



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@milksproducers.org ~ www.MilkProducers.org



DATE: July 15, 2016
 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0300 \$1.6600
 Barrels +\$.0250 \$1.7450

Weekly Average, Cheddar Cheese

Blocks +\$.0387 \$1.6400
 Barrels +\$.0415 \$1.7290

CHICAGO AA BUTTER

Weekly Change +\$.0375 \$2.3200
 Weekly Average - \$.0129 \$2.2840

DRY WHEY

Dairy Market News w/e 07/15/16 \$2.2713
 National Plants w/e 07/09/16 \$2.2754

NON-FAT DRY MILK

Week Ending 7/8 & 7/9
 Calif. Plants \$0.8668 6,516,484
 Nat'l Plants \$0.8514 12,122,110

Prior Week Ending 7/1 & 7/2

Calif. Plants \$0.7755 7,988,919
 Nat'l Plants \$0.8103 19,314,557

FRED DOUMA'S PRICE PROJECTIONS...

Jul 15 Est: Quota cwt. \$15.55 Overbase cwt. \$13.85 Cls. 4a cwt. \$14.16 Cls. 4b cwt. \$14.60
 Last Week: Quota cwt. \$15.45 Overbase cwt. \$13.75 Cls. 4a cwt. \$14.01 Cls. 4b cwt. \$14.48

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

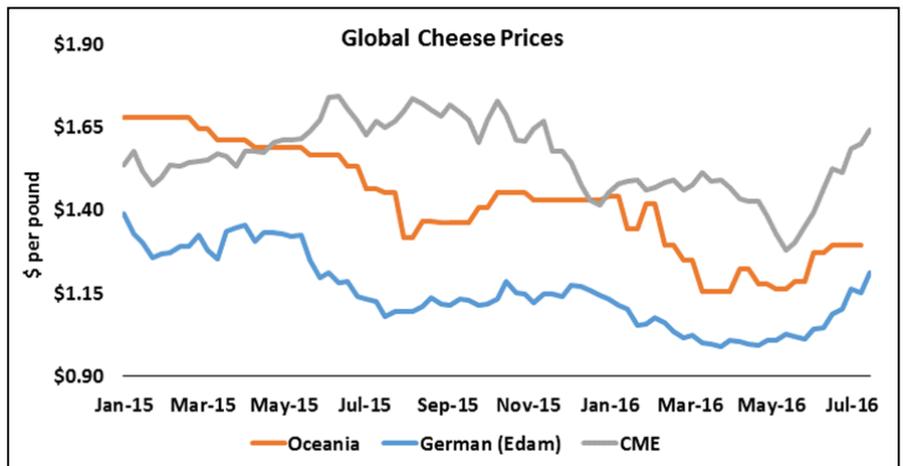
Milk & Dairy Markets

As the temperature rose this week, so did the cheese markets. CME spot Cheddar barrels climbed to \$1.745/lb., up 2.5¢ from last Friday to their highest level in over a year. Blocks gained 3¢ and reached \$1.66. The U.S. currently houses more cheese than ever before and more cows than at any point in nearly seven and a half years. Exports are negligible and year-to-date imports have not been this high since 2005, more than a decade ago. Nonetheless, the bulls charged. Class III and cheese futures moved sharply higher, with August through December Class III contracts up 28¢ to 50¢ for the week.

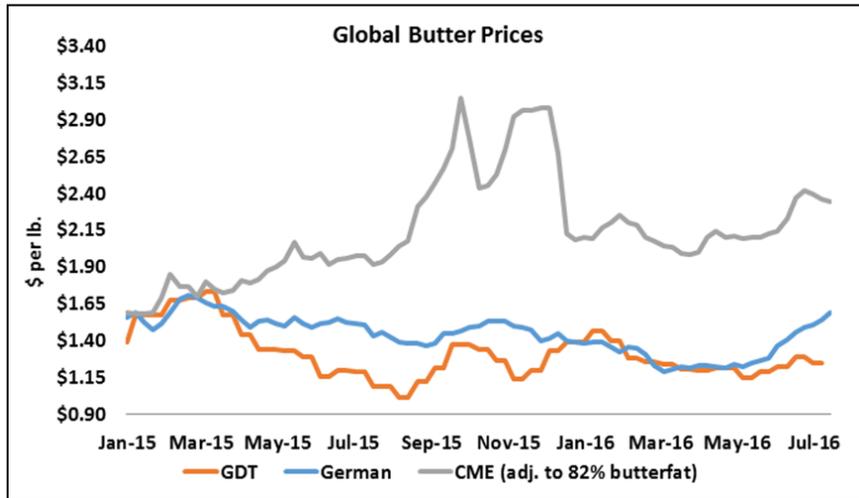
Overseas cheese markets are also ascending. German Edam prices averaged €2,400 per metric ton this week, a 13-month high. At today's exchange rate, that puts Edam at \$1.21/lb., some 43¢ cheaper than the weekly average for block Cheddar.

Similarly, the German butter market jumped to an average of €3,225 per metric ton, the highest price since March 2015. CME spot butter rose 3.75¢ this week to \$2.32. Adjusting for currency and butterfat differences, CME butter stands at a 75¢ premium to European product.

That gap is wide enough to allow for more butter to arrive on our shores, but it is the narrowest spread between the U.S. and European butter markets since January. It should come as no surprise then that cumulative January through May U.S. butter imports are the largest on record.



Butter market bulls have been fed on fears that butter prices will soar once again into the fall and on the perception that domestic demand is exceptional and will remain so. For butter buyers, the market feels tight, even though inventories on May 31 were up 22.5% from the year before and were 55.2% greater than at the end of May in 2014. This may be because some wary end users are already planning for Christmas in July, locking up more of their expected needs early. With a greater share of the butter in storage spoken for, manufacturers may be under less pressure to move the remaining product. Indeed, *Dairy Market News* reports,



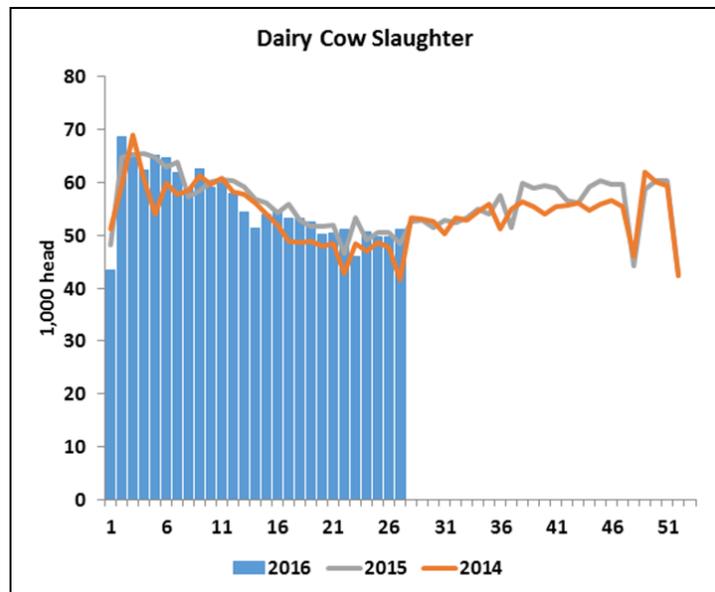
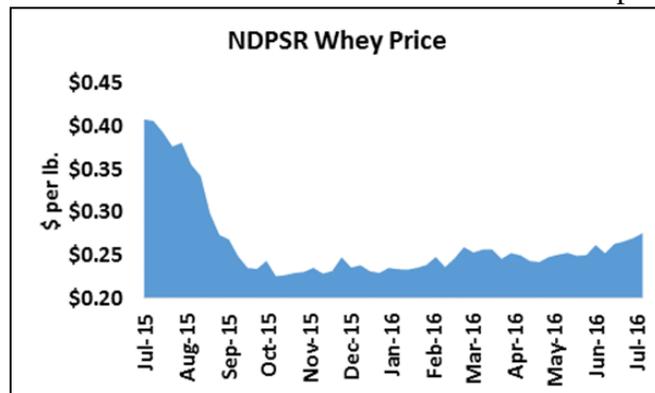
“A few manufacturers are microfixing bulk butter to meet upcoming customers’ needs. The market undertone is firm.” Will that strength prevail later this year if warehouses are still well-stocked after holiday orders have dried up?

While cheese and butter climbed, the CME spot nonfat dry milk (NDM) market slipped. It finished Friday at 87.5¢, down 1.5¢ for the week. Class IV futures also moved mostly lower this week. Driers are running pretty hard for this time of year, but output has slowed down noticeably from the spring peak. The Corn Belt forecast calls for a cool weekend before an extended hot spell



which could further trim production.

The dry whey market started weak and finished strong; today’s settlements were little changed from last Friday. Despite heavy output and record-high inventories, whey prices are slowly but surely improving. The National Dairy Product Sales Report price for the week ending July 9 was the highest since August. But to come anywhere near last summer’s levels, the whey market still has a steep hill to climb.



For the week ending July 2, dairy cow slaughter totaled 51,216 head, up 5.6% from a year ago. However, the year-to-year disparity is a bit skewed by the fact that Independence Day fell in the comparable week last year. For the year to date, dairy cow culling is running 1.2% behind the 2015 pace.

Grain Markets

The corn market sprinted higher Tuesday and Wednesday but then petered out. September corn futures finished at \$3.5225 per bushel, down 2.75¢ this week. In its monthly update to the World Agricultural Supply and Demand Estimates (WASDE), USDA trimmed its estimates for domestic corn demand but stepped up forecasted export demand. This puts projected 2016-17 corn usage at record highs. Still, the world is flush with grain and corn stocks at the end of

the season are expected to grow modestly from last year's volumes. Widespread rains have favored the crop, and it is pollinating in excellent condition. The trade is penciling in big yields and the nation's grain bins are already overflowing.

But the extended forecast looks threatening. Next week a massive high pressure ridge is expected to lodge over the Corn Belt and Great Plains, trapping heat in and keeping rains out. The well-watered corn and soybean crops will be able to withstand a few scorching days. However, they will suffer immensely if the ridge settles over the Corn Belt and doesn't budge. Over the next few weeks, the crop markets will continue to move violently back and forth with the whims of the weather. The soybean market will be particularly sensitive.

August soybean futures settled Friday at \$10.725, down 11¢ for the week. Soybean meal futures dropped \$7 per ton. There were no surprises in the WASDE, which confirmed that global oilseed output is struggling to keep pace with constantly rising demand. USDA projects that this year's U.S. soybean crop will be only slightly smaller than the record-breaking harvests of the previous two seasons; if currently favorable conditions prevail, higher yields could translate to an even bigger crop. But exports are likely to be record large, and inventories at the end of the season are expected to be uncomfortably tight. The market will have to stay high enough to inhibit demand, and to encourage South American farmers to increase soybean acreage when their new season begins. If the U.S. crop disappoints, soybean prices will soar.

AN OPPORTUNITY TO PARTICIPATE IN THE “2016 FASTER FORAGE STRIP-TILL TOUR”: *(By Kevin Abernathy, Director of Regulatory Affairs)* On July 28th, interested California dairy producers and farm managers have an opportunity to join Sustainable Conservation on its “2016 Faster Forage Strip-Till Tour.” We've written about conservation tillage – also known as strip-till – in this newsletter before, but as a reminder, it is a method of low-impact farming that leaves crop stubble on the surface of the soil, which protects the soil from erosion and prevents wind from blowing dirt into the air. Because crops are planted directly on top of the stubble, fewer tractor passes are needed to prepare fields for planting, dramatically reducing dust and diesel pollution while also providing a financial benefit to farmers in the form of fuel, labor and maintenance cost savings.

Sustainable Conservation – a non-profit organization that has a strong history of working with the dairy industry to promote new practices aimed at resource conservation – has helped facilitate on-farm projects around the State in order to demonstrate the use of the practice for interested farmers. They've teamed up this year with California Ag Solutions and Power2Gro to host a tour focused on the Fresno area projects they've worked on. For interested producers and farm managers, the details are shown here:

What: 2016 Faster Forage Strip-Till Tour in the Fresno area

Date: Thursday, July 28th, 2016 @ 7:30am-12:45pm

Tour includes a visit to: (1) Rollin Valley Farms, 10505 W. Kamm Avenue, Burrel CA 93607; (2) Johann Dairy, 11511 W. Floral Ave, Fresno CA 93706; and (3) Bar 20 Dairy, 25400 W. Whitesbridge Ave, Kerman CA 93630

You can RSVP for the tour online at: <https://goo.gl/uFjQyf>, or you can call 559-674-3276 to be registered over the phone.

In addition, private tours are also available in the Bakersfield area on Tuesday, July 26th at 7:30am. Visits to the Madera and Hilmar area demonstration fields are also available for private tours. Interested producers or farm managers in these areas should call 559-674-3276 for more information on these additional opportunities.