DATE: March 25, 2016
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager

Milk Producers Council
13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

MPC FRIDAY MARKET UPDATE

<table>
<thead>
<tr>
<th>CHICAGO CHEDDAR CHEESE</th>
<th>CHICAGO AA BUTTER</th>
<th>NON-FAT DRY MILK</th>
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</thead>
<tbody>
<tr>
<td>Blocks N/C $1.4900</td>
<td>Weekly Change - $0.0275 $1.9225</td>
<td>Week Ending 3/18 &amp; 3/19</td>
</tr>
<tr>
<td>Barrels - $.0500 $1.4500</td>
<td>Weekly Average - $.0015 $1.9375</td>
<td>Calif. Plants $0.7443 16,415,347</td>
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<td>Nat’l Plants $0.7430 26,548,305</td>
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<td>Weekly Average, Cheddar Cheese</td>
<td>Dairy Market News w/e 03/25/16 $2.500</td>
<td>Prior Week Ending 3/11 &amp; 3/12</td>
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<tr>
<td>Blocks +$.0020 $1.4900</td>
<td>National Plants w/e 03/19/16 $2.2450</td>
<td>Calif. Plants $0.7885 7,521,889</td>
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<tr>
<td>Barrels +$.0211 $1.4656</td>
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<td>Nat’l Plants $0.7623 16,867,368</td>
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DRY WHEY

| Dairy Market News w/e 03/25/16 $2.500 | National Plants w/e 03/19/16 $2.2450 |

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FRED DOUMA’S PRICE PROJECTIONS...

Last Week: Quota cwt. $14.66 Overbase cwt. $12.96 Cls. 4a cwt. $12.59 Cls. 4b cwt. $13.24

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MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

The CME spot Cheddar barrel market flexed its muscles last Friday, but that strength proved to be as fleeting as it was perplexing. Spot barrels dropped a nickel and closed at $1.45. Spot Cheddar blocks went absolutely nowhere during this holiday-shortened week. They finished where they started at $1.49. Not a single load changed hands.

Cheese inventories remained large in February. Stocks totaled 1.18 billion pounds, up 10.8% from year-ago volumes. Despite formidable milk production in the Midwest, month-to-month growth was slight, at just 3.8 million pounds, or 0.3%. Given robust cheese output and paltry exports, domestic demand continues to impress. Perhaps that is why most Class III futures contracts were able to shrug off the weakness in the spot cheese market. Nearby contracts dropped a few cents, but May futures gained 15ȼ this week and deferred contracts were modestly higher.

The CME spot butter market scored a fresh eight-month low, dropping to $1.92/lb. on Wednesday. It settled yesterday at $1.9225, down 2.75ȼ from last Friday. Butter makers had more than enough cream to...
satisfy orders ahead of Easter and Passover. Now that holiday demand has faded, manufacturers are primarily churning bulk butter for storage. At the end of February there were already 235.48 million pounds of butter in warehouses, 32% more than the year before. Inventories climbed 43.4 million pounds from January to February, a 23% increase that was far larger than is typical at this time of year. Butter prices are falling as supplies grow.

Milk powder prices continued to retreat this week. Spot nonfat dry milk (NDM) slipped to 72.5ȼ, down a half cent to the lowest spot market price since early February. Butter futures moved downward this week and NDM futures were mixed but mostly weaker. Class IV futures were quiet and most contracts didn’t budge this week.

Chinese milk powder imports in February were much smaller than January’s hefty volumes, and they fell well short of year-ago levels. Combined imports of skim milk powder (SMP) and whole milk powder (WMP) totaled 82 million pounds, down 46% from a year ago after adjusting for Leap Year. But the reset of under-quota import tariffs and the timing of the lunar new year in February have the tendency to skew year-over-year comparisons. Adding together December, January, and February volumes helps to iron out the wrinkles of the calendar. For 2015-16, China imported 492.5 million pounds of milk powder over those three months. That’s 7.5% greater than the same period a year ago, but nowhere near the record-shattering volumes of 2013-14.

China’s appetite for other dairy products continues to grow. Chinese cheese imports climbed to 15.4 million pounds in February, up 55% from a year ago. China’s whey imports reached 54.6 million pounds, up 14.4% from a year ago on a daily average basis. Chinese lactose imports were up 7.5% from last year and imports of ultra-high temperature fluid milk climbed 81.7%. Rumors of the demise of China’s dairy product purchases may have been exaggerated.

Forecasts for New Zealand’s milk production deficit were similarly overzealous. In February, milk collections totaled 1.97 million metric tons, up 2% from February 2015 after adjusting for Leap Year. Season-to-date collections are down 2.2% from the 2014-15 season. Summer pastures are in decent condition and the weather is not likely to restrict milk output as the season draws to a close. Still, dairy producers in New Zealand are widely reported to be culling aggressively and cutting back on supplemental feeding.
But judging by February output, lower milk prices seem to have had a muted impact on production. Cow and heifer slaughter data suggests that after culling very aggressively when the dairy season began in June, beef and dairy producers in New Zealand tapped the brakes. Slaughter volumes have slowed dramatically since October, falling milk prices notwithstanding.

Furthermore, New Zealand imported a record-breaking 2.22 million metric tons of palm kernel in 2015, 10.3% more than the year before. In New Zealand, dairy producers supplement pasture and fodder with palm kernel to boost milk production. Palm kernel merchants clearly don’t foresee much of a slowdown in supplemental feeding.

When milk prices fall, dairy producers generally cut costs where they can and redouble their efforts to improve milk production and preserve revenue. The trade has largely assumed that as part of their low-cost, pasture-based model, dairy producers in New Zealand would emphasize the former response and eschew the latter. Milk production, cow slaughter, and palm kernel import data suggest otherwise.

For the week ending March 12, dairy cow slaughter totaled 59,973 head, down 0.8% from the same week a year ago. After eleven weeks, the 2016 cull rate is basically even with last year.

Grain Markets
The bulls continued to bellow in the soy complex. May soybean futures settled at $9.105, up 13¢ from last week. Corn futures also climbed, but they did so with less conviction. May corn finished at $3.70, up 3¢.

The soybean market has attracted some attention from the investment fund crowd, which is looking for somewhere in the commodity space to park its money. Soybeans also got a boost from the strong Malaysian palm oil market, which continues to support soybean oil prices. Finally, soybean meal exports were surprisingly large this week.

On the other hand, global stocks are still large. Oil World estimates the soybean crop from South America’s five largest producers will total 174.7 million metric tons this year, which is higher than their previous forecast and 3 million metric tons greater than last year’s record-breaking South American crop. There will be stiff competition for exports.

Next week USDA will publish its much anticipated Prospective Plantings and Grain Stocks report. The trade expects farmers to plant more corn and soybeans this year than they did last year, at the expense of wheat and other small crop acreage. These reports and the weather forecast will determine price direction as spring planting gets underway.
STILL NOT CDQAP-CERTIFIED? NEED TO ATTEND THE SHORT COURSE FOR CERTIFICATION? COME TO HANFORD NEXT MONTH! (By Kevin Abernathy, Director of Regulatory Affairs) For those California dairies who have not yet gotten certified under the California Dairy Quality Assurance Program (CDQAP), you have a chance in two weeks to attend the required short course in Hanford. CDQAP certification comes with the dual benefit of: (1) proudly acknowledging that your dairy is complying with local and state air/water quality requirements; and (2) receiving a 50% discount in the fees paid annually to the State Water Resources Control Board.

This will be the only class offered this year, so if you’re interested in getting CDQAP-certified in 2016, I’d encourage you to attend this class.

**Water Quality Classes**

- Wednesday, April 6, 2016
  - Class 1: 9 a.m. to 12 noon
  - Class 2: 1 to 4 pm
  - Kings County UCCE Office “classroom,” 680 N. Campus Dr., Suite A, Hanford, CA 93230

**Air Quality Class**

- Thursday, April 7, 2016
  - 9 a.m. to 12 Noon
  - Kings County UCCE Office “classroom,” 680 N. Campus Dr., Suite A, Hanford, CA 93230

For those interested in attending the class and getting their CDQAP certification, you will need to attend all of these classes (unless you have already attend a portion of a previous class and have credit towards completion). You will also have to complete an on-site inspection following the completion of the class in order to be CDQAP-certified and receive the discount on your annual fees to the State Water Board. While many of MPC’s members have already taken advantage of this opportunity, for any who haven’t, please feel free to contact me at kevin@milkproducers.org or (209) 678-0666 if you have any questions.

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REMINDER – CDFA HEARING ON CLASS 4B MILK PRICE CALCULATION ON APRIL 11TH: (By Rob Vandenheuvel) While I know our readers are well-aware of the upcoming hearing in Sacramento on the Class 4b minimum milk price calculation, I just wanted to put a friendly reminder for anyone interested in making plans to attend that the hearing will begin at 9 am on Monday, April 11th. It will be held at CDFA’s auditorium at 1220 N Street in Sacramento. Producers are encouraged to attend and participate in the hearing if you feel so called.

Next week MPC will be co-submitting a proposal with our fellow California producer trade associations: California Dairy Campaign and Western United Dairymen. That proposal will also have the support of the three major California cooperatives: California Dairies, Inc., Dairy Farmers of America and Land O’ Lakes, Inc. We look forward to helping to present to the CDFA hearing panel a unified producer position in the upcoming hearing. The details of that proposed language, along with a report on any other proposals that are put forth for the hearing, will be discussed in a future issue of this newsletter. So stay tuned…

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SCHEDULING NOTE: (By Rob Vandenheuvel) Unfortunately, I will not be able to publish MPC’s Friday Market Update next week. Our next issue is scheduled for Friday, April 8th.

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On behalf of MPC’s Board of Directors and Staff, we’d like to wish all of you and your families a wonderful Easter Sunday!