



Milk Producers Council

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DATE: July 14, 2017
 TO: Directors & Members

PAGES: 5
 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	+ \$.1225	\$1.6750
Barrels	+ \$.1000	\$1.4750

Weekly Average, Cheddar Cheese

Blocks	+ \$.0819	\$1.6250
Barrels	+ \$.0667	\$1.4330

CHICAGO AA BUTTER

Weekly Change	+ \$.0150	\$2.6000
Weekly Average	- \$.0134	\$2.5985

DRY WHEY

Dairy Market News	w/e 07/14/17	\$4.250
National Plants	w/e 07/08/17	\$4.577

NON-FAT DRY MILK

Week Ending 7/7 & 7/8

Calif. Plants	\$0.8872	4,736,966
Nat'l Plants	\$0.9021	12,946,604

Prior Week Ending 6/30 & 7/1

Calif. Plants	\$0.9043	4,912,956
Nat'l Plants	\$0.9172	15,657,676

Fred Douma's price projections...

July 14 Est:	Quota cwt. \$17.01	Overbase cwt. \$15.31	Cls. 4a cwt. \$16.36	Cls. 4b cwt. \$15.18
Last Week:	Quota cwt. \$16.71	Overbase cwt. \$15.02	Cls. 4a cwt. \$16.34	Cls. 4b cwt. \$14.59

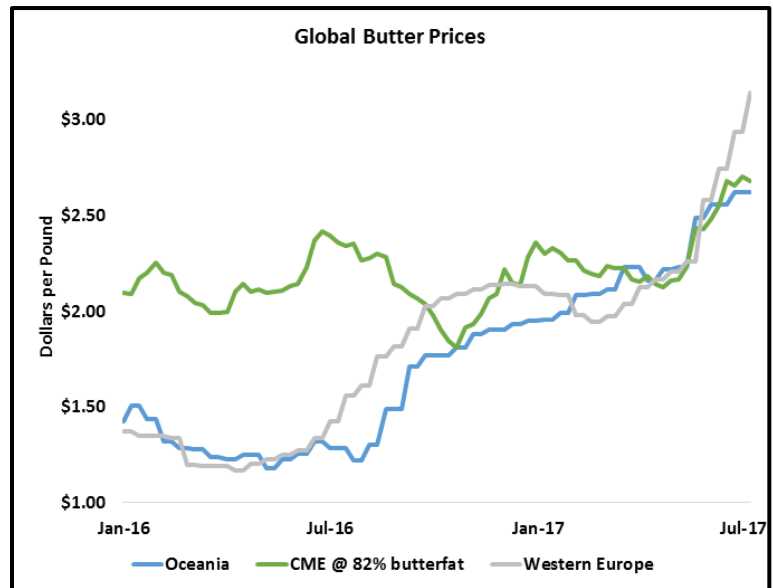
Market commentary

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

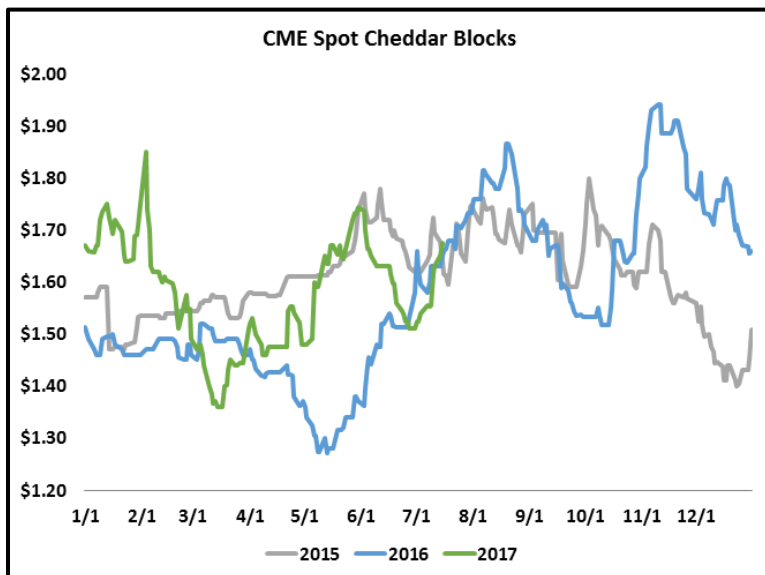
Milk & Dairy Markets

It was a busy week in Chicago. On Tuesday, traders exchanged 31 loads of nonfat dry milk (NDM) at the CME spot market, a single-day record. For the week, 61 loads changed hands, the highest weekly volume ever. The flurry of trades had little impact on price. Spot NDM slipped 0.5¢ this week to 86.25¢/lb. Milk powder remains abundant.

The butter market was even more active. Some 67 loads of CME spot butter traded, the highest weekly volume in more than a decade. Spot butter finished 1.5¢ higher, at \$2.60. Despite that strength, nearby Class IV futures finished in the red. Deferred futures responded more positively; the September through January contracts were 10¢ to 20¢ higher for the week.



In Europe, the butter market seems to have stalled at record highs. However, with the euro climbing, European butter looks increasingly expensive to foreign buyers, including those in the United States. Today the euro settled at its highest level against the dollar since May 2016. The dollar index dropped to its lowest level since September against a basket of currencies. U.S. butter merchants express hope that the widening gap between the U.S. and European butter markets will foster more trade, but so far no sizeable uptick in U.S. butter exports has been confirmed.

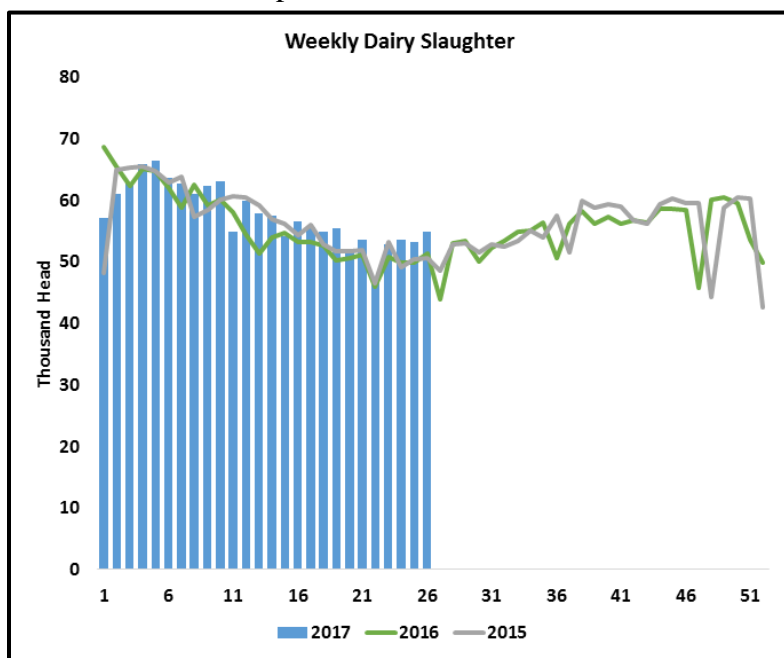


The cheese market enjoyed a healthy rally this week. CME spot Cheddar blocks climbed 12.25¢ to \$1.675. Barrels jumped a dime to \$1.475 after 50 trades. July through November Class III futures climbed, while deferred contracts were little changed.

Dairy Market News reports better demand for cheese curds and Swiss cheese, but the 20¢ spread between block and barrel Cheddar and heavy trading volumes make it clear that commodity-style cheeses are plentiful. Despite the season, “storage capacity concerns are hindering some producers from taking on extra milk... Generally, cheese sales range from steady to slow.”

The cows in California’s Central Valley are not as happy as advertised; they remain stressed in stifling conditions. The forecast features another long stretch of triple-digit highs. Milk intakes and component levels remain depressed. In the Midwest and Northeast, milk intakes are down from the peak, but the decline is far from extreme. Recently temperatures in the Great Lakes region have turned uncharacteristically mild. Heat persists in the Northern Plains and Iowa, but although this region is home to a slew of relatively new dairies, most of the cows in the flyover states reside in cooler climes to the east. Meanwhile, milk continues to slosh around in Texas and New Mexico, a curious prospect given the calendar. All told, despite California’s woes, milk remains plentiful and the prospect for summer shortages seems limited.

For the week ending July 1, dairy cow slaughter totaled 54,796 head, up 7% from the same week a year ago. Through the first half of the year, dairy slaughter is 2.8% ahead of the 2016 pace.

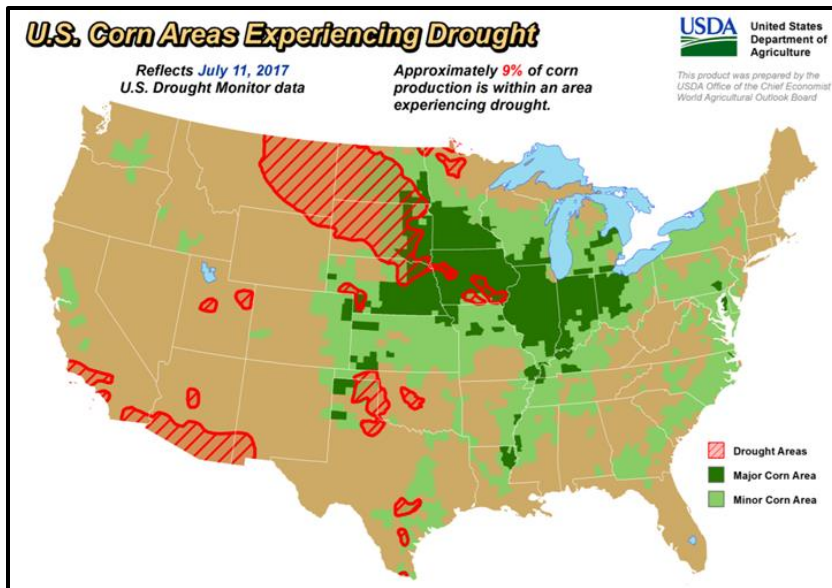


Grain Markets

It was a wild week in the grain markets. On Monday, hot weather in the Corn Belt spurred September corn futures to their highest price in more than a year, and August soybean futures reached four-month highs. The corn crop is pollinating one or two weeks later than normal in most areas, raising the prospects for late-July heat to hamper yields.

But since Wednesday the forecast has featured rain in the major row crop areas, and temperatures have moderated. Drought continues to spread in the Northern Plains, but dryness is not an issue in much of the Corn Belt. USDA estimates that roughly 9% of the nation’s corn and soybean crops are located in areas experiencing drought. Timely rains and the prospect for more pushed the trade to drain some of the weather risk premium from the market. Despite a Friday rebound, September corn futures finished at \$3.7625 per bushel, down more than 16¢ this week. August soybeans settled at \$9.89, down 12¢.

USDA updated its monthly supply and demand estimates on Wednesday. As is its wont, the agency did not adjust its assessments of corn and soybean yields. It will likely do so next month, after surveying the crop. However,



due to higher acreage, USDA upped its corn and soybean production forecasts. This translated to higher end-of-season corn stocks for both the 2016-17 and 2017-18 crop years. USDA raised its estimate of soybean export demand, resulting in lower ending stocks in both crop years than previously reported. However, soybean stocks at the end of the 2017-18 crop year are still expected to be larger than stockpiles at the end of the current season, just before the upcoming harvest.

The monthly crop report was modestly bullish of soybean prices, but it could not trump the forecast, nor the increased competition for exports. Farmers in Brazil, and to a lesser

extent in Argentina, took advantage of the early-week rally, selling significant volumes of their impressive harvest. Political drama continues to depress Brazil’s currency, making it a formidable player in the export arena. Unless the weather turns for the worse, corn and soybean prices are likely to lean bearishly despite the less than perfect growing season.

California Legislature considers cap-and-trade program renewal

By Kevin Abernathy, MPC General Manager

The renewal of California’s cap-and-trade system dominated Sacramento political discussions and news over the past two weeks. MPC not only tracked these discussions, we were part of them, represented at meetings in Governor Brown’s office and with President Pro Tempore Kevin de Leon, Assembly Speaker Anthony Rendon and the Republican Leadership.

I wanted to take some time in today’s newsletter to provide a brief update on the activities in Sacramento regarding this very complex issue.

Background

Last year Governor Brown signed SB 32, extending provisions in the state’s original climate change program adopted in 2006. Last year’s extension set new targets for reducing greenhouse gas (GHG) emissions to 40 percent below 1990 levels by 2030. However, SB 32 did not extend the California Air Resources Board’s (CARB) authority to operate the cap-and-trade program – and without that extension – the program is set to expire in 2020. AB 398 (Garcia) seeks to extend CARB’s authority to operate its market-based compliance mechanism until 2030.

So, what’s all the talk about? Why hasn’t there been a vote?

The Prop 26 & SB 1 effect

In 2010, California voters approved Proposition 26, which requires a two-thirds supermajority vote in the California State Legislature to pass fees, levies, charges and taxes. To extend the cap-and-trade program to 2030, a two-thirds vote in both houses of the Legislature is required today, a requirement that was not in effect when the cap-and-trade program was originally adopted.

But you may be asking yourself, “I thought Democrats have supermajorities in both houses, so why don’t they just pass it?” That’s a great question, and indeed they do, however not all Democrats are on board with AB 398,

which would extend the cap-and-trade program.

Some Democrats disagree with the policy of cap-and-trade, favoring a more inflexible model often referred to as “command and control.” This model requires regulated entities to reduce their emissions on-site to their “capped” amount, which is set by the state. There is no option to buy credits from entities that have reduced emissions elsewhere if a regulated entity exceeds its emissions limit.

Without going into detail, it’s generally recognized that a cap-and-trade system will be more cost-effective than “command and control” to achieve the state’s GHG reduction targets, which are already set by law. The Legislative Analyst’s Office came to that conclusion as did Governor Brown.

“We’re moving forward with cap-and-trade being continued by this two-thirds vote or we’re going to regulation: command and control,” Brown said. “And the Air Resources Board will regulate the food processing, the oil industry, the cement industry in a way that is not efficient—that will be three to five times more costly. And, yes, that will be noticed by your constituents.”

And then there are a few Democrats who are feeling the effects of supporting SB 1 (the Road Repair and Accountability Act of 2017; read MPC’s article [here](#)), which increased taxes on gas and diesel. These legislators are politically vulnerable in their next election and a yes vote on AB 398 could do more harm than good with voters at the ballot box.

Bottom line: For AB 398 to pass, it’s very likely that a few Republican votes are needed.

Next steps

MPC and the broader agricultural community has taken an “oppose unless amended” position on AB 398 and AB 617, another bill related to air quality standards that are regulated by local air pollution control districts. This position and rationale was included in a letter signed by MPC and sent to Assembly Member Garcia. Read the full letter [here](#).

An important amendment sought by MPC and other agricultural groups is the express outline of funding through 2030 to help balance the burden of compliance with AB 398 and AB 617. In 2017-18, \$2.2 billion is allocated from the Greenhouse Gas Reduction Fund (proceeds from the cap-and-trade program) to projects that reduce GHG emissions. We are requesting that a percentage of those funds be allocated annually until 2030 for the following areas:

- Agricultural harvesting equipment;
- Agricultural pump engines;
- Alternative manure management;
- Dairy biogas to heavy duty transportation projects;
- Dairy digester research and development program;
- Food processors;
- Heavy duty trucks;
- Renewable energy projects; and
- Tractors and ag equipment.

We anticipate a vote on AB 398 and AB 617 sometime next week. While it doesn’t have to happen before the July 21 legislative recess, I think the governor would like to see it finished.

MPC will continue to engage on this issue and be a voice for California dairy families in Sacramento. Please feel free to contact the MPC office at office@milkproducers.org with any questions.

U.S. House passes H.R. 23 GROW Act; faces stronger challenge in U.S. Senate

By Kevin Abernathy, MPC General Manager

On Wednesday, the U.S. House of Representatives passed H.R. 23, the Gaining Responsibility on Water (GROW) Act, by a vote of 230-190. This important piece of legislation, sponsored by Representative David Valadao (CA-21), seeks to address the many policy failures that contribute to increasingly severe drought conditions throughout our state.

The GROW Act offers solutions to our existing complex and overly burdensome regulatory framework related to water storage management and movement. According to Congressman Valadao's office, the GROW ACT seeks the following:

- **Bay-Delta Improvements:** Restores water deliveries to Central Valley communities by codifying the Bay-Delta Accord. Affirms that if the State Water Project and the Central Valley Project are operated consistent with the Bay-Delta Accord, they are in compliance with the Endangered Species Act.
- **Water Reliability:** Updates the Central Valley Project Improvement Act (CVPIA) to ensure water resources are reliable, predictable, and available to fulfill supply promises.
- **Expanding Infrastructure:** Enacts "one-stop-shop" permitting reforms aimed at building infrastructure to capture more water.
- **Expanding Storage:** Requires the federal government to expedite and complete consideration of feasibility studies for water storage projects that have been languishing in bureaucratic purgatory for over ten years.
- **Water Rights Protection:** Prevents federal agencies from requiring certain entities to relinquish their water rights to the United States in order to use public lands.

The GROW Act now makes its way to the U.S. Senate, where it will face a more uphill battle. California's two U.S. Senators, Dianne Feinstein and Kamala Harris, are on record as opposing the bill. We encourage our members to write to Senators Feinstein and Harris expressing support for the GROW Act and for the end of political, regulatory, man-made droughts. Improving water infrastructure, storage and delivery will ensure that California farm families can continue to produce safe, affordable and nutritious food for the benefit of future generations.

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