S. dollar index stands at its lowest level in more than three years, which is likely to boost exports, particularly in light of rising milk powder prices in Oceania.



The CME spot butter market provided plenty of excitement this week. It started strong, and a 7.25¢ jump on Wednesday pushed March through June futures a nickel higher, at their daily trading limits. Butter prices moved up again Thursday but then stalled, and spot butter dropped back a nickel today after 32 trades. Still, it finished at $2.10 per pound, up 7.25¢ for the week. That was enough to allow a comeback for most Class IV futures contracts.

CME spot Cheddar barrels were uncharacteristically strong this week, jumping 12¢ to $1.48 per pound, a nearly two-month high. Blocks rallied 3¢ and closed at $1.54. Midwestern cheese makers report better barrel sales, which is helpful as output remains heavy. Whey futures perked up this week, which contributed to a strong performance in the Class III market. March Class III climbed 47¢ this week and is back over the $14 mark for the first time since mid-December.

Grain Markets

Higher milk prices will help, but dairy producers are also contending with higher feed costs. The soybean meal market has been stubbornly strong. May soybean meal futures jumped nearly $30 per ton this week to $376, the highest closing price in seven months. The forecast calls for spotty rains in Argentina this weekend. More is needed or yields will suffer and prices will continue to rise.

March corn settled today at $3.675 per bushel, up 5.5¢ for the week. What the corn market rally has lacked in drama it has made up for in persistence. Adding a penny here and a nickel there, corn prices are up more than 20¢ from their mid-January lows. There is no shortage of grain, but demand has impressed. Corn shipments from the U.S. and other large exporting nations – including Brazil, Argentina, and Ukraine – are well above prior-year levels.

Much like the corn market, hay prices have been moving quietly but steadily higher. According to *The Hoyt Report*, premium quality alfalfa delivered to dairies in the Central Valley costs around $275 per ton, up nearly $50 from a year ago. Non-feed costs like freight, labor, and regulatory compliance are also on the rise, and milk premiums are falling. Dairy producers are feeling the squeeze, and auction houses around the country are a little busier. So are slaughterhouses. In the week ending February 3, dairy cow slaughter was 66,750 head, up 0.6% from the same week a year ago. For the year to date, slaughter is up 2.7% from the 2017 pace. It is likely to remain elevated.

***

USDA Secretary Perdue tours De Groot Dairies, signs Memorandum of Understanding with dairy industry

By Rochelle De Groot, MPC Board Member

On Wednesday, February 14, we had the privilege of hosting Agriculture Secretary Sonny Perdue at our dairy in Hanford as part of his tour of agriculture operations here in the Central Valley. While in the Golden State, Secretary Perdue toured several facilities in the Central Valley from almond orchards to packing sheds. He also attended the World Ag Expo in Tulare, hosting a town hall meeting where he answered questions from California farmers.

While at De Groot Dairies, Secretary Perdue and Arizona dairyman Paul Rovey, a board member for the Innovation Center for U.S. Dairy, sat down to sign a Memorandum of Understanding (MOU) between the USDA and Innovation Center. The MOU, building upon the first one signed back in 2009, focuses on a renewed pact between both groups to advance sustainable technologies within the dairy industry. This partnership between the USDA and Innovation Center for U.S. Dairy is a major step forward for funding research and conservation programs that will develop new sustainable farming methods and increase efficiencies in dairy farming. Along with encouraging funding, the MOU highlights other improvements that can be made to benefit both parties, including the streamlining of application processes for NRCS programs, improving upon methane digester technologies, and expanding conservation grants for producers, cooperatives, and other groups. You can find more information on this memorandum here.

Following the signing, we hosted a lunch at our dairy for the Secretary and local farmers in the area. This gave us all a chance to speak directly with Secretary Perdue on issues facing California agriculture. We felt it important to speak with the Secretary regarding issues handled at the federal level like immigration, water, and the Food Safety Modernization Act. Secretary Perdue was engaged in our discussions on California agriculture issues and we look forward to seeing what direction the USDA takes to help offer solutions.

We at De Groot Dairies are honored to have had the opportunity to host Secretary Perdue for a tour of a California dairy farm and for the signing of the Memorandum of Understanding between the USDA and Innovation Center for U.S. Dairy. We were given a rare opportunity to represent the California dairy industry, and more importantly dairy families across the Central Valley, by hosting the signing of such an important memorandum. We hope that after speaking with California dairy farmers and touring a dairy farm, Secretary Perdue can return to Washington, D.C. with a better understanding of the importance of our industry to local communities and create a positive impact on California agriculture through his leadership of the USDA.

***

USDA takes steps to cure the problem causing delay of release of California FMMO

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant.

A week ago, USDA announced what sounded like an indefinite delay in the release of a California FMMO decision. USDA said they were going to wait until the Supreme Court ruled on the *Lucia vs. Security and Exchange Commission* case, which they expected by the end of June 2018. USDA stated that the case called into question the legality of the current process of appointment for Administrative Law Judges (ALJ). The implication being that an unfavorable ruling by the Supreme Court could invalidate the legitimacy of the Hearing Record created under the supervision of Judge Jill Clifton who was the ALJ in the California FMMO hearing.

As I reported last week, this announcement of an indefinite delay of the California FMMO caused great concern with California producers. All three trade associations and the three major cooperatives sent letters to Agriculture Secretary Sonny Perdue urging him to find a way to expedite the release of a California FMMO. Our political representatives also weighed in and last week I shared a video of Congressman Jim Costa's exchange with Secretary Perdue during an Ag Committee hearing.

USDA held a public phone call on Tuesday, February 13 (which you can hear here) where the USDA attorney explained in detail the legal issues involved in the Lucia case and how they could impact the California FMMO rulemaking. Mr. Vaden, the USDA attorney, characterized the chances at 50/50 that the whole Hearing Record upon which a California FMMO would be based could be invalidated by a disqualification of the Judge who oversaw the creation of the record. If that were to happen, the whole process would have to start over again. BUT, he explained, USDA had found a legal cure to the problem of the questionable legitimacy of the ALJ.

Because a final California FMMO decision had not yet been released, another USDA official, this one legally appointed could review the entire Hearing Record and under his authority legally certify it. There is no legal cloud over the authority of USDA's Judicial Officer and so this cure will be able to get the process back on track. It will take some time for the new official to review the thousands of pages of material that make-up the official hearing record. But it was estimated by USDA's attorney that if all is well with the record it should only add one month additional time to the potential implementation of a California FMMO.

The process going forward then is a review and certification of the formal hearing record by a USDA legally appointed Judicial Officer, then a release of the Final Decision and then a producer vote. Assuming producers vote in favor of an FMMO, there will be a couple of months of transition and the formal launch of a California FMMO. USDA's attorney said that best case would see the start of a California FMMO on November 1, 2018.

This call was unprecedented for its clarity and transparency. It is extremely encouraging to see how responsive and flexible USDA can be when motivated. The law is the law, and apparently there is a problem with how Administrative Law Judges are appointed by the government. USDA was prudent in evaluating the risks and making the rational decision that these risks required alternative action. We now clearly have a commitment to produce a California FMMO within the timeframe they have announced. Hopefully there will be no more delays.

***

A Margin Protection detail that may matter to larger producers

By Geoff Vanden Heuvel, MPC Board member and Economics Consultant

In the Budget Bill that passed last week, some changes were made to the Margin Protection Program that dramatically lowered the premiums on margin protection coverage on the first 5 million pounds of annual production.

For example, the premium to obtain coverage when the income over feed cost, margin drops below $8 per cwt. is now $0.142 per cwt. for the first 5 million pounds of production. And Congress says you can still sign up for 2018.

Current projections are that the MPP margin will be below $8 for at least some part of this year, so it seems like a "no brainer" to sign up for this smoking good deal. BUT the way a producer has to sign-up for MPP is as a percentage of their annual production and the minimum percentage is 25%.

What that means is if you produce more than 20 million pounds per year on your dairy (about 850 cows), you have to buy more than 5 million pounds of coverage because the minimum coverage level is 25%. For every cwt. you purchase over 5 million pounds you have to pay $1.36 per cwt. That gets very expensive, very fast. This fact illustrates that to large producers, the value of the "buy up" portion of the MPP is very limited. The catastrophic portion of MPP, that is the essentially free Margin Protection coverage for all producers regardless of size at the $4 Income over Feed Cost margin does have value in the event of a major financial wreck. But the rest of the MPP is really an assistance program for smaller producers.

This reality should influence the discussions that will take place in the coming months on the farm bill. Maybe it is time to scrap the buy up portion of the MPP over 5 million pounds and spend those dollars on bringing up the catastrophic margin coverage for all producers. Maybe we can get that number to $5 per cwt. instead of the current $4. That would be a real safety net benefit for all producers.

***

California Supreme Court hears arguments regarding water quality fees

By Kevin Abernathy, MPC General Manager

Last week, the California Supreme Court heard oral arguments in the case of *California Building Industry Association (CBIA) v. State Water Resources Control Board (State Board).* This marks a major milestone for this ongoing legal battle (dating back to 2015) regarding water quality fees charged by the State Water Board for administration of the Waste Discharge Permit program.

You might be asking yourself what does a case about the building industry have to do with dairy farming? The decision made by the California Supreme Court in the CBIA case will directly impact a similar case brought forth by Milk Producers Council, California Dairy Campaign and Western United Dairymen against the State Water Resources Control Board. The suit filed by the dairy trade groups in January 2015 is currently pending in the Sacramento County Superior Court.

The similarities between these two cases center around the difference between fees and taxes. CBIA argues in their case that fees implemented by the State Board regarding parts of the storm water program are not closely related to the actual costs of regulating the building industry. CBIA argues that the State Board overstepped its authority when setting fees not included in the Water Code, and that the "fees" are actually additional taxes. They argue that taxes must be approved by a two-thirds vote of the California State Legislature, according to Article 13A of the California Constitution.

This argument bears a striking resemblance to the case put forth by our dairy groups against the State Board. The dairy trade groups allege that the State Board also violated the Constitution by including components within the dairy water quality permit fees that were not authorized by the Water Code and therefore were taxes, not fees, and were not approved by a two-thirds vote of the Legislature. Our dairy case asks the court to set aside the 27 percent fee increase adopted by the State Board in 2013, and the 33 percent increase adopted in 2014.

The *California Building Industry Association v. State Water Resources Control Board* case will set a legal precedent for our case. The California Supreme Court has 90 days to issue an opinion on this case and Milk Producers Council will continue to follow it closely. We will keep you updated on the situation in future Friday Reports.

California Milk Advisory Board March Board Meeting in Modesto March 7-8

The CMAB Board Meeting is open to any California dairy producer. If interested in attending, please contact Tracy Garza at tgarza@cmab.net or 209-690-8252.

Wednesday, March 7, 2018 – 7:30am
Thursday, March 8, 2018 – 8:00am

Doubletree by Hilton Modesto
1150 9th Street
Modesto, CA 95354