



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@milproducers.org ~ www.MilkProducers.org



DATE: October 30, 2015
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0075 \$1.6200
 Barrels +\$.0450 \$1.5950

Weekly Average, Cheddar Cheese

Blocks - \$.0130 \$1.6085
 Barrels - \$.0240 \$1.5590

CHICAGO AA BUTTER

Weekly Change +\$.3000 \$2.7700
 Weekly Average +\$.1580 \$2.6240

DRY WHEY

Dairy Market News w/e 10/30/15 \$2.250
 National Plants w/e 10/24/15 \$2.272

NON-FAT DRY MILK

Week Ending 10/23 & 10/24

Calif. Plants \$0.8814 9,725,038
 Nat'l Plants \$0.9059 18,306,605

Prior Week Ending 10/16 & 10/17

Calif. Plants \$0.9174 9,288,178
 Nat'l Plants \$0.9488 13,392,258

FRED DOUMA'S PRICE PROJECTIONS...

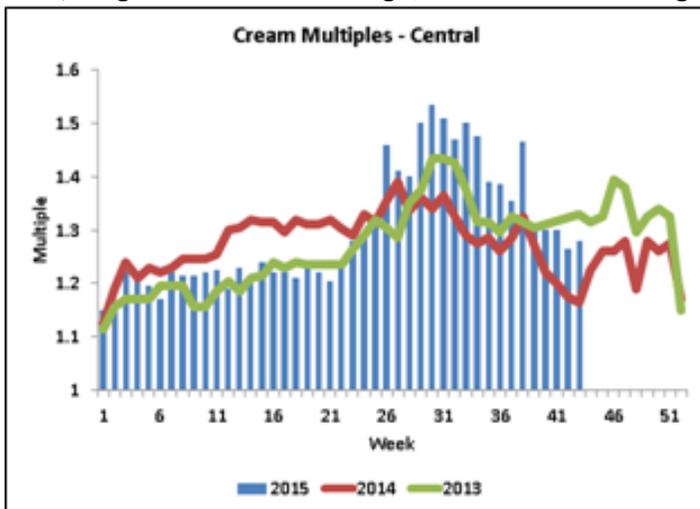
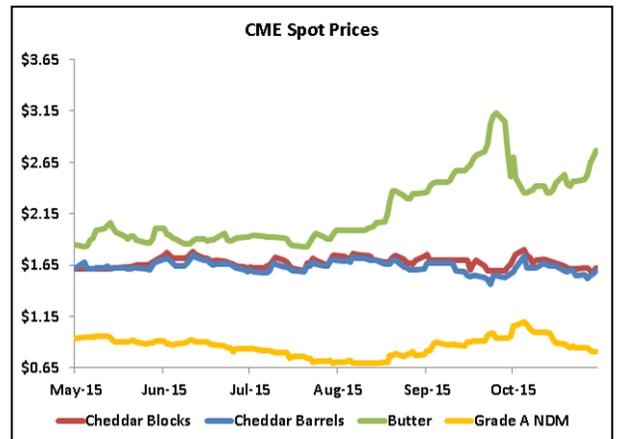
Nov '15 Est: Quota cwt. \$16.80 Overbase cwt. \$15.11 Cls. 4a cwt. \$16.73 Cls. 4b cwt. \$14.42
 Oct '15 Final: Quota cwt. \$16.64 Overbase cwt. \$14.95 Cls. 4a cwt. \$15.74 Cls. 4b cwt. \$14.76

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

Milk & Dairy Markets

Despite adequate stocks and growing imports, the spot butter market is soaring. The late-September collapse has been forgotten. CME spot butter closed at \$2.77/lb. on Friday, up 30¢ on the week and 26¢ higher than where it began the month. In contrast, milk powder prices continue to fade. This week spot nonfat dry milk (NDM) slipped 4¢ to 80.5¢, 15.5¢ lower than where it ended last month. Class IV futures were mixed amidst very light trading volumes.

Thanks to a Friday rebound, Cheddar blocks managed to close 0.75¢ higher than a week ago, at \$1.62. Barrels gained 4.5¢,



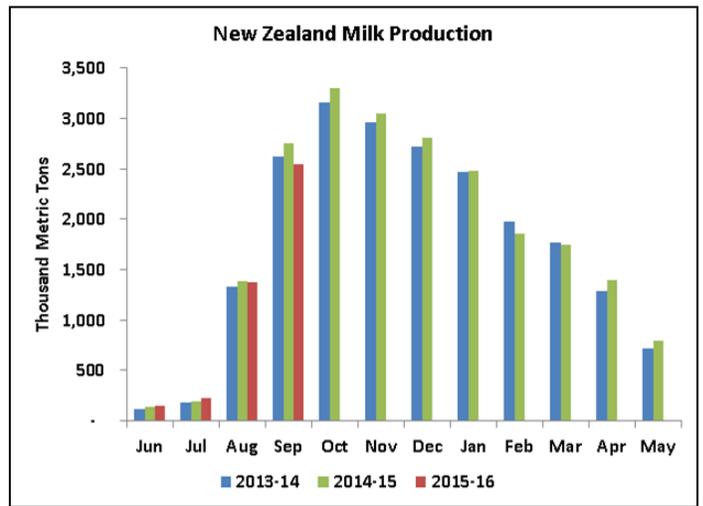
rising to \$1.595. Class III futures were not impressed. The October through March contracts lost ground this week. The January Class III contract was particularly weak. It dropped 41¢ from last Friday.

The nearby butter market has proven its strength. Domestic demand remains robust, and USDA's Dairy Market News reports that Thanksgiving orders are exceeding expectations. But at such high altitudes, stamina is in question. The futures market calls for a marked decline as the calendar turns, with prices down more than 40¢ from November to December and a further 17.5¢ drop by January. All 2016 butter contracts project prices below \$2.00. The market is begging butter

manufacturers to churn out product and sell it immediately, or risk selling at much lower prices later this year.

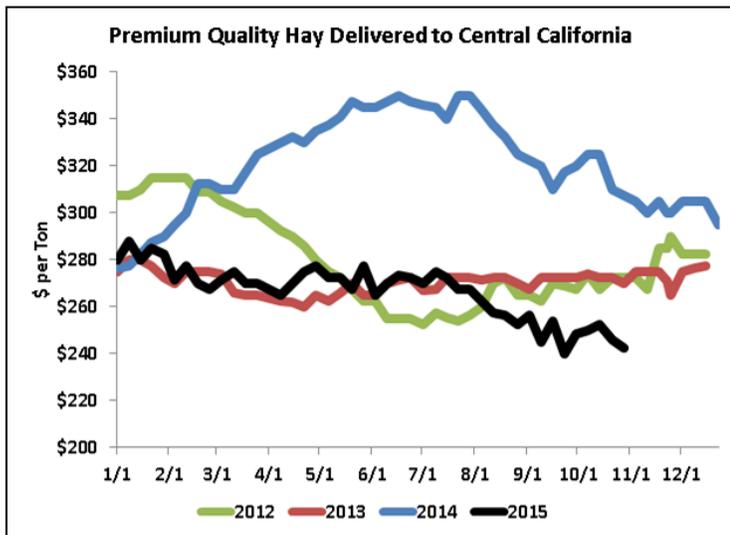
Unlike this summer, butter makers can source the cream required to ramp up production with relative ease. This week churn operators in the central region are paying between 1.22 and 1.34 times the butter price for cream. At the height of ice cream season in July and August, some manufacturers paid as much as 1.6 times the butter price, enticing butter makers to sell cream and churn less.

Dairy product prices overseas are generally steady to incrementally higher, which means that butter and cheese from Oceania and Europe are still vastly cheaper than domestic products. Butter and cheese imports will slowly pressure the U.S. market, and U.S. milk powder merchants face stiff competition.



In New Zealand, September milk collections totaled 2.55 million metric tons, down 7.5% from a year ago and

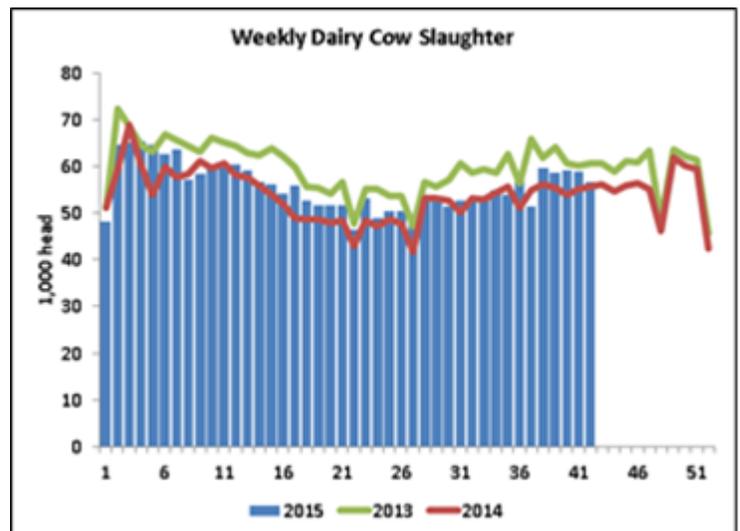
also below collections in September 2013. After four months, season-to-date production is down 4%. New Zealand's dairy producers have culled aggressively, and in some areas spring pasture growth has been subpar, weighing on output. Even if the weather improves, lower cow numbers and painful margins are likely to lead to a sustained drop in milk collections in the 2015-16 season. The Bank of New Zealand is calling for a 6% decline, and the deficit could be even steeper if the strong El Niño brings persistently dry weather along to the islands' east coasts during the Southern Hemisphere's summer and autumn.



Although dairy profit margins are undoubtedly lean in the Golden State, they could have been much worse after multiple years of severe drought and a sustained decline in milk checks. Feed costs are surprisingly moderate, even for thirsty crops like alfalfa. Quality alfalfa in the Central Valley costs \$65/ton less than it did a year ago.

But the weather is a fickle friend. If the El Niño doesn't provide as much relief as promised, forage costs in California are likely to rise. This becomes even more of an issue as landowners plant fewer and fewer acres to feed dairy cows. Almonds are growing where alfalfa and even milk barns once stood. Fortunately, grain and protein meal prices can go no higher than the cost to purchase them in the Midwest and haul them to the nation's largest dairy state, and the outlook for those crops is neutral to bearish.

For the week ending October 17, dairy cow slaughter totaled 56,602 head, up 1.6% from the same week a year ago. So far this year, dairy producers are culling 4% more cows than in 2014.



Grain Markets

December corn futures gained 2.5¢ this week. The corn market is vacillating quietly within a 10¢ range centered around \$3.80 per bushel. The harvest is wrapping up without incident. U.S. corn exports are off to an uninspiring start. There is no reason to expect a big jump in corn prices anytime soon.

November soybeans settled Friday at \$8.8375, down 11.75¢ on the week. Timely rains in northern Brazil dampened bullish enthusiasm in the soybean pits. The market also faces headwinds from Argentina after a surprisingly strong showing from oppositionist candidate Mauricio Macri in presidential elections last weekend. The Peronist candidate, Daniel Scioli is vying to succeed current President Cristina Fernandez de Kirchner.

Mrs. de Kirchner views the agricultural industry with hostility and has levied punitive export taxes on soybeans. Her government has also controlled the currency, pegging the official exchange rate at an artificially high level to the detriment of exporters. These policies, coupled with rampant inflation, have discouraged farmers from selling their crops until they absolutely must to finance their operations. This has slowed Argentine crop exports and caused stockpiles to mount.

The two candidates will square off in a runoff election on November 22. Mr. Macri has pledged to lower soybean export taxes and Mr. Scioli has hinted that he might consider tweaking agricultural policy. A continuation of the status quo is possible, but it seems likely that Argentina could be leaning toward change. If they do, soybeans and the markets will flow more freely, which is likely to pressure prices.

In the U.S., soybean exports have been stunningly large. For the 2015-16 season, USDA projects that soybean exports will fall 9.1% from a year ago. Eight weeks in, shipments are 19% ahead of the 2014-15 pace. There is a lot of time left, and exports typically slow after a post-harvest rush. But for now, the sales glut is forcing analysts to tentatively pencil in greater demand for U.S. soybeans from around the globe.

AN UPDATE ON THIS WEEK'S CA-FMMO HEARING PROCEEDINGS: *(By Rob Vandenheuvel)* Friday marked the 27th day of U.S. Department of Agriculture's (USDA) hearing on a California-Federal Milk Marketing Order (CA-FMMO). This week was a continuation of the Dairy Institute of California's case on behalf of the dairy processors they represent. Their witnesses this week testified that: (1) no disorder exists in California that would require the creation of a Federal Order; and (2) if USDA does create a Federal Order in California, it should be modeled after their proposal, not the cooperative/producer-supported proposal.

The following witnesses spoke either on behalf of the Dairy Institute or in support of their proposal:

- **James Ahlem**, *Hilmar Cheese Company*
- **Rob Blaufuss**, *Dean Foods*
- **Gil de Cardenas**, *Cacique*
- **James De Jong**, *Hilmar Cheese Company*
- **Scott Hofferber**, *Farmdale Creamery*
- **Jose Maldonado**, *Marquez Brothers International*
- **Mac Moore**, *Cacique*
- **Barry Murphy**, *BESTWHEY, LLC*
- **Dr. Bill Schiek**, *Dairy Institute of California*
- **Sue Taylor**, *Leprino Foods*
- **Leonard Vandenburg**, *Pacific Gold Creamery*
- **John Vetne**, *Hilmar Cheese Company*
- **Alan Zolin**, *Hilmar Cheese Company*

You may recognize some of these names from previous hearings at the California Department of Food and Agriculture (CDFA). In some cases, the testimony is either very similar or even word-for-word with what

they've testified to in those hearings on our California minimum price formulas. While each witness has his/her own spin, their overall message is very unified: "we would prefer to have no Federal Order in California, but if USDA disagrees with that, the unique conditions in California should warrant a lower milk price for the manufacturers buying milk in the State" (*my paraphrasing of their message*). An exception is the witness from Dean Foods, which does not manufacture Class 4a/4b products in the State. His testimony focused on other issues that relate to Class 1 and 2 products.

We were also able to hear testimony this week from three more dairy farmers in support of the cooperatives' proposal:

- **Dino Giacomazzi**, *Giacomazzi Dairy in Hanford, CA*
- **Barbara Martin**, *Dairy Goddess Farms in Lemoore, CA*
- **Noel Rosa**, *Rosa Brothers Dairy in Hanford, CA*

Each of these dairy farmers were able to share their unique perspective in why they support "Proposal 1" (*the official name of the proposal put forth by California Dairies, Inc., Dairy Farmers of America and Land O'Lakes*). In the case of Barbara and Noel, they are also looking at this from an additional perspective, as they have both started bottling their own milk and making their own dairy products. A component of the Federal Milk Marketing Order system is that producer/handlers who meet certain conditions are able to exempt their bottling operations from pooling requirements. That opportunity does not currently exist for producers like Barbara and Noel under the California State Order.

Finally, there was one additional witness on Friday: **Tom Van Nortwick**, *Editor of Agribusiness Dairyman Publications*. Tom did not get into the details of any proposal, but rather testified in support of California producers, whom he has worked with in his years of experience as a trade publication editor. We certainly thank Tom for his support.

Week 7 of the hearing will convene on Monday at 9 am at the Clovis Veterans Memorial District Building located at 808 4th Street in Clovis, CA. Those folks who cannot attend but are interested in listening to the hearing live can tune into the audio feed at: <https://www.ams.usda.gov/live>. USDA also continues to post the available transcripts to their website at: <http://www.ams.usda.gov/rules-regulations/moa/dairy/ca/transcripts>. Remember that there is a two-week lag in getting these transcripts finalized and posted.

LATEST DAIRY CARES COLUMN: PHILIP VERWEY FARMS: (*By Kevin Abernathy, Director of Regulatory Affairs*) The October 2015 "Dairy Cares Newsletter" has been posted on MPC's website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on a demonstration project we have written about in previous issues of this newsletter: The electric-powered feed mixing station that Philip Verwey Farms in Hanford, CA has built to replace mixer boxes powered by diesel tractors.

If you missed our previous article on this project, see: <http://www.milkproducerscouncil.org/updates/100915.pdf>. MPC was able to work with Philip Verwey Farms on the project to secure cost-sharing assistance from the San Joaquin Valley Air Pollution Control District (SJVAPCD). As the Dairy Cares Newsletter notes, more information on the project can be found in a youtube video at: <https://youtu.be/MeKGzohrDCQ>.

MPC MOURNS THE PASSING OF LONGTIME INDUSTRY FRIEND GLEN DURRINGTON: (*By Rob Vandenheuvel*) We were saddened to hear the news on Thursday that Glen Durrington, a former Chino Valley dairy farmer, current Southern California crop farmer, and longtime supporter of MPC, had passed away at the age of 84. Glen is survived by his son Richard. Our heartfelt condolences to Richard and the rest of his extended family. A memorial service for Glen will be held on Wednesday, November 4th at 11 am at Bellevue Memorial Park (1240 W G St., Ontario, CA 91762).