

# MPC WEEKLY FRIDAY REPORT

DATE: MARCH 8, 2019  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 6



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## MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	- \$.0750	\$1.5350	WEEKLY CHANGE	- \$.0200	\$2.2675	WEEK ENDING 03/02/19		
Barrels	-.0450	\$1.3650	WEEKLY AVERAGE	+.0145	\$2.2835	NAT'L PLANTS	\$0.9822	16,900,648
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 02/23/19		
Blocks	-.0460	\$1.5615	DAIRY MARKET NEWS	W/E 03/08/19	\$ .4175	NAT'L PLANTS	\$0.9830	14,542,745
Barrels	+.0105	\$1.4205	NATIONAL PLANTS	W/E 03/02/19	\$ .4216			

## 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
MARCH 8 EST	\$17.58 - \$18.08	\$16.52	\$14.97	\$15.79
MARCH 1 EST	\$17.58 - \$18.08	\$16.63	\$15.20	\$15.86

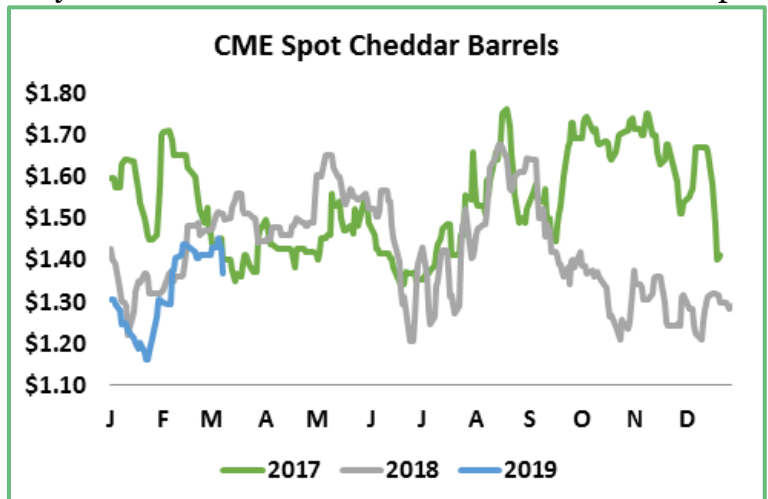


### Milk, Dairy and Grain Market Commentary

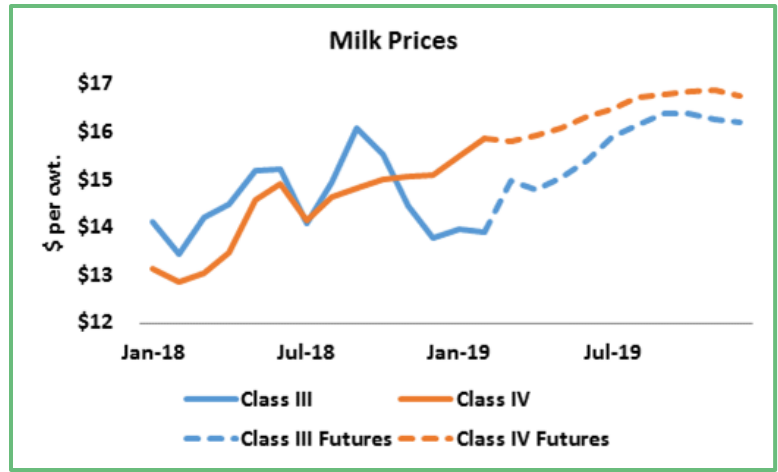
By Sarina Sharp, Daily Dairy Report  
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#### Milk & Dairy Markets

The spot dairy markets took a step back this week, but – for the most part – they remain noticeably higher than where they began the year. The cheese market was hardest hit. CME spot Cheddar blocks fell 7.5¢ to \$1.535 per pound. Barrels slipped 4.5¢ to \$1.365. As the spring flush boosts fresh cheese supplies, the bulls have given back some of last month's significant gains. While both blocks and barrels sit at one-month lows, prices are far higher than those that prevailed in January. There were 1.36 billion pounds of cheese in cold storage at the end up January, 6.4% more than the prior year. The month-to-month increase was roughly in line with the historic average, and the new data from this report will likely have little impact.

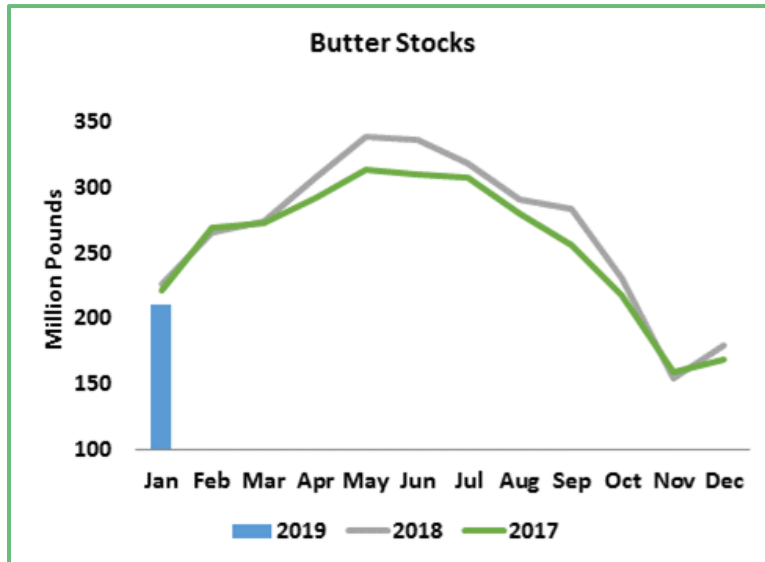


CME spot whey powder dropped 2¢ this week to 34¢. That contributed to a selloff in nearby Class III futures. The March contract finished 25¢ lower than last Friday, at \$14.97 per cwt. That is inadequate to cover most dairy producers' costs; however, it is considerably better than the sub-\$14 pricing that prevailed from December to February, and it is 75¢ higher than the March 2018 Class III price. Deferred Class III prices moved up a little.



CME spot butter jumped on Monday to \$2.34, its first foray above \$2.30 since November.

The rally was brief. Spot butter closed today at \$2.2675, down 2¢ from last week and comfortably within the well-trod \$2.25 to \$2.30 trading range. There were 211 million pounds of butter in inventory at the end of January, 6.9% less than at the same point in 2018. Butter inventories grew 31.7 million pounds from December to January, a surprisingly small increase that buoyed butter futures today.



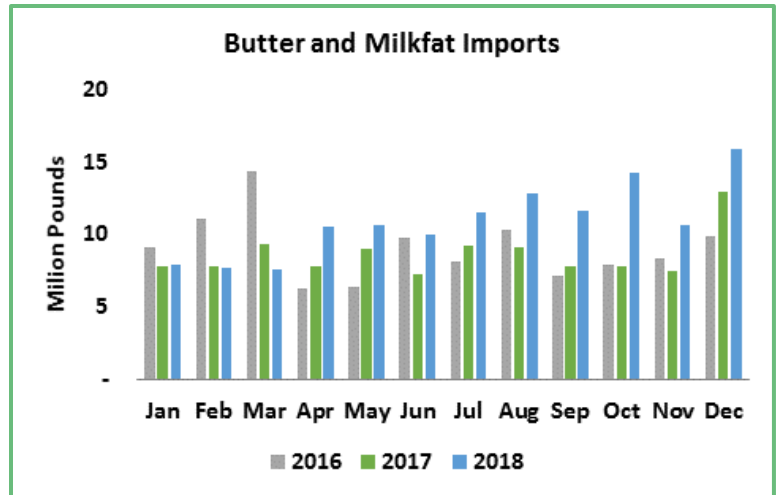
Federal Milk Marketing Order 51, the combination of \$14.97 Class III and \$15.79 Class IV will likely result in a blended milk price more than \$2 higher than those of their March 2018 milk check.

Prices moved mostly higher at the Global Dairy Trade (GDT) auction on Tuesday. The GDT index climbed for the seventh straight auction, driven by a 6% increase in whole milk powder (WMP), and sizeable gains in the average winning price for buttermilk (11%), Cheddar (6%), anhydrous milk fat (3.9%), and butter (3.7%). However, skim milk powder (SMP) prices fell 4.3% from the previous auction. Still, at the equivalent of NDM at \$1.19 per pound, GDT SMP commands a sizeable premium to competing product in the U.S. and Europe.

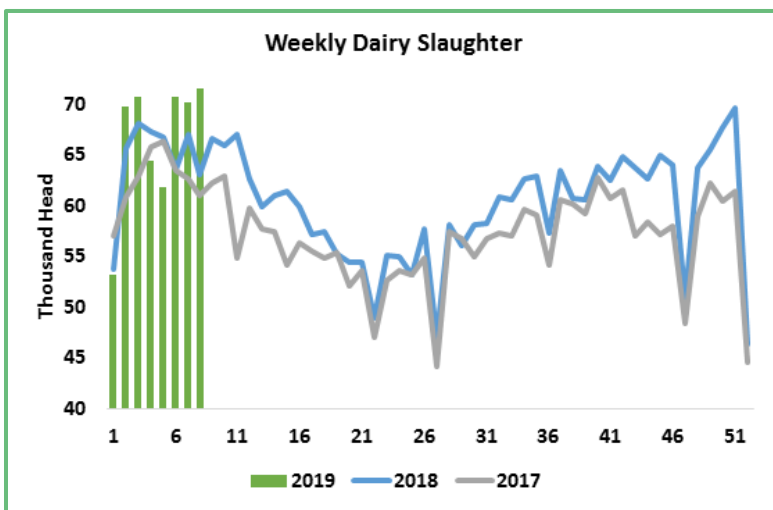
U.S. dairy products – aside from butterfat products – are competitively priced. But they face twin headwinds: a very strong dollar and punitive tariffs. It is foolish to make firm predictions about U.S. trade policy, but it is possible that these tariffs will be removed eventually, giving U.S. dairy exports the opportunity to accelerate beyond the record-breaking levels reported in 2018.

Last year, exports lapped up the equivalent of 15.8% of U.S. milk solids production, according to the U.S. Dairy Export Council, a new all-time high. The volume of U.S. dairy exports jumped 9% from 2017, also the highest annual total ever. That's despite a less-than-stellar performance in the fourth quarter,

when tariffs clearly took a toll and total U.S. exports fell 11% year-over-year. In December, U.S. cheese exports exceeded 2017 volumes by 6%, but all other major categories of dairy products reported year-over-year declines, with NDM down 17%, butter and milkfat down 29%, and dry whey down 36%. The United States imported 15.94 million pounds of butter and milkfat in December, the highest volume since 2001. In that context, slow growth in butter stocks and almost perplexingly steady butter pricing hint at formidable demand for cream and butter.



U.S. dairy producers will soon receive disappointingly small milk checks due to pitifully low February milk prices and only 28 days of milk production. The March check will be demonstrably less horrible than those of the past four months, but still insufficient, especially for producers in the cheese states who do not benefit from much stronger Class IV prices. That likely means at least another month of stretching to keep the banker at bay. Sellouts and high cull rates will continue. But this painful pruning is setting the stage for a sustained recovery in dairy product prices. The U.S. dairy herd is already shrinking, and dairy producers are sending cows – and some heifer calves – to slaughter in unprecedented volumes. Through February 23, dairy cow slaughter is running 3.4% ahead of the already high totals of 2018. Veal calf slaughter is 13% higher than it was at



this point last year. U.S. milk production potential shrinks every day that prices flounder, laying the groundwork for prosperity in the second half of the year and throughout 2020. Milk production is contracting in Europe and growth is likely slowing in New Zealand. There will be better times ahead.

### Grain Markets

Feed is becoming more affordable. May soybeans settled today at \$8.9575 per bushel, the lowest price in more than three months. Soybean futures have fallen back in five of the past six weeks, including a 15.75¢ setback this week. Despite continued promises that China will buy U.S. soybeans, the market is acknowledging the slow pace of U.S. exports and good crops in South America. USDA confirmed that the U.S. soybean stockpile is massive, at 900 million bushels.

It was another tough week for wheat, which meant another decline in corn prices. May wheat futures fell nearly 20¢ to fresh lows, and May corn dropped 8.75¢ to \$3.6425. USDA raised its estimate of end-of-season corn stocks by 100 million bushels, due to lower expectations for exports and ethanol demand. There is grain aplenty. Global prices, as defined by Bloomberg's commodity futures Grains sub-index, have never been this low. But the market will soon be confronted with a stream of tweets lamenting soil conditions and pictures of tractors mired in the mud. The past six months have been the wettest on record in the Corn Belt, and the forecast holds more rain, snow, and below-normal

temperatures. If the spring is as cold and muddy as some predict, it could reduce corn acreage and boost prices accordingly.



## The Producer Review Board Holds a Meeting

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

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This past Wednesday, the Producer Review Board (PRB) held its first meeting of the year. The first order of business was to elect a new chairman and vice-chairman. Former Milk Producers Council Board Chairman Fred Douma was selected to be the chairman and Arie De Jong was elected Vice-Chairman.

Next Donald Shippelhouse, the California Department of Food and Agriculture's (CDFA) Quota Implementation Plan (QIP) administrator, reported about how the QIP program was operating. He said that for the most part it was going well. He said there were a few minor collection problems, but overall things were going smoothly. He also indicated that the \$.38 assessment was collecting enough money to fund the quota payment and in fact there might be an opportunity in a few more months to reevaluate the level of the fee.

The next important item for the PRB was to work with the CDFA attorney to revise the "Procedures for Submitting a Petition for Substantive Amendments or Termination of the Quota Implementation Plan." Last December, the PRB had developed a document that outlined these procedures, but after legal review, it was determined that some modifications needed to be made. It took a bit of discussion, but in the end, the changes the CDFA lawyer recommended were made to the document. In short, some of the more onerous verification requirements in the December document were modified. You can read the update version [here](#).

During the various discussion times of the meeting, a number of important questions were asked about who can sign a petition and who is eligible to vote in a referendum. The QIP document itself says that in order for a petition to be valid it requires "a petition signed by at least 25 percent of market milk producers." So the question is who is a producer? The answer given by CDFA is that there is a two-fold test of who is a producer. The determination of a producer is based on the tax identification number for the dairy. If an individual owns multiple dairies that have the same tax ID number then all of those dairies are counted as one producer. If an individual has multiple dairies and they all have different tax ID numbers then each tax ID number is a separate producer with the ability to provide multiple signatures on a petition.

For the purposes of submitting a **petition**, only the number of Grade A producers in California that are covered by the QIP matters, not the volume of milk produced by those producers. The question was asked, how many producers are there right now that are eligible to sign a petition? CDFA did not have an answer to that question, but it is a smaller number than the 1,250 pooling certificates that exist currently since a number of those dairies are owned or covered by a single tax ID number.

On the question of how a **referendum** would be handled, then the volume of milk a dairy produces becomes a relevant factor. In order for a referendum to pass to change or terminate the QIP, **51% of the eligible producers must vote** and of those voting **either 65% of the eligible voters who produce 51% of the milk or 51% of the eligible voters producing at least 65% of the milk must vote yes**. Given all the discussion and questions, the CDFA lawyer committed to preparing a



document in the near future that will clearly spell out the answers to the question of who an eligible producer is.

The PRB did not set a date for the next meeting.



## Denise Mullinax Appointed as Executive Director of California Dairy Research Foundation

*By Kevin Abernathy, General Manager*

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Congratulations are in order for Denise Mullinax on her March 1, 2019 appointment as the executive director of the California Dairy Research Foundation (CDRF).

I have had the distinct pleasure of knowing and working with Denise for more than 20 years, dating back to her role as a UC Cooperative Extension Advisor. I'm pleased to call her a colleague and friend, and she is someone that I often turn to for advice and expertise.

Many dairy farmers will recognize Denise from various environmental stewardship courses presented by the California Dairy Quality Assurance Program (CDQAP). In that role, she has provided invaluable outreach and assistance to dairy farmers to help them comply with the nation's strictest air and water quality regulations.

In my opinion, the CDRF Board of Directors couldn't have selected a better person to lead that organization. Congratulations to Denise!



Denise Mullinax, the newly appointed executive director of the California Dairy Research Foundation

### Official Announcement From CDRF

The California Dairy Research Foundation (CDRF) Board of Directors announced the appointment of Denise Mullinax as executive director of CDRF, an independent nonprofit foundation with a mission to lead and deliver the best research and science-based programs in support of the California dairy industry.

“Denise has a long history working for the benefit of California dairymen. She is very well respected and has built vital relationships within our industry. We are very pleased that she has accepted the position of executive director of CDRF,” said Richard Wagner, chairman of the board of directors. “We are confident that she will provide strong leadership for the foundation, furthering the goals of CDRF to more specifically serve our California dairy producers and stakeholders through timely science-based research, specialized programming, and direct education.”



Denise has served in the role of interim executive director since May 2018, undertaking the completion of CDRF's next five-year strategic plan and working closely with the CDRF board, staff, and others to ensure business continuity in meeting the changing needs of California's dairy producers during a time of transition in CDRF leadership.

The appointment coincides with CDRF’s implementation of this new five-year plan, which moves to increase the number and impact of projects in the environmental management and social responsibility program areas, as well as increasing CDRF’s participation in co-funded projects. These new areas of focus are designed to best support the California dairy sector, which strives for continuous improvement through its dedication to innovation, environmental sustainability, and economic contribution.

“My commitment at CDRF is to maintain the high standards set over the past 30 years and to guide the foundation’s programs in alignment with the industry’s priorities,” Denise said, “CDRF will use our new plan, and continued industry and expert input, to select and manage research that is relevant and beneficial to California’s family dairy farmers, food processors, and consumers.”

Denise has more than 20 years of experience working with the California dairy sector, holding key education, research, and sustainability management positions within UC Cooperative Extension and Hilmar Cheese Company. She has served as the assistant director of the California Dairy Quality Assurance Program (CDQAP) for the past 13 years, working to the direct benefit of California dairy producers.

A graduate of the University of California, Davis with an undergraduate degree in animal science and a Master’s in agriculture and management, Denise will continue her CDQAP duties in this new CDRF leadership role.

