DATE: June 22, 2018

TO: Directors & Members

FROM: Kevin Abernathy, General Manager

Milk Producers Council

P.O. Box 4030 ~ Ontario, CA 91761 ~ (909) 628-6018
2328 Jonathon Court ~ Escalon, CA 95320 ~ (209) 691-8139
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

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MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - $.1050 $1.4900
Barrels - $.1650 $1.2850

Weekly Average, Cheddar Cheese

Blocks - $.0895 $1.5305
Barrels - $.1935 $1.3215

CHICAGO AA BUTTER

Weekly Change - $.0625 $2.2900
Weekly Average - $.0640 $2.3000

Dairy Market News w/e 06/22/18 $3.250
National Plants w/e 06/16/18 $3.099

NON-FAT DRY MILK

Week Ending 6/15 & 6/16
Calif. Plants $0.7790 7,296,259
Nat’l Plants $0.8212 12,299,027

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

Fred Douma’s price projections…

June 22 Est: Quota cwt. $15.95 Overbase cwt. $14.25 Cls. 4a cwt. $14.24 Cls. 4b cwt. $14.45
Last Week: Quota cwt. $16.07 Overbase cwt. $14.38 Cls. 4a cwt. $14.32 Cls. 4b cwt. $14.67

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Market commentary

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

Milk & Dairy Markets

Summer has officially arrived, but the dairy markets are not heating up. Indeed, Class III and IV futures took another noticeable step back, retreating nearly every day this week. July Class III futures settled almost 80ȼ lower than last Friday at $14.66, a price that is surely unwelcome to dairy producers. Most deferred Class III and IV contracts lost between 20 and 60ȼ.

The dairy industry was not expecting to become a casualty in the escalating U.S.-China trade war, but over the weekend China announced that dairy products would be part of the next round of retaliatory tariffs. Most U.S. dairy products face a tax of between 10% and 15% at the Chinese border. Buttermilk is charged a 20% levy, and whey powder is taxed at 6%. Beginning July 6, all U.S. dairy products will suffer a 25% surcharge en route to China.

Some key players within the Trump administration hope to achieve a détente before the tariffs take effect. However, President Trump is playing tough, pushing for mutually assured economic destruction to make America great again. The president remains as unpredictable as ever, and he may change course before the tariffs start to

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bears. But for now, investors assume the trade war will rage on. Stock and commodity values are sinking accordingly.

At the CME spot market, Cheddar barrels were once again the biggest loser. They plummeted 16.5ȼ to $1.285 per pound, and a whopping 88 loads changed hands. Aside from two days in January and a single session in May 2016, barrels haven’t been this low since 2010. Blocks fared marginally better; they dropped 10.5ȼ to $1.49, the lowest value since February. Rising cheese inventories likely fueled the selloff. There were 1.386 billion pounds of cheese in inventory on May 31, the highest volume on record. That is 5.3% more than at the end of May 2017. Cheese stocks jumped 40.6 million pounds from April to May, the largest increase in that time frame since 1999. Although the Cold Storage report was published after the closing bell this afternoon, the markets likely already reflect this bearish data.

China accounted for nearly half of U.S. whey product exports last year, so the whey market had every reason to wither this week. The fact that CME spot whey slipped just 1.25ȼ – to 39.75ȼ per pound – is a modest victory. For now, U.S. whey inventories are tight and product is moving. But the market is understandably unsettled.

CME spot butter dropped to a two-month low at $2.29, down 6.25ȼ this week. Demand for butter remains excellent, and U.S. butter is competitively priced. But for now, the bears rule the dairy complex, and butter has succumbed. Dairy Market News notes, “Butter sales have yet to disappoint producers, but butter markets are a different story.” The Cold Storage report offered a somewhat different narrative. There were 338.8 million pounds of butter in warehouses on May 31, the largest end-of-May volume since 1993, at the height of the low-fat craze. Inventories were 8% greater than prior-year levels and up 31.5 million pounds compared to April, a larger-than-typical stock build.

CME spot nonfat dry milk (NDM) fell 2.5ȼ from last Friday and closed at 76.25ȼ. Prices moved lower at the Global Dairy Trade auction on Tuesday. The average winning price for skim milk powder (SMP) was down 1.1% from the previous event, while whole milk powder (WMP) fell 1%. The European Commission sold more than 50 million pounds of SMP from its Intervention storage program, mostly at the equivalent of 67ȼ per pound, an improvement from the minimum sales price at its May tender. The fact that the Commission is able to move its stale powder at rising prices in respectable volumes is likely mildly supportive to the U.S. milk powder market, despite the fact that U.S. merchants must compete with the discounted product.

This week’s price action will surely discourage dairy producers who were hoping – at long last – that the industry could sustain milk prices at profitable levels. The washout in the markets will likely further the washout in the industry. More dairy producers – with dairies of all sizes in all parts of the country – are looking to sell out, some at the behest of their lenders. Dairy cow slaughter is running 4.9% ahead of the 2017 pace. Nonetheless, USDA
reports that the dairy herd totaled 9.404 million head in May, up 2,000 head from April. The agency revised its estimate of the milk cow herd in April upward by 2,000 head, making for a 4,000-cow increase in the dairy herd compared to last month’s Milk Production report.

U.S. milk output reached 19.1 billion pounds in May, up 0.8% from a year ago. Production was decidedly lower along the East Coast and tepid in the Midwest. The Southwest continues to drive growth in U.S. milk production, and the weather in May was relatively mild. But June has been hotter and the first week of July promises to be sultry in much of the country’s key dairy regions. U.S. milk supplies are likely to tighten accordingly.

European milk collections totaled 30.5 billion pounds in April, up 1.3% from the prior year. But warm weather is already trimming output. Dairy Market News reports, “Early June heat in Germany and other parts of Western Europe has resulted in milk production declining ‘significantly’ according to some observers. German production was estimated to be about 1% below levels a year ago,” in contrast to a 3.5% year-over-year jump in German milk output in April.

The combination of rising cheese and butter stocks and new dairy product tariffs with China and Mexico has weighed heavily on the dairy markets in the past few weeks. But this is not 2009. Feed is cheap and the economy is booming. Demand for dairy is already outpacing global supply growth, and current prices are likely to attract more buyers. In this environment, the expected heat wave could cause the dairy markets to heat up as well.

**Grain Markets**

Confronted by huge margin calls and bearish technical signals, professional fund managers rushed to sell as soybean futures crashed through one level of support after another. But the selling frenzy faded and July soybeans settled well above the mid-week lows at $8,945 per bushel, down 11¢ from last Friday. The corn market is much less dependent on China and looked far more resilient. July corn futures closed at $3.5725, down 4¢.

Crops are generally in excellent shape, although some low-lying areas in the Western Corn Belt are under water. There is plenty of moisture to get the crop through pollination, but the forecast is less than ideal for the corn crop, much of which is likely to pollinate during the heat wave. The feed markets will keep one eye on the weather and the other on the White House.

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SGMA presents challenges for agriculture
By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

“The Consequences of Sustainable Groundwater Management” is the title of a talk recently given by Dr. Jeffrey Mount who is a Senior Fellow at the Public Policy Institute of California. It is not light reading, but it is a very important summary of the implications of the passage of the Sustainable Groundwater Management Act (SGMA) in 2014. I would encourage you to budget 20 minutes of your time to sit down and actually read what Dr. Mount has put together. Read it [here](#).

In my new role with Milk Producers Council, I am beginning to attend the many meetings that focus on implementing this law in our communities. All areas of the Central Valley have organized themselves into Groundwater Sustainability Agencies, which was an accomplishment in itself. Each of these organizations (there are 125 of them in the Central Valley) are in some sort of process to develop their plans for sustainability, known as Groundwater Sustainability Plans. They all start with data collection and will use that data to try to determine how much water is available in each area.

Still to come are the decisions about who gets what in dividing the water and what can be done to ease the pain of this game changing process. I represented agriculture for 20 years on the Chino Basin Watermaster Board which supervises the groundwater adjudication in the Chino Basin and served 28 years on the Chino Basin Water Conservation District Board dealing with groundwater recharge, so I have some experience in how to manage that groundwater basin in Southern California. I hope to be able to help our producers in the Central Valley navigate this huge additional task, which has been placed upon us. If you have any comments, questions or suggestions, or if you would like to chat about what is going on in your area, feel free to give me a call at 909-730-1240 or email me at Geoff@milkproducers.org.

As you will read in Dr. Mount’s talk, it is not all bad news.

Dairy Cares Member Update: Feed Additives Reduce Emissions
By Kevin Abernathy, MPC General Manager

Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues.

The June edition of the Dairy Cares member update provides information on new feed additives being tested on dairy cows to reduce enteric emissions. The update also highlights opportunities for the installation of methane digesters through the California Public Utilities Commission (applications due June 25).

Read the full article [here](#).