

MPC WEEKLY FRIDAY REPORT

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 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 6



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	-\$.0950	\$1.9550	WEEKLY CHANGE	+\$.0325	\$2.1475	WEEK ENDING 09/21/19		
Barrels	N.C.	\$1.6550	WEEKLY AVERAGE	+\$.0100	\$2.1470	NAT'L PLANTS	\$1.0534	19,906,637
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 09/14/19		
Blocks	-\$.1565	\$1.9675	DAIRY MARKET NEWS	W/E 09/27/19	\$.3637	NAT'L PLANTS \$1.0461 15,943,881		
Barrels	-\$.1650	\$1.6220	NATIONAL PLANTS	W/E 09/21/19	\$.3676			

CALIFORNIA FEDERAL MILK MARKETING ORDER PRICE PROJECTIONS

PRICE PROJECTIONS	CLASS I ACTUAL (RANGE BASED ON LOCATION)	CLASS II PROJECTED	CLASS III PROJECTED	CLASS IV PROJECTED
SEPT 27 EST	\$19.45 - \$19.95	\$17.00	\$18.28	\$16.38
LAST WEEK	\$19.45 - \$19.95	\$16.89	\$18.26	\$16.33



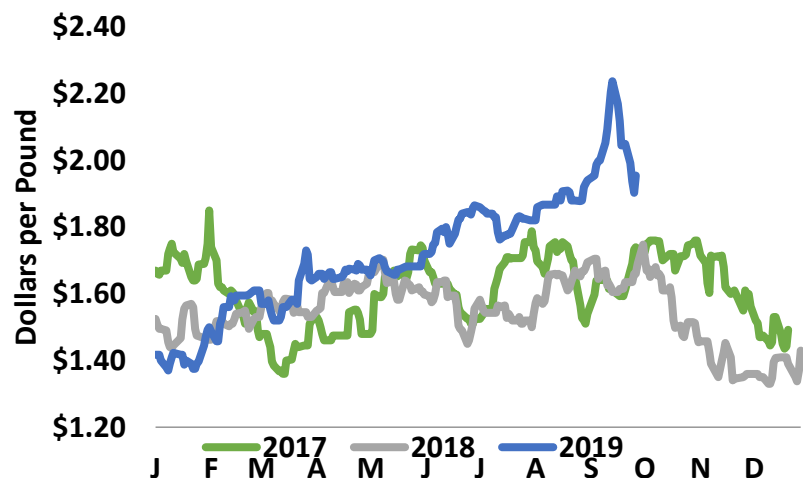
Milk, Dairy and Grain Market Commentary

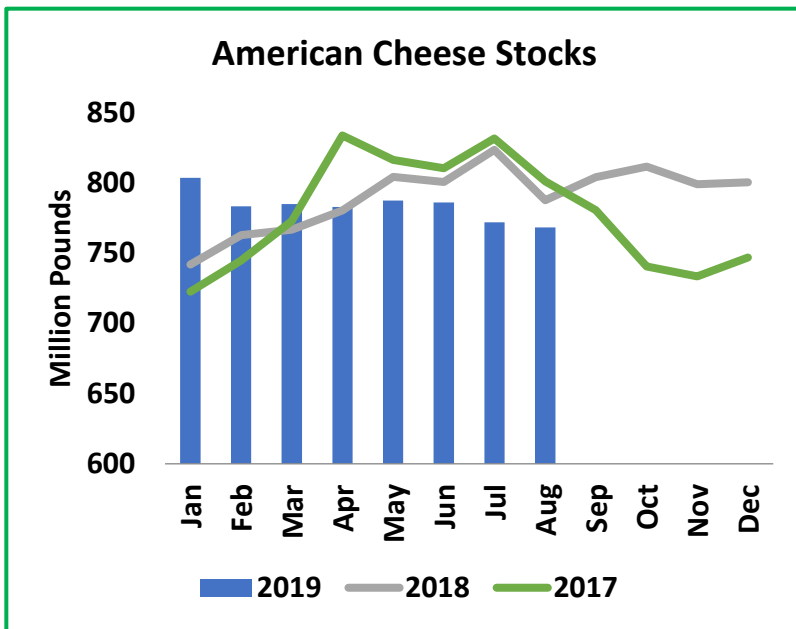
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

The cheese markets continue to lurch back and forth, probing about for a fair value. After much volatility, the boundaries are becoming clearer. While CME spot Cheddar blocks were able to climb above \$2.20 per pound a few weeks ago, they were clearly uneasy at that great height. Buyers are likely to back away once again if blocks climb north of \$2.10 or barrels top \$1.90. But as blocks slipped toward \$1.90 and barrels approached \$1.60 this week, offers dried up. Today, both markets bounced back with aplomb, suggesting that Thursday's lows – with blocks at \$1.9025 and barrels at \$1.6125 – may be as far

CME Spot Cheddar Blocks



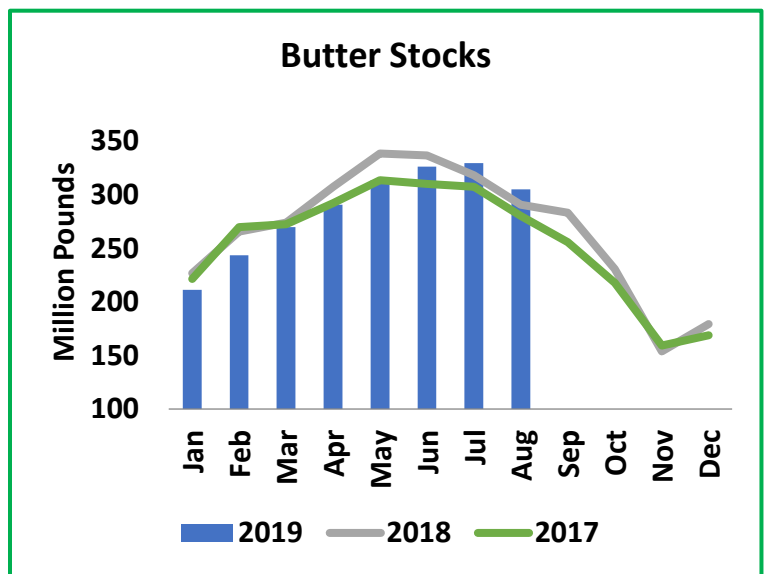


south as they are willing to venture for now. Cheddar blocks closed today at \$1.955, down 9.5¢ from last Friday, but up 5.25¢ from yesterday's nadir. Barrels staged an even more impressive comeback; they finished at \$1.655, steady with last Friday. The spread between blocks and barrels narrowed, but at 30¢ it remains historically wide, adding another layer of uncertainty to the already complex cheese markets.

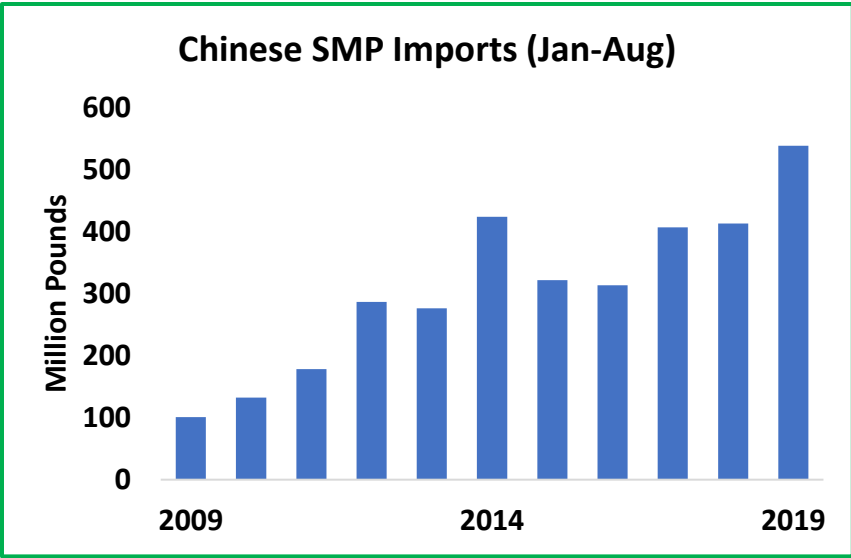
Cheese is in demand. But rising prices have boosted production and likely eased the shortage of fresh Cheddar that propelled the spot markets to their recent pinnacle. USDA estimates that there were 768 million pounds of American cheese, including Cheddar, in cold storage warehouses on

August 31. That's 3.6 million pounds less than at the end of July; American cheese stocks are 2.4% smaller than they were the year before. However, the drawdown was much smaller than in a typical August. Stockpiles of other cheese varieties climbed. The month-to-month increase in total cheese stocks was small, at 705,000 pounds. But it was an increase nonetheless, and cheese supplies typically shrink in August. Cheese inventories totaled 1.36 billion pounds, up 0.2% from August 2018. Robust demand for cheese in the spring and summer has kept inventories in check this year. Cheese stocks fell below year-ago levels in June and July, and despite the atypical increase in August, cheese inventories have grown just 18.3 million pounds so far in 2019, the smallest year-to-date stock build since 2011.

Butter inventories have finally peaked. In most years, butter stocks grow through May or June and then begin to wane. But this year, the butter stockpile burgeoned even in July. Inventories declined at the typical pace in August, falling 24.5 million pounds to 305.1 million pounds. There is 4.9% more butter in cold storage than there was a year ago. Butter inventories are ample to answer demand in the holiday baking season, cream is plentiful, and foreign butter and butterfat products are inexpensive. Butter values have moved sharply lower in recent months. CME spot butter fell nearly 10% from mid-July to mid-September. But that is far enough, for now. Spot butter bounced back this week. It settled at \$2.1475, up 3.25¢ from last Friday.



After weeks of quiet strength, the whey market is once again under pressure. CME spot whey finished at a disappointing 34.75 ¢ today, down a nickel this week. Industry contacts tell USDA's *Dairy Market News*, "While contracted sales are enough to keep inventories comfortable, some say whey stocks are building. The market pressures caused by the African swine fever and trade issues...loom over the market like a dark cloud." China's Ministry of Agriculture touts a slowdown in the rate of new cases of



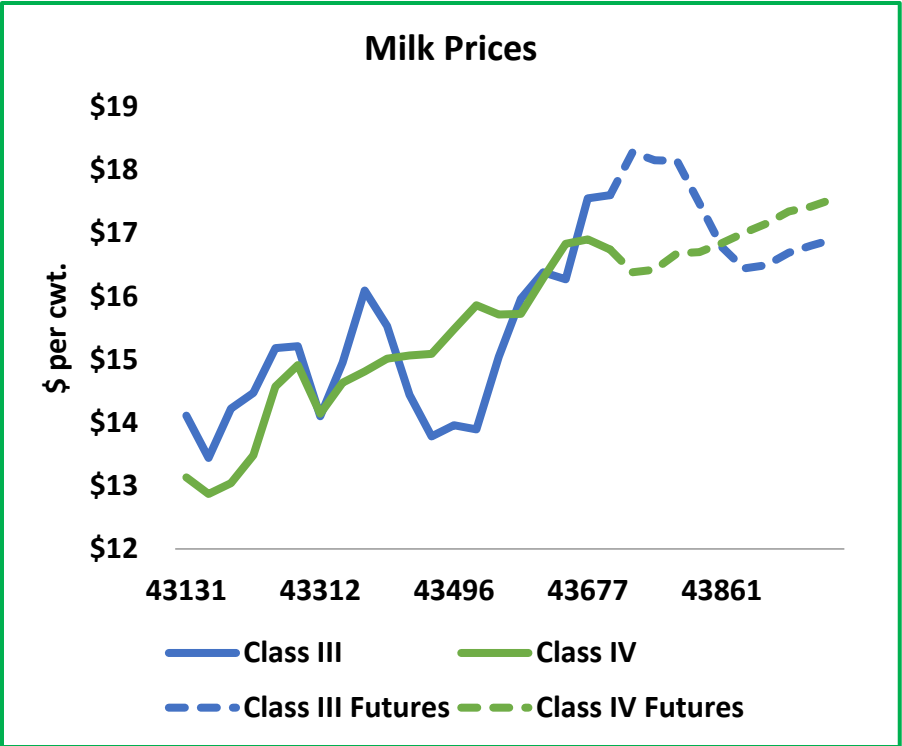
African swine fever, which has devastated the world’s largest hog herd. Amidst sky-high pork prices, some producers are surely looking to boost production. They are investing in piglet health, which would likely boost they purchases per head. Indeed, Chinese they imports were just shy of 100 million pounds in August, the highest volume since January and just 3.6% less than in August 2018. However, there are still reasons to be concerned about global demand for feed whey. The Chinese pig herd is considerably smaller than it was a year ago, and the disease is spreading quickly through South Korea,

Vietnam, and the rest of Southeast Asia.

China continues to import huge volumes of skim milk powder (SMP). Last month China imported 68.3 million pounds of SMP, the highest-ever volume for August and 38.4% more than the year before. China’s year-to-date SMP imports are also record high. They are an astounding 27% higher than the massive volumes shipped in January through August 2014 and 30% higher than last year.

China’s voracious appetite for imported milk powder has trimmed global stockpiles. *Dairy Market News* warns that in Europe, “Export demand is strong and persistent...Unless SMP manufacturers are able to increase output, it seems unlikely that all potential buyers seeking late 2019 delivery can be accommodated.” In the U.S. high cheese prices and tighter milk markets are further reducing milk powder stocks, as cheesemakers top up vats with skim milk solids. Buyers who balked when nonfat dry milk (NDM) reached \$1.05 are coming back, checkbook in hand despite even higher prices. CME spot NDM just keeps climbing. It closed today at \$1.11, up 2.5¢ from last Friday and the highest value since March 2015.

Dragged down by the cheese market, Class III futures settled in the red. October was hardest hit, falling 51¢ to \$18.15 per cwt. Most deferred contracts lost between 10 and 20¢. Although a retreat is disappointing for dairy producers, Class III prices are still much higher than they’ve been in years. September through November are better than \$18. Class IV futures were mixed. Nearby contracts were generally a nickel higher than last Friday, while 2020 contracts were steady to a nickel lower.



Grain Markets

It was a relatively quiet week in the grain markets, and prices went nowhere at all. December corn settled at \$3.715 per bushel, up less than a penny from last Friday. November soybeans closed at \$8.83, up 0.25¢. Harvest is underway in the southern states, but in the Corn Belt most combines are still parked in the shed. Cool temperatures and a wet forecast suggest that this year's harvest may be an exercise in patience. Until the trade can get a better handle on yields, the markets will likely continue to consolidate.



Musings

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
Geoff@MilkProducers.org

I was in the dairy business for nearly 39 years in Chino in Southern California. I spent over 25 of those years on the board of Milk Producers Council. Since I retired from active dairy farming in 2018, I have been given the privilege by Milk Producers Council to be involved in a whole range of activities facing producers in California. Here is a random update on various things that are going on.

Water: 2019 was a good water year. Lots of rain and snow kept the irrigation ditches flowing late into summer and the crops look great. There was definitely a lot of recharging of the aquifers that took place as well. Long term, the groundwater pumping restrictions that may be the result of the implementation of the Sustainable Groundwater Management Act (SGMA) are being discussed by the various Groundwater Sustainability Agencies that have been formed throughout California. But at least in the next five years, most folks will have access to enough water to farm.

The SJ Valley Blueprint is the effort to bring together all of the various valley interests to advocate for more water to sustain the economy of the Central Valley. The effort is now officially organized and has chosen an executive committee. It has initiated an economic study that seeks to quantify the impacts to the Valley of the water cutbacks that will be the result of SGMA implementation if no additional water can be secured. The Blueprint has put together a submission to Governor Newsom's Water Resiliency Portfolio which will be the guide to the Governor's plan for water for the next three years. The Blueprint document outlines improvements that can be made in the water infrastructure in California that could provide nearly 2 million-acre feet of additional supplies that would sustain agriculture and our economy in an environmentally responsible way. You can read the Blueprint submission [here](#).

On the water quality front, the dairy industry continues to face regulatory pressure related to manure management. In Southern California, the updated Dairy Permit from the Regional Board was put in place last year and it seems that implementation is proceeding without too much difficulty. The Central Valley Regional Board dairy permit is in the process of being updated. There will be increased scrutiny of the dairy industry's impacts on water quality and ever tougher compliance requirements. I have been enormously impressed with the work of the dairy producer-led Central Valley Dairy Representative Monitoring Program. This group has worked with some top professionals to not only develop a groundwater quality monitoring program but also develop recommendations for the coming dairy permit renewal that will both improve water quality and do so in a way that is feasible for producers to implement. It has been eye opening for me coming from Southern California, where the industry meets many of its environmental challenges by pointing to the fact that urbanization is rapidly diminishing the impact of agriculture on water and air quality, to witness the enormous challenges faced by Central Valley agriculture. Huge investments of time and money to develop programs and processes that will enable the dairy industry to reduce its impacts on the environment and operate in a more sustainable

fashion are underway. The State and the Federal governments are partnering with the industry in providing substantial financial investments to help make progress possible.

The creation of Dairy Cares has paid huge dividends for the dairy industry by uniting the industry and providing a vehicle for the coordination of efforts across a broad swath of environmental challenges facing the industry. Our own Kevin Abernathy is an incredible asset to the producer community with his expertise and vast experience in navigating the air and water regulatory environment as well as his talent for securing financial assistance for our producers to take advantage of the government's financial assistance programs.

One program that is coming up for consideration by the State Water Resources Control Board in October is the CV-SALTS program. California law prohibits discharges of water from any source into a groundwater basin that exceeds the drinking water limit for nitrates. This law creates a standard that is impossible to meet for many dischargers including dairies in the Central Valley. CV-SALTS is a program that was initiated by the discharger community to develop an alternative compliance path. What the CV-SALTS program proposes is a phased approach where dischargers are obligated right away to work with communities that have a nitrate impacted drinking water supply to provide access to clean drinking water.

After that initial phase has been accomplished then the effort shifts to a program to work on cleaning up the degraded groundwater basins. An even longer-term goal of CV-SALTS is the development of a strategy to actually deal with the problem of accumulating salts in the Valley, which has been the problem that has caused the failure in antiquity of most civilizations that relied on irrigation to grow their food. CV-SALTS has been approved by the Central Valley Regional Water Quality Control Board and is awaiting approval by the State Board where strong opposition from some "environmental justice" and more extreme environmental groups has held up approval. Those folks are not interested in a program that enables collaboration between the government and the regulated community. They want the government to use its enforcement authority to compel and coerce the discharger community into submission. So stay tuned.

What else is going? Well there is the quota discussion, Farm Bill implementation, potential FMMO reform, trade and immigration concerns. But that's enough for today. Enjoy your weekend.

Proverbs 3:5-6.

CVDRMP Holding 2 Workshops for Bovine Representative Monitoring Program

Courtesy of Central Valley Dairy Representative Monitoring Program

As shared in [last week's report](#), the Central Valley Dairy Representative Monitoring Program (CVDRMP) has opened membership to non-dairy cattle operators – including stand-alone dairy heifer ranches.

Anyone interested in joining the Bovine RMP, or learning more, can visit CVDRMP's Bovine RMP website at www.bovinermp.org. CVDRMP will also be hosting two free, in-person informational workshops:

- **Tuesday, October 8th (1 to 2:30 p.m.):** Auditorium, Cooperative Extension Tulare County, 4437 S. Laspina St., Ste. B, Tulare
- **Wednesday, October 9th (9 to 10:30 a.m.):** Stanislaus County Agricultural Building, Room G, 3800 Cornucopia Way #B, Modesto

Attending these workshops is not required; they are only being offered as a convenience to operators who may have questions about the program. The workshops will also include more general information about complying with the Bovine Order and the work that will be conducted under the Bovine RMP.

Anyone interested in attending workshops can contact CVDRMP staff at (916) 573-3941 or bovinermp@gmail.com to RSVP, or for any other questions.

Visit the Bovine RMP website [here](#).

Free Workshops

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