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**DATE:** August 28, 2015  **FROM:** Rob Vandenheuvel, General Manager

**TO:** Directors & Members  **PAGES:** 3

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**MPC FRIDAY MARKET UPDATE**

**CHICAGO CHEDDAR CHEESE**

<table>
<thead>
<tr>
<th>Blocks</th>
<th>$-0.0400</th>
<th>$1.7000</th>
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<tbody>
<tr>
<td>Barrels</td>
<td>$-0.0950</td>
<td>$1.6000</td>
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**Weekly Average, Cheddar Cheese**

<table>
<thead>
<tr>
<th>Blocks</th>
<th>$-0.0210</th>
<th>$1.6815</th>
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<tbody>
<tr>
<td>Barrels</td>
<td>$-0.0635</td>
<td>$1.6100</td>
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**CHICAGO AA BUTTER**

<table>
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<tr>
<th>Weekly Change</th>
<th>$-0.0300</th>
<th>$2.3400</th>
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<tr>
<td>Weekly Average</td>
<td>+$0.0900</td>
<td>$2.3180</td>
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**DRY WHEY**

<table>
<thead>
<tr>
<th>Dairy Market News</th>
<th>w/e 08/21/15</th>
<th>$0.2500</th>
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<tbody>
<tr>
<td>National Plants</td>
<td>w/e 08/22/15</td>
<td>$0.2996</td>
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**NON-FAT DRY MILK**

**Week Ending 8/21 & 8/22**

| Calif. Plants | $0.7460 | 20,094,146 |
| Nat’l Plants  | $0.7355 | 30,145,402 |

**Prior Week Ending 8/14 & 8/15**

| Calif. Plants | $0.7825 | 8,836,635 |
| Nat’l Plants  | $0.7582 | 17,118,372 |

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**FRED DOUMA’S PRICE PROJECTIONS…**

Aug 28 Final: Quota cwt. $16.27  Overbase cwt. $14.57  Cls. 4a cwt. $13.04  Cls. 4b cwt. $15.74

Last Week: Quota cwt. $16.35  Overbase cwt. $14.66  Cls. 4a cwt. $13.26  Cls. 4b cwt. $15.78

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

**Milk & Dairy Markets**

After vaulting 30.5¢ higher last week, the spot butter market gave back just 3¢, closing at $2.34/lb. on Friday. Spot nonfat dry milk (NDM) moved cautiously upward on Wednesday and Thursday, reaching as high as 81¢, a price not seen since early July. But the milk powder markets beat a hasty retreat on Friday and spot NDM declined to 77¢, down 1.5¢ from last week. Trading volume was heavy, with 33 loads changing hands. Class IV futures put in a mixed performance.

The cheese markets vacillated in a well-trod range from $1.60 to $1.75. This week Cheddar blocks fell 4¢ to $1.70. Barrels dropped 9.5¢ to $1.60. The whey market continues to deteriorate. Whey futures have fallen to five-year lows. Wholesale prices are also moving lower. According to the National Dairy Product Sales Report (NDPSR), manufacturers’ sales averaged 29.96¢ in the week ending August 22. The 12% decline in the NDPSR whey price pushed it below 30¢ for the first time since 2009. With both cheese and whey markets sliding, Class III futures capitulated. 2015 contracts posted double-digit losses, and the September contract fell 61¢.

Strength in the butter markets and the tepid rebound in milk powder prices are narrowing the gap between the Class III and IV markets. In July, the Class IV price slipped to $13.15/cwt., and California 4a milk garnered just $13.03. August Class IV futures settled Friday at a painfully low $12.80. But from September forward, Class IV futures range from $14 to well north of $15. Since mid-July September Class III futures have gained 16¢, while the Class IV contract has gained $1.22. Although producers in the traditional cheese states still enjoy much better margins than their competitors in California, their advantage is eroding.

Schools are back in session and there is a little less milk available for manufacturers. Cream supplies are particularly limited. According to Dairy Market News, “Ice cream, cream cheese and other cream-based products are pulling heavily on cream supplies, making the cream market tighter than desired.” Manufacturers looking to store up butter for the holidays are paying up for cream. The ratio of cream to butter prices stands at multi-year highs.
Rising whole milk sales are happily exacerbating the cream shortage. In June, sales of whole milk reached 1.12 billion pounds, up 74 million pounds, or 7.1% from a year ago. As Americans begin to embrace healthy, natural milkfat, whole milk sales represent a precious bright spot in an otherwise bleak fluid milk market. Whole milk sales have exceeded year-ago levels in each of the last seven months. The standout performance in June was enough to push sales of all varieties of milk up 1.4%, the largest (and practically only) monthly increase since February 2013. As the Daily Dairy Report notes, after accounting for continued declines in sales of low-fat milks, “consumers drank 1.7 million pounds more butterfat in June than they did a year ago.”

High cream and butter prices are attracting milkfat to our shores. Eventually, this should help to narrow the chasm between U.S. and foreign butter markets, but for now the gap persists. In U.S. dollar terms, CME spot butter prices have climbed nearly 70¢ over the past six months. Over the same period, European butter prices have retreated 35¢ and prices in Oceania have fallen roughly 55¢. U.S. imports of butter and anhydrous milkfat are on the rise.

New Zealand’s dairy product exports typically ebb in June, July and August, following the seasonal lull in milk output. But this July, New Zealand exported 134,600 MT of milk powder, up 12.3% from a year ago to a four-month high. Still, year-to-date milk powder exports are down 1.2% from 2014 levels and processors reportedly held unusually large volumes of milk powder when the 2015-16 season began. The fierce competition for milk powder sales is likely to continue to weigh on that market.

Dairy producers in New Zealand are clearly strapped for cash. They typically begin culling their herds as the season winds down in April and May. This year, they responded to high beef prices and low milk revenues by slaughtering cows in February. Slaughter volumes have remained elevated and New Zealand’s cow slaughter in the first seven months of the year is up 19% from a year ago. Fonterra’s producers went a couple months without milk checks this summer, in order to correct for over-payments earlier in the season. Surely their cash situation has not improved. Supplemental feeding in New Zealand is likely to be very limited this year, but, as always, the weather will largely determine how overall milk production fares.

In the U.S., dairy producers culled 53,386 head in the week ending August 15. This was 0.9% greater than the same week a year ago. So far this year, dairy cow slaughter is 4% ahead of last year’s pace.

Grain Markets
Soybean prices moved sharply lower early in the week, along with the stock market. But both markets largely recovered and by Friday November soybean futures settled at $8.855 per bushel, down four cents on the week. December corn futures closed at $3.75 down 2.25¢. The corn market is relatively quiet as the trade fine-tunes its expectations regarding the U.S. crop and global demand.

Concerns about the Chinese economy pushed the Dow Jones Industrial Average down an astonishing 1,089 points on Monday morning, although it closed “only” 588 points lower. By Friday, the Dow was back in the green, ending 1.1% higher than last week. China drives the global soybean trade, so soybean futures will closely follow the whims of the Chinese stock market. Anxiety and volatility reign.
REMINDER – ONE MONTH LEFT IN MARGIN PROTECTION PROGRAM’S OPEN ENROLLMENT:  (By Rob Vandenheuvel)  The open enrollment period for the Margin Protection Program (MPP) ends on September 30th, so producers that are either already enrolled in the program for 2015 or planning to enroll for the first time in 2016 need to get their paperwork to their local Farm Services Agency (FSA) office in the next month.

For producers who participated in the program in 2015, you will only have a short form (CCC-782) that must be submitted by the end of September. That document, which can be found on our website at: http://www.milkproducerscouncil.org/CCC782.pdf, is where you will designate the level in which you want to participate (ranging from the basic level that requires only a $100 administration fee, up to the enhanced levels that require premiums on top of that fee). You will also need to submit that $100 fee along with your submission (premiums can be paid on a delayed schedule, with 25% paid by February 1, 2016 and the balance by June 1).

As for the options a participating dairy has, I would first refer you to our article published last month outlining how the MPP has operated thus far in 2015 (http://www.milkproducerscouncil.org/updates/073115.pdf). In addition, there are a couple of resources that producers can take advantage of:

1. A number of dairy industry economists collaborated to put together an online “MPP Decision Tool,” which can be found at: http://dairymarkets.org/mpp. This tool not only calculates the premiums that would be due for each of the various levels of coverage, but also utilizes the futures market combined with some statistical analyses to provide some insight into how the various coverage levels might play out based on the market information we have right now.
2. These economists are also hosting a webinar on September 4th at 7:00 am Pacific Time (10:00 am Eastern Time) to discuss general milk/feed market forecasts and go into more detail on this online Decision Tool. Producers interested in listening in on the webinar can go to: http://dairymarkets.org/MPP-Webinar. If that time doesn’t work, the hosts have promised to make the recording available afterward, and we will post a link in this newsletter.

Of course, MPC members can also call or email me at anytime to walk through the various options.

Some comments on these decision tools: While human nature drives most of us to analyze programs like this based on a cashflow “cost-benefit” basis (i.e., which level will give me the best return?), the MPP should really be viewed like an insurance plan. As has been said by many since the program started, “No one buys car insurance hoping they get in an accident.” While critics will say that the MPP has failed to make any meaningful payments in 2015, that is because the average margin reductions we’ve seen in 2015 are nowhere near those that we saw in 2009 and 2012, the years that this program was modeled to protect against. As we continue to watch how our domestic markets react to the deeply discounted dairy market prices around the globe, we can only hope that we don’t see the kind of milk prices being realized in markets like New Zealand. But if we did, that is certainly the type of disaster that the MPP is designed to address.

So as you examine your own operation, it’s natural to explore these tools that can provide some forward-looking analysis on the various options at your disposal. But I would urge you all to also ask yourself a couple followup questions: What if the U.S. milk prices were projected to be less than $9 per cwt over the coming year, as the current projections are in New Zealand? What am I willing to spend on an insurance plan that helps me weather that type of 2009/2012-like storm? For some, you may be building cash reserves or using futures markets and other hedging tools to mitigate that risk, but for others, the MPP can be a significant part of your protection strategy. You all spend thousands or tens of thousands of dollars on other insurance policies already – none of which did anything to help your dairy survive the devastating margin collapses in 2009 and 2012.

Regardless of what you ultimately decide, make sure you get the paperwork in to your local FSA office by September 30th, and let me know if there’s anything MPC can do to help.