

# MPC WEEKLY FRIDAY REPORT

DATE: AUGUST 2, 2019  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 6



P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018  
 2328 Jonathon Court, Escalon, CA 95320 • (209) 691-8139  
[Office@MilkProducers.org](mailto:Office@MilkProducers.org) • [www.MilkProducers.org](http://www.MilkProducers.org) • Fax (909) 591-7328

## MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	- \$.0050	\$1.8200	WEEKLY CHANGE	- \$.0500	\$2.3200	WEEK ENDING 07/27/19		
Barrels	-.0275	\$1.6925	WEEKLY AVERAGE	-.0275	\$2.3375	NAT'L PLANTS	1.0286	22,760,277
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 07/20/19		
Blocks	-.0010	\$1.8210	DAIRY MARKET NEWS	W/E 08/02/19	\$3.3400	NAT'L PLANTS	\$1.0359	25,854,971
Barrels	-.0125	\$1.7050	NATIONAL PLANTS	W/E 07/27/19	\$3.3686			

## CALIFORNIA FEDERAL MILK MARKETING ORDER PRICE PROJECTIONS

PRICE PROJECTIONS	CLASS I ACTUAL (RANGE BASED ON LOCATION)	CLASS II PROJECTED	CLASS III PROJECTED	CLASS IV PROJECTED
AUG 1 EST	\$19.49 - \$19.99	\$17.51	\$17.29	\$16.62
JUL '19 FINAL	\$18.78 - \$19.28	\$17.61	\$17.55	\$16.90



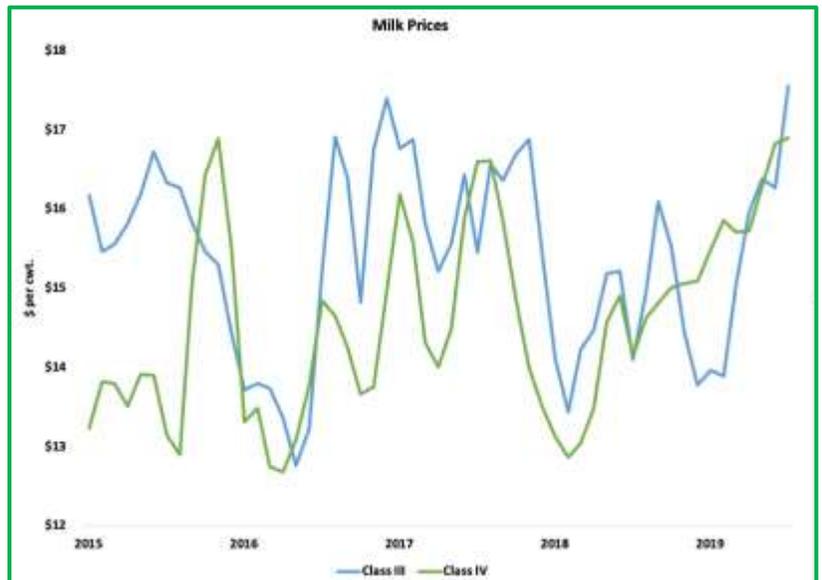
## Milk, Dairy and Grain Market Commentary

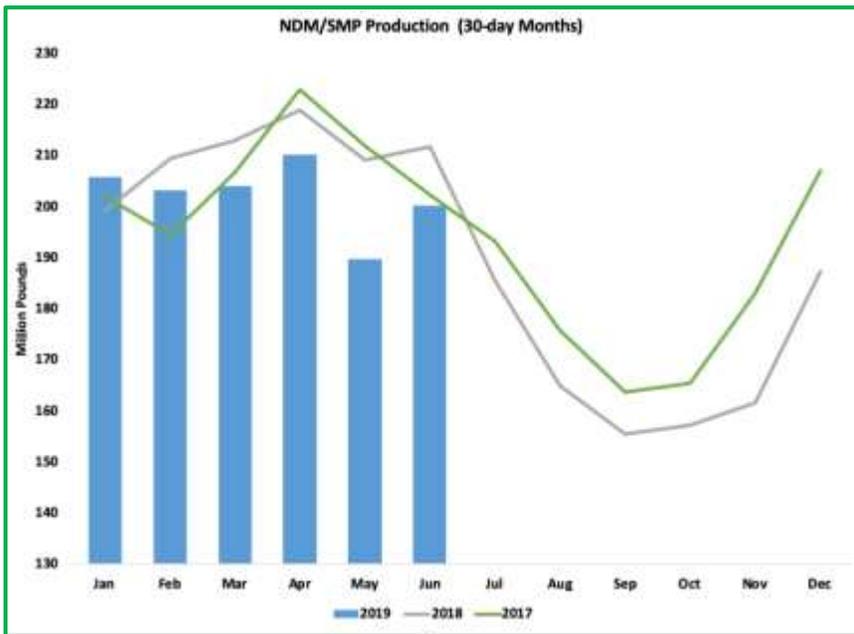
By Sarina Sharp, Daily Dairy Report  
[Sarina@DailyDairyReport.com](mailto:Sarina@DailyDairyReport.com)

### Milk & Dairy Markets

The bulls pawed the ground in search of fresh fodder this week, but there was little to be had. The dairy markets retreated. At the CME spot market, butter dropped a nickel to \$2.32 per pound, a nearly three-month low. Blocks dropped a half-cent to a still-lofty \$1.82, and barrels slipped 2.75¢ to \$1.6925. Spot nonfat dry milk (NDM) lost a penny and closed at \$1.02. Whey powder fell 1.25¢ to 34¢. Class III and Class IV futures posted double-digit losses.

The news that fueled the dairy markets to new heights in recent weeks has lost its potency. The weather premium has faded

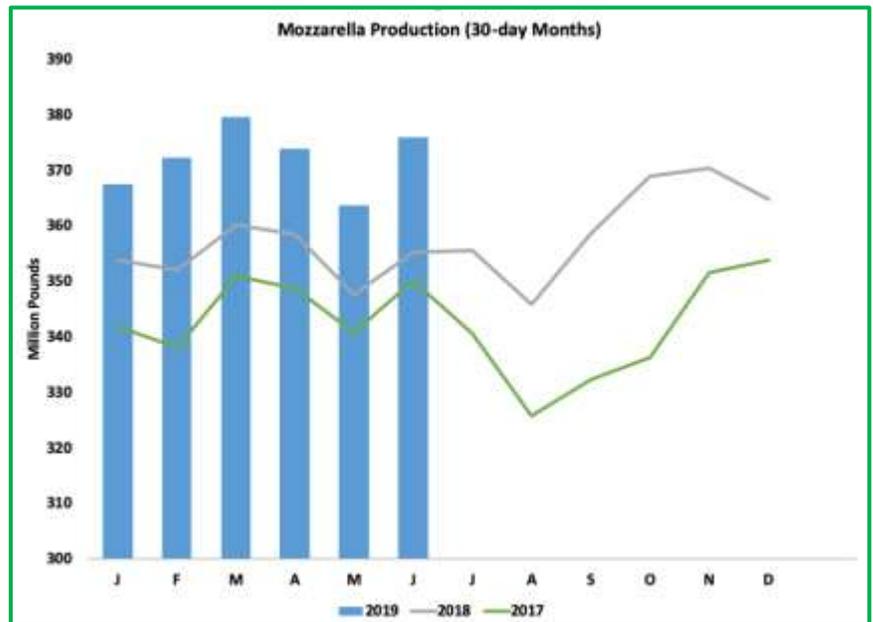




along with the temperature on both sides of the Atlantic. Concerns about the global economy likely weigh on projections for dairy demand. Prices are clearly high enough for now, and they are simply too high to attract much export business. As the *Daily Dairy Report* notes, “Robust domestic demand has put many U.S. dairy product values out of reach for foreign buyers, and the strong dollar and uncompetitive tariff rates make sales abroad even more difficult to attain.” U.S. dairy exports have fallen well short of the sky-high volumes sent overseas in the first half of 2018. Through June, U.S. exports of NDM trail last year’s record-setting tally by 14.9%. Butter

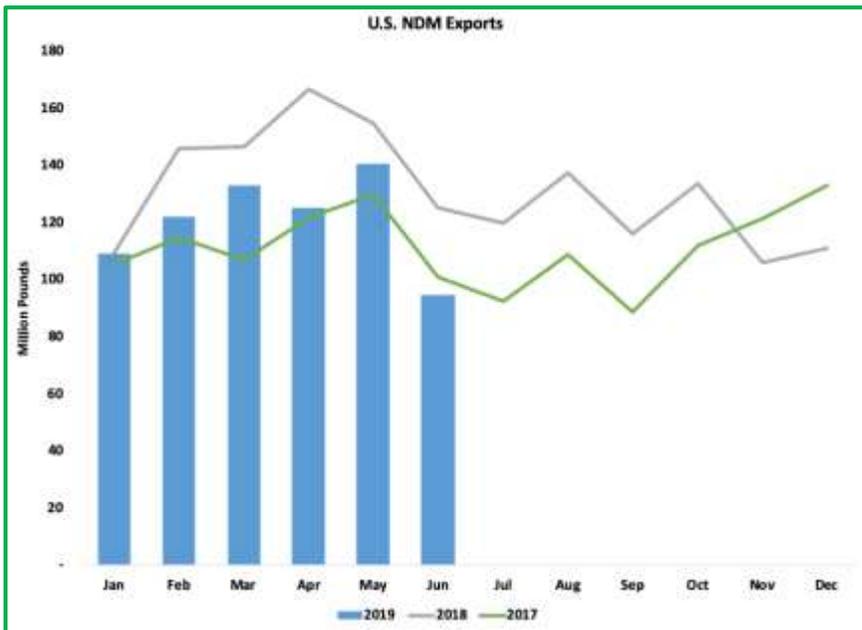
and milkfat exports lag 2018 by 34.3%, and whey powder exports are 32.3% below year-ago levels. Despite a mediocre showing in June, U.S. cheese exports are running 3.9% ahead of 2018 volumes.

Cheap imported butterfat boosted U.S. butter production to 146.5 million pounds in June, up 3.1% from a year ago. That helps to explain the increase in butter inventories from May to June. Cheese production climbed to 1.07 billion pounds, up 0.6% from the prior year. American cheese output fell 0.6% from a year ago, while Mozzarella production jumped 5.8%. The product mix is decidedly bullish. Most Mozzarella is consumed while fresh, so higher output typically signals greater demand. At the same time, lower American cheese production will likely support Cheddar pricing, and, in turn, Class III milk values. Despite higher cheese output, whey production continues to lag the prior year. Dry whey stocks moved a little higher in June. At 66.9 million pounds, they are on par with year-ago levels.



Manufacturers shifted milk away from SMP and into NDM in June, another sign that they are focusing on the domestic market and not making product for export. Despite a 2.2% year-over-year increase in NDM output, combined production of NDM and SMP was down 5.5% from a year ago. Higher NDM production boosted manufacturers’ stocks from May to June, but at 288.7 million pounds, inventories are still 4.8% below the volume reported in June 2018.

Although the bulls did not assert themselves this week, the bears are not in charge. Aside from the break from the extreme heat, all the factors that propelled the markets to their recent peak remain in play.



The U.S. dairy herd continues to shrink. Dairy cow slaughter is running 4.6% ahead of the 2018 pace and is likely to reach the highest annual total since 1986. Auction houses advertise new herds and dairies for sale with surprising frequency. When heifer and cow values rise, there will likely be another wave of sellouts. Milk is tight and getting tighter. Most buyers are paying a premium for spot loads in the Upper Midwest this week. Domestic demand is good, and it's likely that buyers have secured less product than in years past, setting the stage for a renewed rally as hand-to-mouth purchases accelerate. And prices are already quite high. USDA announced

the July Class III price at \$17.55 per cwt., up \$1.28 from June and up \$3.45 from July. That's the highest Class III price since December 2014. At \$16.90, July Class IV milk was up just 7¢ from June, but it was \$2.76 higher than last year and the highest Class IV value since November 2014. A modest setback from nearly five-year highs is not welcomed, but it's also not unexpected. The fundamentals suggest the market will remain well supported.

### Grain Markets

The grain markets took another big step back this week. Crops are variable after a rough start, but the weather has been mostly benign. Some fields could use more heat to speed maturity, and a soaking shower would be welcomed. But, on balance, the trade assumes that cooler weather has aided crops in the Corn Belt. In Europe, the recent heat waves did not do much damage to the wheat crop, which was nearly mature when the heat arrived. However, summer row crops are wilting.



Demand prospects are fading. China's livestock sector is shrinking rapidly, and global feed demand is falling accordingly. Brazil reported slowing soybean exports to China; African swine fever is the likely culprit. In the U.S., soybean crushing has slowed, but soybean meal stocks are growing, which has pressured prices. This week, September corn settled at \$3.995 per bushel, down 15¢ from last Friday. Soybeans closed at \$8.5575 today, down 35.75¢. The feed markets have fallen hard over the past month. September corn futures dropped 21¢ in July, and September beans fell 42¢.



## The Quota Process: A Constructive Beginning

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

Four public meetings were held this week, kicking off what organizers described as the “Think Tank” phase to review the California quota system. Each meeting started with a brief welcome and words of endorsement for the process from representatives of the cooperatives, the STOP QIP effort and United Dairy Families (UDF), the group of producers specifically formed to create a platform to share ideas on quota and the Quota Implementation Plan (QIP).

The two-hour meetings were designed to stimulate audience participation. Facilitating this was Dr. Marin Bozic, a dairy economist from the University of Minnesota. Dr. Bozic’s introductory presentation demonstrated how – at critical points in history – California producers dealt with real problems by crafting solutions that were designed to make things better for all producers while respecting the rights certain producers had in the status quo. His point was that successful solutions are forward looking, but the interests of all producers need to be considered. Dr. Bozic then showed a series of graphs that visually demonstrated how the ownership of quota in California has changed over the years. He pointed out that the numbers are so close that there is uncertainty about how a referendum to immediately terminate the QIP might end up. That uncertainty creates the opportunity, and maybe necessity, for all producers to work together to come up with a solution that serves the needs of everybody.



*Dr. Marin Bozic of University of Minnesota facilitating a meeting regarding QIP.*

The meetings then went into the audience participation phase where everyone was divided up into small groups and provided index cards to write on. A series of four questions were asked and everyone was asked to first answer the question for himself on the index card followed by a discussion at each table. Dr. Bozic emphasized that there were no wrong ideas at this point, and new ideas were encouraged. He indicated that he would personally read every card, so even if a person was uncomfortable verbalizing thoughts to the group, what they wrote would also be considered in the process. The first question had to do with what people thought would be the impacts of a reform of the quota program. The second question focused on what principles should be used to evaluate potential solutions. The third question addressed specific ideas for reform and the final question was about what benefits to the industry might come about if we could solve the conflict over the quota issue. Between the four meetings there were about 300 participants, so Dr. Bozic will have lots of cards to read. There was very constructive dialogue, both in the interaction as a full group, but also around the tables in the small groups. The next public step in this process will be in September when Dr. Bozic will come back to California for another series of meetings with a list of potential solutions based on the input received this week. At those meetings, this list will be discussed and narrowed down, hopefully to a small number of options that can be further

refined and analyzed for their ability to be implemented. To see a video of Dr. Bozic's presentation and download the Phase 1 slides click [here](#).



**My thoughts:** I was incredibly impressed and proud of our producer community. This is a very tough issue, but my observation is that there is a growing realization that it's time to have this conversation and work on a way forward together. Fairness and equity were words that came up a lot. Of course, that means different things to different people, but I did not sense that the differences were unbridgeable. My second observation is that Dr. Bozic is the right person to help us. He is a very smart guy, but he is also a very genuine man and a good communicator. He speaks with a bit of an accent, reflecting his origin from the country of Croatia. We started the Tulare meeting with everyone standing for the Pledge of Allegiance to the flag. In one of the most poignant experiences of my dairy career, Dr. Bozic told us that he had just recently completed his U.S. citizenship process and how significant it felt to be reciting the Pledge of Allegiance for the first time as an American citizen. We all broke out into applause. It was a special moment. And so, we move forward.

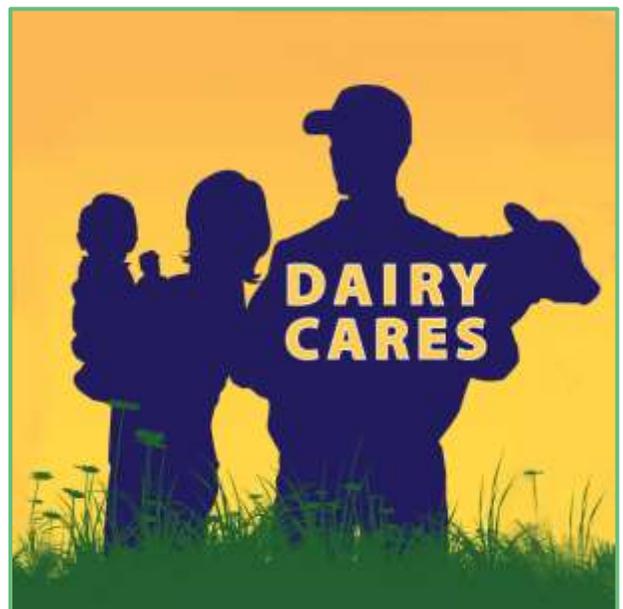
## Feed is Key to Sustainability, and California Leads the World

*Courtesy of Dairy Cares*

*Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues. The below article published by Dairy Cares details how California is leading the industry in feed sustainability.*

### **From Dairy Cares**

The diet of today's California dairy cow is truly remarkable—a result of smart resource management and teamwork. There are a lot of people involved in feeding cows—all working together, communicating regularly, and using science and research to continually improve. To anyone outside of this circle, it may be assumed that



feeding cows is a relatively simple process. However, for California’s dairy families, feed is critical to success and a key part of their sustainability story—producing more nutritious milk while using fewer resources and continually reducing their environmental footprint.

Read the full article [here](#).

## July 2019 CDQAP Newsletter: Vigilance in Your Hiring Process, Expect Inspections, Online Courses Available

*Courtesy of California Dairy Quality Assurance Program*



*From Kevin Abernathy, MPC General Manager*

Last week, CDQAP released its July 2019 e-newsletter. Please follow [this link](#) to view the update. Topics included tips to protect your farm from undercover activists, how to be prepared for inspections and details about online education courses.

