



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@milproducers.org ~ www.MilkProducers.org



DATE: August 4, 2017
TO: Directors & Members

PAGES: 5
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	- \$.0575	\$1.6975
Barrels	- \$.0250	\$1.5300

Weekly Average, Cheddar Cheese

Blocks	+ \$.0235	\$1.7420
Barrels	+ \$.1045	\$1.5730

CHICAGO AA BUTTER

Weekly Change	+.0100	\$2.7300
Weekly Average	+ \$.0755	\$2.7100

DRY WHEY

Dairy Market News	w/e 08/04/17	\$1.4200
National Plants	w/e 07/29/17	\$1.4501

NON-FAT DRY MILK

Week Ending 7/28 & 7/29

Calif. Plants	\$0.8958	7,782,206
Nat'l Plants	\$0.8862	17,525,222

Prior Week Ending 7/21 & 7/22

Calif. Plants	\$0.9053	8,196,328
Nat'l Plants	\$0.8909	20,944,532

Fred Douma's price projections...

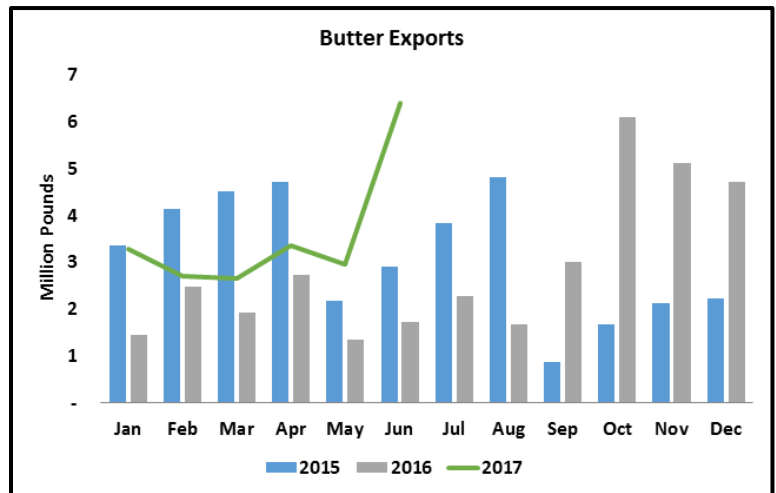
August 4 Est:	Quota cwt. \$17.99	Overbase cwt. \$16.29	Cls. 4a cwt. \$16.81	Cls. 4b cwt. \$16.30
July '17 Final:	Quota cwt. \$17.08	Overbase cwt. \$15.38	Cls. 4a cwt. \$16.42	Cls. 4b cwt. \$15.28

Market commentary

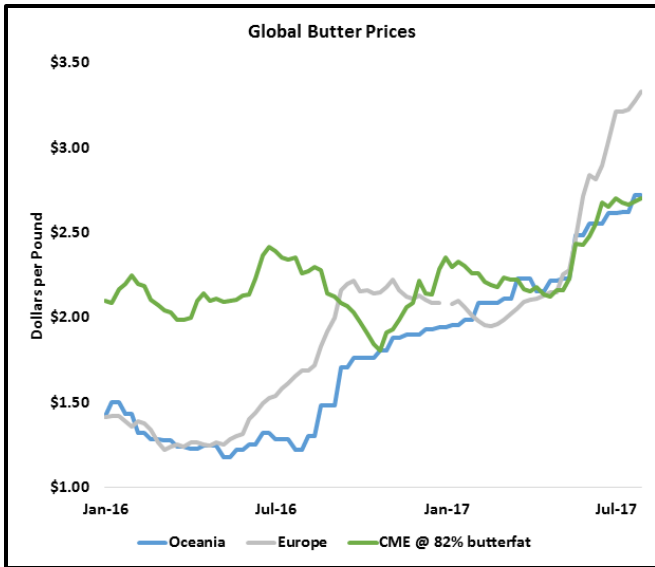
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

Butter is better, and the whole world knows it. Consumers have reached a consensus: dairy is a tasty, natural source of fat, and the low-fat fad of the '80s and '90s deserves to go the way of parachute pants and windbreakers. Butter production is not keeping pace with demand. In the U.S., butter output totaled just 140.6 million pounds in June, down 4.8% from the same month last year. Production is also inadequate abroad, making room for U.S. product. U.S. butter exports reached 6.4 million pounds in June, the highest monthly volume since August 2014. Canada accounted for 70% of the total. Exports exceeded imports by 1.2 million pounds, the first positive monthly trade balance since January 2015. Dairy Market News reports solid demand at home and improving sales abroad due to the widening gap between U.S. and overseas prices.



After pausing for a few weeks, the European butter market is clambering higher once again. The average winning price for butter dropped 4.9% at the Global Dairy Trade (GDT) auction on Tuesday, but it remains very near the GDT's all-time highs, and the September contract finished higher. CME spot butter rallied to fresh 19-month highs yesterday and closed today at \$2.73/lb., up a penny on the week. Class IV futures were little changed.

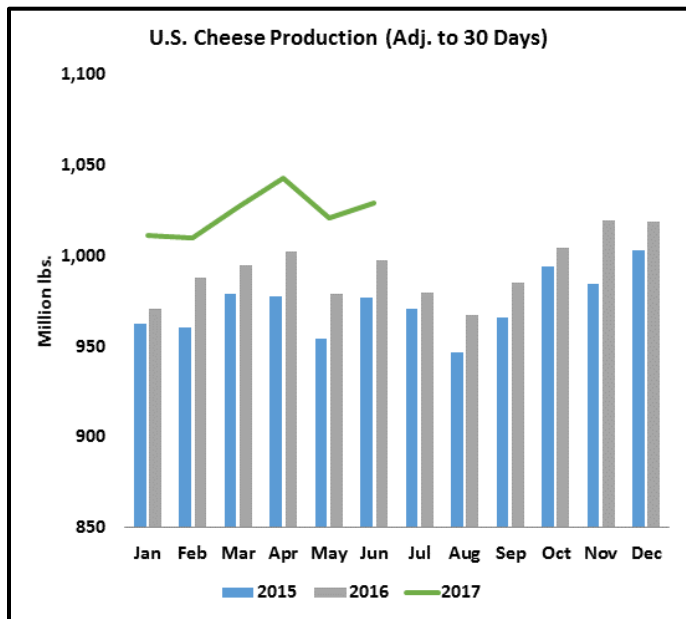
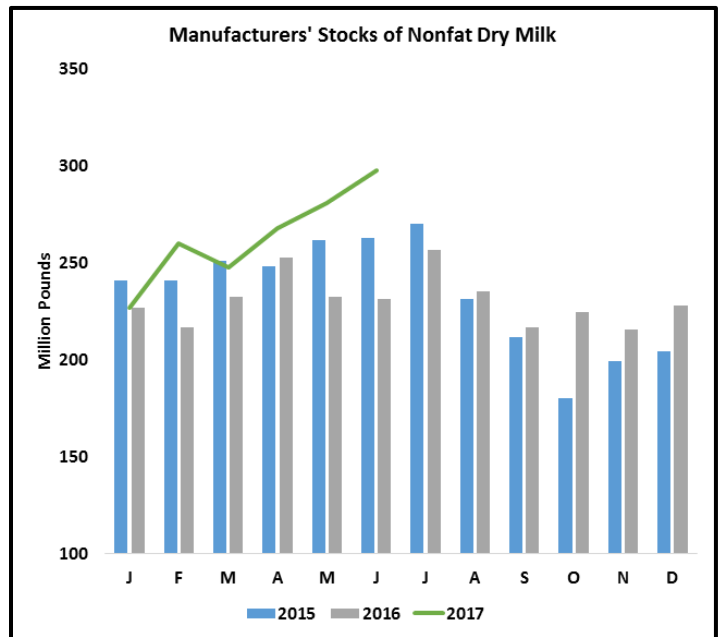


The U.S. milk powder market managed a modest increase. CME spot nonfat dry milk (NDM) climbed 0.25¢ to 86.25¢. That is no mean feat given a 3% selloff in skim milk powder (SMP) at the GDT on Tuesday. The market seems resilient despite plentiful supplies in the U.S. and Europe. U.S. NDM exports in June were respectable but far from exciting; they were 8% greater than the modest volumes of June 2016. It will take more than that to make a dent in U.S. milk powder inventories, which grew to 297.5 million pounds in June, up 28.9% from last year.

The cheese markets rallied early in the week but couldn't hold their ground. CME spot Cheddar blocks dropped 5.75¢ to \$1.6975. Barrels slipped 2.5¢ to \$1.53. GDT Cheddar prices fell 4.8% from the previous auction. Class III futures posted double-digit losses; the September contract fell 47¢.

U.S. cheese output remained heavy in June; it reached 1.03 billion pounds, up 3.9% from a year ago. There is still plenty of milk, but there are fewer loads seeking homes at discounted prices in the East and Midwest, which has allowed cheese makers to slow their formerly arduous production pace. *Dairy Market News* reports that some cheese plants in the Midwest were able to grant employees days off for the first time in a while.

The U.S. exported 67.3 million pounds of cheese and curd in June, some 32.5% more than a year ago. Exports of fresh cheese were particularly strong. Whey exports continued to climb in June. At 39.1 million pounds, they were 5.3% higher than a year ago. Through the first half of the year, whey exports are almost 20% higher than the first six months of 2016.



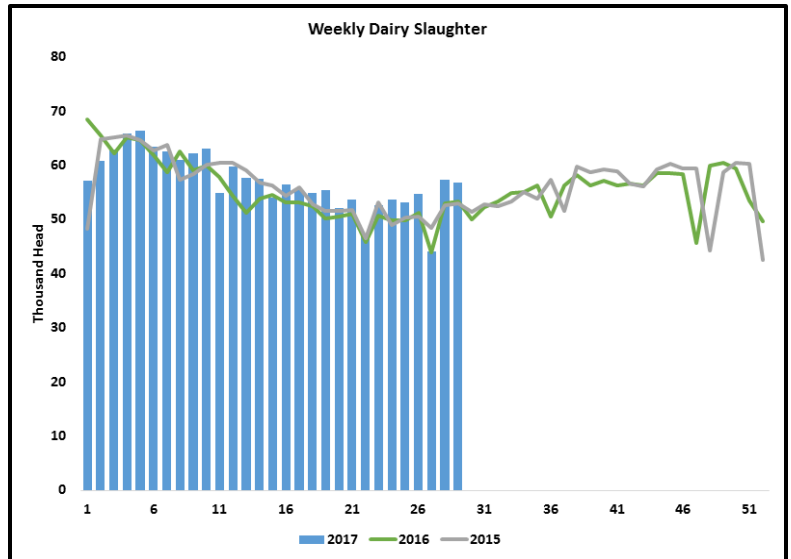
For the week ending July 22, dairy cow slaughter was 56,763 head, up 6.6% from the same week a year ago. Dairy producers have been culling heavily for the past month or so, pushing year-to-date slaughter 3% ahead of last year's pace. This is partly due to the fact that the dairy herd is considerably larger than it was a year ago. But higher slaughter volumes may also signal that today's margins don't justify such crowded barns. National average profits look good on paper, but the on-farm realities can be quite different, particularly in areas with higher feed costs, adverse weather, or sharply discounted milk checks. Elevated dairy cow slaughter could represent an incremental step on the path to slowing the relentless growth in U.S. milk output.

USDA reported July Class III milk at \$15.45/cwt., down 99¢ from June but up 21¢ from a year ago. California 4b

milk was \$15.29, down 31¢ from June. At \$16.41, California 4a milk was 50¢ higher than June. July Class IV milk was \$16.60, up 71¢ from June and \$1.76 higher than a year ago.

Grain Markets

Weeks of hot, dry weather gave way to cooler, wetter conditions in the Corn Belt, and the bulls scrambled to get out of the rain. September corn futures settled at \$3.665 per bushel, down 8.25¢ this week. September soybeans closed at \$9.5225, more than 50¢ in the red.



The market remains wary of the impact of well-below-normal rainfall in the Dakotas and Iowa in July, which surely impacted corn yields. But the soybean crop, which mostly pollinates this month, is assumed to be in better shape. And both crops are perking up with the help of more regular moisture. Look for continued volatility next week when USDA issues its monthly update to its supply and demand estimates. This will be the agency’s first assessment of yields using survey data rather than assuming trend-line yields, so the market will be watching the yield figures closely.

It’s been very wet in the Northeast all spring and summer. Hay is likely of poor quality and the corn crop has matured very slowly, putting it in danger of an early-season frost. Forage quality could be an issue, which has the potential to weigh on milk production in the region in the year to come.

Senate Appropriations Committee includes changes to Margin Protection Program in Agriculture Spending Bill

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

The Senate Appropriations Committee included a couple of changes to the Margin Protection Program (MPP) in spending legislation that is moving through Congress. The major change is a dramatic reduction in the premium cost of “buying up” margin coverage for the first 5 million pounds of annual production. The cost reductions are reflected in the following table:

Coverage Level	Premium per cwt. first 5 million pounds		Premium on over 5 million pounds
	Current	Proposed	
\$4.00	\$0.00	\$0.00	\$0.00
\$4.50	\$0.010	\$0.00	\$0.020
\$5.00	\$0.025	\$0.00	\$0.040
\$5.50	\$0.040	\$0.009	\$0.100
\$6.00	\$0.055	\$0.017	\$0.155
\$6.50	\$0.090	\$0.043	\$0.290
\$7.00	\$0.217	\$0.068	\$0.830
\$7.50	\$0.300	\$0.094	\$1.060
\$8.00	\$0.475	\$0.153	\$1.360

As you can see, this is a great deal for producers on that first 5 million pounds of annual production (the Senate bill also raised the threshold for the lower premiums from 4 million pounds to 5 million pounds). However, for producers who are of a size where 5 million pounds is not a meaningful level of coverage, the rates on higher volumes have not changed and the gap between those rates is massive.

Milk Producers Council supported the creation of the Margin Protection Plan because it provided a safety net that was available to all producers regardless of size. The program that Congress created already favors the small volume producers through reduced rates. This proposed change by the Appropriations Committee greatly exacerbates the current situation. Furthermore, a big concern that MPC has had is that any safety net (which by design reduces risk to dairy farmers) not be too generous. The practical effect of this premium reduction is to give every dairy farmer in the country that has 250 cows or less the opportunity to guarantee an \$8.00 margin for a premium of \$0.15 per cwt. That seems too generous to us and therefore not good policy. We appreciate the desire by the Appropriations Committee to strengthen the MPP with more resources, but believe those resources should be deployed in a way that does not pick winners and losers among American dairy farmers.

Farm Bill listening session scheduled for tomorrow in Modesto

By Kevin Abernathy, MPC General Manager

Dairy farmers have an opportunity on Saturday, August 5 to make their voices heard on an important piece of agriculture legislation. House Agriculture Committee Chairman K. Michael Conaway, along with other committee members, are hosting a listening session on the 2018 Farm Bill. This event is at the Modesto Junior College West Campus ACE Ag Pavilion and begins at 9 a.m. This upcoming Farm Bill has a major impact on the industry in the coming years, and we here at MPC are following any new developments closely.

FARM BILL



HOUSE AGRICULTURE COMMITTEE

THE NEXT FARM BILL

CONVERSATIONS IN THE FIELD

Please join Chairman K. Michael Conaway and members of the House Agriculture Committee for a listening session on:

Saturday, Aug 5, 2017
Modesto Junior College West Campus
Beginning at 9:00 AM

ACE Ag Pavilion
Brink Ave & Shoemaker Ave
Modesto, CA 95385

Questions?
202.225.2171

The Producer Review Board moves Stand-Alone Quota Program one step further

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

On Wednesday, August 2, 2017 the Producer Review Board (PRB) met again in Modesto to conduct a page by page review of the Quota Implementation Plan regulatory language prepared by CDFA staff. The issue they wrestled with the most was how and when to set the level of the assessment, and how often should it be changed. The challenge is that while the amount of the payment to quota holders every month is very stable, the amount of milk that will be assessed to pay that cost varies quite a bit from month to month, mostly because of the seasonality of milk production. What the department staff had proposed was setting an initial rate and then adjusting it every three months based on the level of payments divided by the amount of assessable milk of the most recent three months. This was changed to “The Secretary shall review and/or adjust the quota premium assessment rate as needed. The rate of assessment shall be computed by dividing the quota premium paid to producers, net of Regional Quota Adjusters, for the most recent 12 month period by the pounds of assessable solids not fat produced in those 12 months.” This change deals with the seasonality problem and gives the Secretary the flexibility needed to make adjustments if necessary. They then set the initial rate at \$0.38 per cwt.

The other issue in the draft language prepared by CDFA that attracted a strong reaction from the PRB was the provision that if the assessment rate increased by about 11% over the initial rate, a new producer referendum would have to be conducted to continue the program. The PRB was very unified in tossing this provision. What they did agree to was the conducting of a survey of producers every five years to get producers input on the functioning of the stand-alone quota program. This item does not require any action; it just



The Producer Review Board hears testimony at its August 2 meeting in Modesto.

requires review and discussion of the program by the Producer Review Board on a regular five year schedule. The PRB did work through the rest of the language, correcting typos, tweaking reporting dates, refining definitions, etc., but no more significant changes were made.

The next and final meeting is scheduled for September 12, 2017. Public Comments on the plan are being accepted until August 23, 2017. If you would like to submit any written comments on the Plan you can mail them to the CDFA. Address them to: Candace Gates, CA FMMO Coordinator, 1220 N Street, Sacramento, CA 95814. Better yet, email them to: Candace.gates@cdfa.ca.gov.

At the September 12 meeting, the PRB will review the comments and CDFA will have a final cleaned up version of the plan that the PRB will have one last crack at. It is anticipated that the Quota Implementation Plan will be adopted in total by the PRB then and forwarded to the Secretary for her approval and submission to the producers for a vote.

A ballot will be mailed to every eligible producer in California and they will have 60 days to return it. In order for the referendum to pass, at least 51% of the eligible producers need to vote, and either 65% of the voters representing at least 51% of the total amount of fluid milk produced, or 51% of the votes representing 65% of the milk need to vote yes for the referendum to be approved. The department anticipates the vote will occur in October and November of this year. Remember, this plan only goes into effect IF California producers also approve establishing a Federal Milk Marketing Order for California.
