DATE: June 23, 2017
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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</thead>
<tbody>
<tr>
<td>Blocks - $.0750 $1.5400</td>
<td>Weekly Change + $.0300 $2.5900</td>
<td>Week Ending 6/16 &amp; 6/17</td>
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<tr>
<td>Barrels - $.0100 $1.3700</td>
<td>Weekly Average - $.0210 $2.5900</td>
<td>Calif. Plants $0.8973 6,496,276</td>
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<td>Weekly Average, Cheddar Cheese</td>
<td></td>
<td>Nat’l Plants $0.9199 11,919,315</td>
</tr>
<tr>
<td>Blocks - $.0590 $1.5680</td>
<td>Dairy Market News w/e 06/23/17 $4.400</td>
<td>w/e 06/17/17 $4.926</td>
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<tr>
<td>Barrels - $.0520 $1.3510</td>
<td>National Plants</td>
<td>Calif. Plants $0.8943 5,747,252</td>
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DRY WHEY

| Dairy Market News w/e 06/23/17 $4.400 | National Plants w/e 06/17/17 $4.926 |

Fred Douma’s price projections…

June 23 Final: Quota cwt. $17.01 Overbase cwt. $15.31 Cls. 4a cwt. $15.90 Cls. 4b cwt. $15.60

Last Week: Quota cwt. $17.05 Overbase cwt. $15.35 Cls. 4a cwt. $15.84 Cls. 4b cwt. $15.72

Market commentary

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

Milk & Dairy Markets

For ten minutes today, the CME dairy pits resembled days gone by. A crowd of men and women in a rainbow of colored jackets shouted over one another. With phones pressed to their ears they relayed a flurry of orders to buy and sell the last loads of spot Cheddar to trade via open outcry. On Monday, Cheddar will join butter and nonfat dry milk (NDM) on the electronic platform.

Despite enthusiastic trading, spot Cheddar market continued to retreat. Cheddar blocks fell 7.5ȼ to $1.54/lb., and barrels slipped a penny to $1.37. The cheese market remains well-supplied, and barrels are particularly abundant. But they’re also quite cheap relative to dairy products around the globe, so further pressure may be fleeting. USDA reported May 31 cheese stocks at 1.34 billion pounds, the highest volume since the agency began keeping records in 1917. Cheese inventories grew only slightly from April to May, but they remain 7.3% greater than year-ago levels. The month-to-month increase was driven by a larger-than-typical addition to already burdensome American cheese inventories. At 847 million pounds, American cheese stocks are 11.8% greater than they were in May 2016.

Butter stocks climbed 21 million pounds from April to May, in line with the historic trend. At 313.6 million pounds, butter inventories are 3.5% short of May 2016 volumes. Supplies are much tighter abroad, and prices continue to rise. At the Global Dairy Trade (GDT) auction, the average winning butter price was up 2.9% to the equivalent of $2.55/lb. at 80% butterfat, an all-time high price for butter’s five years at the GDT. The European
butter market remains spectacularly strong, with prices in Germany ranging from $2.87 to $3.07 after adjusting to 80% butterfat. CME spot butter climbed 3¢ this week to $2.59.

It is ice cream season, and demand for cream has picked up noticeably. Hot weather has reduced milk and component volumes across much of the country, and cream multiples are climbing along with the mercury. Triple digit highs are common in central California. Sweltering temperatures have also crimped milk production in southern and central Europe.

Hot weather was not much of an issue in May, and U.S. milk production reached 18.9 billion pounds, up 1.8% from the year before. Cow numbers continue to climb. USDA estimated the dairy herd at 9.33 million head in May, up 2,000 head from April after the agency increased its assessment of the April milking herd by 1,000 head. There are 71,000 more milk cows in the United States than there were in May 2016.

Output in the two largest dairy states fell short of last year. California milk production was down 1.1% from May 2016, marking the fifth straight month of year-over-year declines. In Wisconsin, May milk output was down 0.7% from last year, the first contraction since April 2014. Dairy producers in Wisconsin milked just as many cows as they did a year ago, but production per cow has dropped, likely due to less favorable weather conditions than those that fostered a 4.5% year-over-year increase in milk output in May 2016, compounding the 5.7% growth in May 2015. Additionally, some dairies stopped using rBST as new restrictions from processors kicked in. Similar bans on rBST use will soon take effect in South Dakota.

After a very harsh winter, cows in the Pacific Northwest have struggled to return to their full potential. In contrast, output remained strong in the Southwest in May, with production up 14.7% in Texas and 6.9% in New Mexico. Modest growth – building on years of very strong increases – continued in the Northeast and much of the Midwest. Given the size of the dairy herd, U.S. milk output is likely to continue to expand.

The milk powder market put in a mixed performance this week. At the GDT, skim milk powder (SMP) prices climbed 1.4%, but the average winning price for whole milk powder (WMP) dropped 3.3% and dragged the GDT index down 0.8%. At the CME spot market, NDM dropped 6.25¢ to 84.75¢. That’s much cheaper than GDT SMP which reached $1.07 after adjusting to NDM-equivalent protein.
The European Commission managed to sell 100 metric tons of SMP out of its Intervention storage program, the first sale since the week ending December 13. The European government is still sitting on a mountain of aging milk powder.

Both Class III and Class IV futures lost ground this week. July Class III was down 36ȼ, with more modest losses in the other contracts. A number of Class IV contracts lost 50ȼ or more.

**Grain Markets**
The corn market closed in the red every day this week. July corn futures settled today at $3.5775, down a substantial 26.25ȼ from last week. Soybeans followed a similar path, falling 33.5ȼ to $9.045. The weather has improved greatly over the past week and a half, which has weighed on prices. However, parts of Iowa, Nebraska, and the Dakotas remain dry. So far, dry weather has proven more problematic for wheat than the row crops, but conditions are less than perfect.

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**Central Valley water board adopts new regulations for non-milking confined cattle operations**
*By Kevin Abernathy, MPC General Manager*

Earlier this month, the Central Valley Regional Water Quality Control Board (Regional Board) adopted new regulations for confined cattle operations that don’t milk cows, such as calf ranches, heifer ranches, beef finishing feedlots and auction yards. Coming nearly a decade after the Regional Board first adopted a general order for dairies, the new so-called “Bovine Order” includes similar requirements to the existing dairy order, with a few exceptions. The entire Bovine Order can be viewed here.

The order means new requirements to dairy heifer operations, currently unregulated unless part of a dairy and included under the dairy permit. As such, at minimum it will increase the cost of raising heifers off site of dairies and will have an economic impact on valley dairies, as well as the beef industry in general. Milk Producers Council worked closely with the Dairy Cares coalition and California Cattlemen’s Association to request changes in the order. MPC representatives participated in both the June 8 hearing, submission of numerous written comments on the proposed order, and in many committee meetings held over the past year to identify ways to minimize the economic impact of the order and to make the order more practical and cost-effective. Many changes – such as extended compliance timelines – were accepted, and will soften the economic burden by spreading compliance deadlines over a longer period.

A few important things to remember about the Bovine Order:
- The order covers only commercial facilities (not FFA projects, etc.);
- The order does not cover grazing operations; it is for confined cattle operations only;
- Operations with less than six animal units (weight equivalent of six 1,000-lb steers) are not subject to the regulation;
- Requirements for so-called Limited Population Operations (less than 100 animal units) are minimal;
- Operations with more than 100 animal units are identified as “Full coverage operations” and face the full requirements of the order;
- Dairies that raise heifers or operate adjacent or nearby heifer ranches do not need to enroll their heifers under the bovine order; those may be included in their dairy permits so long as all the land where solid and liquid manure from the dairy and heifer ranch is included in
the Nutrient Management Plan (NMP);
- Covered facilities have one year (until July 1, 2018) to submit a Notice of Intent (NOI) to be covered under the Bovine Order. The NOI is a relatively simple form and can be filled out without professional assistance if desired;
- More significant requirements, including joining a Representative Monitoring Program and completion of an NMP for facilities with more than 100 animal units (that is 100,000-lb. animals or equivalent weight), kick in two years from now (July 1, 2019);
- Engineered Waste Management Plan is due July 1, 2020.

Although the key information related to the order has been summarized above, there are many important details in the 199-page order that cannot be summarized here in a short article. Now that the order has been adopted, MPC will work with other Dairy Cares coalition members, including California Cattlemen’s Association, to develop and support efforts to provide compliance-related education and outreach to affected operations. We will work to keep our members apprised of important deadlines and opportunities to receive compliance assistance and support.

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California Dairy Quality Assurance Program shares helpful information in latest e-update

By Kevin Abernathy, MPC General Manager

The recent June e-update from the California Dairy Quality Assurance Program (CDQAP) provides important and timely information related to tetracycline testing in bulk milk tankers, cow heat stress prevention, and backflow certification requirements for irrigation and supply wells.

With new and expanded testing of antibiotics beginning July 1, and the recent heat wave we’ve had, this is a good, helpful and quick read for dairy farmers.

The entire CDQAP e-newsletter is available here.

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