Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

DATE: September 1, 2017 **PAGES: 5**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.1100*	$1.5400
Barrels	*- $.0375*	$1.5200
Weekly Average, Cheddar Cheese		
Blocks	*- $.1695*	$1.5325
Barrels	*- $.1625*	$1.4995

CHICAGO AA BUTTER		
Weekly Change	*- $.1200*	$2.5075
Weekly Average	*- $.0465*	$2.5660

DRY WHEY		
Dairy Market News	w/e 09/01/17	$.3900
National Plants	w/e 08/26/17	$.4419

NON-FAT DRY MILK		
Week Ending 8/25 & 8/26		
Calif. Plants	$0.9338	4,420,942
Nat'l Plants	$0.8829	14,153,562
Prior Week Ending 8/18 & 8/19		
Calif. Plants	*$0.9145*	*4,723,943*
Nat'l Plants	*$0.8749*	*12,996,765*

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Fred Douma's price projections…

Sept 1 Est:	**Quota cwt. $16.90**	**Overbase cwt. $15.20**	**Cls. 4a cwt. $16.17**	**Cls. 4b cwt. $14.41**
Aug '17 Final:	**Quota cwt. $17.92**	**Overbase cwt. $16.23**	**Cls. 4a cwt. $16.68**	**Cls. 4b cwt. $16.26**

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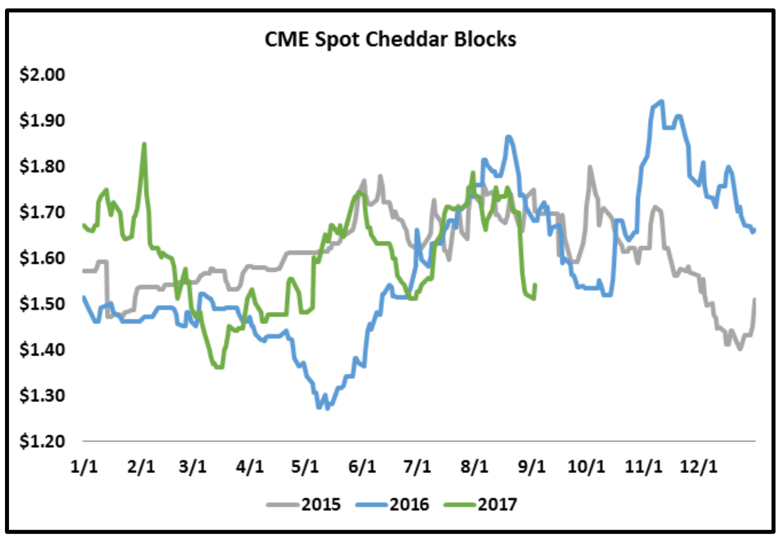
Market commentary

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

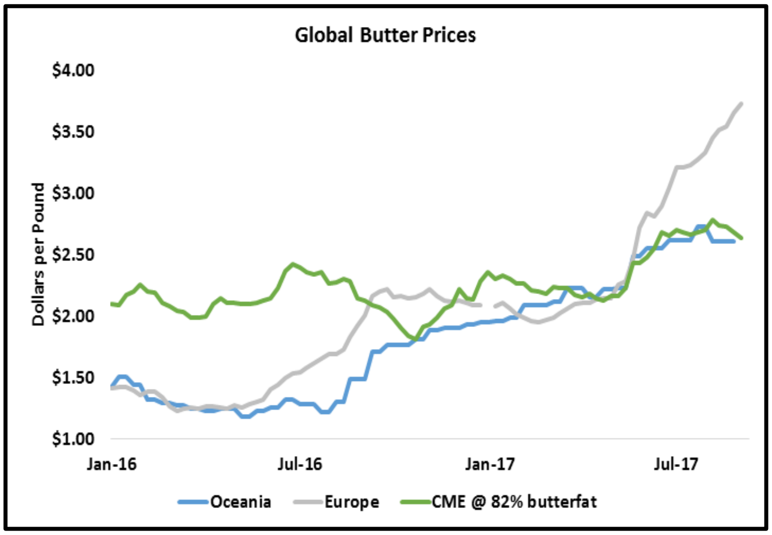
Milk & Dairy Markets

After a rough two weeks in the cheese markets, the bulls have been cowed. CME spot Cheddar blocks have dropped 11¢ since Friday, on top of a 10.5¢ decline last week. They stand at $1.54/lb., at the bottom end of the trading range that has prevailed since May. Barrels slipped 3.75¢ this week to $1.52, bringing their two-week loss to 23¢. Amid a dearth of fresh fundamental news, the cheese market continues to fret over the bearish Cold Storage report and indications that domestic demand is mixed. Given robust output, greater consumption is needed to trim the nation's colossal inventories. Perhaps these lower prices will entice buyers to step in more aggressively. For now, however, they seem content to wait.



The whey market is weak as well, weighed down by growing supplies. The whey complex offered no succor to the Class III markets. Most Class III contracts finished 30¢ to 40¢ in the red. Compared to their recent peak in early- to mid-August, September through December futures are about a dollar lower.

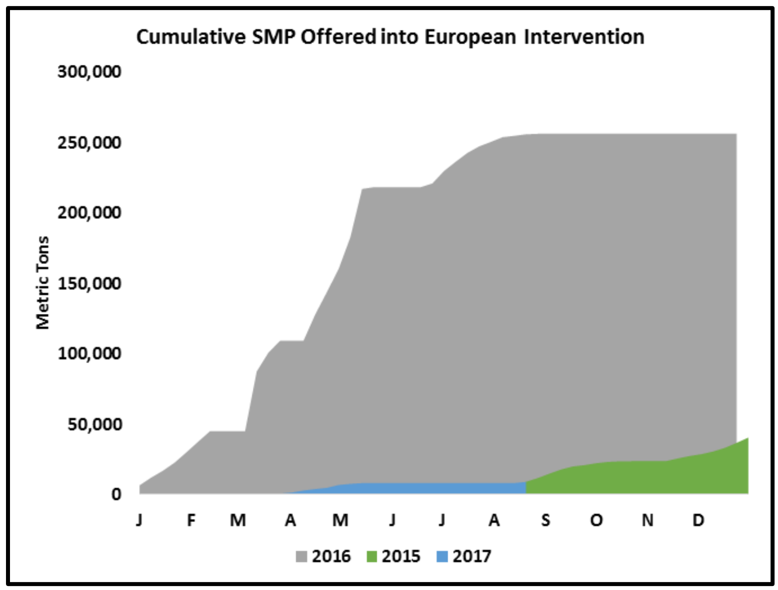
The butter market is similarly beleaguered. CME spot butter fell 12¢ this week to $2.5075, the lowest print in nearly three months. Both October and November butter futures settled a nickel lower – at their daily trading limit – on Monday, and further losses followed. The September contract lost almost 6¢ today. Nonetheless, *Dairy*



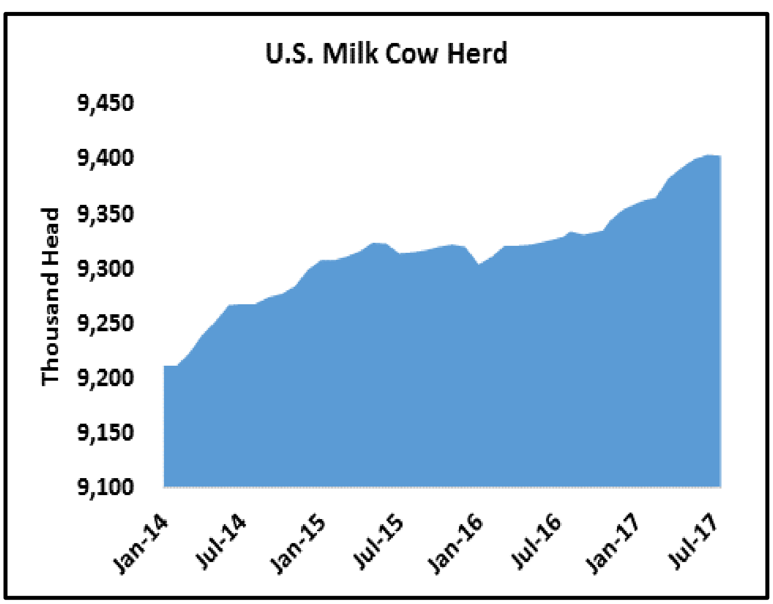
Market News reports that "the demand for butter throughout the United States is fairly positive." Reports of export demand are mixed, but surely the U.S. can compete in the global marketplace if butter makers have the inclination to hold the salt and up the fat to meet international specifications. In Europe, butter prices continue to soar.

The milk powder market is well-supplied and competition is stiff. A few European skim milk powder (SMP) manufacturers sold product into the government's Intervention purchase program last week, suggesting that the de facto floor-price is in play once again. The program will close at the end of the month – just in time for peak output in the Southern Hemisphere – and reopen in March.

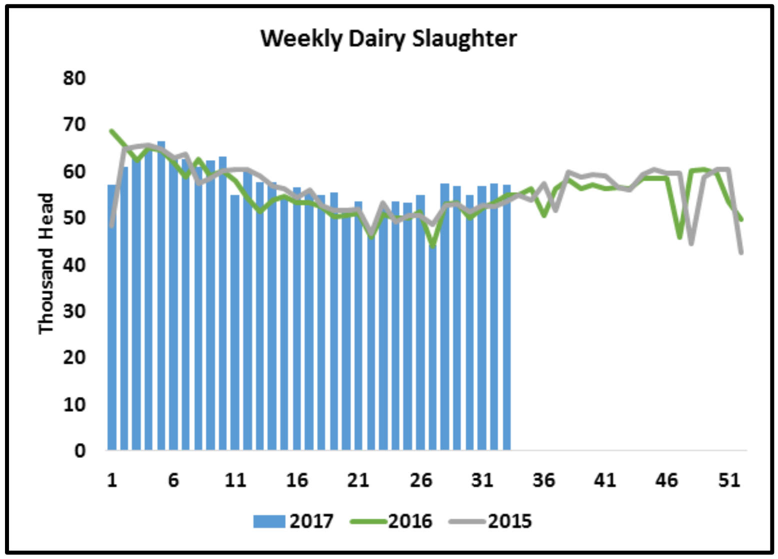
Milk powder inventories are massive in the U.S. and Europe. *Dairy Market News* sums up the broadly bearish consensus about nonfat dry milk (NDM), reporting, "The market expects consistent production and sluggish demand to ease prices more." However, the spot market looks quite resilient. CME spot NDM climbed 1.75¢ to 86.25¢. The milk powder market will run into fierce resistance at any hint of a rally, but it seems that impetus for further decline is lacking as well, at least in the spot trade. NDM futures were mixed but mostly a little lower this week. With that, September through December Class IV futures lost between 30¢ and 50¢ this week, while 2018 contracts posted modest losses.



USDA announced the August Class III milk price at $16.57/cwt., up $1.12 from July but down 34¢ from last year. California 4b milk is $16.26, up 97¢ from July and 8¢ shy of August 2016. Class IV milk is $16.61 for August, up a penny from the previous month and up nearly two dollars compared to August 2016. California 4a milk is $16.68, up 27¢ from July and an impressive $2.69 higher than last year.



Class III and Class IV futures stand in the high-$15's and low-$16's through the first half of next year. With low feed costs, some dairy producers will be able to make those figures work, but prosperity will be fleeting and many producers will struggle with red ink. Much time has passed since the last big boom, and bank accounts have considerably less cushion than they did a couple years ago. After 18 months of relentless expansion, these leaner times may offer a painful but necessary opportunity to prune an industry that has wrestled with oversupply for too long. Indeed, slaughter volumes suggest the reckoning may already be underway. For the week ending August 19, dairy cow slaughter was up 4% from a year ago, the latest in a string of sizeable year-over-year increases. The 2017 cull rate is running 3.5% ahead of the 2016 pace.



Grain Markets

On Wednesday, December corn futures dropped to $3.455 per bushel, by far the lowest value for the contract, and the lowest spot corn price since last fall. Traders were acutely aware that corn futures made their seasonal low on August 31 last year, and they expected history to repeat itself. The prophecy was self-fulfilling. After corn futures touched fresh lows yesterday, they turned sharply higher, erasing early-week losses. December corn futures settled at $3.5525, up 1.75¢ from last Friday.

November soybeans finished at $9.495, a nickel higher for the week. The forecast calls for below-normal temperatures and below-normal precipitation. The outlook for crops is not bad but not perfect. A warm September would allow soybean pods to fill to their full potential. There is no threat of a widespread frost, but a cool, dry fall could take the top off yields.

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Keeping up on important initiatives, issues

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

As the summer comes to a close and folks begin to engage again, there are a number of issues to keep our eye on that affect the California dairy industry.

Trade

California sells a huge amount of NFDM and Skim milk powder to Mexico. Negotiations have begun to revise the North American Free Trade Agreement. The Mexican and American dairy industries just came out with a joint list of priorities for that negotiation. You can read them here. It is very encouraging to see the cooperation between our dairy leadership and the Mexican dairy leadership. We have a lot riding on a successful resolution to this issue.

Immigration

The House Judiciary Committee and its Republican Chairman, Congressman Bob Goodlatte, are working on a bill which they hope to move through the legislative process soon that would create a new visa category, H-2C designed to boost the agriculture labor market. It would apply both to workers currently in the U.S. and it would allow new workers from outside the US. It would eliminate bureaucratic red tape and be administered by USDA. It requires that anyone currently working in dairy/livestock and agriculture participate in the H2C program within two years. Also, immediately upon enactment, workers in the U.S. would be protected from apprehension and deportation. It would allow H2C workers to obtain a driver's license. For more information, visit www.americandairycoalitioninc.com

Water

The California Water Fix, designed to create a more reliable plumbing system to move water from Northern California to Central and Southern California, continues to move forward. The loudest opposition to this plan comes from In-Delta interests who have fought for decades to keep any type of direct connection between the Sacramento River, which conveys water for the Central Valley Project and the State Water Project, to the California Aqueduct and the Delta-Mendota Canal from happening. There is a very informative white paper which outlines the plan and its impacts which you can read here.

At present, the major California water districts that will use, and therefore must pay for the construction of, the Water Fix infrastructure are considering approvals. While the price tag of the California Water Fix is big, the agencies that serve urban Southern California and the Silicon Valley will pay a large portion of the cost. What California agriculture has learned the hard way over the past few years is that there is something worse than expensive water – no water. Without a reliable connection between the surface water supply in the North, and the water demand in the Central Valley, our future in California agriculture is at serious risk. Now is the time to address that.

Farm Bill/Safety Net

The Margin Protection Program (MPP) implemented in the last Farm Bill has its critics, and suggestions for improvements have been made, which you can read about here.

In addition to improving the MPP, the American Farm Bureau has developed and submitted to the Federal Crop Insurance Corporation, a Dairy Revenue Insurance Plan. You can find out the details here.

This plan utilizes the Crop Insurance model to enable dairy producers to purchase insurance that will provide protection against unexpected drops in milk prices. The coverage itself can be tailored by each producer to fit your particular market utilization. It operates on a quarter by quarter basis and you can pick whether you want to insure your cwt. milk price or if you have high components, you can insure them as well. Premium subsidies of up to 60% would be provided by USDA. Currently the government provides billions of dollars of subsidies to help farmers purchase crop insurance for other commodities. One policy change that will need to be made is that the Secretary of Agriculture needs to decide that milk is a commodity that would qualify under the commodity Crop Insurance Program. This determination is at the discretion of the Secretary and does not require Congressional action.

The go or no-go decision on the actual Dairy Revenue Insurance Program will be made by the Board of the Federal Crop Insurance Corporation. Since submission by the Farm Bureau, it has undergone review by dairy economics experts who have refined the program. All indications are that the Board of the Crop Insurance Corporation views this proposal favorably so far and what the Farm Bureau is looking for is support from producers and their organizations for this program. This looks like a very promising opportunity to obtain affordable downside milk price protection.

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MPC hosts Western States Dairy Producers Association discussions

By Kevin Abernathy, MPC General Manager

This past week, MPC had the privledge of hosting a series of meetings in Sacramento for the Western States Dairy Producers Association. On Tuesday, August 29 and Wednesday, August 30, MPC participated in discussions with dairy groups from across the western United States on a variety of topics that affect dairy famers and their operations. States involved in the discussions included California, Texas, New Mexico, Arizona, Oregon, Washington, Idaho, and Utah. The comradery of this group, working collectively on behalf of a significant portion of the nation's milk supply, is impressive.

The main focus of these meetings was on strategy. As a group, we identified where we can best effect change and the most important issues facing dairy families today. Our disscusions included a look at immigration policies, tax reform, dairy's relationship with NAFTA, and possible impacts of the 2018 Farm Bill. We also discussed ramifications of, and much needed changes to, the Resource Conservation and Recovery Act (RCRA) and the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). As California's only dairy trade group participating in these disuccions, MPC made certain that the interests of our state's dairy farmers were well represented on these topics.

We want to extend our graditude to John Moffatt, MPC's Director of State Government Affairs, and Nielsen Merksamer Parrinello Gross & Leoni LLP for hosting the two-day event. MPC looks forward to representing California dairy families at a national level by continuing our membership with the Western States Dairy Producers Association.

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California Dairy Quality Assurance Program highlights new research in latest e-update

By Kevin Abernathy, MPC General Manager

The August e-update from the California Dairy Quality Assurance Program (CDQAP) gives readers some important information on upcoming workshops in the North Coast. Dairy farmers interested in learning more about water quality and Grazing and Waste Management Plans are encouraged to participate. The e-update also gives new information on research related to the importance and benefit of stockmanship training on dairy operations. The entire CDQAP e-newsletter is available here.