DATE: April 29, 2016
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager

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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>
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<tr>
<td>Blocks - $0.0525</td>
<td>Weekly Change $0.0900</td>
<td>Calif. Plants $0.7349</td>
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<tr>
<td>Barrels - $0.0125</td>
<td>Weekly Average $0.0080</td>
<td>Nat’l Plants $0.7273</td>
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<td>Week Ending 4/22 &amp; 4/23</td>
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<td>Weekly Average, Cheddar Cheese</td>
<td>Dairy Market News w/e 04/29/16 $0.2363</td>
<td>Nat’l Plants $23,098,787</td>
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<td>Blocks - $0.0480</td>
<td>National Plants w/e 04/23/16 $0.2413</td>
<td><strong>Prior Week Ending 4/15 &amp; 4/16</strong></td>
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<td>Barrels - $0.0255</td>
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<td>Calif. Plants $0.7328</td>
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FRED DOUMA’S PRICE PROJECTIONS...
Apr 29 Final: Quota cwt. $14.31 Overbase cwt. $12.61 Cls. 4a cwt. $12.56 Cls. 4b cwt. $12.71
Last Week: Quota cwt. $14.31 Overbase cwt. $12.61 Cls. 4a cwt. $12.56 Cls. 4b cwt. $12.71

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

Milk & Dairy Markets
For months now, the cheese market has been quietly waffling. The spot Cheddar market probed but never breached $1.50 and quickly rebounded each time it slipped to the low $1.40s. But this week the $1.40 foundation was tested and found wanting. On Tuesday, both blocks and barrels slipped to $1.38/lb., the lowest price in those markets since January 2011. On Wednesday, blocks dropped further to $1.3625 and 21 loads changed hands, matching March 31, 2011 for the highest daily trading volume in many years. When the bell rang Friday, blocks had clawed their way back to $1.37, down 5.25ȼ on the week. Trading volume totaled 39 loads, more than in any week in nearly three years. Barrels rallied late in the week to close at $1.4125, down 1.25ȼ from last Friday.

Domestic cheese demand has impressed, which has helped to moderate the stockbuilding pace despite ever more cows in the Midwest and a formidable spring flush. But cheese stocks are still record large. Even in the West, Dairy Market News reports that storage space is becoming an issue and “manufacturers are regularly asking end users about available warehouse space in an effort to find temporary homes for cheese.” The trade has been on edge, weighing the stability in the spot market against disconcertingly large stocks. When the spot market caved, the trade piled in. Wednesday’s Class III and cheese futures trading volume was the largest in over a year. Amidst almost unremitting pressure, most Class III futures contracts lost between 20 and 30ȼ this week.

While the cheese market stumbled, the butter market soared. Spot butter jumped to $2.12 on Friday, up 9ȼ on the week. Demand remains strong, but cream is readily available as evidenced by cream multiples that remain well below seasonal averages. The continued strength in the butter market is perplexing and probably mostly psychological. For two years, end users have been conditioned to fear a sudden and unrelenting spike in prices,
and they have been a steadfast bid around $2, which they consider a palatable price. Butter makers seem confident. They have played coy with sales despite growing stocks, a lack of exports, and cheaper imported butterfat.

Milk powder prices took two steps forward and one back this week. Spot nonfat dry milk (NDM) climbed to 77.5ȼ Tuesday, the highest price since mid-March. But on Friday they retreated to 75.5ȼ, up a half cent on the week. The strength was likely prompted by improved export prospects. The U.S. dollar index dropped this week to eight-month lows. Class IV futures were little changed.

It is an undeniably difficult season for dairy producers. As the writer of Ecclesiastes lamented, “What gain has the worker from his toil?” With a national average All-Milk price of $15.30 in March, the answer – for now at least – is red ink. The few dairy producers who signed up for the highest $8/cwt. coverage under the Margin Protection Program (MPP) are likely to receive an indemnity payment for the March-April period. National milk income over feed costs averaged $7.47 under the MPP formula in March.

Milk and dairy product prices are likely to remain depressed until milk production slows in the Midwest and Europe, and there are no signs of that yet. Meanwhile, the deficit in New Zealand is considerably smaller than early season projections. March output was down just 0.8% from a year ago, bringing season-to-date production 2.1% lower than in the 2014-15 season.

Global dairy supplies continue to overwhelm demand. But it will not always be thus. Even if U.S. dairy producers don’t trim their herds, milk production could be constrained as the transition from a strong El Niño to a La Niña boosts summer temperatures. In the Midwest, a lack of processing capacity will limit further herd growth. The spring flush has deluged manufacturers, and some cooperatives are regularly dumping milk. “Processors are separating the cream and trying to find responsible outlets for the remaining skim solids, such as digesters. Industry contacts are hopeful that plans for several new plants in the region will help alleviate this seasonal surplus in the future,” according to Dairy Market News. But even the best laid plans for processing plants take a lot of time and capital to complete.

In Europe, growth in milk output is widespread, and no one has added more volume than the Netherlands. This too may not abide. Beginning next year, Dutch dairy producers will have to adhere to stricter phosphorous quotas. The Agri Food Policy Executive of ICOS estimates that Dutch dairy producers will have to cull between 60,000 and 100,000 of the nation’s 1.6 million cows in order to comply. If milk prices were high, Dutch dairy producers might be tempted to purchase credits or find other ways to keep their barns and milk tanks full and stay within environmental rules. As it stands, Dutch dairy producers will have to confront their bankers and environmental regulators. Production could drop off sharply as the year draws to a close.
Given large global inventories, it will take some time for the dairy product markets to recover, particularly if dairy producers in the Midwest and northern Europe stubbornly ignore the very real obstacles to continued growth. But today’s low prices have laid the groundwork for strong demand and slower growth in milk output down the road. Eventually, dairy producers will be able to join with the writer of Ecclesiastes, believing that “there is nothing better than that man should rejoice in his work, for that is his lot.”

Dairy producers culled a little more actively in the week ending April 16. Dairy cow slaughter totaled 54,555 head, up 0.6% from the same week a year ago. Beef prices continue to drop.

**Grain Markets**

It was another big week in the grain markets. July corn futures settled at $3.9175 per bushel, up 16.25¢. July soybeans jumped 33.5¢ to $10.2975. U.S. exporters sold huge volumes of corn this week, which helped propel the grain markets higher. The weaker dollar and a bout of bad weather in South America suggest that the U.S. may export more corn and soybeans late in the crop year than previously expected. This would mean smaller ending stocks and a greater need for decent crops this year. The market has been forced to price in a greater weather risk premium, particularly for soybeans. In the past month, the grain markets have shifted dramatically from comfort in abundance to volatile uncertainty.

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**DAIRY CARES COLUMN: “STATE AIR BOARD METHANE PLAN UNREALISTIC”**: (By Rob Vandenheuvel)

The latest “Dairy Cares Newsletter” has been posted on MPC’s website at: [http://www.milkproducerscouncil.org/cares.htm](http://www.milkproducerscouncil.org/cares.htm). This month’s column, entitled “State Air Board Methane Plan Unrealistic,” digs into the recently-revised plan put forth by the California Air Resources Board (CARB) to go after reductions in methane emissions, including those coming from dairy farms.

Rather than simply posting a link, I’m going to copy the text of this column below. This is an important issue, and one that certainly threatens the future of the California dairy industry (as if our other financial challenges weren’t enough of a threat). Our industry is already locking arms and fighting back against CARB on this issue, and those effort can and must continue.

Before posting the article, I want to add some of my own thoughts here as well. We need to remember why this is a fight worth fighting. This is not because of any argument about whether or not human activities can actually impact the naturally-occurring climate change that has been going on since the beginning of time. We leave that discussion to the scientists (honest ones, not those who doctor up the data).

Instead, this is about fighting against the **ridiculously stupid** “go-it-alone” strategy for implementing business-killing regulations aimed at reducing greenhouse gases. When the U.S. talks about going this direction, while countries like China refuse, I call that crazy. When a single state like California does it on its own, I call that absolutely insane.

When a California business (whether that’s a dairy, or any other business) has finally had enough of the expensive, invasive, ridiculous regulations that Sacramento dreams up each year, and that business moves to a neighboring state, what happens to the “global” greenhouse gas emissions? They remain the same! California has lost a job creator and economic driver, and the net impact on the greenhouse gas emissions is zero! That’s why a go-it-alone approach doesn’t work if you actually care about reducing greenhouse gas emissions.
As the Dairy Cares column notes, there’s an alternative, which is to use the State to create incentives and funding opportunities to promote methane reducing technologies. This is the path the State must take if they actually want to address methane emissions while not driving dairies and other businesses out of the State (assuming, of course, that’s not the ultimate goal of some within our State government). Digesters, as CARB has pointed to in their strategy, may be part of that, but even they are not a one-size-fits-all solution. Financial incentives for voluntarily implementing any technology that can actually prove real methane reductions are the only way we can pivot from this insane strategy laid out by CARB towards a positive path forward where job creators stay in California while the state moves towards its environmental goals.

Enough of my preaching; here’s the Dairy Cares newsletter:

**State Air Board Methane Plan Unrealistic**

By Dairy Cares Staff, April 2016

A recently revised Air Resources Board Climate Pollutant (SLCP) Reduction Strategy sets highly unrealistic mandates for dairy methane reduction. The SLCP strategy is part of the state’s broader effort to reduce gas emissions. The plan contains targets for dairy methane reduction including a “75 percent reduction of dairy manure methane from 2013 levels by 2030,” and a “25 percent reduction in enteric emissions by 2030.” The major change in the revised plan is a proposal to begin “regulating” dairies as early as 2017.

While the proposed strategy recognizes the significant efforts the state’s dairies have already made to reduce greenhouse gas emissions, it is seeking huge additional reductions and, thereby, setting the industry up for failure. California dairies have been recognized by prominent researchers as having among the lowest carbon “hoofprints” per unit of milk produced, which is the standard measure of methane emission from dairy cows.

While California dairy families remain committed to further reductions, ARB’s 2030 mandate of a 75 percent reduction in dairy manure methane emissions is ill-conceived and unachievable, and could have unintended consequences. ARB has not identified a clear plan on how to effectively achieve the targets that could easily require $2 to $3 billion of investment. The SLCP strategy acknowledges this concern noting, if “regulations impose costs on the [dairy] industry that cannot be recouped, a result could be emissions leakage, if some dairies relocate outside of California” and emit the same, and perhaps even more, emissions than they did in California. The 75 percent target is not based on a realistic analysis of what is achievable, but rather an arbitrary political goal of reducing total methane emissions in the state by 40 percent by 2030.

While ARB’s plan acknowledges the need for a minimum of $500 million in incentive funding over the next five years, that funding has so far not been committed. Data from the California Department of Finance and Legislative Analyst’s office confirm that the return on investment per metric-ton reduction of CO2e (carbon dioxide equivalent) from dairy digesters is better than all but two of the projects the state has funded from its Greenhouse Gas Reduction Fund (GGRF). Moreover, these reports show digester project expenditures provide significant benefits to disadvantaged communities.

Funding dairy methane reduction projects is almost indisputably the best investment the state can make when return on investment, disadvantaged community benefits and clean-air “co-benefits” are considered. So why is the state failing to make the investment?

The California dairy industry is committed to being an active partner in state efforts to address climate-change challenges. That commitment is part of the longstanding dedication to dairy farm sustainability and productivity ingrained in the California dairy tradition. California dairies are already a model for the rest of the world on how to reduce methane emissions. California’s family dairies look forward to continuing to work with ARB to develop a workable strategy that identifies realistic and achievable goals and provides the necessary funding for additional reductions. Only then will the state and dairy industry be successful.