



# Milk Producers Council

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DATE: August 12, 2016  
TO: Directors & Members

PAGES: 7  
FROM: Rob Vandenhoevel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0350 \$1.7800  
Barrels - \$.0150 \$1.8650

### Weekly Average, Cheddar Cheese

Blocks +\$.0305 \$1.7960  
Barrels +\$.0550 \$1.8770

### CHICAGO AA BUTTER

Weekly Change - \$.0200 \$2.2500  
Weekly Average +\$.0250 \$2.2430

### DRY WHEY

Dairy Market News w/e 08/12/16 \$2.2975  
National Plants w/e 08/06/16 \$2.2825

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### NON-FAT DRY MILK

#### Week Ending 8/5 & 8/6

Calif. Plants \$0.7995 5,768,245  
Nat'l Plants \$0.8487 14,061,138

#### Prior Week Ending 7/29 & 7/30

Calif. Plants \$0.7920 9,091,435  
Nat'l Plants \$0.8407 18,424,046

## FRED DOUMA'S PRICE PROJECTIONS...

Aug 12 Est: Quota cwt. \$16.55 Overbase cwt. \$14.85 Cls. 4a cwt. \$13.83 Cls. 4b cwt. \$16.20  
Last Week: Quota cwt. \$16.64 Overbase cwt. \$14.94 Cls. 4a cwt. \$13.88 Cls. 4b cwt. \$16.37

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MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

School buses are revving and the weather is still sultry. Cows and dairy producers are feeling the heat. Milk intakes are down, and bottlers are pulling more heavily on fluid supplies, leaving less raw milk but still plenty of cream available for butter churns. In the Central region, *Dairy Market News* reports that butter "production is more active than most contacts had anticipated." Demand is strong, and manufacturers are playing coy despite being able to quickly restock their warehouses as product moves out. Some butter buyers have not been able to secure all the product they want, which is likely undergirding the market. September butter futures jumped a nickel today, closing at their upper daily trading limit. The November contract gained nearly as much. Nonetheless, nearby butter futures finished the week a little in the red, and CME spot butter slipped 2¢ to \$2.25/lb.

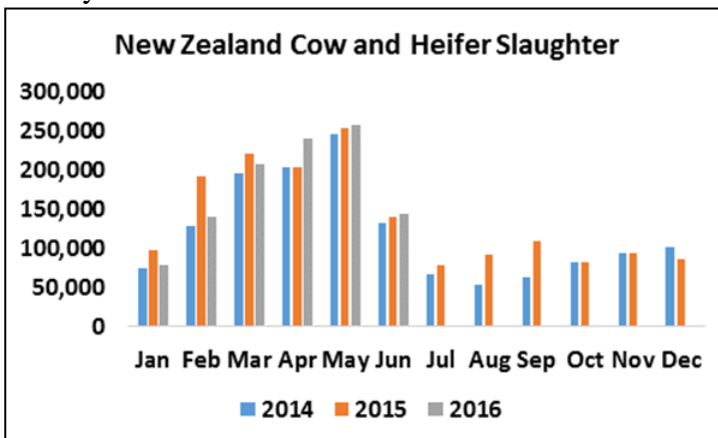
The spot milk powder market moved higher Tuesday but then retreated. Spot nonfat dry milk (NDM) finished even with last Friday at 83.25¢. Class IV futures were steady to 21¢ higher. U.S. milk powder output is suffering a temporary setback as heat stress mounts. But the herd is large; when cooler weather arrives, milk and powder volumes are likely to climb again.

Overseas, waning milk and milk powder volumes may be more abiding. In Europe, milk production is slowing and manufacturers are shifting more milk to cheese vats and away from driers. Of the 24 Eurozone nations that have reported milk collections in June, 14 reported output steady or lower than last year. With milk powder prices above the intervention threshold, product is only slowly augmenting the government's supplies. Most is hitting the open market.

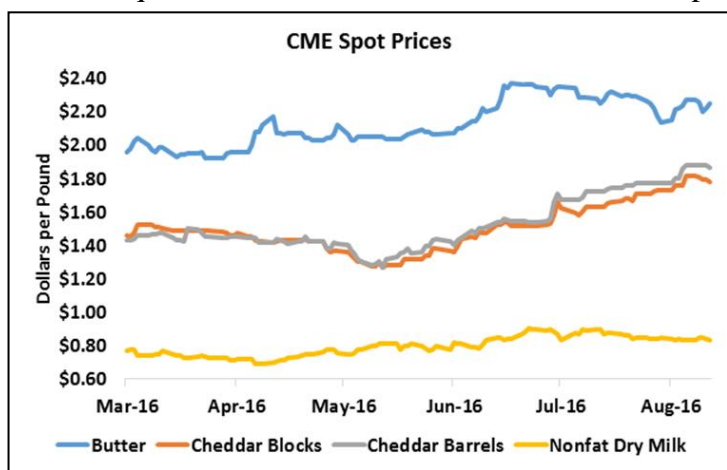
In New Zealand, dairy producers and beef cattle growers sent a record-breaking 520,705 cows and 140,158 heifers to slaughter in the second quarter. The dairy industry was already back on its heels; for the first time in more than a decade, dairy producers began the 2015-16 season with fewer cows than the year before. Given

aggressive culling in April through June, dairy producers likely started the new season with a herd smaller than last year's 6.69 million head.

Cash-strapped dairy producers in New Zealand are unlikely to spend much on supplemental feeds this year. Beginning next June, members of state-owned Landcorp won't be allowed to feed palm kernel expeller, a widely used supplement, even if they had the capital and the inclination. Fonterra has followed suit, asking its members to limit daily palm kernel use. The *Daily Dairy Report* noted earlier this week, "Poor on-farm margins, lower cow numbers, and limitations on a major feed supplement could hobble New Zealand milk output in the 2016-17 season. At the very least, it could make it difficult for New Zealand to respond should world dairy product prices move higher."



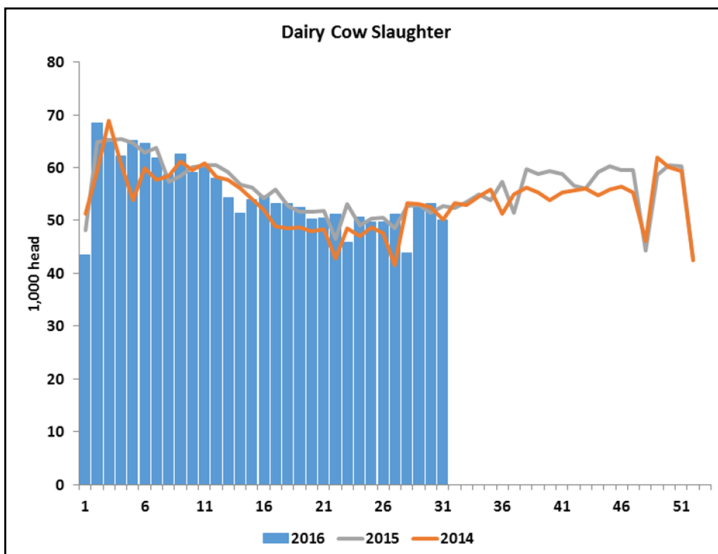
It was a quiet week in the cheese markets. CME spot Cheddar barrels managed to hold at their \$1.88 perch through Thursday, but they dropped Friday to \$1.865, down 1.5¢. Blocks shed 3.5¢, falling to \$1.78. Subdued milk intakes and robust domestic demand have helped to prevent an even steeper decline, but eventually record-breaking stockpiles could weigh on the cheese markets.



The whey market continues its slow, steady climb. Demand is solid, and exports are flourishing. Whey futures finished mostly higher than last week.

Dairy producers have suffered from months of painfully low milk prices, but the market has done its job. Global consumers' appetites have indubitably been stimulated by much lower prices than those that prevailed in 2014. Dairy futures point higher, and beef and bull calf values seem to be stabilizing. Feed costs are low and falling. Our competitors in Europe, Oceania, and South America are tapping the brakes. The U.S. dairy industry seems on the verge of a period of slim but sustainable profit margins. The outlook offers none of the dizzying excitement of sky-high pay prices, but neither does it threaten the heartbreak of the bust that inevitably follows the boom.

Just in time for the recovery, 62 legislators have bravely called on the USDA "to take any and all actions available in order to make an immediate market injection and offer financial assistance that will directly support U.S. dairy farmers equally, while being cautious to not stimulate overproduction further." Such actions would fall under the Commodity Credit Corporation Charter Act, which suggests that USDA would purchase dairy products in the hopes that this temporary, artificial demand would support milk prices. But as USDA's *Dairy Market News* has noted nearly every week for months, demand for most dairy products is already respectable and in some cases downright impressive. The U.S. dairy industry has often looked askance at the market manipulations underway in Europe. Such ire is hypocrisy. Of late the

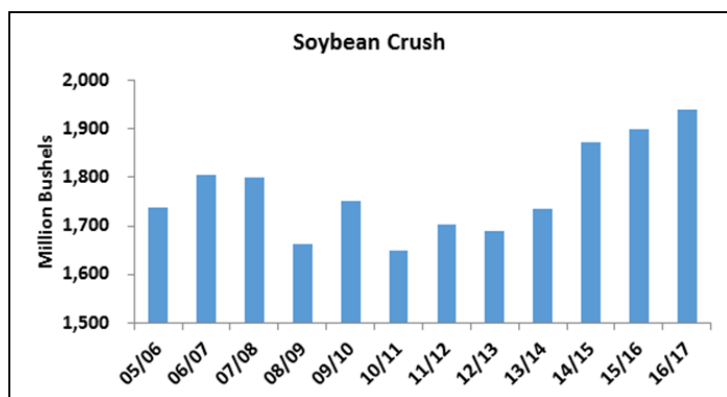
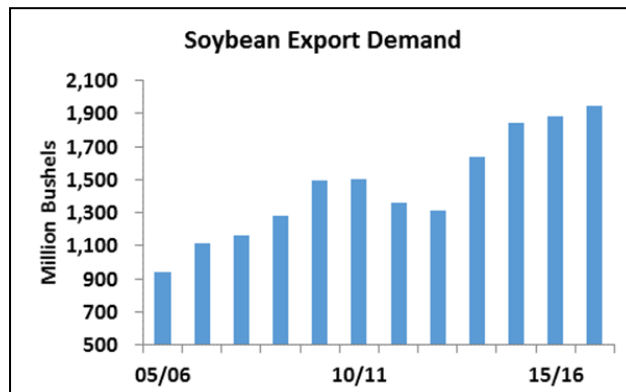


Europeans have at least limited their meddling to periods when prices were truly floundering. Now that the market is recovering, their intervention purchase program is less intrusive.

For the week ending July 30, dairy cow slaughter totaled 53,294 head, down 5.3% from the same week a year ago. For the year to date, dairy slaughter is running 1.6% behind last year's pace.

### Grain Markets

USDA shocked the grain markets today, calling for record-breaking corn and soybean harvests. After surveying fields for the first time, the agency projected an astonishingly high corn yield of 175.1 bushels per acre, higher than any analyst officially called for ahead of today's report. USDA expects the soybean crop to average 48.9 bushels per acre, also in excess of all pre-report guesses. Both markets plunged initially after USDA's Crop Production and World Agricultural Supply and Demand Estimates reports. But they staged a late-session comeback. September corn finished at \$3.2225 per bushel, down just 2¢ this week. September soybeans closed at \$9.99, up 11¢.



The corn crop is in good shape in most of the Corn Belt, and in many areas it is excellent. But a yield of 175.1 would require perfection nearly everywhere and that seems unlikely. The fact that corn futures closed higher today suggests that the trade believes the corn crop is not quite as large as USDA estimates.

The soybean crop looks fantastic, but for today's prices to hold, it must remain so. The forecast is relatively cool and wet, but it is not as wet as some farmers would prefer. Demand is formidable; USDA is calling

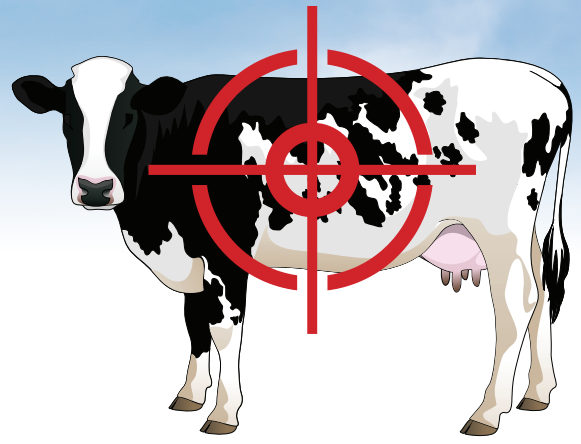
for record-breaking exports and a sizable increase in the domestic crush. Even with the largest soybean crop ever, demand could propel the market upward.

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### PUSHING BACK ON ATTEMPTS TO REGULATE METHANE ON OUR STATE'S DAIRY FARMS:

*(By Rob Vandenheuvel)* We've written articles over the course of this year about the dangerous efforts by some in Sacramento – both elected (Legislature) and non-elected (Air Resources Board) – who are on a mission to force reductions in the methane generated by California dairy farms through strict regulation. Those articles have talked about the insanity of California's "go-it-alone" approach to climate change regulations, and MPC has joined with our fellow partners in the industry to do our best to educate the leaders in Sacramento on the dangers and risks of writing laws and creating mandates that create pie-in-the-sky goals to cut back methane generation, with no viable plan to actually achieve those goals.

With the Legislature sprinting towards the end of their 2016 session on August 31<sup>st</sup>, the risk of business-killing laws being approved in Sacramento is at its peak for the year. To try and combat this significant threat to our industry, MPC joined Western United Dairymen and California Dairy Campaign to bring the issue "back to the basics" through a series of easy-to-understand, one-page flyers on the issue. These flyers have been delivered to Legislators and their staff, and the effort is starting to turn some heads, including a very negative reaction from the head of the Air Resources Board (Winning!). The first four flyers in this series were published this week, with more to come. We've attached those flyers to this newsletter, and you can see some of the media coverage they've generated at: <https://saynotosb32.com/mediacoverage/>. Many thanks to our partners California Dairy Campaign and Western United Dairymen for collaborating on this critical defense of our industry's long-term future! The insanity must be stopped!

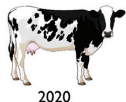


# per·spec·tive

California’s Global Warming Solutions Act of 2006 (AB 32) secured the state’s role as a global leader in reducing greenhouse gas emissions and serves as an example of how other regions can take similar action in reducing GHG.



## Dairy’s shrinking carbon footprint



The greenhouse gas emissions (carbon footprint) per unit of milk produced has shrunk by more than 63 percent across the U.S. dairy industry since 1944.

Sources: U.S. Department of Agriculture, Innovation Center for U.S. Dairy

California’s dairy farm families have been equally bold in demonstrating how industries can reduce GHG and set an example for the rest of the world. California’s dairies already produce milk with the lowest carbon “hoofprint” compared to anywhere else in the world. In fact, the carbon footprint of California milk is less than half the global average and far, far less than that found in Asia, South America and most other regions.

Overall, California’s family dairy farms have **reduced the carbon footprint of a glass of milk by more than 63 percent** since World War II, an achievement unparalleled anywhere else in the world.

Rather than applaud the achievements of California dairy farms, the Air Resources Board (ARB) wants to mandate even further reductions in dairy methane emissions by another **75 percent**. These draconian requirements are not achievable and **ARB is setting up the state and our dairy farm families for failure**. Clearly ARB has lost its sense of perspective.

Over the course of the next few weeks we will share the countless reasons why ARB’s **Short-lived Climate Pollutant (SLCP) Reduction Strategy** and its’ proposed mandates on hard working dairy farm families are fundamentally flawed.

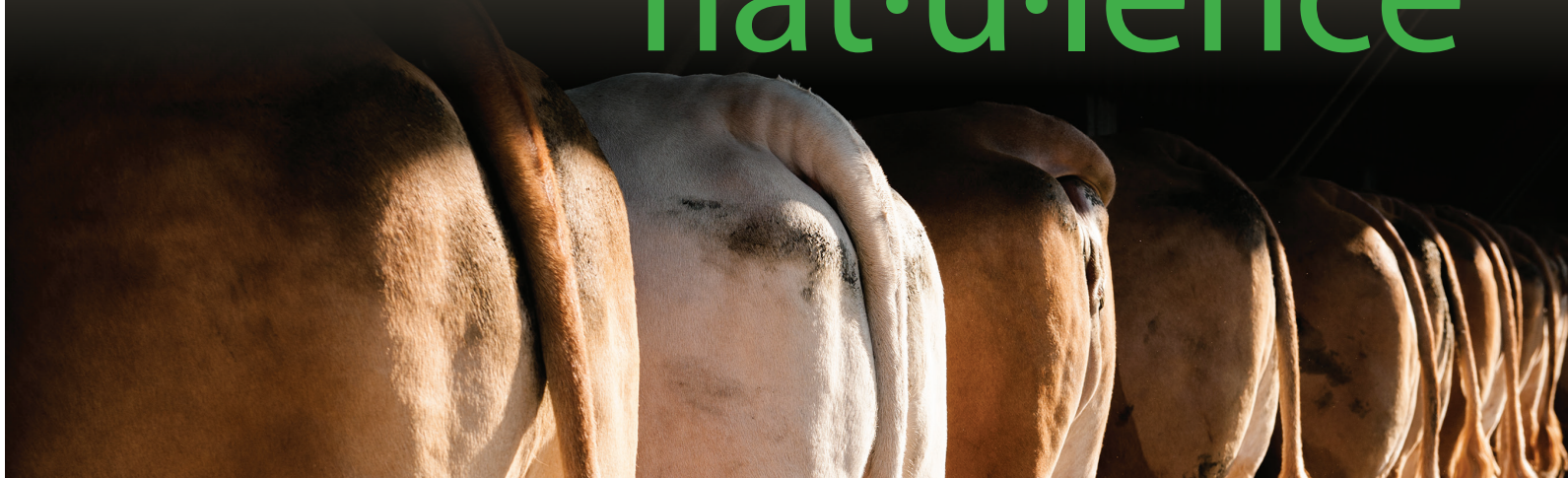


## Say NO to Unbridled ARB Authority.

Brought to you by California’s family dairy farms.



# flat·u·lence



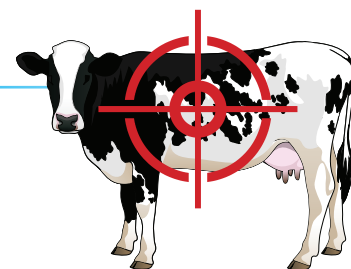
While certainly not a popular or sexy topic of discussion, flatulence is a very natural activity for ruminant animals like cows. Who among us hasn't occasionally burped, belched or otherwise passed a little gas. Even supermodels might let a little gas slip from time to time. None of us like to admit it, but we all know it happens. If humans had four stomachs like cows do, we would all likely generate a little more gas.

Apparently the Air Resources Board (ARB) has a low tolerance for what happens naturally. It is hard to believe but they are actually planning to mandate a **25 percent reduction in "enteric emissions" from dairy cows and other cattle.** That's right, they want to regulate cow burps and farts, even though their own Short-Lived Climate Pollutant Reduction Strategy acknowledges there is **no known way to achieve this reduction.**

Clearly the ARB has once again gone too far—this time trying to regulate flatulence. But that is exactly what happens when the legislature sets **unrealistic GHG reduction targets.** ARB staff then has unbridled authority to do whatever they want to meet the unachievable mandates.

**Clearly the flatulence police need to be reined in!**

*"That's right, they want to regulate cow burps and farts, even though their own Short-Lived Climate Pollutant Reduction Strategy acknowledges there is **no known way to achieve this reduction.**"*



**SAY NO!**

TO:  
SB 32 &  
SB 1383

**Say NO to Unbridled ARB Authority.**

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# un·a·chiev·a·ble



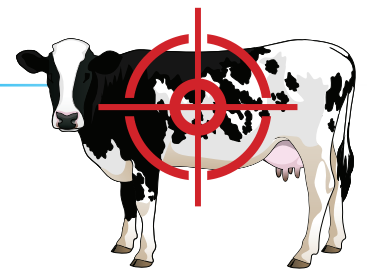
Broad political “goals” adopted by policymakers quickly turn into mandatory regulations when unaccountable bureaucrats are given **carte blanche** to develop the actual policies and programs necessary to achieve the objectives. That is the primary problem with the Air Resources Board’s (ARB’s) proposed Short-lived Climate Pollutant (SLCP) Reduction Strategy.

Rather than a thoughtful bottom-up analysis of what can be cost-effectively achieved to reduce dairy methane emissions, the SLCP strategy is a top-down command-and-control program designed to achieve a politically driven 75 percent reduction in methane emissions on California dairy farms by 2030. The plan goes so far as to mandate a 25 percent reduction in dairy flatulence (see countless reason #1).

A 75 percent reduction in dairy methane emissions is unlikely to be achieved under any circumstances. California currently has 14 operating dairy methane digesters that have been built over the last 10-15 years. **In order to achieve the ARB’s mandated 75 percent reduction in dairy methane emissions another 500-600 digesters would need to be built and operating by 2030.** That is simply not going to happen in that timeframe.

**Setting unachievable goals is always bad public policy!**

*Adopting unachievable mandates and setting up California dairy farm families and the state’s climate change programs for failure is **fundamentally flawed climate policy.***



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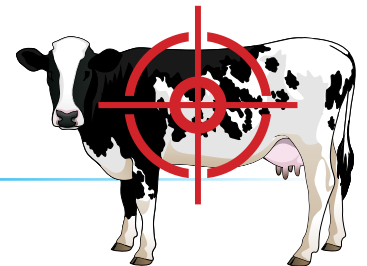
# un·re·al·is·tic

Sometimes government regulators simply get carried away doing their jobs and lose sight of reality. That is exactly what happened with the Air Resources Control Board's Short-lived Climate Pollutant (SLCP) Reduction Strategy. ARB regulators are so determined to achieve the methane reduction goals announced at the Paris Climate Accord last year, **they have lost sight of reality.**

Just how unrealistic are the dairy methane reduction mandates proposed by ARB? About as unrealistic as flying cows! ARB's dairy methane reduction mandates include a 25 percent reduction in flatulence (see countless reason #1). ARB's proposed mandates would also require the development of 500-600 new dairy methane digesters (see countless reason #2). According to ARB's own analysis, that could cost as much as several billion dollars. **That's right, more than \$2 million, on average, for each and every one of California's remaining 1,400 family dairy farms.**

That's simply not realistic and will drive even more California family dairy farms out of business. **In just the last decade alone more than 500 family dairy farms have been lost in California.**

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