



Milk Producers Council

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TO: Directors & Members

PAGES: 5
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - \$.0450 \$1.4950
 Barrels - \$.0200 \$1.4600

Weekly Average, Cheddar Cheese

Blocks + \$.0113 \$1.5288
 Barrels + \$.0769 \$1.4794

CHICAGO AA BUTTER

Weekly Change +\$.0725 \$2.1725
 Weekly Average + \$.0701 \$2.1656

DRY WHEY

Dairy Market News w/e 2/23/18 \$2.400
 National Plants w/e 2/17/18 \$2.504

NON-FAT DRY MILK

Week Ending 2/16 & 2/17

Calif. Plants \$0.7190 15,604,689
 Nat'l Plants \$0.7118 24,907,342

Prior Week Ending 2/9 & 2/10

Calif. Plants \$0.7186 11,351,537
 Nat'l Plants \$0.7130 21,617,960

Fred Douma's price projections...

Feb 23 Final: Quota cwt. \$14.69 Overbase cwt. \$12.99 Cls. 4a cwt. \$12.72 Cls. 4b cwt. \$13.37
Last Week: Quota cwt. \$14.69 Overbase cwt. \$13.00 Cls. 4a cwt. \$12.67 Cls. 4b cwt. \$13.41

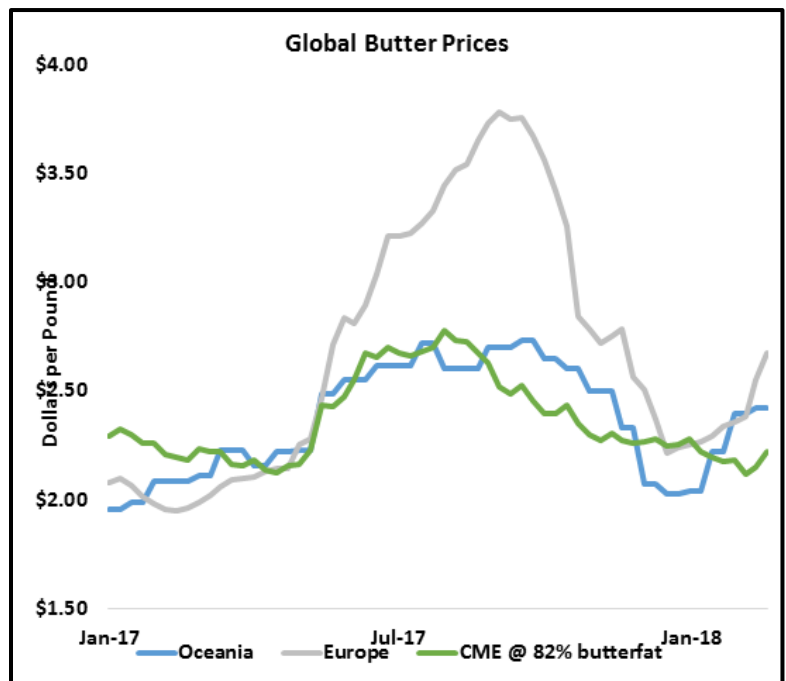
Market commentary

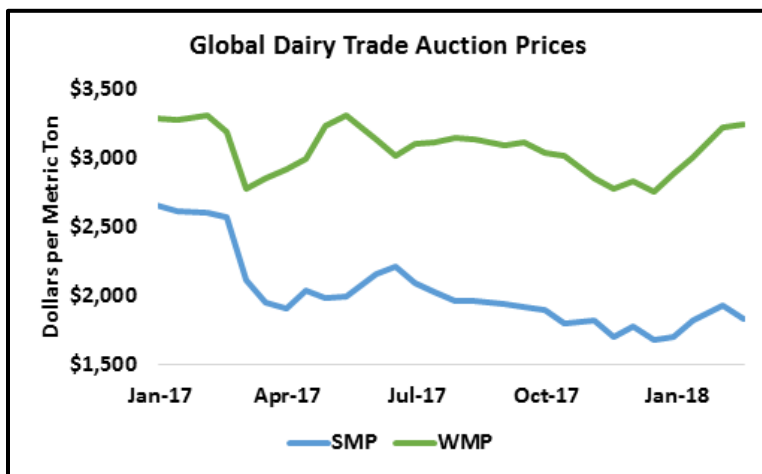
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

European butter prices are climbing once again, and the U.S. market is along for the ride. Since floundering around the turn of the year, benchmark German butter prices have rallied roughly €700 per metric ton (MT), or nearly 40¢ per pound. CME spot butter hit its lows just two weeks ago; it has since regained 14.5¢. Spot butter finished at \$2.1725 today, up 7.25¢ this week. A particularly strong showing on Wednesday pushed March through May butter futures a nickel higher, at the upper daily trading limit.

The milk powder markets were less exuberant. Here too, global forces were likely in play. Whole milk powder (WMP) prices climbed a scant 0.3% at Tuesday's Global Dairy Trade (GDT) auction. The average winning price for skim milk powder (SMP) fell 3% to the equivalent of nonfat dry milk (NDM) at 89¢ per pound after adjusting for protein. GDT SMP commands a stiff premium to CME spot NDM, which closed today at 67.25¢, off 3.25¢ from last Friday's close. Class IV futures were mixed but leaned slightly negative.

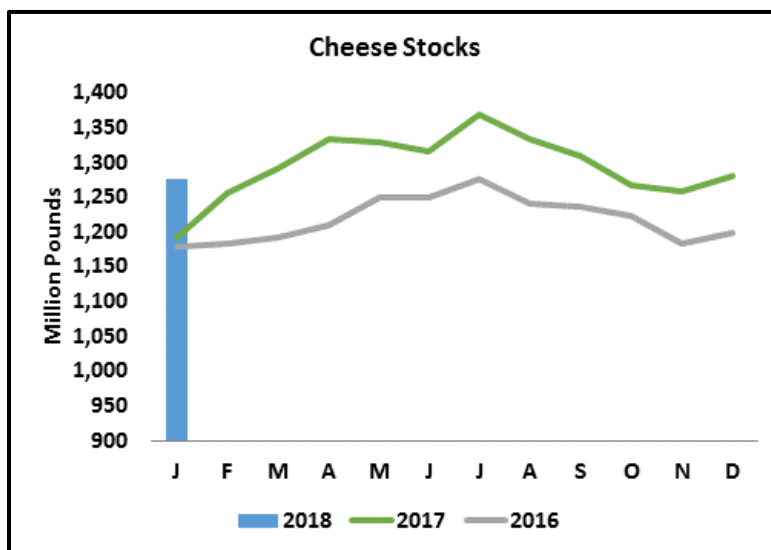




U.S. milk powder will have to remain inexpensive to compete with product from Europe. The European Commission dropped prices low enough to move 9.6 million pounds of its SMP out of Intervention storage. In the most recent tender, the Commission accepted bids of €1,100 per MT, down from €1,190 a month ago and well below the €1,690 price the Commission paid in hopes of stemming the market's decline. Adjusting for protein, the most recent sale is roughly equivalent to NDM at 66¢ per pound. U.S. NDM is of higher quality than the stale product the Commission is peddling, and likely destined for different buyers.

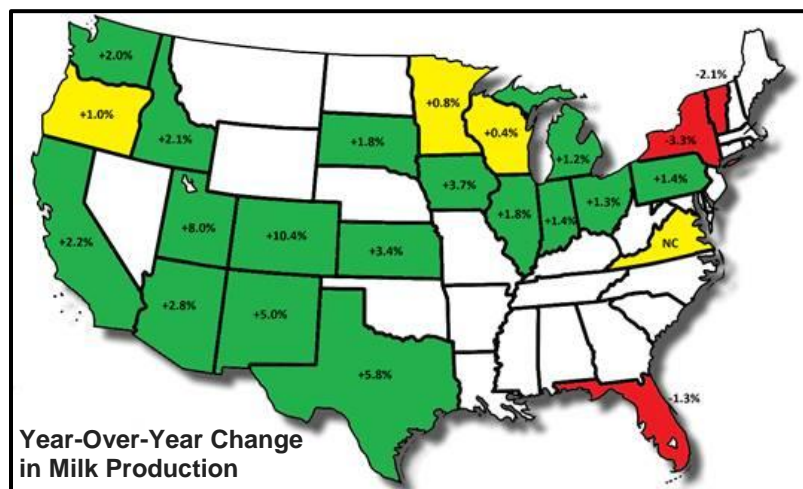
Still, the Commission's stockpiles will weigh on the low end of the milk powder markets.

Cheese prices started strong but then faded. CME spot Cheddar blocks closed at \$1.495, down 4.5¢ this week. Cheddar barrels slipped 2¢ to \$1.46. That pushed most Class III futures contracts between a dime and 30¢ into the red. The weak finish was a bit of a surprise coming on the heels of a somewhat bullish Cold Storage report. USDA reported January 31 cheese stocks at 1.275 billion pounds, 7% higher than the previous year. Cheese inventories declined 5.3 million pounds from December to January, driven by an 8.6-million-pound drop in American cheese stocks. Cheese stocks typically climb in January, so the drawdown is evidence of improved demand, particularly in light of continued growth in U.S. milk production.



U.S. milk output reached 18.5 billion pounds in January, up 1.8% from a year ago. The increase was larger than anticipated, outpacing the trend for roughly 1% growth in the preceding four months.

California milk production was up 2.2% - its first year-over-year gain since December 2016 - thanks to a 3% increase in production per cow. Mild weather in California and unusually dry conditions in the Southwest and



Mountain States have improved cow comfort. Compared to last January, milk production was up 10.4% in Colorado, 8% in Utah, 5.8% in New Mexico, and 5% in Texas, compounding impressive growth in those states in early 2017. Growth in milk output has moderated in the Midwest and turned negative on the East Coast, perhaps laying the groundwork for less robust increases in U.S. milk production in the months to come.

Despite poor margins and large slaughter volumes, dairy producers continued to add cows in January. The dairy herd climbed to a

multi-decade high at 9.405 million head, up 5,000 head from December and 46,000 head larger than in January 2017. Continued growth in the milk cow herd will delay the recovery in milk prices. However, processing capacity

limitations and financial pressures are likely to stall further expansion. Auctions around the country are regularly announcing herd dispersal sales, and springer values are slipping.

Dairy producers in New Zealand are struggling as well. January milk collections dropped to 2.29 million MT, down 4.9% from a year ago to the lowest January volume since 2012. With that, season-to-date fluid milk collections are on par with June through January output in the 2016-17 season. On a milk solids basis, collections are down 1.1% for the season thus far. New Zealand is expected to see further year-over-year declines in milk collections as the season draws to a close.

In Australia, January milk output was up 3.9% from last year. To date, milk collections are up 3.1% from the disappointing 2016-17 season. Overall growth in Oceania milk output in the second half of 2017 was modest, the equivalent of a 0.4% increase in U.S. milk production over the same period. However, Europe boosted milk production by the equivalent of a 6.4% increase in U.S. milk output in July through December 2017. Therein lies the problem.

Grain Markets

The corn market was characteristically quiet this week. March corn futures settled at \$3.6625 per bushel, down 1.25¢. The long-term outlook is covertly bullish. U.S. farmers and the Chinese government are sitting on immense volumes of corn, which is likely to cap rallies in the near term. However, China is chewing through its inventories more quickly than anticipated. Corn processors in China are expanding capacity in response to government incentives and ramping up ethanol production in anticipation of China's ethanol mandate, which will take effect in 2020. As government corn stocks erode, China will have to import more grain. The outlook for U.S. corn exports is already improving due to the likelihood of lower production in South America.

It is uncomfortably dry across Argentina's grain belt, and crop analysts continue to trim their estimates of Argentine corn and soybean production. There is some rain in the forecast, but not nearly enough to break the drought. The Brazilian soybean crop is faring well but is likely to fall short of last year's bin-busting harvest. With that, March soybeans jumped 26¢ this week to \$10.475 per bushel. May soybean meal added another \$2.30 per ton, reaching \$378.30.

Sustainable Groundwater Management Act implementation in progress

By Geoff Vanden Heuvel, MPC Board member and Economics Consultant

The passage of the Sustainable Groundwater Management Act (SGMA) in 2014 signified a monumental change in the way the State of California governs groundwater pumping. For the first time in history, the state passed a law to assert its power to regulate groundwater extraction. Up until 2014, the state had encouraged regions to establish groundwater extraction plans, either through agreements, or through legal action in the form of adjudications.

But now through SGMA, the state is mandating that every part of the State of California be part of a Groundwater Sustainability Agency (GSA). This requirement was met by 99% of California by the end of 2017. SGMA then requires that groundwater basins subject to critical conditions of overdraft must produce a Groundwater Sustainability Plan (GSP) by January 31, 2020. The law spells out what the plan needs to achieve and gives the local regions the authority to establish and enforce those plans. It also reserves for the state the right to review those plans and reject them if deemed inadequate.

Eleven of the 14 sub-basins in the San Joaquin Valley are considered by the state to be in a critical overdraft condition. GSA's in these sub-basins are therefore required to produce an acceptable GSP over the next 23 months. There are 99 different GSA's in these 11 sub-basins. There are dairy farms in many of them.

I decided to start to learn more about how things are progressing by attending the meeting of the San Joaquin Valley - Tule Sub-Basin Technical Advisory Committee this week in Tipton. There are 6 different GSA entities in the Tule Sub-basin and this meeting was made up of representatives of all of them.

They have already hired a hydro-geologist to assist in developing a groundwater model of the sub-basin. The construction of this groundwater model has already begun. What a groundwater model does is estimate the groundwater levels in each part of the sub-basin. It does this by identifying the various water bearing layers under the ground and estimating the inflow to those layers through percolation, and sub-surface flows and then subtracting pumping from wells and underground outflows to neighboring sub-basins. These models involve thousands of calculations and many thousands of individual data points. The software to develop a groundwater model has been around quite a while and having a tool like this is very necessary to coming up with a plan to stop critical overdraft, which is required by SGMA.

At the meeting, the hydro-geologist explained where he was in the process. He has already collected a lot of data but needs more to run the model. Coordination with hydro-geologists working for the Kaweah Sub-basin to the North, the Tulare Lake Sub-basin to the West and the Kern Sub-basin to the South has begun. Water moves between these sub-basins and so a mechanism to determine those boundary flows has to be established. They hope to have some preliminary results from the model over the next few months.

The next item on the meeting agenda was a 1st draft of a formal Coordination Agreement that would be executed between the GSA's that make up the Tule Sub-basin. There was a robust discussion about this draft. There does seem to be a strong desire to do as much together as possible, but since each of the GSA's represent different farmers and landowners as well as different communities and towns, and each one is authorized by SGMA to develop their own GSP, there was not a consensus yet on the role the broader group should ultimately play in SGMA compliance.



My take away from the meeting was a real appreciation for the daunting task that SGMA represents to everyone, particularly in the San Joaquin Valley. Each of the 11 critically over drafted sub-basins must do exactly what the Tule Sub-basin is doing, which is hire experts and figure out how much water there is and how to equitably divide it up. There will be enormous amounts of time and money invested in this effort and very difficult decisions about how to comply will be necessary. The modeling work will reveal the extent of the overdraft and provide some guidance on how the big gap between extractions and replenishment can be bridged. But the bottom line is that change is coming and it will affect dairies as well as our farming neighbors. The line that, either you are at the table or you are on the menu is certainly likely to be true in this process as well. So, get informed and involved.

Tips for handling trespassers and drones

By Kevin Abernathy, MPC General Manager

In light of recent activist activity on dairy farms in the North Coast and Southern California, MPC feels it is important to remind our members of the best course of action when faced with a situation involving trespassers or drones on your dairy. Illegal activity from anti-dairy activists in the state is expected to take place again this weekend. Because of this possible threat to your operation we encourage you to educate yourself, your family, and others in the dairy community on these tips:

- Direct all employees to immediately notify you if any suspicious individuals are on or near your dairy facility;
- Post “No Trespassing” signs on your property in accordance with Penal Code 554.1 and 553. Signs can be purchased from Farm Bureau by calling 1-800-698-FARM.
 - Trespassing Signs on property more than 1 acre and not fenced should be placed less than 600 feet apart along all perimeters (554.1)
 - The signs must be 1 foot in area. The letters must not be less than 2 inches in height and must state ‘trespassing-loitering forbidden by law’ or words describing the use of property (e.g. ‘Dairy Facility’) followed by “no trespassing.” (553)
- Immediately report trespassers to local law enforcement and ask about filing a “Will Serve Trespass Letter” for your dairy facility with their department.
- When questioning the individuals trespassing on your property, be sure to ask who they are and what their business is in a calm, respectful manner. More than likely they are recording you on video (and if it does not seem like they are keep in mind the increased use of hidden cameras). They want you to lose your cool for their own agenda.
- Notify the individuals that they are trespassing on private property and ask them to leave. Do not use force. If they refuse your request, allow law enforcement to handle the situation.
- Film both the activists and drones on your property, which you are legally allowed to do.
- Do not touch or shoot drones, even those flying over your property. FAA regulations make this act illegal.
- Notify your dairy cooperative and/or trade association to alert them of the situation.

Remember that the individuals trespassing on your property are doing so to advance their own agendas. Getting angry or threatening these individuals in any way are the sort of actions that they are hoping to get out of you. Activists want to use you for their own publicity and propaganda. Don’t let it happen to you or this industry. The law is on our side. Keep your cool and let law enforcement enforce the laws. We do not want to be the next social media recruiting tool for any of these anti-dairy groups.
