



Milk Producers Council

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DATE: October 6, 2017

TO: Directors & Members

PAGES: 4

FROM: Kevin Abernathy, General Manager

MPC Friday Market Update					
CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	+\$0.0250	\$1.7600	Weekly Change	+\$0.0250	\$2.3400
Barrels	+\$0.0525	\$1.7450	Weekly Average	-\$0.0530	\$2.3390
Weekly Average, Cheddar Cheese		DRY WHEY		Prior Week Ending 9/22 & 9/23	
Blocks	+\$0.0295	\$1.7430	Dairy Market News	w/e 10/6/17	\$0.3700
Barrels	+\$0.0180	\$1.7190	National Plants	w/e 09/30/17	\$0.4009

Fred Douma's price projections...

October 6 Est: Quota cwt. \$17.30 Overbase cwt. \$15.60 Cls. 4a cwt. \$15.09 Cls. 4b cwt. \$15.94
 Sept '17 Final: Quota cwt. \$17.00 Overbase cwt. \$15.30 Cls. 4a cwt. \$15.70 Cls. 4b cwt. \$14.88

Market commentary

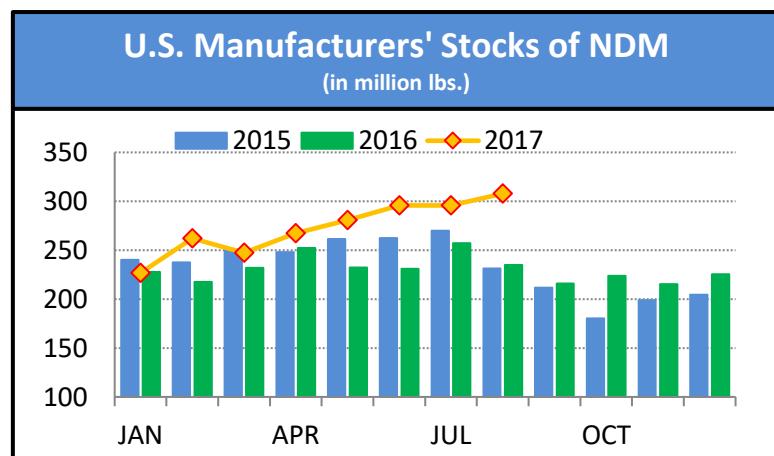
By Mary Ledman, Daily Dairy Report, mary@dailydairyreport.com

Milk & Dairy Markets

CME cash cheese prices moved higher throughout the week ending Oct. 6, which pushed CME cheese and milk futures higher. The OCT Class III contract settled at \$16.80/cwt. on Friday, up 56¢ from last week. CME block and barrel cheese prices closed at \$1.76 and \$1.745/lb., respectively, up 2.5¢ and 5.25¢ from last Friday. Trading volume was limited to just three loads of blocks and six loads of barrels during the week. As a result, most of this week's price appreciation in the cheese markets was due to unfilled bids.

CME cash butter prices climbed to \$2.40/lb. through Thursday, but retreated 3.5¢ on Friday to close at \$2.34, which still bested last Friday's settlement price by 2.5¢. USDA's Dairy Market News attributed the recent softness in the butter market to a few manufacturers liquidating excess inventory. Nevertheless, USDA indicates that industry contacts expect butter prices to regain traction due to higher international prices and the upcoming seasonal holiday demand. European and New Zealand butter prices moved lower this week but remain significantly higher than U.S. prices, which is expected to support U.S. butterfat exports.

The CME spot nonfat dry milk (NDM) market posted modest improvement through Thursday, but slipped 1¢ on Friday to close at \$0.8250/lb., down \$0.0025 from last Friday's settlement price. USDA reported that manufacturers' stocks of NDM grew by 12 million pounds in August to 308 million pounds, up 31% from August 2016. The bearish stock report, released after Thursday's trading session, contributed to Friday's lower CME NDM cash and futures settlement prices.



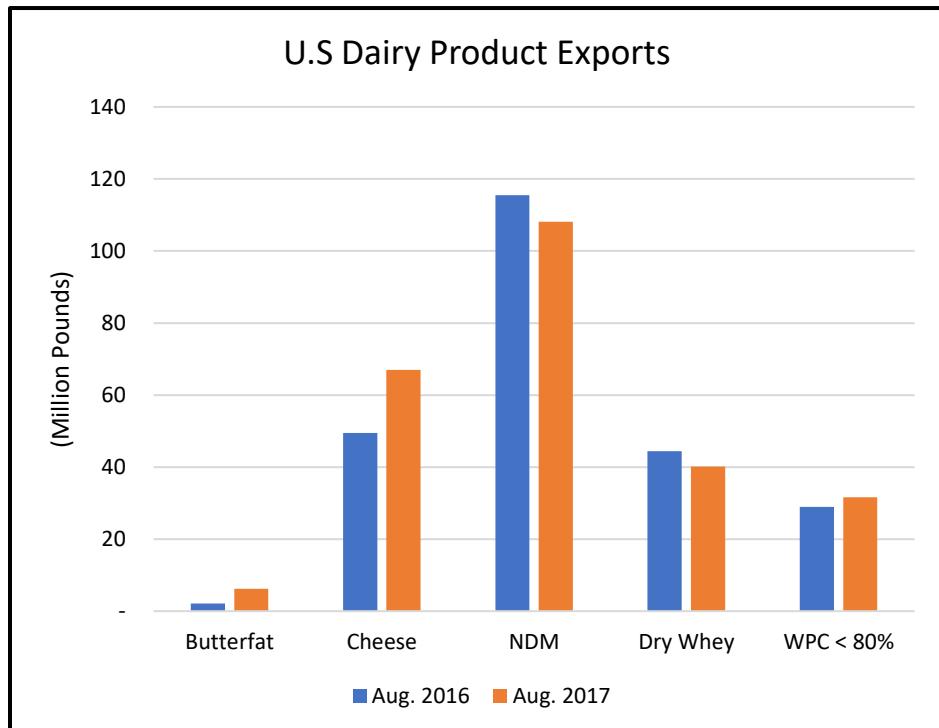
Global Dairy Trade (GDT) Event 197 concluded on Tuesday with the GDT index falling 2.4% vs. the previous auction. It was the largest biweekly decline since March 7. Closely watched whole milk powder (WMP) prices dropped 2.7% to \$3,037/metric ton (MT) for the five monthly contract periods, November 2017 through March 2018. Weakness in WMP was anticipated after Fonterra announced last week that it would up the WMP volume at the Oct. 3 auction by 15% from the prior auction to 20,980 MT, representing the highest single auction volume for the next 12 months.

The GDT skim milk powder (SMP) index continued its slide, slipping 1.4% to \$1,895/MT. On a positive note, SMP prices for product delivered in November and December improved by 6% and 1.5% to \$2,052 and \$1,954/MT, respectively, compared to the previous auction prices. December's average selling price was negatively affected by SMP offered by European dairy company Arla, which settled at \$1,830/MT compared to Fonterra's SMP closing price of \$1,975. GDT SMP prices for powder delivered in Q1 2018 averaged less than \$1,863/MT or 90¢ per pound, after adjusting to a nonfat dry milk (NDM) 35% protein equivalent. Butterfat-based product prices moved lower, which was somewhat surprising because Fonterra reduced its forecast for anhydrous milk fat (AMF) and butter offerings for upcoming auctions. The GDT butter index fell 3.6% due to declines between 4.7% and 8.3% in outer contract periods 3 through 5 (January-March) to price levels below \$5,610/MT. The drops offset gains near 1% in the November and December contracts, which exceeded \$6,180/MT or \$2.75/lb. The GDT Cheddar cheese price index posted the most significant gain vs. the prior auction of 1.9% to \$4,109/MT, or \$1.86/lb. for the deliveries from November 2017 through March 2018. Current Oceania and European cheese prices are higher than U.S. cheese prices which bodes well for U.S. cheese exports.

U.S. cheese production seasonally dipped in August but surpassed the prior year according to USDA's Dairy Products report released on Thursday. August cheese production totaled 1.03 billion pounds, 0.7% less than July but 2.3% more than a year ago. Mozzarella cheese output reached 335.8 million pounds, up 2.3% vs. the prior year. Cheddar cheese production at 285 million pounds was just 1.2% above August 2016.

Seasonally, combined NDM/skim milk powder (SMP) production eased to 182 million pounds, down 8.9% vs. July but nearly 11% more than August 2016. Butter output declined 3.4% from July to 131.2 million pounds but exceed last year's level by 6.2%, marking the largest YOY gain in butter output this year, and the highest August butter output since 2013. It's likely that higher than expected production during the month contributed to downward price pressure on the butter market during September and into early October.

U.S. dairy product exports in August improved vs. the prior month and exports of most products were above August 2016 levels. Cheese exports totaled 67 million pounds, up 11% vs. July and 35% more than last year. August cheese exports outpaced the five-year average at 53 million pounds. U.S. exporters made progress in August, with higher year-over-year sales volume to Mexico, up 29%, and to Japan, up 96%. Butter exports in August expanded to 6.2 million pounds, up 187% vs. the prior year and 21% more than in July. Nonfat dry milk (NDM) exports improved to 108.1 million pounds, up 16% vs. July but still 6.4% lower than the prior year due to stiff global



competition. Nevertheless, NDM export volumes exceeded the five-year average of 100 million pounds for August. Going forward, it is critical that U.S. dairy product exports continue to grow to absorb greater year-over-year milk production and correspondingly higher dairy product output.

CDFA mails ballots for Quota Implementation Plan vote

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

Today, the California Department of Food and Agriculture (CDFA) mailed 1,054 white 9"x13" envelopes containing a blue ballot, a cover instruction letter, a copy of the Quota Implementation Plan and a postage paid return envelope to eligible California dairy producers. The envelopes have the words "ballot enclosed" printed on them.

CDFA identified 1,054 eligible producer voters. Remember, if you have multiple dairies under the same ownership, the milk volume from those dairies are combined, but you have only one vote. If you are part of multiple dairies that have different ownership, then each dairy with a different partnership structure has one vote.

The referendum rules require that 51% of the eligible voters actually vote. So that means a minimum of 538 ballots need to be cast for the referendum to be valid. Of the ballots returned, 51% of the votes representing 65% of the voting milk volume need to vote yes for the referendum to pass; or 65% of the votes cast representing 51% of the voting milk need to vote yes for the referendum to pass.

The purpose of this referendum is to adopt a means to maintain the California quota program IF California producers vote to join the Federal Milk Marketing Order (FMMO) system. A vote on becoming an FMMO will take place in the future after the USDA publishes a final FMMO plan for California. The current vote on the Quota Implementation Plan is critical because without a yes vote on this plan, there will be no way to continue with the quota system under a California FMMO.

Still have questions about the proposed CDFA Quota Implementation Plan and what it means for our industry? Get them answered at a series of upcoming informational sessions scheduled over the next few weeks. **Read the following article for all the details.**

The deadline for getting your ballot returned to CDFA is December 4, but don't wait. It is a good plan and it paves the way for us to consider an FMMO for our future. So, get your ballot in right away before you forget about it and it gets buried under the other paperwork on your desk!





Quota Implementation Plan (QIP) Dairy Producers Meetings

In addition to informational sessions conducted by California Dairies Inc. (CDI), Dairy Farmers of America (DFA) and Land O'Lakes (LOL), a series of joint dairy producer meetings will be held throughout the state in the next few weeks. The presentations will be brief to allow ample time for questions you may have. This is a producer-only process and 51% of ballots must be returned for the California Department of Food and Agriculture (CDFA) to even consider referendum results. Therefore, producer organizations in the state want you to be aware of the importance of your vote.

- **October 16, Stanislaus County Farm Bureau, 1201 L Street, Modesto, 10am**
- **November 6, Chino, Chino Fairgrounds, 5410 Edison Avenue, Chino, 10:30am**
- **November 7, Tulare, Heritage Complex, 4450 S. Laspina Ave, Tulare, Conference Dining Room, 10am**

Agenda:

- Statewide QIP Referendum: Description of the QIP and main features
- Questions & Answers

Note: The Quota Implementation Plan (QIP) was delivered to the post office for mailing on October 6. The ballot (which is on blue paper) is in a 9X13 white envelope with BALLOT ENCLOSED noted on the envelope. Included in the envelope is a cover letter with instructions, the QIP language, and a postage paid envelope to return the ballot. The close of the referendum is December 4, 2017.

We believe that supporting the QIP is the only path forward to allow fair consideration for a FMMO in CA and are urging you to make an informed decision by attending one of the meetings referenced above prior to casting your vote.

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