

MPC WEEKLY FRIDAY REPORT

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 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	+ \$.0525	\$1.5800	WEEKLY CHANGE	-.0450	\$2.2500	WEEK ENDING 02/09/19	
Barrels	+ \$.0625	\$1.4350	WEEKLY AVERAGE	-.0325	\$2.2525	NAT'L PLANTS	\$0.9811 16,069,102
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 02/02/19	
Blocks	+ \$.0865	\$1.5745	DAIRY MARKET NEWS	w/E 02/15/19	\$4350	NAT'L PLANTS	\$0.9766 22,023,670
Barrels	+ \$.0985	\$1.4240	NATIONAL PLANTS	w/E 02/09/19	\$4682		

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
FEB 15 ESTIMATE	\$16.90 - \$17.40	\$16.11	\$13.97	\$15.85
FEB 8 ESTIMATE	\$16.90 - \$17.40	\$16.12	\$13.98	\$15.93

JANUARY 2019 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

JAN '18 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT
MINIMUM CLASS PRICE	\$16.72 (TULARE) \$17.22 (L.A.)	\$15.74	\$13.96	\$15.48	\$14.59 (TULARE) \$15.09 (L.A.)	\$14.21 (TULARE) \$14.71 (L.A.)
PERCENT POOLED MILK	24%	5.3%	68.2%	2.6%	100% (2.019 BILLION LBS. POOLED)	



Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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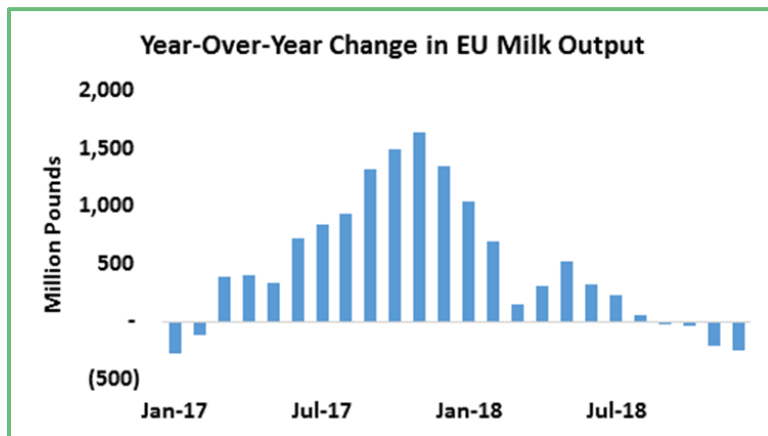
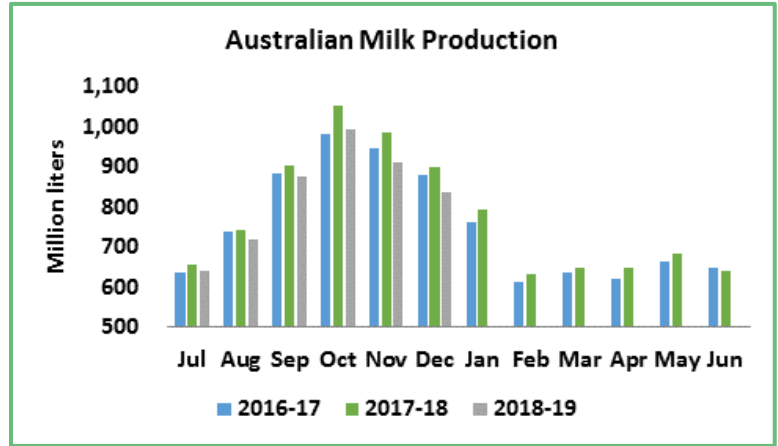
Milk & Dairy Markets

A brutal winter wind has blasted dairy producers and livestock from Sunnyside, Washington, to Syracuse, New York, and many farms in between. Washington's Yakima Valley suffered worst, with cows in open-lot dairies exposed to an unexpectedly heavy snowfall, gusting winds, and

extreme cold. Despite dairy producers' best efforts, death losses are climbing into the thousands. Cattle that did not succumb to the blizzard are now suffering in the thaw, mired in wet, muddy corrals. Aside from the tragic death loss, dairy producers must contend with the longer-term fallout of the powerful storm. They can expect poor conception rates and lower milk yields for months to come.

Although nowhere near as extreme as the situation in southern Washington, dairy producers across the northern U.S. have faced weeks of adverse weather in the form of frigid temperatures, powerful winds, and heavy snows. Power outages and intermittent trucking delays have been unusually frequent. In California, heavy rains have not improved cow comfort. It's difficult to quantify at this early stage, but milk production per cow is likely well below potential in nearly all the major dairy regions outside of the Southwest and Mountain States. Year-over-year growth in U.S. milk production has likely slowed to a crawl.

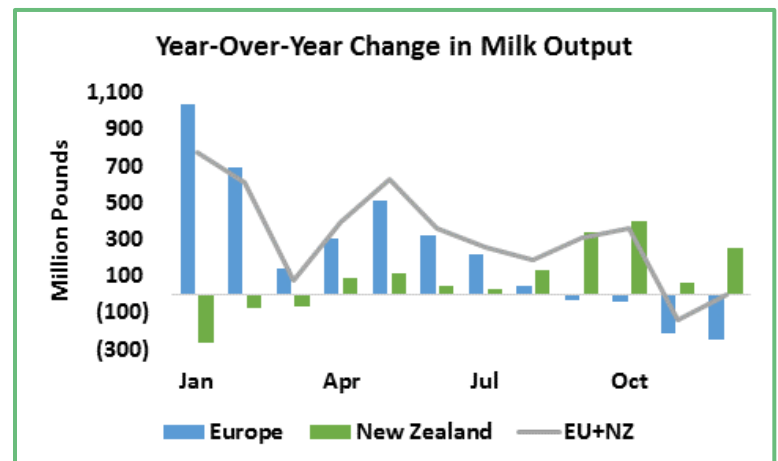
Overseas, milk output continues to struggle. Australian milk collections in December were 6.9% smaller than December 2017. That brings season-to-date milk output down 5.1%. June through December milk output Down Under hasn't been this low in at least 15 years. There is no end in sight to the crippling drought.

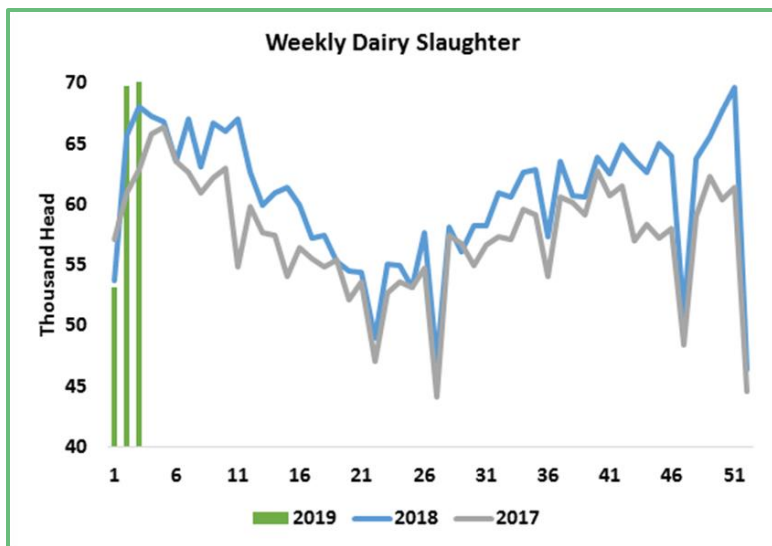


In Europe, preliminary data suggest that December milk collections fell 0.9% short of the prior year, following a 0.8% deficit in November. The December shortfall was large enough to offset nearly all of the substantial growth reported in New Zealand in December. Although the U.S. has yet to report December milk output, it is likely that combined production among the major players trailed 2017 output by a sizeable margin in both November and December. Meanwhile, demand continues to grow. It will take time to

work through the world's ample cheese stocks, but milk powder supplies are already waning, and prices have climbed accordingly.

Despite this notable shift in the global supply-demand balance, the markets are not signaling dairy producers to step up milk output. Prices remain inadequate. On-farm finances are strained, and lenders are losing patience. Slaughter volumes remain high. For the week ending January 19, dairy cow slaughter totaled 70,755 head, up 4% from the same week a year ago. That is the highest slaughter volume for this time of year in decades. After three weeks, dairy cow slaughter is 3.4% ahead of the

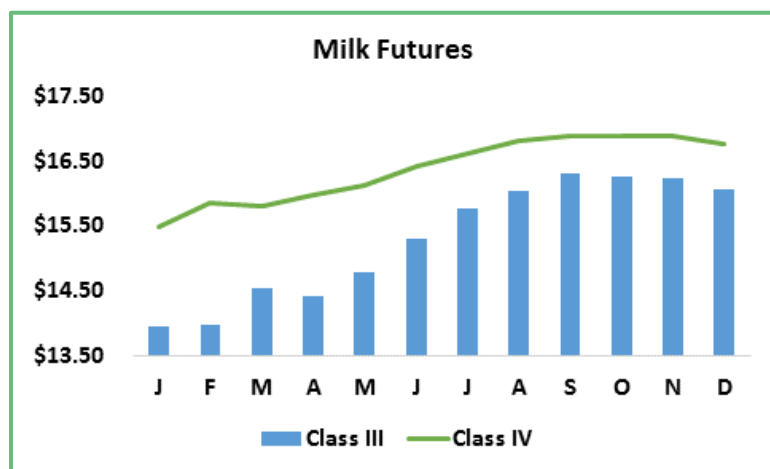




already brisk pace set in 2018. When milk prices climb, dairy producers will certainly welcome the larger milk checks, but they will not be well-positioned to add cows and boost production. This suggests that when better times finally arrive, they may stick around for a while.

The cheese markets rallied this week, but futures traders greeted the latest gain with skepticism. CME spot Cheddar blocks added another 5.25¢ and closed at \$1.58 per pound, a nearly four-month high. Barrels climbed 6.25¢ to \$1.435, a price not seen since mid-September. Fresh cheese seems to be less

available. Cheese demand was reportedly strong in the fourth quarter and through the end of football season, so manufacturers may need to restock. Months of cheap cheese likely boosted export sales, and merchants are staging product to meet those commitments. And more cheese is entering aging programs, further reducing the supply of blocks and barrels hitting the spot market. Still, there is cheese aplenty, and traders know it. Despite the strength in the spot trade, Class III futures retreated. April through September contracts posted double-digit losses, and the April through August futures logged new life-of-contract lows.



The other spot products retreated. Dry whey slipped 1.25¢ to 35.25¢. Spot nonfat dry milk (NDM) fell 0.75¢ to 98.75¢. Butter stepped

back to \$2.25, right in the middle of the recent trading range but down 4.5¢ from last Friday. Nearby Class IV contracts lost ground. They are decidedly the “higher of” market. February Class IV commands a \$1.88 premium to Class III. Dairy producers in areas with high Class I and Class IV utilization are likely to enjoy much better milk checks than their competitors in the cheese states throughout 2019.

Cream is cheap and buttermilk powder prices – which typically follow the NDM market – are high, offering better returns for butter makers. Churns are running hard. *Dairy Market News* reports that even in the Midwest, “Cream is readily available for butter churning, and butter producers are taking advantage of the quantities.” In the West, “Bulk butter is being intensively stored for use later in the year... Some of the processors have increased their production capacities and are manufacturing butter at a higher rate than last year.” Heavy butter production and rising inventories may keep the Class IV rally in check despite the revival in world milk powder prices.

Grain Markets

The grain markets continue to follow the headlines, moving higher when trade negotiators spout platitudes about progress on trade talks with China, and then lower when the details fail to live up to the hype. After much back-and-forth, March soybeans settled at \$9.075 per bushel, down 7¢ from last Friday. March soybeans climbed a half-cent to \$3.7475.

The soy complex remains burdened with oversupply, and it is likely to remain so unless farmers in the U.S. or South America begin to reduce acreage. That's not likely given the projected returns on corn and soybeans this year. Planting season is fast approaching. A wet fall and a cold, wet spring may further encourage a shift away from corn and into soybeans.

Dry weather in northern Brazil likely reduced this year's soybean crop, but losses there are more than offset by strong yields in Argentina. And regular rains have arrived just in time to improve conditions for Brazil's second corn crop.



A Few Thoughts on the Weather, Pricing and Trade

*By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs
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First, it's raining and the snow pack is growing in the mountains. The weather reports show that more water is on the way and in the Central Valley this is good news indeed. But in Southern California, where most every dairy is a dry lot operation, big rains are perceived entirely differently. Right now, it's wet in the corrals and everyone's tired – the dairymen, the workers and the cows. Dairying in wet conditions is no fun. But I have good news: Eventually it will stop raining. We are past the first of the year and the days are getting longer, so the corrals will dry faster. Pitchers and catchers are showing up for baseball spring training, so better days are not that far ahead. Just put one foot in front of the other and keep pushing forward and you will get through this. Years of experience have taught me that you don't so much solve problems, as you out last them.

Meanwhile, there is lots of stuff going on. We have a new governor in California and he certainly is hitting the ground running. In one speech this week he rewrote the High Speed Rail project (Bakersfield to Merced is what will be done). He downsized the Water Fix in the Delta from two tunnels to one and he replaced the chair of the State Water Resources Control Board. Both water supply and dairy's impact on water quality are issues that will increasingly affect dairy's ability to operate successfully in California. Early signals from Governor Newsom are that he understands that these are big issues and he is committed to finding solutions that work for agriculture and all those who depend on agriculture for their livelihood. It is very important for us to collectively seize the opportunity this attention to our needs by the new Governor presents, and put forward projects and programs that will enable us to be sustainable over the long term.

Part of what will make us sustainable is a better price for our milk. The implementation of the Federal Order in California means that from a regulatory standpoint we are now on a level playing field with producers in the rest of the country. Most California producers are enjoying higher milk prices because of the FMMO although there are still a few producers selling their milk to buyers who have been unwilling to pay a competitive price for milk since the FMMO started on November 1. It is important that producers pay close attention to how much they are being paid and be willing to take action if they are unhappy with the price their buyer is paying.

The other big impact on overall milk prices since May 31, 2018 has been the tariffs the President imposed on our trading partners, particularly Mexico and China. These tariffs provoked retaliatory tariffs against American exports, including dairy products, by Mexico and China which had a huge negative impact on the price of milk. Milk prices have not yet recovered from this blow.

One fact about these tariffs – that is not well known – is that to implement them, the President used authority granted to him by Section 232 of the Trade Expansion Act of 1962. This act grants the President the power to impose tariffs “in the interest of national security.” There is now a bi-partisan movement in Congress to clarify what types of tariffs can be imposed by using Section 232. There is a good white paper on this topic you can read [here](#). Another frustrating fact is that despite an agreement by the US, Mexico and Canada on a replacement for the NAFTA agreement, the President continues to enforce the steel tariffs on Mexico and so they continue to maintain their retaliatory tariffs on American goods. And to what end? *The Wall Street Journal* in an editorial this week pointed out that a grand total of 1,000 additional steel jobs were created between last March and November of 2018. Meanwhile, American manufacturers who buy steel, from Whirlpool to Caterpillar to Ford and General Motors have reported billions of dollars of losses attributable to tariff-induced higher steel prices. The Wall Street Journal asks how much are we willing to make America pay for another 1,000 steel jobs?

The American Dairy Coalition outlines the direct impacts to the dairy industry by the trade issues in an article titled “Unnecessary Trade War Risks Irreparably Damaging US Dairy” which you can read [here](#). The bottom line is that while there are a number of policy decisions by this President that have softened the most radical regulatory burden placed on agriculture by previous administrations, that should not prevent us from pointing out the magnitude of the damage being done to our industry by the continuing of the trade disputes. It is way past time to resolve these issues and resume normal trade relations with the rest of the world.

Certainly 2019 is shaping up to be a very interesting time in the life of the dairy industry and our nation and our world. “May you live in interesting times” is described as an old Chinese curse, but Psalm 23 in the Bible is always a great encouragement in times like these: May God grant us wisdom, patience and courage to face what is ahead and may He also give us hope and joy in what we do.

