## 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 - $1.250</td>
<td>Weekly Change - $1.325</td>
<td>Week Ending 8/19 &amp; 8/20</td>
</tr>
<tr>
<td>Barrels - $1.850</td>
<td>Weekly Average - $1.265</td>
<td>Calif. Plants $0.8440</td>
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<td></td>
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<td>3,380,618</td>
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Weekly Average, Cheddar Cheese

<table>
<thead>
<tr>
<th>DRY WHEY</th>
<th>NON-FAT DRY MILK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks - $0.295</td>
<td>Dairy Market News w/e 08/26/16 $3.125</td>
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<tr>
<td>Barrels - $0.0770</td>
<td>National Plants w/e 08/20/16 $2.809</td>
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</tbody>
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### FRED DOUMA’S PRICE PROJECTIONS...

#### Aug 26 Final:
- Quota cwt. $16.63
- Overbase cwt. $14.94
- Cls. 4a cwt. $13.92
- Cls. 4b cwt. $16.34

#### Last Week:
- Quota cwt. $16.69
- Overbase cwt. $15.00
- Cls. 4a cwt. $13.95
- Cls. 4b cwt. $16.44

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

**Milk & Dairy Markets**

The once sizzling cheese market is fizzling. Spot cheese prices had climbed nearly straight upward for seven weeks. It is likely not a coincidence that these were some of the hottest weeks of the year. But the mercury dropped and so did the dairy markets. The much stronger dollar provided added pressure. CME spot Cheddar barrels collapsed, falling 18.5ȼ this week to $1.68/lb., their lowest price since early July. Blocks dropped 12.5ȼ to $1.74. With that, Class III futures plunged. The September contract fell hardest and finished $1.28 lower for the week.

![CME Spot Prices](image)

The butter market suffered a similar meltdown. Spot butter dropped 13.25ȼ this week to $2.0575, the lowest price since mid-May. Sustained by rising prices overseas, the milk powder market fared better. Spot nonfat dry milk (NDM) slipped just 0.75ȼ to 85ȼ. Most Class IV futures contracts posted double digit losses.

The dairy product markets have suffered under the weight of ever larger inventories. On Monday, USDA reported July butter stocks at 333.1 million pounds, up 31% from a year ago to the highest volume in more than a decade.
Butter inventories typically erode from June to July as production enters the summer doldrums. But this year stockpiles grew nearly five million pounds. After two years of anxiously buying at perplexingly high prices, butter users may finally feel that they can afford to be patient.

USDA reported July cheese stocks at a record-breaking level, up nearly 10% from a year ago. Supplies grew by larger than typical volumes, signaling that demand has not been able to keep pace with impressive output. USDA stepped into the markets Tuesday; the agency announced that it would purchase 11 million pounds of cheese, spending taxpayer funds to sop up 0.9% of the stockpile and donate it to food banks. The market was clearly unimpressed.

USDA also announced that it would extend the registration deadline for the Margin Protection Program. Dairy producers can now wait until December 16 before registering for next year’s program, giving them months more market information to consider before they decide whether to enroll.

Overseas, dairy profit margins are finally improving; feed costs are down and pay prices are slowly climbing. Producers in New Zealand have been cutting expenses to a bare minimum. DairyNZ now estimates the average breakeven milk price—which can vary widely from farm to farm—at NZ$5.05 per kilogram of milk solids, down from $5.25 last season. That means that many of New Zealand’s dairy producers might operate at a profit this year. Yesterday Fonterra raised its forecast for the 2016-17 season by 50¢ to around $5.30/kg after dividends. After adjusting for currency and for New Zealand’s higher component levels, that’s around $15.10 per cwt.

Among all dairy products, whole milk powder (WMP) might rank as most improved. The potential for lower output from New Zealand has enticed the bulls to make a cautious return. Hot, dry conditions have reduced milk output in China’s Yangtze Valley, which may temporarily augment dairy product imports down the road. Chinese dairy product demand remains solid. In July, China brought in 54.2 million pounds of WMP, 5.1% more than a year ago. For the year to date, China’s WMP imports are up 22.3% from the first seven months of 2015. China’s year-to-date SMP imports are slightly above year-ago levels as well, although China imported 8.8% less SMP in July than it did last year.

China imported a record-breaking 22.6 million pounds of cheese and curd in July, 36.6% more than a year ago. So far this year, Chinese cheese and curd imports are up 26.4% from 2015 volumes (adjusted for Leap Day). New Zealand and Australia, China’s largest and second-largest suppliers, have both increased cheese exports to China by nearly 34% this year. As a consequence of much higher domestic prices, the United States has seen its cheese shipments to China fall 27.3% short of volumes reported in the first seven months of 2015.
China imported 102.6 million pounds of whey in July, a quantity which fell 3.8% under the record set exactly one year before. Thanks to competitive prices, the United States is the chief beneficiary of China’s growing appetite for whey. The U.S. sent a record-breaking 66.6 million pounds of whey to China in July, accounting for 64.9% of China’s purchases—the highest market share since March 2010. Continued growth in Chinese whey product imports, and especially whey protein concentrates, is likely to undergird the U.S. whey products market. Whey futures slipped a little this week.

Dairy cow slaughter totaled 53,261 head in the week ending August 12, down slightly from the same week last year. The 2016 cull rate is running 1.5% below the 2015 pace.

**Grain Markets**

Corn futures lost ground every single day this week. The December contract settled at $3.25, its lowest close ever. The futures had briefly dipped below this level immediately following USDA’s projection of a monster corn crop, with a record-shattering 175 yield. But the market doubted that such a yield was likely and quickly moved higher.

The trade still believes that USDA’s yield forecast is probably high, but what do a few bushels matter in a world that is choked with grain? After touring much of the Corn Belt, ProFarmer scouts pinned the national corn yield at 171.3 bushels per acre, just above the record set in 2014. Meteorologists are calling for warmer than normal temperatures in September, which suggests that the corn crop will develop to its full potential.

A prolonged growing season will be particularly beneficial to the soybean crop, which will require plenty of rain and sunshine to finish as well as it’s started. On Monday, USDA reported that 72% of the soybean crop was in good or excellent condition. That’s the second highest rating ever for this time of year. In 1992, when 73% of the crop was rated good or excellent, the national average yield was 10.9% above trend. A similar increase this year would put the crop well above 50 bushels per acre. USDA has called for a record-breaking 48.9 yield. If the warmer forecast holds, production will climb. There is also the potential that USDA will raise its soybean acreage figure, further enhancing the harvest. As crop estimates moved upward, prices retreated. November soybean futures settled at $9.6725 per bushel, down 37.75¢ this week.

**USDA ANNOUNCES $20 MILLION CHEESE PURCHASE:** (By Rob Vandenheuvel) This week, the U.S. Department of Agriculture (USDA) announced plans to purchase about $20 million worth of cheese from “private inventories to assist food banks and pantries across the nation, while reducing a cheese surplus that is at its highest level in 30 years.” USDA’s announcement went on to state that “The purchase…will be provided to families in need across the country to USDA nutrition assistance program, while assisting the stalled marketplace for dairy producers whose revenues have dropped 35 percent over the past two years.”

As noted in their press release, “USDA received requests from Congress, the National Farmers Union, the American Farm Bureau and National Milk Producers Federation to make an immediate dairy purchase.” To put into perspective the $20 million cheese purchase from inventories (which USDA claims will purchase approximately 11 million pounds of cheese), it’s important to compare that figure to Sarina’s report above that July inventories of cheese in the U.S. totaled 1.276 Billion pounds.
Producer Commentary on USDA’s Recent Announcement: (By Geoff Vanden Heuvel, Second Vice President, Milk Producers Council): This past week USDA announced that they were going to “assist” America’s dairy farmers by purchasing 11 million pounds of cheese. It did not take long for the editorials and commentaries from our industry’s critics to appear, blasting the government and dairy farmers for getting “bailouts.” (For example, see http://goo.gl/wrhcUx or http://goo.gl/vx4NM2).

The truth apparently does not matter anymore. USDA purchasing 11 Million pounds of cheese out of the roughly 1 Billion pounds of cheese per month that is made in the U.S. will have NO material impact on the price of cheese, and therefore no real impact on the farmer’s milk price. American dairy farmers did not need a bailout at this time. The market was already responding and feed costs have substantially moderated. From a strategic standpoint, it was unwise for the industry to ask the government for anything right now.

We need to be smart in how we interact with the politicians who support our industry. There may be times when we could benefit from the government helping us out, but this was not one of them. Our industry spent valuable political good will and in this case, got nothing in return.

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AG OVERTIME BILL APPROVED BY STATE SENATE, MOVES TO ASSEMBLY FOR A “REMATCH”: (By Rob Vandenheuvel) This past week, the California State Senate approved AB 1066, the “Ag Overtime Bill.” As you will recall, the original “Ag Overtime Bill” (AB 2757) was defeated in the Assembly earlier this year. However, the bill’s author – Assemblywoman Lorena Gonzalez (D-San Diego) – was able to take another completely unrelated bill that she authored that HAD passed the Assembly (AB 1066, originally approved by the Assembly as a bill dealing with classifications of teachers in school districts and community colleges), gut the original language, and replace it with the very Ag Overtime language that had just been rejected by the Assembly (Gotta love the legislative process!).

The bill was approved by the State Senate with the bare minimum 21 votes needed. The supporters of the bill used their time in the debate on the Senate floor to decrying the “racist” opposition by Agricultural employers and drawing parallels between this bill and the freeing of the slaves under the 14th Amendment. The national Democrat establishment apparently got involved as well, with citations of support from former-Senator Hillary Clinton, and USDA Secretary Tom Vilsack (As a side note, the states of New York – who Clinton represented as a U.S. Senator – and Iowa – where Vilsack served as Governor – do not have any overtime provisions for ag employees, unlike California which already has overtime required for ag employees working above 10 hours per day and 60 hours per week). The facts didn’t matter in this debate; emotion over substance.

The bill now moves to the Assembly, which is expected to vote on the bill next week prior to the end of the session on Wednesday. As noted above, the Assembly has already rejected this bill once, but the bill’s author and Democrat leaders in the Assembly are working hard to flip enough of those votes to get the bill approved next week. If you have not yet reached out to your Assembly member to urge opposition to AB 1066, there is still time! You can check who your Assembly representative is by entering your address at: http://findyourrep.legislature.ca.gov; or you can shoot me an email at rob@milkproducers.org or call (909) 628-6018 and I can help you out.