



Milk Producers Council

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DATE: September 9, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0300 \$1.7100
 Barrels - \$.0350 \$1.6050

Weekly Average, Cheddar Cheese

Blocks +\$.0115 \$1.7075
 Barrels - \$.0019 \$1.6344

CHICAGO AA BUTTER

Weekly Change - \$.0175 \$2.0325
 Weekly Average - \$.0375 \$2.0350

DRY WHEY

Dairy Market News w/e 09/09/16 \$3.213
 National Plants w/e 09/03/16 \$2.969

NON-FAT DRY MILK

Week Ending 9/2 & 9/3

Calif. Plants \$0.8460 10,962,954
 Nat'l Plants \$0.8533 25,270,092

Prior Week Ending 8/26 & 8/27

Calif. Plants \$0.8518 6,397,210
 Nat'l Plants \$0.8658 15,859,128

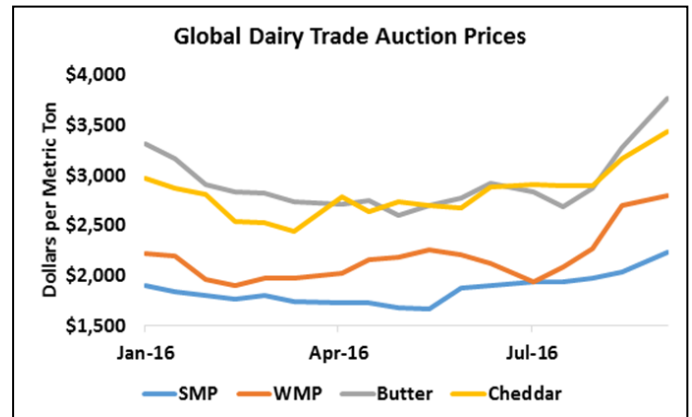
FRED DOUMA'S PRICE PROJECTIONS...

Sept 9 Est: Quota cwt. \$16.58 Overbase cwt. \$14.88 Cls. 4a cwt. \$13.38 Cls. 4b cwt. \$15.69
 Last Week: Quota cwt. \$16.47 Overbase cwt. \$14.77 Cls. 4a cwt. \$13.38 Cls. 4b cwt. \$15.48

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

Milk & Dairy Markets

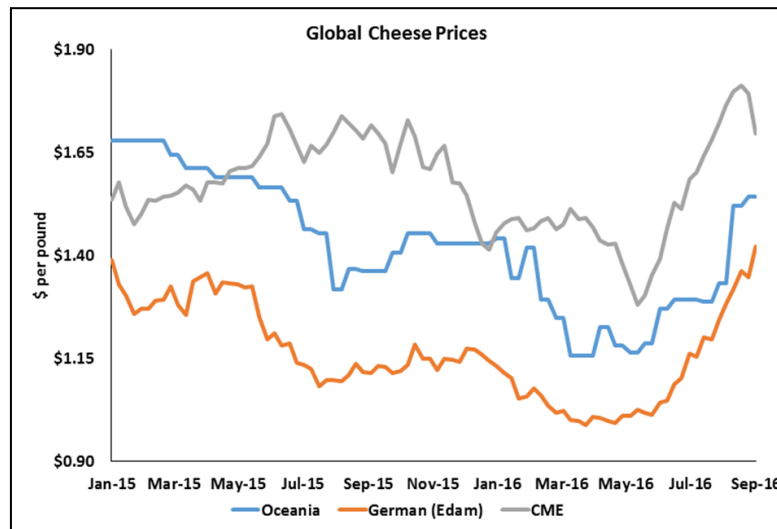
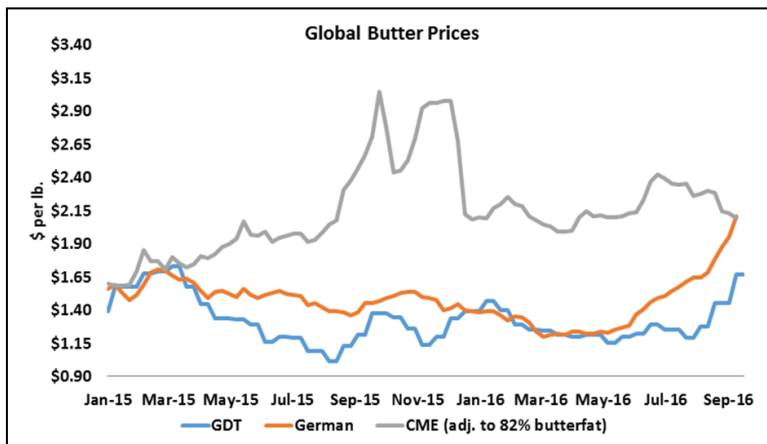
A peppy performance at the Global Dairy Trade (GDT) auction further invigorated the global dairy markets this week. The GDT index climbed 7.7% Tuesday, building on its 6.6% and 12.7% gains in August. All products moved higher. Anhydrous milkfat posted the most impressive increase, soaring 15.4% higher than the previous event. Butter was not far behind, jumping 14.9%. Skim milk powder (SMP) was surprisingly strong, up 10%, while whole milk powder (WMP) rallied 3.7%. Cheddar added 9%.



The GDT buoyed the cheese and milk powder markets Tuesday, but the strength was short-lived. They spent the rest of the week in retreat. At the CME spot market nonfat dry milk (NDM) finished at 90.5¢/lb., up 3.5¢ since last Friday but below Tuesday's 10-month high. The spot Cheddar market diverged, with blocks up 3¢ at \$1.71 and barrels down 3.5¢ to \$1.605. Butter slipped 1.75¢ to \$2.0325. Nearby Class III and IV futures suffered double-digit losses, while deferred contracts were mixed.

With strength abroad and weakness at home, the butter market has undergone a remarkable reversal of fortunes. CME spot butter averaged \$2.035 this week. Germany's benchmark butter price rallied to €4,225 per metric ton, or almost \$2.11/lb. After adjusting for butterfat differences, the German product is slightly more expensive than butter at the CME. Last September, CME spot butter topped \$3 and briefly commanded a \$1.58 premium to German butter. The incentive to import butter has been erased, and export volumes are likely to climb, although a shift in trade patterns will take some time.

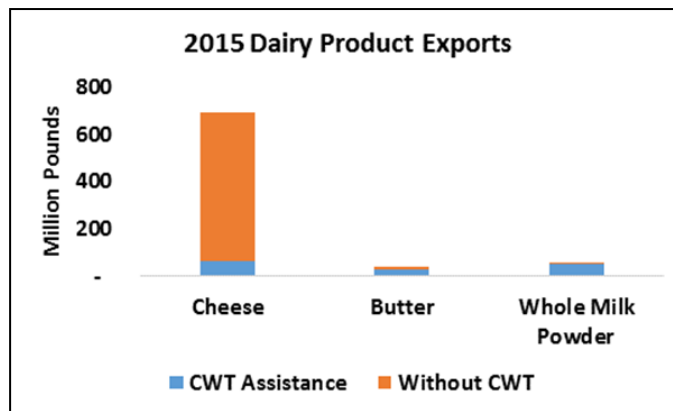
Despite record-breaking inventories, U.S. cheese still holds quite a premium to global supplies. However, the spread has been cut in half compared to where it stood a year ago. By and large, global dairy product traders are counting on production shortfalls, and the bulls are bellowing. In Chicago, the trade is more circumspect. They must contend with a large – and still growing – dairy herd and colossal dairy product stockpiles. If these perceptions are not shaken, the spread between U.S. and global cheese prices seems likely to narrow further.



That's fortuitous, because U.S. cheese and other dairy products aren't likely to get much help from the National Milk Producers Federation (NMPF) and its Cooperatives Working Together (CWT) export program. Flush with the success of winning a pittance from taxpayers through USDA's Depression-era commodity purchase program, NMPF and member cooperatives have suffered a costly legal blow. After five years of litigation – and commensurate legal fees – they could not stave off a consumer class action lawsuit. The much-touted success of the CWT's herd retirement program raised consumer's dairy product prices, in violation of antitrust and consumer protection

statutes. NMPF and member cooperatives Dairy Farmers of America, Land O'Lakes, Dairylea Cooperative and Agri-Mark agreed to a \$52 million settlement.

The funds for the legally dubious herd retirement program rolled in, one dime at a time, from cash-strapped dairy producers as they suffered the worst industry downturn in generations. Today, producers accounting for 70% of U.S. milk production continue to send in 4¢/cwt. through fat and lean years. They have very little to show for it. NMPF claims the CWT's cow kill program added as much as \$1.66/cwt. to the All-Milk price in 2009. Given the financial state of the industry at the time, it seems likely that most of the cows that were retired early would have gone to slaughter sooner or later – and probably sooner.



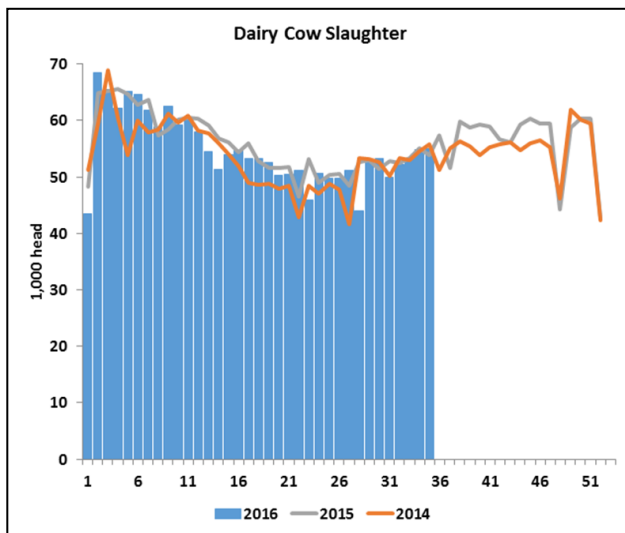
The *Daily Dairy Report* estimates the CWT budget at \$58.8 million. After the lawsuit that leaves very little to spend making U.S. dairy products just a little cheaper than products from other sources. In the long run, CWT's ability to boost U.S. dairy product exports through industry-funded subsidies has always been economically questionable. In the short run, the sudden absence of a discount that importers had taken for granted could squelch some contracts just as U.S. cheese and butter gain a competitive edge.

For the week ending August 27, dairy cow slaughter totaled 55,025 head, higher than in any week since March, and up 2% from a year ago. For the year to date, culling is 1.4% behind the 2015 pace.

Grain Markets

After probing multi-year lows, the corn market rebounded this week. December futures settled at \$3.41, up 12.5¢. The grain markets are likely to bounce back and forth at historically low prices. The crop is large, but so is demand. Exports are leaving our shores at a brisk pace given shortfalls in South America. The story is similar for soybeans, with one important difference: corn stockpiles are massive, soybean inventories are merely adequate. The soybean market will be quicker to rally, and slower to retreat, than the grains. November soybeans settled today at \$9.8025, up 27.75¢ from last Friday.

USDA will update its monthly Crop Production and World Agricultural Supply and Demand Estimates reports Monday. The trade is expecting a slightly lower corn yield and slightly higher soybean yield than the agency reported in August. Both crops are likely to be the largest on record.



STILL TIME TO ADD YOUR VOICE OPPOSING THE “AG OVERTIME BILL”: *(By Rob Vandenhoevel)*

Governor Jerry Brown has not yet announced his intentions to either sign or veto AB 1066, the “Ag Overtime Bill.” We’ve written numerous articles in this newsletter on the issue, so our readers are well-aware of the impacts this legislation will have on those agricultural employers and employees who are fortunate enough to still be operating in this anti-business State in 2019 and beyond (the first year the bill would take effect).

For those of you who have not had an opportunity to express your opposition to AB 1066 and urge Governor Brown to veto the bill, a new website was created by a coalition partner that makes it very convenient to send that message: <http://www.VetoAB1066.org>. Please consider taking a few minutes to add your voice to the issue and urge Governor Brown to reject this bill that was approved by the Legislature on emotion and ignorance rather than the facts.

WHAT’S GOING ON WITH THE CALIFORNIA FEDERAL ORDER?: *(By Rob Vandenhoevel)*

As I talk with producers around the State (and even around the country), this is a common question I hear. While I have no definitive update on the process, that is actually to be expected. After the hearing in Fresno last fall, and the post-hearing brief submittal process over the winter, we are now in the quiet portion of the process where U.S. Department of Agriculture staff are drafting a “Recommended Decision” based on that hearing record. That Recommended Decision will be released at some point *(as I’ve written before, I still believe it will be this year)* and available for comment before USDA staff finalizes a “Final Decision” that will be subject to a vote by California producers.

This drafting of a Recommended Decision is a significant undertaking for USDA staff, and there are no hard-and-fast deadlines for hearings like this *(the statutory deadlines that are in place apply only to hearings that “amend” a current Federal Order, not hearings that “promulgate” a new Federal Order)*.

So is this a “no-update update”? Perhaps. But it’s important for California producers to be aware that the silence on the issue is in no way an indication that the issue has gone by the wayside. MPC’s support for pursuing a California Federal Order has not diminished in the least since the hearing was held. California producers cannot afford to continue being the “low-cost-leader” for selling milk to our manufacturers. This year’s California Legislature gave us a painful reminder of that.

	CA 4b Price	FMMO III Price	Gap
2010 – 2015	\$15.98	\$17.72	(\$1.74)
Jan – Aug 2016	\$13.44	\$14.13	(\$0.69)
Improvement? Definitely. Acceptable? Absolutely NOT!			