



Milk Producers Council



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DATE: August 21, 2015
 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0475 \$1.7400
 Barrels - \$.0025 \$1.6950

Weekly Average, Cheddar Cheese

Blocks - \$.0175 \$1.7025
 Barrels - \$.0290 \$1.6735

CHICAGO AA BUTTER

Weekly Change +\$.3050 \$2.3700
 Weekly Average +\$.2285 \$2.2490

DRY WHEY

Dairy Market News w/e 08/14/15 \$2.800
 National Plants w/e 08/08/15 \$3.439

NON-FAT DRY MILK

Week Ending 8/14 & 8/15

Calif. Plants \$0.7825 8,836,635
 Nat'l Plants \$0.7582 17,118,372

Prior Week Ending 8/7 & 8/8

Calif. Plants \$0.7703 12,581,970
 Nat'l Plants \$0.7453 16,796,802

FRED DOUMA'S PRICE PROJECTIONS...

Aug 21 Est: Quota cwt. \$16.35 Overbase cwt. \$14.66 Cls. 4a cwt. \$13.26 Cls. 4b cwt. \$15.78
 Last Week: Quota cwt. \$16.24 Overbase cwt. \$14.54 Cls. 4a cwt. \$13.00 Cls. 4b cwt. \$15.71

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

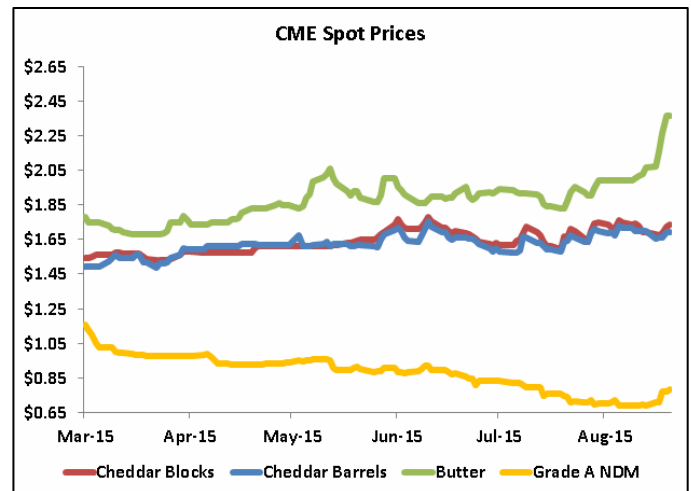
Milk & Dairy Markets

Bulls ran wild in the butter market this week. Strength at the CME spot session was as perplexing as it was ferocious. CME spot butter jumped 30.5¢ to \$2.37/lb., reaching its highest level in more than ten months. This compares to \$1.15 at the most recent Global Dairy Trade (GDT) auction and \$1.27 in Europe, according to *Dairy Market News*.

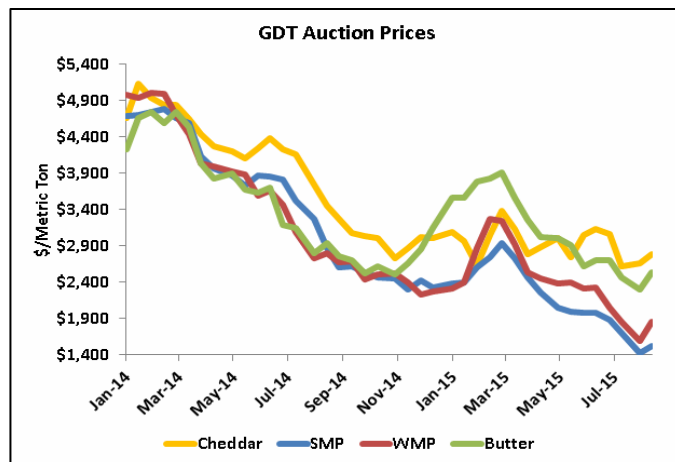
September butter futures posted back-to-back limit up trading sessions, climbing a nickel on Tuesday and a dime on Wednesday under expanded trading limits. On Thursday they jumped nearly 15¢. When formerly insatiable buyers hardly bothered to bid at the spot session on Friday September butter futures gave back a dime. The limit-down close suggests room for a continued retreat when trading resumes next week.

The once sluggish milk powder market also came to life this week. CME spot nonfat dry milk (NDM) climbed to 78.5¢, up 9.5¢ from last Friday. Class IV futures leapt. The September, October and February contracts gained more than a dollar.

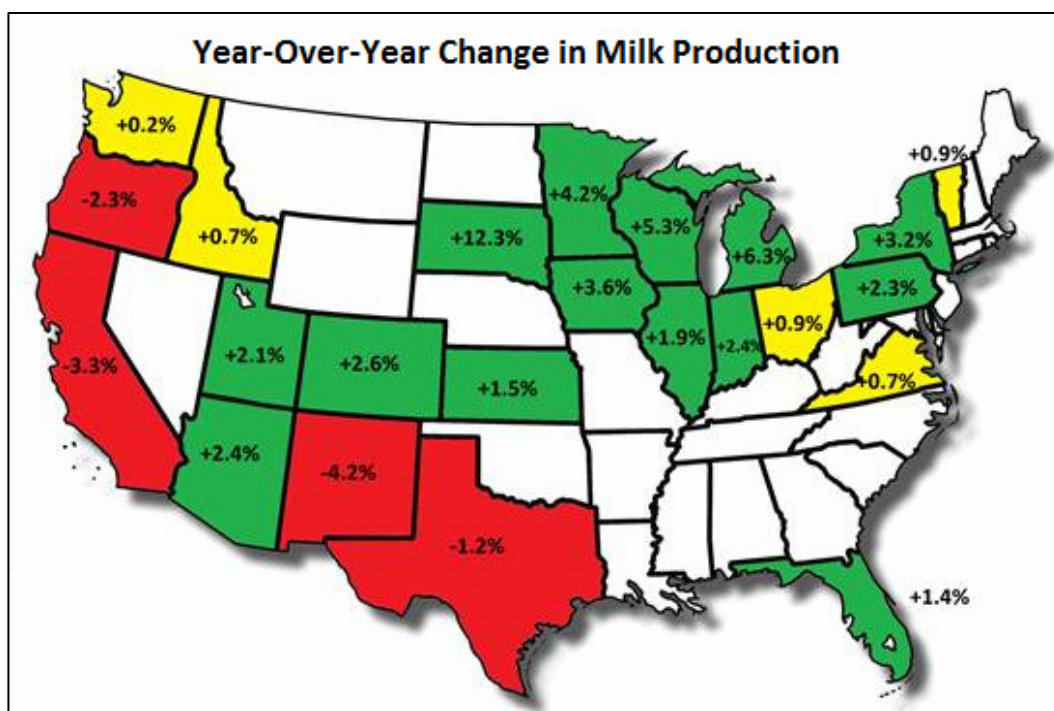
The Class III markets showed less conviction. Whey futures moved back and forth but remained depressed. CME spot Cheddar blocks gained 4.75¢, nearing the upper end of their well-entrenched trading range at \$1.74. Cheddar barrels slipped 0.25¢ to \$1.695. Most Class III contracts gained 20 to 40¢, and December futures settled nearly a dollar higher.



Last week Fonterra forecast a 2% drop in milk collections in New Zealand for the 2015-16 season. In keeping with that outlook and its intentions to shift to more value-added products, the cooperative offered reduced volumes at the GDT on Tuesday. As expected, prices jumped. The trade-weighted index surged 14.8%, breaking a five-month losing streak. All products except buttermilk moved higher. Anhydrous milkfat (AMF) shot up 26.6% from the last event, and whole milk powder (WMP) gained 19.1%. Strength at the GDT helped to ignite the U.S. milk powder markets, although, like everything else, they faded as the week drew to a close.



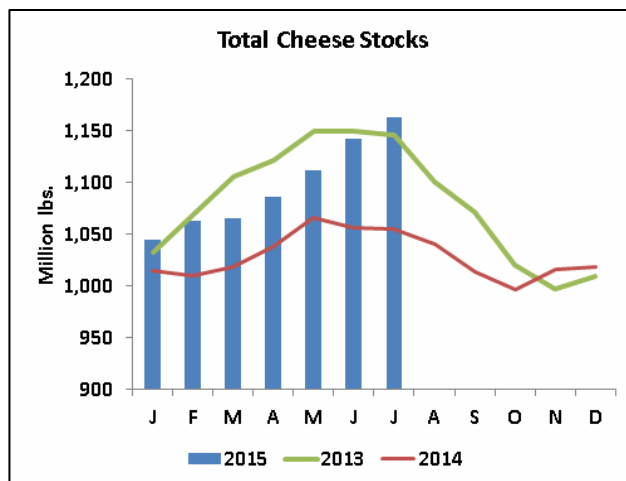
While prices have perked up in New Zealand, they continue to erode in Europe and strength may be fleeting in the U.S. as well. This week USDA hit the dairy markets with a one-two punch. The first blow came Wednesday, via the Milk Production report. National milk output reached 17.65 billion pounds in July, up 1.2% from record high levels last year. USDA also revised upward its estimate of June milk production, putting it 0.9% higher than year-ago levels, rather than 0.7% as initially reported. Both figures were larger than expected.



USDA also revised its assessment of the June dairy herd upward by 4,000 head and estimated the July herd at 9.322 million head, up 1,000 head from June and 54,000 head greater than last year. Once again, state-level data showed a stark contrast in regional production. While output slipped 4.2% in New Mexico, 3.3% in

California, 2.3% in Oregon and 1.2% in Texas, milk gushed east of the Rockies. Dairy producers are clearly expanding in South Dakota, where production jumped 12.3%. Output rose 6.3% in Michigan, 5.3% in Wisconsin and 4.2% in Minnesota.

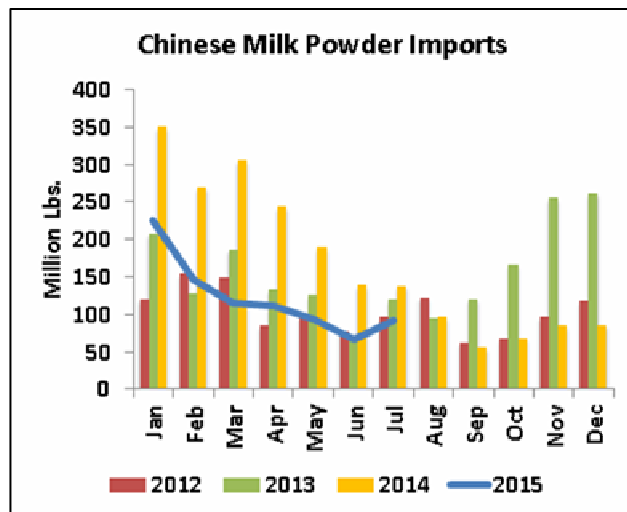
USDA's second jab landed Friday after the markets were closed. The Cold Storage report showed July 31 cheese stocks at 1.162 billion pounds, the highest level in almost three decades. Cheese inventories grew 1.8% from June and are 10.2% greater than prior year volumes. Demand has been strong, but it is struggling to keep pace with burgeoning milk supplies in the traditional cheese states.



Butter inventories were also larger than expected. At 254.45 million pounds, they slipped just 1.5 million pounds from June, compared to a five-year average decline of 11.4 million pounds. Stocks are more than 40% higher than they were at

this time a year ago. This suggests that, while this week's meteoric rise in the spot butter market carries echoes of 2014, history is unlikely to repeat itself.

China stepped up its milk powder imports in July relative to the decidedly low levels of June. Still, at 91 million pounds combined imports of NDM and skim milk powder (SMP) were 34% lower than prior-year levels. Chinese dairy demand may continue to struggle. Concerns about a slowdown in China's economy pummeled commodity and equity markets this week. China's stock market fell 4.3% prompting a more than 5% decline in U.S. stock indices. Crude oil futures briefly dipped below \$40 per barrel for the first time since 2009.



For the week ending August 15, dairy cow slaughter totaled 52,428 head, down 1.7% from the same week a year ago. So far this year, the cull rate is 4.1% ahead of the 2014 pace.

Grain Markets

December corn futures gained a few cents this week, closing at \$3.7725 per bushel. Soybean futures continued to slide. The November contract dropped 27¢ to \$8.895. Soybeans came under particular pressure amidst the widespread rout in commodities, as China accounts for nearly two thirds of global soybean imports.

The annual ProFarmer crop tour highlighted huge crops in the Western Corn Belt and variability in the East. The tour estimates the national corn yield at 164.3 bushels per acre (bpa), well below USDA's most recent 168.8 bpa forecast. The tour foresees a 46.5 bpa soybean yield, just shy of USDA's 46.9 bpa estimate. The bulls will focus on this discrepancy, while the bears will point to limited heat stress in August and the potential for improvement.

The trade will continue to quibble about yields, but concerns about supply have been pushed to the back burner. If China's economy is truly slowing, the economic pain is unlikely to be confined to China, reducing demand for meat, dairy and the crops required to feed livestock throughout the world. U.S. exporters are already struggling to compete with South America, as farmers in Argentina and Brazil are shipping corn and soybeans abroad at a record pace. Meanwhile, institutional investors are backing away from commodities after getting burned last month. Unless the harvest is significantly smaller than expected, corn and soybean prices seem unlikely to rally.

INVITATION TO FIELD TOUR ON SUBSURFACE DRIP IRRIGATION: *(By Kevin Abernathy, Director of Regulatory Affairs)* For our readers in the Chowchilla region, you may have already received information about this in the mail, but next Wednesday, Netafim USA and Sustainable Conservation are hosting a field tour to demonstrate Subsurface Drip Irrigation (SDI) and its potential benefits in wastewater applications used on dairy forages. The event features visits to two active SDI projects in Chowchilla, operated by Bert Wilgenburg Farms and DeJager Farms.

As noted on the flyer sent out for the event (<http://www.milkproducerscouncil.org/082615sdievent.pdf>), participants will learn about:

- **Drip and Wastewater:** Putting your on-farm produced nutrients to work through drip irrigation
- **Keys to Success with SDI:** Making drip work in alfalfa and silage corn
- **Grower Perspectives:** How SDI systems have improved water use efficiency, reduced labor costs and increased the nutritional value of their forage

Folks interested in attending this free event should contact Maureen Nassie with Netafim at (559) 253-2548 or maureen.nassie@netafim.com. MPC members can also contact me at (209) 678-0666 with any questions you may have.