



# Milk Producers Council

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**DATE: September 14, 2018**  
**TO: Directors & Members**

**PAGES: 6**  
**FROM: Kevin Abernathy, General Manager**

## MPC Friday Market Update

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0575 \$1.6050  
 Barrels - \$.0800 \$1.4200

### Weekly Average, Cheddar Cheese

Blocks - \$.0494 \$1.6300  
 Barrels - \$.1144 \$1.4700

### CHICAGO AA BUTTER

Weekly Change + \$.0050 \$2.2350  
 Weekly Average + \$.0269 \$2.2300

### DRY WHEY

Dairy Market News w/e 09/14/18 \$4.350  
 National Plants w/e 09/08/18 \$3.972

### NON-FAT DRY MILK

#### Week Ending 9/7 & 9/8

Calif. Plants \$0.8037 13,120,805  
 Nat'l Plants \$0.8447 18,251,181

#### Prior Week Ending 8/31 & 9/1

Calif. Plants \$0.7809 10,763,912  
 Nat'l Plants \$0.8376 16,819,649

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## Fred Douma's price projections...

Sept 14 Est: Quota cwt. **\$16.45** Overbase cwt. **\$14.75** Cls. 4a cwt. **\$13.90** Cls. 4b cwt. **\$15.57**  
 Last Week: Quota cwt. **\$16.54** Overbase cwt. **\$14.85** Cls. 4a cwt. **\$13.75** Cls. 4b cwt. **\$15.84**

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## Market commentary

By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com)

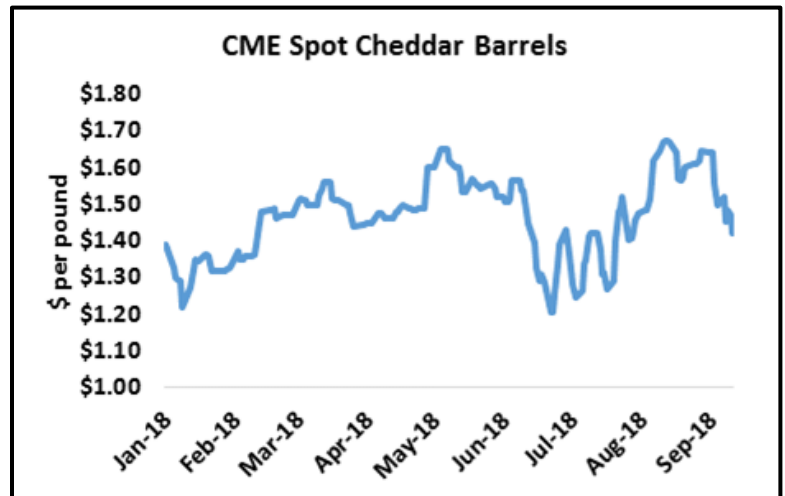
### Milk & Dairy Markets

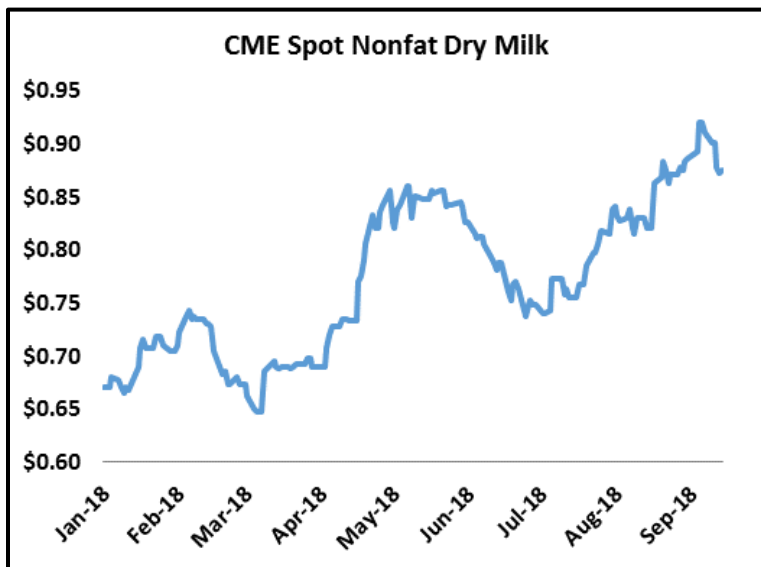
The cheese markets suffered another setback this week, despite positive fundamentals. Demand from retailers and food service remains strong, and output is steady. But buyers have been spooked by the selloff and are now content to wait for further decline. Their patience has been rewarded. CME spot Cheddar barrels tumbled to \$1.42 per pound this week, down 8¢ since last Friday. Blocks fell 5.75¢ to \$1.605.

Whey stocks remain tight but exporters note a slowdown in sales to China. The whey market continues to climb. CME spot whey powder reached 52.25¢, up 0.75¢ for the week. Once again the whey price helped to stave off a further bloodletting in Class III. Nonetheless, Class III futures settled between a dime and a quarter lower than last Friday.

Class IV futures fared no better. All contracts posted double-digit losses, and the December and January contracts lost more than 40¢. CME spot butter eked out a 0.5¢ gain, rebounding to \$2.235 per pound. Indications of butter demand are respectable and the holiday baking season is fast approaching. Overseas butter markets are slipping.

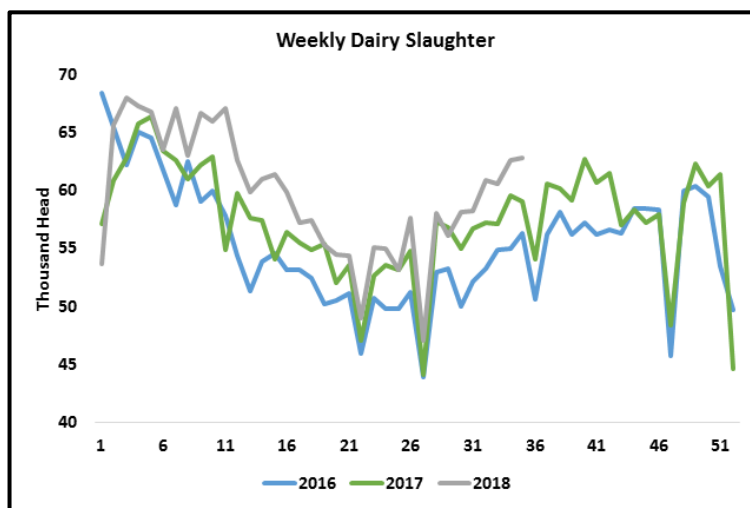
The milk powder market's foray above 90¢ was shortlived. CME spot nonfat dry milk (NDM) dropped 3.5¢ this week to 87.5¢. Mexican demand for U.S. milk powder remains strong, but sales are less robust as prices climb, which helps to explain the retreat from last week's lofty values.



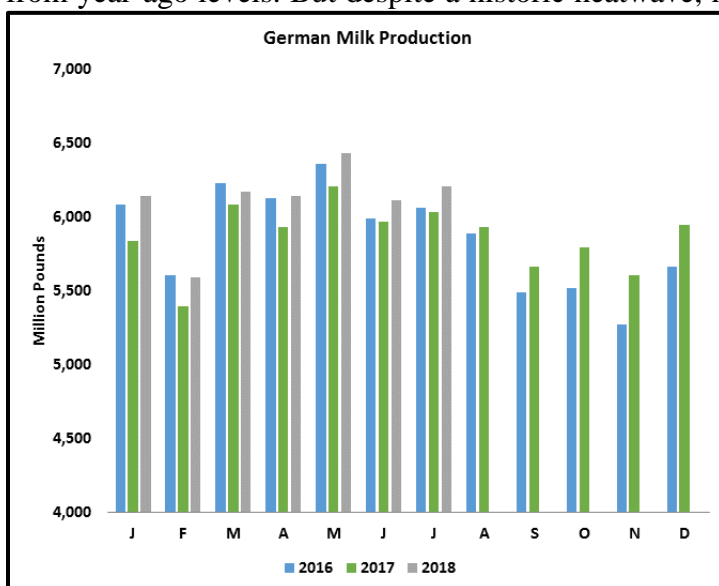


Cooler nighttime temperatures have brought relief in the western half of the nation. However, cows in the Midwest and Northeast continue to show the effects of the hot, humid summer, even before some of them suffer heavy rains and soggy stalls in the wake of Hurricane Florence. *Dairy Market News* reports that in the Eastern region, “Milk volumes are still lower off farms... Manufacturers’ production schedules vary throughout the area as some operations are not receiving enough milk. Southeast milk production is dropping this week.” Milk has been slow to come back in the Lake States as well. “Intake plant managers in Wisconsin report yields are at or just coming off their lowest point of the year. Additionally, dairy farms are closing at noteworthy rates throughout the Midwest.”

Slaughter volumes also suggest that dairy producers are selling out in numbers that add up to a continued decline in the milk cow herd. For the week ending September 1, dairy cow slaughter was 62,859 head, up 6.4% from the same week a year ago. Dairy slaughter has topped 60,000 head for four straight weeks. The dairy industry has not culled cows in these volumes at this time of year since the whole herd buyout and cow kill program in 1986. Poor weather in the east and lower cow numbers are surely restraining U.S. milk production as summer turns to fall.



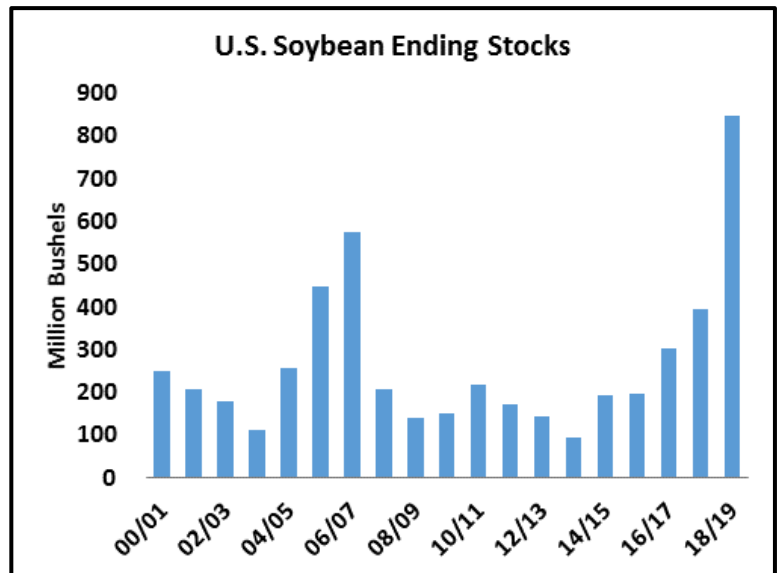
Hopes for similar contraction in Europe have so far been only partially realized. European dairy producers have also combatted adverse weather and slim on-farm margins. But European pay-prices have not been as relentlessly low as U.S. milk checks, so poor margins have likely not taken as significant a toll on the European dairy herd. As for the weather, its impact has been mixed. Irish milk production was dramatically lower in July, falling 3.7% from year-ago levels. But despite a historic heatwave, milk output in Germany exceeded July 2017 volumes by 2.8%. The United Kingdom, Europe’s third-largest milk-producing nation, boosted output by 1.5% in July, and fifth-ranked Poland saw a 1.7% year-over-year increase. The global markets can surely absorb growth at this rate, which is not as robust as the expansion that has prevailed in the U.S. and Europe for much of the past several years. But the global dairy market recovery would be on firmer footing if it could boast a simultaneous slowdown on both sides of the Atlantic.



### Grain Markets

USDA shocked the corn market Wednesday, calling for a record-breaking national average corn yield at 181.3 bushels per acre. That’s up from the agency’s

August estimate of 178.4 bushels and above the last year's 176.6 bushel per acre crop. At 14.8 billion bushels, this year's crop will be the second-largest ever, with impressive yields offsetting lower acreage. Higher production means higher stocks, even with robust demand. USDA raised its estimate of 2018-19 end-of-season corn stocks to 1.77 billion bushels, up from its August estimate of 1.68 billion bushels.



USDA also raised its estimate of the soybean crop, but the change was mostly expected. The agency puts the soybean yield at a record-high 52.8 bushels per acre, with total production at 4.69 billion bushels, the highest ever. Despite greater supplies, USDA expects exports to slip from the impressive volumes of the previous two seasons, as Chinese tariffs weigh on U.S. prospects. U.S. soybean inventories are expected to total a massive 845 million bushels, the largest end-of-season stockpile by far.

December corn settled today at \$3.5175 per bushel, down more than 15¢ from last Friday. November soybeans closed at \$8.305 per bushel, 13.5¢ in the red. At \$308.70 per ton, the December soybean meal contract dropped another \$7 this week. Given the size of the crops in the heartland, feed costs are likely to remain low, with the exception of hay costs in areas that have struggled with drought.

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## The end is near; a new day dawns

*By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs*

As it has for decades, the California Department of Food and Agriculture this week put out the Class 1 price letter. Right under the title is a note in red letters that reads:

*Please Note: Due to the implementation of a Federal Milk Marketing Order (FMMO) for California, this is the **final price announcement** for Class 1 milk issued by the California Department of Food and Agriculture. Future price announcements for Class 1 milk in California will be issued by the United States Department of Agriculture. For more information regarding the California FMMO and applicable minimum class prices, please visit: <https://www.cafmmo.com/>*

It hit me; the end of the California state milk pricing order is almost here. November 1 is coming up fast. That is the date where responsibility for regulating the California milk pricing system transfers from the state to the federal government. There were a lot of positive things that were achieved under the regulation provided by the state. However, things change and as was the case years ago in other parts of the country that had state orders, our state's ability to regulate the dairy industry to the producers' satisfaction came to an end and federal regulation was chosen as the way forward for the industry.

There continues to be a lot of planning by the cooperatives, handlers and milk haulers to get ready for this transition. There are indications that those plans are firming up to a point where some preliminary projections on the impacts to California milk prices can be made and they look positive.

There will be some very practical differences to producers that emerge with the change in systems. A major one is that producers will be paid based on butterfat, protein and other solids instead of butterfat and solids nonfat

(SNF) as it is in the California state order. Also, the FMMO uses true protein as its measure of protein in your milk as opposed to crude protein. As a practical matter, true protein is about two-tenths of a point lower than the crude protein numbers you have probably been getting from your handler. For example, 3.2% crude protein will translate into about 3% true protein. Then, added to that in the pricing formula, is the value of other solids. Essentially SNF represents the adding together of the protein and other solids in milk. But where the California system prices all SNF pounds the same, in the FMMO, the protein pounds carry a much higher value than the other solids pounds.

For illustration purposes:

California standardized milk containing 8.7 pounds of SNF could be priced at \$0.59 per pound of SNF.

Standardized milk in the FMMO pricing system would include 2.9915 pounds of true protein priced at \$1.71 per pound and 5.7 pounds of other solids priced at \$0.08 per pound. Not only does this system yield more price per cwt. of standardized milk, but every tenth of a point of additional protein adds substantially more money (\$0.17 in this example) to the price than did an additional tenth of a point of SNF in the California system (\$0.06).

Another practical change in the FMMO system is the timing of milk checks. FMMO rules require producers be paid about one half of the month's milk value at the end of each month, and all of the remaining money due for the month must be paid by the 19<sup>th</sup> of the following month.

Currently, most California handlers pay an advance about the 1<sup>st</sup> of the following month for the first half of the previous month, then on the 15<sup>th</sup> of the following month, an advance for the 2<sup>nd</sup> half of the previous month and then a third final settlement check near the end of the following month. Under an FMMO you will get two checks not three. The second check will be on the 19<sup>th</sup> instead of the 15<sup>th</sup>, but it will be for the whole amount due for the previous month instead of an advance.

The location of where your milk gets delivered also plays a big role in how FMMO milk prices are paid out and we will get into that more as we get closer to November. But for now, it seems like everything is on track and the transition to the FMMO is proceeding as we would expect.

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## **Enrollment for Market Facilitation Program is now open; apply now for your \$0.12/cwt. payment**

*By Kevin Abernathy, MPC General Manager*

As Geoff Vanden Heuvel wrote in his analysis in the [August 31 edition](#) of the MPC Friday Report, USDA announced a \$0.12 per cwt. payment for dairy farmers to compensate for damages related to recent trade disputes.

The application period to apply for these funds is now open and we encourage producers to take advantage of this opportunity. The deadline to apply for these funds is January 15, 2019, with applications and more information available online at [www.Farmers.gov/MFP](http://www.Farmers.gov/MFP). The application can be completed at your local Farm Service Agency office or submitted electronically.

According to USDA, the \$0.12 per cwt. payment will be apply to 50% of your Margin Protection Program annual base production, which is the highest annual production for the calendar years 2011, 2012 or 2013.

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## **CDFA announces workshops to assist Dairy Digester Research and Development Program applicants**

Two public stakeholder workshops and one webinar are scheduled during this month to assist applicants to the Dairy Digester Research and Development Program (DDRDP). These workshops will introduce dairy producers, new project developers, and other interested parties to the DDRDP and assist in improving the competitiveness of applications by reviewing common errors and issues.

The California Department of Food and Agriculture (CDFA) was appropriated \$99 million dollars from the Greenhouse Gas Reduction Fund, authorized by the Budget Act of 2018, to provide financial assistance for early and extra methane emissions reductions from dairy and livestock operations by installing dairy digesters on dairy operations that capture methane.

“Ensuring that applicants to the DDRDP get the feedback they need to be competitive to receive funds is an outreach effort that is important to us,” said CDFA Secretary Karen Ross. “We hope stakeholders take advantage of these timely workshops as a benefit to all potential future applicants.”

The public workshops will be held on the following dates and at the following locations:

Date: Monday, September 17, 2018

Time: 1 to 3 p.m.

Location: Agricultural Commissioner/Sealer Auditorium , 4437 S. Laspina Street, Ste A, Tulare

Date: Tuesday, September 18, 2018

Time: 9 to 11:00 a.m.

Location: Stanislaus County Agricultural Commissioner’s Office, 3800 Cornucopia Way, HI Room, Modesto

Date: Wednesday, September 19, 2018

Time: 1 to 3 p.m.

Location: Webinar

To register, please click [here](#).

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## **CDFA awards \$21.6 million for Alternative Manure Management projects**

The California Department of Food and Agriculture (CDFA) has awarded \$21.6 million in grant funding to 40 alternative manure management projects across the state. These projects, part of the Alternative Manure Management Program, or AMMP, will reduce greenhouse gas emissions on California dairy farms and livestock operations by using manure management practices that are alternatives to dairy digesters (i.e. non-digester projects).

Financial assistance for the implementation of non-digester practices comes from California Climate Investments, a statewide initiative that uses Cap-and-Trade program funds to support the state’s climate goals. AMMP grant recipients will provide an estimated \$2.7 million in matching funds for the development of their projects.

Information about the 2018 Alternative Manure Management Program projects is available [here](#).

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