

MPC WEEKLY FRIDAY REPORT

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 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 4



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	+ \$.0275	\$1.5275	WEEKLY CHANGE	+ \$.0050	\$2.2950	WEEK ENDING 02/02/19		
Barrels	+ \$.0725	\$1.3725	WEEKLY AVERAGE	+ \$.0015	\$2.2850	NAT'L PLANTS	\$0.9766	22,023,670
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 01/26/19		
Blocks	+ \$.0270	\$1.4880	DAIRY MARKET NEWS	w/E 02/08/19	\$4.625	NAT'L PLANTS	\$0.9713	18,638,748
Barrels	+ \$.0500	\$1.3255	NATIONAL PLANTS	w/E 02/02/19	\$4.694			

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
FEB 8 ESTIMATE	\$16.90 - \$17.40	\$16.12	\$13.98	\$15.93
FEB 1 ESTIMATE	\$16.90 - \$17.40	\$16.14	\$14.03	\$15.87

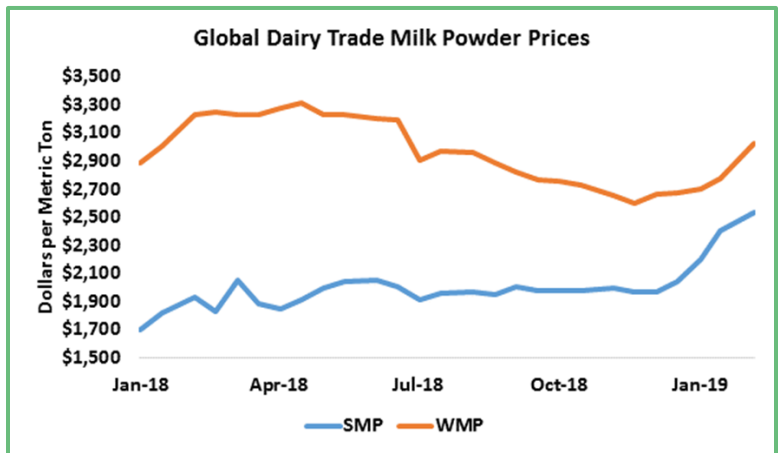


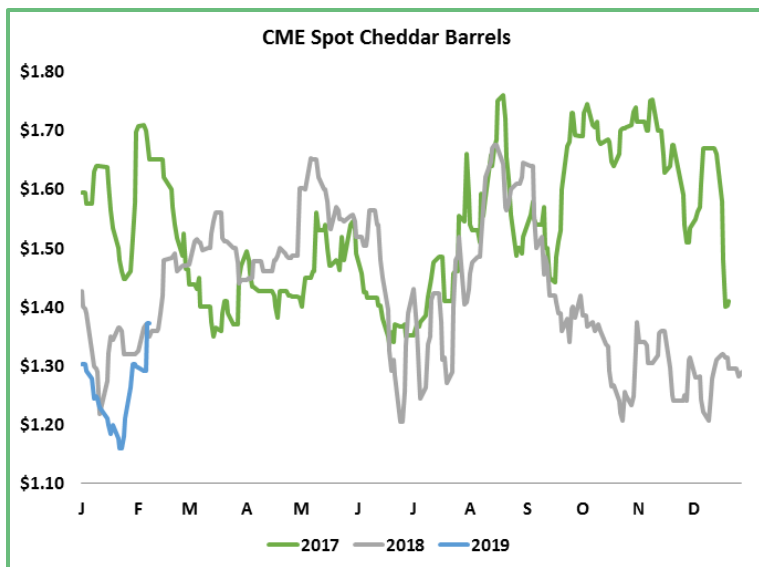
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Prices shot higher at the Global Dairy Trade (GDT) auction this week, igniting rallies across the dairy complex. Buyers from Asia and the Middle East bid with enthusiasm. The GDT index jumped 6.7%, its strongest performance since November 2016. Nearly all products moved higher, but milkfat products and powders were particularly buoyant. Whole milk powder (WMP) surged 8.4% to its highest price since June. Skim milk powder (SMP) climbed 3.9% to a two-year high, reaching the equivalent of nonfat dry milk (NDM) at \$1.23 per pound, far above benchmark SMP and NDM prices in Europe and the United States. CME spot NDM was uninspiring in comparison. It closed today at 99.5¢ per pound, down 0.75¢ from last Friday.

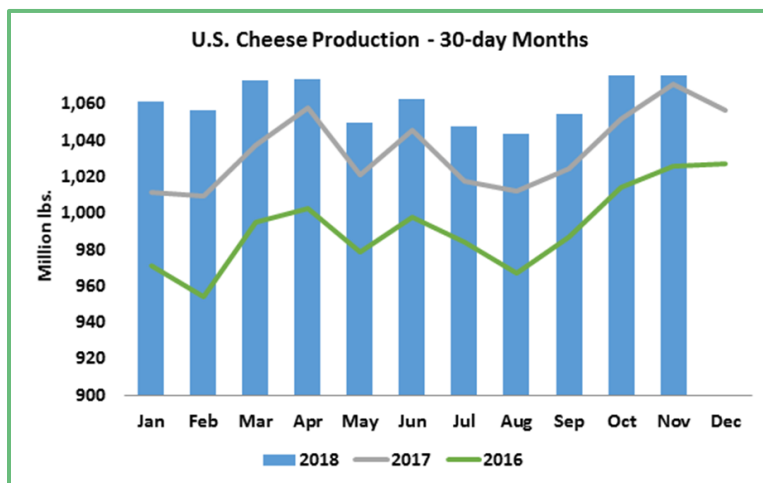




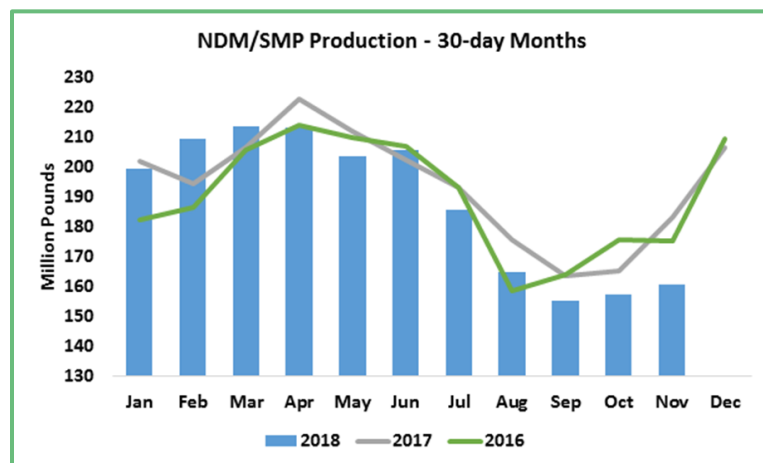
The other CME spot markets gained ground. Spot dry whey rebounded 0.25¢ to a still meager 36.5¢. Butter added a half-cent and reached \$2.295, on the high end of its well-trod trading range. Cream is relatively inexpensive and butter churns are running hard.

The cheese markets offered more excitement. CME spot Cheddar blocks climbed 2.75¢ to \$1.5275, the highest value since mid-October. Cheddar barrels surged 7.25¢ to \$1.3725, a more than three-month high. With that, March and April Class III futures gained some ground this week, but deferred contracts moved a little lower. Class IV futures were mostly a nickel or so in the red.

The spot cheese rally and anecdotal reports suggest that although barrels remain plentiful, supplies are less burdensome than they have been. USDA’s Dairy Products report shows that milk continues to move to cheese vats. Although the data is stale, it helps to clarify the shift in the dairy product mix as milk supplies tighten in the East and continue to grow in the West. In November, U.S. cheese production topped 1.08 billion pounds, 1% more than the prior year. A 5.2% year-over-year increase in Western cheese production more than made up for a 3.3% shortfall in the Atlantic region and a 1.5% drop in the Central states. Cheddar output in November was 2.7% higher than in November 2017, which helps to explain the abject weakness in the spot Cheddar market over the past few months.



Considerably less milk went into the Class IV products in November. Butter output fell 2.7% from the prior year, to 145.6 million pounds. Production was down 12.8% in the Atlantic region, 3.2% in the Central states, and 0.1% in the West. Combined production of NDM and SMP slumped to 160.9 million



pounds, down 12.1% from November 2017. NDM output fell 4% in the West, 8.1% in the Atlantic states, and 18% in the Central region. Higher Class IV prices could not coax milk away from the cheese vats in November, and cheesemakers continue to run at or near capacity across the nation, with one notable exception.

California cheese output is likely starting to slow. Cheese processors in the nation’s largest dairy state are now paying more for milk using the Federal Milk Marketing Order (FMMO)

formula than they would have under the previous rules. *Dairy Market News* reports, “Many manufacturers are running full schedules at their cheese facilities, but some contacts suggest a few processors are starting to ease back on cheese production and diverting milk intakes toward Class IV uses.” That’s excellent news for California dairy producers in particular and for dairy product prices in general. The shift in the product mix will mean a greater share of California dairy producers’ milk checks is based on the much higher Class IV price. Incrementally lower cheese output will slowly lift cheese prices relative to where they would have been had California stuck with its previous milk pricing formulas. Of course, the reverse is true for milk powder pricing.

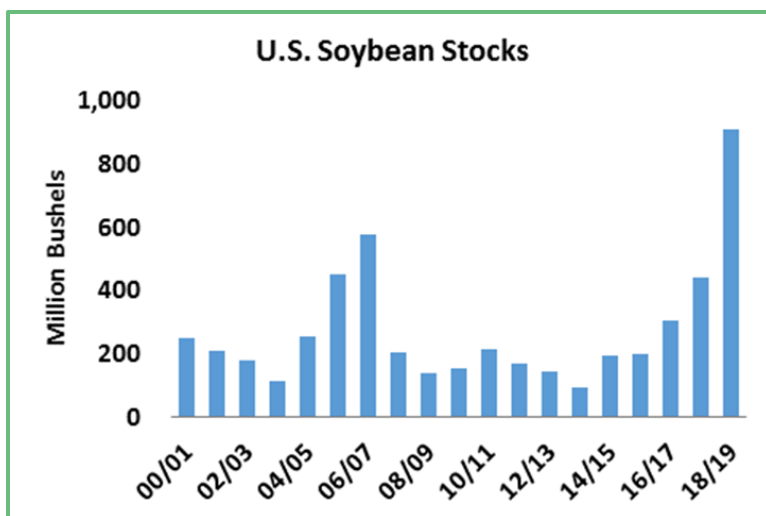
Although U.S. dairy products are competitively priced, exports did not impress in November. Retaliatory tariffs from China and Mexico are clearly taking a toll. U.S. butter and milkfat exports were 41.4% higher than year-ago levels. However, the gain was more than offset by increased butterfat imports. All other dairy product categories reported lower export volumes than November 2017. The United States sent 12.7% less NDM, 9.5% less cheese, 62.6% less cream, and 18.1% less whey products abroad than in the prior year.

Exports accounted for 13.9% of U.S. milk solids production in November, according to the U.S. Dairy Export Council, down from 16.8% in the first half of the year, before Mexican and Chinese tariffs took effect. From July to November, U.S. dairy product exports to China fell 34%. Cheese exports to Mexico grew 2% in the first half of 2018 but fell 4% from July to November.

Lower milk powder exports contributed to an increase in U.S. manufacturers’ stocks of NDM from October to November, despite slowing production. The *Daily Dairy Report* theorizes, “The month-to-month increase suggests demand for milk powder slowed, likely due to rising prices. CME spot NDM approached 90¢ per pound in late November, which could have deterred buyers, at least temporarily. Continued increases in NDM prices over the past two months suggest that buyers have become resigned to more expensive milk powder.” And this week’s GDT auction makes U.S. NDM look like a bargain despite the strengthening U.S. dollar.

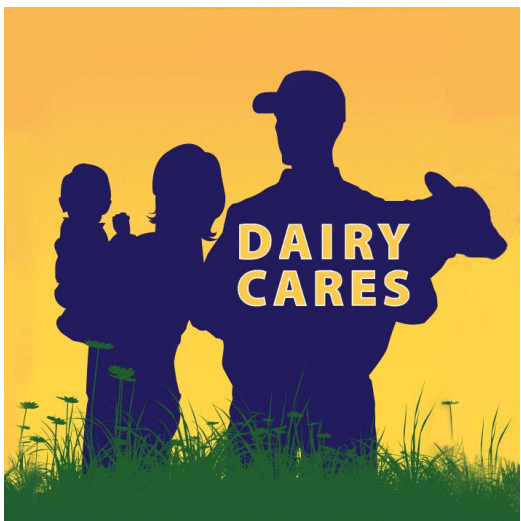
Grain Markets

It was a surprisingly quiet week in the grain markets. March corn futures fell 4¢ to \$3.7425 per bushel. March soybeans slipped 3.25¢ to \$9.1775. Catching up after the government shutdown, USDA released a slew of data regarding crop production and demand. The markets greeted the reports with a shrug. Although USDA lowered its estimates of 2018-19 corn and soybean yields, inventories remain large. The agency lowered its projection for end-of-season soybean inventories from 955 million bushels to 910 million bushels. Although lower than USDA’s December estimate, that’s still more than double the size of soybean inventories in the preceding decade. With a massive domestic stockpile and decent crops in South America, the market should be signaling farmers to plant fewer soybeans. Planting season is fast approaching and at today’s prices farmers are not getting the message.



Cows and the Environment: A California Perspective

Courtesy Dairy Cares



Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues. This month's Dairy Cares e-newsletter highlights California dairy families' leadership in reducing environmental impacts, improving efficiency and climate-smart dairy farming.

From Dairy Cares

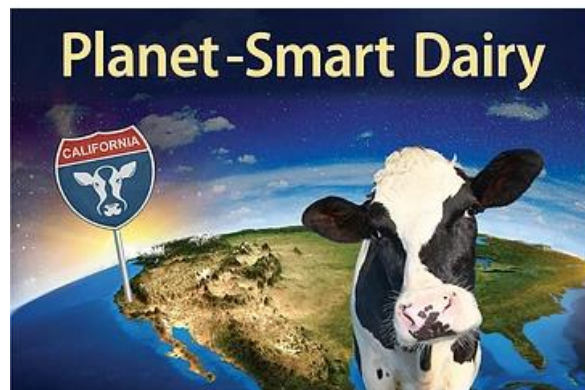
There has been a recent surge of efforts to drastically change dietary choices in the name of environmental protection. These efforts often share a flawed approach, citing global greenhouse gas (GHG) emission statistics, to create alarm and encourage decreased consumption of meat, dairy, and other livestock products. They falsely imply that raising livestock, no matter where or how it's done, is bad for the planet. This simply isn't true. As with any industry, from agriculture to transportation to manufacturing, efficiency plays an important role in delivering products we want and need, while reducing the environment

impacts. A closer look at the global dairy sector shows increases in efficiency are occurring around the world, though the pace of improvements differs from region to region. California dairy farms are not only leading the way in reducing environmental impacts, but are also taking climate-smart dairy farming to a whole new level—making cows a part of the broader solution to society's environmental challenges, from recycling nutrients to creating renewable energy.

A Global Perspective

Over the past 65 years, the United States has made significant gains in milk production efficiency, resulting in a two-thirds reduction of dairy's overall carbon footprint. While the nation's milk production has doubled, the number of dairy cows has decreased from 25.6 million cows in 1950 to only 9.4 million today. Attaining this same level of efficiency across all dairy regions would have a far greater impact on climate than dictating drastic changes in dietary consumption.

Seventy to 80 percent of estimated global livestock greenhouse gas (GHG) emissions are attributed to developing countries, where production is far less efficient. However, improvements are being made. The United Nations Food and Agriculture Organization (FAO) recently published an analysis of GHG emissions from the global dairy sector over a ten-year time period (2005 to 2015). The [FAO report](#) shows all regions have reduced GHG emissions per unit of milk, resulting in an overall emission intensity reduction of 11 percent. The largest dairy emission intensity reductions during this time period occurred in low-and-middle income nations, particularly in Africa, Asia, and Central and South America. These are often countries where the livestock sector plays a significant role in the total gross domestic product. In these regions, increases in dairy productivity are helping improve food security and climate change mitigation.



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