DATE: January 12, 2018
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 - $.0400</td>
<td>Weekly Change - $.0775</td>
<td>Week Ending 1/5 &amp; 1/6</td>
</tr>
<tr>
<td>Barrels - $1.1725</td>
<td>Weekly Average - $.0533</td>
<td>Calif. Plants $0.7054 4,527,027</td>
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<tr>
<td>Weekly Average, Cheddar Cheese</td>
<td></td>
<td>Nat’l Plants $0.6971 11,985,155</td>
</tr>
<tr>
<td>Blocks - $.0501</td>
<td>Dairy Market News w/e 1/12/18 $2.625</td>
<td>Prior Week Ending 12/29 &amp; 12/30</td>
</tr>
<tr>
<td>Barrels - $1.1183</td>
<td>National Plants w/e 1/6/18 $2.773</td>
<td>Calif. Plants $0.7434 6,619,345</td>
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</tbody>
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Fred Douma’s price projections…

Jan 12 Est: Quota cwt. $14.88 Overbase cwt. $13.19 Cls. 4a cwt. $13.17 Cls. 4b cwt. $13.09
Last Week: Quota cwt. $15.09 Overbase cwt. $13.40 Cls. 4a cwt. $13.44 Cls. 4b cwt. $13.35

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

Milk & Dairy Markets
The cheese market is not in uncharted territory, but it is wandering the road less traveled. CME spot Cheddar barrels suffered a spectacular collapse. They plummeted 17.25ȼ this week to $1.2175 per pound. Not since 2009 – words that every dairy producer abhors – has the barrel market languished at these levels. Blocks were also weaker, but considerably less so. They dropped a nickel this week to $1.445. In the past four weeks blocks have fallen 8.5ȼ, while barrels have lost 44.25ȼ. January through July Class III futures posted new life-of-contract lows, dropping by double digits this week.

Dairy Market News reports that cheese orders are “at or ahead of expectations,” but stocks remain heavy and output remains formidable. Cheesemakers in the Midwest can buy spot milk at a discount, and they are running hard. The Daily Dairy Report cautions, “World milk supplies are still running ahead of year-ago levels, even after adjusting for Europe’s slowdown at the start of last year. In addition, milk is still on the rise seasonally, which means more cheese production is on the horizon… Low prices could be more challenging to shake as spring approaches and milk supplies rise.”
The butter and milk powder markets also lost ground this week. CME spot nonfat dry milk (NDM) slipped 1.25ȼ to 66.75ȼ. Domestic indications of milk powder prices continue to slide. Spot butter fell 7.75ȼ to $2.16. Domestic butter demand has slackened after the holiday rush, but that comes as no surprise. The international market stabilized this week, but the prospect of a return to big butterfat imports continues to embolden butter market bears.

Class IV futures finished deep in the red. All 2018 Class IV contracts and January through July Class III futures now stand below $15 per cwt. At these prices dairy producers are struggling to cover costs, and a small but growing number are selling out.

When prices dipped to similarly painful levels in the first half of 2016, dairy producers drew on the equity they had accrued in the boom years that preceded the bust. Today, for many that cushion is gone. As red ink accrues, slaughter volumes are likely to remain elevated and cow values will drop. Springer prices have already fallen sharply in the past six weeks. As a result, the Daily Dairy Report opines, “A meaningful and widespread contraction in the U.S. dairy herd is likely.” Eventually, this will pave the way for a milk price recovery, but the process may be delayed if European milk output continues to climb.

During the last wave of liquidations six years ago, the beef industry was short of cattle, and beef buyers eagerly acquired dairy cull cows, putting a floor under the cull cow market. Today, the beef industry is worried about having the labor and shackle space to process all the beef cattle that are expected to finish in the late spring and early summer. Beef packers certainly won’t be clamoring to buy dairy cull cows.

**Grain Markets**

USDA surprised the corn market again today, incrementally raising its estimate of the corn yield in its monthly update to the World Agricultural Supply and Demand Estimates (WASDE) report. The agency also lowered its estimate of domestic corn demand, putting ending stocks up 40 million bushels compared to the previous report. March corn futures settled at $3.4625 per bushel, a nickel lower than last Friday.

March soybeans closed at $9.44, down 30.75ȼ from last Friday. USDA’s estimate of ending soybean stocks was 25 million bushels higher than on its previous report, and in line with analysts’ expectations.
agency lowered its estimate of the size of the U.S. soybean crop, but this was more than offset by a 65-million-bushel decline in U.S. soybean exports. The U.S. continues to lose market share to Brazil, although the world’s appetite for soybeans remains large.

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**Activists sue Tulare County over new dairy plan**

*By Kevin Abernathy, MPC General Manager*

Three anti-dairy activist groups on Thursday announced that they have sued Tulare County over its recent adoption of a new plan for permitting and regulating dairies. “Instead of protecting public health, county officials are sabotaging efforts to curb climate change’s devastating effects,” said Hannah Connor, a senior attorney at the Washington, D.C. office of the Center for Biological Diversity (CBD).

The Sierra Club and the Bakersfield-based Association of Irritated Residents joined CBD in the filing at Tulare County Superior Court, asking that a judge order the county to set aside the new dairy plan and “identify steps to cut pollution from industrial dairies and feedlots.”

Ironically, the plan adopted just one month ago is the first in the state (and likely in the nation) to include a fully developed Dairy Climate Action Plan that includes requirements for new or expanding dairies in the county to reduce air emissions. The county’s dairies are regulated not only by the county, but by the San Joaquin Valley Air Pollution Control District and the Regional Water Quality Control Board – and must obtain environmental permits from all three agencies, and implement a myriad of practices to reduce air and water impacts. Meanwhile, the California Air Resources Board is also implementing a new law that requires dairies achieve a 40 percent reduction in greenhouse gas emissions – a requirement that exists nowhere else in the world.

The nation’s largest dairy county, Tulare worked for several years on the effort to overhaul its dairy plan toward harmonizing it with the many new dairy regulations adopted by the state and regional air and water quality authorities over the past decade. The county’s plan is now consistent with statewide policy for reducing dairy greenhouse gases.

“California dairies do it right and are incredibly efficient,” Tulare County Supervisor Pete Vander Poel said in December as the board unanimously adopted the plan, following a unanimous recommendation from the county’s Planning Commission six weeks earlier. “They’re very environmentally friendly.”

This latest development does not surprise Milk Producers Council – greedy activists have long worked to try to prove their relevance by attacking hardworking dairy families and trying to milk cash-strapped local governments with frivolous lawsuits. Fortunately, most of these are rejected by the courts, but usually not before a lot of time and taxpayer money is wasted.

Still, we are extremely disappointed to see this attack on a county that was only trying to update its ordinance to catch up with all the changes in state laws and regulations for dairies. There is no question that California dairies are, by far, the most regulated in the nation. There is also no question that California dairy farmers are already doing far more than their colleagues in other states to protect air and water quality and reduce greenhouse gases.

Through its collaboration with the Dairy Cares coalition, MPC will oppose this lawsuit and work to see that the hard work that was invested in updating Tulare County’s dairy plan is not ruined by this attack from greedy activist lawyers.

*For questions, please contact office@milkproducers.org.*

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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.