DATE: July 7, 2017
TO: Directors & Members
FROM: Kevin Abernathy, General Manager

## MPC Friday Market Update

### CHICAGO CHEDDAR CHEESE

<table>
<thead>
<tr>
<th>Format</th>
<th>Change</th>
<th>Weekly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>+ $0.0275</td>
<td>$1.5525</td>
</tr>
<tr>
<td>Barrels</td>
<td>+ $0.0225</td>
<td>$1.3750</td>
</tr>
</tbody>
</table>

### CHICAGO AA BUTTER

|  | Weekly Change | Weekly Average |
|  | - $0.0575 | $2.5850 |
|  | - $0.0221 | $2.6119 |

### NON-FAT DRY MILK

<table>
<thead>
<tr>
<th>Format</th>
<th>Weekly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calif. Plants</td>
<td>$0.9043</td>
</tr>
<tr>
<td>Nat’l Plants</td>
<td>$0.9172</td>
</tr>
</tbody>
</table>

**Weekly Ending 6/30 & 7/1**

<table>
<thead>
<tr>
<th>Format</th>
<th>Calif. Plants</th>
<th>Nat’l Plants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Average</td>
<td>$2.5850</td>
<td>$2.6119</td>
</tr>
</tbody>
</table>

**Prior Week Ending 6/23 & 6/24**

<table>
<thead>
<tr>
<th>Format</th>
<th>Calif. Plants</th>
<th>Nat’l Plants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Average</td>
<td>$2.4600</td>
<td>$2.4600</td>
</tr>
</tbody>
</table>

**Dry Whey**

**Weekly Ending 6/30 & 7/1**

<table>
<thead>
<tr>
<th>Format</th>
<th>Weekly Change</th>
<th>Weekly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calif. Plants</td>
<td>$0.9024</td>
<td>$2.5768</td>
</tr>
<tr>
<td>Nat’l Plants</td>
<td>$0.9212</td>
<td>$2.6119</td>
</tr>
</tbody>
</table>

**Prior Week Ending 6/23 & 6/24**

<table>
<thead>
<tr>
<th>Format</th>
<th>Weekly Change</th>
<th>Weekly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Calif. Plants</td>
<td>$0.9000</td>
<td>$2.5721</td>
</tr>
<tr>
<td>Nat’l Plants</td>
<td>$0.9000</td>
<td>$2.5504</td>
</tr>
</tbody>
</table>

***

**Fred Douma’s price projections…**

- **July 7 Est:** Quota cwt. $16.71 Overbase cwt. $15.02 Cls. 4a cwt. $16.34 Cls. 4b cwt. $14.59
- **Last Week:** Quota cwt. $16.66 Overbase cwt. $14.96 Cls. 4a cwt. $16.50 Cls. 4b cwt. $14.40

***

**Market commentary**

*By Sarina Sharp, Daily Dairy Report, sarina@dailymarketreport.com*

**Milk & Dairy Markets**

With the flare of fireworks and the sizzle of cheeseburgers on the grill, July has arrived. The temperature is climbing, and the cheese markets are heating up too. But this is not a gas-fueled blaze. The cheese trade better resembles a smoldering campfire, a sparkler rather than a booming mortar. This week at the CME spot market Cheddar blocks rallied 2.75ȼ to $1.5525/lb. Barrels gained 2.25ȼ and reached $1.375. That was not enough to boost the nearest Class III contracts compared to last Friday, but from September forward the futures moved a few cents higher.

Domestic cheese demand seems to be improving modestly, but America’s appetite for cheese is unequal to its output. Cheese production reached 1.05 billion pounds in May, up 4% from a year ago. Cheddar output was up 6.9% compared to May 2016. Fortunately, exports are improving. In May, cheese and curd exports reached 78.1 million pounds, up 48% from last year to a more than three-year high. Shipments to Mexico were record large and 75% greater than in May 2016. Global cheese stocks remain burdensome, but a few months of hot temperatures and robust exports could help to trim the domestic stockpile.
The story is similar in the milk powder markets. Manufacturers’ stocks of nonfat dry milk (NDM) reached 282.3 million pounds on May 31, up 22% from last year to an all-time high. Stocks climbed nearly 15 million pounds from April to May despite robust exports and a decidedly modest increase in milk powder output. Combined production of NDM and skim milk powder (SMP) was up 1% from May 2016 at 219 million pounds. The U.S. exported 129.4 million pounds of NDM/SMP in May, up 32% from last year.

CME spot NDM rallied 2.25ȼ this week to 86.75ȼ. At the Global Dairy Trade (GDT) auction, SMP fell 4.5%. Adjusting for protein puts GDT SMP at the equivalent of NDM at $1.01. The American discount will likely continue to fuel U.S. milk powder exports, and the weak currency will add to our competitive advantage. This week the dollar index settled at nine-month lows against a basket of currencies.

We’ll need all the currency leverage we can get, as we are losing our edge on other fronts. This week Japan and the European Union reached a preliminary trade pact, featuring dramatic cuts in Japanese cheese and SMP tariffs. The lower tariffs will be phased in over the next 15 years, gradually opening the door wider for European dairy products. Shawna Morris, vice president of trade policy at the U.S. Dairy Export Council warns, “Limits in exports ultimately flow back to farmers through lower returns. [The trade pact] gives certain European products a leg up at our expense.”

Meanwhile, Russia extended its ban on agricultural imports from the West for another 18 months, and Canada continues to sell SMP at the artificially low Class 7 price, keeping U.S. product out while the wheels of international bureaucracy turn imperceptibly.

The butter markets fizzled this week. CME spot butter dropped 5.75ȼ to $2.585. Nearby butter futures posted similar losses. USDA’s International Dairy Market News reports another surge in European butter prices to well over $3 per pound, but the German price stalled after a relentless 19-week climb. The U.S. butter market has been rallying in sympathy with European product on the assumption that trade prospects would improve. U.S. butteroil imports have been noticeably lower in 2017, but other trade gains have yet to materialize. U.S. butter and milkfat exports reached 4.3 million pounds in May, well short of imports at 8.8 million pounds. European butter exports to the U.S. were up 57% from a year ago in May. Exports can often lag a shift in international pricing by several months as buyers work their way through contracts negotiated.
when domestic product carried a premium. But the trade will soon need to see evidence that U.S. sales are improving if it’s going to try to keep pace with Europe’s frantic butter market.

For the week ending June 24, dairy cow slaughter totaled 53,242 head, up 6.8% from the same week in 2016. This brings year-to-date slaughter up 2.6% from the 2016 pace. Despite near record-breaking heat in California and Arizona in June, culling was not up noticeably in the region. But death loss was elevated, and milk production suffered. Milk output is starting to slip in the Midwest and Northeast as well, but production is steady in the Pacific Northwest, and Texas and New Mexico report plenty of milk. This is partly due to the holiday and some plant issues, but it is nonetheless unusual to see so much milk sloshing around the Southwest at this time of year.

**Grain Markets**

It was another exciting week in the crop markets. September corn settled at $3.925 per bushel, up more than a dime from last Friday. August soybeans closed at $10.01, up 54ȼ. Chicago wheat futures moved sharply higher Monday but retreated late in the week.

Hot weather and irregular rains have raised the risk of subpar yields as corn heads toward the critical pollination period. As of July 2, USDA rated 68% of the corn crop in good or excellent condition, up one point from the previous week but down seven points from the same week a year ago. The agency rated 64% of the soybean crop in good or excellent condition, a two-point decline which disappointed the market. It’s been unusually hot in the Corn Belt this week, but the forecast looks cooler. Expect volatility to continue until the trade feels it can confidently assess crop yields.

***

**Baker Commodities resumes full service as Central Valley heatwave continues**

*By Kevin Abernathy, MPC General Manager*

It looks like the Central Valley triple-digit temperatures aren’t going anywhere, with 100+ degree days in the forecast through July 21. The good news is we received word that Baker Commodities is back to providing full service effective today, welcome news for dairy farmers who were sent scrambling to deal with carcass disposal during the last heat stretch.

As we reported in [last week’s newsletter](#), various options were made available for emergency carcass disposal under County Emergency Declarations. The emergency declarations in most Central Valley counties expired this week, but temporary orders in Fresno, Kings and Tulare counties will permit dairies to bury or compost carcasses this weekend, should it become necessary. If you’re not located in one of these counties and you’re still having carcass disposal issues, please contact your County Agricultural Commissioner or MPC field staff directly for assistance. You can also contact the MPC office at office@milkproducers.org.

For more information about heat stress in dairy cows, visit the California Dairy Quality Assurance Program’s (CDQAP) website [here](#).

***