



Milk Producers Council

P.O. Box 4030 ~ Ontario, CA 91761 ~ (909) 628-6018
 2328 Jonathon Court ~ Escalon, CA 95320 ~ (209) 691-8139
 Fax (909) 591-7328 ~ office@milproducers.org ~ www.MilkProducers.org



DATE: October 5, 2018
TO: Directors & Members

PAGES: 6
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	- \$.0400 \$1.6500	Weekly Change	- \$.0300 \$2.2900	Week Ending 10/5 & 10/6	
Barrels	- \$.0150 \$1.3675	Weekly Average	+ \$.0105 \$2.3090	Calif. Plants	\$0.8400 10,192,422
Weekly Average, Cheddar Cheese		DRY WHEY		Nat'l Plants	\$0.8697 21,344,246
Blocks	+ \$.0345 \$1.6905	Dairy Market News	w/e 10/05/18 \$4.575	Prior Week Ending 9/21 & 9/22	
Barrels	+ \$.0085 \$1.3885	National Plants	w/e 09/29/18 \$4.167	Calif. Plants	\$0.8331 8,233,019
				Nat'l Plants	\$0.8583 16,314,325

Fred Douma's price projections...

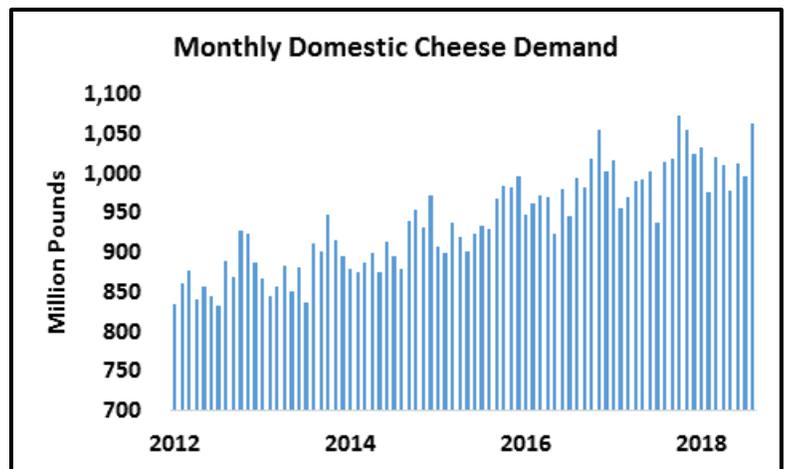
Oct 5 Est:	Quota cwt. \$16.94	Overbase cwt. \$15.24	Cls. 4a cwt. \$14.46	Cls. 4b cwt. \$15.91
Sept '18 Final:	Quota cwt. \$16.52	Overbase cwt. \$14.83	Cls. 4a cwt. \$14.09	Cls. 4b cwt. \$15.62

Market commentary

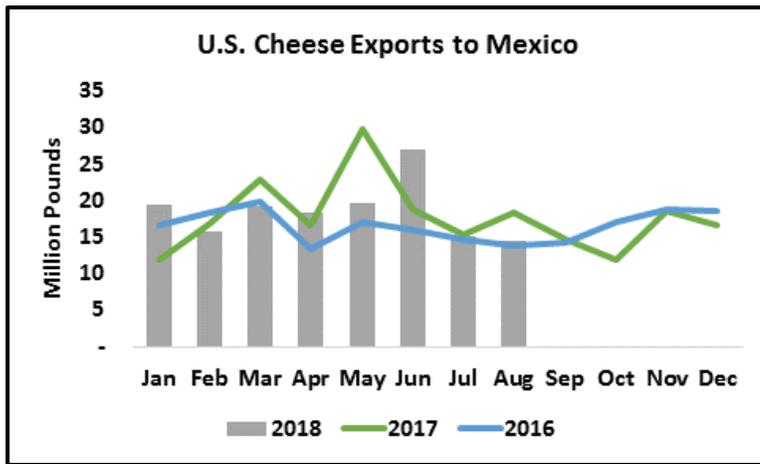
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

After a tepid Monday rally, the dairy markets spent the week in retreat. CME spot butter slipped 3¢ from Friday to Friday, closing at \$2.29 per pound. Spot nonfat dry milk (NDM) dropped 1.5¢ to 86¢, its lowest price since mid-August. Spot Cheddar blocks fell 4¢ to \$1.65, while barrels lost 1.5¢ and closed at \$1.3675. The block-barrel spread narrowed to a still-wide 28.25¢. Whey powder managed to continue its nearly relentless upward climb. It finished at 56.25¢, up 1.25¢ this week. That wasn't enough to help Class III futures. The November contract fell 26¢ this week to \$16.05, and most deferred contracts were 5¢ to 15¢ in the red. Nearby Class IV futures were roughly a dime lower, and deferred contracts lost 21¢.



For the most part, dairy product prices are also fading abroad. Cheese prices are on the rise in Europe, but butter is in a slump. The benchmark German butter price has dropped about 40¢ from the recent peak in mid-August. German butter has jettisoned more than 60¢ since forging its early-summer highs. At the Global Dairy Trade (GDT) auction on Tuesday, the butterfat products moved lower in tandem, with butter down 5.9%, anhydrous milkfat (AMF) off 4.4%, and whole milk powder (WMP) 1.2% lower. That's the lowest price for WMP at the GDT since October 2016; AMF hasn't been this low in two years. Cheddar was 1.2% in the red and skim milk powder (SMP) prices were little changed, at the equivalent of 96¢ NDM.



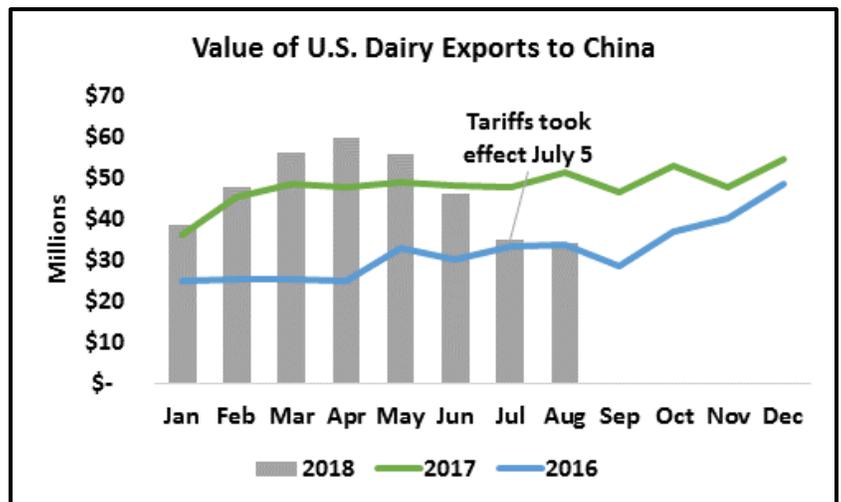
Dairy product markets are faltering, but they strengthened throughout August and much of September. Data published this week – in the form of the Dairy Products report and monthly trade statistics – confirms the anecdotal reports that fueled the late-summer rally. Although these figures may be too stale to reinvigorate the dairy trade, they will certainly do little to embolden the bears.

U.S. cheese production reached 1.08 billion pounds in August, up 2.8% from a year ago. Netted against inventories, this implies robust domestic

demand for cheese in August, the second-highest on record. Mozzarella production was up sharply, which suggests that America’s appetite for pizza is as voracious as ever.

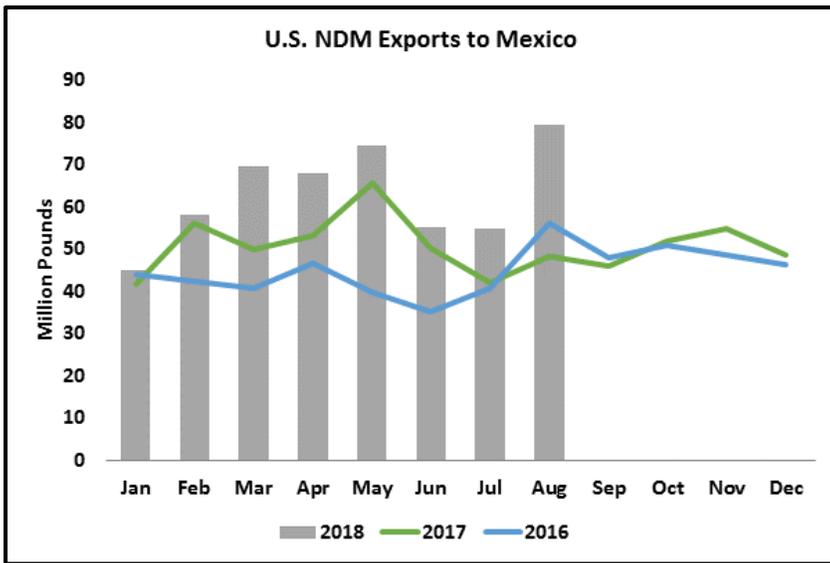
Export demand was less impressive. U.S. cheese exports totaled 62.1 million pounds in August, which was 6.8% short of prior-year levels. Shipments to Mexico have slumped since higher tariffs took effect in early July. Compared to the average in the 12 months preceding the retaliatory tariffs, U.S. cheese shipments to Mexico in August were off 18.5%. The U.S. and Mexico have shaken hands on the U.S.-Mexico-Canada Agreement (USMCA), meant to replace NAFTA. But Congress must review and vote on the new pact, and in today’s volatile political environment, nothing is certain. Furthermore, Mexico’s cheese tariffs are likely to remain in place unless the U.S. grants our southern neighbor an exemption on steel and aluminum tariffs, which fell outside the purview of the USMCA.

Whey exports also suffered from sour trading relationships. U.S. whey product exports to China were down 27.6% from a year ago. Better sales to the rest of Southeast Asia helped to offset much of the drop, and total whey exports improved 11.9% from August 2017. The dairy industry would surely benefit from a more amicable relationship with China, but a thaw in trade tensions seems unlikely anytime soon. After running well above year-ago levels through May before the tariff hike was announced, U.S. dairy product export revenue from China fell 27.1% in July and 33.2% in August.



U.S. butter exports improved in August, but they were dwarfed by American’s apparently insatiable demand for Irish butter. Record-breaking imports of butter from the Emerald Isle pushed the U.S. butterfat trade deficit to its widest level since December, when the U.S. butter market stood at a premium to Europe and Oceania. U.S. butter output jumped to 133.9 million pounds in August, up 2.1% from a year ago. California butter output was 7% greater than in August 2017 as the high cost of freight keeps more cream in the West. A scarcity of haulers may have kept cream off the interstate and boosted churning in Pennsylvania as well; butter production in the Keystone State jumped 28.7% from prior-year volumes.

Mexico brought in 79.5 million pounds of U.S. milk powder in August, the second-largest monthly total on record and 64.2% more than in August 2017. That boosted U.S. NDM exports to 137.4 million pounds, up 26.3% from a year ago to the largest August volume on record. Robust demand from abroad helped to chip away at U.S. milk

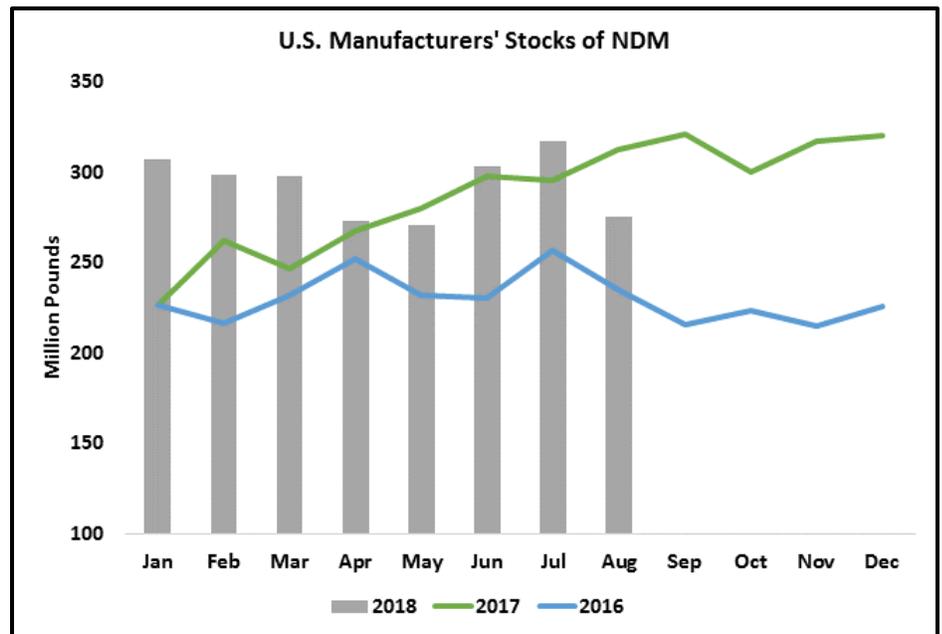


powder inventories. Manufacturers' stocks of NDM dropped to 275.4 million pounds on August 31, down 42.2 million pounds from July. Inventories are now 12% below prior-year levels, the largest year-over-year deficit since June 2016.

U.S. milk powder output slowed in August. The nation's driers are finally being allowed to run as intended, balancing seasonal surpluses rather than going hard year-round. Combined production of NDM and SMP in August dropped to 170.5 million pounds, down 6.1% from a year ago. With lower stocks and waning output, milk powder prices rallied in August and early September.

Demand dried up as prices topped 90¢, but tighter inventories and slower production will likely put a floor under the milk powder market.

Better demand translated to better milk prices in September. USDA announced the Class III price at \$16.09, up \$1.14 from the painfully low August price. California 4b milk was \$15.62, up 56¢. Class IV milk was \$14.81 in September, up 18¢ from August, and California 4a milk was up 4¢ at \$14.09. Those prices are clearly inadequate to make dairy producers whole after years of unsatisfactory profits. Sellouts continue, and slaughter volumes remain high. Eventually, this will make for a smaller dairy herd and higher milk prices. But so far improvements have been gradual at best.



Grain Markets

The grain markets bounced back this week. November soybean futures reached \$8.69 per bushel, up 23.5¢ from last Friday. At \$3.6825, December corn settled 12¢ higher. There were rumors that Brazil was running out of soybeans and cancelling export contracts due to strong domestic demand. This fueled a rally in the soybean market today, and in the absence of farmer selling the bulls were given the run of the floor on LaSalle Street. Heavy rains are moving across the Corn Belt, and many combines are parked in the shed, diluting the typical pressure of a concentrated harvesttime. But the crop is big, and private yield estimates are climbing. The rally likely won't continue unabated.

Yes on Proposition 3 – The Water Bond

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

Of all the important votes the citizens of California will cast on November 6, none are more important to the economic wellbeing of this state than the vote we cast on Proposition 3 – the Water Bond.

A lot of us have been frustrated with the restrictions placed on surface water supplies in California over the past 25 years. Those restrictions, combined with consecutive years of severe drought, have had a big impact on the productive capacity of all of California. Those water restrictions and higher costs have particularly impacted agriculture, but urban California has also been hurt.

The fact of the matter is we live in an arid climate and we have created a massive economy based on moving water from areas of relative abundance to areas of need. The public, through the laws and regulations that they tolerate, has placed a greater value on using water for the environment. We have big disagreements as a society about what the right balance is, but the fact remains that the public's attitude has changed over the years and so we have to do more with less.

All of the cheap and easy water infrastructure projects have already been built. The next phase of infrastructure investment to sustain the water necessary for our continued prosperity is going to need public participation to be economically feasible. That is where Proposition 3 – the Water Bond – comes in.

Prop 3 is a true water bond with real new water created as result of its passage. The water supply benefits of Proposition 3 are spelled out in this table published by the authors of Prop 3:

Water Supply Benefits of the Water Supply and Clean Water Bond Initiative – Prop 3

Based on investment and required matching funds

Source	Supply in acre-feet per year
Waste Water Recycling	124,000
Desalting	70,000
Stormwater Capture	101,000
Urban Water Conservation	589,000
Watershed Management and Treatment	661,000
Repair of Flood Control Dams	20,000
Repair of Friant Kern Canal	200,000
Total	1,765,000 acre-feet/year

As I have been going to water meetings over the past four months in the Central Valley and for 25 plus years in Southern California when I dairied there, I can attest to the fact that it is way past time to upgrade our water systems. California dairy producers were a key part of the coalition that put this initiative on the ballot and are a meaningful part of the campaign to get it passed. You can help by voting yes and letting all your friends and neighbors know the importance of passing this bond. You can learn more about Prop 3 at www.WaterBond.org.



CMAB announces 2018 annual information/nomination meetings

WHAT: The California Milk Advisory Board (CMAB) and CMAB CEO, John Talbot, invite all California dairy families to attend annual meetings this fall, held in each district throughout the state of California. At the meeting, attendees will learn about ongoing activities to promote California dairy. The meeting will highlight the 2019 plan, performance of the Return to Real campaign and the continuing marketing activities the CMAB conducts to promote dairy products made with your California milk in the state, across the U.S. and around the world. Dairy farmers will also vote on open board member seats.



Look for the Seal

California Milk Advisory Board

WHEN/WHERE:

CMAB District	Date	Time	Venue
3	October 9	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	HERMANN SONS HALL 860 Western Avenue Petaluma, CA 94952
1	October 11	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	RIVER LODGE 1800 Riverwalk Drive Fortuna, CA 95540
7	October 17	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	KINGS COUNTRY CLUB 3529 12th Avenue Hanford, CA 93230
8	October 18	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	COPPER RIVER COUNTRY CLUB 2140 E Clubhouse Drive Fresno, CA 93730
10	October 23	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	LUIGI'S 725 E 19th Street Bakersfield, CA 93305
9	October 24	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	TULARE GOLF COURSE Pitching Wedge 5300 S Laspina Street Tulare, CA 93274
11	November 1	No-Host reception - 5:30 p.m. Dinner - 6:30 p.m.	MISSION INN Spanish Art Gallery 3649 Mission Inn Avenue Riverside, CA 92501
4	November 6	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	ROLLING HILLS CASINO 2655 Everett Freeman Way Corning, CA 96021
6	November 13	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	TURLOCK GOLF & COUNTRY CLUB 10532 N Golf Link Road Turlock, CA 95380
5	November 15	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	WINE & ROSES 2505 W Turner Road Lodi, CA 95242

To RSVP for the Annual Meeting in your district, please email promotions@cmab.net, contact the office at 209.690.8248, text 209.678.3466 or online at <https://www.teamcmab.net/annualmeetingsvp>. Please be sure to RSVP no later than seven days prior to meeting date.

September 2018 California Dairy Quality Assurance Program Newsletter

By Kevin Abernathy, MPC General Manager

The September e-update from the California Dairy Quality Assurance Program (CDQAP) provides resources for improving farm security and highlights the upcoming California Dairy Sustainability Summit.

Dr. Michael Payne with the UC Davis School of Veterinary Medicine gives background information on the needed increase for farm security. The FDA's new Food Defense regulations require processors to update their current practices to compensate for new threats to the industry. At the workshops held earlier this year, CDQAP, Homeland Security, the FBI, and local law enforcement highlighted security measures and provided practical information for threats ranging from diesel theft to international terrorism.



The newsletter gives additional information on the California Dairy Sustainability Summit and gives readers an overview of topics ranging from robotics to incentive programs.

The entire CDQAP e-newsletter is available [here](#).

A promotional poster for the California Dairy Sustainability Summit. The top left features the "California Dairy Sustainability Summit" logo, which includes a cow silhouette and a leaf. To the right, the dates "November 27-28, 2018" and location "Sacramento, CA" are displayed in white text on a dark blue background. A green banner across the middle reads "Save with Early Bird Rates!". Below this is a photograph of several black and white cows in a field. The bottom section contains logos for "Dairy Cares", "California Dairy Quality Assurance Program", "California Dairy Research Foundation", "Dairy Council of California", and "Real California Milk". The text "Hosted by:" is centered above these logos. The "gna" logo is also visible in the bottom right corner of the image area.

Learn more at www.cadairysummit.com. Register [here](#).