



Milk Producers Council

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DATE: September 23, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0900 \$1.5600
 Barrels + \$.0300 \$1.5100

Weekly Average, Cheddar Cheese

Blocks - \$.0825 \$1.5785
 Barrels - \$.0270 \$1.5025

CHICAGO AA BUTTER

Weekly Change + \$.0275 \$2.0275
 Weekly Average - \$.0325 \$1.9835

DRY WHEY

Dairy Market News w/e 09/23/16 \$3.263
 National Plants w/e 09/17/16 \$3.060

NON-FAT DRY MILK

Week Ending 9/16 & 9/17

Calif. Plants \$0.8710 12,245,635
 Nat'l Plants \$0.8984 15,423,762

Prior Week Ending 9/9 & 9/10

Calif. Plants \$0.8612 9,688,100
 Nat'l Plants \$0.8819 13,357,797

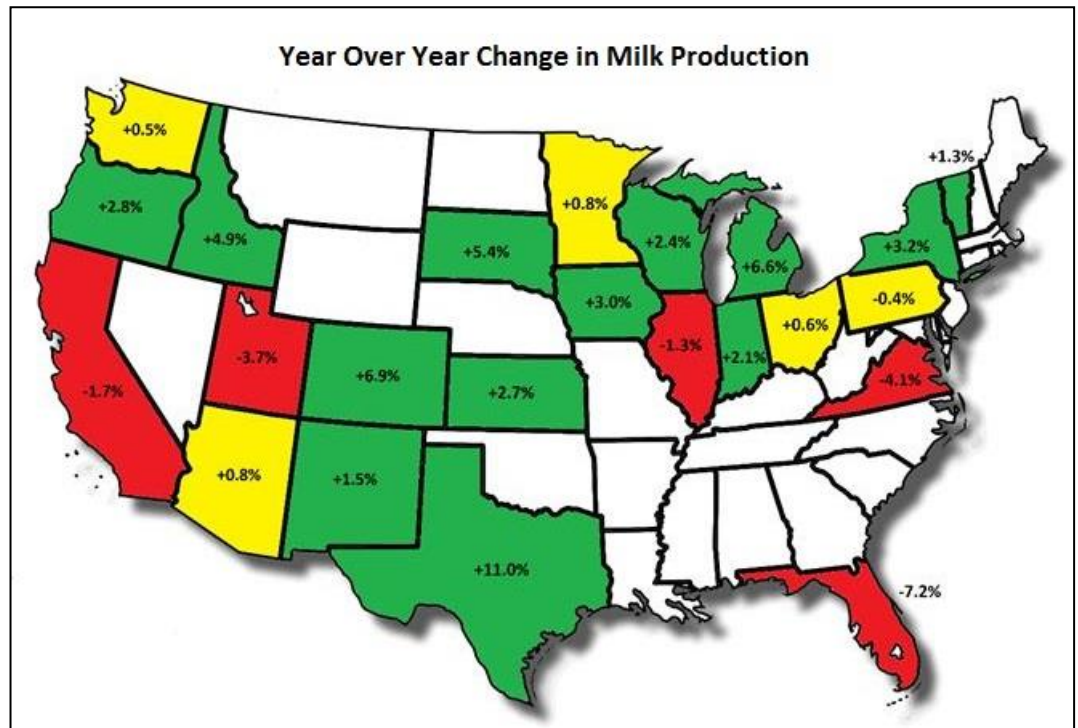
FRED DOUMA'S PRICE PROJECTIONS...

Sept 23 Final: Quota cwt. \$16.40 Overbase cwt. \$14.71 Cls. 4a cwt. \$13.56 Cls. 4b cwt. \$15.24
 Last Week: Quota cwt. \$16.47 Overbase cwt. \$14.77 Cls. 4a cwt. \$13.49 Cls. 4b cwt. \$15.42

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

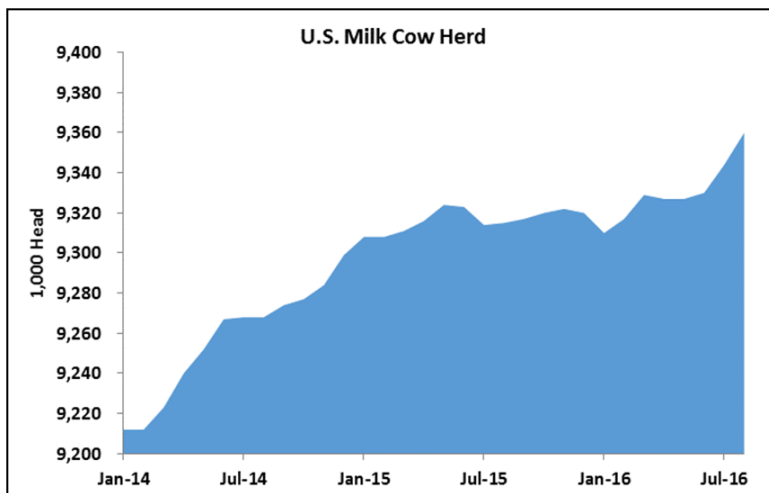
Milk & Dairy Markets

The milk just keeps flowing. U.S. milk production reached 17.7 billion pounds in August, up 1.9% from a year ago. Dairy producers in Texas ramped up output by an astounding 11%. It is no coincidence that milk is suddenly gushing in the Southwest, the only region to meaningfully expand dairy processing capacity of late. In other regions, milk is abundant, but the vats, churns, and driers are brimming. This has prevented some dairy producers from breaking ground on new facilities, but production is still climbing in the Midwest and Northeast, where milk volumes are likely to be problematic – once again – in the spring. Despite record-breaking heat, output climbed 3.2% from a year ago in New York. Heat stress was also widespread in the heart of the country; nonetheless, production surged 6.6% in Michigan, 5.4% in South Dakota, 3% in Iowa, and 2.4% in Wisconsin. In California, output fell 1.7% from a year ago.

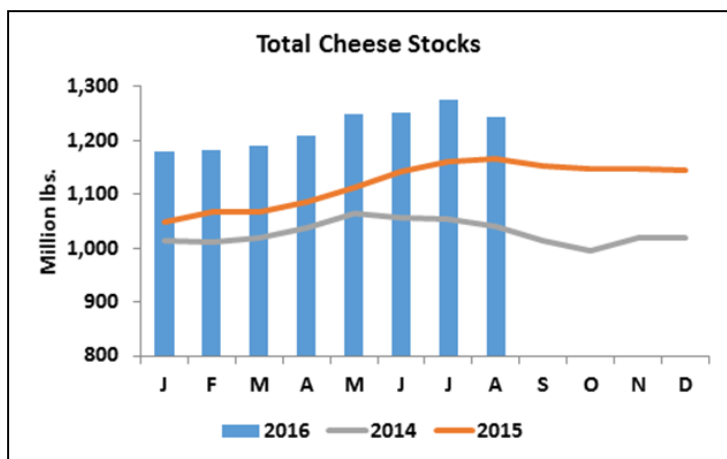


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U.S. dairy producers are milking more cows than they have in nearly 20 years. USDA estimates the August dairy herd at 9.36 million head, up 45,000 head in the last 12 months. The agency revised its estimate of the July milking herd upward by 12,000 head and reported a further month-to-month increase of 16,000 head driven by a 12,000-cow jump in the Texas dairy herd. Given significant increases in milk yields in New York and Michigan, it seems likely that the agency continues to undercount cows in those states.

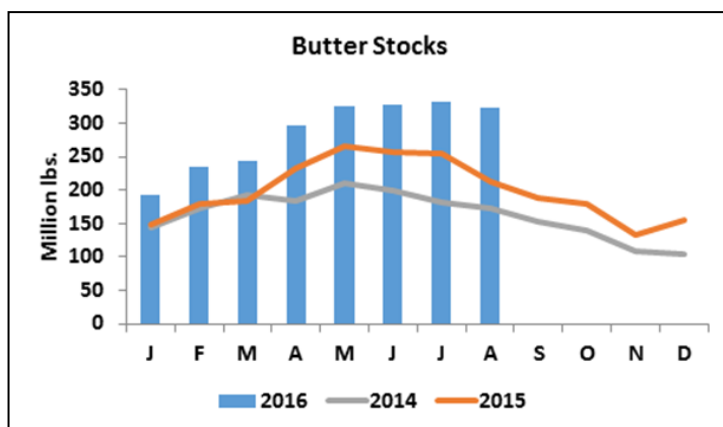


Dairy margins have been slim this year, but the herd is growing and producers are culling fewer cows than they did last year. Low beef prices are largely to blame. “When beef prices were high, some dairy producers bred a share of their herds to beef bulls and sold the calves and less desirable heifers to feedlots. Sales to feedlots are happening with less frequency, leaving more heifers available to dairy producers. Because bull calves and other cattle destined for the slaughterhouse are less valuable, producers are likely to use more sexed semen and sexed embryos,” according to the *Daily Dairy Report*. This will augment heifer supplies for years to come, and replacements are already plentiful. If the dairy herd continues to expand, milk output is likely to climb further, while dairy cow values slump.



sufficient to chip away at the piles of product in storage. Cheese stocks slipped to 1.24 billion pounds at the end of August, down more than 32 million pounds from late July, a larger than typical decline. Inventories are 6.5% larger than prior year volumes; that’s a significant increase, but it’s not as intimidating as the 10% to 12% year-over-year surfeits that prevailed in the preceding six months.

Butter stocks also ebbed seasonally, but the July-to-August drawdown was smaller than the historic average. The nearly 11 million pound decline was particularly disappointing coming as it did on the heels of an atypical increase in butter inventories in July. On August 31, there were 322.2 million pounds of butter in cold storage, 51.9% more than the previous year and the highest August volume since 1993.

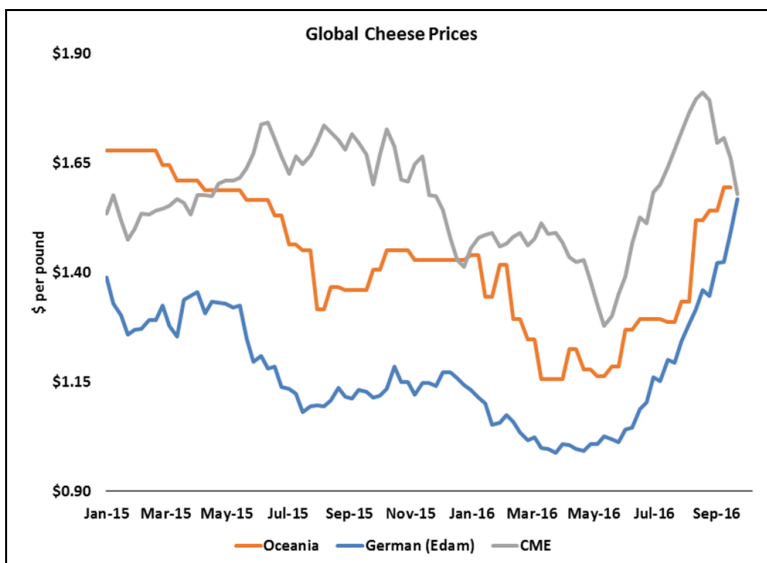


The U.S. holds more cows, cheese, and butter than it has in decades. This is sure to weigh on prices, and it likely already has. At the CME spot market this week, Cheddar blocks dropped 9¢ to \$1.56/lb. After a rough go last week, barrels regained 3¢ and finished at \$1.51. Class III futures were sharply lower. The October contract lost 51¢.

The CME spot butter market tested the waters below the \$2.00 mark and found them uninviting. Spot butter quickly returned to more familiar environs, closing today at \$2.0275/lb., up 2.75¢ on the week. Boosted by sustained strength overseas, the milk powder market continues to climb. Spot nonfat dry milk (NDM) rallied to

93.5¢, up 2.5¢ for the week. Most nearby Class IV futures contracts lost ground this week, but deferred contracts moved higher.

At the Global Dairy Trade (GDT) auction Tuesday, nearly every product moved higher once again. The exception was whole milk powder (WMP), which slipped 0.2%. The average winning price for skim milk powder (SMP) rose 3% from the previous event to the equivalent of \$1.11 NDM, notably higher than the spot market or nearby NDM futures. Anhydrous milkfat prices jumped 4.6% and butter climbed 3.6% from the most recent auction, its fourth consecutive increase. Cheddar rallied 2.2% at the GDT to \$1.60.



Global cheese prices are converging and the outlook for U.S. dairy product exports is promising. *Dairy Market News* reports, “European cheese manufacturers continue to struggle to keep up with demand for cheese.” Global demand is poised to help sop up America’s excess.

Grain Markets

It was a very quiet week in the grain markets. December corn futures settled at \$3.365 per bushel, down a half cent. The soybean market was more exciting. After an early rally and a late slump, November soybeans closed at \$9.55, down 11¢.

Farmers in South America are starting to plant. After last season’s crippling drought, they are hoping for a good soak before they begin in earnest. The forecast calls for light rains; more would be welcomed.

In the Corn Belt, combines are rolling and early yield reports give no cause to doubt USDA’s call for bumper crops. The bean harvest is likely to be especially impressive. The U.S. is expected to export record-breaking volumes of soybeans, with plenty to spare. As yield estimates climb, prices are falling. Soybean meal futures scored new contract lows this afternoon.

FUNERAL SERVICE FOR GARYN TROOST SET FOR TOMORROW AT 10 AM IN CHOWCHILLA:

(By Rob Vandenheuvel) Last week, we wrote about the sudden passing of Garyn Troost, the 22 year old son of MPC Director Jeff Troost and his wife Dana. If you missed that article, you can find it at: <http://www.milkproducerscouncil.org/updates/091616.pdf>. A funeral service for Garyn will be held tomorrow (Friday, September 24th) at 10 am at Cornerstone Community Church in Chowchilla, CA (208 Fig Tree Road). For those who are interested but unable to attend can watch the funeral live at: <http://ccchowchilla.com> (go to the “Resources” tab and click on the live feed).

2017 MARGIN PROTECTION PROGRAM PAPERWORK DUE DECEMBER 16TH: *(By Rob Vandenheuvel)* Because I’ve gotten several calls/emails/text messages from members asking about getting their 2017 Margin Protection Program paperwork into FSA by September 30th, I thought I should give you all a courtesy reminder that **USDA has extended the deadline for submitting that paperwork until December 16, 2016.** Any members seeking assistance between now and then can contact MPC at (909) 628-6018 or rob@milkproducers.org.