



# Milk Producers Council

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DATE: January 22, 2016  
 TO: Directors & Members

PAGES: 4  
 FROM: Rob Vandenhuevel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0350 \$1.4600  
 Barrels - \$.0950 \$1.4300

### Weekly Average, Cheddar Cheese

Blocks - \$.0095 \$1.4775  
 Barrels - \$.0464 \$1.4781

### CHICAGO AA BUTTER

Weekly Change - \$.0800 \$2.1700  
 Weekly Average +\$.0293 \$2.1438

### DRY WHEY

Dairy Market News w/e 01/22/16 \$2.2400  
 National Plants w/e 01/16/16 \$2.2351

### NON-FAT DRY MILK

#### Week Ending 1/15 & 1/16

Calif. Plants \$0.8054 5,831,541  
 Nat'l Plants \$0.7857 12,258,024

#### Prior Week Ending 1/8 & 1/9

Calif. Plants \$0.8041 5,443,499  
 Nat'l Plants \$0.7807 13,315,418

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## FRED DOUMA'S PRICE PROJECTIONS...

Jan 22 Est: Quota cwt. \$15.14 Overbase cwt. \$13.44 Cls. 4a cwt. \$13.25 Cls. 4b cwt. \$13.08  
 Last Week: Quota cwt. \$15.15 Overbase cwt. \$13.45 Cls. 4a cwt. \$13.37 Cls. 4b cwt. \$13.01

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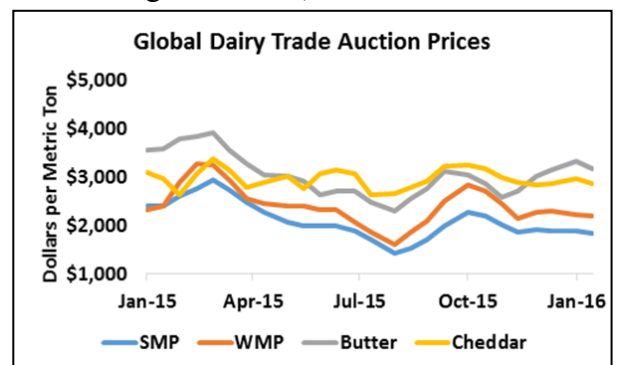
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

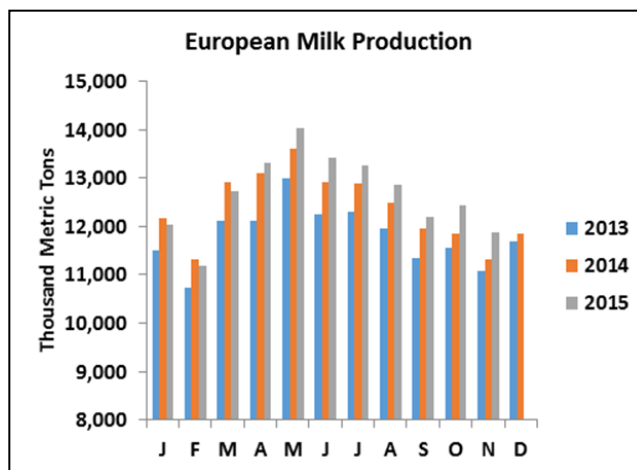
The dairy markets demonstrated once again that trading is not for the faint of heart, nor those with shallow pockets. After soaring last week, the butter market plummeted when the trade opened Tuesday. Pressure from a broad collapse in the global equity and commodity markets did not help matters, but the main culprit was likely the CME Group. The exchange announced Tuesday morning that it would amend the spot butter contract. Buyers can still ask for an inspection, but the CME will now allow Grade AA butter without a USDA certificate to qualify for delivery to the spot market, thereby increasing the volume of butter ready to be sold at the exchange. The spot market promptly dropped 11.75¢. Like the equity markets, spot butter regained some ground Thursday and Friday. Still, it closed at \$2.17/lb., down 8¢ from last week.

The other spot products also faded. Cheddar blocks slipped 3.5¢ to \$1.46. After a hard fall on Friday, Cheddar barrels reinstated their typical discount to blocks. They lost 9.5¢ this week, dropping to \$1.43. Grade A nonfat dry milk (NDM) dipped 4¢ to 71¢. In this holiday-shortened trading week, Class III futures lost between 5¢ and 42¢. The pain was more pronounced in the Class IV market, where losses ranged from 14¢ to \$1.28.

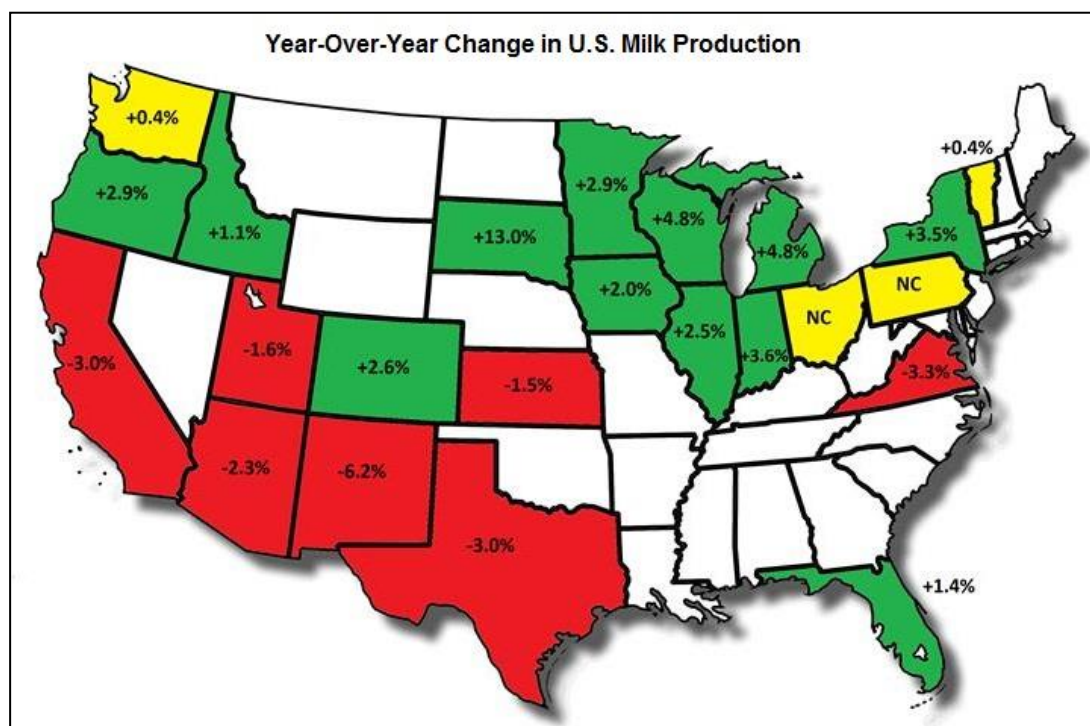
The bears had every reason to roar this week. In addition to panic on Wall Street Tuesday and Wednesday, and the fact that last week's sharp rally felt a bit bubbly, the dairy markets had to contend with a disappointing performance at the Global Dairy Trade (GDT) auction, where the trade-weighted index fell 1.4%. Most products moved lower, including butter (-5.9%), Cheddar (-3.2%), skim milk powder (SMP; -3.2%), and whole milk powder (WMP; -0.5%).



Prices have also suffered in Europe, where merchants are sending increasing volumes of butter and SMP into the government's storage and intervention purchase schemes. Amidst heavy milk flows, government stockpiling is likely to continue. November milk collections totaled 26.2 billion pounds, up 5% from a year ago. Dutch dairy producers managed to increase output by 13.8% or 298 million pounds from November 2014, nearly as much as Colorado's total November milk production.



U.S. milk production climbed 0.7% from a year ago to 17.45 billion pounds in December. Output remains strong in the northern half of the country, particularly in South Dakota where new dairy operations have pushed production up 13% from a year ago. Wisconsin and Michigan also posted impressive gains; output in both states was 4.8% greater than December 2014.



The region may face some serious capacity shortages come spring. Meanwhile, production deficits persist in California and throughout the Southwest. Golden State production fell short of year-ago levels for the 13th straight month. In December it was down 3% from the prior year.

Winter Storm Goliath exacerbated the lower milk production trend that was already in place in Texas and New Mexico, where output fell 6.2% and 3%, respectively, from a year ago. The

storm came late in the month, so the Milk Production report reflects several days of dumped milk but does not offer much insight into sustained losses in production per cow.

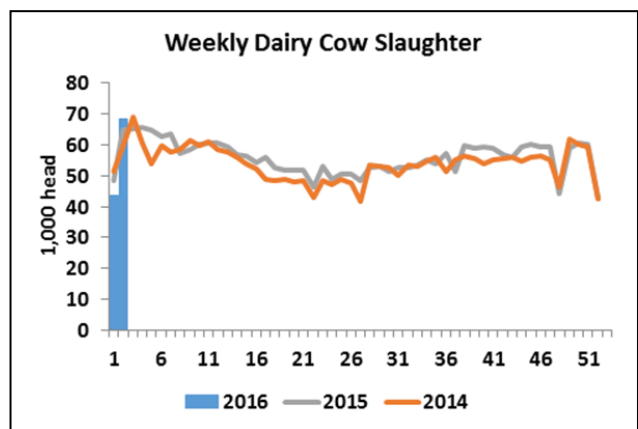
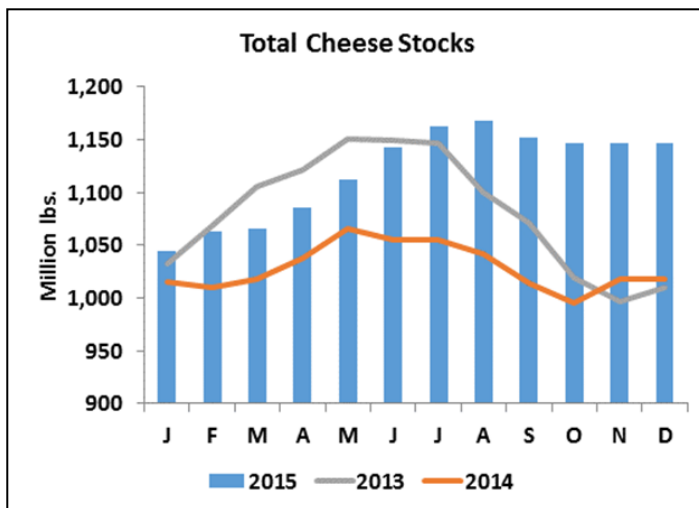
USDA revised its assessment of the milking herd slightly lower in July and August and markedly higher in October and November. They now estimate the November dairy herd at 9.321 million head, up 8,000 head from their previous figure. In December, the dairy herd averaged 9.322 million head, just 1,000 head fewer than the multi-year high set in May and up 23,000 head from a year ago. It will be hard to slow milk flows if dairy producers continue to add cows.

USDA issued both its Milk Production and Cold Storage reports after the markets closed today. The Milk Production report is unlikely to have much impact on market direction, but Cold Storage data could weigh on prices next week.

Butter buyers anxious to secure supplies during the shortened period between Christmas and Easter will be reassured by robust year-end butter inventories. At 152.9 million pounds, December 31 butter stocks were up 46% from a year ago. Inventories climbed 20.2 million pounds from the month before, the second largest November-to-December stock build on record.

Cheese stocks dipped slightly from November. At year-end there were 1.146 billion pounds of cheese in cold storage, up 12.6% from a year ago. That is by far the largest volume of cheese on record for December.

For the week ending January 9, dairy cow slaughter totaled 68,500 head, up 5.7% from the same week a year ago. Slaughter volumes were large in part due to pent up culling after the holidays. Dairy producers in Region 6, which includes Texas and New Mexico, stepped up culling significantly. This was their first chance to haul storm-stressed cows to the slaughterhouse, which suggests that dairy cow numbers in those states are likely to decline further this month. From November to December, USDA reported a 4,000 head drop in the New Mexico dairy herd, with Texas down 1,000 head.



Grain Markets

March corn futures gained 7¢ this week, rising to \$3.7025 per bushel. March soybean futures slipped 2.5¢ to \$8.765. It is not altogether surprising to see the corn market gain on soybeans. Returns for both crops are far from attractive to U.S. farmers, but corn was in danger of losing acres. The corn market also got a boost from much stronger than anticipated export sales this week. Shipments out of Brazil have slowed, which has helped U.S. exports to overcome the currency disadvantage. This has allowed the corn market to rally even in a well-supplied global market. However, further increases in the domestic corn price will likely reduce export prospects.

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**A BRIEF UPDATE ON CALIFORNIA’S MINIMUM WAGE LAW:** *(By Rob Vandenhoevel)* By now, you’ve no doubt heard that effective January 1<sup>st</sup>, California’s minimum wage was increased to \$10 per hour. Weintraub Tobin, a law firm and strategic partner of MPC’s on labor issues, recently published the article below on the impact this increase has on all employers – including dairy and agriculture – beyond the obvious higher hourly wage. Our thanks to Weintraub Tobin for providing this update:

**California’s Minimum Wage Increase: The Impact May Be Broader Than Employers Think**

*By Melissa Whitehead*

Effective January 1, 2016, California has increased its minimum wage from \$9 per hour to \$10 per hour. This is the second increase to the state minimum wage in the past year and a half. Remember, the obligation to pay minimum wage cannot be waived by any agreement, including collective bargaining agreements.

Employers must examine all pay practices that may be affected by the minimum wage increase – and there are almost certainly more practices that may be impacted than you may think! For example, in addition to increasing the pay of any employees being paid a minimum wage rate, employers should review the following pay practices, which may be affected by the minimum wage increase:

- **Overtime rates of pay:** Employees who work for minimum wage and perform work that qualifies for overtime wages must now be paid \$15 per hour for time and one-half (*previously \$13.50 per hour*) or \$20 per hour for double-time (*previously \$18 per hour*).
- **Exempt/Nonexempt classifications:** In California, exempt employees generally must (*among other*

things) earn no less than twice the state minimum wage for a full time employee. This now means that employees must earn a salary of \$41,600 per year (or \$800 per week) to qualify as exempt employees (in addition to an examination of requirements).

- **Meal and lodging credits:** Most of California's Wage Orders allow employers to credit meals and lodging furnished by the employer toward the employer's minimum wage obligation. The new credit amounts for meals and lodging are listed on the official Minimum Wage Order (MW-2014).
- **Commission issues:** A commissioned employee can receive a sum of money that is intended as an advance, draw or guarantee against the employee's expected commission earnings. In California, employers must pay these sums at least twice per month. If an employee receives a draw against commissions to be earned at a future date, the "draw" must be equal to at least the minimum wage and overtime due to the employee for each pay period (unless the employee is exempt).
- **Notice requirements:** Mandatory minimum wage postings, itemized wage statements, and wage notices will all be affected.
- **Piece-Rate Employees:** Piece-rate workers must receive at least minimum wage for each hour worked. Separate legislation effective January 1, 2016, requires payment of rest and recovery periods or other nonproductive time at a specified hourly rate. [NOTE: Employers with piece-rate employees are advised to consult with an experienced labor and employment attorney to review their piece-rate policies in light of recently enacted legislation, which imposes significant restrictions and obligations on piece-rate compensation policies.]
- **Tools/Equipment:** Employees whose wages are at least two times the minimum wage can be required to provide and maintain hand tools and equipment customarily required by the trade or craft in which they work.
- **Subminimum wage:** The subminimum wage for "learners" increased effective January 1, 2016, from \$7.65 per hour to \$8.50 per hour (85% of the state minimum wage).

This list is not intended to be all-inclusive, but is intended to alert employers about the broad impact of the change in California's minimum wage. This article does not address proposed changes to the federal minimum wage (expected to be decided in Spring 2016) or minimum wage raises in specific cities/counties. Because of the complexity of these issues, it is recommended that employers consult with experienced labor and employment counsel to ensure that all pay policies and practices are in compliance with the applicable minimum wage laws.

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**GOLDEN STATE DAIRY MANAGEMENT CONFERENCE:** (By Kevin Abernathy, Director of Regulatory Affairs) While most California dairy producers have likely already seen something in their mailbox or email inbox about it, this is just a friendly reminder that registration is currently open for the upcoming inaugural "Golden State Dairy Management Conference," being held in Seaside, CA (near Monterrey) from March 8<sup>th</sup> – 10<sup>th</sup>. This conference, being put together by the University of California's Division of Agriculture and Natural Resources, boasts a 3-day agenda covering a broad range of topics relevant to managing a dairy in California. A flyer on the event can be found on our website at: <http://www.milkproducerscouncil.org/2016mgmtconf.pdf>, and the full agenda can be seen at: <http://ucanr.edu/sites/CA dairyconference/Agenda>.

Folks interested in attending can register online at <https://ucanr.edu/survey/survey.cfm?surveynumber=16669>, or contact Jennifer Heguy (UC Davis) at (209) 525-6800.

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