Class and Component Prices for December 2018 were released yesterday by the California Federal Milk Marketing Order (FMMO), with the Class III price announced at $13.78. It’s estimated that the Class 4b price under the former California State Order would have been $12.82 for December 2018, a positive difference of $0.96 per cwt. for producers. You can view the December 2018 FMMO prices here.

Good riddance to 2018. Milk prices are still far from exciting, particularly for dairy producers whose checks depend largely on Class III values. But the new year is off to a much better start than the old one. The Global Dairy Trade (GDT) auction rang in 2019 with zeal. The GDT index posted its third straight increase, climbing 2.8% from the late-December average. All products moved higher, and skim milk powder (SMP) was particularly strong. The average winning price for SMP jumped 7.9%, its largest increase since March. GDT SMP reached the equivalent of nonfat dry milk (NDM) at $1.07 per pound, its highest value since June 2017.
The price of SMP for delivery next month surged 16.7%. The rally was likely augmented by the auction’s limited volume. There was 30% less SMP and 20% less whole milk powder (WMP) offered than at the previous event. WMP prices climbed a modest 1.2%.

Milk powder prices moved up in Chicago as well. CME spot NDM closed at 97.5¢ per pound, a nearly two-year high. Lower milk output in parts of the U.S. and Europe is reducing milk powder production, and global demand seems to be on firm footing. China imported 67.9 million pounds of SMP in November, 69% more than they did a year ago and the greatest volume ever for November. Chinese WMP imports reached 87.7 million pounds, up nearly 30% from November 2017. Through November, China imported 11% more SMP and 6% more WMP than it did in the first eleven months of 2017. As China struggles to modernize its dairy industry without forcing contraction, imports are expected to remain robust.

Butter prices are holding steady in Europe and moving higher in Oceania. At the GDT, butter gained 3.9%. The CME spot butter market tested the waters below $2.20 per pound and once again found them not to its liking. Spot butter bounced back to $2.25, up 4.5¢ over the last two holiday-shortened weeks. That, along with the formidable strength in NDM, helped Class IV futures to a formidable rally this week. Most contracts added 20 to 40¢. Second-half prices are approaching $17 per cwt.

The Class III markets posted more modest gains. Most contracts added a nickel or a dime, and the February and March contracts climbed 24¢ and 28¢, respectively. CME spot dry whey went nowhere at all. It closed at 49¢ per pound, steady with its pre-Christmas value. Spot Cheddar blocks rallied 2.75¢ to $1.4175. Barrels eeked out a 0.75¢ gain and finished at $1.3025. Due to the government shutdown, USDA did not publish its Dairy Products report, which likely would have confirmed another month of heavy output. There is plenty of cheese to go around.

While the outlook is much improved, dairy producers remain understandably dejected. The value of all dairy assets – including facilities, equipment, calves, cows, and quota - remain depressed. After a brief holiday hiatus, there is a fresh wave of new herds for sale. Buyers are scarce, and many quality dairy
animals are headed for the feedlot or the slaughterhouse. The December milk check will arrive later this month, and it will be woefully inadequate. But subsequent milk checks will be considerably better, especially in those areas with high Class I or Class IV utilization. Today’s futures project that Class III milk will average $15.90 this year, with Class IV at $16.47. That’s a decided improvement from $14.63 Class III and $14.23 Class IV in 2018. The dairy industry has undergone some painful pruning in 2018, but those producers who managed to survive could enjoy a more prosperous new year.

**Grain Markets**

It’s been a wild two weeks in the equity and commodity markets. Soybean futures proved nearly impervious to the concerns about the global economy, focusing instead on less than perfect weather in parts of Brazil. Analysts are trimming their estimates of Brazilian soybean potential from the eye-popping figures of recent months. But they are still calling for the second-largest crop on record. And previous years’ crops must have been larger than was supposed, as Brazil has managed to export soybeans in volumes that should have depleted its inventories. Brazil exported more soybeans last month than in any previous December by a very wide margin. Meanwhile, U.S. soybean exports during the usual post-harvest rush have been pitifully small. The unrelenting pace of Brazilian soybean exports suggests that there is no pent-up global demand for soybeans. U.S. exports are likely to continue to disappoint, despite China’s efforts to shore up sentiment among U.S. trade negotiators. The soybean market will have to absorb burdensome U.S. inventories and what looks to be a large South American crop. At $9.215 per bushel, March soybean futures look decidedly overvalued. Nonetheless, they climbed nearly 25¢ over the past two weeks.

Corn prices are much less exciting. At $3.83 per bushel, March corn futures are nearly a nickel higher than they were before Christmas. But they’re likely not high enough to meaningfully discourage soybean acreage in the Corn Belt. We’re likely to have plenty of grains and oilseeds in 2019.

The California Department of Food and Agriculture (CDFA) is now accepting applications for its Dairy Digester Research and Development Program (DDRDP) and Alternative Manure Management Program (AMMP). The deadline for submitting applications is 5 p.m. on April 3, 2019. CDFA is also hosting a series of application assistance workshops for both programs (see on next page).

For 2019, CDFA will make available $61-$75 million for DDRDP and $19-$33 million for AMMP. Up to 50% of the total project cost, with a maximum grant award of $3 million per project, will be funded by CDFA. Visit the CDFA website for more information about DDRDP [here](#) and AMMP [here](#).

You can view past recipients of both programs and the progress of projects built in California at the Dairy Cares website [here](#) (DDRDP) and [here](#) (AMMP). Dairy producers can also contact me at [Kevin@MilkProducers.org](mailto:Kevin@MilkProducers.org) for assistance or with any questions about these programs.
The partial government shutdown, which began on December 22, 2018, is cause for concern for producers who need to apply for the second round of trade mitigation payments through USDA’s Market Facilitation Program. Local USDA Farm Service Agency centers are closed and USDA appropriations have lapsed due to the shutdown. If the situation doesn’t change before the January 15, 2019 application deadline, producers may be in jeopardy of not receiving trade mitigation payments.

Yesterday I visited with Congressman Jim Costa (D-CA 16th District) about this situation and the potential impacts to dairy families. The Congressman said he would contact USDA Secretary Sonny
Perdue to explain the situation and seek an extension of the application deadline for the Market Facilitation Program. USDA does have the authority to extend the enrollment deadline, but a decision has not been made yet.

Congressman Costa’s office informed us this morning that a letter to Secretary Perdue has been drafted, requesting the Secretary use his authority to extend the application period for the program to a date 30 days following the restoration of appropriations and reopening of Farm Service Agency centers. The Congressman is working to secure additional signatures from California Congressional members before sending the letter to Secretary Perdue.

We will keep you apprised of developments, hopefully with good news that the application deadline for trade mitigation payments has been extended should there be a prolonged partial government shutdown.