DATE: July 21, 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>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>Weekly Change</td>
<td>Calif. Plants</td>
</tr>
<tr>
<td>$0.0325</td>
<td>$0.0150</td>
<td>$0.9155</td>
</tr>
<tr>
<td>$1.7075</td>
<td>$2.5850</td>
<td>6,259,934</td>
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<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td>Nat’l Plants</td>
</tr>
<tr>
<td>$0.0650</td>
<td>$0.0190</td>
<td>$0.9028</td>
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<tr>
<td>$1.4100</td>
<td>$2.6175</td>
<td>14,765,436</td>
</tr>
</tbody>
</table>

**Weekly Average, Cheddar Cheese**

| Blocks | $0.0805 | $1.7055 |
| Barrels| $0.0220 | $1.4330 |

**Weekly Average, Butter**

| Weekly Change | $0.5850 |
| Weekly Average| $2.6175 |

**Dairy Market News**

| w/e 07/21/17 | $0.4250 |
| National Plants | $0.4467 |

**Prior Week Ending 7/7 & 7/8**

| Calif. Plants | $0.8872 |
| Nat’l Plants  | $0.9021 |

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Fred Douma’s price projections...

**July 21 Est:**

- Quota cwt.: $17.07
- Overbase cwt.: $15.37
- Cls. 4a cwt.: $16.40
- Cls. 4b cwt.: $15.28

**Last Week:**

- Quota cwt.: $17.01
- Overbase cwt.: $15.31
- Cls. 4a cwt.: $16.36
- Cls. 4b cwt.: $15.18

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**Market commentary**

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

**Milk & Dairy Markets**

U.S. dairy products are getting more competitive by the day, and CME spot Cheddar barrels are the best bargain on the board. They dropped 6.5ȼ from last Friday to $1.41. Traders continue to bring product to Chicago; 40 loads changed hands this week, on top of 50 loads last week. Spot Cheddar blocks climbed 3.25ȼ to $1.7075, widening the block-barrel spread to 29.75ȼ, the largest gap in nearly three years.

The wide spread is lending uncertainty to a market that is already struggling to balance record-breaking stockpiles and lackluster domestic demand against rising interest in U.S. cheese exports and hopes that summer weather will slow output. Exports are indeed picking up, but cheese production is hardly slowing down. Despite the heat, USDA’s *Dairy Market News* reports, “Milk supplies are adequate for cheese processing in all the regions. Cheese stocks are building up in the nation.” Class III futures finished deep in the red this week. The August contract dropped 55ȼ.

The euro stands at two-year highs against the dollar, and the greenback dropped to a 13-month low against a basket of currencies. If a global buyer were choosing between product from the U.S., Europe, and New Zealand, changes in currency would allow U.S. dairy product prices to rally 1.6% this week without losing any...
ground to competing product from New Zealand. Similarly, U.S. goods for export could rally 2% and maintain their position relative to European wares.

The currency effect is particularly good news for U.S. milk powder exporters, who are looking for buyers in a very crowded market. Canada is dumping Class 7 milk at an alarming rate, with January through May skim milk powder (SMP) exports up 237% from a year ago according to GTIS. They have stepped up shipments to several major U.S. customers, including Mexico. At the same time, Europe sent 176.5 million pounds of SMP abroad in May, their highest monthly export volume in a decade. Like Canada, Europe sent a surfeit of SMP to Mexico.

At the Global Dairy Trade (GDT) auction this week, SMP prices dropped 3.2% to the equivalent of nonfat dry milk (NDM) at 98¢/lb. CME spot NDM climbed a penny to 87.25¢. The fat-based products fared better. Whole milk powder (WMP) was basically unchanged and GDT butter rallied 3.4% to a fresh record, at the equivalent of $2.66 at 80% butterfat. The European butter market is holding steady after its meteoric run, but European butter priced in U.S. dollars continues to climb. In contrast, CME spot butter slipped 1.5¢ to $2.585. U.S. butterfat exports are reportedly accelerating, and domestic demand is respectable. Class IV futures were little changed once again this week.

U.S. milk production totaled 18.05 billion pounds in June, up 1.6% from the same month a year ago. This is the smallest year-over-year increase since July 2016. The dairy herd continues to grow, which suggests that a major slowdown in U.S. milk output is unlikely. USDA revised its estimate of the May milk cow herd up by 7,000 head and reported a further increase of 4,000 head from May to June. At 9.404 million head, the June milking herd is 78,000 head larger than it was a year ago.

Hot weather in California stifled milk yields in June. Production per cow fell 1.3% from last year, pushing overall milk output down 2.1%. Record-breaking heat in Arizona did not have the same impact, with production per cow up 0.7% in June, but recent humidity is reportedly crimping production. Cows in the Pacific Northwest show lingering signs of stress from the harsh winter. Production continues to climb in the Midwest and Northeast, but at a modest pace.

Milk production in the Southwest is staggeringly strong. Texas reported a 15% increase in milk output in June, with a 6.2% jump in milk yields.
Output was up 9.8% from last year in New Mexico. These two states continue to report formidable milk volumes despite the season. Processors in the region are struggling to handle all the milk, an unusual dilemma at the height of summer.

European milk output is rather ho-hum, at least by the admittedly lofty standards of 2016. Collections were down 0.1% from last year in May. April milk production was revised up to a 0.7% year-over-year increase, after an initial report of 0.4% growth. There’s no shortage of milk in the world; the market will be relieved if Europe continues to stagnate, especially given continued growth in the United States.

**Grain Markets**

It was another wild week in the crop markets. Through Thursday, the weather was broadly hotter and drier than anticipated, prompting a rally back toward recent highs. But solid – and largely unexpected – rains favored the Northern Plains and Northwestern Corn Belt today. Drought had been creeping into the heart of corn country during the crucial pollination period, and these rains helped revive a thirsty crop. With that, corn futures gave back most of the ground they had gained this week. September corn finished at $3.7975 per bushel, up 3.5¢ since last Friday.

The rains helped the soybean crop too, of course, but the bulk of the crop will pollinate in August, which promises to be hot. The trade chose to keep plenty of weather risk premium in the market. August soybeans settled at $10.09, up 20¢ for the week. Next week will be sweltering once again, and the outlook for precipitation is uncertain. The crop markets will remain volatile until the trade is confident it has a handle on the size of the harvest.

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**Update: California Legislature passes cap-and-trade program extension**

*By Kevin Abernathy, MPC General Manager*

In last week’s MPC newsletter, we provided an update on the Sacramento activities surrounding the debate on AB 398 (Garcia), the bill to extend CARB’s authority to operate a market-based compliance mechanism, also known as cap-and-trade. Read last week’s article [here](#).

At the time of last week’s newsletter, the vote for AB 398 and AB 617, a companion bill related to air quality standards, was postponed until this week. On Monday, July 17, a coalition of agricultural organizations, which included MPC, sent a letter of support for AB 398 to Assemblyman Eduardo Garcia, the bill’s author. Read the letter [here](#).

A critical component for MPC’s support of AB 398 included the spending prioritization of money collected through the Greenhouse Gas Reduction Fund by creating a specific order of projects to prioritize, starting with reducing air pollutants from stationary and mobile sources, sustainable agriculture, and short-lived climate pollutants. It’s also important to note that AB 398 and AB 617 do not create new regulations or mandates for dairy farmers related to greenhouse gas emissions, including methane.

As we noted last week, it appeared that a few Republican votes would be needed to pass these bills despite
Democratic super majorities in both legislative houses. On July 17, both bills passed each house by the required two-thirds majority, with 7 Republican Assembly Members and 1 Republican Senator casting “yes” votes. See which elected representatives crossed party lines at right (Source: Los Angeles Times).

In the end, the debate over AB 398 may be best summed up by Assembly Member Devon Mathis of Visalia, who voted “yes” on the bill.

“I personally think cap and trade sucks,” said Mathis. “What we have before us is the opportunity to make something that many of us think is horrible a little bit better.”

Please feel free to contact the MPC office at office@milkproducers.org with any questions.

San Joaquin Valley Air Pollution Control District offers agricultural incentive funding
**TRUCK VOUCHER PROGRAM**

Funding available for replacement of medium and heavy-duty trucks, up to $50,000 for a replacement.

Must be in Compliance with
ARB's Truck and Bus Regulation

Owned and operated the truck for the past 24 months

Operate the truck annually 75% within CA and 50% within SJVAPCD boundaries.

**STATIONARY AG IRRIGATION PUMPS**

Funding is available for the following categories:

- Diesel tier 2 going to tier 4.
- Diesel tier 2, or 3 going to electric.

Funding amounts are based on a dollar per horsepower of the new engine motor, not to exceed 85% of the eligible costs.

Converting diesel engines to electric eliminates permitting and registration requirements.

Applications are being accepted on an ongoing basis.

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**Contact Information**

For more info on Valley Air grant programs and specific eligibility requirements, please contact:

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Email: weberip@valleyair.org

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