



Milk Producers Council

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DATE: December 21, 2018
TO: Directors & Members

PAGES: 6
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - **\$.0175** \$1.3900
 Barrels - **\$.0150** \$1.2950

Weekly Average, Cheddar Cheese

Blocks + **\$.0440** \$1.4060
 Barrels + **\$.0445** \$1.3130

CHICAGO AA BUTTER

Weekly Change + **\$.0150** \$2.2050
 Weekly Average + **\$.0045** \$2.1940

DRY WHEY

Dairy Market News w/e 12/21/18 \$1.4450
 National Plants w/e 12/15/18 \$1.4674

NON-FAT DRY MILK

Week Ending 12/15

Nat'l Plants \$0.9041 18,614,143

Prior Week Ending 12/08

Nat'l Plants \$0.8945 17,269,665

California Federal Milk Marketing Order Price Projections

CA FMMO Price Projections	Class I Actual (Range based on location)	Class II Projected	Class III Projected	Class IV Projected
This Week	\$16.65 - \$17.15	\$15.61	\$13.84	\$15.07
Last Week	\$16.65 - \$17.15	\$15.54	\$13.80	\$15.02

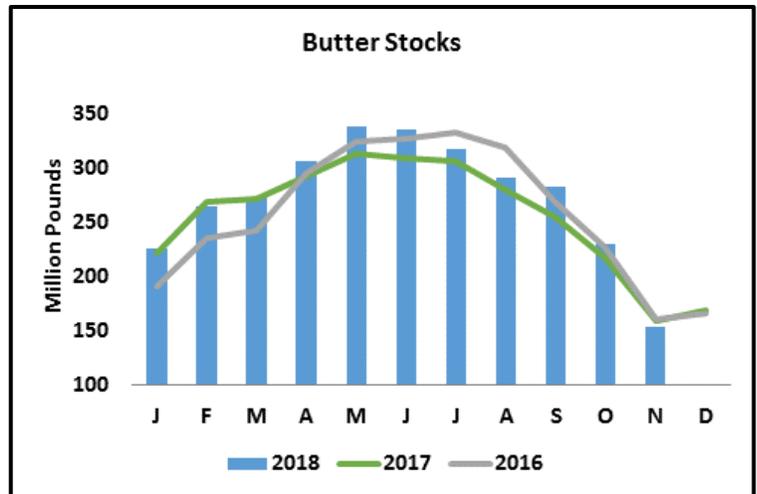
Market commentary

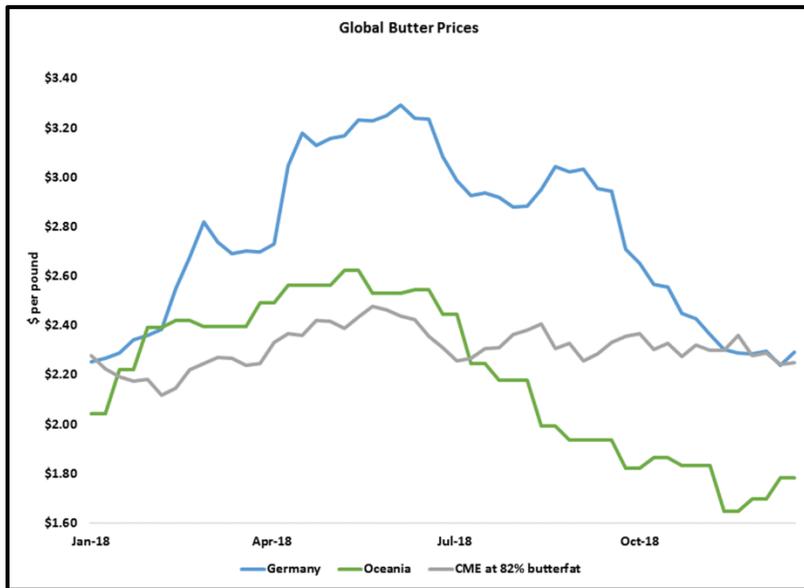
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

Dairy producers' spirits have been far from bright this year, but this week brought a little Christmas cheer. Prices moved higher nearly across the board at the Global Dairy Trade auction, marking the first back-to-back gain since May. Prices for butterfat products were particularly strong, and skim milk powder (SMP) prices jumped 3.4% to the equivalent of nonfat dry milk (NDM) at 99¢ per pound. At the CME spot market, NDM held steady at 94¢, an 18-month high.

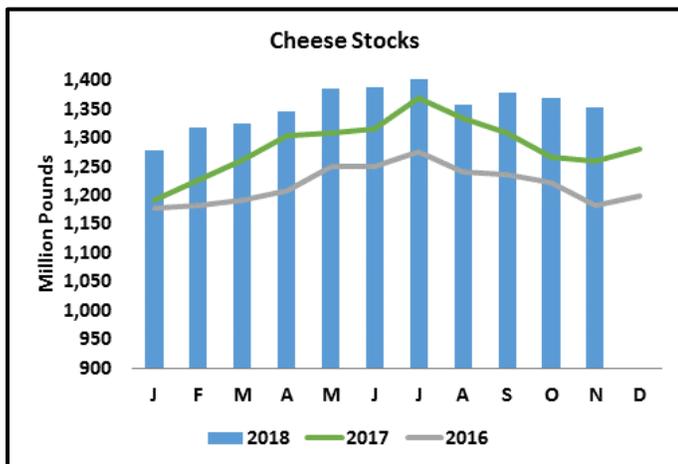
Global milk powder inventories are tightening, as output slows and demand grows. Stockpiles in the U.S. and Europe are shrinking, and New Zealand's trade is booming, implying robust demand on all fronts. New Zealand reported November SMP exports at 102.2 million pounds, up 6% from a year ago. Shipments to China were up 60%. New Zealand's whole milk powder (WMP) exports jumped 20.4% from November 2017, driven by a 70% surge in exports to China. The sharp increase suggests that China's milk output remains depressed and that global milk powder trade volumes are likely to remain elevated.





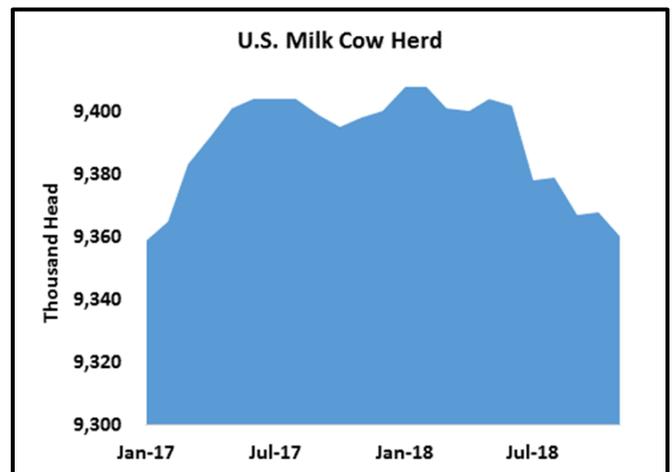
New Zealand also reported a stunning 174% increase in butterfat exports to the United States in November. Over the past several months, the U.S. butter market has erased its discount to European offers and widened its premium over Oceania product, sending a clear signal that butterfat users in the United States are looking to buy. Unusually high cream multiples throughout November echoed the signal and likely depressed butter output last month, reducing supply. USDA reported butter inventories on November 30 at a three-year low of 153.7 million pounds, 3.5% lower than the prior year. Butter stocks declined 77 million pounds from October to November, marking the largest November drawdown since USDA began keeping records in 1915. Butter futures

rallied today, but the spot market barely budged. CME spot butter closed at \$2.205 per pound, up 1.5¢ from last Friday. Most Class IV contracts posted double-digit gains. Every contract on the board is trading at \$15.00 per cwt. or better. Fifteen dollar milk may not inspire a lot of excitement, but it's certainly less Scrooge-like than \$13.95, the Class IV average price for the first nine months of the year.



The Class III markets have been a bit more begrudging of holiday exuberance. Class III futures put in a mixed performance. While most contracts managed modest gains, February through April finished in the red. CME spot dry whey jumped 4¢ this week to 49¢ per pound. But the cheese market faded. CME spot Cheddar blocks slipped 1.75¢ to \$1.39. Barrels dropped a penny-and-a-half, to \$1.295. Cheese inventories ebbed appreciably in November, but there is still plenty to be had. The U.S. stockpile totaled 1.35 billion pounds, up 7.5% from a year ago. Cheese inventories are likely to weigh on the Class III market for some time.

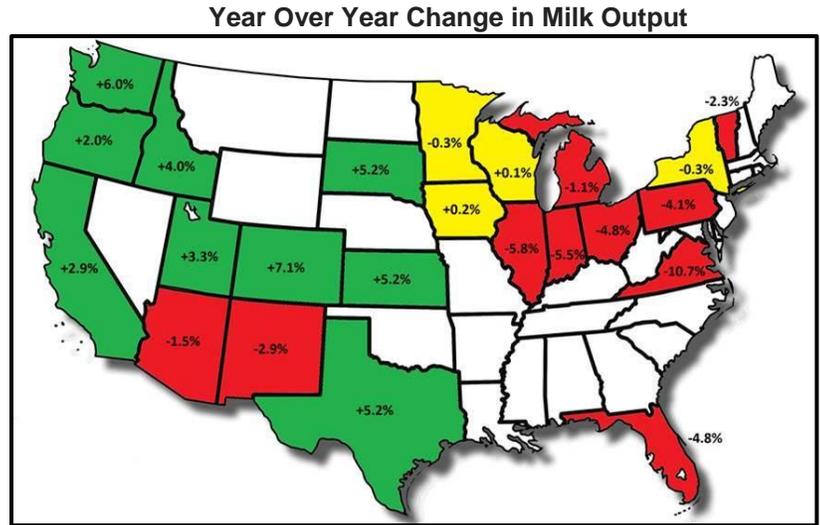
Nonetheless, the stage is set for a much better 2019. Milk output is moving backward in Europe. It fell 0.2% short of year-ago levels in October. In New Zealand, November milk collections were up a surprisingly scant 1% from a year ago. In the U.S., milk output was just 0.6% higher than the prior year in November, at 17.4 billion pounds. Milk output continues to contract in the East and grow in much of the West. But there are hints that growth in the western states may slow. Arizona and New Mexico have already begun to contract. It's unlikely that the Pacific Northwest will be able to replicate the year-over-year growth reported in November, which was boosted by the comparison to a frigid, snowy November 2017.



Meanwhile, the dairy herd remains in decline. USDA estimates the dairy herd at 9.36 million head, down 8,000 cows from October and down 38,000 from a year ago. Slaughter volumes are high, and heifers are heading to beef feedlots rather than to fill newly vacated stalls. Further contraction is likely.

Grain Markets

China committed to buy more U.S. soybeans this week, but the market was not impressed. The window for U.S. soybean exports is closing quickly. Buyers will soon turn their attention to South America, where crops are in good condition. With or without continued purchases from China, the market must contend with last year's huge crop, the slow pace of U.S. exports, and stiffer competition from Brazil and Argentina. The balance sheet doesn't jibe with \$9 beans. March soybeans slipped 13¢ this week, to \$8.9775 per bushel. Corn futures also retreated. The March contract dropped 6.25¢ to \$3.785.



Producer Review Board meets to set QIP Petition Rules

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

As producers in California may know, there is a petition effort going on seeking to end the quota program in the state. The Producer Review Board (PRB) met on December 19 to flesh out the rules under which any petition regarding the Quota Implementation Plan (QIP) would be considered. The QIP itself spells out the basic parameters of its administration in Article 11 of the document.

Article 11. Administration has the following sections:

Section 1100. A producer survey shall be conducted by an independent party selected by the Producer Review Board at least every five (5) years. The survey shall evaluate the effectiveness of the Plan.

Section 1101. Substantive, or significant amendments to this Plan require a producer referendum to be held in the same manner as the referendum approving this plan.

Section 1102. The Secretary, after consultation with the Producer Review Board, may make non-substantive changes to this Plan.

Section 1103. Upon the receipt of a petition signed by at least 25 percent of market milk producers regarding the amendment or termination of this Plan, the Secretary shall convene the Producer Review Board to review the merits of the petition and make a recommendation to the Secretary.

If the Secretary finds that the Plan no longer tends to effectuate the purpose intended, termination shall be submitted for referendum in the same manner as provided for its initial approval.

The PRB developed a document at the December 19 meeting titled “Procedures for Submitting a Petition for Substantive Amendments or Termination of the Quota Implementation Plan (QIP).” In that document, procedures for petitions were adopted. In general, the rules they established seek to assure two things:

1. That a petition contains information in the petition itself outlining what is being proposed and why, so signers are informed about what they are signing.
2. That the signatures of the producers are valid. This is done by instructing the Department after the receipt of a petition to mail to each petition signer a return receipt with a control number which must be returned back to the Department to confirm the intent of the person signing the petition.

If a valid number of producers have signed the petition, the Secretary is required to schedule a meeting of the Producer Review Board to review the merits of the petition, adopt findings and make a recommendation to the Secretary. The Secretary then makes a decision based on that recommendation. If the Secretary decides substantive changes should be considered, then a referendum of California producers must be held.

For a referendum to pass, at least 51% of the total number of eligible producers in the state have to vote, **and** at least 51% percent of those voting who produce at least 65% percent of the milk produced by all producers who voted in the referendum, **or** at least 65% of those voting who produced at least 51% of the milk produced by all producers who voted in the referendum, must vote in favor for the referendum for the proposed change to be adopted.

The PRB has adopted these procedure rules. Time will tell if a petition comes forth that meets the standard.

USDA announces second round of Trade Mitigation payments

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

Earlier this week, USDA announced its second and final round of payments for farmers through the Market Facilitation Program. Read the full USDA press release [here](#).

The second payment will be identical to the first: \$0.12 per cwt. on your MPP production history. The first round paid half of this and the second round will payout the rest. If you signed up for the first payment, there is no need to do anything. USDA will automatically send you the second payment.

President Trump signs new Farm Bill

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

President Trump signed the Farm Bill on Thursday, December 20. It is now the law of the land.

Last week I wrote an article that spelled out the implications of the Farm Bill for the dairy industry. Contrary to last week’s article, Congress did change the rules of the Dairy Margin Coverage program to address the ability of very large dairies to have equal access to the Tier 1 lower cost coverage. For those dairies that produce over 100,000,000 pounds of milk per year, they do have to sign up for at least 5% coverage, but they are not required to purchase all 5% at the same Tier. What the new Farm Bill allows them to do is cover the first 5 million pounds at the high coverage, low cost, Tier 1 rates and the rest of their 5% at Tier 2 rates for the lower dollar coverage that is either free (\$4) or very cheap (\$5 coverage for \$0.005). Congress clearly heard the complaints from the larger producers about being locked out of the program and they did what they could to address it. You can read a revised versions of last week’s article [here](#).

This past week I also hosted a webinar that went into more detail about the new Farm Bill. It was recorded and can be seen [here](#).

Dairy Cares Member Update: Dairy Summit Paves Way for Progress

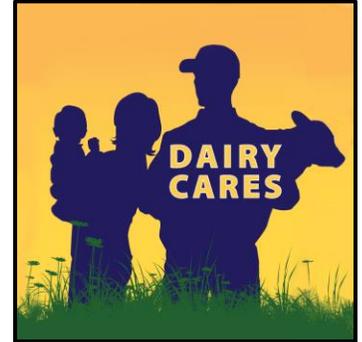
By Kevin Abernathy, MPC General Manager

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 November edition of the Dairy Cares member update highlights the success of the first-ever California Dairy Sustainability Summit. The update provides information on the attendance numbers for the event and encourages participants to provide feedback.

The update also informs readers on upcoming deadlines for the Dairy Digester Research and Development Program (DDRDP) and the Alternative Manure Management Program (AMMP).

Read the full article [here](#).



November 2018 California Dairy Quality Assurance Program Newsletter

By Kevin Abernathy, MPC General Manager

The November e-update from the California Dairy Quality Assurance Program (CDQAP) reminds dairy producers to have emergency plans in place for the upcoming rainy season.

Dr. Deanne Meyer with the UC Davis Department of Animal Science reminds dairy farmers about the importance of developing an Emergency Manure Management Plan. Dr. Meyer explains the importance of all employees on the dairy knowing what steps must be taken in the event of an emergency regarding manure management. It is also encouraged to keep the plan updated as operation practices change.



The newsletter also provides other emergency resources and details issues your facility may face in the coming months.

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

Kotkin: California becoming more feudal, with ultra-rich lordling over declining middle class

By Joel Kotkin and Marshall Toplansky, Published in the Orange County Register on October 14, 2018

Note from Kevin Abernathy, MPC General Manager. Thanks to our media monitoring activities, I come across a lot of interesting dairy and political news. I thought this article and accompanying study about the growing disparity between the wealthy and the poor as well as the declining middle class in our state, especially in the Central Valley, would be of interest to our readers.

In the imaginations of its boosters, and for many outside the state, California is often seen as the role model for the future. But, sadly, California is also moving backward toward a more feudal society.

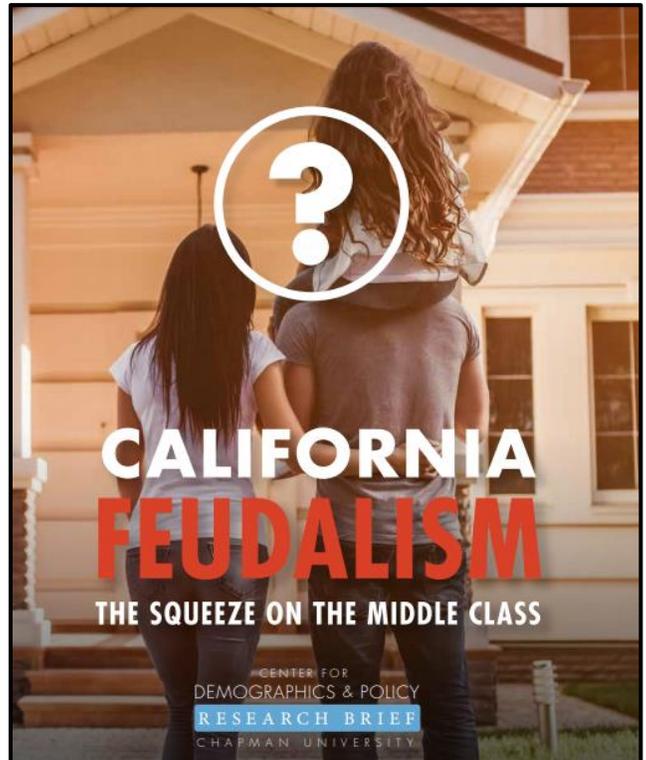
Feudalism was about the concentration of wealth and power in a relative handful of people. Historically, California created fortunes for a few, but remained a society with enormous opportunity for outsiders, whether from other states or countries. One of Jerry Brown’s biographers, Ethan Rarick, described his leadership as having made the 20th century into “The California Century,” with our state providing “the template of American life.” There was an American Dream across the nation, he noted, but here we had the California Dream.

This proud legacy is threatened, as we point out in our study to be released Monday. Today California is creating a feudalized society characterized by the ultra-rich, a diminishing middle class and a large, rising segment of the population that is in or near poverty. Overall our state now suffers one of the highest GINI rates — the ratio between the wealthiest and the poorest—among the states, and the inequality is growing faster than in almost any state outside the Northeast, notes liberal economist James Galbraith. The state’s level of inequality now is higher than that of Mexico, and closer to that of Central American banana republics like Guatemala and Honduras than it is to developed states like Canada and Norway.

California, adjusted for costs, has the overall highest poverty rate in the country, according to the United States Census Bureau. A recent United Way study showed that close to one in three of the state’s families are barely able to pay their bills. Overall, 8 million Californians live in poverty, including 2 million children, a number that according to a recent report, has risen since the Great Recession, despite the boom.

Continue reading the article [here](#).

Read the complete report, “California Feudalism: The Squeeze on the Middle Class” from the Center for Demographics & Policy, Chapman University, [here](#).



The next MPC Friday Report will be published January 4, 2019

