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DATE: February 24, 2017 **PAGES: 5**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0050*	$1.5750
Barrels	*- $.1025*	$1.5175
Weekly Average, Cheddar Cheese		
Blocks	*- $.0554*	$1.5431
Barrels	*- $.0871*	$1.5569

CHICAGO AA BUTTER		
Weekly Change	*- $.0275*	$2.1300
Weekly Average	*- $.0116*	$2.1294
DRY WHEY		
Dairy Market News	w/e 02/24/17	$.4950
National Plants	w/e 02/18/17	$.4940

NON-FAT DRY MILK		
Week Ending 2/17 & 2/18		
Calif. Plants	$1.0099	4,705,718
Nat'l Plants	$0.9820	11,874,320
Prior Week Ending 2/10 & 2/11		
Calif. Plants	*$0.9979*	*6,987,532*
Nat'l Plants	*$0.9914*	*13,448,105*

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FRED DOUMA'S PRICE PROJECTIONS…

Feb 24 Final:	**Quota cwt. $17.21**	**Overbase cwt. $15.51**	**Cls. 4a cwt. $15.42**	**Cls. 4b cwt. $15.81**
Last Week:	**Quota cwt. $17.23**	**Overbase cwt. $15.53**	**Cls. 4a cwt. $15.41**	**Cls. 4b cwt. $15.85**

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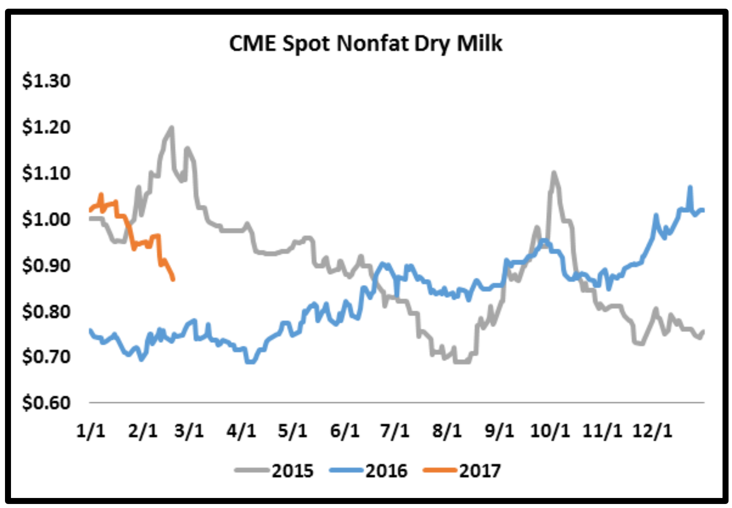
MARKET COMMENTARY

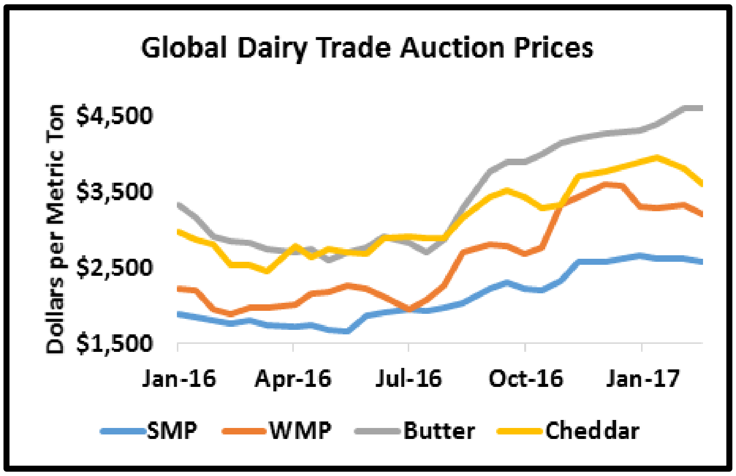
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

Panic reigns in the milk powder market. CME spot nonfat dry milk (NDM) prices slipped 4.75¢ this week to an eight-month low at 82.25¢/lb. A number of futures contracts tested their lower daily trading limits today. At the Global Dairy Trade (GDT) auction, both skim milk powder (SMP) and whole milk powder (WMP) prices dropped nearly 4%. The GDT's trade-weighted index fell 3.2%. Adjusted for protein, GDT SMP is the equivalent of $1.25 NDM. Clearly, U.S. product is trading at a discount. The recent selloff is likely to attract demand, despite the rocky relationship between the U.S. and Mexico. For now, however, the trade is battered, and inventories are climbing.

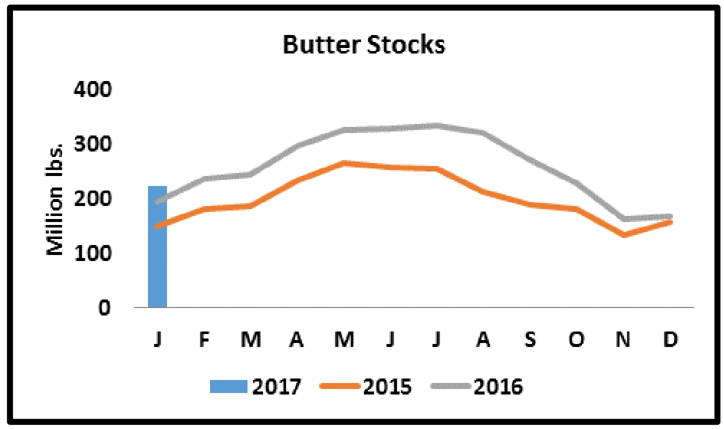


Butter inventories are growing as well. USDA reported butter stocks on January 31 at 223.1 million pounds, up 16.1% from a year ago and up an impressive 34.3% from year-end volumes. Stocks have not been this large to kick off the butter storage season since 1994. Manufacturers typically boost inventories in January, but this year's 57-million pound increase was the largest in five years. Given the abundance of cheap cream since the beginning of the year, butter churns were likely quite active, so the hefty increase in inventories does not necessarily signal weak demand for butter, but it does hint at it. Butter churns are likely still going hard, but the market looks resilient. Spot prices slipped 2.75¢ this week; they are holding at a respectable $2.13. At the GDT, butter gained 0.2% from the previous auction. Class IV futures put in a mixed performance, with nearby contracts retreating while fourth quarter contracts gained a little ground.

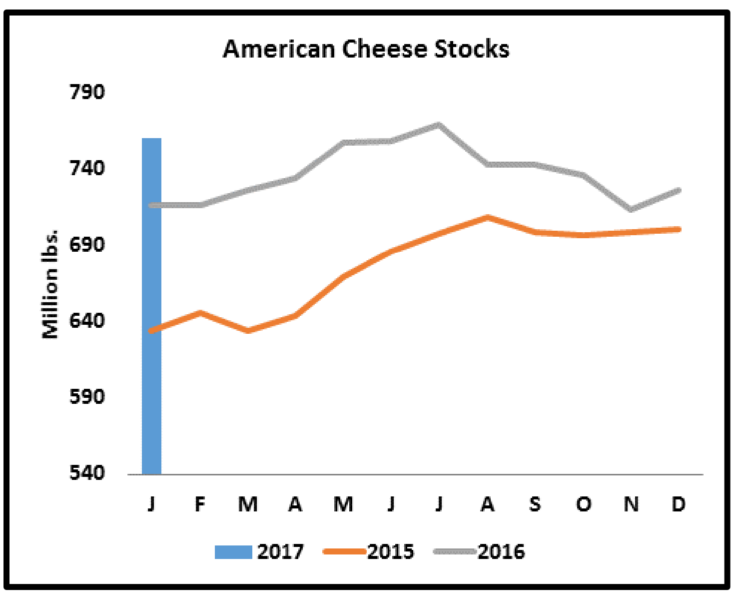


CME spot Cheddar blocks plunged Tuesday, but they bounced back and finished at $1.575, down 0.5¢ for the holiday-shortened week. Barrels slid Tuesday as well, and they kept sliding, closing today at $1.5175, down 10.25¢. Class III futures posted steep losses, with most contracts more than 50¢ in the red.

The cheese market is well-supplied, but that is nothing new. On January 31, cheese stocks reached 1.23 billion pounds, up 2.9% from December and up 4.6% from a year ago. However, thanks to improved demand, supplies as expressed in days of use are steady with last year. Of greater concern, American cheese inventories finished January some 34 million pounds greater than they were at the end of the year, the largest December-to-January inventory build since the turn of the century. Cheese makers indicate that demand has not been as brisk as it once was. Meanwhile, milk continues to flow in most of the major cheese states.



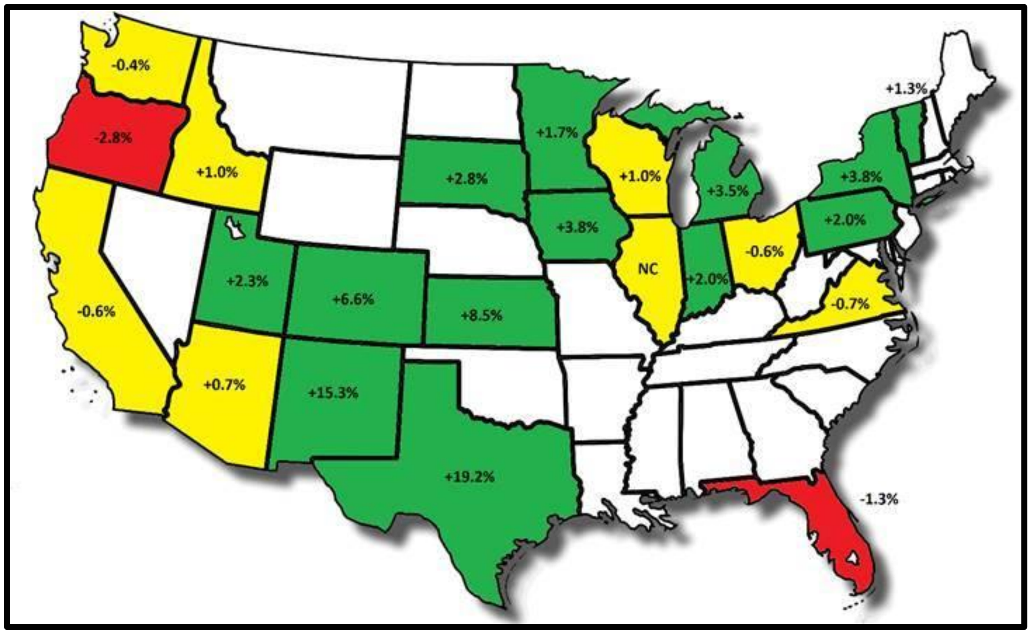
In January, U.S. milk output reached 18.1 billion pounds, up 2.5% from a year ago. The dairy herd stood at 9.36 million head, up 6,000 head from December and 56,000 head larger than in January 2016. Output was sharply higher in Texas (+19.2%) and New Mexico (15.3%) in comparison to a year ago, when the herds were ravaged by Winter Storm Goliath. Output was down 0.6% in California, ending a 3-month string of modest gains. Production was off sharply in Oregon and up just 1% in Idaho, a much smaller year-over-year gain than in recent months. Production climbed in most Midwestern and Northeastern states.



Cold, wet weather continues to dampen output in California and the Pacific Northwest. In contrast, unusually mild conditions have boosted milk output in the Midwest and Northeast. USDA's *Dairy Market News* is already mentioning the possibility of "an early and strong spring flush" in the Central region. Processing capacity is noticeably strained in some regions and it's only February.

It's uncomfortably dry in parts of New Zealand, but the dry weather is mostly confined to areas without a high concentration of dairies or with plenty of access to irrigation. The impact on milk output is likely to be limited. Indeed, milk collections in January were down just 0.7% from a year ago and milk solids production was up 0.8%. For the season-to-date milk collections are down 2.6% by volume and 2.2% on a milk solids basis. Output is much better than was feared just a few months ago, prompting analysts to pencil in higher projections for the full season.

The Netherlands has finally released the details of its plans to reduce phosphate output. Dairy producers are required to cut their herds back to the size they were on July 2, 2015, and dairy producers without grazing land will have to trim an additional 4%. Dutch authorities set aside €50 million for a Farmers' Stoppers scheme to encourage dairy producers to leave the business altogether. Dairy producers who export or slaughter all their cows will qualify for bonuses, and the lucrative program looks to be popular. Dairy producers applied to export or slaughter 30,000 head, but only 10,000 head were eligible in the first round of the program, which offers €1,200 per head in addition to the sale or slaughter price as an advance on the funds they would have received for reducing phosphate production below their quota allocation.



Dutch authorities expect the program to reduce the Dutch dairy herd by 6.6%, or 160,000 head, but of course any cows that are simply shipped across the border into Germany or Belgium won't help to reduce European milk output. As the *Daily Dairy Report* notes, "A one-for-one decrease in milk cows to milk production is unlikely; the creativity and productivity of the Dutch dairy sector should not be underestimated." Still, the smaller herd will surely have an impact.

<u>*Grain Markets*</u>

The grain and oilseed markets took a hit this week. March corn futures settled at $3.64 per bushel, down almost a nickel. March soybeans closed at $10.135, 19¢ lower than last Friday. The weather in South America has improved. Argentina's grain exchange once again reported no change to its weekly estimates for corn and soybean production, and analysts continue to raise their outlook for Brazilian crop production.

USDA likely pressured the markets this week by refocusing the trade on the fundamentals, offering the first official look at 2017-18 crop balance sheets via its Outlook Forum. The agency is calling for farmers to plant a record-breaking 88 million acres of soybeans, an increase of 5.5%. Much of the increase came at the expense of corn plantings, which are expected to decline to 90 million acres, down from 94 million acres last season. Projected returns favor the switch to soybeans and Chinese demand for oilseeds remains robust. However, mild weather throughout the Midwest likely has farmers itching to get an early start this year, and some preparatory fieldwork is already underway. If they finish up their intended corn planting and the sun is shining, they'll find it hard to get off their tractors and wait until the calendar says it's time to plant soybeans. It's called the Corn Belt for a reason.

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USDA HOLDS A MEETING

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

Clearly saying that the purpose of the meeting was to explain the "What's" and the "How's" and NOT the "Why's" of the recently released Recommended Decision for a California Federal Milk Marketing Order, Dana Coale, Deputy Administrator, USDA/AMS/Dairy Programs, opened a February 22 meeting in Clovis, California by noting that this was the first time in history USDA ever held a public meeting after the formal release of a Recommended Decision to explain their action. However Ms. Coale explained that the law did allow it and because this particular decision introduces a program and process that California producers are not familiar with, holding a public meeting was justified to explain the decision and answer questions.

The California Department of Food and Agriculture was also present and made a statement that they saw the Recommended Decision at the same time everyone else did on February 15. They said that they realized CDFA would have a role to play in the administration of the Quota program in a California FMMO and that CDFA staff is in the process of evaluating the authority given to them by California law to see whether they currently have the authority to do what is contemplated by USDA's Decision.

Erin Taylor, an FMMO Specialist from USDA, then went through about an hour and half presentation outlining the major points of the decision. After a break, there was then about another hour and half of Q & A.

Things I learned

Quota will be entirely handled by the California Department of Food and Agriculture. What USDA did was authorize a deduction from producers' milk checks to fund the Quota program. The way an FMMO works, similar to the way the California State Order works, is that USDA enforces minimum prices that processors have pay to producers. Both systems do allow deductions from those prices for things like hauling costs, promotion assessments, etc. What USDA will allow in this decision is an additional deduction to fund the quota program. It is important to remember that quota monies today are deducted from producer revenue, it's just that the deduction takes place before the price is announced and so we don't explicitly see it.

Another thing I learned is that FMMO's use performance based pooling standards. That is, in order to pool milk, a handler, which in most cases is your cooperative, has to deliver at least 10% of the milk they handle to a fluid milk plant. If they associate the milk with the pool, then minimum prices are enforced. The decision to associate milk with the pool is made after the month, every month, by the handler, not the producer. This is very different from the current California State Order where virtually all Grade A milk is part of the pool. Is this a problem? Well it could be, but there are very good reasons for producers and handlers to associate with the pool because being in the pool is how you get a share of the revenue generated by operating under FMMO prices and regulations.

The positive regulations in an FMMO from the California producer perspective include the regulating of the out of state milk which currently comes into California and does not contribute to the State Order pool. The FMMO also does not include a producer-funded transportation subsidy system which currently takes $3.5 million per month out of California producer revenue. And of course, FMMO prices are higher, so there should be more money in the pool for California producers to share with each other.

What about the milk not pooled? There is not a minimum enforced price on that milk, but if the price the processors want to pay for that milk is not competitive with the price the pooled milk will bring, then why would producers sell their milk to a non-pool plant? Remember, we are not talking about distressed milk over the holidays, we are talking about a regular 12-month supply of milk that a plant needs to sustain their operation.

So the question is, how much additional money is likely to be generated under a California FMMO compared to what we have now? And is that enough money to take the risk of changing our system from something we are familiar, but unhappy with to something different, but possibly better? Wednesday's meeting was a good start in the process of beginning that evaluation. There will certainly be more analysis coming. We would be happy to entertain any questions you might have and do our best to get you answers. You can email those questions to: office@milkproducers.org

The entire USDA meeting is available at: https://www.youtube.com/watch?v=h6mar4QAyGw&feature=youtu.be

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HAVE WINTER STORMS, FLOODING CAUSED CROP LOSSES? REPORT LOSSES TO YOUR COUNTY AGRICULTURAL COMMISSIONER

By Kevin Abernathy, MPC General Manager

With all the rain this winter season, some might be thinking of the adage, “too much of a good thing.” After years of extreme drought, we are no doubt grateful for the record rainfall seen across the state. Reservoirs are full, grasslands are green and once parched cropland is now saturated.

We’ve also seen news reports of the impact all this rain has had on our neighbors and fellow farmers, including dairy families in Stanislaus County affected by the rare release of water from the Don Pedro Dam spillway. In visiting with dairy farmers across the state, I have personally heard that many winter forage crops have been lost or severely impacted due to all the rain. This means these farmers will be turning to the open market to source forage for their cows, paying a higher price, and taking a complete loss on the investment they made in their crop.

Is there any relief for farmers whose crops have been inundated with heavy rains, causing a total or partial crop loss? There may be, so we wanted to give you a quick overview of the process and steps you can take. USDA’s Farm Service Agency (FSA) does provide assistance for natural disaster losses, such as flooding, and the U.S. Secretary of Agriculture is authorized to designate counties as disaster areas to make emergency loans available. There are a lot of steps to have the U.S. Secretary of Agriculture make an official disaster designation, so we’ll spare you all the details.

MPC staff has started the conversation with USDA to make resources available to producers. However, action on the local level by your County Agricultural Commissioner (CAC) is necessary and you can assist in the process by informing your CAC of your situation. CACs can submit a disaster request for specific crops, which means they need to know yield numbers for those crops, such as winter forage. Your CAC will then work through the process, which hopefully results in available assistance for producers.

If you have had significant impacts to your crops, we recommend you contact your CAC and provide specifics of your situation. Below is contact information for CACs by county. Please contact our office if you do not see your county listed or if you need additional information, as we’re happy to assist in this process

County	Phone Number	County	Phone Number
Butte	(530) 538-7381	Sacramento	(916) 875-6603
Del Norte	(707) 464-7235	San Benito	(831) 637-5344
Fresno	(559) 600-7510	San Bernardino	(909) 387-2115
Glenn	(530) 934-6501	San Diego	(858) 694-2739
Humboldt	(707) 441-5260	San Joaquin	(209) 953-6000
Imperial	(442) 265-1500	Siskiyou	(530) 841-4025
Kern	(661) 868-6300	Sonoma	(707) 565-2371
Kings	(559) 852-2830	Stanislaus	(209) 525-4730
Madera	(559) 675-7876	Tehama	(530) 527-4504
Marin	(559) 675-7876	Tulare	(559) 684-3350
Merced	(209) 385-7431	Yuba	(530) 749-5400
Riverside	(951) 955-3000		

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