



Milk Producers Council

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DATE: February 3, 2017
 TO: Directors & Members

PAGES: 4
 FROM: Kevin Abernathy, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

| | | | |
|---------|---|---------|----------|
| Blocks | + | \$.0525 | \$1.7400 |
| Barrels | + | \$.2600 | \$1.7075 |

Weekly Average, Cheddar Cheese

| | | | |
|---------|---|---------|----------|
| Blocks | + | \$.0950 | \$1.7475 |
| Barrels | + | \$.1250 | \$1.5920 |

CHICAGO AA BUTTER

| | | | |
|----------------|---|---------|----------|
| Weekly Change | - | \$.0625 | \$2.1575 |
| Weekly Average | | \$ N.C. | \$2.2075 |

DRY WHEY

| | | |
|-------------------|--------------|----------|
| Dairy Market News | w/e 02/3/17 | \$.4838 |
| National Plants | w/e 01/28/17 | \$.4593 |

NON-FAT DRY MILK

Week Ending 1/27 & 1/28

| | | |
|---------------|----------|------------|
| Calif. Plants | \$0.9975 | 6,023,728 |
| Nat'l Plants | \$1.0218 | 14,890,456 |

Prior Week Ending 1/20 & 1/21

| | | |
|---------------|----------|------------|
| Calif. Plants | \$1.0037 | 7,949,315 |
| Nat'l Plants | \$1.0285 | 18,513,110 |

FRED DOUMA'S PRICE PROJECTIONS...

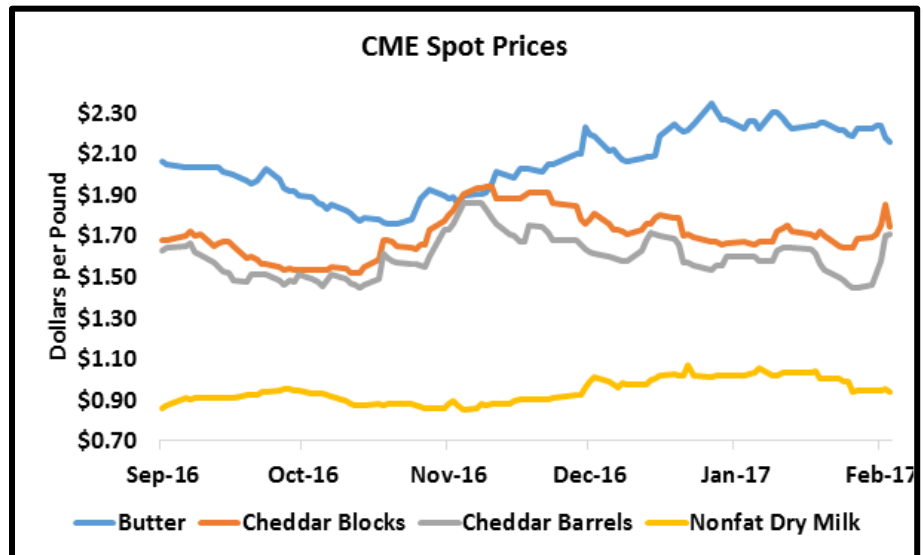
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|-----------------------|---------------------------|------------------------------|-----------------------------|-----------------------------|
| Feb 3 Est: | Quota cwt. \$17.63 | Overbase cwt. \$15.94 | Cls. 4a cwt. \$15.33 | Cls. 4b cwt. \$16.78 |
| Jan '17 Final: | Quota cwt. \$17.34 | Overbase cwt. \$15.64 | Cls. 4a cwt. \$15.69 | Cls. 4b cwt. \$15.99 |

MARKET COMMENTARY

By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

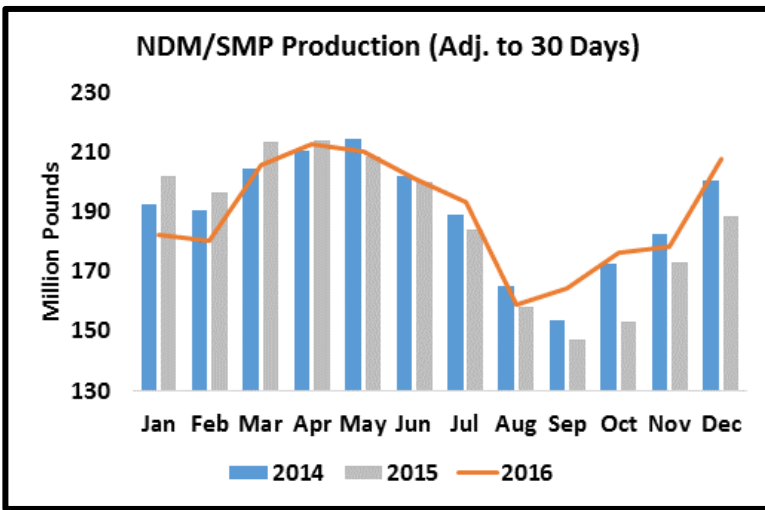
Milk & Dairy Markets

If the CME spot market was a track meet, Cheddar barrels would compete in the triple jump. On Tuesday, barrels bounced 5.75¢. They jumped 6¢ further on Wednesday and on Thursday they leapt 12¢. Book-ended with smaller rallies on Monday and Friday, the spot barrel market gained 26¢ and finished at \$1.7075/lb. With that, the once vast block-barrel spread narrowed to 3.25¢, well within the historic range. The block market echoed barrels' strength on Thursday, soaring to \$1.85, a high not seen since Thanksgiving. But on Friday blocks flopped, dropping back to \$1.74. Still, they finished 5.25¢ higher this week. Class III futures finished mixed but mostly higher. Fourth quarter contracts gained more than 80¢ on average.



U.S. cheese production reached 1.05 billion pounds in December. That is 1.3% higher than output in December 2015, a smaller-than-expected increase given 2.2% year-over-year growth in milk production. Daily average cheese output in December was 0.3% smaller than in November. Cheddar cheese output was up 3.5% from a year ago, which may help to explain the weakness in the barrel market in January.

Manufacturers continue to favor whey protein isolate (WPI) over other whey products. Production of WPI reached 11 million pounds in December, up 25% from a year ago. Output of dry whey for human consumption totaled 78.1

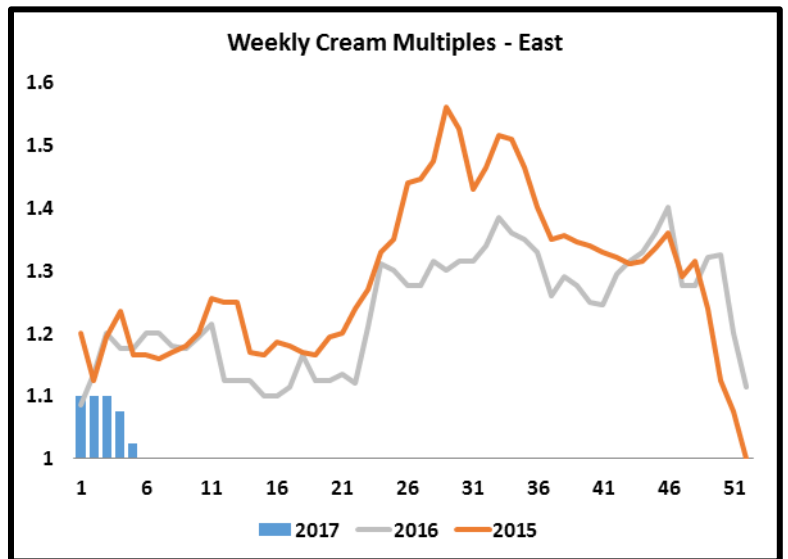


million pounds, down 13.3% from a year ago. Whey protein concentrate (WPC) production slipped to 36.9 million pounds, down 12.8%. The whey product market continues to strengthen, but WPC prices could eventually come under pressure as nonfat dry milk (NDM) offers a cheaper source of protein.

Excess milk made its way to driers in December. Combined output of NDM and skim milk powder (SMP) climbed to 207.7 million pounds, the highest volume since May, at the height of the spring flush. Manufacturers' stocks of NDM reached 228.4 million pounds, up 6% from November and 11.8%

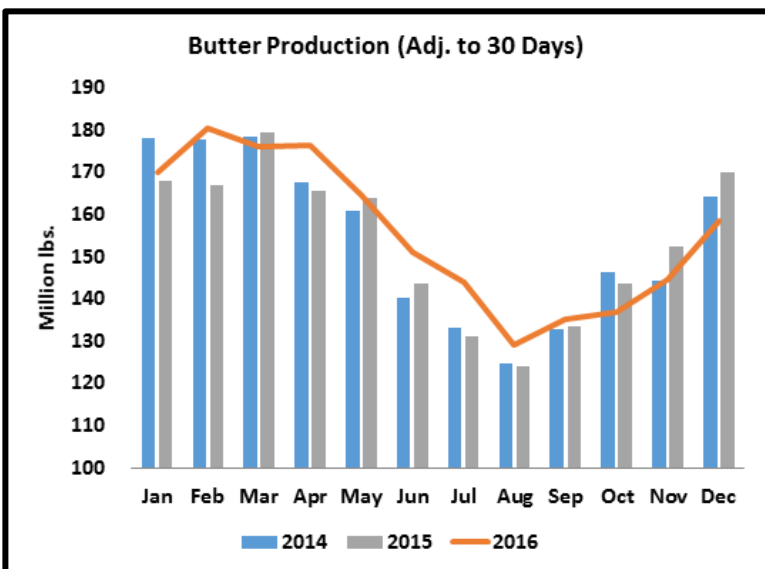
greater than year-ago levels. The milk powder market has been crippled by uncertainty. The Trump Administration's trade threats might be empty rhetoric, but end users in Mexico are likely taking no chances. Why contract to buy U.S. powder without knowing the tariff ramifications? There is plenty of product to be had in Europe. CME spot NDM slipped 0.75¢ this week to 94¢. The futures were less resilient; they lost quite a bit of ground both Thursday and Friday. Class IV futures suffered losses ranging from 35 to 80¢.

CME spot butter dropped 6.25¢ this week to \$2.1575. Processors have wrapped up production of dips and spreads for the Super Bowl, and cream supplies are becoming burdensome. In the East and Central regions, cream multiples stand at more than one-year lows, at levels that are not often seen except when holiday downtimes slacken demand.



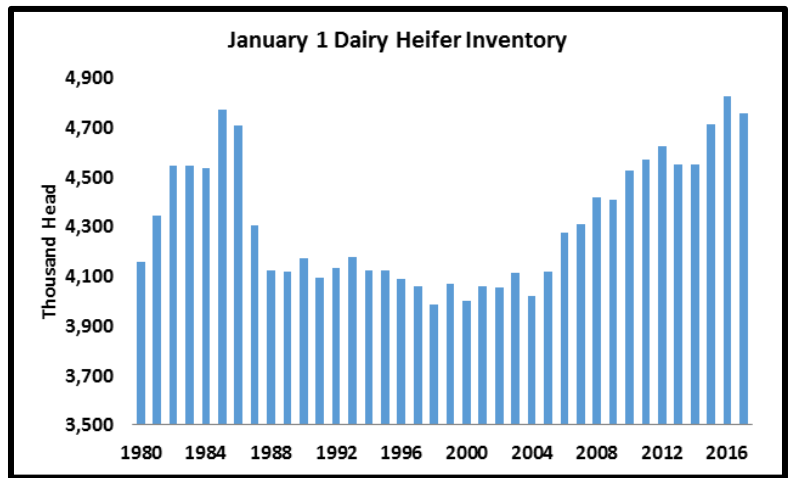
USDA's Dairy Products report buffeted the butter market with another bearish blow. Butter output totaled 164 million pounds in December, down 6.7% from a year ago. For months, the trade has presumed that the appetite for butterfat of all varieties is nearly insatiable. But in December butter stockpiles climbed while production waned, shattering assumptions about demand.

From California to Idaho, cows are distressed in the cold and the wet. But nearly everywhere else, winter has been relatively mild. Milk output is climbing in the Southwest, the Midwest, and the Northeast, and the spring flush is fast approaching. Given the size of the herd – USDA reported 9.35 million milk cows and 4.75 million dairy heifers on January 1 – milk output could once again overwhelm processing capacity in some regions.



The *Daily Dairy Report* opines, "Given lower beef values and the large dairy herd, heifer supplies are likely to grow. Unless cull rates increase enough to offset the expanding pool of replacements, the dairy herd is poised to experience significant and

sustained growth. Without a commensurate increase in global demand or offsetting contraction in milk output abroad – or some combination of both – the expansion is likely to pressure dairy product prices.” In Europe, milk output is contracting, but expected to stabilize. Will the recovery in dairy product prices prompt a resurgence in milk output later this year? Even if European dairy producers do not step on the gas, the dairy herd and its milk production potential are considerably larger than they were a couple years ago. Much depends on continued growth in global demand for dairy.



For the week ending January 21, dairy cow slaughter totaled 62,881 head, up 1.1% from the same week a year ago. This brings year-to-date slaughter down 7.8% from the first three weeks of 2016, after a slow start to the year.

Grain Markets

The corn market posted a modest gain this week. March corn futures settled at \$3.6525, up 2.75¢ from last Friday. Soybean futures plunged on Monday, clawed their way back through midweek and then retreated Friday. The March contract finished at \$10.27, down 22.25¢ for the week.

The grain and soybean trade is caught between opposing forces. South American weather has improved, easing concerns about production prospects there. It is possible, perhaps even likely, that bumper U.S. crops will be followed by a large South American harvest. Stockpiles are expected to grow. On the other hand, demand continues to climb, particularly for oilseeds. Meanwhile, global inflation is certainly not running hot, but it is heating up. Large investment firms are pushing their trading desks to buy raw materials, including agricultural commodities. Technical signals and macro trends can overwhelm the fundamentals in individual markets for a time. Until the tension between big crops and big money is resolved, expect choppy waters in the agricultural complex.

METHANE REDUCTION LAW MEANS DAIRIES SHOULD PLAN, NOT PANIC

By Kevin Abernathy, MPC General Manager

Sacramento’s latest effort to increase environmental regulations for dairies has gotten a lot of headlines, and deservedly so. Senate Bill 1383 (Lara), signed into law in September 2016, calls for sharp cuts in “short-lived climate pollutants” such as methane, fluorinated gases, and black carbon by 2030. For dairies, the law calls for a 40 percent reduction in manure methane emissions from 2013 levels by 2030, the first such controls for dairies in the world.

This should be cause for concern – but not for panic. First, dairy owners should know that no immediate action is required. Though the new law calls for regulation to reduce methane from dairies, it also prevents such a regulation from going into effect before 2024. The best advice for now is to take a breath, think and plan.

A second important thing to know is that MPC and its allies in the dairy community are working hard to ensure adequate funding and economic incentives are made available for the voluntary construction of dairy digesters and other methane-reducing projects, such as mechanical solids separators. We are supporting research efforts to identify a range of tools for producers to choose from.

Research and advocacy to support funding can help our industry go a long way toward meeting SB 1383 goals through voluntary, incentive-based measures. Examples of strategies MPC supports include building “hub-and-

spoke” digester projects – where gas from multiple dairies is collected via low-pressure pipelines to a central location for use as a renewable vehicle fuel. If enough projects like this are built on a voluntary basis, with funding incentives, it will create economic benefits for participating dairies while greatly reducing the burden to reduce methane for everyone else. That will mean less of a need to achieve the SB 1383 targets through regulation, and may mean less pressure on remaining dairies, especially smaller dairies, for whom building a digester may not be economically viable.

Some dairy owners are no doubt asking themselves if they should be rushing out to build a digester, or have a meeting with digester developers or other technology companies. We recommend proceeding with caution. A good rule of thumb is that if you have been thinking about building a digester for a while and have already been engaged in detailed discussions with one or more project developers, now may be a great time to apply for funding and proceed forward with a project. But if you haven’t spent much time learning about this option, there is no need to panic and rush to build a project.

Another key thing to remember: Major changes to manure management on your farm should be carefully thought through, with many factors considered. Digesters are a good fit for some, but not all, dairies. For example, if you are facing a significant nitrogen imbalance on your farm, you may want to consider other options. At MPC, we are here to help by connecting you to information and other resources. So again, don’t panic. You have time. Use that time to your advantage, to do your homework and make the long-term decision that works best for you and your family farm.

TRUMP TRANSITION DELAYS RELEASE OF THE CALIFORNIA FEDERAL ORDER

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

Various sources are reporting that USDA officials signed off on a completed preliminary decision for the California FMMO sometime before the inauguration of the new President on January 20. They then submitted it to the Federal Register for publication. The Federal Register is the publication through which the federal government makes official communications.

But for reasons that are yet unclear, the decision was not published before the January 20 inauguration and has subsequently been pulled back by USDA. Sources say that USDA is awaiting the confirmation of a new Secretary before resubmitting the decision for publication. Sonny Perdue, the former governor of Georgia, has been appointed as the new Agriculture Secretary and the Senate Agriculture Committee is reported to be taking up his confirmation process later this month.

There are conflicting reports about the potential impact on this decision by certain regulatory reduction policies put forward by President Trump. It is not clear what the exact process is going forward, but Congressmen Nunes and Valadao have both been contacted for their assistance in making clear to USDA and the new Secretary how important this decision is to California producers.

THE MPC BOARD OF DIRECTORS AND STAFF EXTEND THEIR CONDOLENCES TO THE DEBOER, VISSER AND LOCKE FAMILIES ON THE RECENT PASSING OF JENNIE DE BOER.

Mrs. DeBoer was much loved and was a leader and mentor to many dairy families. She advocated on behalf of dairy families in Southern California long before the term “Ag-vocate” came into existence. She is survived by her husband Feike and their children Grace (John) Visser, Evie (Ron) Locke, Willem (Anneke) DeBoer, and George (Jenn) DeBoer as well as 17 grandchildren, and 6 great-grandchildren.

Funeral Services will be February 4, 2017 at 10:30 a.m. at the Tulare Community Church in Tulare, California. A full obituary is available [here](#).