### 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>N/C</td>
</tr>
<tr>
<td>$0.0600</td>
<td>N/C</td>
<td>$1.9150</td>
</tr>
<tr>
<td>$1.6400</td>
<td>Weekly Average</td>
<td>+$0.0100</td>
</tr>
<tr>
<td>$1.6250</td>
<td></td>
<td>$1.9080</td>
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**Weekly Average, Cheddar Cheese**

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Weekly Average, Cheddar Cheese</th>
<th>DRY WHEY</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0.0395</td>
<td>Dairy Market News w/e 06/26/15</td>
<td>$0.4100</td>
</tr>
<tr>
<td>$1.6660</td>
<td>w/e 06/20/15 National Plants</td>
<td>$0.4231</td>
</tr>
</tbody>
</table>

**CALIF. PLANTS**

- Calif. Plants: $0.9324 17,047,535
- Nat’l Plants: $0.9292 26,937,281

**NATIONAL PLANTS**

- Calif. Plants: $0.9079 11,551,528
- Nat’l Plants: $0.9252 22,171,264

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**FRED DOUMA’S PRICE PROJECTIONS…**

**Jun 26 Est:**
- Quota cwt. $16.47
- Overbase cwt. $14.77
- Cls. 4a cwt. $13.67
- Cls. 4b cwt. $15.55

**Last Week:**
- Quota cwt. $16.49
- Overbase cwt. $14.80
- Cls. 4a cwt. $13.67
- Cls. 4b cwt. $15.60

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

**Milk & Dairy Markets**

The milk powder market was routed this week. On Thursday, CME spot Grade A nonfat dry milk (NDM) fell to 81ȼ/lb., its lowest level since the 1990s. It closed Friday at 83ȼ/lb., down 4.5ȼ from last Friday. The spot butter market surged Monday and then plunged Tuesday in the wake of the Cold Storage report. Prices slipped again on Wednesday but after a late week rally butter ended at $1.915. right where it closed last Friday. Most Class IV contracts settled between 10 and 30ȼ in the red.

Manufacturers looked to the CME to unload excess cheese this week, and spot cheese prices slipped to their lowest level in more than a month. Spot Cheddar blocks fell 6ȼ to $1.64. Barrels lost 4.5ȼ and dropped to $1.625. Traders exchanged 20 loads of blocks and 30 loads of barrels, the largest combined weekly volume in more than two years. After moving sharply lower last week, Class III futures losses were muted this week. Most contracts dropped a dime or so.

Summer is here and triple digit temperatures are restricting milk output all along the Pacific Coast and in Idaho. Heavy rains have dampened production in the Texas panhandle. In contrast, it is downright pleasant in the Midwest. Milk output is lower than it was at the peak of the flush, but it remains relatively strong. *Dairy Market News* reports that there is “less surplus milk available [for cheese production] than recent weeks, with less surplus discounting.”
Still, cheese output is likely outpacing demand, as was the case last month. According to USDA’s Cold Storage report, cheese stocks on May 31 totaled 1.1 billion pounds, up 4.1% from a year ago, and 2.2% more than in April. USDA revised its estimate of April cheese stocks upward by 5 million pounds. American cheese stocks accounted for 83% of the month-to-month growth, suggesting that manufacturers switched to bulk cheese production in May, perhaps to improve capacity utilization amidst a flood of cheap milk. That cheese is now making its way to the CME spot markets en masse, and pressuring nearby prices.

Regional trends in milk production – declining output in the West and strong production in the Midwest – are likely to be exacerbated by weather disparities. This suggests that Midwest cheese production is likely to remain formidable, while West Coast butter and milk powder output wanes. Summer demand for ice cream is also restricting butter production on the East Coast. Ordinarily, this would support the Class IV market, but in the current environment upside may be minimal.

Butter demand has been limited, allowing butter inventories to climb by more than twice their typical rate in both April and May. At the end of last month they totaled 264.3 million pounds, up 13.7% from April and 26.2% greater than a year ago. Stocks were larger than anticipated, and butter futures plunged Tuesday. Without growing demand for U.S. butter, prices may continue to languish, despite the potential for output to fall as temperatures rise. Given stagnant – but notably lower – butter prices overseas, any such demand growth would have to be domestic.

The upside is even more limited for milk powder. To this point, demand for milk powder has been strong, as long as the price is right. With spot NDM prices at multi-decade lows, opportunistic buyers are snapping it up. The California Weighted Average Price (CWAP) for NDM slipped below a dollar in mid-March. In the three months since, CWAP sales volume has averaged over 16 million pounds per week, 53% more than the three preceding months. Even so, milk powder inventories remain burdensome, and they are likely to become more so. Bargain shoppers are simply buying ahead, much like China did last year. End users are well stocked and likely to buy less in the months to come.

Indeed, Chinese milk powder imports slowed again in May. Combined imports of skim milk powder (SMP) and whole milk powder (WMP) totaled 94.6 million pounds, 18% lower than April on a daily average basis and down 50% from a year ago. With China largely on the sidelines, and the Russian import ban still in place, global demand for dairy products, and milk powder in particular, could suffer.

Dairy cow slaughter totaled 48,985 head in the week ending June 13, 4% higher than the same week a year ago. For the year to date, slaughter is up 4.6%.

**Grain Markets**

Grain and soybean prices shot higher this week. December corn futures jumped 33.25¢ to $4.02/bushel, their highest level since early January. November soybean futures climbed nearly 50¢ to $9.86, and July soybean futures topped $10. Soybean meal futures added nearly $20/ton.
Trading volume was particularly heavy Friday, as speculative traders rushed to cover what was once a very large short position. The eastern Corn Belt has been lambasted with rains, and crops there are suffering. In the worst areas, vast swaths of land are underwater, and both harvested acreage and yield numbers are likely to fall. Conditions are much better in the western Corn Belt, but for the moment the trade is focused on the problem areas.

Farmers have taken the opportunity to finally sell a portion of last year’s crop. This is helping to prevent an even more violent rally. Next week promises more volatility, with USDA’s quarterly Grain Stocks report and more anxiety surrounding the weather forecast. Farmers in the eastern Corn Belt are hoping to see more sunshine next week. If they do not, prices could continue to climb.

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FUNDING FOR WATER QUALITY/CONSERVATION PROJECTS IN MERCED/STANISLAUS COUNTIES: (By Kevin Abernathy, Director of Regulatory Affairs) If your dairy is located in Merced or Stanislaus Counties and you are interested in investing in a water quality/conservation improvement project, you may be eligible for funding assistance from USDA under the “Bay Delta Initiative.” This area-specific funding is under NRCS’s EQIP program, and is available for the following types of projects:

- Irrigation Pipeline
- Pumping Plants
- Solid Liquid Separators
- Waste Storage Facility (Concrete pads)
- Structure for Water Control
- Irrigation Land Leveling
- Comprehensive Nutrient Management Plan (CNMP)

Producers interested in pursuing this opportunity need to get their applications into their local NRCS office by July 17th. MPC members looking for assistance should contact me immediately at 209-678-0666.

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TRADE IN THE NEWS; MAKING SENSE OF THE ACRONYMS: (By Rob Vandenheuvel) Notwithstanding the news coming out of the Supreme Court the past two days, many of the news stories coming out of Washington lately have been focused on trade issues. It’s a unique issue where a Democrat President finds more friends amongst Congressional Republicans than amongst those in his own party. When reading articles on the trade discussions, it can often feel like you’re stuck in an awful Junior High text message with acronyms thrown around freely. USTR, TPA, TAA, AGOA, TPP…wanna throw in an LOL or BRB?

Before explaining what Congress did, let’s briefly explain these acronyms:

- **USTR – U.S. Trade Representative**: Michael Froman currently serves in this role. This is an appointed Cabinet position serving under the President, responsible for “developing and coordinating U.S. international trade, commodity, and direct investment policy, and overseeing negotiations with other countries.” Basically, when the U.S. is interested in entering into a trade agreement with a foreign nation, the USTR is our main representative.

- **TPA – Trade Promotion Authority (also known as “fast track”)**: This authority is given to the President from Congress for use in negotiating trade agreements with foreign nations. Under TPA, as these negotiations are ongoing, there are specific requirements to consult with and notify Congressional leaders of progress. In return, at the end of the negotiation, Congress still needs to either support or oppose the agreement, but it is a simple up-or-down vote – no amendments are allowed. This authority is understandably critical in negotiating a successful trade agreement, as it is highly unlikely a foreign nation would be willing or able to agree to terms of a negotiation with the knowledge that Congress can always amend those terms later on. The previous term of this authority expired in 2007, although any agreements that began prior to that expiration were allowed to continue under the TPA rules.
TAA – Trade Adjustment Assistance: This is a federal government program that “provides a path for employment growth and opportunity through aid to U.S. workers who have lost their jobs as a result of foreign trade.” The services available to displaced workers under this program include: job training, job search and relocation allowances, income support, and assistance with healthcare premium costs.

AGOA – African Growth and Opportunity Act: This law, which originated in 2000, provides special trade preferences on the imports of certain products (primarily apparel and textiles) from eligible sub-Saharan African countries. The provisions of this law must be renewed this year or they will expire.

TPP – Trans Pacific Partnership: This is an ongoing negotiation currently amongst twelve “Trans Pacific” countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. These discussions have been ongoing for many years, with the U.S. beginning our involvement in the talks in 2008.

So now that we know what all these pieces mean, what did Congress do this past week?

For quite some time, President Obama has been seeking to renew TPA, stating that the U.S.’s ability to complete the TPP negotiations was contingent on having that authority (*an understandable point, given that negotiations with 11 potential trading partners at once is tough enough; add in the ability for Congress to amend it after the fact and it becomes impossible*). The TAA program – a stated priority for many Congressional Democrats – is also set to expire later this year. Earlier this month, Senators from both parties approved a bill that would address both issues – renew TPA and extend TAA. When that bill was brought before the House of Representatives, Congressional Democrats rallied angrily in opposition, even voting down the TAA provisions that many of them express support for. In the end, a small group of Congressional Democrats joined most of the Republicans to approve TPA renewal as a stand-alone (*without the TAA provisions attached*) and sent that back to the Senate for approval, which they did this past week, and the bill went to the President for his signature.

The House and Senate then followed up with a bill to extend TAA, and attached an extension of AGOA as well. This past week, that package was also approved and sent to the President for signature.

So sifting through all those acronyms, and all the political theater over the past several weeks, we are left with this reality: (1) President Obama and his USTR have a renewed TPA; (2) that TPA will allow USTR to move forward towards agreement in the TPP discussions; and (3) TAA and AGOA are extended for the coming years.

Who knew it could be so simple?