DATE: August 24, 2018
TO: Directors & Members
FROM: Kevin Abernathy, General Manager

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MPC Friday Market Update

CHICAGO CHEDDAR CHEESE
Blocks + $.0150 $1.6700
Barrels - $.0700 $1.6000

Weekly Average, Cheddar Cheese
Blocks - $.0200 $1.6370
Barrels - $.0770 $1.5905

CHICAGO AA BUTTER
Weekly Change - $.0450 $2.2600
Weekly Average - $.0990 $2.2490

DRY WHEY

Dairy Market News w/e 08/24/18 $0.4063
National Plants w/e 08/18/18 $0.3838

NON-FAT DRY MILK
Week Ending 8/17 & 8/18
Calif. Plants $0.7858 9,375,977
Nat’l Plants $0.8142 19,123,299

Prior Week Ending 8/10 & 8/11
Calif. Plants $0.7875 10,624,349
Nat’l Plants $0.8054 22,064,939

Fred Douma’s price projections…
Aug 24 Final: Quota cwt. $16.09 Overbase cwt. $14.40 Cls. 4a cwt. $14.03 Cls. 4b cwt. $15.06
Last Week: Quota cwt. $16.13 Overbase cwt. $14.43 Cls. 4a cwt. $14.07 Cls. 4b cwt. $15.10

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

Milk & Dairy Markets
The dairy markets digested a full menu of news items this week, savoring bullish reports and choking down more bearish offerings in turn. Monday’s Milk Production report was a delectable appetizer, offering evidence – at long last – of contraction in the U.S. dairy herd and slower growth in milk output. But Tuesday’s Global Dairy Trade (GDT) auction was less palatable. The average winning price for all products moved lower, and the GDT index slumped 3.6%, a decided disappointment. Wednesday’s Cold Storage report offered mixed fare; it was bullish for butter, but less so for cheese. However, anecdotal reports of strong cheese demand percolated throughout the week, helping the Class III markets to a heady finish.

September through December Class III futures added between 27ȼ and 40ȼ this week. The September contract settled at $16.21 per cwt., its best Friday close since mid-June. The whey market continues to prop up the Class III complex. CME spot dry whey jumped 3.5ȼ this week to another new high at 48ȼ per pound. Inventories are tight and demand is robust. If hot weather and declining cow numbers reduce milk powder output in the U.S. and Europe, whey supplies may tighten further.

CME spot Cheddar blocks climbed 1.5ȼ from last Friday and reached $1.67 per pound, their highest price since May. The barrel market got a little
ahead of itself last week and spent the first part of this week in retreat. Barrels regained some ground Thursday and Friday, but still finished 7ȼ lower than last Friday, at $1.60.

Over the past few weeks, cheesemakers have reported excellent demand from foreign and domestic buyers. College dorms are full, and pizza sales are piping hot. Restaurant traffic is up, and food service demand for cheese is accelerating. But there is plenty of cheese to go around. There were 1.41 billion pounds of cheese in cold storage on July 31, some 3.3% more than the prior year. However, American cheese stockpiles were 0.8% lower than they were at the end of July in 2017.

U.S. butter inventories dropped 18.6 million pounds from June 30 to July 31, a much stronger than typical drawdown. The Daily Dairy Report opines, “July’s hot weather likely lowered both butter production and put-away during the month and contributed to higher drawdowns,” as ice cream demand boosted cream multipliers and reduced churning activity. At 318 million pounds, U.S. butter inventories are still 3.5% greater than they were a year ago. CME spot butter slipped 4.5ȼ this week to $2.26.

The U.S. milk powder market shook off the GDT doldrums. CME spot nonfat dry milk (NDM) rallied to 14-month highs on Tuesday. It closed today at 87ȼ per pound, a little below Tuesday’s high-water mark but still 0.75ȼ higher than last Friday. Milk powder is reportedly moving abroad in large volumes, particularly to buyers south of the border. Meanwhile, milk supplies are tightening seasonally as cow discomfort and school milk demand reduce the amount of milk available to processors. That is likely tamping down milk powder output for now.

U.S. milk production totaled 18.35 million pounds in July, up just 0.4% from a year ago. Excluding April, when much of the U.S. heartland was still in the throes of winter, this is the narrowest year-over-year increase in U.S. milk production since January 2016. Record-breaking heat in July clearly impacted milk production in California. Output per cow dropped 35 pounds from the prior year, a decline of 1.8%. All told, production was down 2.5% in California. Extreme humidity in Florida pushed milk production down 5.9% from a year ago, and wet weather continues to hamper milk output throughout the Southeast.
USDA estimates the U.S. milk cow herd at 9.396 million head, down 8,000 head from both the prior month and the prior year. That marks the first year-over-year decline in the dairy herd since May 2016. The *Daily Dairy Report* notes, “Years of disappointing milk prices have taken a toll on producers’ finances, dispiriting many and forcing a growing number to exit the business. As harvest season approaches, some dairy producers will face a difficult decision: commit to the cost of putting up another year’s worth of corn silage and other feeds or sell their herds before incurring another hefty expense. Judging by the slew of cattle for sale at auctions and the volume of dairy cow slaughter, a number of dairy producers – or their lenders – have chosen the latter.”

In the week ending August 11, dairy producers sent 60,948 milk cows to slaughter. That’s the largest slaughter volume for this time of year since 1986, when the industry was buying out whole herds and killing them in an attempt to staunch widespread losses. Heifer supplies are adequate to maintain the dairy herd even at the current cull rate, but dairy producers show no inclination to keep their collective barns as full as they once were. Heifer buyers are scarce. At auctions around the country, springer values have slumped to new lows. The combination of high slaughter volumes and cheap heifers suggests that contraction in the U.S. dairy herd continues. Across the pond, scorched pastures and dwindling feedstocks are prompting a similar uptick in cull-rates. Growth in milk output in the world’s two largest dairy regions is likely to slow just as demand for dairy seems to be ramping up. At long last, the dairy industry may be able to sustain a rally that makes milking cows worthwhile.

**Grain Markets**

The feed markets took a big step back this week. September soybean futures dropped nearly 40¢ to $8.42 per bushel. Soybean meal dropped nearly $20 per ton, to $312.70. Corn futures fell more than 15¢ to $3.485 per bushel, and wheat plunged nearly 50¢ to $5.1475.

The first soybeans are coming off the combine in the South. These beans are typically destined for export, and they are showcasing China’s absence in the U.S. market. The cash price for soybeans at the Gulf is plummeting, weighing on the futures markets. There is no end in sight for Chinese tariffs on U.S. soybeans; U.S. and Chinese officials made little progress when they sat down to schedule trade talks this week. Meanwhile, crop scouts are descending on fields throughout the Corn Belt, highlighting this year’s bumper corn yield and record-breaking soybean crop.
Coming soon: $135 million in new incentive funding for ag equipment emissions reductions
By Kevin Abernathy, MPC General Manager

Last year, a coalition of agriculture groups – including MPC – lobbied the California State Legislature to make incentive funding available to help farmers comply with stricter air quality requirements. This resulted in the State Legislature allocating $135 million to the California Air Resources Board (CARB) for incentive funding, directing the agency to “reduce agricultural sector emissions by providing grants, rebates, and other financial incentives for agricultural harvesting equipment, heavy-duty trucks, agricultural pump engines, tractors, and other equipment used in agricultural operations.”

Since the allocation of funding by the Legislature, MPC and other farmer trade groups have worked closely with CARB to develop the Funding Agricultural Reduction Measures for Emission Reductions (FARMER) Program. Currently, CARB staff recommends that FARMER funds be allocated to local air districts and is proposing a formula to distribute funds, based on statewide emissions from off-road, mobile agricultural equipment, and air quality and attainment status. As proposed, $108 million of incentive funding (80 percent of the total program funds) is slated for farmers in the San Joaquin Valley.

MPC continues to actively participate in the development of this program, which includes CARB’s upcoming public work group meetings (details below). These meetings are intended to secure feedback form stakeholders on the proposed additional and modified FARMER project categories, including heavy-duty agricultural trucks, large agricultural equipment, and agricultural utility terrain vehicles.

We will share additional information about this program once it is finalized and funding is made available to local air districts.

Public Work Group Meetings

DATE: Tuesday, August 28, 2018
TIME: 1 to 3 p.m.
LOCATION: San Joaquin Valley Air Pollution Control District
1990 E. Gettysburg Avenue, Fresno, California

The public may also attend this Central Valley work group meeting by video teleconference at the air district's Modesto and Bakersfield offices:

Modesto Office
4800 Enterprise Way
Modesto, California 95356

Bakersfield Office
34946 Flyover Court
Bakersfield, California 93308

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California Dairy Sustainability Summit will showcase on-farm progress in Sacramento
By Kevin Abernathy, MPC General Manager

As Vice Chairman of Dairy Cares, I’m very excited to announce to our MPC members that the first-ever California Dairy Sustainability Summit will take place **November 27-28, 2018** at the Sacramento Convention Center.

This is a tremendous opportunity for dairy farmers to showcase the decades of progress we have made on our farms to a wide ranging, influential and leadership audience in California’s capital. I think it is imperative that we show up as an industry, in strong numbers, to this event in Sacramento, a city where so many decisions are made that impact how we farm and our ability to do so viably in the future. Never before has such an ambitious, high-profile, dairy-centric event been staged to spotlight the world-class sustainability achievements, contributions and leadership of California dairy farmers.

Over the next several months, you will see event reminders in this newsletter as well as hear from me personally about registering for this event. It is my hope that you will help the California dairy community bring the positive work happening on your farms and in our rural communities to Sacramento, and there’s no better people to tell that story than you, our dairy families.

Please join Dairy Cares, the California Milk Advisory Board, the Dairy Council of California, the California Dairy Quality Assurance Program, the California Dairy Research Foundation, and more than ten other partner organizations for a two-day event that will:

- Showcase California’s world-leading achievements in sustainable dairy farm practices and the role dairy plays in the global food system
- Explore new ways for dairy farmers to continue improving environmental sustainability, develop new business opportunities, and reduce on-farm costs
• Highlight information, technology, and services that can support dairy farmers’ efforts to meet continuing challenges, further improve efficiency and environmental sustainability, and ensure nutritious and affordable foods for generations to come

The Summit will connect dairy operators, California regulators, and other stakeholders with solution providers that can help address environmental and economic challenges. Topics will include reducing labor costs and finding cost-effective solutions to sustain family farms, while reducing greenhouse gases, protecting and conserving water, and improving air quality and profitability through energy conservation and clean energy.

To learn more, visit CADairySummit.com. For sponsorship and booth space opportunities, please contact Tony Quist at tony@gladstein.org or 310-573-8564. Early bird registration will be available through Friday, September 28.

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