DATE: June 2, 2017  PAGES: 5
TO:   Directors & Members  FROM: Kevin Abernathy, General Manager

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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<tbody>
<tr>
<td>Blocks</td>
<td>Weekly Change</td>
<td>Week Ending 5/26 &amp; 5/27</td>
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<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td>Calif. Plants $0.8956 8,171,285</td>
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<td></td>
<td></td>
<td>Nat’l Plants $0.8871 16,533,930</td>
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<thead>
<tr>
<th>Weekly Average, Cheddar Cheese</th>
<th>DRY WHEY</th>
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<tbody>
<tr>
<td>Blocks</td>
<td>Dairy Market News w/e 06/02/17 $0.4500</td>
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<tr>
<td>Barrels</td>
<td>National Plants w/e 05/27/17 $0.4947</td>
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Fred Douma’s price projections…

June 2 Est: Quota cwt. $17.30 Overbase cwt. $15.60 Cls. 4a cwt. $14.52 Cls. 4b cwt. $16.38
May ’17 Final: Quota cwt. $16.41 Overbase cwt. $14.72 Cls. 4a cwt. $14.43 Cls. 4b cwt. $15.25

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

Milk & Dairy Markets

European butter prices are moving relentlessly upward, and the U.S. market is drafting in its wake. Today at the CME spot markets, butter jumped to $2.485/lb., its highest price since the exhilarating, volatile days of late-2015. CME spot butter has climbed 11ȼ in the past two weeks, and a number of futures contracts settled a nickel higher today, at their upper daily trading limit.

U.S. butter exports improved in April. However, setting aside the paltry shipments of 2016, volumes remain unimpressive in comparison to any time in the recent past. Imports remain strong. But the future looks much brighter. European merchants are hesitant to offer much butter, preferring to keep stocks on hand for later this year. The weak dollar and soaring foreign prices make U.S. butter a contender for Europe’s former customers. At the same time, U.S. butter imports are likely to slow.

Even before this potential shift in the U.S. butter trade balance, U.S. stockpiles have been barely growing. Butter inventories increased just 19.8 million pounds in April, well short of the typical spring stock build. This came on the heels of a very small month-to-month increase in March, revealing robust demand. At 292.3 million pounds, U.S. butter inventories are 1.2% lower than year-ago levels, which could lead to tight supplies this fall.
In contrast, the cheese market is well-supplied. Inventories of American cheese jumped 4.1%, or 32.7 million pounds, in April. The March-to-April increase is the largest since 1999. The growth in American cheese stocks drove a 42-million-pound jump in total cheese stocks, which reached 1.33 billion pounds, a fresh record high. Total cheese inventories are up 10.4% from a year ago.

U.S. cheese exports have been higher than year-ago levels in every month since October, and the trend continued in April. However, April cheese exports slipped in comparison to March, and they are far short of the vast volumes moved abroad in 2014 with butter, but due to massive stockpiles, strong production, and ho-hum demand, their progress has been fitful. CME spot Cheddar blocks climbed 3ȼ in the past two weeks, although they have lost ground since last Friday. They finished today at $1.70. Barrels gained a penny in each of the last two weeks and closed at $1.49 today.

U.S. milk powder exports improved to 122.5 million pounds in April, up 20.2% from a year ago and the largest daily average volume in nearly two years. Modestly lower prices and strong demand from Mexico helped spur product movement. Since April, U.S. milk powder prices have plodded steadily upward. CME spot nonfat dry milk (NDM) rallied 3.25ȼ in the past two weeks. It closed at 94.75ȼ today, near a four-month high.

Chinese demand for imported dairy products is on the rise. Chinese milk powder imports in April were a little better than year ago volumes. For the year-to-date, Chinese skim milk powder imports are nearly 9% higher than during the first four months for 2016, while whole milk powder imports lag 1.4% behind last year’s pace. According to the Daily Dairy Report, Chinese infant formula imports are on track to exceed last year’s record-breaking volumes. Chinese cheese imports are up 20% for the year-to-date, and whey imports are 24% greater than last year.

With demand improving nearly across the board—and particularly for butterfat—global dairy product prices are climbing. Fonterra announced a 15ȼ increase to its 2016-17 farmgate milk price for dairy producers in New Zealand. With dividends included, the estimated payout is now NZ$6.55/kg of milk solids, far better than the early-season outlook of $4.60. Fonterra put its initial forecast for 2017-18 milk prices at
NZ$6.50/kg of milk solids before dividends, a 5.7% improvement from the current season’s base price and the highest payout since the booming 2013-14 season.

Closer to home, USDA announced the May Class III milk price at $15.57/cwt., up 35ȼ from the April nadir and up $2.81 from May 2016. At $14.49, the May Class IV price is up 48ȼ from April and $1.40 higher than last year. California 4a milk climbed 70ȼ in May to $14.43, while 4b milk was $15.25, up 95ȼ last month. Over the past two weeks, Class III futures have climbed roughly a dime, and nearby Class IV contracts jumped 50ȼ or more.

It will take time for today’s futures prices to translate to higher on-farm revenues, and many dairy producers are still feeling pinched. Dispersal auctions continue apace, and slaughter volumes are up. For the week ending May 20, dairy cow slaughter was 52,074 head, up 3.2% from the same week a year ago. This puts year-to-date slaughter up 2.1% from the first five months of 2016.

**Grain Markets**

After much back and forth, the corn markets finished right where they started. July corn settled at $3.7275 per bushel, up negligibly compared to two weeks ago. The soy complex did not fare so well. July soybeans closed at $9.2125, down more than 30ȼ in the last two weeks.

The soybean market was rocked by news that Brazil’s president was entangled in the same type of corruption scandal that felled his predecessor. Amidst allegations that the president took millions in bribes, hopes that Brazil would emerge from a deep recession have faded. The currency – which had been this year’s strongest performer – tanked. With that, the price of soybeans in real terms suddenly looked attractive to Brazilian farmers. A bout of selling quickly ensued, but very soon faded. The initial wave of sales was enough to supply South American exporters and pressure the U.S. soybean market. The weather forecast brought additional weakness.

The Corn Belt has been much drier than feared, allowing farmers to keep planters rolling. But due to early spring rains, a sizeable chunk of acreage will need to be replanted in the Eastern Corn Belt and Wisconsin. Many farmers will plant corn seed once again, but some acreage is likely to shift to soybeans. Meanwhile, indications of domestic soybean demand have been less than robust. Today, grain is abundant and oilseeds less so. This year’s crops have the potential to shift that balance.

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**Producer Review Board holds meeting, begins decision-making process**

*By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant*

On Tuesday, May 30, 2017 at 9 a.m., 13 members of newly expanded Producer Review Board (PRB) met in Modesto to begin the process of designing a new Stand-Alone Quota Program in the event that California producers vote to join the Federal Milk Marketing Order (FMMO) system.

Prior to the meeting, California Department of Food and Agriculture (CDFA) staff prepared an extensive presentation, which included an overview of the current California system as well as the requirements for transitioning to a Stand-Alone Quota system, where the pricing and pooling of California milk would be the responsibility of the FMMO. You can view those handouts [here](#).
The PRB, as it is now constituted, consists of 15 members, 13 of whom were in attendance. Existing PRB members Wes Bylsma, Craig Gordon, Rodney Kamper, George te Velde and Case Van Steyn were there as well as newly appointed members, Chuck Ahlem, Jarrid Bordessa, Arie De Jong, Fred Douma, Joey Fernandes, Scott Magneson, John Moons and Mike Gallo. Members Ron Koetsier and Ted De Groot were absent. Rodney Kamper who had been chairman was re-elected chairman and George te Velde was elected Vice-chairman.

The first part of the meeting was dedicated to an oral presentation of the materials previously provided as handouts. CDFA staff identified six specific areas where decisions need to be made in order to construct a Stand-Alone Quota program. By 11 a.m. the group was ready to tackle those issues.

The reason this is described as a Stand-Alone Quota program is that if California enters the FMMO program, then the actual minimum price regulation and the establishment and supervision of the “pool” which will collect and distribute the money generated by the sale of milk that participates in the regulated system, will be done by the federal government, and not the State of California. What the State of California will supervise will be the quota program.

So what is quota? Essentially it is the right to a price or money in excess of the price or money due to non-quota milk. In the current system, the money to pay the quota price comes from the “pool” of dollars generated by the sale of virtually all the Grade A milk in California. Because it is taken out of the “pool” before the overbase price is established, the deduction of money to pay the quota price is not visible. For a Stand-Alone Quota Program to work, the money to fund the quota price needs to come from somewhere and the PRB was asked “who should be assessed to fund the quota payment?” This question was debated by the PRB and a motion was made, supported, and ultimately passed that all California produced milk, both Grade A and Grade B, as well as milk produced in California and processed outside of California would be assessed.

The second issue to be decided was how the quota payment should be calculated? Currently, the law requires that the quota price is established as $0.195 per pound of solids-not-fat ($1.70 per cwt.), adjusted by a Regional Quota Adjuster (RQA). Again, there was a robust discussion, particularly about RQAs and whether it was time to change them, but eventually a motion was made, supported, and passed to leave the current RQA deductions in place.

The third issue is how should Producer-Handler Exempt quota be administered in a Stand-Alone Quota Program. Again, there was robust discussion on this issue. There remain four Producer-Handlers in the State of California who have the equivalent of about 700,000 pounds of milk per day of exempt quota. What the exemption means
is that these four producers, in their fluid processing plants, do not have to pay the California pool for these pounds of Class 1 sales. The assumption is that the benefit this Exempt Quota gives these four producers is the difference between the price that regular quota earns and the Class 1 price, which is on average higher. There was a motion made and supported to convert the Exempt Quota in the Stand-Alone Program to regular quota, essentially on a one-for-one basis. After significant debate this motion was tabled to be decided later.

The fourth issue concerned how CDFA would obtain the data necessary to run the Stand-Alone Program. The group decided to require handlers to report the information necessary to run the program directly to CDFA.

The fifth issue is how the quota payment should be dispersed. The group decided that CDFA should use a settlement fund approach similar to what is currently used for the whole pool. Handlers who pay dairy farmers will calculate what they deduct from producers in quota assessments, less what those producers are owed for quota payments and then will true it up with the settlement fund, either receiving money or sending money depending on the situation. The quota assessment and the quota payments would show up on the producer’s settlement statements.

The sixth issue is how to fund CDFA program costs to administer the program. The group decided to use existing authority under which the Milk Pooling Branch currently assesses a small per cwt. charge to producers to run the pooling program.

So, the PRB reached a conclusion on five of the six identified issues to come before them. There is a tabled motion regarding the Producer-Handlers Exemption that needs to be resolved. There is also a question about the legality of assessing a state quota fee on milk produced in California but shipped out of state for processing, since that is interstate commerce which a state cannot regulate. There is also a question about the legality of assessing Grade B milk for a Grade A quota program that Grade B milk is ineligible to participate in. So, it is likely that there will be further discussion about what milk gets assessed to fund a Stand-Alone Quota program.

Overall, it was a very productive first meeting of the PRB. The next meeting is June 15, 2017 also in Modesto. It starts at 9 a.m. and is open to the public. Check out the CDFA Dairy Programs website for more information here.

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