Fred Douma’s price projections…

Jan 5 Est: Quota cwt. $15.09  Overbase cwt. $13.40  Cls. 4a cwt. $13.44  Cls. 4b cwt. $13.35
Dec ’17 Final: Quota cwt. $15.43  Overbase cwt. $13.73  Cls. 4a cwt. $13.35  Cls. 4b cwt. $13.52

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

**Milk & Dairy Markets**
The butter market has begun this year much like it did the last one, huddled in a relatively snug trading range between $2.20 and $2.25 per pound. CME spot butter finished today at $2.2375, up 5.75ȼ over the past two holiday-shortened weeks. Cream is plentiful after the end-of-year downtime, and churns are running hard. In November, U.S. butter production reached 145.7 million pounds, up 1.8% from a year ago.

The European butter market continues to drop, albeit at a much slower pace. In fact, over the past two weeks the dollar has fallen more quickly than the foreign butter market, resulting in higher European butter prices in U.S. dollar terms. Still, U.S. butter stands at a slight premium to European product. U.S. butter exports exceeded imports in November for only the second time this year, thanks to sky-high European butter prices this fall. Nonetheless, the difference was modest and U.S. butter imports were still 21.1% greater than year-ago volumes. With one month of data yet to be reported for 2017, U.S. butter imports have eclipsed the record-breaking volumes of 2016. The Emerald Isle accounts for almost two-thirds of the total. Americans simply cannot get enough Irish butter.
The powder market seems to have fallen far enough for now. CME spot nonfat dry milk (NDM) closed at 68¢, up 1.5¢ in the past two weeks to a nearly four-week high. Class IV futures recorded a negligible uptick. Fonterra was able to successfully talk milk powder prices higher at the Global Dairy Trade (GDT) auction. The average winning price for skim milk powder (SMP) rallied 1.6% to the equivalent of NDM at 82¢. Whole milk powder (WMP) prices jumped 4.2% after Fonterra trimmed the volume of WMP for sale at the event and warned that dry weather is likely to reduce New Zealand’s milk supplies.

There is plenty of milk in the U.S., and driers have been running full throttle. In November, U.S. NDM production reached 140.5 million pounds, up 9.7% from a year ago. Despite lower SMP output, combined production of NDM and SMP tallied 182.3 million pounds, up 3.9% from November 2016. Manufacturers stocks of NDM reached 301.7 million pounds, more than 40% higher than a year ago. USDA revised downward its assessment of October 31 NDM inventories by nearly 30 million pounds, a small comfort in a heavily-laden market.

The global economy is humming along nicely, which suggests the potential for better dairy product demand, especially at today’s prices. This was reflected in China’s appetite for imported dairy products in November, a trend that will hopefully continue. China brought in 108 million pounds of SMP and WMP in November, 16.5% more than the previous year. For the year to date, Chinese milk powder imports are up 13.4% from 2016. Compared to November 2016, Chinese whey imports were up almost 3%, and infant formula imports jumped 47%. Cheese imports fell 22% behind last year’s pace. The Daily Dairy Report notes, “While some categories slowed a bit in November, China’s year-to-date dairy imports are outpacing the prior year by double digits with the exception of whey powder, which was up 6.2% vs. 2016.”

Cows and their owners are enduring frigid conditions from New Mexico to New York. This is likely to weigh on milk production per cow in the upper Midwest and Northeast, resulting in a little less excess milk sloshing around than at this time last year. Still, as manufacturers ramp back up after the holidays, there is plenty of slack. USDA reports spot milk moving at as much as $6
under Class III to cheese plants in the Midwest. Cheese inventories remain long, and in November U.S. cheese output reached 1.05 billion pounds, up 2.8% from a year ago. Exporters sent 64.6 million pounds of cheese abroad in November, 17.2% more than in November 2016.

At the CME, spot market blocks closed at $1.495 per pound, up a quarter-cent over the past two weeks. Barrels slumped to $1.39, the lowest price in nearly six months and down 2¢ in the last two weeks. Class III futures contracts were mixed, with January through June losing ground while deferred contracts finished a little higher. At prices like these, dairy producers are suffering. Sellouts and slaughter volumes are likely to accelerate in 2018, laying the groundwork for a recovery down the road.

**Grain Markets**
The corn market remains frozen in place. March corn settled today at $3.5125 per bushel, down less than a penny since the Friday before Christmas. March soybeans closed at $9.7075, up 10.5¢ from two weeks ago. Rains have been regular in Brazil and less so in Argentina, but the forecast offers enough precipitation to keep the bulls at bay. Global demand for soybeans remains robust, but the U.S. is losing market share to Brazil, and U.S. soybean exports continue to lag last year’s pace. That will have to change or USDA will have to lower its estimate of soybean export demand, resulting in higher domestic stockpiles at the end of the season. Grains are cheap and oilseeds are reasonably priced compared to the past few years. That is unlikely to change.

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**Thoughts for a New Year**
*By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant*

I have no more knowledge about what is going to happen in 2018 than the next guy. Producers are pretty grumpy right now about the economics of milking cows. Looking at the current milk prices, this attitude is understandable and probably justified. But it seems to me that there are a few things worth considering on the other side.

The overall economy is strong and demand, both domestically and internationally, is not that bad. We have an oversupply problem more than anything else, but dairy farmers all over the world (with the notable exception of Canada) are suffering too.

There are significant processing capacity constraints in the Upper Midwest and the Northeast. This will restrict supply growth. The market is doing its job of sending signals to producers to throttle back production and producers everywhere on the planet are receiving that signal. This is not 2009. At that time the whole world economy was suffering from the Wall Street and mortgage meltdowns. Those events severely impacted demand, and as producers, we could not react quickly enough to the sudden drop in demand, which resulted in a free fall in milk prices.

For the six months from February 2009 through July 2009 the California overbase price averaged $9.70. That was a wreck of historic proportions. I do not think that is what we are dealing with now. In fact, I think the seeds of price recovery have already been planted. So hang in there my friends. Remember we do not so much solve problems as we outlast them.

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Gregory O. “Butch” Dias, Jr. celebration of life
By Kevin Abernathy, MPC General Manager

In our last MPC newsletter we shared news of the passing of MPC member Gregory “Butch” Dias. Below is an excerpt from Butch’s obituary regarding details about the celebration of life:

The family would like for anyone wanting to donate a remembrance in Butch's name to please donate to the Rachelle Dias Memorial Athletic Scholarship Fund or to Valley Children's Hospital. They request there be no flowers. The burial per Butch's wishes will be private. There will be a celebration of Butch's life on January 13, 2018, at The Barn located on Road 48, Visalia, California, directly across from Delta View, starting at 11 a.m. with lunch at noon.

Read the full obituary here.

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Quota Implementation Plan approved in lopsided vote
By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

California market milk producers voted overwhelmingly to approve the Quota Implementation Plan (see next two pages for details in the official CDFA announcement). The next move is for USDA to publish a final proposed order for a California FMMO for producers to consider, which should be coming out soon.

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See Quota Implementation Plan referendum results on next 2 pages
January 5, 2018

To the Market Milk Producer Addressed:

The California Department of Food and Agriculture (CDFA) recently conducted a referendum of all market milk producers within the State of California to determine whether or not a proposed Quota Implementation Plan (QIP) would become effective should a Federal Milk Market Order (FMMO) be promulgated in California.

In order for the QIP to be approved, at least 51 percent of the total number of market milk producers in the State must vote, and at least 51 percent of those voting who produce at least 65% percent of the total amount of market milk produced by all producers who voted in the referendum, or at least 65 percent of those voting who produced at least 51 percent of the total amount of market milk produced in the State during August 2017 by all producers who voted in the referendum must vote in favor of the proposed QIP. The following summarizes the outcome of the referendum vote:

<table>
<thead>
<tr>
<th>QIP Referendum Results:</th>
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<tbody>
<tr>
<td>Portion of Eligible Producers that participated:</td>
<td>66.38%</td>
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<tr>
<td>Portion of those Eligible Producers Voting in Favor:</td>
<td>87.20%</td>
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<tr>
<td>Portion of the Voted Volume Represented by Eligible Producers in Favor:</td>
<td>90.65%</td>
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</tbody>
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Based upon the results of this referendum, enactment of the QIP will occur if a FMMO is promulgated in California as a result of a future referendum to be administered by USDA.

If you have any questions regarding the QIP referendum, please contact me or Hyrum Eastman at (916) 900-5014.

Sincerely,

[Signature]

Donald Shippelhoute, Acting Chief
Milk Pooling Branch
Quota Implementation Plan
Market Milk Producer Referendum
Certification Results – January 5, 2018
Voting Period: October 6, 2017 – December 22, 2017

Participation:

Number of valid ballots received: 703
Total number of producers on the list: 1059
Percentage of producers on the list who submitted a valid ballot: 66.38%
Total August 2017 volume (in product pounds) represented by those submitting valid ballots: 2,494,067,506

The following figures are of those submitting valid ballots:

In Favor of the Quota Implementation Plan:

Number of producers who voted in favor: 613
Percentage of producers who voted in favor: 87.20%
August 2017 product pounds represented by producers voting in favor: 2,260,765,016
Percentage of total product pounds represented by producers voting in favor: 90.65%

In Opposition of the Quota Implementation Plan:

Number of producers who voted in opposition: 90
Percentage of producers who voted in opposition: 12.80%
August 2017 product pounds represented by those voting in opposition: 233,302,490
Percentage of total product pounds represented by producers voting in opposition: 9.35%

Donald Shippelethoue, Acting Chief
Milk Pooling Branch