DATE: May 12, 2017
TO: Directors & Members
FROM: Kevin Abernathy, General Manager

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@milkproducers.org ~ www.MilkProducers.org

MPC Friday Market Update

<table>
<thead>
<tr>
<th>CHICAGO CHEDDAR CHEESE</th>
<th>CHICAGO AA BUTTER</th>
<th>NON-FAT DRY MILK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>Weekly Change</td>
<td>Week Ending 5/5 &amp; 5/6</td>
</tr>
<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td>Calif. Plants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$0.8548</td>
</tr>
<tr>
<td>Weekly Average, Cheddar Cheese</td>
<td>Dairy Market News w/e 05/12/17 $0.572</td>
<td>Nat’l Plants</td>
</tr>
<tr>
<td>Blocks</td>
<td></td>
<td>$0.8628</td>
</tr>
<tr>
<td>Barrels</td>
<td></td>
<td>16,837,586</td>
</tr>
<tr>
<td>Weekly Average</td>
<td></td>
<td>Calif. Plants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$0.5172</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nat’l Plants</td>
</tr>
</tbody>
</table>

Fred Douma’s price projections...

May 12 Est:
- Quota cwt. $16.23
- Overbase cwt. $14.53
- Cls. 4a cwt. $14.03
- Cls. 4b cwt. $15.12

Last Week:
- Quota cwt. $16.03
- Overbase cwt. $14.34
- Cls. 4a cwt. $13.67
- Cls. 4b cwt. $14.95

***

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

Milk & Dairy Markets
A herd of bulls thundered through the dairy pit this week, chasing every market higher. The frenzy began in butter, where the CME spot market surged to four-month highs. Spot butter finished today at $2.2625/lb., up 15.5ȼ from last Friday. The cheese markets echoed the strength in butter prices, building on last week’s impressive rally. However, the cheese complex retreated a bit today. Spot Cheddar blocks closed at $1.635, up 3.5ȼ for the week. Barrels jumped 8ȼ to $1.53. Spot nonfat dry milk (NDM) gained 1.75ȼ and closed at 86.25ȼ. Most Class IV futures added between 40 and 70ȼ this week, and the October contract topped $16/cwt. Class III contracts posted double-digit gains across the board. August through October futures leapt over the $17 mark.

After years at a premium, the U.S. butter market is following foreign product higher. Dairy Market News reports butter exports from Western Europe sold for between €4,900 and €5,050 per metric ton in the past two weeks, matching the highs set in early 2014. These prices are roughly equivalent to $2.39/lb. at 80% butterfat. Butter buyers in the U.S. are understandably anxious at the prospect of being caught without product in a quickly rising market. This week the bids came thick and fast.

Demand for butterfat has been strong and overseas production has not kept pace. European butter output has been lower than the previous year since July 2016. Manufacturers have favored making cheese, perhaps because whey
coproducts have been relatively easy to move. Butter production can leave manufacturers scrambling to find a buyer for skim milk powder (SMP), a more difficult prospect.

European cheese output has been greater than the previous year in every month since November 2016. The Daily Dairy Report opines, “Going forward, higher butter prices will likely spur stronger output – at the expense of cheese production.” That may explain why cheese markets were so quick to chase butter higher yesterday. The fact that Europe’s spring flush has not been as strong as feared is likely adding support as well.

Meanwhile, the U.S. remains flooded with milk. Mild temperatures in the heart of the country have kept udders and tankers full. However, every day that goes by allows for a bit of a slowdown in the spring flush. Production per cow has impressed, which means that milk supplies are especially vulnerable to a setback if summer temperatures soar. Cheese makers are running at capacity, but they report better demand from pizza outlets, and grilling season is ramping up.

Beef sales have been excellent, requiring packers to slaughter cattle in large volumes. They are now dipping into younger supplies that haven’t had the opportunity to put on much fat, creating a shortage of high quality cuts just as two big beef holidays approach. On Sunday, most spouses and children will show their gratitude by keeping the kitchen clean and taking mom to a restaurant, a boon for dairy and meat demand. Soon after, Memorial Day grillers will likely inaugurate the patios with a choice cut of beef. Beef prices have moved dramatically higher in recent weeks. This has lifted bull calf values noticeably, and lean beef prices are starting to climb as well. Bull calf and cull cow revenue has been in the doldrums, but it is starting to perk up, which will help dairy producer incomes.

It would be callous or ignorant to gloss over the struggles dairy producers have faced in the past 18 months. Voluntary sellouts, foreclosures, and slaughter rates are on the rise, offering evidence of widespread financial pain. The futures market cannot remedy the losses of the past, and this month’s milk check will be paltry once again. The industry must continue to contend with a large – and still growing – herd, immense dairy product inventories, and insufficient processing capacity. But the beef and dairy markets are climbing, export prospects have improved, and feed costs are steady to lower; the outlook is much brighter than it was just a few weeks ago.
Grain Markets
Once again the grain markets swung wildly back and forth, but the week-to-week change was negligible. July corn settled at $3.71, about where it stood last Friday. A stretch of mostly dry weather has largely alleviated concerns about planting progress, although there are a few trouble spots. Farmers who can’t get planters rolling by the middle of next week will likely have to wait a while, as the deferred forecast calls for heavy rains along the Mississippi River and in the Eastern Corn Belt.

The soybean markets took a step back this week. July soybeans settled a dime lower than last Friday at $9.63. On Wednesday USDA updated its monthly crop balance sheets. Changes to domestic figures were small and within the range of pre-report expectations. The agency increased its estimates for corn and soybean production in both Argentina and Brazil. But farmers in both nations have been reticent to sell, allowing U.S. soybean exports to remain strong for longer than anticipated. Global demand for soybeans has been formidable and is expected to remain so, but with big crops in South America and big acreage in the U.S., the soybean market remains under pressure.

***

California Air Resources Board hosts 1-stop diesel truck event in Madera
By Kevin Abernathy, MPC General Manager

The California Air Resources Board (CARB) is hosting a diesel truck event on May 23 in Madera. This is a good opportunity for farmers in the Central Valley to learn about diesel equipment requirements and how to comply with these rules. Admission and parking are free.

Date: May 23rd (Tuesday)

Time: 9 AM to 1 PM

Location: Madera District Fair
1850 West Cleveland Avenue
Madera, CA 93637

Topics:
- One-on-One Compliance Assistance
- Funding Opportunities
- New Technology Demonstrations
- Vendor Displays
- Overview of California Diesel Rules*
- Mock Truck Inspection
- CHP BIT Inspection Overview
- *Diesel Rules include Truck & Bus and Off-Road

You may register online or contact the ARB Training Registrar at (916) 322-3937 (select option 1) or by email at arbtrain@arb.ca.gov.
UC Davis School of Veterinary Medicine conducting antibiotic survey of dairy producers

By Dr. Terry Lehenbauer, Associate Professor and Director, Veterinary Medicine Teaching and Research Center

All California dairy producers should receive a survey in the mail from the UC Davis School of Veterinary Medicine (UCD SVM). The purpose of the survey is to collect information related to use of antibiotics in pre-weaned dairy calves on California dairy farms. The faculty at the UCD SVM believe that antibiotics are important for the health and welfare of dairy calves. Information from this survey will be helpful for guiding expectations and meeting needs of the California dairy industry for ensuring the continuing availability and effectiveness of antibiotics for dairy calves. All responses will be handled anonymously and confidentially and will be protected from any unauthorized access. Survey results will only be reported as aggregated or summarized information to protect the confidentiality of the data. We hope you can take the time to complete this important survey. If you have any questions regarding this survey or prefer to complete the survey over the phone, please email us at: alylab@vmtrc.ucdavis.edu

Domino’s stands up for farmers, stands its ground against animal rights extremists

By Kevin Abernathy, MPC General Manager

I came across an article on the Brownfield Ag News Network related to Domino’s and the company’s philosophy in dealing with pressure from animal activist groups. I thought it would be of interest to readers of this weekly newsletter.

In a refreshing move, Domino’s spokesman Tim McIntyre said the pizza company will not cave to animal rights extremists and that, “We will never tell a farmer how to farm. We will never tell a rancher how to raise his or her animals.”

In today’s day and age, food companies are under constant assault from numerous activist groups, demanding that particular practices or ingredients be phased out or abandoned. It’s encouraging to see a company like Domino’s stand up to these groups, relying on the expertise of family farmers who have delivered safe and nutritious food for generations.

You can hear the full interview with Tim McIntyre of Domino’s at https://goo.gl/tbgEFd.