



# Milk Producers Council

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DATE: October 14, 2016  
 TO: Directors & Members

PAGES: 4  
 FROM: Rob Vandenhoevel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks	N/C	\$1.5500
Barrels	-.0500	\$1.4600

### Weekly Average, Cheddar Cheese

Blocks	-.0080	\$1.5280
Barrels	-.0160	\$1.4650

### CHICAGO AA BUTTER

Weekly Change	-.0650	\$1.7850
Weekly Average	-.0605	\$1.7960

### DRY WHEY

Dairy Market News	w/e 10/14/16	\$3.550
National Plants	w/e 10/08/16	\$3.083

### NON-FAT DRY MILK

#### Week Ending 10/7 & 10/8

Calif. Plants	\$0.9229	6,201,386
Nat'l Plants	\$0.9335	14,144,674

#### Prior Week Ending 9/30 & 10/1

Calif. Plants	\$0.8924	11,535,112
Nat'l Plants	\$0.9076	18,111,857

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## FRED DOUMA'S PRICE PROJECTIONS...

Oct 14 Est:	Quota cwt. \$15.63	Overbase cwt. \$13.93	Cls. 4a cwt. \$13.03	Cls. 4b cwt. \$14.11
Last Week:	Quota cwt. \$15.67	Overbase cwt. \$13.98	Cls. 4a cwt. \$13.11	Cls. 4b cwt. \$14.16

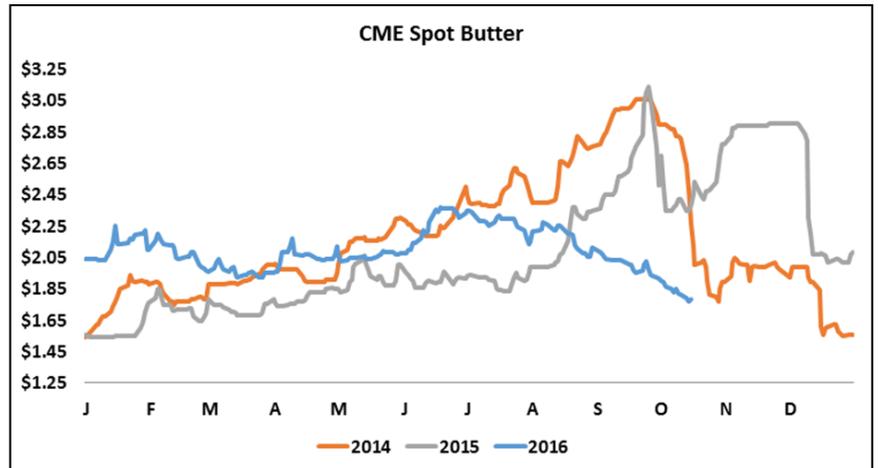
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## MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

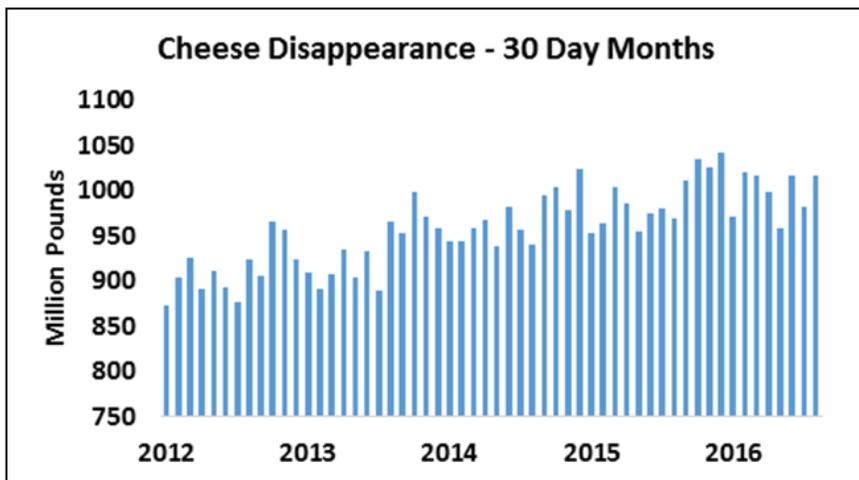
The once-buoyant butter market is sinking. This week CME spot butter scored fresh lows for the year, dropping 6.5¢ to \$1.785/lb. Over the past three weeks it has fallen nearly 25¢. Cream is plentiful, and demand has not impressed. USDA reported commercial butter disappearance in the summer months down 6.7% from last year.

Nonfat dry milk (NDM) prices retreated under the same impetus. *Dairy Market News* reports, “[NDM] buyers have seemingly hit the pause button, taking a wait and see attitude.” Their patience is having the intended effect; spot NDM declined 6.5¢ to 87¢, a six-week low. With that, October through February Class IV futures posted double-digit losses. The November contract slumped 36¢.



CME spot Cheddar barrels lost a nickel this week, falling to \$1.46. Thanks to a late-week recovery, spot Cheddar blocks finished steady at \$1.55. Dry whey futures took a step back, but manufacturers report tightening inventories and stronger prices. Class III futures were mostly lower, and nearby contracts were deep in the red. Fourth quarter futures now average \$14.95/cwt.

By all accounts, Americans have a voracious – and growing – appetite for cheese. Commercial cheese disappearance in June through August was up 3.1% from the summer of 2015. More current indications of market fundamentals like USDA’s *Dairy Market News* commentary point to demand that is steady at worst and robust in some markets.

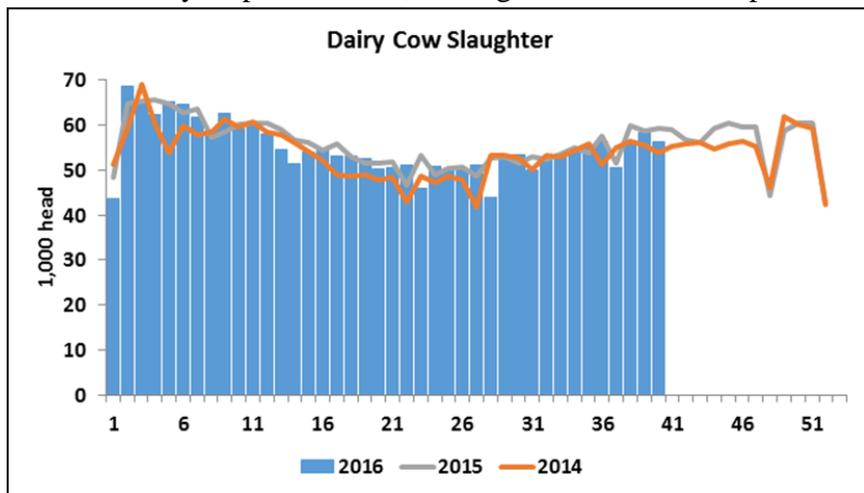


On Tuesday USDA Secretary Tom Vilsack announced that USDA would purchase \$20 million of Cheddar to donate to food banks beginning in March. The agency had pledged to spend \$20 million in August but only used \$7 million before the federal fiscal year ended on September 30. In a press release announcing the use of taxpayer funds for the latest iteration of “government cheese,” the agency acknowledged that it “projects dairy prices to increase throughout the year.” The powers that be have decided to intervene anyway, six months hence.

The dollar was exceptionally strong this week, posting its steepest Friday-to-Friday gain in almost a year. Overseas dairy product prices are climbing slowly, but not by enough to offset the currency disadvantage. European dairy product prices moved lower in dollar terms, offering no help to the floundering U.S. dairy markets.

Foreign milk production continues to falter. Of the 20 Eurozone nations who have reported August milk collections, only six posted year-over-year gains. Australian output fell 9.3% short of last year in August. In Argentina, August milk production was down 12% from a year ago, and the year-to-date deficit is greater than 10%. As output drops, on-farm prices are climbing. Several European dairy processors have announced higher pay-prices. According to the *Daily Dairy Report* and Quarterra Consulting of Buenos Aires, milk prices in Brazil climbed over \$22/cwt. in September due to domestic shortages.

With falling output abroad and lower prices at home, U.S. dairy product exports are poised to soar. In August, before U.S. cheese and butter were priced to compete globally, exports were already improving. Milk powder moved south of the border in size, and China brought in record-breaking volumes of U.S. whey. This allowed U.S. dairy product exports to climb to the equivalent of 16% of U.S. milk solids output in August, according to the U.S. Dairy Export Council, the highest share since April 2015. Despite the stronger dollar, export prospects have improved dramatically in the meantime.

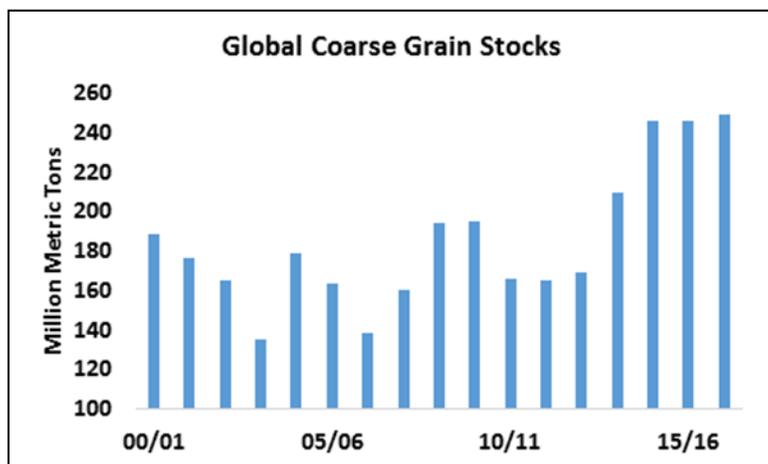
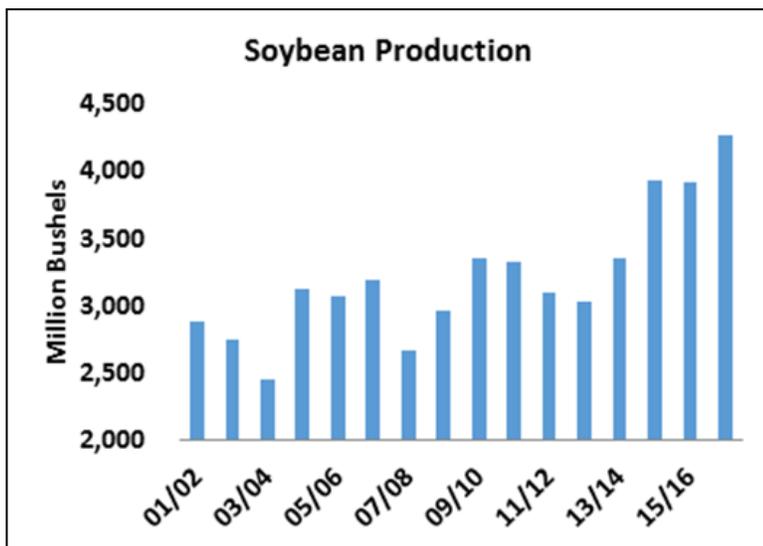


For the week ending October 1, dairy cow slaughter totaled 56,233 head, down 5.2% from the same week a year ago. This brings year-to-date slaughter down 1.6%. The beef market continues to struggle, incentivizing dairy producers to keep a lid on cull rates. Live cattle futures have plunged to their lowest level since mid-2010. Like many agricultural markets, beef prices are suffering from surplus.

## Grain Markets

USDA confirmed that the corn and soy crops are record large. The agency is calling for a 173.4 bushel per acre corn yield, one bushel smaller than its September estimate, but still the largest yield ever, by far. USDA expects the soybean yield to reach an astounding 51.4 bushels per acre, 7.1% higher than the record set last season.

U.S. stockpiles of corn, soybeans, and wheat are expected to be a little smaller than the average pre-report guess. However, global supplies are colossal. World soybean inventories are projected to be more than 5 million metric tons larger than USDA reported last month, an increase of 7.2%. USDA lowered its estimate for global inventories of coarse grains like corn, but stockpiles are still expected to reach 29-year highs.



Grain and oilseed prices finished lower in the wake of USDA's monthly update to its crop production and supply and demand estimates. However, on Thursday and Friday they showed surprising strength. November soybeans settled at \$9.625 per bushel, up 5.5¢. December corn finished at a three-month high of \$3.5425, up 12.5¢.

The late-week rally was particularly perplexing because it was led by the grains, which are amazingly abundant. Soybeans followed corn and wheat higher, but with obvious reluctance. Large investment funds held sizeable short positions in

the grain markets; when those markets took off on Thursday, they rushed in to cover shorts and minimize their losses. Technical signals, which use historic patterns to predict markets' directions, now point higher. But if the funds stop buying, the tone could change quickly.

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**LATEST DAIRY CARES COLUMN POSTED ON OUR WEBSITE:** (By Rob Vandenheuvel) The September issue of the "Dairy Cares Newsletter" has been posted on our [website](#). This month's column, entitled "Going It Alone," takes another look at the recent moves by the California Legislature and Governor Brown to regulate methane generated on California's dairy farms, a topic we have discussed in this newsletter numerous times. For your convenience, the column is posted below:

### Going it alone

By Dairy Cares, September 2016 ([www.DairyCares.com](http://www.DairyCares.com))

*In the final weeks of the legislative session, California lawmakers passed major climate change measures, including Senate Bill 32 (Pavley), which extends the state's greenhouse gas (GHG) emissions reduction target from achieving 1990 emission levels by 2020 to reducing 40 percent below 1990 levels by 2030.*

*The fate of the other big climate change bill, SB 1383 (Lara), which seeks to aggressively reduce a subset of GHGs known as "short-lived climate pollutants, was decided on the final night of the session when it narrowly*

*passed both the Assembly and Senate, and only after a compromise was reached with dairy producers and the waste management industry. SB 1383 was amended the night before to limit the amount of methane emission reductions from dairy manure management to 40 percent less than 2013 levels, not 75 percent as the Air Resources Board (ARB) has proposed. Legislators also eliminated the highly controversial enteric emission (cattle flatulence and belching) reduction requirements altogether, unless both ARB and the California Department of Food and Agriculture (CDFA) agree that there's a proven way to reduce such emissions.*

*The legislative amendments require ARB to ensure that any "regulations are economically feasible" and provide adequate incentive funding to encourage project development. Moreover, ARB cannot implement regulations until or after January 1, 2024.*

*California's dairy farming families and their counterparts throughout the U.S. already have a tremendous track record of reducing greenhouse gas emissions. Dairy farmers have significantly reduced the carbon "hoofprint" of a glass of milk through the innovative use of new technologies. A major study by the UN's Food and Agriculture Organization showed that North America – led by the U.S., but also including Canada, Greenland, and Bermuda – has the lowest carbon footprint per unit of milk produced in the world.*

*Further reductions contemplated by state regulators, particularly on the aggressive schedule called for under SB 1383, will be far more costly and difficult to obtain for California's dairy families. Equally important, the state's targets for dairy manure methane emissions are not just the most ambitious in the nation, but the only such requirements being placed on dairy farmers anywhere in the world.*

*California's "go it alone" mentality will require ARB to take a careful and thoughtful approach to how it regulates the state's dairy farms. Command and control strategies simply won't work. ARB will need to roll up its sleeves, cooperate with the industry to do the research, remove the barriers and provide financial resources needed to achieve the desired reductions. While the state allocated \$50 million for dairy methane reduction projects, that allocation will only incentivize another 18 to 20 methane digesters, or about one-tenth the number needed to achieve the 40 percent manure methane reduction target. It is a good start but represents just a small down payment on the infrastructure and resources needed to achieve the state's dairy methane reduction goals.*

*As Governor Brown noted at last year's Paris Climate-Change Conference, "Climate change is not limited to the borders of California" and actions by California alone "won't even make a dent." ARB needs to take note of the Governor's point and work with, not against, California's dairy farm families. Only then can California hope to set an example that other states and countries will seek to replicate.*