



Milk Producers Council

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DATE: June 17, 2016
 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0400 \$1.5150
 Barrels +\$.0350 \$1.5450

Weekly Average, Cheddar Cheese

Blocks +\$.0605 \$1.5260
 Barrels +\$.0480 \$1.5450

CHICAGO AA BUTTER

Weekly Change +\$.1675 \$2.3675
 Weekly Average +\$.1360 \$2.3105

DRY WHEY

Dairy Market News w/e 06/17/16 \$2.388
 National Plants w/e 06/11/16 \$2.251

NON-FAT DRY MILK

Week Ending 6/10 & 6/11

Calif. Plants \$0.7721 8,284,927
 Nat'l Plants \$0.7892 16,185,225

Prior Week Ending 6/3 & 6/4

Calif. Plants \$0.7468 18,918,883
 Nat'l Plants \$0.7669 25,990,873

FRED DOUMA'S PRICE PROJECTIONS...

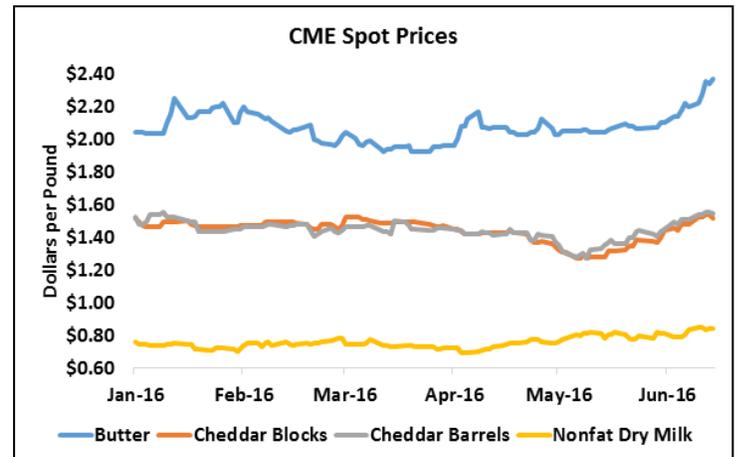
June 17 Est: Quota cwt. \$14.48 Overbase cwt. \$12.79 Cls. 4a cwt. \$13.46 Cls. 4b cwt. \$12.90
 Last Week: Quota cwt. \$14.29 Overbase cwt. \$12.59 Cls. 4a cwt. \$13.16 Cls. 4b cwt. \$12.68

**** Due to a scheduling conflict, Sarina Sharp is unfortunately unable to write her market commentary this week. Our appreciation to Mary Ledman for filling in. Sarina's commentary will return next week.**

MARKET COMMENTARY: (By Mary Ledman, Daily Dairy Report, mary@dailydairyreport.com)

Milk & Dairy Markets

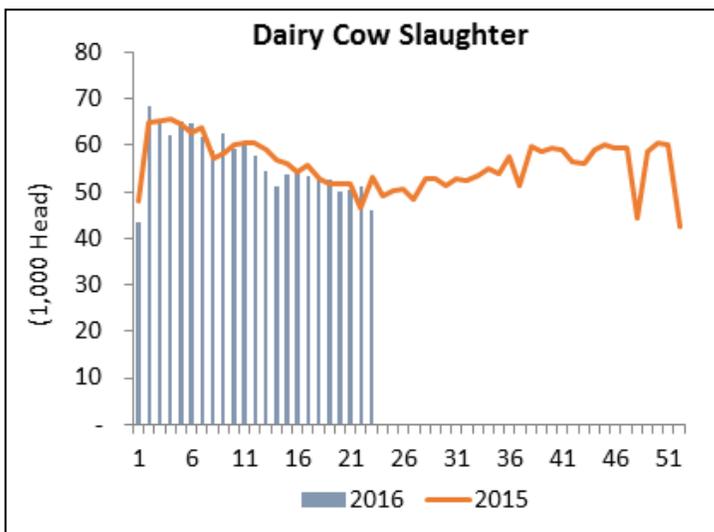
CME spot dairy product prices posted gains over last week's averages, while CME cheese and nonfat dry milk (NDM) lost some momentum from earlier in the week. In contrast, CME spot butter moved higher throughout the week to settle at \$2.3675/lb. on Friday, 16.75¢ higher than the previous Friday. CME spot barrel and block Cheddar cheese prices peaked on Wednesday at \$1.555/lb. and \$1.54, respectively, then subsided as the week came to a close. Barrel cheese prices remain at a premium to blocks. Barrels finished the week at \$1.545, up 3.5¢ from last Friday. Blocks closed the week at \$1.515, climbing 4¢ from the prior week's ending price. Spot nonfat dry milk traded at 85¢ early in the week but fell to 83¢ on Wednesday before moving higher in Thursday's and Friday's trading sessions. CME NDM settled at 84.25¢ on Friday, up 1.25¢ from the prior week. Weekly futures trading volume soared. Class III futures and options volume totaled 16,960 contracts followed by Cheese futures and options totaling 4,623 contracts for the week.



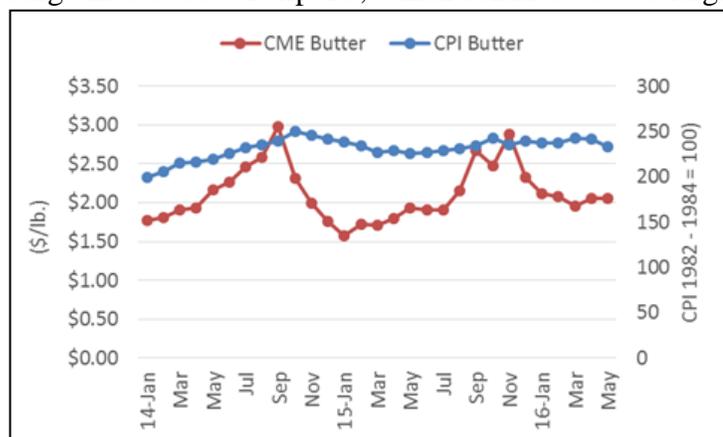
The recent recovery in milk and dairy product futures prices provides dairy producers an opportunity to secure more favorable margins than in several months. Despite poor profit margins through first-half 2016, dairy producers have "produced" their way through the dismal economic situation. Though the week ending June 3, year-to-date dairy cow slaughter totals 1.3 million head, down 21,100 head (or 1.6%) compared to last year. The current upsurge in milk prices is likely to stem many happy cows' career change to happy meals.

Warmer temperatures in the West are tempering milk production, especially in Arizona, where processors are receiving out-of-state milk to supplement the local supply. California milk production is trending seasonally lower. *Dairy Market News* (DMN) reports that fluid milk demand is steady as several school districts implement summer meal programs. Greater demand from ice cream and frozen dessert facilities is picking up any slack in the milk supply.

Milk production is past its seasonal peak, but output remains strong in the Central region. As schools close for summer break, fluid plants are diverting milk supplies to manufacturing plants. DMN reports that discounts on spot milk ranged from \$1.00 to \$3.50 under class prices this week. Warmer temperatures and higher humidity across much of the Central region are expected to reduce milk output and the availability of discounted milk in the near future. Cream demand is increasing seasonally. DMN indicates that cream multiples range from 1.18 to 1.28 this week. The market is firming but remains below historical averages.



Stable retail butter prices are contributing to robust year-over-year (YOY) butter demand, according to the *Daily Dairy Report*. This new age of butter prices in excess of \$2/lb. began in 2014. Low butter prices in 2013 led to a surge in U.S. butter exports, which contributed to a large drawdown in year-end stocks, setting the stage for \$2.00 butter in 2014. The January 2014 CME spot butter price averaged \$1.78/lb. and peaked at a record-high \$2.97 in September, up 67% from the previous record high. In contrast, the Consumer Price Index (CPI) increased just 25%. Granted, as the CME spot butter price continues to ebb and flow, the butter CPI hit a low of 226 in May 2015 and has yet to match October 2014's peak of 250. According to USDA's National Retail Dairy Report, retail butter prices averaged \$3.33/lb. during the second week of June, up just 2 cents from last year.



Stable prices have contributed to growing year-over-year commercial disappearance of butter. In 2014, domestic butter demand increased 1.2% to 1.734 billion pounds, followed by a 3% gain in 2015. Through April 2016, domestic butter demand is up 7.8%, or 41 million pounds. Fortunately, butter production and stocks are also higher. Through April 2016, U.S. butter production of 703 million pounds was 6%, or 40 million pounds, above last year's level. Month-ending April butter stocks of 298 million pounds were up nearly 66 million pounds from last year and the second highest April butter stock level posted during the past decade.

Despite what would appear to be a positive butter supply situation, CME spot and futures butter prices have moved more than 30 cents higher since early June. It is likely that some of the recent gains in butter futures prices were driven by traders covering their short positions rather than supply-and-demand fundamentals. Nevertheless, higher butterfat prices are welcomed and will buoy producers' milk checks in upcoming months.

Grain Markets

USDA's latest Crop Progress report for the week ending Jun. 12 indicates that 75% of the corn crop is in good to excellent condition. This is just slightly above last year's 73% rating. The current soybean crop is even better than last year. Seventy-four percent of the crop is in good to excellent condition compared with just 66% last year. However, this week's rains missed some key corn-producing acres south of I-80 from Illinois to Nebraska, but the rains that fell across the northern plains provided relief to dry areas there.

Grain and oilseed prices surged on Friday after an early week respite. July corn futures settled 12.5¢ higher at \$4.3775/bu., while July soybeans jumped 25¢ to \$11.595. Soybean meal futures also moved higher to \$407.50/ton, up \$9.70 on the day. Extreme heat across the southern U.S. plains is the primary culprit sending prices higher in these weather-sensitive markets.

AG OVERTIME BILL RESURRECTED IN SACRAMENTO: *(By Rob Vandenheuvel)* Two weeks ago, when we reported that the “Ag Overtime Bill” had failed in the California Assembly, we noted that, “*this will certainly not be the last we hear on this issue.*” At the time of writing that article, however, I had foolishly hoped that it would at least be the last we hear on the issue during the current 2016 Legislative Session. No such luck.

In a process known as “gut-and-amend,” the sponsor of the original bill – Assemblywoman Lorena Gonzalez (D-San Diego) – was able to take another bill she sponsored that *did* get approved by the Assembly by the June 3rd deadline (AB 1066), gut the original language (which addressed unrelated education issues) and insert the “Ag Overtime” bill language in its place. The bill will now move through the Senate process of committee consideration and will likely be ultimately voted on by the full Senate in the coming weeks or months.

So what does this mean? **For starters, it means the issue is still one that we as an industry must be actively engaged in over the coming months.** As a reminder, this bill would eliminate the current overtime rules specifically designed to address the unique aspects of agricultural jobs (*overtime paid after 10 hours per day or 60 hours per week*), and instead require overtime wages for work above 8 hours per day or 40 hours per week. Combined with the increase in the minimum wage to \$15 in a few short years, this would undoubtedly result in yet another significant burden for California dairy families and less overall wages for our workers as hours would be cut to avoid overtime.

This also means that you will be asked in the near future by MPC and others in the industry to make calls and send emails into your State Senators’ offices to urge opposition to AB 1066.

It is worth noting that this does not change the fact that the Ag Overtime Bill (originally AB 2575) failed in the Assembly. Even if AB 1066 with the new Ag Overtime language were to be approved in the State Senate (something we as an industry must work hard to avoid), it would still have to go back to the Assembly for approval, where the original vote fell 3 short of approval. Stay tuned, as a lot can happen between now and the end of the Legislative Session on August 31st.

CMAB DISTRICT MEETINGS IN THE CENTRAL VALLEY NEXT WEEK: *(By Rob Vandenheuvel)* The California Milk Advisory Board (CMAB) is currently hosting its spring district meetings around the state, including 3 in the Central Valley (*Visalia, Fresno and Bakersfield*) next week.

(Meetings include a 6 pm social hour and 7 pm dinner)

- **Tuesday, June 21st:** District 9 – Café 225, 225 W Main Street, Visalia
- **Wednesday, June 22nd:** District 8 – The Elbow Room, 731 W San Jose Ave, Fresno (Fig Garden Village)
- **Thursday, June 23rd:** District 10 – Benji’s Restaurant, 4001 Rosedale, Bakersfield

To be clear, these are CMAB’s district meetings, which they hold in addition to their annual meetings in the fall – which many of you have likely attended in the past. These district meetings may be smaller in nature, but are a great opportunity to hear how your checkoff dollars are being directed by the CMAB Board. Producers interested in attending should contact Kris Costa (kcosta@cmab.net) to reserve a spot at one of the meetings/dinners.