MPC WEEKLY FRIDAY REPORT

DATE: MAY 10, 2019
TO: DIRECTORS & MEMBERS
FROM: KEVIN ABERNATHY, GENERAL MANAGER
PAGES: 6

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

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 CHANGE</td>
</tr>
<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td>WEEKLY AVERAGE</td>
</tr>
<tr>
<td></td>
<td>CHEDDAR CHEESE</td>
<td>DRY HEY</td>
</tr>
<tr>
<td>Blocks</td>
<td>+ $.0050</td>
<td>DRIY MARKET NEWS</td>
</tr>
<tr>
<td>Barrels</td>
<td>+ $.0475</td>
<td>NATIONAL PLANTS</td>
</tr>
<tr>
<td>Weekly Average</td>
<td>+ $.0300</td>
<td>w/e 05/10/19</td>
</tr>
<tr>
<td>Cheddar Cheese</td>
<td>+ $1.6975</td>
<td>$.3762</td>
</tr>
<tr>
<td>Block</td>
<td>+ $1.7225</td>
<td>NATIONAL PLANTS</td>
</tr>
<tr>
<td>Barrels</td>
<td>+ $.0860</td>
<td>w/e 05/04/19</td>
</tr>
<tr>
<td></td>
<td>$1.6975</td>
<td>$.3842</td>
</tr>
</tbody>
</table>

CALIFORNIA FEDERAL MILK MARKETING ORDER PRICE PROJECTIONS

<table>
<thead>
<tr>
<th>PRICE PROJECTIONS</th>
<th>CLASS I ACTUAL (RANGE BASED ON LOCATION)</th>
<th>CLASS II PROJECTED</th>
<th>CLASS III PROJECTED</th>
<th>CLASS IV PROJECTED</th>
</tr>
</thead>
<tbody>
<tr>
<td>MAY 10 EST</td>
<td>$18.02 - $18.52</td>
<td>$16.37</td>
<td>$16.33</td>
<td>$16.15</td>
</tr>
<tr>
<td>MAY 3 EST</td>
<td>$18.02 - $18.52</td>
<td>$16.44</td>
<td>$16.37</td>
<td>$16.27</td>
</tr>
</tbody>
</table>

Milk, Dairy and Grain Market Commentary
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets
It was another wild week on LaSalle Street, as traders focused much of their attention on Pennsylvania Avenue. Last weekend, Beijing sent a revised draft of the proposed U.S.-China trade agreement to the White House, backtracking on commitments to protect intellectual property and crack down on cybertheft. That prompted a furious response from the Trump administration. In the wee hours of Friday morning, U.S. tariffs on a slew of Chinese imports jumped from 10% to 25% and President Trump threatened additional tariff hikes. China promised to retaliate. Markets plunged. The S&P 500 Index suffered its worst weekly setback of the year.
President Trump is clearly aware of the impact the trade war has had on the export-dependent industries, especially agriculture. In a series of tweets Friday morning, he proclaimed himself farmers’ all-time favorite president and promised that the administration would use the more than $100 billion in tariffs on Chinese goods to “buy agricultural products from our Great Farmers, in larger amounts than China ever did, and ship it to poor & starving countries in the form of humanitarian assistance... Our Farmers will do better, faster, and starving nations can now be helped.” Such dramatic intervention into the farm economy is extremely unlikely and would cause a scad of unintended consequences. The tweets are likely of small comfort to row crop farmers confronting life-of-contract lows in corn futures and multi-year lows in soybeans. The tweets also communicated a lack of urgency; President Trump said talks with China are proceeding in a congenial manner and “there is absolutely no need to rush.” That certainly didn’t help the whey market, which continued to languish. Whey futures lost ground every day this week.

Tariffs represent a storm cloud on an otherwise sunny horizon for the U.S. dairy industry. In China, U.S. dairy products face border taxes that are at least 25% higher than products from major competitors. Until the United States revokes tariffs on Mexican steel and aluminum, U.S. cheese will incur an extra 10% tax when it crosses the southern border. This disadvantage is clearly having an impact. U.S. dairy product exports to China in March were half as large as in March 2018. In the first quarter, Chinese dairy imports are up 13%, but U.S. exports to China are down 43% during the nine months the tariffs have been in play. U.S. cheese exports to Mexico in March were 17% lower than the prior year. Despite lower sales to our top market, U.S. cheese exports were record high in March. Merchants sent 82 million pounds of cheese abroad, 9.9% more than in March 2018. Shipments to Southeast Asia soared. For the first time since 2014, South Korea displaced Mexico as the largest buyer of U.S. cheese. Sales to South Korea climbed 39.3% year over year, and shipments to Japan grew 28%. The United States is gaining ground in Southeast Asia for now, but as the Trans-Pacific Partnership phases in lower border taxes for some key competitors, U.S. exports will face further disadvantages.

Other categories of dairy exports were less impressive. According to the U.S. Dairy Export Council, the aggregate volume of U.S. dairy product exports fell 12% from a year ago in March. The United States was once again a net importer of butterfat in March. Imports of 11.1 million pounds were up 76% from the prior year as consumers continue to fill their shopping carts with Kerrygold Irish butter. At 5.5 million pounds, U.S. butterfat exports fell 33% short of year-ago volumes. Whey exports slumped. Driven downward by disappointing sales to China, whey product shipments fell 26.8% from the prior year. Milk powder exports fell 9.4% behind the very impressive levels of March 2018, but, at 132.6 million pounds, nonfat dry milk (NDM) export volumes were still respectable.
The U.S. dairy industry is highly efficient and innovative. Recent advances in genetics and breeding, along with normal improvements in herd management are likely to make for impressive growth in milk yields in the years to come. The industry will need to improve its trade prospects to cultivate markets for greater volumes of dairy products. For now, however, milk output is in decline around the world. Dairy producers can enjoy much higher milk prices even as exports slip.

Higher prices are most obvious in the cheese and milk powder markets. This week, CME spot Cheddar topped $1.70 per pound and closed at $1.68, up 0.5¢ from last week. Barrels climbed to their highest price since 2017; they finished today at $1.71, up 4.75¢ from last Friday. A lack of cheap milk in the Midwest has slowed barrel output. After trading at a steep discount to blocks throughout the fall and winter, barrels are now the higher market. Barrel output is likely to remain much lower than in previous years. Dairy Market News reports that in the Midwest, spot milk is trading from $1 over to $1.50 under Class. Over-Class premiums are practically unheard of in early May, when the flush is in full force and school milk sales ebb. At this time last year, spot milk was around $2.50 under Class, and in 2017 it was $4.50 under.

The milk powder market, which is also very sensitive to tighter milk supplies, is downright frisky. CME spot NDM reached a 3.5-year high on Wednesday, at $1.0725. It closed today at $1.0675, up 1.5¢ from last Friday. At the Global Dairy Trade (GDT) auction on Tuesday, skim milk powder (SMP) prices rallied 2.8%, enough to boost the GDT Index to its 11th consecutive gain despite a 0.5% decline in whole milk powder prices.

CME spot butter ascended to $2.34, matching the 2019 high-water mark set in March. Butter is up 7¢ this week and well above the longstanding trading range in the $2.20s. Cream multiples are rising, which suggests that churning activity is slowing. Demand is strong and some buyers are growing anxious that stocks will run short this fall.

CME spot whey went nowhere at all, closing once again at 34.75¢. But the futures floundered. The whey market is a decided drag on Class III values. Compared to last Friday, most Class III contracts were 20¢ to 40¢ in the red, but they all stand well above $16 per cwt. Class IV futures were roughly a dime higher, and second-half contracts sit comfortably above $17.

**Grain Markets**

The crop markets spent the week in retreat. The souring U.S.-China trade relationship pushed soybean futures to multi-year lows, and corn and wheat followed. USDA added to the pressure, reporting higher-than-expected ending stocks for all three crops in both the 2018-19 and 2019-20 crop years. Demand has failed to meet USDA’s previous projections, and exports may continue to disappoint. African swine fever is decimating the hog herd in Southeast Asia, and feed demand will fall accordingly. On the other hand, farmers are struggling to plant crops. There is some sunshine in the forecast, but if fields don’t
dry adequately by late next week, planting progress will likely stall when rains arrive once again. The futures promise very low returns, so if the weather doesn’t cooperate by early June, some farmers may choose to let fields lay fallow and await a check from their Prevented Planting insurer. Today July corn settled at just $3.7075 per bushel, down nearly 20¢ from last Friday. July soybeans were $8.08, down 34.25¢.

While the Social Security Administration (SSA) warns against making inferences about an employee’s immigration status after the receipt of a no match letter, many Immigration and Customs Enforcement (ICE) offices consider an employer’s receipt of no match letters to be an indication that an employer might have questionable hiring and record-keeping practices. An employer’s failure to show specific action in response to a no match letter could therefore be considered by ICE as a significant negative factor when determining if enforcement actions, including fines and criminal prosecution, should be taken.

Continue reading here.

This past Wednesday, MPC members Philip and Shelley Verwey were honored with a prestigious U.S. Dairy Sustainability Award in the category of Outstanding Dairy Farm Sustainability. The award was presented at a ceremony hosted by the Innovation Center for U.S. Dairy in Rosemont, Illinois and sponsored by DeLaval, Phibro Animal Health, Syngenta, the United States Department of Agriculture and World Wildlife Fund.

It’s always a pleasure to see our members recognized for the outstanding work they do on their farms. In this case, Phillip and Shelley, along with their farm and office managers Frank and Kathryn Cardoza, were highlighted for their work to reduce air emissions on the farm. In addition to acknowledging Philip and Shelley’s environmental leadership, the presentation of the award provided a great example to those in attendance, showcasing dairy practices that improve the well-being of people, animals and the planet. More than 200 representatives from across the supply chain,
Innovation in feed mixing leads to cleaner air, lower costs and better feed

Driving home one afternoon, dairy farmer Philip Verwey started thinking about changes he could make to improve air quality. His on-road brainstorm led to changes that cut the dairy’s tractor-related emissions substantially, the equivalent of taking 7,800 passenger cars off the road.

“I thought maybe I could convert my diesel-powered feed-mixing operation to electric,” said Verwey, who milks 9,000 cows in Hanford, California. “I was aware of a pilot program at the air district that provided incentive funding for reducing emissions. We did the research, calculated the reductions and applied for the program.”

Philip Verwey Farms’ diesel-to-electric conversion was one of 56 funding applications – and the only dairy related project – to the San Joaquin Valley Air Pollution Control District’s Technology Advancement Program. His idea: Rather than blending feed ingredients for his cows in a mixing wagon powered by a diesel tractor, he would blend using an electric stationary mixer. This change significantly reduced the amount of run time by his diesel engines, lowering diesel consumption by 71% per month.

“In addition to being good for the environment, the change provided other positive benefits,” Verwey said. “Our feeding time went from 20 hours a day to seven and the texture and composition of the feed improved, which is good for our cows.”

Verwey’s idea reduced oxides of nitrogen (NOx) emissions by 90%, providing the inspiration and model for other dairy farmers to take similar action.

“The air district saw the success of our project and the positive difference it makes in air quality,” Verwey said. “That led to an expanded program that will fund up to 75% of the cost of future conversions to electric mixers for dairy feed.”

To date, 15 California dairy farms have submitted applications to the new program and four dairies are now under contract to begin converting their feed mixers to electricity. Combined with Philip Verwey Farms, the overall emissions reduction is roughly equivalent to removing 19,300 passenger vehicles from the road.

“I’m a true believer that you have to produce what the public wants, and that includes being green,” Verwey said. “We’re also doing that in a way that makes economic sense, which benefits everyone.”

The electric feed mixer is powered by electricity generated on the dairy from a manure digester. In addition to producing enough energy to meet the dairy’s electricity needs, 3,000 additional homes can be powered.

The electric feed mixer reduces oxides of nitrogen emissions from 22 tons annually to just 2, saving 90,000 gallons of diesel.

7,800

The number of cars one would need to remove from the road for equal emissions reductions to those achieved by the Philip Verwey Farms electric feed mixer conversion.
From Kevin Abernathy, MPC General Manager

Last week, CDQAP released its April 2019 e-newsletter. Please follow [this link](#) to view the update. Topics included CDQAP’s webinar on mental health and spring harvest sampling reminders.