



Milk Producers Council

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DATE: May 13, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenhoevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0250 \$1.2800
 Barrels + \$.0200 \$1.3200

Weekly Average, Cheddar Cheese

Blocks - \$.0480 \$1.2790
 Barrels - \$.0555 \$1.2920

CHICAGO AA BUTTER

Weekly Change - \$.0125 \$2.0375
 Weekly Average + \$.0045 \$2.0475

DRY WHEY

Dairy Market News w/e 05/13/16 \$2.2338
 National Plants w/e 05/07/16 \$2.502

NON-FAT DRY MILK

Week Ending 5/6 & 5/7

Calif. Plants \$0.7297 16,679,454
 Nat'l Plants \$0.7437 24,196,195

Prior Week Ending 4/29 & 4/30

Calif. Plants \$0.7144 20,375,111
 Nat'l Plants \$0.7256 31,393,478

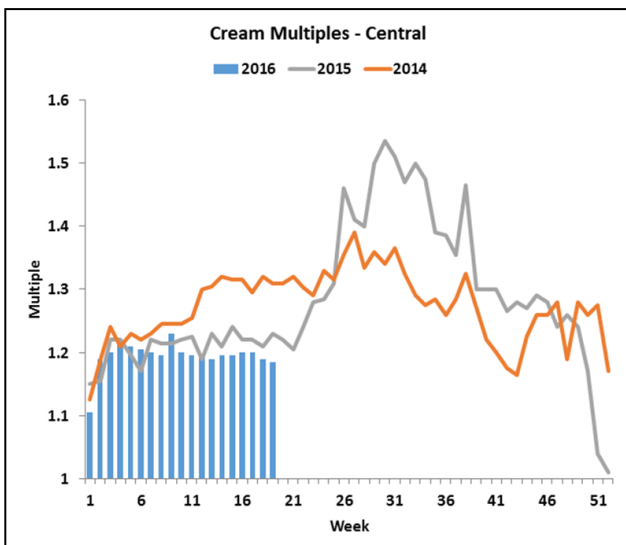
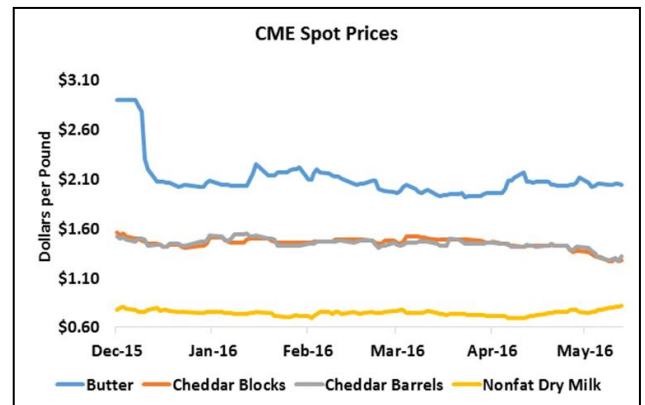
FRED DOUMA'S PRICE PROJECTIONS...

May 13 Est: Quota cwt. \$13.52 Overbase cwt. \$11.82 Cls. 4a cwt. \$12.47 Cls. 4b cwt. \$11.25
 Last Week: Quota cwt. \$13.60 Overbase cwt. \$11.90 Cls. 4a cwt. \$12.49 Cls. 4b cwt. \$11.40

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

Milk & Dairy Markets

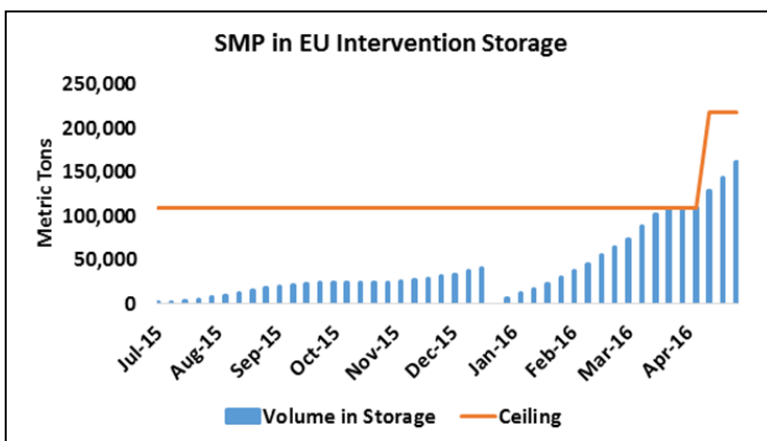
It was another volatile week in the dairy markets. CME spot Cheddar blocks and barrels dropped to fresh six-year lows at \$1.27/lb. on Thursday, but they regained a little ground on Friday. Blocks finished at \$1.28, down 2.5¢ for the week. Barrels jumped to \$1.32, up 2¢ from last Friday. Class III and cheese futures, which hold notable premiums to the spot market, shrugged off the strength in barrel pricing. For the week, Class III futures losses ranged from 3¢ for the November contract to 66¢ for June.



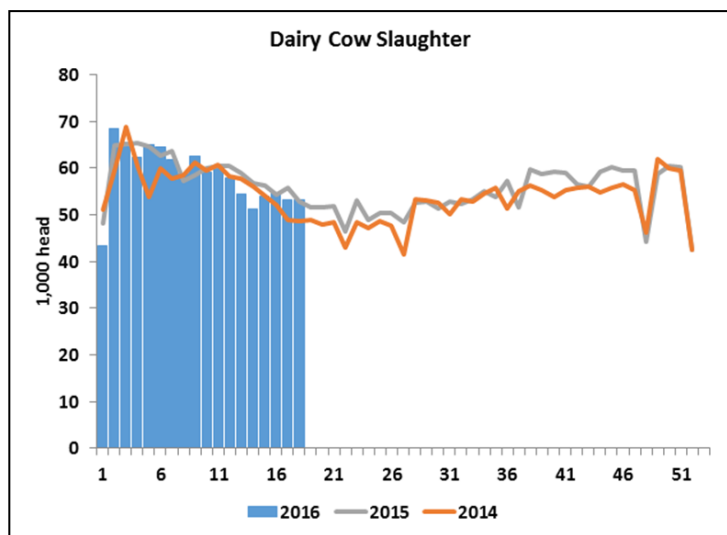
CME spot butter slipped to \$2.0375, down 1.25¢. “Butter churning continues actively throughout the country as cream supplies are still readily available,” according to *Dairy Market News*. Ice cream season is right around the corner, but it’s been unseasonably cool in much of the country, so components remain high and demand for summer treats is modest. Ice cream makers have been going at a trot rather than a gallop. Indeed, cream multiples in the Central region have dropped further in each of the past two weeks.

Nonfat dry milk (NDM) climbed 3.75¢ at the CME spot market to 81.5¢. Class IV futures were steady to 22¢ higher. Deferred NDM futures climbed this week, perhaps buoyed by the assumption that when milk output eventually slows, milk powder production will bear the brunt of the decline.

Still, global milk powder stockpiles continue to grow. In Europe, manufacturers sent another 32.4 thousand metric tons (71.4 million pounds) of skim milk powder (SMP) into the government's intervention storage program. At this pace, the recently expanded program will be stopped out again in less than two weeks.



In the Midwest and Northeast, industry infrastructure has been strained by the sheer weight of the spring flush. *Dairy Market News* reports that in the East, “brokers are finding it necessary to heavily discount loads [of skim solids], while suffering substantial shipping costs as they trade to distant regions.” Similarly, “there have been reports of some central milk landing in the Western region for little to no cost over transportation... Manufacturers are running full schedules to manage milk intakes.” Cream is still valuable but skim solids are nearly worthless. Dairy producers are seeing milk income constricted from all sides: lower milk prices, steeper discounts, and higher transportation costs.

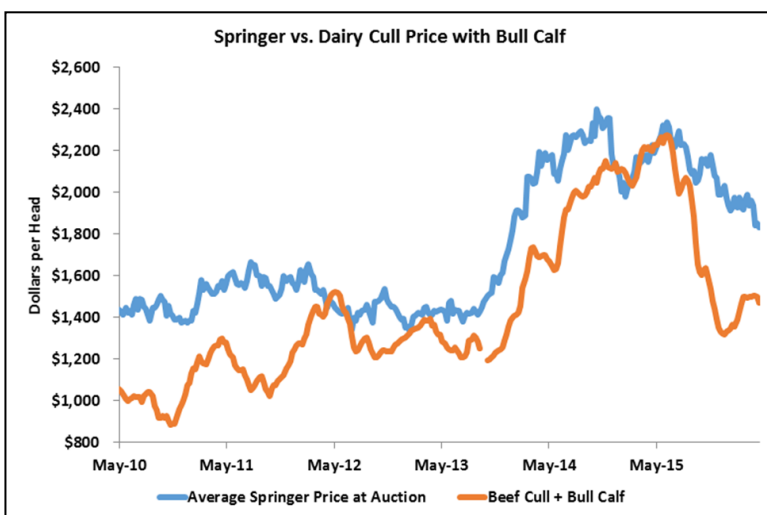


Meanwhile, in the West, the trickle of herd dispersals is turning into a stream. The California Department of Food and Agriculture reported the cost of milk production for 2015 at \$17.78/cwt. The average 2015 mailbox milk price fell far short of costs at \$15.94. The *Daily Dairy Report* calculated Golden State dairies' collective losses at \$752 million last year. Since then, milk checks have gotten even smaller. California lost 32 dairies and 41,670 cows in 2015, and the pace of contraction is accelerating.

Curiously, despite all the margin pain, slaughter rates have not picked up. For the week ending April 30, dairy cow slaughter totaled 53,187 head, up 0.8% from the same week a year ago. After four months, dairy

slaughter volumes are 16,000 head, or 1.6% behind last year's pace. In Region 9, which includes California, culling is 9,000 head, lagging 2015 slaughter by 3%.

Perhaps dairy producers are not culling aggressively because beef prices have been so disappointing. At long last, springer prices have started to drop, but dairy cull cow and bull calf values have been falling for some time. Until just a few weeks ago, the net cost to cull an old milk cow and replace her with a springer or a fresh heifer was staggeringly high.



The outlook for the beef market has improved. After holding well above year-ago levels, cattle weights are finally falling. This is likely an indication that packers have pulled cattle forward, and that the supply of finished cattle ready for slaughter has diminished. Beef production could decline just as summer grilling season gets underway. Meanwhile, imports have dropped and export demand has improved. This is likely to undergird cull cow and bull calf values in coming months.

Grain Markets

Soybean futures scored life-of-contract highs on the heels of USDA's monthly update to its World Agricultural Supply and Demand Estimates (WASDE). July soybeans finished at \$10.65, up 30.25¢ from last Friday but more than 25¢ below Tuesday's high. Soybean meal futures climbed their \$20 daily limit on Tuesday and they haven't looked back.

Global demand for oilseeds has climbed every year, and production has failed to keep pace. Since the 2010-11 crop year, production has increased 14.7%, but demand has jumped more than 19%. China's voracious appetite for soybeans and modest increases in domestic usage have made decent crops in both the U.S. and South America a necessity every season. Heavy rains in April ravaged the soybean crop in northern Argentina, putting more pressure on the U.S. crop. But USDA expects farmers to plant considerably more corn and slightly fewer soybeans than last year. The market must now factor in a sizeable weather risk premium.

The weather has been favorable in much of the Western Corn Belt, where planters have been rolling. By Sunday, farmers had planted 64% of intended corn acres, putting them well ahead of the historic pace. But unrelenting rains have kept tractors out of the field in South Dakota, northern Ohio and Michigan. Prompted by the weather and the recent rally, farmers in these areas may increase soybean acreage at the expense of corn. That threat spurred the corn market upward this week. Despite ample supplies and USDA's forecast for even higher stockpiles in the coming crop year, July corn futures settled at \$3.9075, 13.25¢ higher than last Friday.

MPC BOARD'S EXECUTIVE COMMITTEE REORGANIZED: *(By Rob Vandenheuvel)* At MPC's board meeting this past week, a new Executive Committee was established as Syp Vander Dussen – who has served as MPC's President for more than 11 years – has officially stepped down. After a vote of the Board of Directors, the new Executive Committee is now made up of:

- **President:** Cornell Kasbergen *(Tulare, CA)*
- **1st Vice President:** Bennett Slegers *(Bakersfield, CA)*
- **2nd Vice President:** Geoffrey Vanden Heuvel *(Chino, CA)*
- **Secretary/Treasurer:** Daryl Koops *(Ontario, CA)*

While we often spend much of our time focusing on the future, and the possibilities that future can bring, there are also times when it is appropriate to look back and take stock. Syp Vander Dussen has been serving as MPC's President since taking over for his predecessor Pete Vander Poel, Sr. in 2005. I'm not going to try and capture in this article what Syp meant to MPC over the course of those 11 years; there will be a time and a place for that recognition. Instead, I just want to publicly say thank you to the only Board President I've had since joining the MPC team. It's been an absolute honor to work side-by-side with Syp on behalf of California's dairy families. While I and the rest of MPC's staff look forward to continuing those efforts under the capable leadership of the new Executive Committee, we can't help but tip our hat to the countless time and energy Syp committed to MPC over these years, and we hope he enjoys his much-deserved retirement from his leadership position at MPC.

CALIFORNIA CREAMERY OPERATORS ASSOCIATION HOSTING ITS ANNUAL MEETING NEXT MONTH: *(By Rob Vandenheuvel)* Every June, the California Creamery Operator Association (CCOA) hosts its annual meeting in Lake Tahoe, NV. This year's meeting – which will be held at Harrah's Lake Tahoe on June 27th and 28th – provides an opportunity for producers, processors and other industry folks to gather for presentations and panel discussions on current topics facing the dairy industry, such as an outlook on water issues, dairy markets, the GMO phenomena, etc. And of course, it is all in the setting of beautiful Lake Tahoe, with ample time in the schedule for enjoying the great outdoors. For those interested, you can find more information or register for the event at: <http://www.ccoadairy.org>.

***Unfortunately, we will not be able to publish MPC's Friday Market Update next week.
Our next issue will be published on Friday, May 27th.***