



Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
 801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
 222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
 Fax (909) 591-7328 ~ office@milproducers.org ~ www.MilkProducers.org



DATE: February 5, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0100 \$1.4700
 Barrels +\$.0350 \$1.4650

Weekly Average, Cheddar Cheese

Blocks +\$.0060 \$1.4660
 Barrels +\$.0260 \$1.4560

CHICAGO AA BUTTER

Weekly Change - \$.0500 \$2.1700
 Weekly Average - \$.0495 \$2.1455

DRY WHEY

Dairy Market News w/e 02/05/16 \$2.500
 National Plants w/e 01/30/16 \$2.381

NON-FAT DRY MILK

Week Ending 1/29 & 1/30
 Calif. Plants \$0.7935 6,896,880
 Nat'l Plants \$0.7706 14,009,565

Prior Week Ending 1/22 & 1/23
 Calif. Plants \$0.7960 9,971,724
 Nat'l Plants \$0.7689 13,998,323

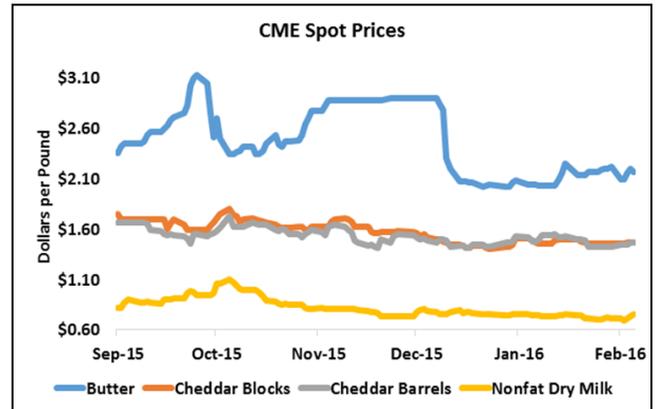
FRED DOUMA'S PRICE PROJECTIONS...

Feb 5 Final: Quota cwt. \$14.85 Overbase cwt. \$13.16 Cls. 4a cwt. \$13.57 Cls. 4b cwt. \$13.01
 Jan '16 Final: Quota cwt. \$15.15 Overbase cwt. \$13.45 Cls. 4a cwt. \$13.28 Cls. 4b cwt. \$13.08

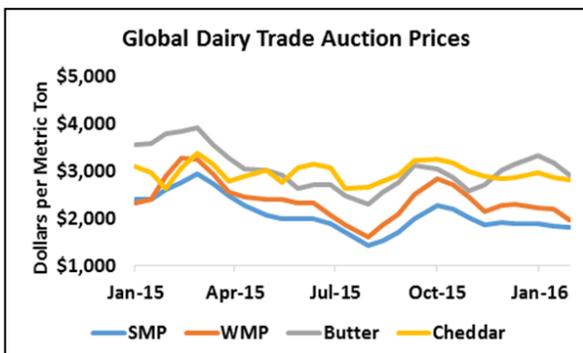
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

The CME spot Cheddar market continues to vacillate in the mid-\$1.40s. This week Cheddar blocks gained a penny, reaching \$1.47/lb. Barrels jumped 3.5¢ to \$1.465. Whey futures perked up this week, but cheese and Class III futures continued to slip. Most Class III contracts lost a few cents. While spot cheese has hardly budged, the futures markets have become increasingly pessimistic. Over the past three months 2016 Class III contracts have dropped nearly \$1.50 on average.



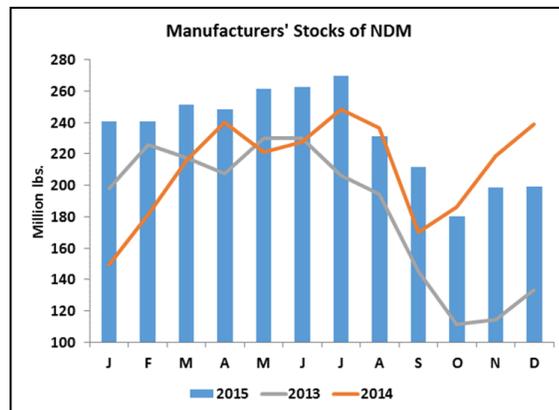
The spot butter market opened and closed the week in the red. Steep losses on Monday and a more modest setback Friday overwhelmed the mid-week rebound; spot butter closed a nickel lower at \$2.17/lb. Following a weak performance at the Global Dairy Trade (GDT) auction, Grade A nonfat dry milk (NDM) slipped Tuesday to 69.5¢, the spot market's first foray below 70¢ since mid-August. But from there it bounced, and it did so with conviction. NDM finished Friday at 75¢, up 3.25¢ on the week. Most Class IV contracts settled higher than a week ago.



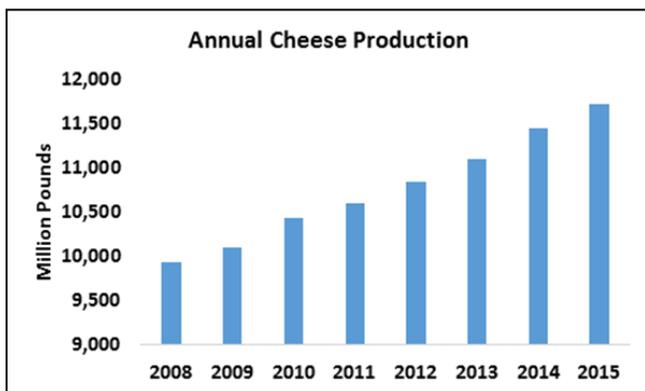
USDA announced the January Class III price at \$13.72, down 72¢ from December and \$2.46 lower than January 2015. The California 4b price was \$13.08, up 18¢ from the previous month. Class IV milk dropped a harrowing \$2.21 from December to \$13.31 in January. Still, that is 8¢ higher than the January 2015 Class IV price, which highlights the once vast disadvantage dairy producers faced in regions with high Class IV utilization. California 4a milk was \$13.26 in January, down \$1.29 from December and up 17¢ from the prior year.

It was another disappointing day at the GDT. The trade-weighted index dropped 7.4%. Later contracts posted the largest losses. The trade had once coalesced around the idea that the dairy markets would rebound in the second half of this year; they now seem to be deferring their expectations for a recovery. Whole milk powder (WMP) plummeted 10.4% Tuesday, stifling any latent hope for an uptick in pay prices in New Zealand. Butter dropped 8.3% to the equivalent of \$1.29/lb. Cheddar fell 4.2% and skim milk powder (SMP) slipped 2.2%. Milk powder from New Zealand is trading at a marked premium to product from Europe and the United States.

Competitive pricing is helping U.S. manufacturers to move milk powder. December exports totaled 101.8 million pounds, up 35.5% from a year ago. Inventories grew just 882,000 pounds in December, a much smaller than typical build late in the year. That put year-end stocks at 199.4 million pounds, down 16.6% from the record-breaking volumes of the year before. Combined production of NDM and SMP totaled 192.4 million pounds in December, down 7.1% from December 2014. For the year, U.S. output of NDM/SMP was down 1.9% from 2014.



The U.S. produced a record-breaking 11.7 billion pounds of cheese in 2015. At 1.02 billion pounds, December output was also record large, up 1.2% from a year ago. U.S. cheese production has now outpaced the prior year for 33 consecutive months. Robust domestic demand has helped to prevent the market from collapsing under all that growth, but the nation's warehouses are straining with cheese. Overseas sales have not helped much. For the year, U.S. cheese exports dropped 14% from the record high set in 2014 although they were slightly higher than 2013 volumes. Hopefully Sunday's Super Bowl spreads feature a lot of pizza and nachos.



U.S. butter and milkfat exports stepped up modestly in December from the very low levels of the preceding three months. Still, butter and milkfat exports fell more than three-fold in 2015, while imports climbed to the highest level in more than a decade.

U.S. butter production totaled 177.1 million pounds in December, up 5.6% from a year ago. California managed to boost butter production in December to just above prior-year levels. However, the Golden State was a drag on butter output for the year. California butter production in 2015 fell more than 32 million pounds short of 2014, pushing U.S. butter production to a 1.5 million pound deficit in 2015 despite another year of sky high prices.

Given the decline in California milk output, California Dairies, Inc. (CDI) will accept milk from a limited number of new dairy facilities. CDI acknowledged a broad decline in California milk production and an increase in the number of sellouts from its members. These sellouts are of a wholly different nature than the flood of bankruptcies in 2009. For the most part, dairy producers are not being forced out. Some are choosing to retire or farm rather than watch their equity wither. Cow values are largely holding and beef prices are respectable. California farmland values have soared, which has encouraged some landlords to sell their dairies when the lease expires. Nonetheless, the rising number of retirements and the slow decline in the California dairy herd are evidence of prolonged margin pressure in the nation's top dairy state.

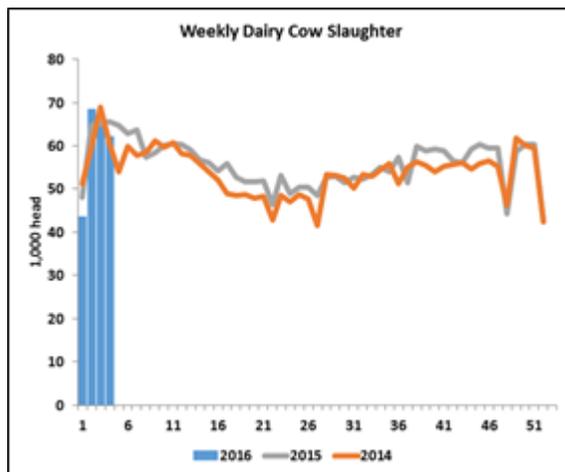
The bears have really roared this winter and with good reason. But low prices are the best cure for low prices, and the medicine may already be having a modest effect. Global milk output is growing, but deficits in New Zealand and California are not to be ignored, even if they don't seem to offer much support at the moment. Margin pressure is likely to dampen dairy producers' enthusiasm in the Midwest and Europe. And low prices are stirring demand. McDonald's is selling Egg McMuffins toasted in butter with a slice of Cheddar all day at a brisk clip,

and consumers have surely noticed that whole milk is selling for 50¢ less per gallon than it did a year ago. The future may not be as bleak as it often seems.

For the week ending January 23, dairy cow slaughter totaled 62,246 head, down 5% from the same week a year ago. So far in 2016, the cull rate is 1.6% behind the 2015 pace.

Grain Markets

The grain markets took a step back this week. March corn settled at \$3.6575 per bushel, down 6.25¢ from last Friday. March soybeans dropped 7¢ to \$8.675. Weekly soybean export volumes disappointed after China cancelled an order. The U.S. sold a respectable volume of corn for export this week, but total export shipments and commitments continue to fall short of the pace needed to meet USDA's export forecast. The agency is likely to lower its export demand estimates for both crops in the near future.



On Wednesday the dollar suffered its third largest single-day drop in the past five years. It fell further on Thursday before rebounding Friday. The dollar's decline means that farmers in Argentina and Brazil saw the price of their crops fall in real terms. Nonetheless, soybean premiums dropped at the port in Brazil this week, a clear sign of harvest pressure. South America's big crops will soon hit the markets in large volumes, and U.S. exports are likely to wane.

CONGRATS TO MPC'S KEVIN ABERNATHY ON USDA RE-APPOINTMENT! (By Rob Vandenheuvel)

Last week, U.S. Department of Agriculture (USDA) Secretary Tom Vilsack announced the renewal of the "USDA Agricultural Air Quality Task Force." MPC's Director of Regulatory Affairs, Kevin Abernathy, was among the 35 individuals from around the country selected to serve on the task force for the 2016-2018 term.

This task force gives U.S. agriculture a prominent voice in promoting USDA research efforts and providing guidance in hopes of better coordinating the activities and resources used by USDA agencies, as well as other agencies like the Environmental Protection Agency. In this era of increasing environmental regulations, it is obviously critical that agriculture have a seat at the table and an opportunity to advocate common sense and sound science.

In USDA's press release announcing the Task Force member appointments (which can be found on their website at: <http://goo.gl/FAmoLN>), Secretary Tom Vilsack was quoted, "The Agricultural Air Quality Task Force is another example of USDA's continued commitment to developing science-based solutions and conservation measures that not only reduce the agriculture industry's environmental impact, but in many ways enhance our natural resources through improved agricultural practices. Bringing together a variety of perspectives and scientific insights to this task force will help reach solutions to resolve air quality challenges."

Congratulations to Kevin, and a heartfelt thanks for his willingness to serve in this role on behalf of the State's dairy farmers. Our industry is well-served to have Kevin active on this task force.

LATEST DAIRY CARES REPORT: CONTINUED GROWTH IN SOLAR PROJECTS ON CA DAIRIES: (By Rob Vandenheuvel)

The January 2016 Dairy Cares Newsletter has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the success that a growing number of California dairies have realized in their investments into solar power generation on their dairies. As the article notes, Federal and State incentive programs, combined with a "steep drop in cost of the systems since 2011," have made solar power generation a very viable opportunity for dairies throughout California. Those of you attending next week's Tulare Farm Show will undoubtedly come across solar industry representatives, and this article gives a glimpse into a few of your fellow dairymen who have already taken the plunge.