



Milk Producers Council

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DATE: April 20, 2018
TO: Directors & Members

PAGES: 7
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - \$.0025 \$1.6025
 Barrels + \$.0400 \$1.5000

Weekly Average, Cheddar Cheese

Blocks - \$.0010 \$1.6205
 Barrels + \$.0110 \$1.4815

CHICAGO AA BUTTER

Weekly Change + \$.0275 \$2.3150
 Weekly Average - \$.0080 \$2.3015

DRY WHEY

Dairy Market News w/e 04/20/18 \$2.638
 National Plants w/e 04/14/18 \$2.594

NON-FAT DRY MILK

Week Ending 4/13 & 4/14

Calif. Plants \$0.7033 15,720,588
 Nat'l Plants \$0.7049 22,832,175

Prior Week Ending 4/6 & 4/7

Calif. Plants \$0.6894 16,491,606
 Nat'l Plants \$0.6962 17,717,544

Fred Douma's price projections...

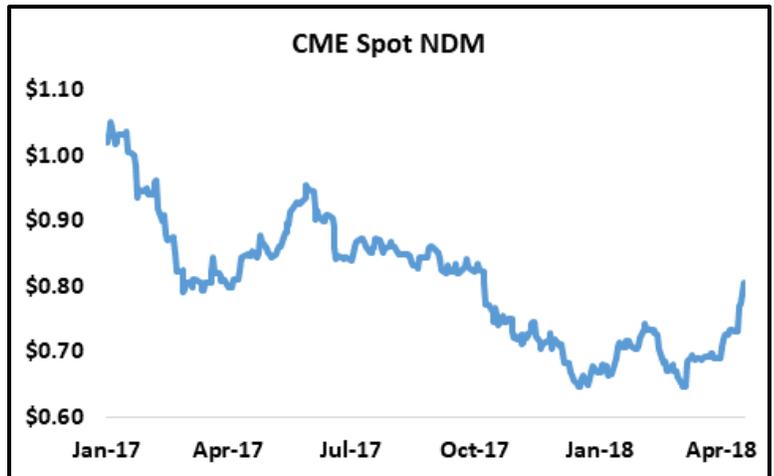
April 20 Est: Quota cwt. \$15.29 Overbase cwt. \$13.60 Cls. 4a cwt. \$13.27 Cls. 4b cwt. \$14.24
 Last Week: Quota cwt. \$15.27 Overbase cwt. \$13.58 Cls. 4a cwt. \$13.26 Cls. 4b cwt. \$14.21

Market commentary

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

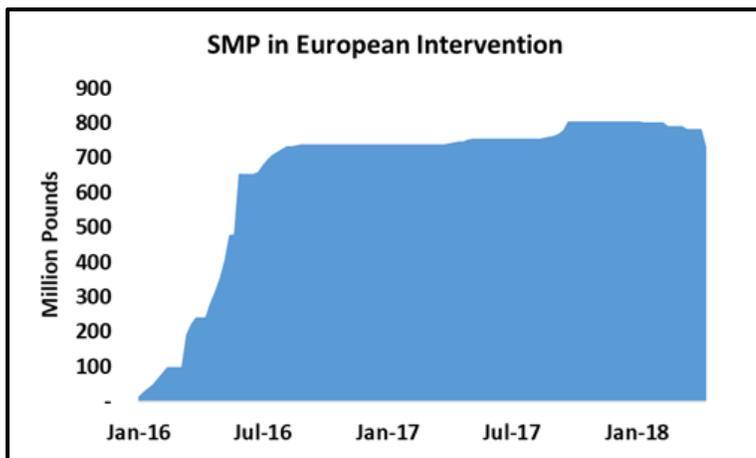
Milk & Dairy Markets

The bears have ruled over the milk powder markets for more than a year. Now, they've absconded. CME spot nonfat dry milk (NDM) spent much of February and all of March floundering near multi-year lows, below 70¢/lb. In the first week of April, spot NDM topped 70¢. Today, for the first time since October 2017, CME spot NDM pushed above 80¢. The market closed today at 80.5¢, up 7.25¢ since last Friday, a nearly 10% increase. Traders exchanged 57 loads of NDM at the CME spot market this week, the highest weekly total since July 2017. NDM futures posted comparable gains, and futures trading volume set a new record yesterday.



What has changed? In a word: demand. At the Global Dairy Trade (GDT) auction on Tuesday, skim milk powder (SMP) prices pushed 3.6% higher, to the equivalent of NDM at 93¢. Yesterday, the European Commission managed to sell 53 million pounds of SMP from its Intervention storage program, more than twice the cumulative total from all sales since the Commission began moving product out in December 2016. The Commission did not have to lower the price to attract customers as it has in the past. In fact, some buyers bid as high as €1,705 per metric ton, equivalent to NDM at \$1.02/lb.

Much of the Commission's SMP stockpile is more than two years old. Such impressive demand for what is



arguably the least desirable milk powder available is a welcome surprise in the formerly beleaguered milk powder market. If the European Commission can keep moving product out the door at anything close to this rate, it will be able to size down its colossal SMP inventory. However, these sales would crowd out offers from manufacturers and private merchants. Demand is much improved, but global stockpiles remain formidable.

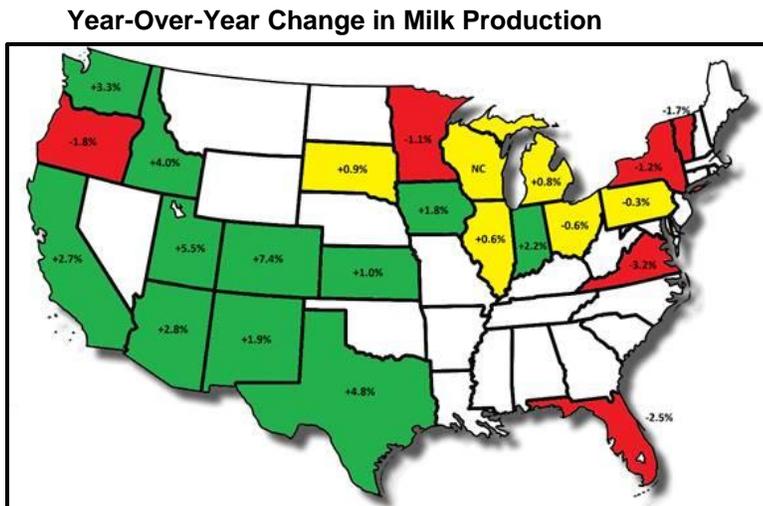
The butter market enjoyed a similar boost from abroad. Butter climbed 2.9% at the GDT this week, and German butter prices surged well over \$3/lb.

With that, CME spot butter climbed 2.75¢ this week to \$2.315, a six-month high. Class IV futures finished sharply higher; the August contract climbed 72¢ this week.

Strength in NDM pushed CME spot dry whey a penny higher, to 31.5¢. The cheese markets were mixed. CME spot Cheddar barrels climbed 4¢ to \$1.50, but a late-week selloff pushed blocks down 0.25¢ to \$1.6025, still at the high end of the recent trading range.

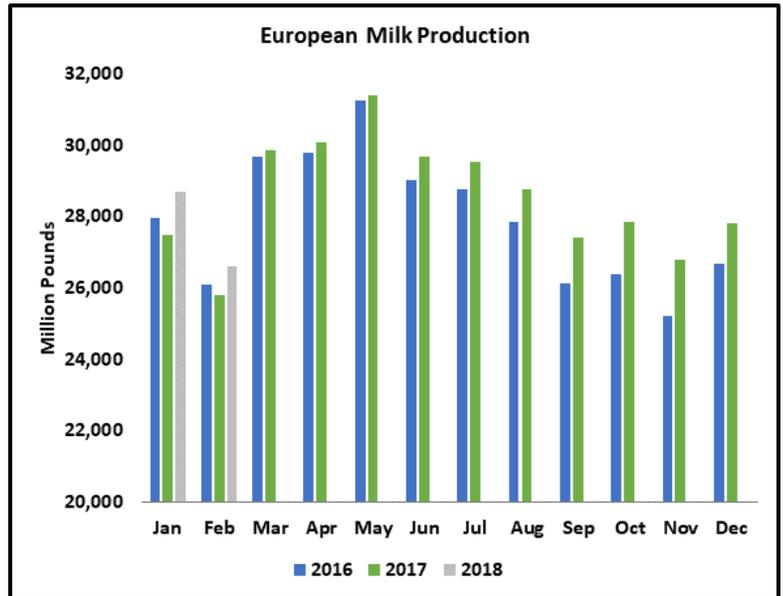
By all accounts, demand for dairy is accelerating. Meanwhile, growth in milk production is just starting to slow. In March, U.S. milk output totaled just shy of 19 billion pounds, up 1.3% from the prior year. USDA trimmed its assessment of January and February milk volumes, putting year-over-year growth in those months at 1.7% and 1.6%, respectively, down from 1.8% initially.

At 9,406 million cows, the U.S. dairy herd is 23,000 head larger than it was a year ago. However, it is finally on the decline. USDA revised downward its estimates of the January and February milk cow herds by 2,000 head and reported an additional 2,000-head decline in cow numbers from February to March. Dairy producers are no longer expanding meaningfully in the Midwest or Northeast. In fact, the Wisconsin dairy herd is 6,000 head smaller than it was in March 2017, and the Minnesota dairy herd declined by 5,000 head. Recent expansion has been concentrated in the Southwest and mountain states. In the past year, dairy producers added 11,000 head in both Texas and Colorado, 9,000 head in Idaho, and 7,000 head in Arizona and New Mexico.



over-year growth in milk output. A very cold spring and the occasional blizzard have delayed the spring flush in the Midwest and Northeast, which is likely to reduce aggregate spring milk volumes in those regions. The Southwest is unlikely to continue to report such strong gains in production per cow through the summer months. Strong demand and slower growth in supply are boosting prospects for the dairy market recovery which is already underway.

In New Zealand, March milk collections reached 1.87 million metric tons, down 1.5% from a year ago. For the season to date, production is down 0.3% on a fluid basis and down 1.5% on a milk solids basis.



European milk output remains strong, but here too, growth is slowing. In February, milk collections totaled 26.6 billion pounds, up 3.2% from the prior year. That represents a big increase in milk in a bloc the size of Europe, but it's the smallest year-over-year growth since July 2017. Milk prices in Europe are not yet low enough to discourage production, so growth is likely to continue, but perhaps not at the same rates that have prevailed over the past six months. Meanwhile, demand continues to grow.

Grain Markets

At long last, it is raining in the Southern Plains. Winter wheat yields will suffer after months with little or no moisture, but the recent storms will help limit further damage. That weighed on winter wheat prices this week. May futures lost 11.25¢. Corn futures moved nearly a dime lower, perhaps in sympathy with wheat. May futures settled at \$3.765 per bushel. Soybean futures were even weaker. The May contract dropped 25.5¢ to \$10.2875. May soybean meal closed at \$374.10 per ton, down \$8.70.

Farmers are getting anxious to get in the fields, but stubbornly low temperatures and heavy snows in some areas are keeping tractors in the shed. With modern equipment and a week or two of favorable weather, this will not matter, but if May doesn't offer more sunshine, the trade will start to worry.

The two professors come to California

By Geoff Vanden Heuvel MPC Board Member and Economics Consultant

Dr. Andy Novakovic from Cornell University in New York and Dr. Mark Stephenson from the University of Wisconsin, two of America's leading academic dairy economists, made presentations at three events this week sponsored by Western United Dairymen on the proposed California Federal Milk Marketing Order (FMMO). The YouTube recording of the Tulare, California meeting can be seen [here](#).

Dr. Novakovic started the meeting with an interesting history of the development of what ended up becoming the federal milk marketing order program with the depression era passage of the Agriculture Marketing Agreement Act of 1937. The FMMO that USDA has now proposed for California finds its legal justification in this 80-year-old federal law.

Dr. Novakovic made the point that the FMMO's are very supportive of dairy farmer cooperatives. They use the power of the government to support the efforts of cooperatives to effectively market dairy farmers' milk. That doesn't mean they don't pay any attention to the public interest – they do – but protecting processors is not a

FMMO priority. He pointed out that this reality had implications. He said that the National Milk Producers Federation, to which two of our three major California cooperatives belong, is very influential in national dairy policy development. He pointed out that some changes to FMMO rules can be made by the local market administrators, but the big decisions to make modifications would be national in scope and those decisions would be made in Washington DC and be influenced by the views of cooperatives and producers from the whole country and not just California.

Actually, I find this to be one of the most attractive selling points of the FMMO. What I seek as a California dairy farmer is a level playing field with our fellow producers in the rest of the country. For many years California state officials have established milk pricing policies deliberately designed to make milk cheaper in California than everywhere else. For a while, our cost of production advantages made this cheap milk policy effective in allowing us to grow as an industry, but when those advantages began to evaporate, the State was unwilling to change their ways. Having an opportunity to get into a system where milk pricing rules in California will be the same as the milk pricing rules effective for most of our out of state competition seems like a good thing.

Another interesting point Dr. Novakovic made was that USDA is very picky about making sure that there is accurate milk testing and accounting for the utilization of the milk that they regulate. He said that if we become a FMMO we will likely see changes in our component testing as a result of the strict enforcement that the FMMO's do. He also emphasized the same point that the USDA officials emphasized last week in their meetings – that FMMO's main purpose is to regulate milk for the class I market and milk that has no connection to the class I market is not regulated by them.

Dr. Stephenson then went through his presentation on the economics that function in the American dairy industry. A major point that Dr. Stephenson emphasized is that milk has a location value. Where milk is produced is not usually where that milk or the dairy products made from that milk will be consumed. This reality has a big impact on the actual economic value of milk. These differences in value are explicitly reflected in the class I regulated prices in effect in the FMMO system.

For example, the class I differential in Miami, Florida is \$6 per cwt. Because there is high demand for class I milk in Miami and the milk supply that is needed to meet that demand has to travel a long way to get there, the FMMO sets a very high class I differential as an incentive for milk to be marketed in that area. By contrast, the class I differentials in areas where milk production is concentrated can be as low as \$1.60 per cwt. which is the class I differential that would apply in the lower Central Valley of California.

Dr. Stephenson also presented maps generated by his model that showed the direction and distances manufactured dairy products needed to travel to reach customers for those products. For the most part, the surplus milk supply is in the Western U.S., and the population and therefore demand for those dairy products is in the Eastern part of the U.S. Dr. Stephenson pointed out that the FMMO regulated milk prices for manufactured dairy products like cheese and butter and nonfat dry milk are uniform throughout the country and do not explicitly recognize these different location values. One of Dr. Stephenson's maps showed that his model would indicate that there is about a \$0.70 difference (lower) location value between the value of milk used for cheese in the West and the value of that milk used for cheese in the Midwest. He indicated that with recent declines in California milk production and



Dr. Andy Novakovic addresses a group of dairy farmers at a presentation in Tulare, California about the proposed California Federal Milk Marketing Order

increases in Midwest production, that difference might now be closer to \$0.30 per cwt. What is interesting to me is that USDA deliberately does not use their regulating power to reflect those location values in the prices they establish. They set up uniform rules and prices and let the market decide what the values of manufacturing milk are. It is also important to note that the Class III price for cheese milk reflects the prices cheddar cheese manufacturers of block and barrel cheddar are receiving for their product on a weekly basis. There is an enormous amount of the national supply of cheddar block and barrel cheese that is produced and sold from California and other Western cheese plants and is part of that National price survey. If Dr. Stephenson's model is correct, then that volume of cheese from the West would be discounted in price because of its location from the market and those discounted prices would be reflected in the cheese price that drives the class III milk price formula. The bottom line is that while location does play a role in the difference in the value of milk between regions, some or maybe most of that difference may be baked into the class III prices that USDA establishes.

Dr. Stephenson also did some work to estimate what the potential differences in producer prices might be in California under a FMMO rather than our current State order. He did warn that since California prices would no longer be calculated if California went into the FMMO system, we would never really know what those differences were. However, using 2017 pricing data he did calculate what regulated price might be both assuming all milk was pooled and then he ran scenarios where quite a bit of milk was not pooled. For 2017 under a scenario where all of the milk is pooled his estimate was that the uniform blend price at standard test for California would be \$16.11. The California overbase price for 2017 was \$15.05 which would mean that the California blend price at standard test was probably about \$15.43 since about 22% of California's milk is covered with quota.

Dr. Stephenson then made an informed guess, based on class price relationships to the blend price, how much milk would not have pooled in a California FMMO in 2017. He assumed that none of the class II would pool and most of the class III cheese milk would not pool and then he recalculated the blend price. Interestingly, the blend price only dropped to \$16.07 a four cent per cwt. drop. Dr. Stephenson also made the point that these are estimates that will not be exactly correct. And of course, we know that whey prices in 2017 were significantly lower than they had been in previous years and it is the whey portion of the FMMO class III price formula that has generated much of the difference over the past number of years between the California state prices and the FMMO prices.

Dr. Stephenson also spent some time talking about the function of the Producer Price Difference (PPD) and location differentials which both play an important role in what producers actually get paid. I will not attempt in this article to try to explain these complicated, but important details, but watching the YouTube video of Dr. Stephenson's presentation could be helpful in getting more clarity on this subject.

We thank the two good professors for coming out and sharing their knowledge with us. Thanks too, to Western United Dairymen for sponsoring these events and opening them up to everyone. I know that during this coming week the cooperatives are continuing with their member meetings and I understand the boards of directors for the three major cooperatives who have decided to block vote will be held late in the week. So, the time for decision is nearing.

MPC's Geoff Vanden Heuvel talks California FMMO with *DairyBusiness News*

By Kevin Abernathy, MPC General Manager

On April 10, 2018, the USDA held a meeting regarding the California FMMO in Clovis, California. The focus of the meeting was to inform dairy producers on the possible changes and impacts that could happen if the California FMMO were to pass. Following the meeting, Joel Hastings of *DairyBusiness News* took the time to interview MPC Board Member Geoff Vanden Heuvel about his thoughts on the meeting and the historical



significance of the California FMMO decision. The discussion also highlighted major differences between the FMMO and the current State Order.

Watch the full interview between Mr. Hastings and Mr. Vanden Heuvel [here](#).

Fish and Game Commission permanently lists Tricolored Blackbird as threatened species

By Kevin Abernathy, MPC General Manager

At its meeting yesterday in Ventura, the California Fish and Game Commission voted unanimously (4-0 with one commissioner absent) to permanently list the Tricolored Blackbird as a threatened species under provisions of the California Endangered Species Act (CESA). Representatives of the dairy and agricultural industry were present at the hearing and opposed the listing. Despite their action, commissioners praised the efforts of dairy farmers to preserve the bird, and urged that those efforts continue; however, they also found that surveys show a long-term trend in declining populations of the bird that merits its listing under CESA.

As a practical matter, this does not significantly change the situation facing California dairy farmers. Take of the bird has been illegal under the federal Migratory Bird Treaty Act for a number of years and has also been illegal under state law for the last couple of years during the period when the bird was emergency listed and when it was made a candidate for permanent listing.

Please contact MPC staff if you suspect these birds are nesting in your fields. Resources are available to arrange for payment via the USDA NRCS to cover lost forage value when harvest of winter cereal crops must be delayed to allow nesting Tricolored Blackbirds to fledge.

California Milk Advisory Board hosts May Board meeting in Visalia

The California Milk Advisory Board (CMAB) will host its May Board of Directors meeting in Visalia on May 23-24. The CMAB Board Meeting is open to any California dairy producer. If interested in attending, please contact Tracy Garza at tgarza@cmab.net or 209-690-8252.

When:

Wednesday, May 23, 2018 – 7:30am

Thursday, May 24, 2018 – 8:00am

Where:

Visalia Marriott

[300 South Court Street](#)

[Visalia, CA 93291](#)



MPC Directors, staff extend their condolences and prayers to the Kasbergen family on the recent passing of Neil Kasbergen

The Lord called Neil Kasbergen home on April 16, 2018 at the age of 91, after a prolonged illness. Neil was born on October 12, 1926 to Cornelius and Maria Kasbergen in Oudewater, the Netherlands. He spent the first 26 years of his life in Holland. He immigrated to the United States in 1952, where he first worked on a dairy for Cor Van Dam in La Mirada, California.

Neil is survived by his four children, Cornell (Teri), George, Diane (Andy) and Jack (Ellie Mae), 16 grandchildren, and 9 great grandchildren, as well as his sisters Sjaan, Dora, Mies, and Josephine, his brothers Adrie, Jack, and Leo. In addition to his parents, he was preceded in death by his wife Martha, his infant daughter Darlene, his sister Riet, and brothers, Anton, Theo, Wim, and Herman.

A viewing will be held Tuesday April 24, 2018 from 4 to 7 p.m. at Miller Funeral Home, 151 North H Street, Tulare, California. A Funeral Mass will be held at St. Aloysius Church, 125 East Pleasant Avenue, Tulare, on Wednesday April 25, 2018 at 10:30 a.m.

A full obituary is available [here](#).
