



Milk Producers Council

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DATE: August 19, 2016
 TO: Directors & Members

PAGES: 8
 FROM: Rob Vandenhoevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0850	\$1.8650
Barrels	N/C	\$1.8650

Weekly Average, Cheddar Cheese

Blocks	+\$0.0260	\$1.8220
Barrels	-\$0.0120	\$1.8650

CHICAGO AA BUTTER

Weekly Change	-\$0.0600	\$2.1900
Weekly Average	-\$0.0265	\$2.2165

DRY WHEY

Dairy Market News	w/e 08/19/16	\$3.000
National Plants	w/e 08/13/16	\$2.827

NON-FAT DRY MILK

Week Ending 8/12 & 8/13

Calif. Plants	\$0.8525	6,993,875
Nat'l Plants	\$0.8534	14,061,138

Prior Week Ending 8/5 & 8/6

Calif. Plants	\$0.7995	5,768,245
Nat'l Plants	\$0.8487	14,061,138

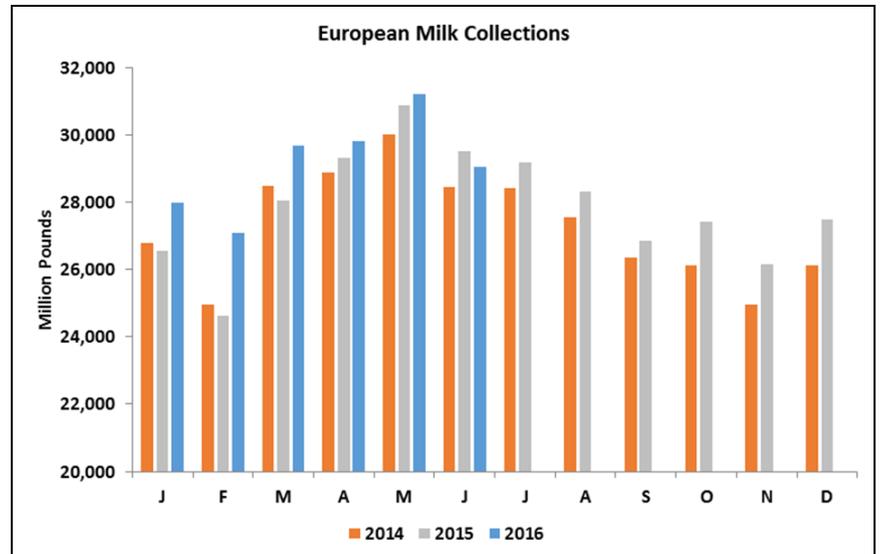
FRED DOUMA'S PRICE PROJECTIONS...

Aug 19 Est:	Quota cwt. \$16.69	Overbase cwt. \$15.00	Cls. 4a cwt. \$13.95	Cls. 4b cwt. \$16.44
Last Week:	Quota cwt. \$16.55	Overbase cwt. \$14.85	Cls. 4a cwt. \$13.83	Cls. 4b cwt. \$16.20

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

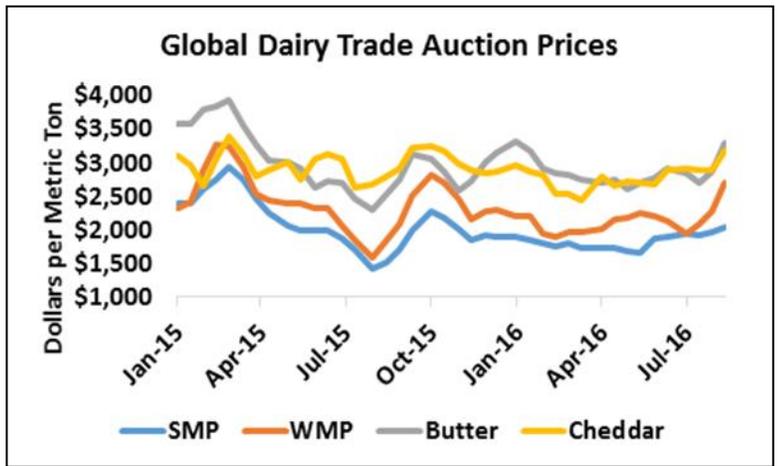
Milk & Dairy Markets

After months of despair, dairy producers are daring to hope again. Demand is solid, and supply is waning. In May, combined output from the six largest dairy exporters dropped below year-ago levels for the first time since March 2015. In June, European milk collections fell 1.6% short of last year's volumes, the first year-over-year deficit since March 2015. Aside from early 2015, when European dairy producers were slamming on the brakes in the final days of quota super-levees, milk output in the Eurozone had not slipped below prior-year volumes since June 2013.



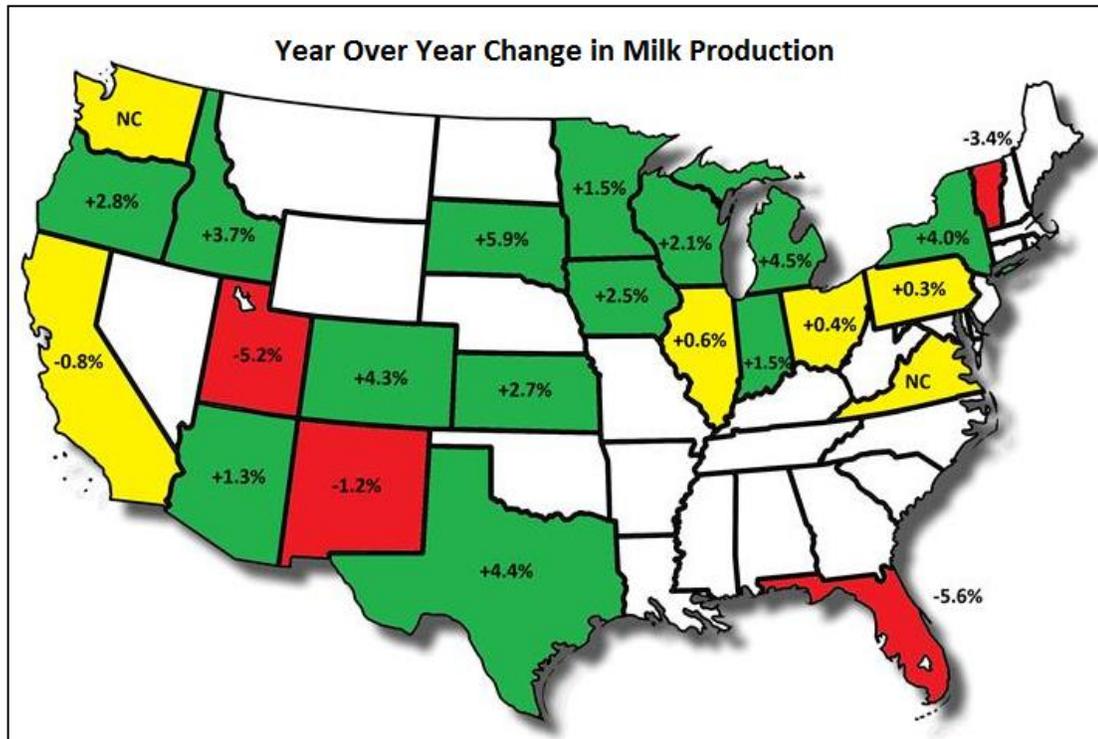
In New Zealand, June output was on par with last year, but producers are starting the new season on the defensive, with more debt, fewer cows, and precious little water in irrigation reserves. With the potential for lower milk production, Fonterra reduced the volume of whole milk powder (WMP) it would offer at Global Dairy Trade (GDT) auctions throughout the 2016-17 season. With that, WMP prices at Tuesday's GDT jumped an astounding 18.9%. All other products moved higher as well, including a 14.1% increase in butter and 8.9% appreciation in Cheddar prices. Skim milk powder (SMP) rallied 3% to the equivalent of 98¢/lb., a significant premium to CME spot nonfat dry milk (NDM), which closed today at 85.75¢, up 2.5¢ for the week. The GDT index climbed 12.7% from the previous auction.

The United States is likely to be the only major dairy nation to continue growing in the second half of this year, and output is not likely to fully compensate for shortfalls elsewhere. In July, U.S. milk production totaled 17.92 billion pounds, up 1.4% from last July. USDA stepped up its estimate of the June dairy herd by 2,000 head, and reported an additional 2,000-cow increase in July. At 9.332 million head, the national dairy herd is 18,000 head larger than it was in July 2015, surpassing every month since December 2008.



Surprisingly, despite unusually high temperatures in many key dairy states, improved production per cow drove the bulk of the year-over-year increase in U.S. milk output. This suggests that USDA may be undercounting cows in the Midwest and Northeast, where cows are

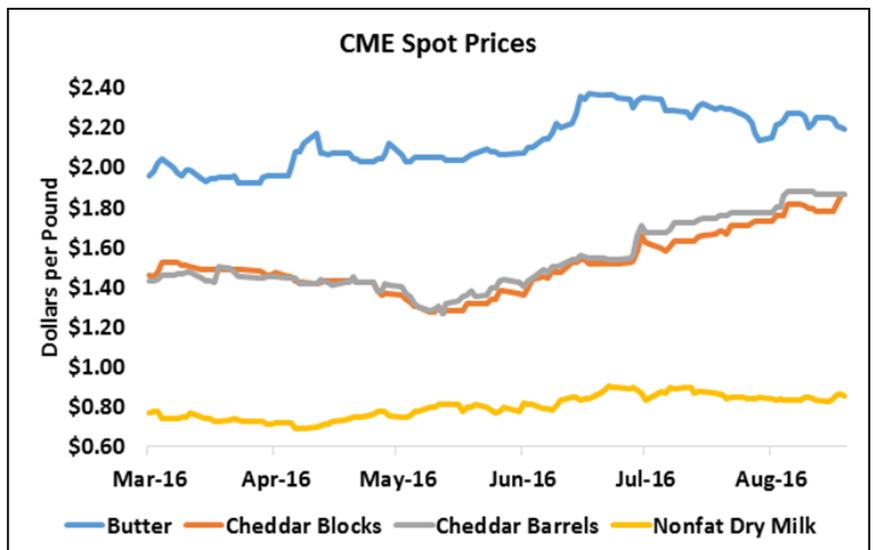
far from poorer in this year's heat than they did last year when July was unseasonably cool. If the herd is even larger than USDA reports, U.S. milk production could remain stubbornly high, especially once fall temperatures – and perhaps larger milk checks – arrive.



There are 10,000 fewer cows in California than there were last year. Golden State milk production dropped 0.8%, the smallest in a 19-month string of year-over-year shortfalls.

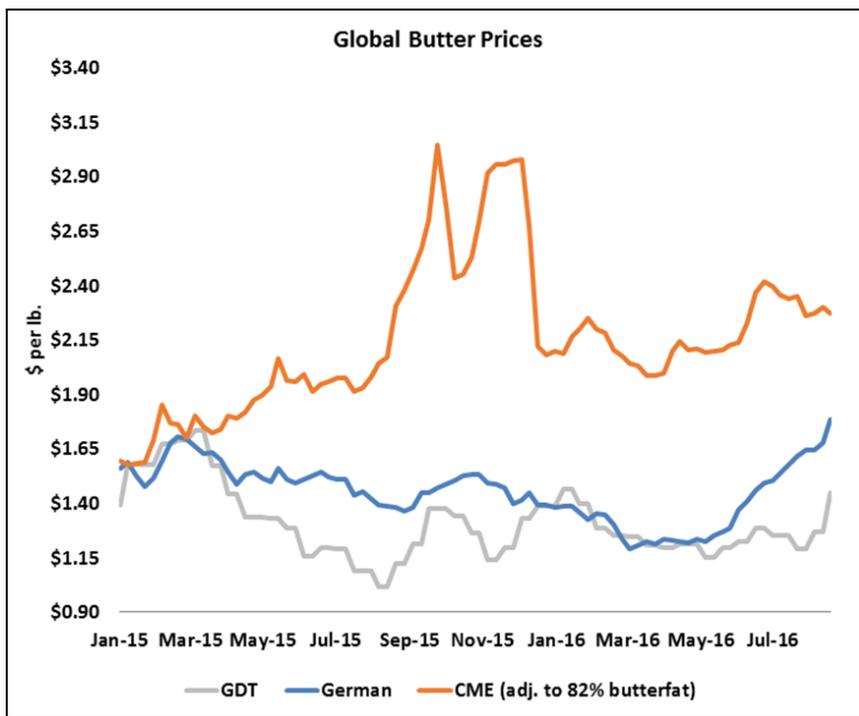
Record-breaking heat pushed output down 5.6% in Florida and 1.2% in New Mexico. Elevated temperatures and a diminished herd also suppressed output in Utah (-5.6%) and Vermont (-3.4%). Once again South Dakota (+5.9%) and Michigan (+4.5%) reported the largest growth in milk production, with Texas (+4.4%) and Colorado (+4.3%) not far behind.

As the heat continues to take its toll on milk output, and as school milk programs ramp up, there is less milk available for cheese vats. With a boost in sentiment from buoyant overseas markets, the CME spot cheese market furthered its climb. Blocks jumped 8.5¢ to \$1.865/lb., pulling even with barrels to the highest block price since November 2014. Dry whey futures



maintained their steady upward trek. Class III futures soared to new heights. The September contract closed Friday at \$17.88, up 78¢. The October contract rallied 81¢ this week.

Meanwhile, Class IV futures retreated. The September contract finished at \$15.04, down 39¢ this week. CME spot butter dropped 6¢ to \$2.19. The U.S. butter market is ebbing as all other dairy markets – including foreign butter prices – advance. School milk programs are pulling milk away from other processors, but there is plenty of cream left over. Cream multiples have climbed, but they remain historically low given the season, and ice cream makers will soon slow output. Stocks are ample, and end users have already secured much of their needs. The U.S. butter market is simply too lofty to drift upward on a draft from overseas.



Under normal circumstances, U.S. milk powder prices would be most sensitive to movements in foreign markets. But the recent recovery has attracted competition from European manufacturers who were previously selling their product into the government’s Intervention purchase program. The government may be looking to sell some of its massive stockpiles if prices climb much higher. Thus, the Intervention floor price has become a ceiling. As the *Daily Dairy Report* noted yesterday, “Until the gap between U.S. and foreign butter prices narrows and European SMP volumes erode, the global dairy recovery could have a limited impact on Class IV pricing.”

For the week ending August 6, dairy cow slaughter totaled 52,248 head, down 0.4% from the same week a year ago. This puts year-to-date culling 1.6% behind last year’s pace.

Grain Markets

Corn futures have settled higher in each of the six sessions since USDA released its record-shattering corn yield estimate. September corn futures finished today at \$3.3425 per bushel, up 12¢ for the week. The market clearly doubts whether the corn crop will average 175.1 bushels per acre, as USDA forecasts. Traders are passing around pictures of corn ears with kernels stopping well short of the tip, and they are reminding one another that corn yields have never impressed after a hot July.

On the other hand, imperfect kernel fill could be due to higher plant populations per acre, which would not necessitate lower grain yields. And the trade has plenty of room to quibble over a few bushels; the corn crop is still massive. Furthermore, preliminary data from the Farm Service Agency suggests that corn and soy acreage might be higher than previously reported, which could make for a harvest nearly as large as projected even if yields disappoint.

Soybean futures rallied early this week and then faded. The September contract settled at \$10.27, up 28¢. The crop is faring well, with regular rains and cooler temperatures expected next week. Exports continue to leave our shores at a heady pace. The soybean market will remain volatile, as it seeks to balance a sizeable crop and immense demand.

CALIFORNIA STATE SENATE POISED TO VOTE ON “AG OVERTIME BILL”: *(By Rob Vandenheuvel)* With less than two weeks remaining in the 2016 California Legislative Session, Sacramento Legislators are scrambling to pass the massive multitude of bills they’ve been working on this year. The “Ag Overtime Bill,” previously rejected by the California Assembly earlier this year, but brought back to life in the State Senate through a “Gut-and-Amend” process, is one of those bills. The Senate is expected to vote on the bill as early as Monday.

We’ve written about this troubling legislation before (you can check out our May 27th issue leading up to the Assembly vote: <http://www.milkproducerscouncil.org/updates/052716.pdf>), so there’s no need to rehash all of the issues, but the short version is that the bill would eliminate ag-specific provisions related to overtime wages, and would requires overtime for work above 8 hours per day and 40 hours per week (currently 10 hours/day and 60 hours/week for California ag employees).

The author – Assemblywoman Lorena Gonzalez (D-San Diego) has offered some minor amendments (a short term delayed implementation for small employers), but the policy continues to represent a significant threat (especially when combined with the increasing minimum wage to \$15/hour) to an industry incapable of simply passing these additional costs on to the buyer of their milk.

Many of you made calls or sent emails to your Assemblymember back in May leading up to the first vote on this issue. Those calls/emails made a huge impact. **For those of you able to make calls or send emails to your State Senator in advance of this vote (as early as Monday), I would strongly encourage you to do so.** If you’re not sure who your State Senator is, you can go on the California Legislature’s website at: <http://findyourrep.legislature.ca.gov/>. You can also shoot me an email at rob@milkproducers.org or call (909) 628-6018 and I can help you out.

Finally, an outstanding animated video was posted on YouTube by the California Cut Flower Commission, laying out the common sense arguments against this bill (AB 1066). Early in the video you’ll notice the irony that is rarely pointed out by our elected officials: that Sacramento’s own Legislators have an exceptions when it comes to overtime for their own staff! **Check out the video at: https://youtu.be/vpxQ_ZoXp3A.**

CONTINUING TO PUSH BACK ON THE SACRAMENTO COW FART POLICE: *(By Rob Vandenheuvel)* If you missed last week’s article on the efforts in Sacramento to regulate methane generated on dairy farms, I’d encourage you to go back and check it out at: <http://www.milkproducerscouncil.org/updates/081216.pdf>. The common sense campaign aimed at pointing out the insanity of what’s being proposed continued this week with four more easy-to-understand, one-page flyers blasted out on Capitol Hill. As I did last week, I’ve attached those flyers to this newsletter, and you can see some of the media coverage they’ve generated at: <https://saynotosb32.com/mediacoverage/>. Many thanks to our partners California Dairy Campaign and Western United Dairymen for collaborating on this critical defense of our industry’s long-term future! The insanity must be stopped!



leak·age



The Air Resources Board's (ARB) **Short-lived Climate Pollutant Reduction Strategy** acknowledges the significant leakage potential of dairy methane emissions.

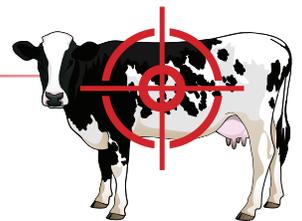
"...avoiding leakage of covered industries to other sectors would be a continuing challenge, especially for sectors (like dairy production) that might relocate to other states..."

Despite acknowledging the significant leakage potential, ARB has proposed unrealistic (500-600 new methane digesters), unachievable (75 percent reduction by 2030), and cost prohibitive (several billion dollars) dairy methane reduction targets.

Policies, such as the SLCP Reduction Strategy, that encourage and result in leakage are not good for reducing GHG emissions. In fact, ARB's strategy will lead to potentially increased global GHG emissions (methane) when milk production shifts from California to other states or countries where emissions are unregulated and, in some cases, far higher for each gallon of milk produced. Equally concerning, **leakage not only results in a loss of emissions control and greater emissions as farms relocate, it also results in a significant loss of well-paying, well-benefited dairy sector jobs.**

That's a lose-lose situation!

Carbon leakage occurs when efforts to reduce emissions in one place simply shift emissions to another location or sector where they remain uncontrolled or uncounted. When leakage results in production shifting to another place where the carbon footprint of the regulated industry is higher, global carbon emissions actually increase.



SAY NO!

TO:
SB 32 &
SB 1383

Say NO to Unbridled ARB Authority.

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un·cer·tain·ty



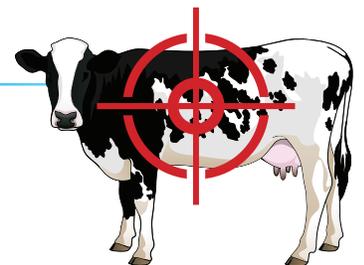
The Air Resources Board (ARB) readily acknowledges the tremendous uncertainty regarding its proposed dairy methane reduction mandates including a lack of certainty regarding the **“ultimate pathway to compliance.”** With such uncertainty, mandating dramatic reductions in dairy methane emissions is **putting the cart before the horse (ok...cow).**

According to ARB’s own SLCP strategy, **“many factors — including...uncertainty related to technology, markets, financing, utility interconnection challenges, credit values under the Low Carbon Fuel Standard (LCFS), Renewables Fuel Standard (RFS), or offsets from the Cap-and-Trade Program, and potential regulations – will affect the evolution of California’s dairy industry and the build out of infrastructure to reduce methane emissions.”***

That is a lot of uncertainty. When it comes to ARB’s proposed SLCP Reduction Strategy, more appears to be uncertain than certain. In fact, the word “uncertain” appears more than 100 times in ARB’s own strategy documents. **Authorizing ARB to implement such a fundamentally flawed and “uncertain” plan doesn’t make sense!**

*Source: SLCP Reduction Strategy Economic Analysis, Page 1

*In fact, the word “uncertain” appears more than **100 times** in ARB’s own strategy documents.*



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na·da

ARB's Short-lived Climate Pollutant (SLCP) Reduction Strategy recognizes the high costs (several billion dollars) associated with reducing dairy methane emissions. The SLCP Reduction Strategy also acknowledges the significant need for funding to incentivize dairy digesters and other dairy methane reduction projects. **Yet it provides no funding. Nothing. Not a penny!** In fact, the last two state budgets have failed to allocate any funding for projects to help achieve the state's short-lived climate pollutant reduction goals.

The lack of funding is short-sighted. According to the Department of Finance and Legislative Analyst Office (LAO), **investing in dairy digesters is one of the most effective investments the state can make.** For each \$8 invested, one full ton of greenhouse gases (CO2e) is eliminated. **That is a tremendous return on investment and "bang-for-the-buck."**

ARB should be working with, not against, California's dairy farm families to incentivize, not mandate methane emission reductions.

"CDFA estimates that at least \$100 million will be needed for each of the next five years to support the development of necessary manure management infrastructure in the form of grants, loans or other incentive payments."

ARB SLCP Reduction Strategy, Page 67, April 2016



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ze·ro

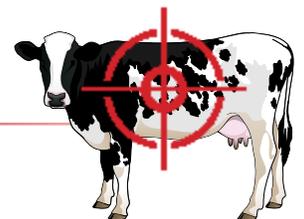


California's climate change policies come with a cost. Complying with strategies to reduce greenhouse gas emissions cost California businesses and consumers billions each year. **Reducing dairy methane emissions, as proposed by ARB regulators, is a particularly high-cost strategy.** According to ARB's own Short-lived Climate Pollutant Reduction Strategy, reducing dairy methane emissions by a full 75 percent will cost several billion dollars. **That's millions of dollars, on average, for each and every one of the state's family dairy farms.**

Businesses such as utilities can simply pass these increased costs on to their customers through higher prices. However, dairy farmers cannot. **The price paid to dairy farmers for the milk they produce is set by the California Department of Food and Agriculture (CDFA).** As a result, dairy farmers have **ZERO** ability to pass the high costs of greenhouse gas regulatory burdens on to their customers.

California dairy farm families are already struggling with high costs and low prices. More than 500 family dairy farms have closed in California in just the last 10 years. **Putting even more dairies out of business with additional costs they can't pass on solves nothing...let alone global climate change.**

*Dairy farmers have **ZERO** ability to pass the high costs of greenhouse gas regulatory burdens on to their customers.*



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