



Milk Producers Council

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DATE: July 29, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

| | | |
|---------|-----------|----------|
| Blocks | +\$0.0250 | \$1.7325 |
| Barrels | N/C | \$1.7750 |

Weekly Average, Cheddar Cheese

| | | |
|---------|-----------|----------|
| Blocks | +\$0.0400 | \$1.7195 |
| Barrels | +\$0.0180 | \$1.7750 |

CHICAGO AA BUTTER

| | | |
|----------------|-----------|----------|
| Weekly Change | -\$0.1575 | \$2.1350 |
| Weekly Average | -\$0.0870 | \$2.2070 |

DRY WHEY

| | | |
|-------------------|--------------|----------|
| Dairy Market News | w/e 07/29/16 | \$0.2713 |
| National Plants | w/e 07/23/16 | \$0.2821 |

NON-FAT DRY MILK

Week Ending 7/22 & 7/23

| | | |
|---------------|----------|------------|
| Calif. Plants | \$0.7859 | 9,569,453 |
| Nat'l Plants | \$0.8472 | 20,858,271 |

Prior Week Ending 7/15 & 7/16

| | | |
|---------------|----------|------------|
| Calif. Plants | \$0.8118 | 10,519,545 |
| Nat'l Plants | \$0.8357 | 14,625,385 |

FRED DOUMA'S PRICE PROJECTIONS...

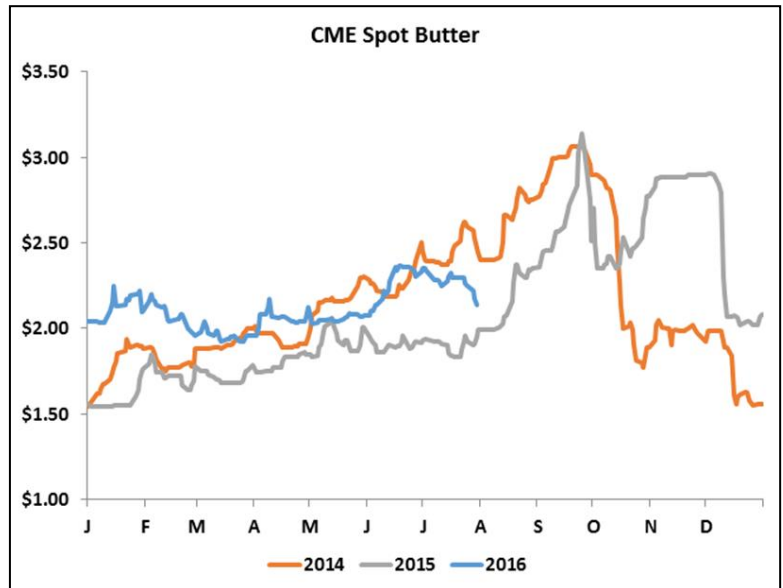
| | | | | |
|----------------------|---------------------------|------------------------------|-----------------------------|-----------------------------|
| Jul 29 Final: | Quota cwt. \$15.61 | Overbase cwt. \$13.91 | Cls. 4a cwt. \$14.25 | Cls. 4b cwt. \$14.67 |
| Last Week: | Quota cwt. \$15.61 | Overbase cwt. \$13.91 | Cls. 4a cwt. \$14.25 | Cls. 4b cwt. \$14.67 |

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

Milk & Dairy Markets

The bears are finally roaring in the butter pit. CME spot butter collapsed today to \$2.135/lb.; it is down 15.75¢ for the week and 21.5¢ lower than where it began the month. The futures capitulated as well; the October contract lost 18.525¢ this week. *Dairy Market News* reports, "Processors are comfortable with the volume of stocks for Q3 and Q4 buyers' needs." Apparently, after years of anxiety, buyers are feeling comfortable too. They are taking this setback in stride, with bids lurking well below the market.

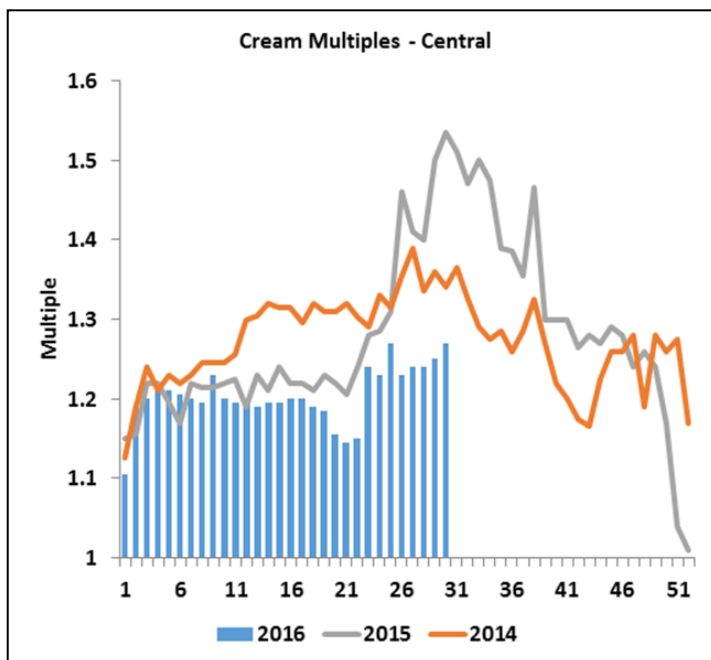
The fact that butter prices melted down in the middle of a heatwave is surely not lost on processors and others holding uncommitted supplies. At some point they will likely stiffen their spines and refuse to part with product at such a discount to the recent highs. A rebound is possible, especially as traders anticipate the transition from a sizzling summer to the back-to-school rush to holiday casserole and baking season. But the heat will ebb, and supplies are more than adequate to meet even the most voracious Thanksgiving appetites. Inventories are 70 million pounds – some 27% larger than they were a year ago, and spot butter is still nearly 15¢ higher than it was at this time last year. Cream multiples are rising but they remain unusually low, suggesting that cream continues to head to the churn. A bounce in such a well-stocked market is likely to be short-lived.



The milk powder market was quiet in comparison. Nonfat dry milk (NDM) vacillated at the spot market this week but ultimately finished at 85¢, up 0.5¢ from last Friday. Milk powder has found an equilibrium near

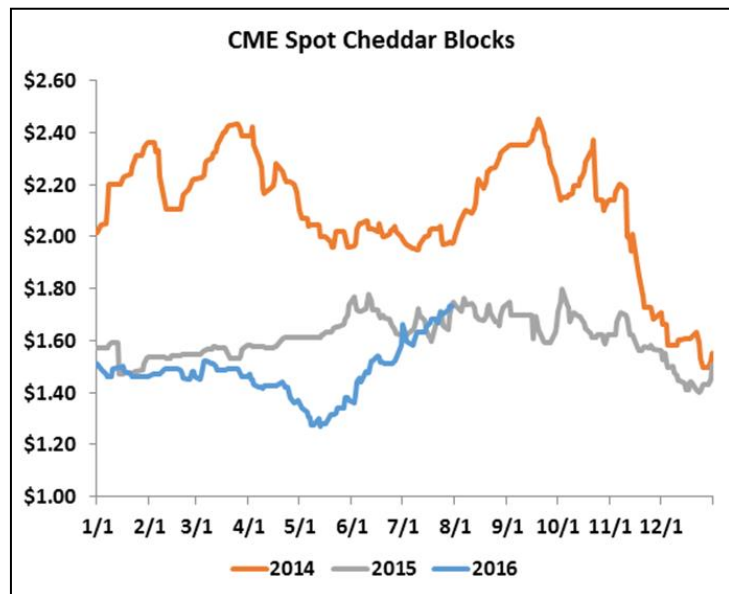
Europe's intervention purchase price, and the U.S. remains competitive globally. Buyers from Mexico have been notably less aggressive in their purchase volumes of late, but given the seasonal slowdown in powder output, the NDM market is unfazed for now. However, with butter on its heels, Class IV futures took a big step back. Losses in August through December ranged from 37¢ to 94¢.

Last week the barrel market summited to \$1.775, a peak from which it could look down on 618 days of lower spot prices stretching all the way back to November 2014. It has not budged. A smattering of trades on Friday confirmed that the price held due to conviction rather than inertia. While the barrel market rests, block prices continue to climb. They reached \$1.7325 today, up 2.5¢ from last Friday.



Cows and their caretakers have suffered in the heat this month. It has cooled considerably in the Midwest in the past few days, but milk output took a big hit and is only slowly coming back. The forecast calls for triple-digit highs to persist in Central California well into next week, so the milk deficit is likely to persist in the Golden State. But this too shall pass. When the heat dissipates, will the cheese market cool off as well?

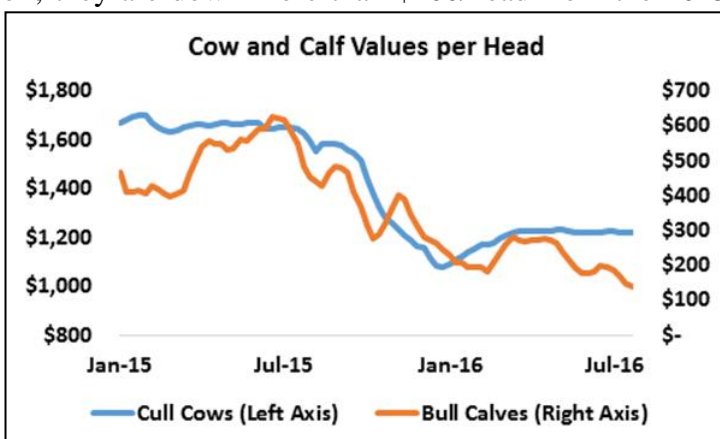
Nearby whey futures retreated this week, while deferred contracts moved a little higher. Whey production remains strong given robust cheese output. Demand is slowly, steadily improving and the market is expected to continue to plod upward. With a little boost from cheese, most Class III futures contracts settled slightly higher than last week.



For the week ending July 16, dairy cow slaughter totaled 53,016 head, up 0.2% from the same week a year ago. Culling in 2016 is running 1.6% behind last year's pace. Dairy producers are sending fewer cows to slaughter, and they are selling them at much lower prices. Based on lean beef prices so far this year, the average cull cow sold in 2016 brought in at least \$300 less than the same animal last year.

Low beef prices have weighed on bull calf values as well; they are down more than \$200/head from the 2015 average. These differences add up quickly. In the first half of the year, a dairy with 1,000 cows and a 35% cull rate earned roughly \$170,000 less for its cull cows and bull calves than it took in during the first six months of 2015. That's equal to a drop of \$1.24/cwt. for a dairy with daily average production of 75 lbs. of milk per cow, a significant strain to finances during a period of already depressed revenues.

Fortunately, the blow may not land quite as hard in the latter half of the year. After a sustained decline, cattle futures are finally showing a little pep. Beef prices



have fallen far enough to attract the interest of bargain shoppers, who had switched to poultry and pork. Cattle weights are down from last year, limiting the increase in U.S. beef output despite higher slaughter volumes. Beef imports have dropped, which could be particularly helpful for the lean ground beef market and, hopefully, for dairy producers' bottom lines.

Grain Markets

The corn market was pretty quiet this week. September futures settled at \$3.345 per bushel, down a half-cent. Soybean futures were more excitable; the August contract jumped 26¢ to \$10.325. The dollar weakened considerably today, which likely propelled the soybean market higher as the trade debates just how high U.S. soybean exports can reach.

Despite the heat, crops are in good shape thanks to regular rains. Next week's weather looks benign. But the trade is eyeing the extended forecast with some anxiety as it is hinting at warm, dry conditions. August is a critical month for soybeans, so expect more volatility.

MARGIN PROTECTION PROGRAM PAPERWORK DUE BY SEPTEMBER 30TH: (By Rob Vandenheuvel) For dairies participating in USDA's Margin Protection Program (MPP), your calendar year 2017 paperwork must be filed with your local Farm Services Agency office by September 30th. As a reminder, the MPP is the federal program created in the last Farm Bill aimed at providing a safety net for dairies in the event of a catastrophic collapse of dairy margins, such as what the industry experienced in 2009 (low milk prices) and 2012 (high feed costs).

Now in its 3rd year of enrollment, producers are well-aware of the options for signing up in the upcoming year. However, as was reported a few months ago, this year has a slightly different twist. Producers in 2017 will have the option of enrolling *less than 90%* (max) of their "production history" at a higher margin level (\$4.50/cwt up to \$8/cwt) while still maintaining the basic \$4/cwt coverage on their full 90%. This is different from previous years, where the same percentage of your production history had to be selected for both the basic \$4/cwt level and any higher margin level your dairy might enroll in.

While the futures markets certainly don't indicate a high likelihood of indemnity payments in 2017 at any level of the MPP, the program signup nonetheless comes at a time when the first meaningful payments under the program are being made for the months of May and June 2016. The margin calculation for June was announced today at \$5.75/cwt. Combined with the margin calculation for May of \$5.77/cwt, the average margin of \$5.76/cwt would trigger indemnity payments for any dairies enrolled at the \$6.00/cwt level or higher. For California, out of the 1,181 dairies that enrolled in the MPP, this indemnity payment will be made to 18 facilities that enrolled at the \$6.00/cwt level or above (13 of which were at the \$6.00/cwt level).

Of course, this payment will not exceed the cost of the premium due for those 18 dairies. For example, a dairy that enrolled in the \$6.00/cwt level has a premium that ranges from \$0.055-0.155/cwt (depending on the amount of production covered), which is payable on the production enrolled for the entire year. This payment of \$0.24/cwt (\$6.00 - \$5.76) will be paid on the two months of May and June, or 1/6 of the year, which is the equivalent of \$0.04/cwt on the facility's annual production enrolled in the program.

Given the recent increases in milk prices and softening of feed costs, it is not anticipated that the margins reported under the MPP will continue at the sub-\$6/cwt level for July and August, **and we sure hope that strength in dairy markets continues through the fall and beyond!** As we've written numerous times, this program is like the various insurance products you purchase; it is *not* a sign of a good day when you actually collect an insurance payment; the same thing goes for this program.

MPC members needing any assistance in filing their paperwork with their local FSA office or discussing available options should contact me at (909) 628-6018 or rob@milkproducers.org.