**MPC WEEKLY FRIDAY REPORT**

**DATE:** JUNE 28, 2019  
**TO:** DIRECTORS & MEMBERS  
**FROM:** KEVIN ABERNATHY, GENERAL MANAGER  
**PAGES:** 5

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**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  + $.0325  $1.8575  WEEKLY CHANGE  + $.0200  $2.4100  WEEK ENDING 06/22/19</td>
<td></td>
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<tr>
<td>Barrels  + $.0525  $1.7900  WEEKLY AVERAGE  + $.0335  $2.4120  NAT’L PLANTS $1.0425 23,889,154</td>
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<tr>
<td>WEEKLY AVERAGE CHEDDAR CHEESE</td>
<td>DRY WHEY</td>
<td>DRY WHEY</td>
</tr>
<tr>
<td>Blocks  + $.0490  $1.8445  DAIRY MARKET NEWS W/E 06/28/19 $3.5500  NATIONAL PLANTS W/E 06/22/19 $3.5780</td>
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<tr>
<td>Barrels  + $.0635  $1.7430</td>
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</tbody>
</table>

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**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>JUNE 28 EST</td>
<td>$18.67 - $19.17</td>
<td>$17.31</td>
<td>$16.27</td>
<td>$16.86</td>
</tr>
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<td>JUNE 21 EST</td>
<td>$18.67 - $19.17</td>
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**Milk, Dairy and Grain Market Commentary**  
*By Sarina Sharp, Daily Dairy Report  
Sarina@DailyDairyReport.com*

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**Milk & Dairy Markets**

The bulls bellowed on LaSalle Street today, with shouts of “New highs!” CME spot Cheddar blocks climbed 3.25¢ this week to $1.8575 per pound. Barrels rallied 5.25¢ to $1.79. Both blocks and barrels stand at their loftiest levels since November 2016. That’s 31 months, 947 days, or 648 trading sessions ago. That propelled Class III contracts to new highs despite a small setback in spot whey pricing. Third quarter Class III contracts vaulted more than 20¢ this week.

Class IV futures posted similar gains, boosted by strength in both butter and milk...
Milk Producers Council
Weekly Friday Report
June 28, 2019

CME spot butter posted a nearly 13-month high on Wednesday and finished today at $2.42, up 2ȼ from last Friday. Spot nonfat dry milk (NDM) climbed a half-cent to $1.05.

There is no surplus of cheap milk in the traditional cheese states, which has likely slowed production of commodity Cheddar. And demand remains firm. Cheese merchants tell USDA’s Dairy Market News that exports are accelerating. An uptick in cheese orders from Mexico is not surprising now that the retaliatory tariffs have been lifted. But Asian buyers are also shopping for more U.S. cheese, which is remarkable given much cheaper product in Europe. It’s possible that European vendors don’t have enough cheese in inventory to satisfy foreign demand. If that’s the case, the bulls might take up residence in the dairy pits for a while. However, if cheese stocks in Europe are truly tightening, shouldn’t it be reflected in their pricing? Benchmark German cheese markets have barely budged all year. German butter values have fallen for eight straight weeks.

There is reason to suspect that European dairy product supplies will tighten, and that prices will rise accordingly. It is unbearably hot across the continent, with record-high temperatures in the triple digits. Milk output is surely suffering. Such heat is extremely rare in much of Europe, and dairy producers there have not invested in the types of cooling technologies that are standard in the warmer U.S. dairy regions.

The first summer heat wave is hitting parts of the U.S. Midwest as well, which will not help milk yields. Dairy slaughter remains high, which suggests that the dairy herd continues to contract. If summer weather reduces growth in milk production per cow, the U.S. will likely begin to feel the full impact from the pronounced decline in milk cow numbers.

New Zealand wrapped up its dairy season last month. Milk solids output in May was 1.1% lower than in 2018. The 2018-19 season featured an early sprint, a good run in the middle, and a weak finish, as pastures dried up around the turn of the year. Milk solids collections were 2.4% higher than in the 2017-18 season. Perhaps the bigger story is that New Zealand’s milk output has fluctuated very little since 2014-15. Until 2014, the world had to contend with a lot of new milk out of Oceania year after year. That is not the case anymore. Dairy producers in New Zealand are no longer pushing to add a lot of cows. Growth now depends on improved production per cow. Given elevated feed prices and the rising cost of environmental compliance on the islands, a big shift away from the pasture system to more concentrated feeding is unlikely in the near term.

Slower growth in New Zealand milk collections and steep declines in Australia are likely to weigh on Oceania’s milk powder output. But demand has not
slowed, particularly from China, New Zealand’s largest customer. In May, China imported 51.3 million pounds of SMP, the largest volume for that month on record. Chinese SMP imports are up 28.7% for the year to date, and they are 17.9% ahead of the previous record, set in 2014. China imported 1.2% more whole milk powder (WMP) last month than in May 2018, and year-to-date imports top year-ago levels by 30%. China once again imported big volumes of ultra-high temperature (UHT) milk in May, but imports of other dairy product categories did not impress. Chinese imports of dry whey were particularly puny. China’s hog herd has been decimated by African swine fever, and pig growers are not buying whey for piglet rations in the volumes they once did. U.S. sales are further hampered by punitive tariffs. U.S. whey exports to China dropped 73.4% from a year ago in May to the lowest level since August 2010. Lost demand from China has weighed heavily on U.S. whey pricing. The depressed whey market has been an anchor on Class III values, which would be even higher if whey prices were more buoyant.

**Grain Markets**

USDA walloped the corn market today. The agency estimated planted corn area at 91.7 million acres, up 3% from a year ago and well above analysts’ average estimate of 86.7 million acres. The grain trade had anticipated a big decline in corn area this year because millions of acres of prime farmland were completely inaccessible during the typical planting window. USDA surveyed farmers about their planting progress and intentions during the first two weeks of June. Soaring corn prices during the survey period likely prompted farmers to answer that they would make every effort to plant every acre. However, heavy rains pelted already saturated soils for most of the month. It’s extremely unlikely that farmers were able to seed as much ground as they hoped; USDA is likely to revise its planted acreage figure lower in the months to come. USDA did lower its estimate of soybean plantings considerably, to 80 million acres. That’s down 10% from a year ago and well behind the average guess of 84.4 million acres. Today’s acreage report prompted a steep selloff in corn futures and a big jump in soybean values. September corn settled at $4.2475 per bushel, down 22.75¢ this week. August soybeans closed at $9.045, down 4¢ due to an early-week retreat.
As I reported last week, the Producer Review Board took action to reduce the Quota Implementation Plan (QIP) assessment on Grade A milk produced and marketed in California from 38 cents per cwt. to 32.5 cents per cwt. The reason for the big drop is that the fund that pays out the quota differential to producers who own quota has been over collecting by about a million dollars a month, and in addition, this fund received about $5.5 million that was left over from the State pooling equalization fund. The reduced assessment will deplete the surplus in the fund within about a year at which time, if nothing else happens, the assessment rate will need to be raised to equal the amount required each month to fund the quota payments.

Last week I had estimated that to be about 35 cents per cwt. I got some calls which questioned the 35-cent estimate because the QIP data we have is not a full year of production and does not include summer months when production drops. So, this week what I did was obtain solids nonfat (the QIP assessment is really based on SNF, not cwt. of milk) production data for the six months of 2018 prior to the start of the FMMO on November 1. I then ran a full-year scenario, which includes the summer months. The results of that exercise, which used the California SNF production from June of 2018 through May of 2019 shows that if production does not increase, it will require an assessment of 35.7 cents per cwt. or $.04103 per pound of SNF to fully fund the net quota payments (net because the Regional Quota Adjuster deductions also reduce the cost of the quota payments).

Inside the University of California, Davis, dairy barn, a Holstein cow has its head and neck sealed airtight inside a large, clear-plastic chamber that resembles an incubator for newborns. While giant tubes above the chamber pump air in and push air out, the cow calmly stands and eats her feed. Equipment inside a nearby trailer spits out data.

This is how Frank Mitloehner measures gases that come from cows’ stomachs and ultimately contribute to global warming. Quantifying these emissions is key to mitigating them, and Mitloehner is one of several UC Davis researchers investigating economical ways to make livestock production more environmentally sustainable around the globe.

Cattle are the No. 1 agricultural source of greenhouse gases worldwide. Each year, a single cow will belch about 220 pounds of methane, which is shorter lived than carbon dioxide but 28 times more potent in warming the atmosphere, said Mitloehner, a professor and air quality specialist in the Department of Animal Science.
Milk Producers Council Wishes You a Happy and Safe Independence Day

The next MPC Friday Report will be published July 12.