DATE: May 19, 2017
TO: Directors & Members
FROM: Kevin Abernathy, General Manager

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MPC Friday Market Update

<table>
<thead>
<tr>
<th>CHICAGO CHEDDAR CHEESE</th>
<th>CHICAGO AA BUTTER</th>
<th>NON-FAT DRY MILK</th>
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<tr>
<td>Blocks $0.0350</td>
<td>Weekly Change $0.1125</td>
<td>Weekly Average $0.2010</td>
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<tr>
<td>Barrels $0.0600</td>
<td>Weekly Average $2.3750</td>
<td>Week Ending 5/12 &amp; 5/13</td>
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Weekly Average, Cheddar Cheese

| Blocks $0.0465 | $1.6595 |
| Barrels $0.0100 | $1.5020 |

Dairy Market News

| National Plants | w/e 05/13/17 | $.5078 |

Prior Week Ending 5/5 & 5/6

| Calif. Plants | $0.8548 | 6,767,287 |
| Nat’l Plants  | $0.8628 | 16,837,586 |

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Fred Douma’s price projections…

May 19 Est: Quota cwt. $16.39 Overbase cwt. $14.69 Cls. 4a cwt. $14.35 Cls. 4b cwt. $15.25
Last Week: Quota cwt. $16.23 Overbase cwt. $14.53 Cls. 4a cwt. $14.03 Cls. 4b cwt. $15.12

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Market commentary

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

Milk & Dairy Markets

The whole world is hungry for butter. Prices are soaring in Europe as processors try to limit nearby sales to ensure they’ll have enough product this fall. Adjusting for currency and butterfat differences puts benchmark German butter at roughly $2.41/lb. this week, the highest price in dollars since early 2014, and the highest price in euro-terms since August 2013. At the Global Dairy Trade (GDT) auction, butter prices jumped 11.2% to new all-time highs, the equivalent of $2.42 at 80% butterfat. Anhydrous milk fat prices surged 8.2% from the previous auction, and buttermilk powder climbed 7%.

Butter supplies are limited abroad and abundant at home. At the end of March there were 272.5 million pounds of butter in cold storage, the highest volume for the month since 1993. USDA will report April butter stocks on Monday, and that report is likely to show even larger inventories. Relatively low cream multiples, strong components and a formidable spring flush suggest that churns continue to run hard. The U.S. could find itself in a butter export bonanza. However, while some sales have probably been booked, anxious butter traders have pushed the market too high, too fast to allow for much export business so far.
At the CME spot market, butter reached $2.43 Tuesday, the highest price since December 2015. After much volatility, it finished today at $2.375, up 11.25¢ from last Friday. A number of butter futures contracts vaulted a nickel higher on Monday and then rallied a dime with expanded daily trading limits on Tuesday. The futures moved modestly higher on Wednesday and retreated late in the week. July through November Class IV futures added more than a dollar this week.

Strength in the butter market has dragged the other products higher as well. This makes sense for cheese, which must compete for butterfat. It is more perplexing to see this vigor spill over into the milk powder markets. High butter prices and low cream multiples typically lead to greater butter and nonfat dry milk (NDM) or skim milk powder (SMP) output, which should pressure the well-supplied powder market. That has not been the case. This week CME spot NDM climbed 5.25¢ to 91.5¢, a three-month high. SMP prices gained 1% at the GDT and the European market is moving higher even as manufacturers sell small but growing volumes of product into the government’s Intervention storage program. One can try to argue that the fundamentals are bearish, but the market is the final arbiter; fighting the trend is a good way to lose much, and quickly.

The cheese market diverged. CME spot Cheddar blocks rallied 3.5¢ to $1.67, a three-month high. Barrels slipped 6¢ to $1.47. The 20¢-spread is the widest since late January. Class III futures were mostly a nickel to a dime higher. Cheese demand is reportedly improving from the lackluster levels of the first quarter, but it remains inadequate compared to robust production.

U.S. milk output reached 18.3 billion pounds in April, up 2% from a year ago. USDA estimates the milk cow herd at 9.39 million head, a fresh 21-year high. That figure is up 8,000 head from March (after a 2,000 head increase to USDA’s initial estimate) and 69,000 head more than the year before. Output remains depressed on the West Coast and very strong in the Southwest. Production was down 1.1% in California, 4.1% in Oregon, and 2.5% in Washington compared to a year ago. In contrast, output increased 12.8% year over year in Texas, 7.5% in New Mexico, and 7.2% in Colorado and Kansas. Growth remains strong in the Northeast, but it is starting to moderate in the Midwest.

In May, hot and unseasonably humid conditions may continue to depress output in California. Meanwhile, cows are thriving amidst cool weather.
in the Midwest and Northeast. Higher temperatures and a biting fly hatch are pestering cows in West Texas, which could bring production per cow down from April’s remarkably lofty levels.

New Zealand milk production was surprisingly strong in April. Despite rumors that cyclones had flooded pastures and dampened milk output, production totaled 1.45 million metric tons, up 6.3% from last year. On a milk solids basis, output was up 6.8% year over year, and season-to-date production is just 0.3% behind last year, a far cry from the early season threats that collections would be down 2% to 5% this year.

**Grain Markets**
The Trump administration has had its share of drama this week, but it does not compare to the troubles bedeviling Brazilian President Michel Temer. Yesterday, rumors abounded that Mr. Temer would resign amid allegations that he had paid hush money to a jailed politician in order to cover up widespread corruption. The president belligerently denied the charges, but today Brazil’s Supreme Court released testimony accusing Mr. Temer and his two predecessors of receiving millions in bribes. Dozens of politicians and a third of President Temer’s cabinet have been convicted on similar charges, and the likelihood that the scandal would further cripple Brazil’s government caused the Brazilian real to plummet.

The weak currency pushed up the price of soybeans for Brazilian farmers in real terms to the highest level since February. The trade assumed that this would elicit soybean sales; farmers have been slow to part with their crops until now. This could cut into U.S. soybean exports, which have been booming. Soybean prices fell hard yesterday, but they managed to claw back some ground today. The July contract settled at $9.53 per bushel, down a dime since last Friday.

July corn finished at $3.725, up a couple cents this week. The market has added back just a bit of weather risk premium. Planting in the Western Corn Belt has progressed smoothly. Farmers in parts of the Eastern Corn Belt have faced more issues; the weather in Wisconsin and Northwest Indiana has been particularly uncooperative, and flooding has necessitated replanting on wetter ground. The trade may have to contend with a bit more weather risk than it seems to have accounted for at the moment, but if there are no major issues, grain prices are likely headed lower.

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**Comments flow in on a California Federal Milk Marketing Order**
*By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant*

The hearing to consider a Federal Milk Marketing Order (FMMO) for California ended in November of 2015. The deadline for post-hearing briefs concluded in May of 2016. USDA published a Recommended Decision in February of 2017 and the comment period on that Recommended Decision ended on May 15, with a total of 31 comments submitted according to the USDA website. These comments ranged from the non-serious, with Noah’s Ark leaving the comment, “Happier Cows live in Wisconsin,” to the very serious submissions by the lawyers for the various stakeholders.

There are a few nuggets in the comments worth noting. Very significantly, California Department of Food and Agriculture (CDFA) Secretary Karen Ross wrote, “In response to the USDA’s recommendation and input from California milk producers, CDFA is ready and willing to establish a stand-alone, producer funded
quota program.” She goes on to describe the process CDFA will follow and indicates that the “goal is that all of this should happen prior to the CA FMMO producer referendum.” Secretary Ross has been very strong and consistent in her message that she is committed to industry self-determination with regards to the FMMO and she has backed that up with decisive action to make that possible.

In their comment letter, Dairy Farmers of America makes a calculation of what a California FMMO will mean for producer prices if USDA were to adopt “inclusive pooling,” which of course is not what USDA is proposing in the Recommended Decision. DFA estimates that when all the milk that currently escapes the current California pool is included, like out of state milk and producer handler milk, in addition to utilizing the FMMO minimum prices, it would have raised the overall blend prices to California producers by $0.99 per cwt. over the past eight years. DFA then complains that the performance based pooling rules USDA is proposing will likely mean that some amount of milk will move in and out of the pool on a regular basis. They calculated a scenario where 20% of a large handler’s milk would move in and out of the pool month to month and they estimate that this action would cost the pool a little over $0.05 per cwt. CDI and Land O’Lakes are also concerned about the lack of Inclusive Pooling in the Recommended Decision, but proposed tightening the amount of milk that can be re-pooled every month as a solution which would make it riskier for handlers to de-pool.

Dairy Institute and some of their processor members spend some time in their comments criticizing USDA’s Regulatory Economic Impact Study, which showed a $290 million increase in California producer revenue under a FMMO. They rightfully pointed out gaps in the economic data which led to conclusions in the study that raises questions about the degree to which producers should rely on those numbers when making decisions. I do not blame the processors for their comments. They are looking at a much less hospitable environment if producers vote for a FMMO and anything they can do to cast doubt on the desirability of the FMMO is in their interest.

All three California producer trade associations provided comments consistent with the California cooperatives positions (see MPC’s comments here). The amount of unity amongst the California producer interests continues to be remarkable. There were also some comments from producers in the rest of the country. Maine dairy farmers weighed in as well as Select Milk producers representing New Mexico, Texas and Mid-West producers and National All-Jersey. You can access all the comments on USDA’s website here.

There is no required deadline for USDA to release a Final Decision, but once the Final Decision is put out, the producer referendum will take place. Our choice will be yes or no – not maybe.

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CDFA appoints more members to the Producer Review Board, schedules meetings

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

CDFA Secretary Karen Ross has appointed nine additional members and two new alternates to the Producer Review Board (PRB) in light of its new mandate to produce the mechanism to operate a stand-alone quota program in the event California producers vote to join the FMMO system. The PRB has been in existence since the beginning of the California Milk Pooling Program as an advisory committee to the Secretary and has, at least in later years, acted only to review hardship quota transfer cases and the Milk Pooling Branch annual budget. But now it has been given a very significant task and we are very grateful for the willingness of our fellow producers to take up this challenge. The first meeting of the refreshed PRB is Tuesday, May 30 in Modesto. CDFA anticipates further meetings on June 15 and June 29, also in Modesto. These meetings are open to the public and an agenda will be posted on the CDFA website at least 10 days before each meeting.

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UC Davis to host soil management training June 6 at Five Points Extension Center

A unique learning opportunity on how long-term use of soil health principles and practices affects farming system function and performance is being offered in a half-day training workshop in Five Points, California on June
6th beginning at 9 o’clock. The practices that will be showcased include reduced disturbance tillage and the use of cover crops and compost. Science-based, long-term research information as well as practical testimonies of experienced farmers are key elements of the training curriculum.

“What we’re going to do is combine in a single educational program an integrated and systems-oriented approach for soil, crop, and pest management aimed at achieving healthy soil as an overall means for improving system performance, productivity, and function,” said course organizer, Jeff Mitchell of the Department of Plant Sciences at UC Davis. “The program will feature discussion and education on all components of soil biology including bacteria, fungi, nematodes, weeds and soil macrofaunal, and will provide hands-on learning components on how the alternative management principles and practices may interact in ways to increase overall system resilience.”

The June 6th training will be conducted at the site of an important long-term (18 year) research study at the University of California’s field station near Five Points in western Fresno County and will include overview presentations of systems management goals and practices by farmer presenters, research-based topics based on published systems management findings by study investigators, as well as opportunities for direct learning and discovery by participants that will include in-field observations of changes resulting from the management practices.

“There will be few, if any other opportunities for Central Valley farmers, consultants, and agency people to learn in one setting how managing a farming system from an ecological framework impacts how resilience, pest management, profitability, and overall production system success can be achieved,” said program farmer presenter, Scott Park of Meridian, CA.

4.5 CCA CEUs and 1.0 PCA CEUs are approved for the training and a lunch will be provided. The event will take place at the UC West Side Research and Extension Center at 17353 W. Oakland Avenue.

Please RSVP online at http://ucanr.edu/SoilMgmt. The full program for the soil management training can be accessed at: https://goo.gl/9nrVSW.

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MPC Directors, staff extend their condolences and prayers to the Kasbergen family on the recent passing of Martha Kasbergen

The Lord called Martha Kasbergen home on May 16, 2017 at the age of 82, after a valiant effort to recover from
a fall, peacefully surrounded by the family she cherished.

Martha (VanderVegt) Kasbergen was born on January 3, 1935 to George and Helen Vander Vegt in the small town of Stiens, Frielsand, the Netherlands. She spent the first 13 years of her life in Holland, after which, in 1948 her family immigrated to the United States. They settled in California and started a dairy farm in Artesia where she and her siblings worked, and her passion for the dairy industry began.

Mrs. Kasbergen is survived by her husband Neil, their four children, 16 grandchildren, and nine great-grandchildren, as well as her sisters Agnes Vander Meer, Hilda Bouma, and sister-in-law Irene (Vander Vegt) Gibson. In addition to her parents, she was preceded in death by her infant daughter Darlene, her sister Corrie Vierstra, and brother George Vander Vegt.

The American military holds a special place in the hearts of both Neil and Martha. They have spoken on many occasions how grateful they are to the American military that freed Holland from Nazi rule during WWII. Martha also fondly remembered an occasion when an American soldier came to their home with chocolate candy bars. In honor of all that have served in the military, the family requests that in lieu of flowers, donations be sent to AMVETS, Post 56 48 W Cross St. Tulare, CA 93274.

Visitation will be held on Wednesday, May 24, 2017 from 4:00 p.m. - 8:00 p.m. at Miller’s Tulare Funeral Home, 151 North H Street, Tulare. Mass of the Resurrection will be held on Thursday, May 25, 2017, 10:30 a.m. at St. Aloysius Catholic Church, 125 East Pleasant, Tulare, and burial will be held at 2:30 p.m. at North Tulare Cemetery.

Cards can be sent to the Kasbergen Family, 1305 Cabernet Drive, Tulare, CA 93274.

A full obituary is available here.

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The next edition of the MPC Friday Newsletter will be Friday, June 2. MPC Directors and staff wish everyone a happy and safe Memorial Day weekend.