



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: April 6, 2018
TO: Directors & Members

PAGES: 8
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks + \$.0725 \$1.6025
 Barrels + \$.0100 \$1.4500

Weekly Average, Cheddar Cheese

Blocks + \$.0210 \$1.5585
 Barrels - \$.0313 \$1.4475

CHICAGO AA BUTTER

Weekly Change + \$.0725 \$2.2875
 Weekly Average + \$.0840 \$2.2740

DRY WHEY

Dairy Market News w/e 04/06/18 \$2.2613
 National Plants w/e 03/31/18 \$2.2573

NON-FAT DRY MILK

Week Ending 3/30 & 3/31

Calif. Plants \$0.7103 13,104,302
 Nat'l Plants \$0.6926 18,873,523

Prior Week Ending 3/23 & 3/24

Calif. Plants \$0.7004 17,034,267
 Nat'l Plants \$0.6943 20,554,459

Fred Douma's price projections...

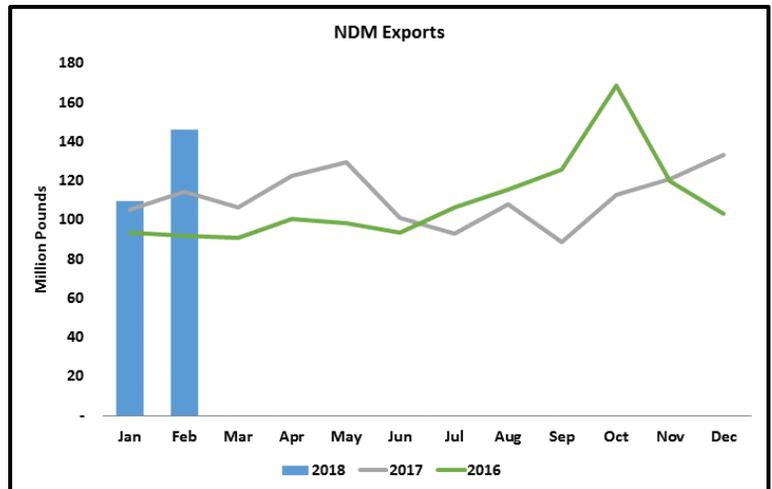
April 6 Est: Quota cwt. \$15.26 Overbase cwt. \$13.56 Cls. 4a cwt. \$13.27 Cls. 4b cwt. \$14.16
 Last Week: Quota cwt. \$14.95 Overbase cwt. \$13.25 Cls. 4a cwt. \$13.04 Cls. 4b cwt. \$13.66

Market commentary

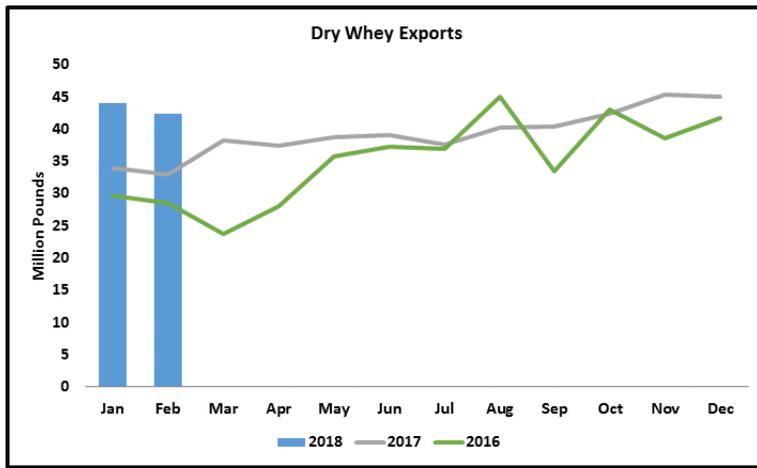
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

Spring is officially here, and the screens are green in Chicago, even if the grass is not. It's unusually cold in much of the nation, but dairy product prices are warming up after a long, bitter winter. CME spot dry whey finished today at 32¢/lb., up 3.25¢ in the past two weeks. That's a new high for the short-lived product. CME spot Cheddar blocks jumped to \$1.6025 matching the year-to-date high. Blocks have rallied 5.75¢ in the last two weeks. Barrels gained a little ground this week but finished at \$1.45, down 6¢ from their March 23 closing price. Class III futures posted sizeable gains. The May contract has added 53¢ since the week before Easter. The futures promise \$15 milk by June and \$16 milk by September. USDA announced the March Class III price at \$14.22, up 82¢ from the painfully low February figure. California 4b milk was \$13.96 in March, up 58¢ from February.



The Class IV market is also bouncing back from dispiriting levels. USDA announced March Class IV milk at \$13.04, up 17¢ from February. California 4a milk was \$13.01, up 29¢ from the prior month. Over the past two weeks, Class IV futures perked up considerably. Most contracts added between 30 and 50¢. The futures project that Class IV will climb well over \$14 in June and reach \$15 by October. Those prices are far from exciting, but they're better than the sub-\$14 pricing that has prevailed since November. The futures were helped by strong performances for both spot butter and nonfat dry milk (NDM). On Wednesday, spot butter reached \$2.335, its

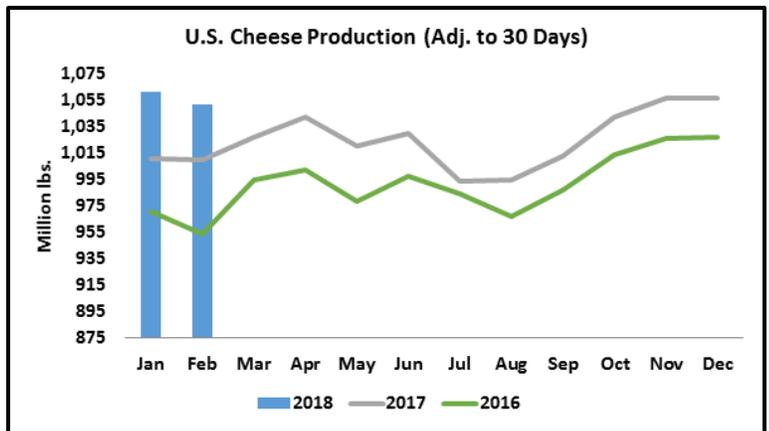


highest price since October. Spot butter finished at \$2.2875, up 9.75¢ in the past two weeks. Over the same period, spot NDM added 3.5¢, closing at 72.75¢, a nearly two-month high.

For months now, U.S. dairy products have been a bargain, which is helping to boost demand. Daily average U.S. dairy product exports reached all-time highs in February. According to the U.S. Dairy Export Council, aggregate volumes of U.S. milk powder, cheese, butterfat, whey, and lactose were 19% higher than in February 2017, accounting for 17.2% of U.S. milk production. Imports were

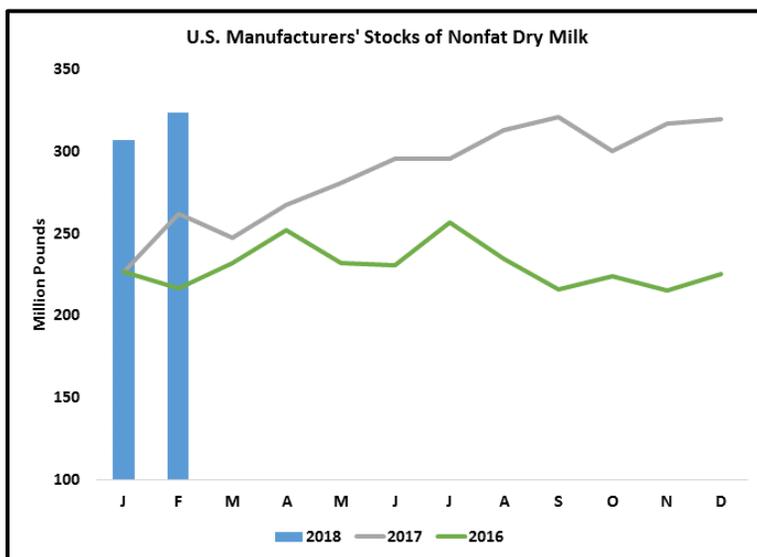
equivalent to just 3.1% of U.S. milk output in February.

Southeast Asian buyers are purchasing large volumes of U.S. milk powders and dry whey. Combined exports of NDM and skim milk powder (SMP) reached 146 million pounds, up 19% year over year to the second-largest monthly total ever. Dry whey exports were up 28.7% year over year, although other whey product sales slipped. Daily average lactose exports reached new record highs in February and were 27% greater than February 2017. U.S. cheese exports climbed 6.8% from a year ago to 62 million pounds. Butterfat exports remain small, but volumes were up 19.8% from a year ago. However, the U.S. remains a net butter importer.



Robust exports are welcomed news, particularly in light of continued growth in U.S. dairy product output. While butter production slowed in the East, higher output in the West and Central regions pushed butter production to 168.6 million pounds in February, up 2.5% from a year ago. At 1.05 billion pounds, cheese production was up 4.2% from February 2017, and Cheddar output climbed 5.7%. Dry whey production jumped 16.6% to 88.7 million pounds. However, strong exports helped chip away at dry whey inventories. Stocks on February 28 were 1.8 million pounds lower than at the end of January. However, at 87.2 million pounds, dry whey inventories are still 26.3% greater than year-ago levels. Protein remains cheap and plentiful. Combined production of NDM and SMP reached nearly 195 million pounds, up 7.5% from February 2017. Manufacturers' stocks climbed 12.5 million pounds to a new high of nearly 324 million pounds, up 23.6% from a year ago.

It feels like the recovery has begun in earnest. Of late, the dairy markets have proven themselves resilient in the face of bad news and enthusiastic after bullish reports, like the most recent trade data. However, there are a bevy of potential storm clouds on the horizon. The market must still contend with colossal inventories of milk powder in the U.S. and Europe. Cheese and whey stocks abound. Chinese dairy product imports did not



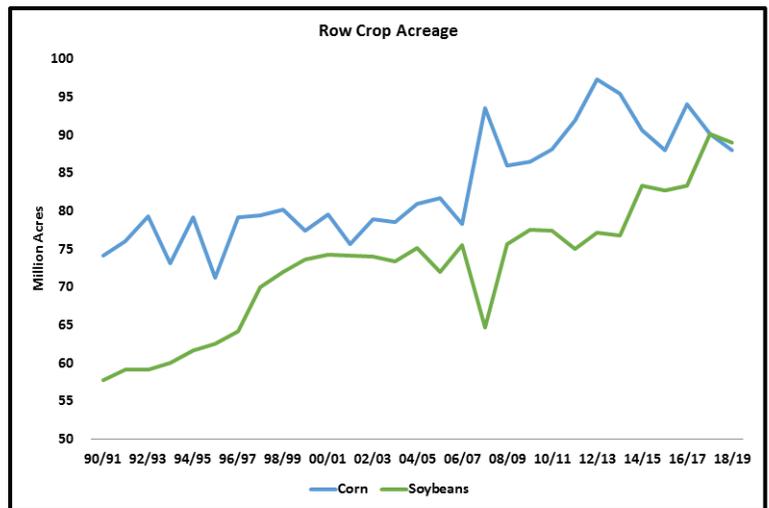
resilient in the face of bad news and enthusiastic after bullish reports, like the most recent trade data. However, there are a bevy of potential storm clouds on the horizon. The market must still contend with colossal inventories of milk powder in the U.S. and Europe. Cheese and whey stocks abound. Chinese dairy product imports did not

impress in February. Projections for higher dairy product prices are based on the assumption that poor margins and limited processing capacity will slow growth in U.S. and European milk output, but so far such a slowdown remains only a comforting theory.

However, the theory is sound, even if the outcome has been delayed, and there is evidence to suggest that lower milk prices will soon begin to effect supplies as they have demand. Dairy slaughter volumes are up 5.1% for the year to date. Much of the strength in January and February milk output was driven by gains in production per cow, particularly in California and the Southwest, where the weather was nearly ideal. It would be foolish to expect such excellent milk yields to persist as summer approaches. Dairy cow values are slipping. Dairy producers have little appetite for expansion, and those who have the capital likely will not add many cows until they can be reasonably assured that there is a processor who will take their milk. Dairy cooperatives are also operating with slim margins; some are looking to invest in new or updated processing facilities, but they'll have to scrape together the cash to do so. In the meantime, demand will continue to grow.

Grain Markets

It has been a wild two weeks in the feed markets. Last Thursday USDA issued its annual Prospective Plantings report. Corn and soybean acreage are expected to decline from 2017 levels, and – for the first time ever – farmers are expected to seed more ground with soybeans than with corn. The agency called for 88 million acres of corn and just shy of 89 million acres of soybeans; both figures were lower than pre-report guesses, and they sent futures soaring. These projections are subject to changes in prices, the weather, and the whims of the farmer, so the acreage mix can differ substantially from USDA's survey in early March. Nonetheless, the trade honed in on the acreage headline and shrugged off the bearish quarterly Grain Stocks figures, which showed record-large domestic inventories of corn and soybeans on March 1.



This week, the grain markets were taken hostage by our mercurial president. With mounting tariff threats, the Trump administration and China's Ministry of Commerce are poking one another in the eye, then fumbling around blindly for ways to protect their industries from the fallout of the escalating trade spat. China's premier has warned that, "No one will emerge a winner from a trade war."

If the two sides cannot come to terms before the end of a 60-day comment period, U.S. agriculture will be one of the losers. China has announced retaliatory tariffs against U.S. pork, beef, soy products, corn, DDGs, ethanol, wheat, cotton, fruit, nuts, and wine. The market remains hopeful that cooler heads will prevail. Although crop futures sold off hard with each successive tariff announcement, they battled back relentlessly. Today, May soybeans closed at \$10.3375 per bushel, 5.5¢ higher than their March 23 settlement. May soybean meal finished at \$386.30 per ton, up \$8.40 in the past two weeks. May corn futures settled at \$3.885, up 11.25¢.

Our big decision

By Geoff Vanden Heuvel, MPC Board member and Economics Consultant

The fundamental question facing California producers regarding whether to join the Federal Milk Marketing Order (FMMO) system – given what we know about the history of the California State Order and the FMMO as we have witnessed it in the rest of the country – is which system gives us the best opportunity for a prosperous

future?

To answer this question we should look at why the California State Order is what it is. When the current structure of the State Order was established in 1969, the main concern of producers was being abused by the processors.

So, we set up an order that used the power of the government to enforce strict requirements on processors to pay the regulated minimum prices. In the late 1970s there was a significant increase in the federal government's support price for milk. The support price went from \$8.76 per cwt. in 1977 to \$13.49 in 1982.

This rapid increase in the support price made dairy farming in California very profitable. With our ability to develop large dairies, with ample feed, hay and silage grown in the West, and cheap grain from the Midwest, California production skyrocketed. The one limiting factor was the lack of processing capacity to process all that new milk.

We had an answer: Establish a big make allowance so our plants would make money and expand. Yes, that meant our prices were lower than other areas, but our cost of production was lower and that was where we were making our money. And it worked. California became the number one dairy producing state by the mid-1990s.

But things changed. Our cost of production advantage began to evaporate. This was due partly because there were competing uses for California agricultural land and water, partly because of imposition of aggressive environmental regulations and partly because large scale dairy techniques developed in California were adapted and adopted by dairy producers in other regions of the country.

About 10 years ago, California producer sentiment began to change. More pressure was being put on the California Department of Food and Agriculture (CDFA) to modify their very processor-oriented milk pricing policies. But CDFA was resistant to change. Two factors weighed heavily on CDFA's thinking; one was that they had witnessed a nearly 30-year steady increase in California milk production and despite what producers were telling them in hearings, they never seemed to believe that the relative position of California dairy farmers to our competition in the rest of the country was changing and producers were no longer were willing to support state mandated lower prices. The second factor that also played a big role in CDFA thinking was that because the California Order REQUIRED all processors of Grade A milk to pay the regulated minimum prices, they needed to set those prices at a level that all processors could afford to pay.

The confrontation between producers and CDFA became intense, with producers forging a unity among themselves that was unprecedented in the history of the California dairy industry, and the Department and the processors continuing to be unwilling to make any meaningful moves in the producer's direction. This confrontation played out in hearings, in the legislative arena and in the courts. Finally after feeling like all these avenues were closed to meaningful change, the cooperatives – who for years had been concerned about finding enough plant capacity to process an ever increasing milk supply, but had become genuinely concerned about the financial health of their members and what that would mean to the California milk supply – decided to take the very difficult, time consuming and costly step of petitioning for a Federal Milk Marketing Order.

What do we know about the Federal Order System? It's been around a long time – over 80 years. We have witnessed over the past 20 years that regions can grow and prosper under the FMMO system.

Right now, Texas, the I-29 corridor in the Dakotas and Colorado are all examples of FMMO areas that are growing. FMMO areas can also stumble. Right now, we have a good example of a stumble in Michigan. 10 years ago, Michigan dairy producers were enjoying very good mailbox prices under their FMMO. None of the FMMO rules or prices have changed over the past 10 years, but today Michigan mailbox prices are below California levels. Why? Too much milk relative to their processing capacity. A lot of milk in Michigan is being sold at a discount with large transportation costs to find a processing home. Selling non-class 1 milk for less than regulated

prices is legal in the FMMO system.

So, what is the take away lesson? If you think you are going to be in a chronic over supply situation, then the FMMO will allow milk to be discounted resulting in lower milk prices. How did we handle that situation in the California State Order? The regulatory system discounted all the milk (compared to the regulated prices established in the FMMO), all the time, to make sure none of the milk was discounted when there was too much. What is the most efficient way to handle milk surpluses? It seems the FMMO does have an answer to that question.

As we look forward in California, is the milk supply going up, staying about the same or going down? The trends show that the milk supply is declining. It seems very unlikely that this trend will reverse itself. None of the challenges facing California dairy farmers are going away. Water and land competition for other agricultural uses is not lessening, labor costs and shortages will continue to plague the industry, environmental regulations and the cost of energy and feed will continue to escalate.

Under this scenario, the risk of a chronic milk surplus seems remote. Yes, our plants will have to pay us more for our milk under the FMMO system, but those costs from a regulatory standpoint will not be higher than their regulated competition in the rest of the country. For many of our dairy processors, their competition is other California processors who will face the same regulatory price increases with the FMMO as they do, so no doubt when the FMMO gets implemented they will blame the government or the farmers or both, but they will raise their product prices by a few cents per pound to cover the higher milk cost and move on.

In the weeks ahead there will be information outlining the details and the mechanics of how the California FMMO would work, but for now it seems to me that we have a once in a lifetime opportunity to put ourselves on a level playing field with producers in the rest of the country. That seems like a risk worth considering.

CDFA: Alternative Manure Management Program funding available for 2018

By Kevin Abernathy, MPC General Manager

CDFA is now accepting applications for the 2018 Alternative Manure Management Program (AMMP). The program provides dairy and livestock operators access to \$19-33 million in grants for non-digester projects to minimize methane emissions.

Those interested in applying for the grant must do so by 5 p.m. Tuesday, May 22. Information on AMMP and the application can be found [here](#). In order to apply, you must register for a Financial Assistance Application Submittal Tool (FAAST) account [here](#). All applications must be electronically submitted through FAAST by the deadline.

CDFA will be holding three workshops and two webinars for anyone interested in more information on the 2018 AMMP. The workshops and webinars are free but CDFA requests all interested parties register for workshops via email. To do so, email grants@cdfa.ca.gov with your name, contact information, which workshop you would like to attend, and the number of seats required.

Workshops and webinars will be held at these locations on the following dates:

Eureka – Monday, April 9, 2018

2 to 4 p.m.

Humboldt County Agricultural Building
5630 South Broadway Street
Eureka, CA 95501

Santa Rosa – Tuesday, April 10, 2018

1 to 3 p.m.

Sonoma County Agricultural Commissioner
133 Aviation Boulevard, Suite 110
Santa Rosa, CA 95403

Modesto – Monday, April 16, 2018

1 to 3 p.m.

Stanislaus County Agricultural Building
3800 Cornucopia Way, Suite B
Modesto, CA 95358

This meeting will also be available as a webinar.

Webinar – Tuesday, April 17, 2018

2 p.m. - 4 p.m.

You can register for the two webinars [here](#).

Any of our members who are interested in applying for AMMP 2018 funding are welcome to send any questions that they have to our office by emailing office@milkproducers.org.

2018 enrollment for new dairy Margin Protection Program re-opened by USDA

By Kevin Abernathy, MPC General Manager

On Tuesday, April 3, the USDA announced that the sign-up period for the Margin Protection Program (MPP) will be open from April 9 to June 1, 2018. This extension to the enrollment date is a response to Congress passing the Bipartisan Budget Act in February, creating new coverage options for the dairy MPP. Because of these new coverage options, dairy farmers are encouraged to read over these changes to the MPP [here](#).

Here are a few of the changes made to the dairy MPP:

- Calculations of the margin period are monthly rather than bi-monthly.
- Covered production is increased to 5 million pounds on the Tier 1 premium schedule, and premium rates for Tier 1 are substantially lowered.
- An exemption from paying an administrative fee for limited resource, beginning, veteran, and disadvantaged producers. Dairy operators enrolled in the previous 2018 enrollment period that qualify for this exemption under the new provisions may request a refund.

Any dairy producers that enrolled in the program last fall during the previous sign-up period must select new coverage for 2018. For an idea of what coverage is right for your operation, the USDA has created a web tool to calculate coverage based on several variables including price projections and operation data. That web tool can be found [here](#).

The dairy MPP is a voluntary risk management program for dairy producers authorized by the 2014 Farm Bill. It offers protection to dairy producers when the difference between the all milk price and the average feed cost (the margin) falls below a certain dollar amount selected by the producer.



Agricultural Marketing Service

USDA Public Meeting on Proposed California Federal Milk Marketing Order



When and Where is the Meeting?

- ▶ **9 a.m. to 12 Noon (PT), Tuesday, April 10, 2018**
- ▶ **Clovis Veterans Memorial District**
The Independence Room
808 4th Street
Clovis, CA 93612

What Should I Expect?

- ▶ The public meeting will be webcast. The link will be posted at www.ams.usda.gov/caorder before the hearing begins.
- ▶ The meeting is expected to finish by 12 Noon (PT).

What is the Meeting Agenda?

- ▶ USDA officials will:
 - ▶ Review the provisions contained in the proposed California FMMO.
 - ▶ Review the referendum process.
 - ▶ Answer questions from the audience.

How Can I Submit Questions Prior to the Meeting?

- ▶ For those unable to attend the meeting in person, questions can be submitted prior to the meeting.
- ▶ All questions should be emailed to Californiainfo@ams.usda.gov.
- ▶ Individual questions will not be read at the meeting.
- ▶ USDA officials will group emailed questions into primary topics to be addressed.

What Happens Next?

- ▶ Dairy farmers potentially covered by a California FMMO will vote on its adoption. The California FMMO becomes effective only if at least two-thirds of the eligible producers voting in the referendum, or if the eligible producers who supplied more than two-thirds of the milk represented in the referendum, vote in favor of the proposed California FMMO.

California Dairy Quality Assurance Program highlights tips for winter crop sampling in latest e-newsletter

By Kevin Abernathy, MPC General Manager

The March e-newsletter from the California Dairy Quality Assurance Program (CDQAP) provides some useful information and important reminders on winter crop sampling for your Waste Discharge Requirements and nutrient management plans.

In addition to sampling tips, the update gives readers a list of dates for CDQAP Environmental classes that will be held at the Fresno County Farm Bureau. It also provides useful pest control information for your dairy's fly population so you can better prevent illnesses that affect your herd like mastitis or pinkeye.

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