TO: Directors & Members  FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

| Blocks | +$.1000 | $1.6500 |
| Barrels | +$.1100 | $1.5700 |

Weekly Average, Cheddar Cheese

| Blocks | +$.1250 | $1.6530 |
| Barrels | +$.1020 | $1.5670 |

CHICAGO AA BUTTER

| Weekly Change | - $.0250 | $1.7600 |
| Weekly Average | - $.0325 | $1.7635 |

NON-FAT DRY MILK

| Week Ending 10/14 & 10/15 |
| Calif. Plants | $0.8993 | 8,063,329 |
| Nat’l Plants | $0.9217 | 15,091,116 |

| Prior Week Ending 10/7 & 10/8 |
| Calif. Plants | $0.9229 | 6,201,386 |
| Nat’l Plants | $0.9335 | 14,144,674 |

DRY WHEY

Dairy Market News w/e 10/21/16 $3.550
National Plants w/e 10/15/16 $3.252

FRED DOUMA’S PRICE PROJECTIONS...

Oct 21 Est: Quota cwt. $15.79 Overbase cwt. $14.10 Cls. 4a cwt. $13.05 Cls. 4b cwt. $14.44

Last Week: Quota cwt. $15.63 Overbase cwt. $13.93 Cls. 4a cwt. $13.03 Cls. 4b cwt. $14.11

***Note: Sarina Sharp is unavailable to provide her weekly market commentary; we want to thank Mary Ledman from Daily Dairy Report for stepping up and filling in for Sarina this week!***

MARKET COMMENTARY: (By Mary Ledman, Daily Dairy Report, sarina@dailydairyreport.com)

**Milk & Dairy Markets**

CME cash Cheddar block and barrel cheese prices surged early in the week to price levels not seen since early September. In subsequent trading sessions, neither blocks nor barrels were able to maintain Tuesday’s lofty settlement prices of $1.68 and $1.61, respectively. Nevertheless, CME block and barrel markets closed the week at $1.65 and $1.57, up 10 and 11 cents, respectively, from last Friday. *Daily Market News* reports that some industry contacts have suggested that cheese was somewhat undervalued prior to the recent jump in CME spot prices.

CME cash butter continues to soften. For the week ending Oct. 21, CME butter settled at $1.76/lb., the lowest price level since April 2015. The 50-cent meltdown in the CME spot butter market since mid-August has attracted more buyers, both domestically and in export markets, which is likely to underpin domestic prices. Cooperatives Working Together (CWT) announced this week that it will support nearly 860,000 pounds of butter exports for delivery from October 2015 through January 2017.
CME spot nonfat dry milk (NDM) traded within a narrow range this week, from 87.25 cents to 88.25 cents. The market closed at 88 cents on Friday. Given the lackluster performance in this week’s Global Dairy Trade (GDT) auction, CME cash NDM performed as well as could be expected. The GDT skim milk powder (SMP) price index averaged $2,204/MT, or $1.07/lb., for the six-month contract periods beginning in November 2016 through April 2017. Contract prices for nearby deliveries in November and December (Contract 1 and 2) fell 3.6% and 2.1%, respectively, from the prior auction. Prices improved in 2017 with Contracts 5 and 6 (March and April) reflecting gains of 2.9% and 8.6%, respectively. Fonterra’s medium-heat SMP for April delivery fetched the highest price of $2,460/MT ($1.19/lb.). It appears buyers were willing to pay up to secure deliveries later in the season.

GDT butter prices for November and December fell vs. the previous event, but they were still higher than contract prices in 2017, which increased from the prior auction. Prices ranged from a high of $4,022/MT ($1.78/lb.) in November to a low of $3,960/MT ($1.75/lb.) in February, which was just $15/MT less than deliveries in April. U.S. butter prices are currently on par with New Zealand prices but nearly 35 cents lower than European butter prices, price relationships that are expect to boost export opportunities for U.S. butter.

Perhaps most disappointing was the GDT Cheddar cheese market. All contract months settled lower than the previous auction. On average, the Cheddar cheese price settled at $3,290/MT, ($1.49/lb.) down 3.7% following a 2.3% drop at the Oct. 4 auction. The average Cheddar cheese price was nearly the same for the November 2016 and March 2017 contracts at $3,465/MT ($1.57/lb.). However, December through February deliveries closed below $3,300/MT ($1.50/lb.). CME spot Cheddar prices were immune to softness in the GDT cheese market. On the same day, CME block and barrel cheese prices surged 12¢ and 9.5¢, respectively.

The market will have the weekend to digest USDA’s latest stock report released Friday afternoon, which indicated total cheese and butter stocks continue to seasonally decline albeit at different rates. September month-ending butter inventory totaled 269 million pounds, down an impressive 15.6% from last month but still 43.5% above last year’s level. During the month, butter stocks retreated by nearly 50 million pounds, which significantly outpaced the five-year average September drawdown of 19.2 million pounds and made up for a lackluster August drawdown of 11.6 million pounds. A couple consecutive months of butter drawdowns similar to September’s level will bring year-ending stocks near last year’s level of 155 million pounds.

Total cheese stocks fell by a scant 0.3% (or 3.1 million pounds) in September to 1.238 billion pounds but remain 7.4%, or 85.6 million pounds, greater than last year. According to USDA, September American cheese stocks uncharacteristically increased 0.2% (or 1.5 million pounds) to 744 million pounds, up 6.5% compared to last year. Over the past five years, American cheese stocks have typically shrunk by 10.2 million pounds in September. Granted, the exceptional August drawdown of 27.2 million pounds outpaced the five-year average of 11.4 million pounds. Nevertheless, the latest stocks data is likely to weigh on the domestic cheese market.
As year-over-year milk supplies contract in Oceania, South America, and Europe, USDA confirmed that U.S. milk production in September, while seasonally lower, continues to expand over the prior year. In September, the United States produced 16.97 billion pounds of milk, up 2.1% from the prior year but down 0.9% compared to August on a daily average basis. Greater year-over-year milk production was driven by a 0.3% increase in the U.S. dairy herd and a 1.8% gain in milk per cow.

After revising the U.S. dairy herd 12,000 head higher last month, USDA cut its August herd estimate by 3,000 cows and the September herd by another 2,000 head. At 9.338 million, the U.S. dairy herd grew by 21,000 head compared to last year. However, together three states - Texas, Michigan, & Idaho - added 50,000 cows to the U.S dairy herd. At the same time, 12 states have the same or fewer dairy cows this September compared to a year ago.

The largest year-over-year volume gains in milk output were reported in key cheese-producing states. Wisconsin led the gainers in September with milk production up 79 million pounds from the prior year, followed by Idaho (up 57 million), New York (up 56 million), and Michigan (up 48 million). California’s milk production was just 2 million pounds less than the prior year, but still the lowest September milk output since 2009.

For the week ending October 8, dairy cow slaughter totaled 57,200 head, down 2.9% from the same week a year ago. Year-to-date slaughter trails last year by 1.7%. Live cattle futures improved this week and may become more attractive to dairy producers as Q4 milk checks leave many looking for additional cash.

**Grain Markets**

The grain markets are in flux. Strong gains in the corn market early in the week not only seemed counter to the current bin-busting harvest but they were also unsustainable. However, the soybean complex moved higher due to strong export demand and benefits from a strong Malaysian palm oil market.

South American weather has improved planting conditions. The pattern is shifting, so rains will fall in the areas that were getting dry (Northern Brazil), and clearer skies will blanket places that were getting too wet (Southern Brazil and Argentina).

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**AND WE WONDER WHY THE PUBLIC IS CONFUSED?** *(By Rob Vandenheuvel)*  It’s easy to get frustrated with the level of ignorance we sometimes see in the modern consumer, many of whom seem to have very little appreciation for where their milk comes from (“Who needs dairies, I get MY milk from the store!”). While some of the blame can be put on the consumers themselves, we as an industry don’t always help our cause.

Sometimes our retailers’ marketing practices can be confusing in an effort to “one-up” the competition. I saw a local retailer this week highlighting that a certain brand of white milk was “gluten free”; dirty little secret: all white milk is gluten free! But other times, it is our own actions as dairy farmers that causes the confusion. Last week, newspapers throughout the U.S. published an article stating: “America’s Dairy Farmers Dump 43 Million Gallons of Excess Milk” *(Wall Street Journal* headline). In and of itself, this is a tough irony for the average consumer to comprehend – 43 million gallons of milk “disposed” while millions of Americans regularly go to bed hungry. But consider this: those articles came exactly 1 day after that same *WSJ* published an article titled, “USDA to Buy Additional $20 Million of Cheese,” discussing USDA’s direct attempts to “help” dairy farmers by using federal dollars to help clear excess inventories of cheese. As we know from earlier in the year, USDA’s attempts to “assist” the dairy industry stem from pleas made by industry and some in Congress for the government to step in and help our dairy farmers (of course, we say “help,” and the media hears “bailout”).

This is exactly the kind of mixed message that opens our industry up to scrutiny, giving unfair and unearned credence to critics of our industry who paint dairymen as socialists relying on Federal Government subsidies, while we flood the market with tens of millions of lbs more milk than we can even sell. And for what it’s worth, if we *are* going to risk it and deliberately take the hit in the public eye, we’d better be darn certain that the end result is actually going to help our dairy farmers (a rare occurrence), not simply result in a $20 million cheese purchase from a mountain of $1 billion+ in inventory. Always gotta make sure the juice is worth the squeeze.