MPC Weekly Friday Report

Date: January 25, 2019
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
2328 Jonathon Court, Escalon, CA 95320 • (209) 691-8139
Office@MilkProducers.org • www.MilkProducers.org • *Fax (909) 591-7328*

MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0100	$1.3900	Weekly Change	+ $.0050	$2.2450	Week Ending 01/19/19		
Barrels	- $.0200	$1.1800	Weekly Average	- $.0215	$2.2300	Nat'l Plants	$0.9663	19,963,195
Weekly Average Cheddar Cheese			Dry Whey			Prior Week Ending 01/12/19		
Blocks	- $.0265	$1.3825	Dairy Market News	w/e 01/25/19	$.4750	Nat'l Plants	$0.9481	14,906,699
Barrels	- $.0356	$1.1694	National Plants	w/e 01/19/19	$.4833			

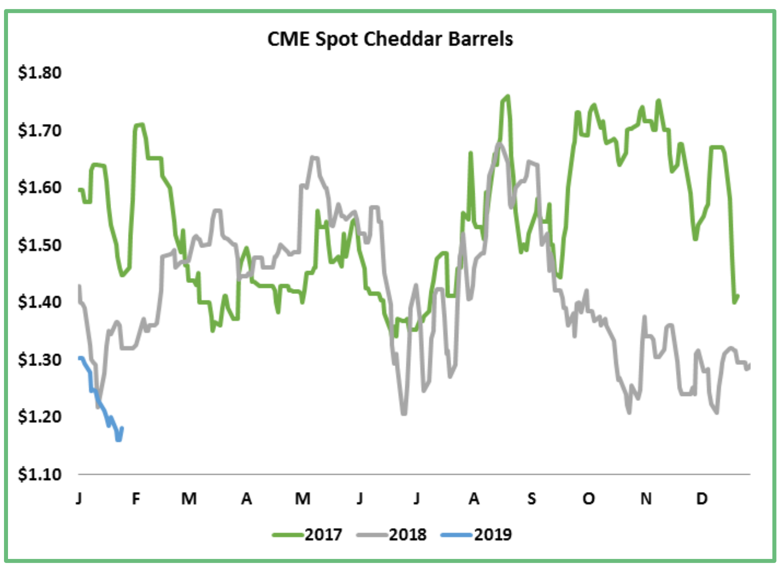
California Federal Milk Marketing Order Price Projections

Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
This Week	$16.72 - $17.22	$15.74	$13.98	$15.51
Last Week	$16.72 - $17.22	$15.74	$13.99	$15.51

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets



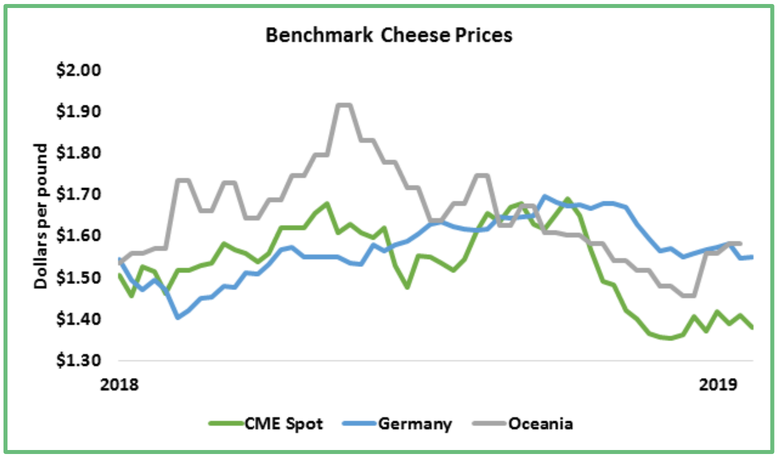
The cheese markets have suffered a punishing four-month decline, and this week they were bloodied and bruised once again. CME spot Cheddar blocks dropped to $1.39 per pound, a penny lower than last Friday. Spot barrels logged fresh 9.5-year lows on Wednesday and Thursday at $1.16. Today they bounced back to a still depressed $1.18, down 2¢ for the week.

The recent selloff is hopefully the last gasp of a bear market that has gone a bit too far. But the fact remains: there is simply too much cheese. Although milk production has slowed noticeably in the entire Eastern half of the United States, cheese output continues to outpace demand.

This week, amidst brutally cold weather in the Midwest, some cheesemakers tell USDA's *Dairy Market News* that they are at their lightest workweek in years. However, some of their peers in the same region are running normal production schedules. Any shortfall among individual operators in the heartland is likely to be offset by persistently strong production in other regions and by the nation's expanded capacity to make cheese.

Why would processors continue to make barrels as prices flounder? In the West, where milk supplies remain heavy, they simply cannot afford to switch product lines and lower throughput. Barrel Cheddar is by far the most efficient use of plant capacity, making it difficult to abandon when milk is plentiful, despite the lure of greater profits margins on other cheese varieties. Cheese production in general, and barrel production in particular, are likely to remain burdensome until milk output slows in the western half of the nation.

Meanwhile, the weather has chilled demand. According to *Dairy Market News*, "Cheese demand is steady to lower nationwide. Northeastern customer bases experiencing and/or expecting severe winter weather are downsizing orders from Midwestern cheese makers, particularly pizza cheese producers."

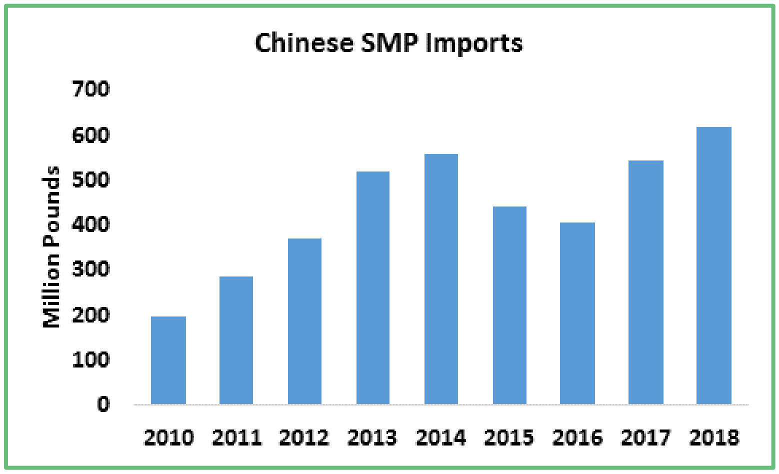


But in warmer climes, demand remains respectable. U.S. cheese is a bargain. Despite punitive tariffs, U.S. cheese continues to move to Mexico in large volumes. According to Mexican Customs data, our southern neighbor imported 4% more cheese in 2018 than in 2017, and the United States accounted for 75% of the total, up from a 72% share in 2017 and a 67% stake in 2016. The U.S. Dairy Export Council (USDEC) notes that the figures could have been even better. In the absence of the steel and aluminum tariffs, USDEC's representative in Mexico estimates that Mexican cheese imports would have climbed 10 to 12% from 2017, and that the U.S. could have improved its marketshare further. Recently, foreign buyers including Mexico have had an opportunity to purchase U.S. cheese at better prices than those that contributed to last year's growth, and U.S. cheese exports are likely to rise accordingly.

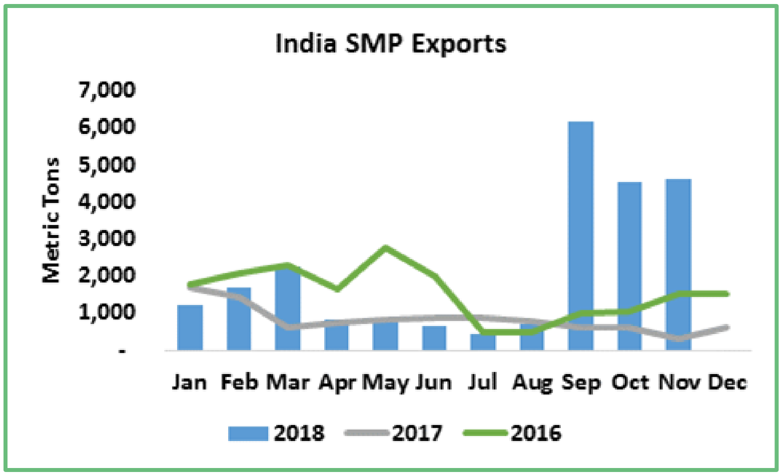
Whey powder took a big step back, contributing to a steep selloff in Class III futures. CME spot dry whey lost a dime, no small feat for a market worth only 40.5¢ per pound. With that Class III futures posted double-digit losses; both May and June were at least 50¢ in the red. February Class III dropped below $14 per cwt. Yesterday, February through June contracts posted life-of-contract lows.

Whey buyers seem to have all the product they need, and they are awaiting lower prices before they shop again. Furthermore, there are concerns that the spread of African swine fever through China's immense hog herd will diminish demand for whey in pig rations. Chinese whey imports in December fell 5.7% from year-ago levels. Chinese imports of U.S. whey, which have struggled since tariffs were imposed in July, fell 43% from December 2017. Chinese imports of whey protein concentrate and whey protein isolate improved compared to last year, but much of the new business went to Germany.

China's hunger for milk powders impressed in December. China imported 45.4 million pounds of skim milk powder (SMP) last month, some 70% more than in December 2017. Chinese imports of whole milk powder (WMP) doubled. Chinese milk powder imports often fade throughout the year, as zero- and low-tariff quota volumes run out, but this year imports accelerated into year-end. Fourth-quarter SMP imports were stronger than any October-to-December run aside from the record-setting volumes of 2013. For the year, Chinese SMP imports were the highest ever, and up 13.4% from 2017. Chinese WMP imports fell short of the record set in 2014 but still topped 2017 by 10.6%.

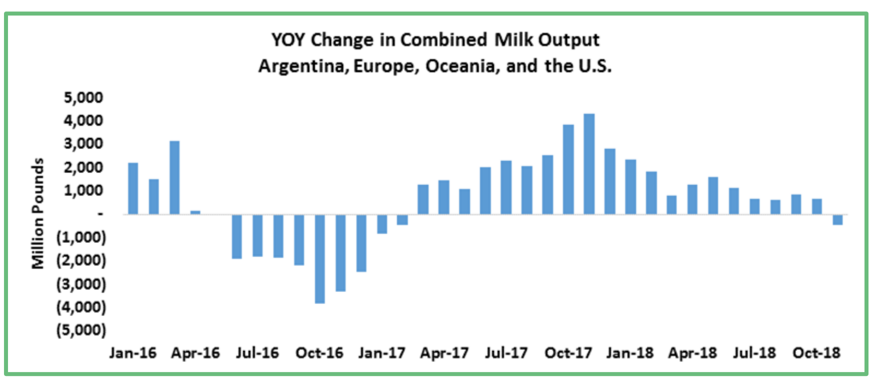


China's appetite is helping to erode global milk powder inventories. The European Commission managed to clear all but the last 8 million pounds of SMP from its Intervention storage program, although some product remains in storage under new ownership. India is taking advantage of the rally to push SMP out the door in large volumes, with the help of subsidies that likely violate WTO rules. They likely reckon it's better to ask forgiveness than permission. It's more likely their malfeasance will be overlooked if the market continues to climb.



U.S. milk powder inventories are surely waning as well, although we lack the data to confirm the size of the drawdown while the statisticians at USDA are furloughed. Tighter milk in the Eastern United States is translating into a sizeable slowdown in milk powder production. *Dairy Market News* reports that spot NDM is difficult to come by in the Midwest "and some suppliers report being sold out through Q1." In the East, several manufacturers report ambitions to produce more NDM for storage, "but right now they don't have the time and milk necessary to do that." CME spot NDM slipped back to $1.0125 per pound this week, down 1.75¢ from last Friday. Still, it is not far from the recent highs.

The butter market remains comfortable in the $2.20 to $2.30 range, a perch from which it has hardly strayed since mid-October. This week spot butter climbed a half-cent to $2.245. Cream is plentiful in the West, and churns are running hard. Most Class IV futures took a small step back this week, but they remain at much better levels than those that prevailed in 2018. February and March futures are just shy of the $16 mark, and deferred contracts are well above it.



Australia reported November milk collections down 7.8% from a year ago. Slow growth in U.S. milk production in November and contraction in Australia and Europe contributed to a 0.65% decline in combined milk production among the major global players, the first such decline since January 2017. And, unlike January 2017, there is not a mountian of milk powder in inventory to anchor the market. For three years, Class IV futures have been singing the blues. Today, they look ready to rock and roll.

Grain Markets

The grain markets were quiet this week. March corn slipped 1.5¢ to $3.8025 per bushel. March soybeans climbed 8.5¢ to $9.2525 due to concerns that drier-than-normal weather in Brazil would reduce soybean yields. But below-normal rainfall in a region that is practically a rainforest is not dry by any means. Most fields have received a few inches of rain in the past few weeks. Yields may be slightly less than ideal, but the South American soybean crop is still likely to be substantial. Global soybean supplies remain abundant.

Agricultural Overtime Pay Takes Effect This Year

By Kevin Abernathy, General Manager
Kevin@MilkProducers.org

Assembly Bill 1066, passed in 2016, removed the exemption for agricultural employees regarding hours, meal breaks and other working conditions. It also created a timetable for phasing-in overtime pay for agricultural workers, which took effect January 1, 2019. Yesterday, the California Labor Commissioner's Office posted guidance for the overtime pay schedule. We encourage you to read it here.

Employers with 26 or more employees are subject to the new overtime pay laws, effective January 1, 2019. For employers with 25 or fewer employees, mandatory overtime pay takes effect January 1, 2022. Over time pay is 1.5x the employee's regular rate of pay following a certain number of hours worked in a day or per week. The charts below provide a quick reference for the phased-in changes through 2025.

Overtime pay schedule for agricultural workers at large employers ***(26 or more employees)***		
Date	**Hours in a day**	**Hours in a workweek**
January 1, 2019	9.5	55
January 1, 2020	9	50
January 1, 2021	8.5	45
January 1, 2022*	8	40

Overtime pay schedule for agricultural workers at small employers ***(25 or fewer employees)***		
Date	**Hours in a day**	**Hours in a workweek**
January 1, 2022	9.5	55
January 1, 2023	9	50
January 1, 2024	8.5	45
January 1, 2025*	8	40

** Double the regular rate of pay applies after 12 hours*

State Water Board Holding Stakeholder Meetings Regarding Fee Increases for Confined Animal Facilities Program (Dairies)

By Kevin Abernathy, General Manager

After raising water quality permit fees 6.2% in September 2018, the State Water Resources Control Board is considering another fee increase for fiscal year 2019-20 for farms permitted under its Confined Animal Facilities Program, which includes dairies. Part of its conceptual proposal includes charging dairies for what it calls "excess heifers," however a formal plan has not been offered by the State Water Board. MPC, along with the Dairy Cares coalition, is opposed to any fee increase for dairies and we continue to be involved with litigation brought forth by MPC and other dairy trade groups against the State Water Board regarding previous fee increases.

The State Water Board is holding meetings for interested parties regarding its Confined Animal Facilities Program fees. These meetings are a great opportunity for dairy farmers to voice their opposition to any proposed fee increase, especially in light of the extremely difficult economic situation that has plagued our producer community for years. See the schedule below for the fee stakeholder meeting schedule.

FEES STAKEHOLDER MEETINGS SCHEDULE – CONFINED ANIMAL FACILITIES PROGRAM

Friday, January 25	10 am – 12 pm	City of Petaluma Community Center, Meeting Room 320 North McDowell Blvd., Petaluma
Wednesday, February 20	10 am – 12 pm	Stanislaus County Harvest Hall – East Rooms 3800 Cornucopia Way, Modesto
Wednesday, February 27	10 am – 12 pm	Eastern Municipal Water District 2270 Trumble Road, Perris
Thursday, March 7	10 am – 12 pm	UC Cooperative Extension – Humboldt 5630 South Broadway, Eureka

Some Good News

By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs
Geoff@MilkProducers.org

It may seem obvious to everybody else, but one of the facts about California's water system that really hit home with me since moving to the Central Valley last June is how much we depend on winter precipitation each year for our water supply. We are not exactly hand to mouth, but we are way closer to that than many city folks might realize. So, the rain and snow of the last few weeks are a really big deal.

The following excerpt from the KQED article, "580 billion gallons. That's How Much Water Recent Storms Added to California Reservoirs," calculates just how big this is. Read the full article here.

> "*The round of storms that soaked California in recent weeks has brought a huge influx of water to the state. According to a new analysis by The Mercury News, California reservoirs are now holding an additional 580 billion gallons compared to the start of the year. And the snowpack also got a big boost. The report utilized data from 47 key reservoirs monitored by the state. Mercury News reporter and KQED Science Managing*

Editor Paul Rogers reported the story, which was published Wednesday."

California Energy Commission Offering Grant Funding Opportunity for Renewable Energy Projects on Ag Lands

By Kevin Abernathy, General Manager

Through the California Energy Commission (CEC), farmers are eligible for grants ranging from $25,000 to $350,000 for renewable energy projects installed on their operations. The deadline for submitting applications to the Renewable Energy for Agriculture Program (REAP) is March 5, 2019 at 5 p.m. Applications and eligibility requirements are available here.

Upcoming pre-application workshops are scheduled next week in Fresno and Imperial and also available via webinar.

REAP Pre-Application Workshops

Monday, January 28	1 pm	San Joaquin Valley Air Pollution Control District The VTC Room, 1990 E. Gettysburg Ave., Fresno WebEx Event: https://energy.webex.com/ec Event Number: 924 486 137 Event Password: meeting@1 Topic: REAP Pre-Application Workshop – Fresno, CA
Wednesday, January 30	2 pm	Imperial Valley Vegetable Growers Association 485 Business Park Way, Imperial WebEx Event: https://energy.webex.com/ec Event Number: 922 086 015 Event Password: meeting@2 Topic: REAP Pre-Application Workshop – Imperial Valley, CA