DATE: September 7, 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>Weekly Change</td>
<td>Weekly Average</td>
</tr>
<tr>
<td>- $.0325</td>
<td>+ $.0150</td>
<td>- $.0679</td>
</tr>
<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td></td>
</tr>
<tr>
<td>- $.1450</td>
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</tbody>
</table>

Weekly Average, Cheddar Cheese
- Blocks: $1.6794
- Barrels: $1.5844

Weekly Average, Butter
- Weekly Change: $0.0150
- Weekly Average: $2.2300

Weekly Average, Non-Fat Dry Milk
- Calif. Plants: 10,763,912
- Nat’l Plants: 16,819,649

**Dairy Market News**

- w/e 09/07/18
- $0.4350
- Calif. Plants

- w/e 09/01/18
- $0.3867
- Nat’l Plants

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**Fred Douma’s price projections…**

<table>
<thead>
<tr>
<th>Sept 7 Est:</th>
<th>Quota cwt. $16.54</th>
<th>Overbase cwt. $14.85</th>
<th>Cls. 4a cwt. $13.75</th>
<th>Cls. 4b cwt. $15.84</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last Week:</td>
<td>Quota cwt. $16.58</td>
<td>Overbase cwt. $14.88</td>
<td>Cls. 4a cwt. $13.72</td>
<td>Cls. 4b cwt. $15.92</td>
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**Market commentary**

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

**Milk & Dairy Markets**

Barrels abound. With big buyers on the sidelines, CME spot Cheddar barrels plummeted 14.5ȼ this week to $1.50 per pound, a one-month low. Blocks got off to a stronger start. Traders returned from the long weekend and pushed blocks to a calendar-year high at $1.705. But with barrels in retreat, blocks could not hold their ground. They dropped hard Thursday before fighting back to $1.6625, down 3.25ȼ from last week. Following the cheese markets, nearby Class III futures fell, erasing much – but by no means all – of last week’s gains. September through...
December Class III futures finished 5¢ to 31¢ in the red. However, deferred contracts continued their slow, steady climb.

U.S. cheese output totaled 1.09 billion pounds in July, up 3.7% from July 2017. Cheddar production jumped 9.4% from a year ago, perhaps explaining why barrel supplies are so heavy. Such strong growth in cheese output implies robust demand, putting the big production figure in a favorable light. More recently, cheese production in the Midwest and Northeast has slowed a bit. School is back in session, so bottlers are taking more milk. Hot, humid weather continues to sap milk yields. This was the third-hottest summer for the continental U.S. in 124 years of National Oceanic and Atmospheric Administration records. Average nighttime low temperatures in June through August were the highest ever. Average minimum summer temperatures were record-high in Arizona and Utah, and the second-highest on record in California, Nevada, New Mexico, New York, Ohio, and Texas. Nighttime lows were above-average throughout the nation and much above average in almost all of the major dairy states, which has surely impacted milk production.

Meanwhile, domestic cheese demand remains invigorated. Cheese merchants report excellent sales. Retailers are featuring cheese with enthusiasm, and foodservice demand is high. The export outlook is less vivacious, but far from sluggish. Cheese and curd exports in July slipped to 60.9 million pounds, the lowest volume since January. Still, exports were 1% higher than the prior year. Mexican buyers rushed to get orders across the border before higher tariffs took effect on July 5. Mexican imports of U.S. cheese surged 43.2% year-over-year in June and then slipped 0.6% from relatively light 2017 volumes in July. Combined, June and July export volumes suggest that Mexico’s appetite for U.S. cheese has not yet waned. However, higher tariffs remain in place, and the strong dollar offers a stiff headwind. U.S. cheese prices are less competitive in the global marketplace than they were a few weeks ago.

The whey market remains strong. Spot whey reached a new high at 51.5¢, up another 1.5¢ this week. Despite strong cheese output, whey powder production in July fell 9.1% below year-ago volumes. Inventories of dry whey for human consumption on July 31 stood 21.4% below prior-year levels. Whey product exports disappointed in July, falling 8% below July 2017 levels. Shipments to China were down 26% to the smallest volume since May 2016. Higher Chinese tariffs on U.S. dairy products, including most categories of whey exports, took effect July 5.
CME spot butter tested the waters below $2.20 per pound. Once again, the depths proved unwelcoming. Butter bounced back today to $2.23, up 1.5ȼ this week. Buttermakers churned out 136.24 million pounds of product in July, up 0.5% from a year ago. Balancing this output against net trade and the change in butter inventories reveals strong demand. Dairy Market News suggests that it remains so, relaying from butter contacts that “August was an exceptional sales month, notably in the food service sector.” But the market remains on edge because cream is plentiful and the churns are likely busy. Overseas butter prices are steady to lower. At the Global Dairy Trade (GDT) auction, the average winning price for butter dropped 2.8% to the lowest value at the GDT since December 2016.

The milk powder market continues to climb, spurred upward as Mexican buyers clamor for product. CME spot nonfat dry milk (NDM) logged a fresh 15-month high this week and closed at 91ȼ per pound, up 2.5ȼ from last Friday. European skim milk powder (SMP) prices are also at new highs for the year. SMP rallied 2.2% at the GDT auction on Tuesday; however, whole milk powder (WMP) prices were down by an equal percentage, dragging the GDT index down 0.7%, its seventh consecutive decline.

U.S. milk powder output slowed in July. Combined production of NDM and SMP totaled 194.3 million pounds, the lowest monthly volume since November. Output was down 2.7% from July 2017. At 119.8 million pounds, U.S. milk powder exports in July were 30% higher than the prior year. Nonetheless, manufacturers’ stocks of NDM climbed to 317.9 million pounds, up 7.4% from a year ago.

Although the dairy markets lost some ground this week, the big picture leans positive. Adverse weather and financial strain have slowed growth in milk production in the U.S. and Europe. Slaughter volumes remain elevated. Domestic demand has improved. Exports are not as strong as they once were, but are still respectable. The strong dollar, higher tariffs on U.S. exports, and heavy stockpiles might make it difficult to sustain a rip-roaring rally, but, on balance, the dairy markets seem poised to head higher.

**Grain Markets**

The feed markets were relatively quiet this week. December corn settled at $3.67 per bushel, up 2ȼ from last Friday. November soybeans added a half-cent and closed at $8.44. Soybean meal values jumped. December soybean meal finished at $317 per ton, up almost $10 from last week’s historically low levels. The trade is just marking time until harvest arrives in earnest.
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