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: January 8, 2016 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0475*	$1.4600
Barrels	*+$.0100*	$1.5400
Weekly Average, Cheddar Cheese		
Blocks	*+$.0241*	$1.4785
Barrels	*+$.0155*	$1.5030

CHICAGO AA BUTTER		
Weekly Change	*- $.0450*	$2.0350
Weekly Average	*- $.0080*	$2.0370
DRY WHEY		
Dairy Market News	w/e 01/08/16	$.2400
National Plants	w/e 01/02/16	$.2354

NON-FAT DRY MILK		
Week Ending 1/1 & 1/2		
Calif. Plants	$0.7872	7,228,110
Nat'l Plants	$0.7879	14,692,331
Prior Week Ending 12/25 & 12/26		
Calif. Plants	*$0.7744*	*5,828,855*
Nat'l Plants	*$0.7790*	*12,265,158*

***

FRED DOUMA'S PRICE PROJECTIONS…

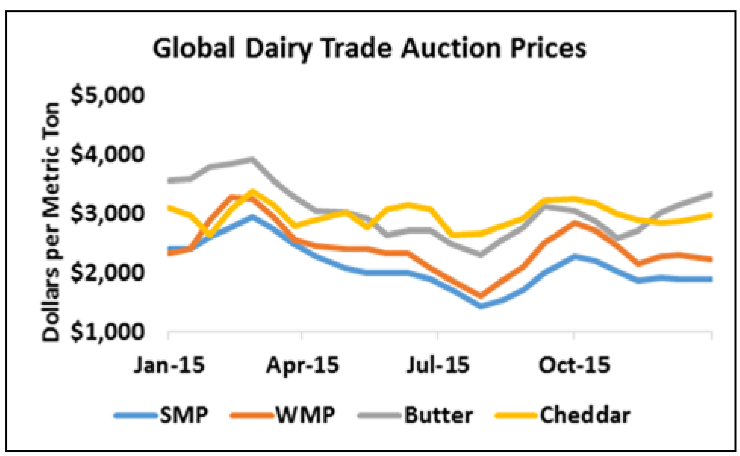
Jan 8 Est:	**Quota cwt. $14.91**	**Overbase cwt. $13.21**	**Cls. 4a cwt. $12.93**	**Cls. 4b cwt. $12.83**
Last Week:	**Quota cwt. $15.12**	**Overbase cwt. $13.42**	**Cls. 4a cwt. $13.07**	**Cls. 4b cwt. $13.17**

***

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

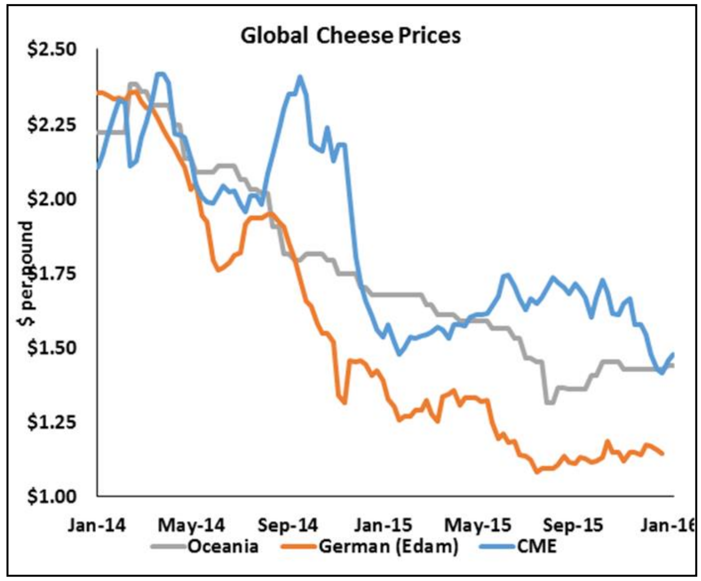
Milk & Dairy Markets

The Chinese bubble deflated this week, letting the air out of markets around the world. The Dow Jones Industrial Average suffered its worst start ever, losing 1,079 points in the first week of the year. Dairy product futures dropped into the red Monday and sunk deeper Tuesday. But by late in the week they began to recover. At the CME spot market, Cheddar barrels even managed to close a penny higher than their December 31 finish, at $1.54/lb. Blocks fell 4.75¢ to $1.46. January Class III futures moved higher, but most contracts were between 20¢ and 50¢ lower than last week. The Class IV markets fared worse. Most Class IV futures contracts lost 40¢ to 70¢. CME spot butter slipped 4.5¢ to $2.035. Spot nonfat dry milk (NDM) fell 2.25¢ to 73.25¢.



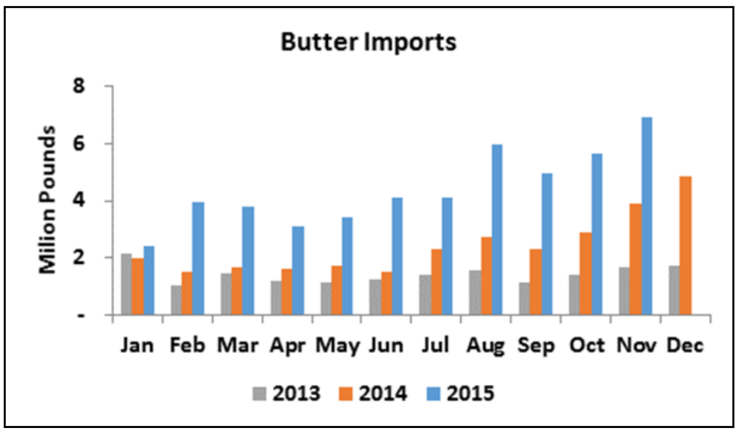
A disappointing performance at the Global Dairy Trade (GDT) auction also weighed on the dairy complex, particularly on the already anemic milk powder market. The trade-weighted GDT index dropped 1.6%. Whole milk powder (WMP) prices fell 4.4% from the previous event, and skim milk powder (SMP) slipped 0.8%. Butter gained 6.7%, but at around $1.47/lb., any strength in GDT butter offers little succor for the U.S. market, which still commands roughly a 70¢ premium. Cheddar gained 3.5%, climbing to $1.34.

The GDT rally and the CME slump have closed the gap between U.S. and global cheese prices. Going forward, the U.S. may be able to export some of the mountains of cheese it is producing. But the consequences of the previous disconnect between the U.S. and global marketplace are still manifest. U.S. exports of cheese and curd in November totaled 50.5 million pounds, down 6.8% from a year ago. Imports climbed to 48.1 million pounds, putting the net trade at 2.4 million pounds, the smallest monthly figure since late 2012. January through November cheese and curd exports were 14% lower than last year, while imports were up 23%.



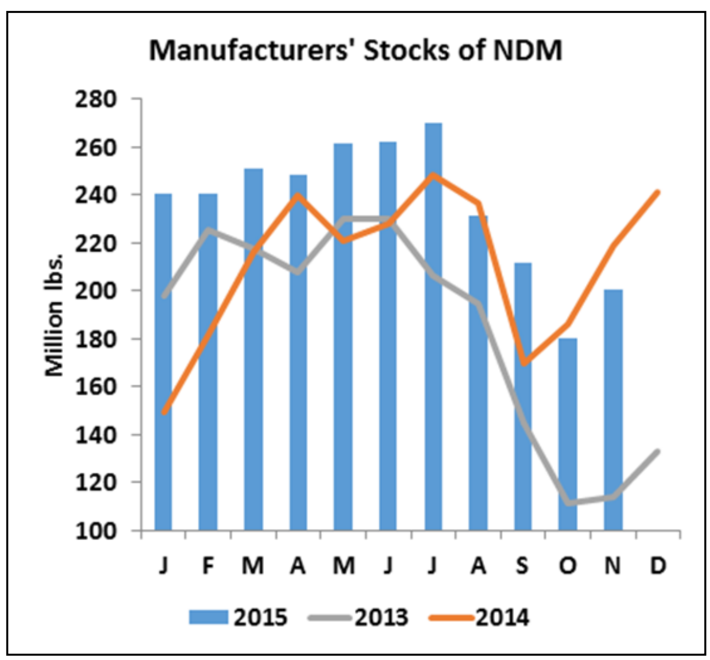
Meanwhile, U.S. cheese production remains robust. Output in November totaled 975.7 million pounds, up 0.6% from a year ago to the greatest daily average total on record (though short of the December 2014 record in absolute terms). In Wisconsin, cheese output jumped 4% from a year ago.

U.S. butter production totaled 150.8 million pounds in November, up 4.4% from a year ago and up 5.6% from October on a daily average basis. Once again, California reported a sizeable year-over-year drop in butter output, but nearby states more than made up the deficit. Golden State butter production fell 3.9% from November 2014 volumes, but butter output in the West surged 8.2%. Product continues to pour in from overseas and stockpiles are growing. Butter imports jumped to 6.9 million pounds in November, the highest monthly total since May 2004. Exports are negligible. The U.S. was a net butter importer in 2015, taking in 12.3 million pounds more than it shipped out in January through November.



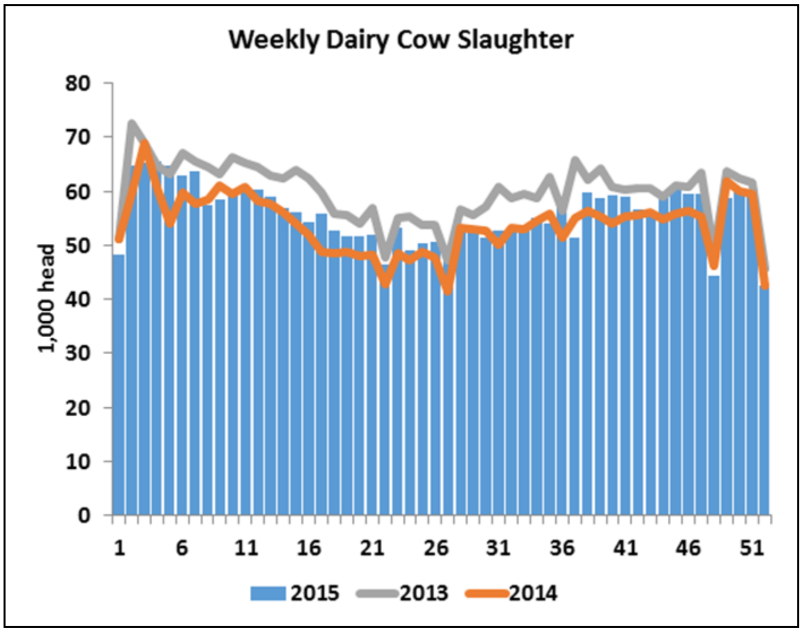
Milk powder is one of the few bright spots in the dairy export profile. Despite the strong dollar and stiff competition, U.S. exports of NDM totaled 93.9 million pounds, slightly higher than prior year volumes. January through November NDM exports were 0.5% higher than 2014 shipments. Still, dairy product exports totaled just 12.7% of U.S. milk output in November, according to the U.S. Dairy Export Council, the lowest share of production since January. Imports added back the equivalent of 4% of total milk solids production to U.S. dairy product supplies.

So far, low prices have been enough to stimulate fresh demand for milk powder. But end users have had ample opportunity to stock up; they may decide – like China did in 2014 – that their warehouses are full enough. Meanwhile, stocks are large and driers are running full throttle. U.S. manufacturers were sitting on 200.5 million pounds of NDM as of November 30. This is shy of the record-breaking inventories in 2014, but huge by historical standards. November stocks averaged 126 million pounds from 2009 to 2013. Combined production of NDM and SMP in November totaled 170.2 million pounds, down 6.6% from 2014 but nearly 15% greater than the 2009 to 2013 average.



Meanwhile, manufacturers in Europe are selling some product into public storage through the government's intervention purchase program. As the *Daily Dairy*

Report noted today, "these supplies will anchor the global market until demand surges or supply retracts enough to use up inventories and boost prices. It could take a while."



For the week ending December 26, dairy cow slaughter totaled 42,558 head, up 0.5% from the same week a year ago. Slaughter was diminished due to the Christmas holiday. As the year drew to a close, the 2015 cull rate was 3.5% ahead of the 2014 pace.

The cattle markets suffered a painful collapse in early December, but they rallied back and the bulls were bellowing as the year began. Carcass weights are finally coming down, and cold, stormy weather across the Plains foretells further declines. Beef demand typically climbs in January; consumers are ready for some red meat after their Christmas hams. None of these bullish fundamentals mattered this week. The cattle rally came to an abrupt halt when the stock market collapsed. Beef is a luxury item. No one is in the mood for a steak after watching the value of their retirement account drop 6% in a week.

<u>*Grain Markets*</u>

The grain markets were quiet ahead of next week's Crop Production and World Agricultural Supply and Demand Estimate reports. For months the grain markets have been drifting lower amidst plentiful supplies, but they are anxiously awaiting the January update, which has a tendency to surprise. Today March corn settled at $3.57, down 1.75¢. January soybeans climbed 8.25¢ to $8.795.

The weather in South America improved this week, with heavy rains in northern Brazil. The very first combines are rolling, but most of the harvest is still a month or two away. Once the preferred supplies, the U.S. is fast becoming the residual market in a world with plenty of corn and soybeans. The strong dollar isn't helping matters.

***

ANOTHER MONTH OF THE CALIFORNIA DISCOUNT WITH NO HELP FROM THE "RELIEF": *(By Rob Vandenheuvel)* Another month is in the books, and again, two things remained constant: (1) California's Class 4b price continues to be significantly below the Federal Order Class III price *(by a margin of $1.54/cwt in December)*; and (2) the temporary "relief" that began in August 2015 provided no actual "relief" from that Discount in December. In other words, the California Discount would have been $1.54/cwt whether or not CDFA implemented their temporary change to the Class 4b formula.

CDFA's Temporary Class 4b Adjustment*			
	Nov '15	**What it would have been without CDFA's Adjustment**	**Aug '15 – Present**
California Class 4b Price	**$12.90**	*Exactly the same*	**$14.55**
FMMO Class III Price	**$14.44**	*Exactly the same*	**$15.46**
Discount	**($1.54)**	**($1.54)**	**($0.91)**
** CDFA's temporary changes to the Class 4b pricing formula are set for August 2015 – July 2016*			

So five months into the temporary price calculation that was heralded as a positive adjustment for California producers, we've had: One month where we saw a positive impact on the Class 4b price of approximately $0.28/cwt (August); One month where we saw a negative impact on the Class 4b price of approximately $0.25/cwt (October); and now Three months where we saw absolutely no impact on the Class 4b price (September, November and December).

To be fair, the reason this temporary "relief" has provided little/no value to California's dairy families is due to the significant drop in the dry whey market prices over the course of 2015 (the temporary relief is exclusively tied to the dry whey portion of the Class 4b calculation). Had we still been living in a world with dry whey market prices above $0.30/lb, we would be seeing a benefit from the temporary formula change. We would still be below the FMMO Class III price, but tracking much better than we have been the past several years.

However, this pattern of "relief" that isn't relief is just adding insult to injury for California's dairy families, watching for years as CDFA refused to implement real reform to the Class 4b price calculation while dry whey markets soared in 2010 – 2014, resulting in a California Discount of nearly **$2 Billion**, and just as CDFA announces a change of course (albeit temporary in nature), it comes at a time when dry whey market prices are too low to even have a meaningful impact on the Class 4b price paid for California milk.

***

LATEST DAIRY CARES REPORT POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The latest *Dairy Cares Newsletter* has been posted on our site at: http://www.milkproducerscouncil.org/cares.htm. This current issue is focused on the El Nino weather conditions projected to result in increased rainfall in California and the Western U.S. over the coming months. In fact, this past week, we may have even seen the start of this weather pattern (at least that's what the news outlets would have us believe with their El Nino coverage this week).

While this is certainly a positive development for an area ravaged by drought the past several years, the *Dairy Cares Newsletter* rightly points out that this rainfall – no matter how much ultimately reaches us here in California – cannot overcome the structural problems we have with water availability in this state. As we have talked about many times before, our drought conditions are largely man-made; a result of ridiculous Federal and State policies that prioritize an "endangered" Delta Smelt over drinking water for human beings and a reliable food supply. That same ridiculousness is why "Groundwater Sustainability" has become the buzzword that will dominate discussion around the state over the years. California has literally starved the Central Valley of much of its surface water, and then acts surprised that groundwater usage is up!

We need rainfall, and lots of it; I certainly don't dispute that. But we also need a rational forward-looking policy change that reflects reality (growing population, growing need for food, and both need water). Simply restricting groundwater or praying for rain won't be the long-term fix. We need infrastructure that delivers and stores adequate available water for the various needs throughout the State. And we need to make sure a few El Nino storms over the next several months don't distract our State and Federal leaders of these significant needs.

***

"I AM EL NINO!": *(By Rob Vandenheuvel)* As we enter into this El Nino season, along with likely a barrage of TV news coverage of the rainfall, it reminded me of the Chris Farley skit from the last El Nino storm events of the late 90s. **For your viewing pleasure: https://youtu.be/IvmeUStFvz8.**

***