



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@milksproducers.org ~ www.MilkProducers.org



DATE: December 18, 2015
TO: Directors & Members

PAGES: 4
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0050 \$1.4400
Barrels + \$.0275 \$1.4500

Weekly Average, Cheddar Cheese

Blocks - \$.0475 \$1.4290
Barrels - \$.0470 \$1.4290

CHICAGO AA BUTTER

Weekly Change - \$.1400 \$2.0600
Weekly Average - \$.5370 \$2.0690

DRY WHEY

Dairy Market News w/e 12/18/15 \$2.400
National Plants w/e 12/12/15 \$2.425

NON-FAT DRY MILK

Week Ending 12/11 & 12/12

Calif. Plants \$0.7985 9,590,696
Nat'l Plants \$0.8023 19,828,853

Prior Week Ending 12/4 & 12/5

Calif. Plants \$0.7488 6,446,214
Nat'l Plants \$0.7785 14,813,834

FRED DOUMA'S PRICE PROJECTIONS...

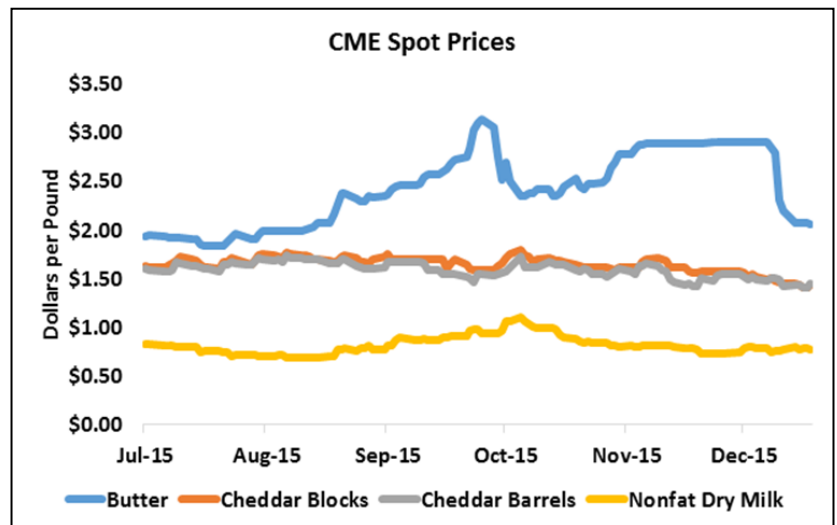
Dec 18 Est: Quota cwt. \$15.68 Overbase cwt. \$13.99 Cls. 4a cwt. \$14.64 Cls. 4b cwt. \$12.98
Last Week: Quota cwt. \$15.71 Overbase cwt. \$14.02 Cls. 4a cwt. \$14.63 Cls. 4b cwt. \$13.03

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

Milk & Dairy Markets

After last week's astounding crash, the CME spot butter market continued to slide on Monday, but it has since plateaued. Butter ended the week at \$2.06/lb., down 14¢. There were a number of willing buyers in the spot pit, which suggests that further collapse is not imminent. Traders exchanged 13 loads on Friday, equaling the combined volumes of the previous seven weeks. A total of 26 loads changed hands this week.

Milk Powder prices also retreated. Spot nonfat dry milk (NDM) closed Friday at 76.5¢, down 0.75¢ on the week. USDA's Dairy Market News characterized the wholesale market as sluggish; end users are content with hand-to-mouth purchases. In contrast, brokers don't want to get stuck with product valued above the market and some are "anxiously looking to move those holdings prior to the end of the year." Demand for holiday baking is ephemeral, and driers are sure to run hard over the next two weeks while other processors enjoy their egg nog. NDM futures took a sizeable step back this week; January through June contracts probed new lows Friday. Bolstered by strength in butter futures, the Class IV market put in a mixed performance.

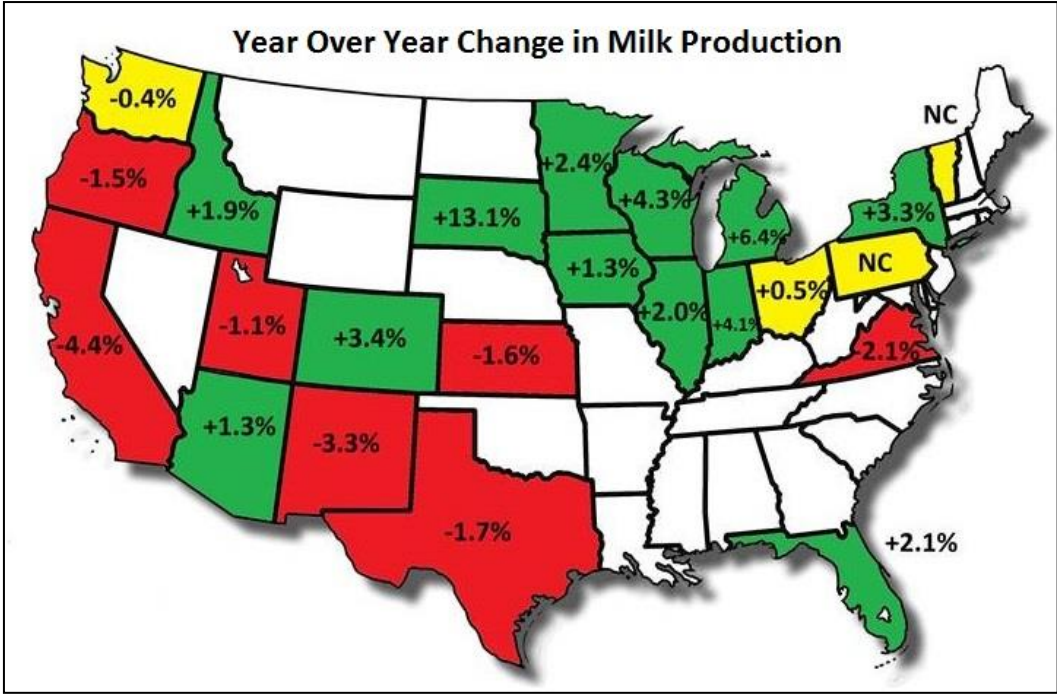
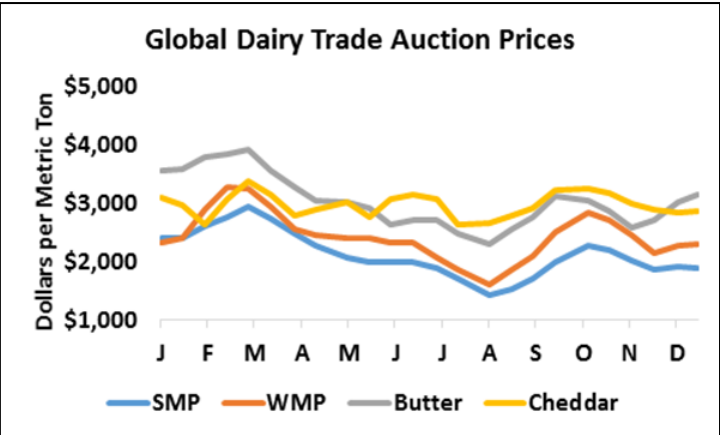


The spot Cheddar market diverged this week. CME spot Cheddar barrels posted an atypical premium to the block market, climbing 2.75¢ to \$1.45. Blocks slipped 0.5¢ to \$1.44. Some manufacturers will take advantage of

discounted holiday milk and run heavy in the coming weeks. This will reduce some of the burden on milk powder makers, but in the Midwest there is plenty of milk to be had as the weather remains benign.

The dry whey market is perking up. Prices are attractive and some end users are finally booking ahead, although others are content to wait. Cheese market losses overcame the modest strength in whey prices, and most Class III futures contracts lost roughly 20¢ this week.

Prices were mostly higher at the Global Dairy Trade (GDT) auction on Tuesday. However, the 1.9% increase in the GDT index was not enough to impress the market, which had been leaning bullishly ahead of the event. Butterfat products posted the largest gains. Butter climbed 9% from the previous auction and anhydrous milkfat (AMF) was up 6.1%. Nonetheless, GDT butter remains inexpensive, at \$1.39/lb., and GDT AMF appears cheap enough to attract U.S. buyers even after



tariffs and freight from New Zealand. The other products moved cautiously higher. Cheddar gained 1.1%. Skim milk powder rose a paltry 0.2% and whole milk powder climbed 1.8%. Both CME spot NDM and futures contracts moved lower after the auction.

U.S. milk production totaled 16.64 billion pounds in November, up 0.6% from a year ago. USDA revised upward its estimate of October milk production, putting it 0.3% greater than October 2014 rather than the previous estimate of just

0.1% growth. USDA also revised upward its estimate of the October milking herd by 4,000 head. This pushed the September-to-October change in the milk cow herd from a decline of 1,000 head to an increase of 3,000 head. Cow numbers did not change in November; at 9.313 million head they are 29,000 head greater than last year at this time.

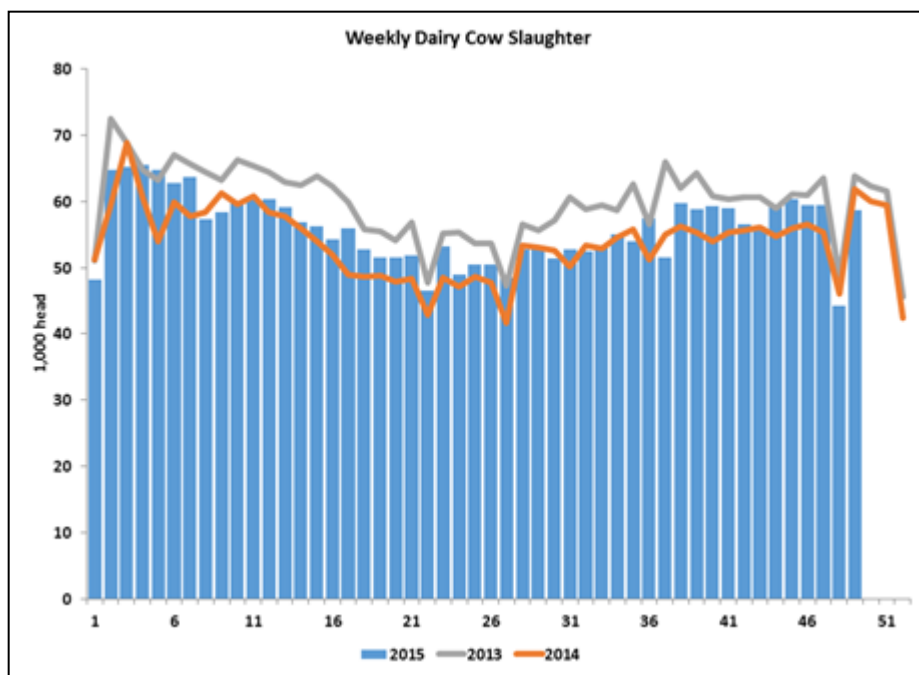
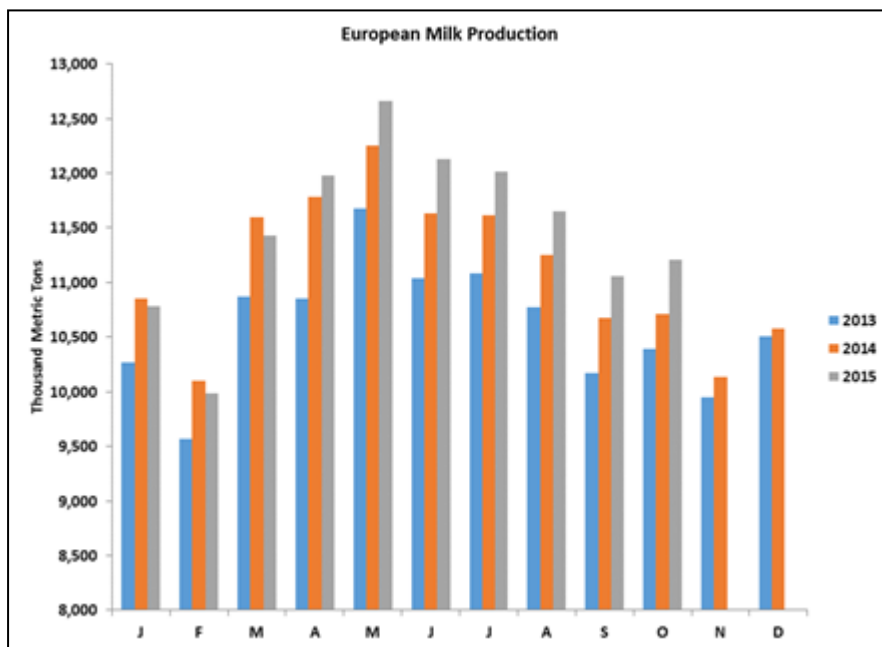
California reported its 11th consecutive milk production deficit. Output fell 4.4% short of 2014 volumes, an improvement from the 5.5% shortfall in October. California was not alone. Milk production fell shy of November 2014 volumes in a number of states in other Western states and in the Southern Plains.

Milk continues to gush in the Midwest, with more modest gains in the Northeast. November was uncharacteristically mild in the Great Lakes region, allowing a 6.4% jump in Michigan milk output; Wisconsin (+4.3%) and Indiana (+4.1%) also had a strong showing. If production remains formidable this spring, regional capacity will be tested.

The milk isn't slowing in Europe either. Preliminary data from Eurostat shows October milk collections up 4.6% from last year, excluding Greece, Croatia, Italy and Austria, which have yet to report data. Growth in the two

largest dairy nations in the Eurozone – Germany and France – is picking up pace. In October German output rose 3.3% from a year ago, and production in France was up 2.9%. According to *Daily Dairy Report*, “European dairy producers have decades of pent up equity and an appetite for growth. Clearly they have not been deterred by the low global milk price.” Dairy producers in the Netherlands, Ireland, and Belgium have been particularly enthusiastic about post-quota growth. Production in those nations rose 11.4%, 26.7% and 9.8%, respectively, from October 2014.

For the week ending December 5, dairy cow slaughter totaled 58,736 head, down 5.2% from the same week a year ago. As the year nears its close, dairy cow slaughter is running 3.8% ahead of the 2014 pace.



Grain Markets

Despite some day-to-day drama the corn market was little changed this week. March futures settled at \$3.745 per bushel, down a fraction of a cent from last Friday. The soy complex offered more excitement. January soybean futures closed at \$8.9225, up 21.5¢ on the week.

The soybean rally is curious in light of some big changes in the currency market. On Tuesday, the Fed raised interest rates for the first time in seven years. It also forecasted four incremental rate hikes in 2016. The dollar index initially shrugged, but then strengthened in the latter half of the week.

The dollar is particularly strong in comparison to the Argentine peso. When Argentina’s new president allowed the currency to float freely on Thursday it dropped 26% against the greenback. Argentine exporters now enjoy lower tariffs and a vastly more competitive currency. Meanwhile, ocean freight costs have plummeted. The cargo industry has also fallen victim to exuberant expansion after overestimating Chinese demand for commodities. It is suddenly cheaper to buy soybeans in the southeastern U.S. from Argentina than to rail them in from the Corn Belt.

The soy market’s strength is probably due to a less favorable forecast in Brazil. Brazil’s corn and soy crops got off to a decent start, but some parts of northern Brazil have turned dry, and there are areas in southern Brazil that are looking soggy. If rains in northern Brazil are better than expected, the market is likely to give back much of this week’s rally.

A SPECIAL THANKS TO OUR 2015 MPC ASSOCIATE MEMBERS: (By Rob Vandenheuvel) As we approach the end of another year, we are reminded of the generous support our organization has received from our numerous associate members. While a majority of the funding for Milk Producers Council comes from our committed membership of dairy families we are humbled and honored to represent, MPC is proud to have strong support from other businesses and individuals that have an interest in maintaining a vibrant dairy industry in California. These Associate Members recognize the value MPC brings to the California and U.S. dairy industry and their financial support plays an integral role helping us be a strong voice our members.

A special thanks on behalf of the MPC board of directors, members and staff goes out to:

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Thanks again to all of our Associate Members for your support!

Anyone else interested in supporting MPC with an associate membership should visit our website (www.milkproducers.org) or contact us directly at office@milkproducers.org or (909) 628-6018. **The dairy families we represent greatly appreciate the support!**

*Note: The MPC Friday Market Update will not be published next week,
so our next publication will be Thursday, December 31st.*

**On behalf of the MPC Board and Staff,
we want wish all of you and your families a wonderful Christmas!**