# Milk Producers Council

*13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018*
*801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549*
*222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801*
*Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org*


**DATE: December 4, 2015** **PAGES: 4**
**TO: Directors & Members** **FROM: Rob Vandenheuvel, General Manager**

## *MPC FRIDAY MARKET UPDATE*

| CHICAGO CHEDDAR CHEESE | | |
|---|---|---|
| Blocks | *- $.0625* | $1.5175 |
| Barrels | *- $.0650* | $1.4850 |
| **Weekly Average, Cheddar Cheese** | | |
| Blocks | *- $.0305* | $1.5445 |
| Barrels | *- $.0080* | $1.5095 |

| CHICAGO AA BUTTER | | |
|---|---|---|
| Weekly Change | *+$.0025* | $2.9025 |
| Weekly Average | *+$.0025* | $2.9025 |
| **DRY WHEY** | | |
| **Dairy Market News** | w/e 12/04/15 | $.2375 |
| **National Plants** | w/e 11/28/15 | $.2468 |

| NON-FAT DRY MILK | | |
|---|---|---|
| **Week Ending 11/27 & 11/28** | | |
| Calif. Plants | $0.7703 | 4,870,536 |
| Nat'l Plants | $0.7886 | 10,207,170 |
| ***Prior Week Ending 11/20 & 11/21*** | | |
| *Calif. Plants* | *$0.8359* | *11,440,863* |
| *Nat'l Plants* | *$0.8492* | *17,915,359* |

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**FRED DOUMA'S PRICE PROJECTIONS…**

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Dec 4 Est:** | **Quota cwt.** | **$16.59** | **Overbase cwt.** | **$14.90** | **Cls. 4a cwt.** | **$16.73** | **Cls. 4b cwt.** | **$13.50** |
| **Nov '15 Final:** | **Quota cwt.** | **$16.76** | **Overbase cwt.** | **$15.06** | **Cls. 4a cwt.** | **$16.57** | **Cls. 4b cwt.** | **$14.43** |

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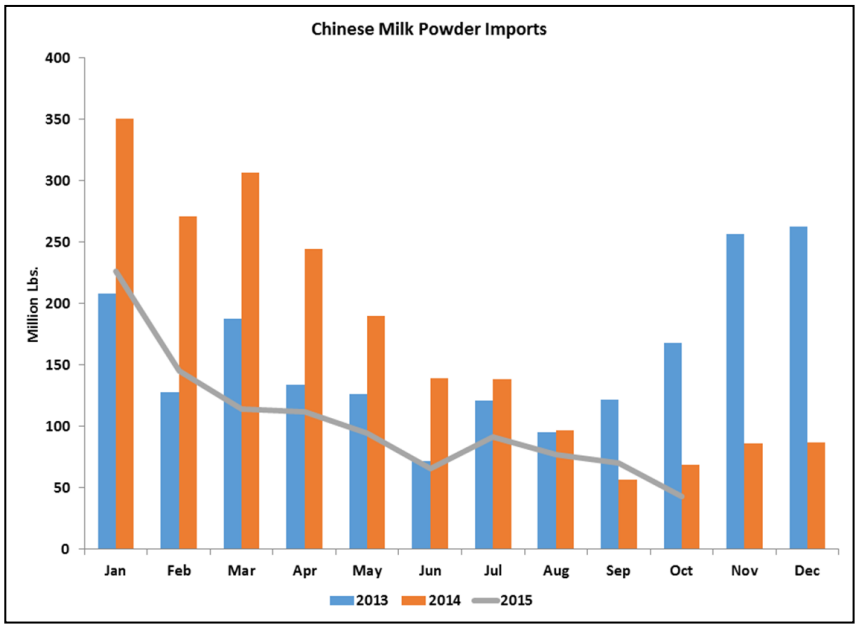
**MARKET COMMENTARY:** *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

*Milk & Dairy Markets*



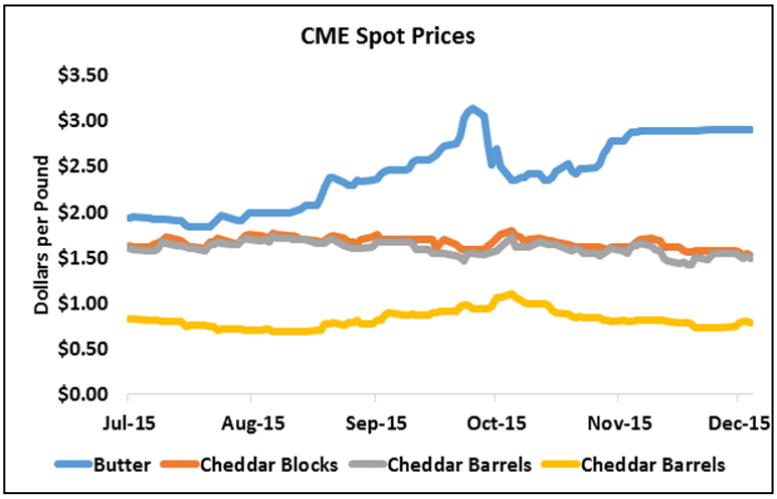

Over the past couple weeks the dairy markets have confronted wave after wave of information but very little news. Official reports confirmed what the trade has known for some time. Global milk production is not growing as quickly as it once was, but it will take a serious slowdown to meaningfully boost prices. Outside of China and Russia, demand continues to rise. There is reason to wonder whether this is evidence of rising consumption or merely opportunistic stockpiling. It is likely at least partially the latter, which suggests that end users will need time to use up inventories before they feel compelled to step up their purchases in volumes large enough to support the market. China is clearly feeling no such impetus. In October, Chinese milk powder imports fell to a six-year low.

Global dairy market fundamentals suggest that it could be some time before a sustained rally, but that doesn't necessarily mean that all dairy product prices must continue to fall. The milk powder market, for example, is enjoying a tail wind. At the Global Dairy Trade auction on Tuesday the average winning price for whole milk

powder (WMP) climbed 5.3%. Skim milk powder (SMP) prices rose 3.2%. Butter gained 5.7% from the previous auction while Cheddar prices stepped back 1.5%. The trade-weighted index closed 3.6% higher.

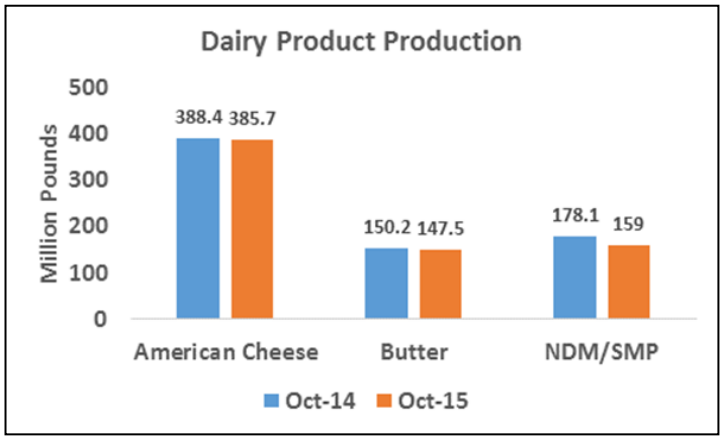
With a jolt from the GDT, CME spot nonfat dry milk (NDM) closed at 78.75¢ today, up 5.25¢ in the past two weeks. Spot butter remained strong at $2.9025, up 1.75¢. As the *Daily Dairy Report* noted, "In the past 30 years, the spot U.S. butter price never averaged more than $2/lb. in the month of December… Clearly, CME butter prices starting December at $2.9025 with just 18 trading days left in the month has the industry more than perplexed and likely a little worried." But for now, the butter market is holding.

Class IV futures have moved notably higher. The December contract gained 80¢ in the past two weeks. Most contracts were 30 to 40¢ in the green. The November Class IV milk price rose 46¢ from October to $16.89. California 4a milk fared even better, jumping 85¢ to $16.57.



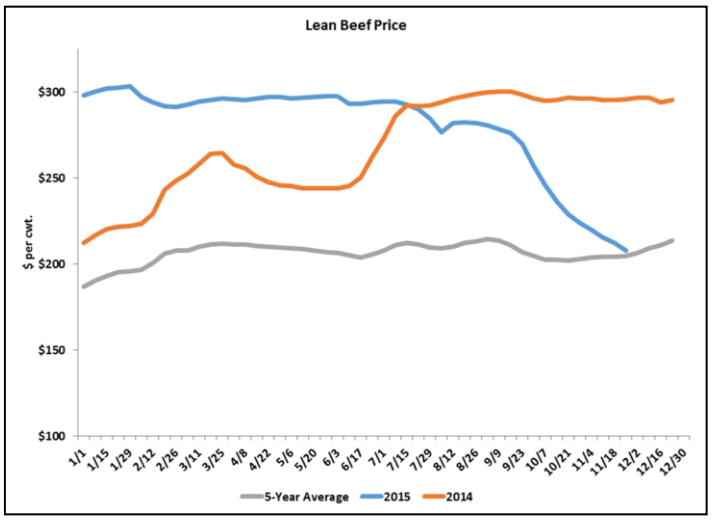

In the past two weeks, spot Cheddar blocks fell 5.25¢ to $1.5175, and barrels slipped 1.75¢ to $1.485. This weighed on nearby Class III futures. The February contract lost 48¢. USDA announced the November Class III price at $15.30/cwt., down 16¢ from October. California 4b milk was $14.43, down 32¢.

The winter is off to a very mild start in the Midwest, and milk continues to flow. It is not surprising then, that cheese output remains strong. In October it totaled 991 million pounds, up 1.5% from a year ago. Output was up 3.4% year-over-year in the Central region and down 1.1% in the West. Domestic demand remains strong, but trade is lagging. Exports totaled 52 million pounds in October, down 10.1% from last year. U.S. cheese imports jumped to 44.6 million pounds, the greatest volume since December 2012. Cheese inventories declined to 1.15 billion pounds in October, but the drawdown was much smaller than is typical, and stocks remain 15.4% greater than they were a year ago. Inventories of American cheese are record large for this time of year despite the fact that American cheese output in October was 0.7% lower than the prior year. The large stockpiles of American cheese help to explain the recent weakness at the CME spot market.




U.S. butter production totaled 147.5 million pounds in October, 1.7% less than October 2014. Output in California fell 9% short of year-ago volumes. Nonetheless, butter output in the West was 1.1% greater than last year, which implies very strong output in Arizona, Idaho, Utah, and Washington. U.S. butter is decidedly uncompetitive in the global marketplace, and October exports were less than half as large as the already small volumes of last year. Imports soared to 5.7 million pounds, nearly twice as large as last year. The trade imbalance made for a smaller than typical drawdown in October butter stocks despite slowing production. Stocks totaled 179 million pounds on October 31, up 21% from a year ago.

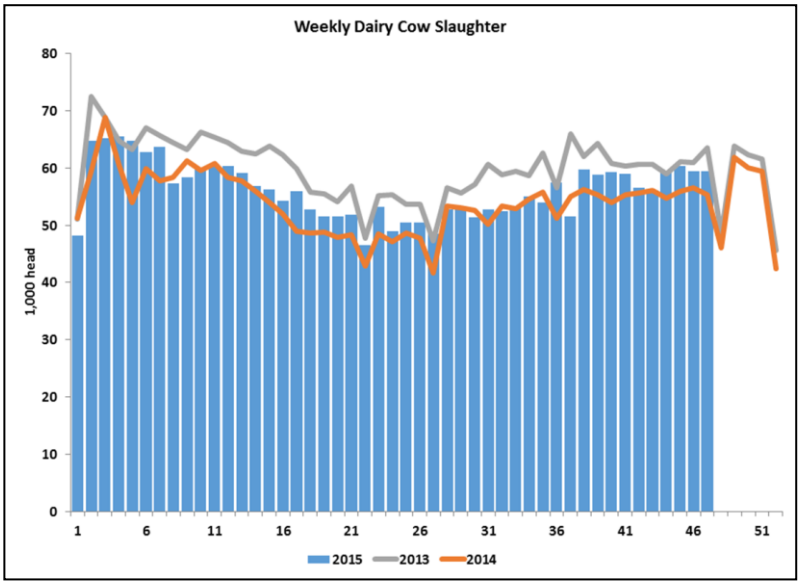
Combined production of NDM and SMP totaled 159 million pounds, down 10.8% from a year ago. Manufacturers' stocks of NDM tumbled to 183.6 million pounds, well below the record large volumes of this summer and 1.5% lower than a year ago. Robust demand from Mexico helped to chip away at inventories. U.S. milk powder exports totaled 109.8 million pounds, an increase of 28.5% from last year.




For the week ending November 21, dairy cow slaughter totaled 59,515 head, up 7.6% from the same week a year ago. So far this year, the dairy cull rate is running 4.2% ahead of the 2014 pace. Dairy cow slaughter volumes in Region 5 – Illinois, Indiana, Michigan, Minnesota, Ohio, and Wisconsin – reached 16,700 head, the highest in any week since January. Slaughter in the region has been elevated since mid-September. Typically a sustained rise in cull rates comes on the heels of painful margins and ahead of a drop in milk production. Given stable margins and falling beef prices, the uptick is likely not a signal of herd contraction in the Upper Midwest. Rather, slaughter numbers may have been inflated by an increase in the imports of dairy cows from Canada for slaughter in the U.S. If this is the case, the Midwest will likely continue to struggle with an abundance of milk.

*Grain Markets*

March corn futures jumped to $3.815 per bushel on Friday, up 11.75¢ in the past couple weeks. January soybean futures tested new lows last Monday, and then surged. They closed today at $9.06, up nearly 50¢ in the last two weeks. Arguably the only bullish catalyst is the exchange rate, which shifted dramatically this week. On Thursday the dollar suffered its largest setback against the euro in 6 ½ years, propelling the whole commodity complex upward.




A weaker greenback should help U.S. exporters to compete for global sales, but the pace of U.S. crop exports is likely to fade in the spring when South American crops begin to hit the market. The weather in Brazil has been decent but not perfect. Conditions in Argentina are excellent, and the new president-elect Mauricio Macri will take office in less than a week. He has vowed to lower export taxes and eliminate export quotas. Argentine farmers have greeted the promise of freer markets by sowing more crops.

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**BACK TO BREAK-EVEN WITH CDFA'S TEMPORARY PRICE CHANGE:** *(By Rob Vandenheuvel)* We got some "good" news this week with regard to CDFA's temporary California Class 4b price relief: November did not result in a repeat of October, when CDFA's temporary price change actually left producer worse off than before the change; instead, we saw a Class 4b price that was *exactly the same* as it would have been prior to that temporary change (still obviously falling short of any price relief). So far, only October has resulted in a price that was lower than it would have otherwise been under the previous price calculation.

So four months into the temporary price calculation that was heralded as a positive adjustment for California producers, we've had: One month where we saw a positive impact on the Class 4b price of approximately $0.28/cwt (August); One month where we saw a negative

| CDFA's Temporary Class 4b Adjustment* | | | |
|---|---|---|---|
| | **Nov '15** | **What it would have been without CDFA's Adjustment** | **Aug '15 – Present** |
| **California Class 4b Price** | **$14.43** | *Exactly the same* | **$14.97** |
| **FMMO Class III Price** | **$15.30** | *Exactly the same* | **$15.71** |
| **Discount** | **($0.87)** | **($0.87)** | **($0.74)** |
| ** CDFA's temporary changes to the Class 4b pricing formula are set for August 2015 – July 2016* | | | |

impact on the Class 4b price of approximately $0.25/cwt (October); and Two months where we saw absolutely no impact on the Class 4b price (September and November).

Of course at the end of the day, if the goal is to maintain a closer relationship between the Class 4b price and the Federal Order Class III price, that gap has been ($0.74)/cwt since August 1st (with California producers obviously on the losing end of that gap). This is certainly a far cry from the ($2.41)/cwt gap we saw in 2014, or even the ($1.62)/cwt gap we saw in January-July 2015. However, since we know that the temporary price change has only had a positive impact on producer prices in one out of the four months, it's clear that the real reason the gap has shrunk is the collapse of the market prices for dry whey. We'll obviously continue to monitor the impact of this temporary price adjustment in bringing California Class 4b prices more closely aligned with Federal Order Class III prices, so stay tuned…

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**NOVEMBER "DAIRY CARES REPORT" POSTED ON OUR WEBSITE:** *(By Rob Vandenheuvel)* The latest *Dairy Cares Report* has been posted on our website at: http://www.milkproducerscouncil.org/cares.htm. This month's column focuses on some of the incentive programs that have either recently emerged or will potentially become available to encourage biogas digester projects. The article references not only past funding that has been made available to incentivize these projects, but also the recently-signed California legislation that ramps up the renewable electricity requirements to 50% by 2030, a lofty goal for sure.

As the article appropriately notes, the State will need to provide significant financial incentives for these voluntary projects to make economic sense on the broad scale they are looking for. ***(Side note: The State's intentional discounting of California's milk price doesn't help our industry's ability to invest in these massive projects; it never ceases to amaze me that California leaders see no problems with strapping some of the nation's highest regulatory costs on an industry that receives the lowest milk prices in the country. Where do they think the money for regulatory compliance comes from?!?).***

Also *(and these are my thoughts, not necessarily those of Dairy Cares…the perks of being editor of the newsletter)*, the State would be wise to avoid any one-size-fits-all approach and maintain flexibility in whatever incentives and efforts they embark upon. New and innovative potential options for reducing methane emissions and creating renewable energy have and will undoubtedly continue to emerge in future years as a product of Good Ol' American ingenuity. One such example currently being tested is the Gasification pilot project on Scott Bros. Dairy in Moreno Valley, CA, in partnership with Ag Waste Solutions (http://www.agwastesolutions.com/newspress/california-dairy-turns-manure-into-renewable-diesel/). This is a great reminder that while a biogas digester may make sense on one dairy, an alternative approach may make more sense on another dairy; and the State should be supportive of whatever approach makes sense, not be in the role of picking and choosing technology.

Anyway, the point is that the renewable energy movement in California is coming on us like a tidal wave, and this month's *Dairy Cares Report* rightfully points out that our dairy industry is seen as an area that can play a significant role in meeting the State's objectives, as long as the projects make sense (both operationally and financially) for the individual dairy(ies) participating in them. Left to their own devices, history tells us it's unlikely the State will be able to craft appropriate policies that actually succeed in promoting rational investments, so MPC stands ready to work with our fellow organizations within Dairy Cares to do our best to steer the State's leaders in directions that make the most sense.