Milk Producers Council

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DATE: July 13, 2018 **PAGES: 5**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	*+ $.0175*	$1.5600
Barrels	*+ $.1775*	$1.4225
Weekly Average, Cheddar Cheese		
Blocks	*- $.0039*	$1.5505
Barrels	*+ $.0276*	$1.3570

CHICAGO AA BUTTER		
Weekly Change	*+ $.0550*	$2.2250
Weekly Average	*+ $.0119*	$2.2125
DRY WHEY		
Dairy Market News	w/e 07/13/18	$.3450
National Plants	w/e 07/07/18	$.3364

NON-FAT DRY MILK		
Week Ending 7/6 & 7/7		
Calif. Plants	$0.7692	6,237,238
Nat'l Plants	$0.7785	13,125,869
Prior Week Ending 6/29 & 6/30		
Calif. Plants	*$0.7782*	*7,608,083*
Nat'l Plants	*$0.7951*	*17,086,083*

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Fred Douma's price projections…

July 13 Est:	**Quota cwt. $15.63**	**Overbase cwt. $13.93**	**Cls. 4a cwt. $13.63**	**Cls. 4b cwt. $14.20**
Last Week:	**Quota cwt. $15.50**	**Overbase cwt. $13.80**	**Cls. 4a cwt. $13.56**	**Cls. 4b cwt. $13.98**

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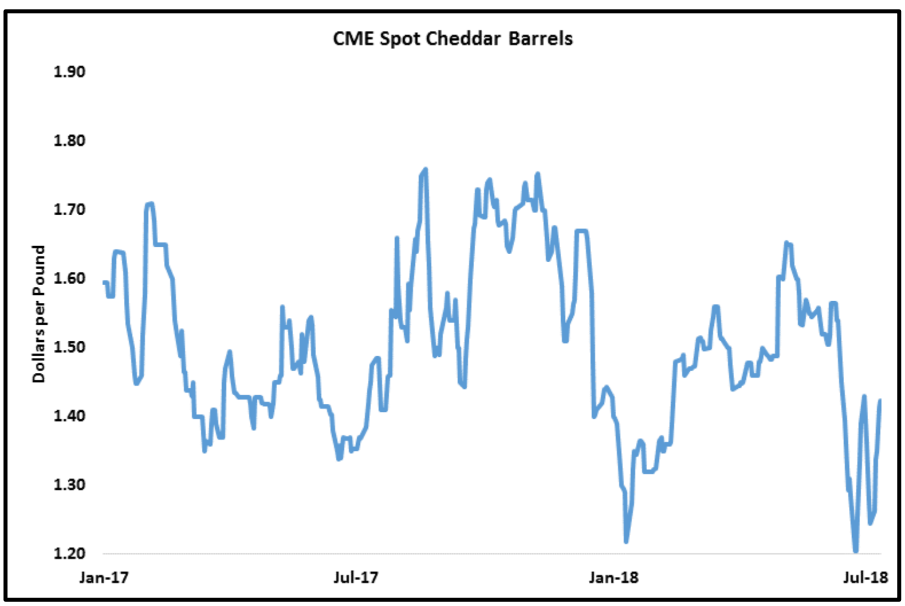
Market commentary

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

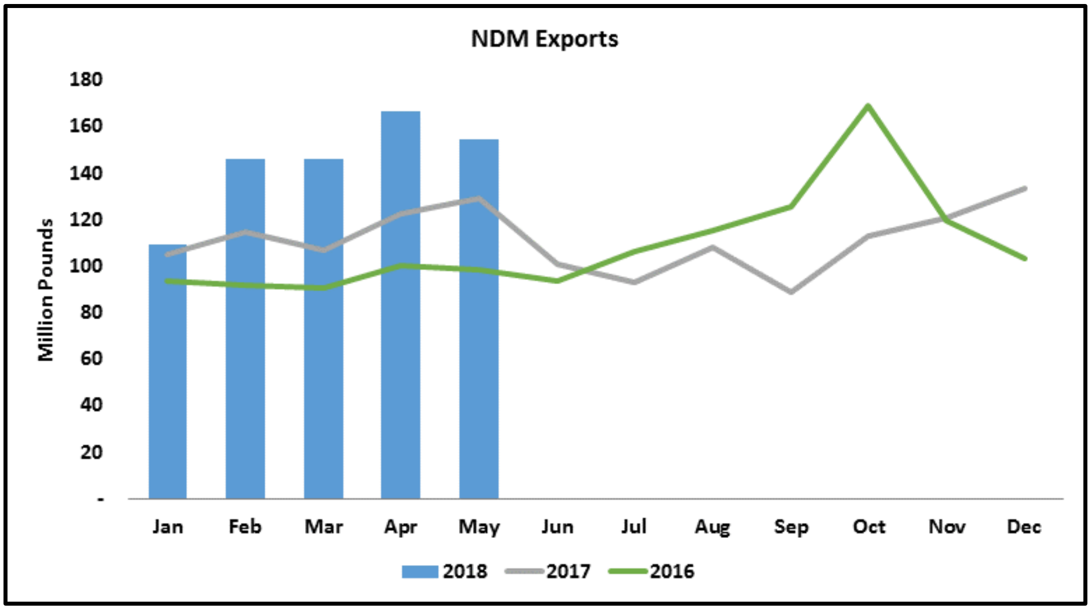
Milk & Dairy Markets

The fireworks in the CME spot Cheddar barrel market came a week behind schedule. During last week's holiday-shortened trade, barrels fizzled, falling 14.5¢ to $1.245/lb. But this week they gained it all back and then some. Barrels closed today at $1.4225, up 17.75¢ for the week and 3.25¢ higher than where they began the month. Cheese makers continue to bring product to Chicago in large volumes. Traders exchanged 35 loads last week and another 49 loads this week.



Blocks mirrored barrels' direction, but with much less drama. They slipped 1.25¢ last week and rallied 1.75¢ this week, finishing today at $1.56, a half-cent higher than their late-June finish. Spot whey closed today at a fresh high of 41.75¢, up a penny over the past two weeks. Futures traders seem unconvinced by the recovery in spot prices. July through December Class III futures are 50¢ lower, on average, than they were two weeks ago.

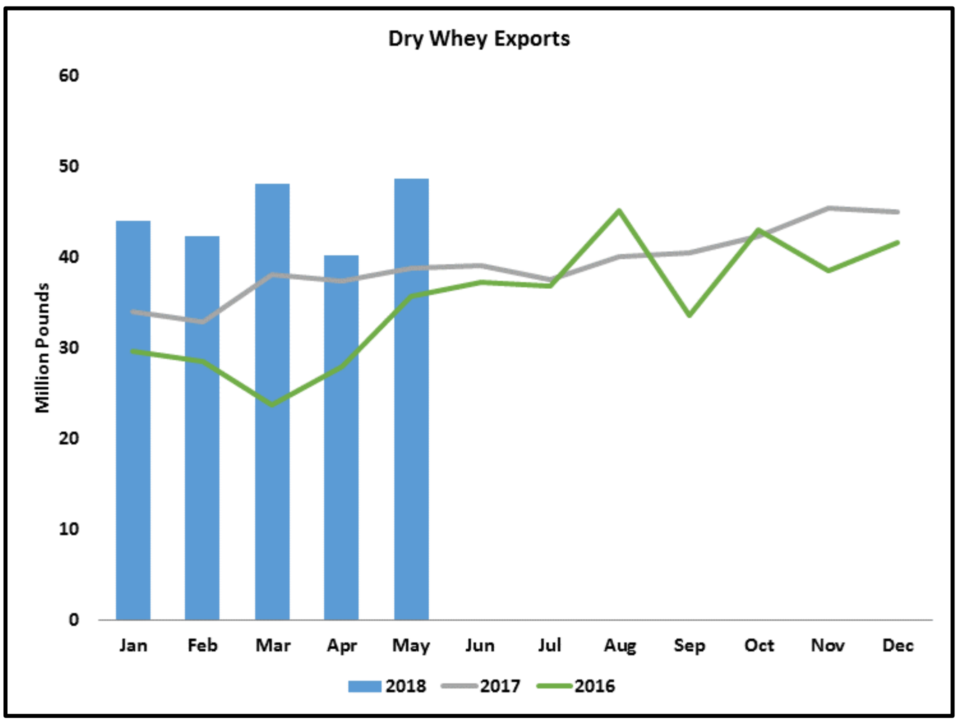
Spot butter dropped nearly a dime last week. It regained some ground this week but, at $2.225/lb., it is still 4.25¢ lower than where it stood two weeks ago. Milk powder bucked the trend, climbing last week but retreating today



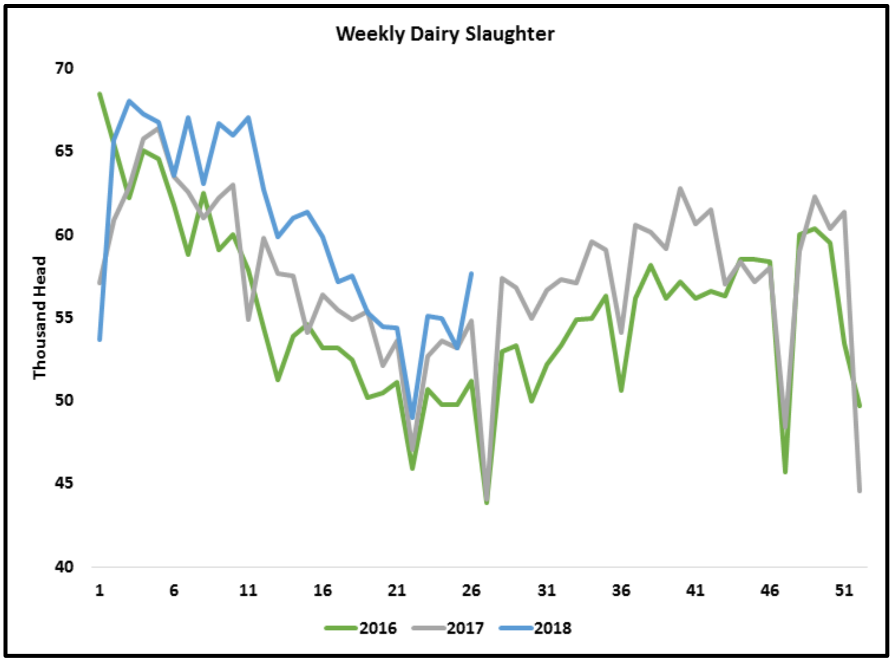
to 75.5¢. Still, spot nonfat dry milk (NDM) is up 0.75¢ over the past couple weeks. Class IV futures continue to lose ground. 2018 contracts are down 29¢, on average, since late-June, with values well below $15 through February 2019.

Most dairy product prices are also moving lower abroad. German butter is now trading below $3/lb. for the first time since early April. At last week's Global Dairy Trade (GDT) auction, the GDT index tumbled 5%, its worst performance since March 2017. Compared to the previous event, the average winning price for whole milk powder fell 7.3%, skim milk powder (SMP) dropped 4.6%, Cheddar lost 4.3% and butter was down 4%.

The dairy trade had a lot of data to digest along with their Fourth of July hot dogs. USDA published its Dairy Products report and export data last Thursday. In May, U.S. butter production was 168 million pounds, up 2.8% from a year ago, driven by a 10.6% jump in California butter output. A shortage of truckers and the high cost of freight is reducing the margin to move cream out of the West, so the churns ran full in May. Compared to May 2017, the U.S. produced 1.4% more cheese, 2.1% more whey powder, and 3.7% less milk powder. Manufacturers' inventories of NDM slipped a little from April to May, falling 3.1% below prior year levels.



U.S. dairy product exports remained strong in May. Combined volumes of all dairy product exports were the third-highest on record, accounting for 17.2% of U.S. milk solids production, according to the U.S. Dairy Export Council. Cheese exports dropped 15% from the unusually strong shipments of a year ago, but volumes were still respectable. Fluid milk sales abroad also fell short of year-ago levels. But all other categories of U.S. dairy product exports reported double-digit year-over-year gains. However, the trade shrugged off the data as old news, focusing instead on diminishing trade prospects in the months ahead. Steeper Mexican and Chinese tariffs on U.S. dairy products went into effect late last week. *Dairy Market News* reports slower export demand for cheese in particular, "as Mexico looks to European markets to avoid increasing U.S. import tariffs."



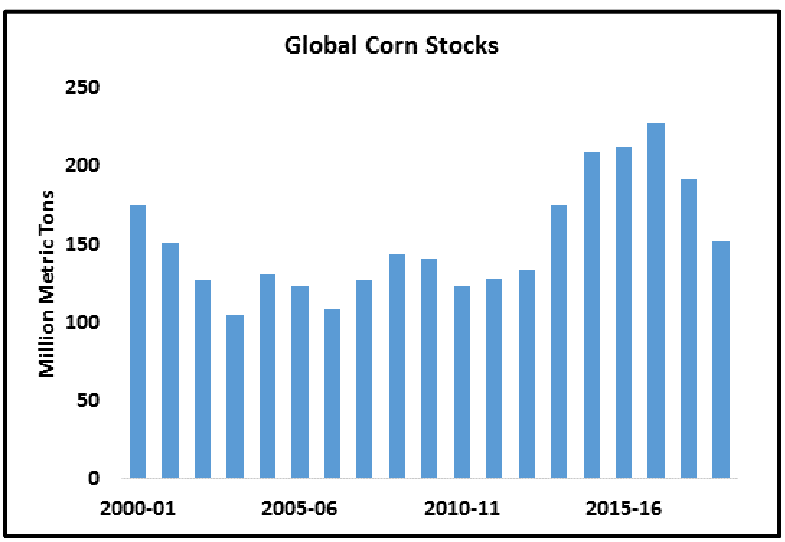
Escalating trade tensions have had a chilling effect on the U.S. dairy markets, which were just starting to heat up before talk of tariffs banished the bulls from the dairy pit. The *Daily Dairy Report* estimates that the difference between milk futures on May 30 – before the market was walloped by tariff announcements – and today translates to $380 million in forfeited revenue for dairy producers in July, with losses near $372 million in August. The dairy sector should not blame all of the six-week selloff on trade disputes, but the industry would undoubtedly be better off if it hadn't become one of many casualties in the trade war.

Dairy producers who were looking forward to more palatable milk prices in the second half of the year have suffered a huge psychogical – and financial – blow. Sellouts and slaughter volumes are accelerating. Slaughter volumes in the first half of the year were 4.7% higher than during the first six months of 2017.

Dairy producers around the country also complain that heat and humidity are sapping milk volumes and components. Rising cream multiples and lower discounts confirm that the milk market is tightening. In the Midwest, some buyers purchased spot loads of milk at a premium to Class III for the first time since March. Hopefully, these tighter milk supplies will soon translate to better prices.

Grain Markets

The feed markets have taken another step back. Caught in China's crosshairs, the soybean market languishes near ten-year lows. September soybean futures closed today at $8.245 per bushle, down nearly 45¢ over the past two weeks. At $325.40 per ton, September soybean meal is down $5.40 so far this month. September corn futures slipped to $3.4125 per bushel, down nearly 20¢ since late-June.



USDA tried to assess the impact of tariffs on the U.S. soybean trade, lowering its outlook for 2018-19 exports by 250 million bushels. With that, domestic soybean inventories on August 31, 2019, are expected to surge to 580 million bushels, a new record. The soybean crop is in excellent shape, but much depends on August weather.

The corn crop is also faring well, with 75% in good or excellent condition. But after weeks of scorching temperatures and hit-or-miss rains, there are certainly some trouble spots. Next week's rains are expected to come just in time to favor the crop during pollination, boosting yields for a crop with plenty of potential. Nonetheless, strong exports and rising feed demand are likely to trim U.S. end-of-season corn stocks to 1.68 billion bushels, down from 2.03 billion bushels at the end of the 2017-18 season.

Global corn inventories are projected to drop sharply in the coming year, as China aggressively steps up its industrial corn usage. USDA expects world corn stocks at 152 million metric tons at the end of the upcoming season, down more than 20% from this season and more than a third lower than where they stood at the end of the 2016-17 crop year. These stock levels don't jive with sub-$4 corn, suggesting that the corn market may have grown too complacent after years of burgeoning supplies.

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Complying with asbestos requirements for renovations and demolitions

By Kevin Abernathy, MPC General Manager

MPC would like to remind anyone who is planning to renovate or demolish structures on their dairy operation to keep asbestos regulations in mind. The San Joaquin Valley Air Pollution Control District enforces national asbestos requirements which must be followed when demolishing or renovating structures.

The District defines a demolition as the taking out of any load-supporting structural member of a facility. This includes complete demolitions and any related handling operations. The exception is the demolition of single family residences being replaced by single family residences.

Renovations are defined as altering the facility in any way, including the removal of asbestos material from structures. If the renovation project involves moving an excess of 160 square feet, 260 linear feet, or 35 cubic feet, a Cal-OSHA Certified Asbestos Consultant (CAC) is required to inspect the material for asbestos.

If your next project falls under either of these categories, there are a few requirements you must follow:

- CAC asbestos survey of the structure
- An asbestos notification to the Air District
- Payment of applicable fees to the Air Districts
- A 10-day waiting period between notification and start of work
- Removal of asbestos by a licensed asbestos abatement contractor
- Access to the structure for Air District inspection
- A Demolition or Renovation Permit Release

Additional information regarding asbestos compliance is available here.

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June 2018 California Dairy Quality Assurance Program Newsletter

By Kevin Abernathy, MPC General Manager

The June e-update from the California Dairy Quality Assurance Program (CDQAP) provides information on new research regarding dehorning and polled genetics. Dr. Michael Payne of UC Davis' School of Veterinary Medicine details recently updated procedures for dehorning/disbudding that are recommended by the American Association of Bovine Practitioners. The article gives important recommendations when using techniques like hot-iron disbudding and the use of caustic paste.

The newsletter gives additional information on a new mobile app that can be used to track the prevalence of Bovine Respiratory Disease in calves. Dates for CDQAP Farm Security Workshops are also provided.

The entire CDQAP e-newsletter is available here.

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Dairy Cares Newsletter: A Lesson in Planet-Smart Dairy

By Kevin Abernathy, MPC General Manager

Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues.

The June edition of the Dairy Cares newsletter provides 15 facts related to the California dairy industry's fight against greenhouse gas emissions. Each fact ties in to California dairy's goal of a 40% reduction in methane emissions by 2030. The update also provides sources on all facts included for anyone interested in additional research.

Read the full article here.

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