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DATE: September 18, 2015
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager

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 - $.0025 $1.6925</td>
<td>Weekly Change +$.1525 $2.7175</td>
<td>Week Ending 9/11 &amp; 9/12</td>
</tr>
<tr>
<td>Barrels - $.0475 $1.5425</td>
<td>Weekly Average +$.1307 $2.6370</td>
<td>Calif. Plants $0.7888 12,707,760</td>
</tr>
<tr>
<td>Weekly Average, Cheddar Cheese</td>
<td>DRY WHEY</td>
<td>Nat’l Plants $0.8025 19,347,588</td>
</tr>
<tr>
<td>Blocks - $.0255 $1.6695</td>
<td>Dairy Market News w/e 09/18/15 $.2150</td>
<td>Prior Week Ending 9/4 &amp; 9/5</td>
</tr>
<tr>
<td>Barrels - $.0933 $1.5530</td>
<td>National Plants w/e 09/12/15 $.2485</td>
<td>Calif. Plants $0.7752 12,432,388</td>
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</tbody>
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FRED DOUMA’S PRICE PROJECTIONS...

Sept 18 Est: Quota cwt. $16.60 Overbase cwt. $14.90 Cls. 4a cwt. $15.00 Cls. 4b cwt. $15.15
Last Week: Quota cwt. $16.57 Overbase cwt. $14.88 Cls. 4a cwt. $14.78 Cls. 4b cwt. $15.21

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

Milk & Dairy Markets
Like a turbo-charged engine, the butter market is feeding on its own strength. According to Dairy Market News, “The upticks in butter pricing have increased demand as some buyers want to settle contracts in anticipation of prices going higher.” Dairy Market News also reports, “Demand for butter is strong.” It must be. This week the spot market closed at $2.7175, up 15.25¢ from last week to fresh eleven-month highs. Butter makers are trying to increase production in response to rising prices and looming holiday demand, but in the central and eastern regions, some are having trouble sourcing enough cream.

The milk powder market also rallied this week, fueled by impressive gains at the Global Dairy Trade (GDT) auction. Spot nonfat dry milk (NDM) climbed 4¢ to 91¢, a level not seen since mid-June. Class IV futures settled steady to 56¢ higher than last Friday.

The cheese market retreated. Spot Cheddar blocks plunged 9¢ Wednesday but then rallied late in the week and closed at $1.6925, down 0.25¢ from last Friday. Barrels fared worse, slipping 4.75¢ to $1.5425. Barrels are clearly plentiful – 27 loads changed hands this week – and prices have dropped below the long-standing trading range. The whey market continues to
deteriorate and nearby Class III futures had little choice but to take a step back this week; 2015 contracts posted double-digit losses. However, deferred contracts moved a little higher.

The weighted average price of all products at the GDT jumped 16.5% compared to the September 1 event. Milk powders were particularly impressive. Skim milk powder (SMP) shot up 17% to an NDM-equivalent price of 96ȼ, and whole milk powder (WMP) rocketed 20.6% higher. Butter and Cheddar also climbed, gaining 13.3% and 10.7% respectively. Buyers got off the sidelines and snapped up 98% of the maximum volumes of product offered. Demand seems to be recovering and after holding back, Fonterra may be able to step up product volumes at future auctions without doing too much harm to milk powder prices.

Dairy producers in Europe continue to protest low milk prices, but their shouts are undermined by their actions. Milk collections continue to rise. In July they exceeded year-ago levels by 3%, which is impressive given that European milk output in July 2014 was already formidable.

In the U.S., milk production growth is flagging. August milk output totaled 17.4 million pounds, up 0.8% from a year ago. The milking herd is holding at 9.321 million cows, unchanged from June or July after USDA revised its July estimate down by 1,000 head. The herd was 53,000 head larger than it was in August 2014.

Milk continues to gush in the Northern Plains and Midwest. Production rose 13.3% in South Dakota, 4.8% in Wisconsin, 4.7% in Minnesota, and 4.1% in Michigan. The year-over-year increase in Wisconsin was nearly large enough to offset the 3.4% decline in milk output in California. Production in New Mexico (-4.3%), Oregon (-2.8%), and Texas (1.4%) continues to lag 2014 volumes. A few states posted their first deficits in some time; output fell 1.8% in Vermont, 1.4% in Virginia and 0.4% in Washington.

As the Daily Dairy Report noted Friday, “Dairy producers in the traditional cheese states could become victims of their own ambitions.” Since January, milk production in the major dairy states stretching from South Dakota to Ohio has climbed nearly 2 billion pounds relative to the first eight months of 2014. The flush overwhelmed capacity this spring, and milk had to be dumped in some Great Lakes states. Capacity constraints might limit regional expansion going forward. The region is brimming with milk, which could continue to erode the premium the Class III market holds over Class IV.

Over the past year, dairy producers have enjoyed a sustained rise in the value of their most fundamental assets – their cows, heifers and calves. Springers represent three forms of potential income: a few years of milk production, the value of the calf they carry today and those they’ll deliver in the future, and a beef cull check. The values of springers and heifer calves, of course, climbed along with the milk price last year. But quality springers
continue to fetch more than $2,000 per head, even as milk prices have plunged more than $8/cwt. from their peak last fall. This is largely due to persistently high beef prices, which have bolstered the salvage value of dairy cows and the price of bull calves.

Since last July, lean beef prices have hovered near record highs at $3/lb. Heavy dairy cull cows have easily garnered $1,500 or more per head. Today, day-old bull calves are worth around $475, up from roughly $300 a year ago and $150 in late 2013. But the bulls are no longer running wild in the cattle market. Since peaking in June, feeder cattle futures have fallen more than $35/cwt., a decline of 15.8%. Calf values have fallen along with them. Live cattle futures have dropped 12.3% in the past three months, and after holding steady for more than a year, lean beef prices have started to slip. Unless milk prices rally, dairy producers should brace themselves for erosion in their beef checks and their balance sheets.

For the week ending September 5, dairy cow slaughter jumped to 57,391. The year-over-year comparison is skewed by the timing of Labor Day. So far this year, dairy cow slaughter is 3.9% ahead of the 2014 pace.

**Grain Markets**

Corn futures lost a dime this week, falling to $3.7725 per bushel. Soybean futures slipped 7¢ to $8.6725. Both markets are feeling the pressure of harvest, and bears are quick to point out that the farmer and the funds hold long positions – on the board or in the bin – at a time when the market is prone to break. Furthermore, demand has not impressed, and currency relationships do not favor exports.

On the other hand, the bulls argue that both yields and acreage could be smaller than USDA’s latest forecast. Last year, tight-fisted farmers allowed for an unexpected rally after harvest. Perhaps they will fill whatever space remains in their bins and wait once again.

The back and forth will continue until long past harvest, but for now the feed markets seem inclined to move a few cents from day to day with no big moves in the interim. In the long run, the market will likely have to contend with larger supplies from elsewhere. Safras, one of the leading analyst groups in Brazil, is calling for a 1% increase in corn acreage and a 3.8% increase in soybean area. The 2015-16 season is dawning in South America and, thanks to their plunging currency, Brazil’s farmers are eyeing better returns even as U.S. prices slip.

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**MPC MOURNS THE PASSING OF DAIRYMAN TONY DE GROOT, SR.: (By Rob Vandenheuvel)** This week, we mourn the passing of MPC member Tony De Groot, Sr. of Hanford, CA. Tony, who was 80 years old, died Tuesday with 2 others in a plane crash during a fishing trip in Alaska.

A long-time fixture in the Hanford dairy industry, Tony was known for being a progressive businessman and a leader in his church and community. His wisdom and his smile will be greatly missed by those of us who had the pleasure of knowing him over the years. We would ask that you all keep Tony’s wife, Betty, as well as his five children, grandchildren and all his extended family in your thoughts and prayers.

Visitation will be held on Tuesday, September 22, 2015 from 5:30 – 8 p.m. at Miller Memorial Chapel, 1120 W. Goshen Avenue in Visalia. Celebration of Life services will be held on Wednesday, September 23, 2015 at 11 a.m. at Visalia First Assembly of God, 3737 South Akers in Visalia.
In lieu of flowers, the family asks that you make a donation to Visalia Christian Reformed Church, and in the memo write “Church House”, 1030 South Linwood St., Visalia, CA 93277. The Church House is a ministry in an at-risk-neighborhood of Visalia seeking to provide a safe environment to children and a space where women can grow in Christ.

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THIS COMING TUESDAY MARKS THE START OF THE CALIFORNIA-FEDERAL ORDER HEARING: (By Rob Vandenheuvel)  At 9 am on Tuesday, September 22nd at the Clovis Veterans Memorial District Building, the U.S. Department of Agriculture will begin what is expected to be a lengthy hearing process that could span over the next couple months, gathering testimony from all interested parties on the creation of a Federal Milk Marketing Order in California.  We have written several articles on the proposed language that will be discussed in these hearings (http://www.milkproducerscouncil.org/cafmmo.htm) and we will continue our exploration of these issues in this newsletter throughout the process.

As we’ve said several times before, dairy farmers are strongly encouraged to participate in the hearing process along with our state’s cooperatives and trade associations. While Tuesday marks the official start of the hearing, USDA has indicated in their announcements that the first couple days of the hearing may consist of USDA witnesses entering economic and other requested data into the record.  As noted in their “Q&A” document we included in the newsletter last week, “Dairy farmers will be given priority to testify; If you wish to schedule a specific day and time to testify, USDA will make every effort to accommodate your request.”  Producers who may be interested in participating should contact your trade association or cooperative for any questions regarding the process of giving testimony at a Federal Order hearing.  You can also listen in to a live audio feed posted on USDA’s website, follow the progress on USDA’s twitter feed, or of course keep following our newsletter for regular updates.

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REMINDER – MARGIN PROTECTION PROGRAM DEADLINE IN LESS THAN TWO WEEKS: (By Rob Vandenheuvel)  For anyone interested in signing up for the Margin Protection Program (MPP) or if you already signed up last year and need to designate your coverage level for 2016, the deadline to submit that paperwork to your local Farm Services Agency (FSA) office is Wednesday, September 30th.  For dairies that already signed up for the program last year, the process this year is very simple, including a 2-page document (Form CCC-782) and your $100 administration fee.  Any premiums associated with enrolling in higher levels of coverage would be due by September 2016 (this deadline was recently extended).

MPC members needing assistance in evaluating your options or processing this paperwork should contact Kevin (kevin@milkproducers.org), Betsy (betsy@milkproducers.org) or myself (rob@milkproducers.org), or call the MPC office at (909) 628-6018.