DATE: June 15, 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>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>- $0.0400</td>
<td>Weekly Change</td>
</tr>
<tr>
<td>Barrels</td>
<td>$1.5950</td>
<td>$0.0375</td>
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<tr>
<td>Weekly Average, Cheddar Cheese</td>
<td>$1.4500</td>
<td>Weekly Average</td>
</tr>
<tr>
<td>Blocks</td>
<td>$0.0235</td>
<td>$0.0160</td>
</tr>
<tr>
<td>Barrels</td>
<td>$1.6200</td>
<td>$2.3640</td>
</tr>
</tbody>
</table>

CHICAGO AA BUTTER

Weekly Change: - $0.0375
Weekly Average: - $0.0160

NON-FAT DRY MILK

Week Ending 6/8 & 6/9
Calif. Plants: $0.7698 6,465,059
Nat’l Plants: $0.8277 13,615,933

Prior Week Ending 6/1 & 6/2
Calif. Plants: $0.7791 10,238,225
Nat’l Plants: $0.8356 14,277,028

Dairy Market News
w/e 06/15/18 $3.250
National Plants
w/e 06/09/18 $2.981

Fred Douma’s price projections…

Last Week: Quota cwt. $16.17 Overbase cwt. $14.48 Cls. 4a cwt. $14.40 Cls. 4b cwt. $14.83

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

Milk & Dairy Markets

The screens were red and the bulls were on the run at the Board of Trade this week. Several secular factors took their toll in Chicago’s cathedral of commerce. The U.S. Federal Reserve raised interest rates and forecast tighter monetary policy in the months to come. Its peers around the world, including the European Central Bank, are taking the opposite tack. The dollar strengthened considerably while the euro, the Brazilian real, and the Argentine and Mexican pesos all suffered steep declines, weighing on the U.S. dairy and feed markets.

The Trump administration ramped up its rhetoric regarding trade with Canada and Europe and followed through on threats to enact tariffs against Chinese imports worth roughly $50 billion. China has promised to immediately tax American goods in “equal scale and equal strength,” highlighting tariffs against the farm, seafood, and auto sectors. The White House stands ready with a list of another $100 billion in Chinese goods that it intends to hit with a punitive border tax. The prospect of an all-out trade war with China weighed heavily on the agricultural markets this week, particularly the soy complex.
The dairy markets were burdened by these external factors and faced internal pressure. Processors report that cheese demand is up and down, in contrast to the robust sales pace in the first four or five months of the year. There are hints of the same variability in butter sales. Dairy Market News reports, “The overall NDM market tone is tepid. NDM futures have slipped, and some contacts are suggesting NDM has lost its recent shine. Export interest has waned, which has unleashed some market bears.”

With that, all dairy products retreated at the CME spot market this week. Cheddar barrels were hardest hit, plunging 11.5¢ to $1.45 per pound, the lowest value since early April. Blocks fell 4¢ to $1.595. Dry whey futures slipped to 41¢, down 0.25¢ from last Friday. Spot butter dropped 3.75¢ to a one-month low of $2.3525. NDM finished at 78.75¢, down 1.75¢. Class III futures moved sharply lower; third-quarter contracts lost more than 50¢. Most Class IV futures contracts gave up 15 or 20¢ this week.

Some of the decline in milk prices will be offset by sharply lower feed costs, but the tradeoff will not be immediate. This week’s losses represent a psychological and financial blow to dairy producers who were already battered after years of painful margins. Slaughter volumes are running 5% over the 2017 pace. Auction houses are full of cows and heifers, but there aren’t many buyers in the seats. Springer prices languish at the lowest values in nearly a decade. The U.S. dairy herd is contracting.

Eventually, this will translate to higher milk prices, particularly if the current heat wave persists or if another crops up later this summer. It’s difficult to gauge the impact of the sellouts and the heat at this time of year. Most processing plants are running full, as they should be in mid-June. But there seem to be fewer tankers scrambling to find a buyer at any price and little or no milk being dumped into the manure lagoon. This suggests that there is less surplus milk than there has been in at least four years. That doesn’t mean that there is less milk; processors have worked hard to boost efficiency and have invested to expand capacity. Those efforts are helping to soak up the excess milk in the high-
growth regions, reducing the need for further discounts on dairy producers’ milk checks.

Domestic dairy demand may not be running as hot as it was in the first quarter, but it is still respectable. The economy is on firm footing, restaurant traffic continues to improve, and summer grilling and ice cream season has arrived. Today’s prices are likely attractive to end users, and this week’s declines more than offset the loss in foreign purchasing power brought on by the stronger dollar. As milk supplies tighten into summer, demand will outpace supply and prices are likely to rebound from the recent setback.

Grain Markets
With China and the U.S. engaged in a tit-for-tat trade spat, soybean futures plummeted. The July contract settled at $9.055 per bushel, down 63.75¢ this week to a four-month low. July soybean meal futures dropped nearly $19 per ton to $338.90. China is doing all it can to avoid buying U.S. soybeans, hoping to ramp up the political pressure in the U.S. heartland. Chinese crushers are using their stockpiles, purchasing from government reserves, and sourcing from South America. This will eventually deplete Brazilian and Argentine soybean supplies, forcing China to turn to the U.S. However, a rout in both currencies this week pushed soybeans priced in reals and pesos to levels that enticed farmers to sell, further diminishing U.S. export opportunities for the time being.

The weather also weighed on feed prices. It’s hot and humid in the Corn Belt, and crops are off to an excellent start. USDA reported that as of Sunday evening 77% of the corn crop and 74% of the soybean crop were in good or excellent condition. The forecast holds a lot of heat and some rain. Crop ratings are likely to deteriorate a little from heat stress, but assuming normal weather for the rest of the growing season, above-trend yields are likely. Strong global corn demand and lower acreage should provide fodder for the bulls, but for now the bears are in charge. July corn dropped 16.5¢ this week to a new contract low at $3.6125 per bushel.

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USDA goes live with California Federal Milk Marketing Order Website
By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

USDA recently launched a dedicated website with all the relevant information about the newly created California Federal Milk Marketing Order (FMMO). You can access this very informative site at www.cafmmo.com.

Here you will be able to watch a welcome message and informational video as well as learn about upcoming meetings. The California FMMO office is located in Woodland, CA and the acting Market Administrator is Cary Hunter. The California FMMO office phone number is 530-662-2037. So, the California FMMO office is up and running with lots to do before the system goes live on November 1, 2018.

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From The Washington Post: Officials say Trump backs GOP immigration bills, despite comments opposing them. One says Trump misunderstood Fox News’ question.
By Seung Min Kim and Mike DeBonis – June 15, 2018

The White House said Friday that President Trump supports House legislation that closely tracks his priorities on border security and limiting legal immigration, walking back comments he made on national television rejecting the GOP bill.
The reversal came after hours of confusion on Capitol Hill, where Trump’s words roiled an already fragile internal debate between conservative and moderate Republicans in the House who have been trying to find an immigration compromise after months of false starts.

“The president supports both the moderate and the more conservative House immigration bill,” one of the two White House officials said Friday. The other official said Trump misunderstood the question that was posed on “Fox and Friends,” which prompted the president to say that he “certainly wouldn’t sign the more moderate one.”

House Republican leaders had teed up action on two immigration measures: a hard-line draft written by House Judiciary Committee Chairman Bob Goodlatte (R-Va.) and legislation billed as a compromise between the moderate and conservative factions of the GOP conference.

The draft compromise bill released Thursday was written with White House input, including from top Trump immigration adviser Stephen Miller, and closely hews to the “four pillars” the administration set out in a January framework.

Among those pillars are guaranteed funding of $25 billion for a physical wall along the Mexican border; ending the Diversity Visa Program that currently offers admission by lottery to 55,000 immigrants each year; and an end to the system of family-based immigration that distributes visas to the spouses, children and siblings of U.S. citizens. In return, Trump offered a path to citizenship for roughly 1.8 million “dreamers” who came illegally to the U.S. as children.

The draft bill ends the Diversity Visa Program and scales back family-based immigration visas, while offering a path to citizenship to dreamers that is contingent on the provision of border wall funding.

As late as Thursday night, White House officials were closely coordinating with House Republican leaders over the bill, with the understanding that Trump would endorse it and ultimately sign it if passed.

The administration even drafted and circulated a Statement of Administration Policy — an official White House position on the bill — indicating that Trump’s advisers “would recommend that he sign it into law.”

Continue reading here.

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**California Milk Advisory Board to host district meetings beginning this month**

*By Kevin Abernathy, MPC General Manager*

The California Milk Advisory Board (CMAB) will host summer district meetings throughout the state beginning next week through July. All dairy farmers are invited to attend their local district meeting, which includes a reception, dinner and updates on CMAB programs and activities.
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<thead>
<tr>
<th>District</th>
<th>Date</th>
<th>Venue</th>
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</thead>
<tbody>
<tr>
<td>1</td>
<td>Thursday, July 5</td>
<td>Ridgetop Café, Fortuna</td>
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<tr>
<td>3</td>
<td>Wednesday, July 18</td>
<td>Washoe House, Petaluma</td>
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<tr>
<td>4</td>
<td>Tuesday, June 19</td>
<td>Rolling Hills Casino, Corning</td>
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<tr>
<td>5</td>
<td>Wednesday, June 20</td>
<td>Papapavlo’s, Stockton</td>
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<tr>
<td>6</td>
<td>Thursday, July 19</td>
<td>Lola Bistro, Hilmar</td>
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<tr>
<td>7 &amp; 8</td>
<td>Thursday, July 26</td>
<td>Tachi Palace – Salt Grass Conference Room, Lemoore</td>
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<tr>
<td>9</td>
<td>Tuesday June 26</td>
<td>Tulare Golf Course – The Pitching Wedge, Tulare</td>
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<tr>
<td>10</td>
<td>Wednesday, June 27</td>
<td>Benji’s, Bakersfield</td>
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Reception will begin at 6 p.m. with dinner/meeting to follow at 7 p.m.

To RSVP, please email Kris Costa at kcosta@cmab.net or call 209.678.3466.