



Milk Producers Council

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DATE: February 17, 2017
 TO: Directors & Members

PAGES: 4
 FROM: Kevin Abernathy, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0300 \$1.5800
 Barrels - \$.0300 \$1.6200

Weekly Average, Cheddar Cheese

Blocks - \$.0375 \$1.5985
 Barrels - \$.0350 \$1.6440

CHICAGO AA BUTTER

Weekly Change + \$.0550 \$2.1575
 Weekly Average - \$.0140 \$2.1410

DRY WHEY

Dairy Market News w/e 02/17/17 \$4.950
 National Plants w/e 02/11/17 \$4.822

NON-FAT DRY MILK

Week Ending 2/10 & 2/11

Calif. Plants \$0.9979 6,987,532
 Nat'l Plants \$0.9914 13,448,105

Prior Week Ending 2/3 & 2/4

Calif. Plants \$1.0276 9,282,681
 Nat'l Plants \$1.0189 19,929,057

FRED DOUMA'S PRICE PROJECTIONS...

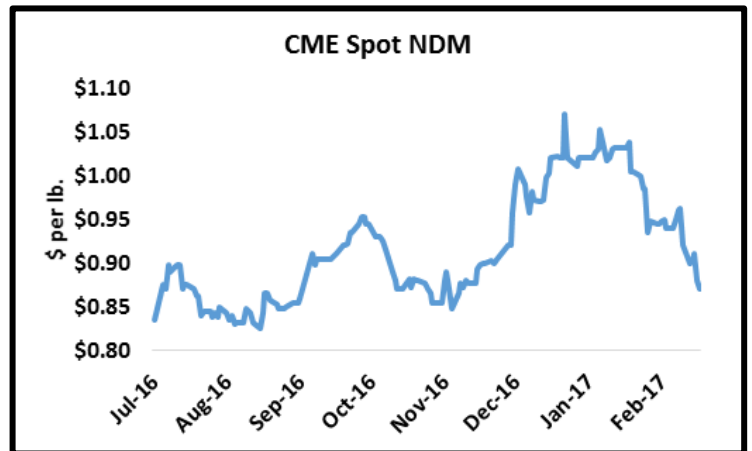
Feb 17 Est: Quota cwt. \$17.23 Overbase cwt. \$15.53 Cls. 4a cwt. \$15.41 Cls. 4b cwt. \$15.85
 Last Week: Quota cwt. \$17.27 Overbase cwt. \$15.57 Cls. 4a cwt. \$15.40 Cls. 4b cwt. \$15.94

MARKET COMMENTARY

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

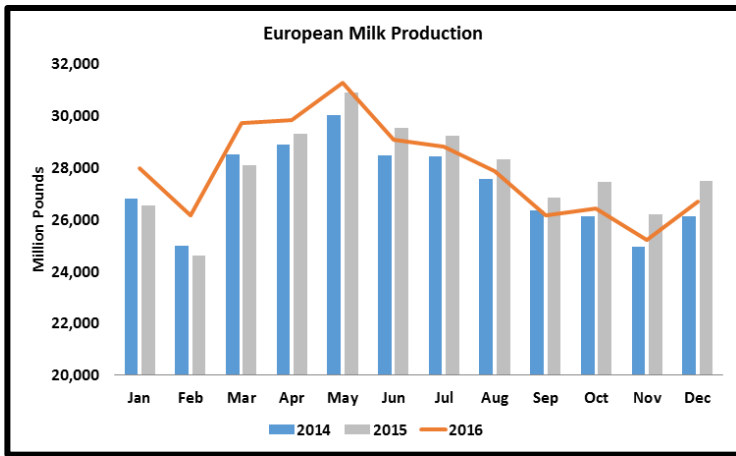
Milk & Dairy Markets

No Bueno. That's how the milk powder trade feels about the deteriorating relationship between the U.S. and Mexico. This week President Trump met with Canadian Prime Minister Trudeau and stated, "We have a very outstanding trade relationship with Canada." President Trump indicated that most of his displeasure with NAFTA, which he called "the worst trade deal in history," lies with Mexico. Animosity and anxiety are escalating on both sides of our southern border. Mexican politicians are burnishing their reputations for patriotism with proposals to buy corn from South America, and U.S. milk powder exporters have seen orders decline dramatically.



With demand in question, CME spot nonfat dry milk (NDM) dropped a nickel this week to 87¢/lb. Spot NDM has fallen 16% in the past month. The selloff may be a bit overdone. The decline is sure to attract bargain hunters, and NAFTA remains the law of the land. Hard feelings aside, it will be difficult for European and South American milk powder merchants to overcome the United States' geographic advantage, although currencies are moving in their favor. The cost to send milk powder to Mexico via rail is considerably lower than the cost to move it from port to port. For now, however, buyers are on the sidelines and sellers are in a panic.

In contrast, the butter market looks resilient. CME spot butter climbed 5.5¢ this week to \$2.1575. However, given the abject weakness in milk powder prices, Class IV futures moved decidedly lower. Losses were particularly pronounced in the second half; the September through November contracts plunged more than a dollar this week.

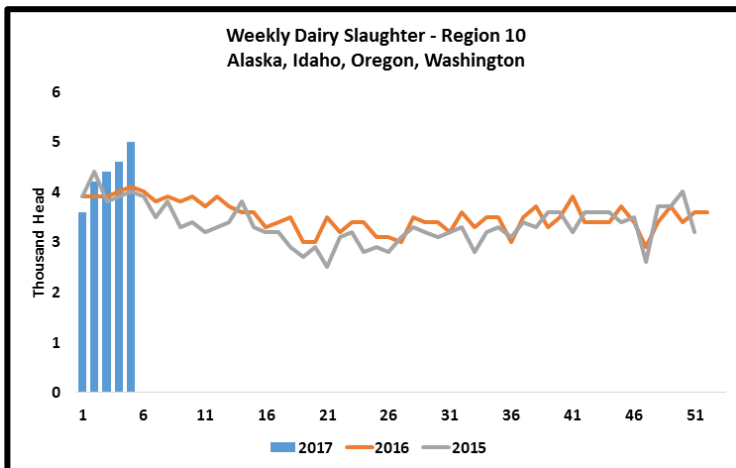
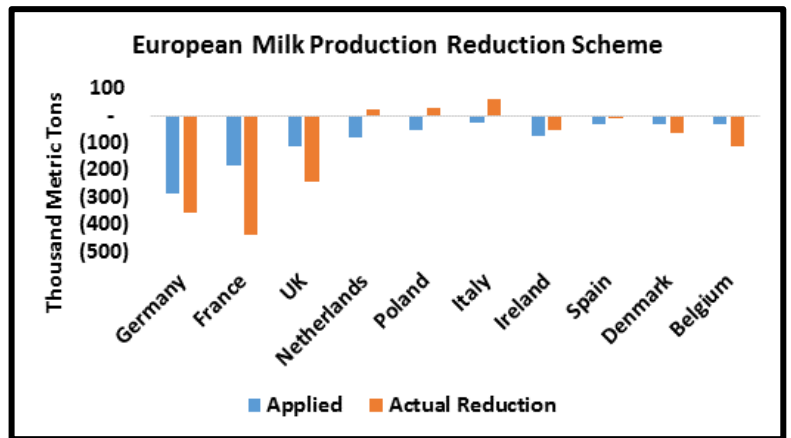


Cream remains abundant, particularly in the Midwest and Southwest where mild temperatures are boosting milk output. Cows are wallowing in the mud in parts of California, and they are still shivering in the mountain states. Milk output and quality are suffering accordingly.

The Cheddar market retreated again this week. Both blocks and barrels dipped 3¢. Blocks finished at a four-month low of \$1.58, and barrels closed at \$1.62. The whey market was quietly firmer. Class III futures settled mostly lower; losses ranged from around 15¢ in the second quarter to 30¢ for third quarter contracts.

European milk collections in December totaled 26.7 billion pounds, down 2.9% from a year ago. Cold weather reportedly chilled output in Northern Europe in January as well. December production was sharply lower in top-ranked Germany (-4.8%), France (-6.4%), and the United Kingdom (-4.9%). Dairy producers in these nations vastly exceeded their pledges to reduce output and earn a roughly \$7/cwt. bonus on the shortfall via the European Commission’s milk production reduction scheme, suggesting that on-farm finances limited milk flow.

With the end of the €150 million milk production reduction scheme and the recovery in dairy product prices, European dairy producers have likely taken their feet off the brakes, although they may be a little hesitant to hit the gas. According to the *Daily Dairy Report*, “After heavy culling in 2016, Europe’s dairy herd is likely smaller than it was early last year. Environmental regulations could force dairy producers in the Netherlands to cull further. Lower cow numbers notwithstanding, European milk output is likely to remain large. While fourth-quarter output was 3.4% lower than 2015 volumes, it was 1.5% stronger than the same period in 2014. Because prior-year volumes were colossal, a modest contraction in European milk production would still require the market to absorb a huge volume of product – and mild growth might not feel mild at all.”



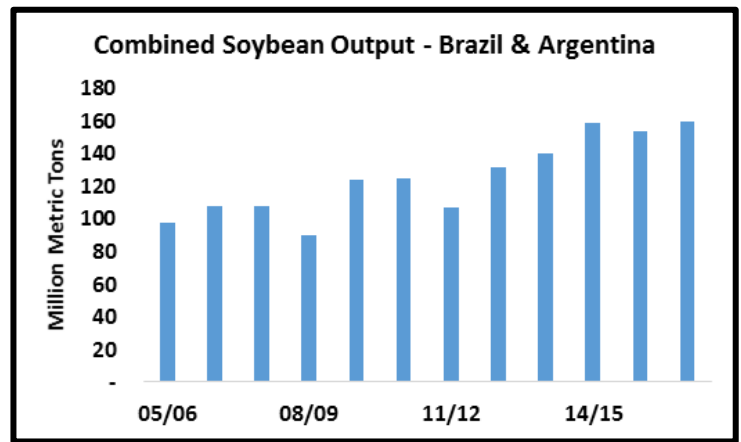
For the week ending February 4, dairy cow slaughter totaled 66,435 head, up 2.8% from the same week a year ago. Year-to-date slaughter is down 3.9%. In Region 10, which includes the storm-battered states of Idaho, Oregon, and Washington, slaughter is up 15.3% compared to the first five weeks of last year.

Grain Markets

The corn market rallied to seven-month highs on Wednesday, but its time at the top was short-lived.

After stepping back a nickel on Thursday and another today, March corn futures finished at \$3.6825 per bushel, down more than 6¢. Similarly, March soybeans settled at \$10.325, some 26.5¢ in the red.

Rains are likely in Argentina nearly every day between now and next Wednesday. Argentina's commodity exchange reports that recent rainfall has favored soybean yields, but conditions could be hampered if rains are as heavy as forecast in the near-term. For now, the exchange is not trimming its production estimates and most other analysts are taking a wait-and-see approach as well. In Brazil, crops are in excellent shape. If the wet spring doesn't limit corn and soybean yields in Argentina, these two major exporters will likely produce 28% more corn and 6% more soybeans than they did during the 2015-16 crop year. Global demand for soybeans has been growing between 4% and 5%, annually, so any hints at a production shortfall could very quickly lead to higher prices. But there is obviously plenty of grain in the world.



CDFA DENIES THE DAIRY INSTITUTE PETITION FOR A MAKE ALLOWANCE HEARING
By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

Saying that “It is in the best interest of the California dairy industry and the Department to obtain clarity on the meaning and impact of the Recommended Decision prior to holding such a public hearing,” the California Department of Food and Agriculture denied a hearing to consider the petition of the processors to reduce California’s regulated milk prices.

As we mentioned last week, the Dairy Institute petition, if adopted, would drop the overbase price by about \$0.33 per cwt., which would amount to an income transfer from California producers to California processors of about \$135,000,000 per year. We thank the Department for not calling a hearing and agree with them that now is the time for the industry to really dig into the details about how a California FMMO would work and what the path forward is. The next step in obtaining more clarity is the public meeting USDA has scheduled in Clovis for next Wednesday (see story below for more information about the California FMMO).

USDA TO HOLD PUBLIC MEETING ON PROPOSED CALIFORNIA FMMO
By Kevin Abernathy, MPC General Manager

As we reported in last week’s MPC newsletter, USDA recently released a 213-page document with a proposed decision regarding a California Federal Milk Marketing Order (FMMO). The USDA will host a public meeting regarding the proposed FMMO on Wednesday, February 22 in Clovis. Below are the details about the meeting from USDA should you wish to attend in person or monitor online. This is your opportunity to listen and ask questions along with MPC staff and leadership, which will be attending in person.

Meeting time and location

9 a.m. to 12 noon, Wednesday, February 22, 2017
 Clovis Veterans Memorial District, The Liberty Room, 808 4th Street, Clovis, CA 93612

Follow the meeting online

The public meeting will be webcast, with a link posted at <https://www.ams.usda.gov/rules-regulations/moa/dairy/ca> before the hearing starts. A transcript of the meeting will be published at the same website approximately two weeks after the meeting.

Meeting agenda

USDA officials will review the rulemaking process, provisions contained in the recommended FMMO and the

public comment process. Questions from the audience about how the proposed FMMO would operate will also be answered.

Following the meeting

Public comments can be submitted at www.Regulations.gov until 90 days after publication in the Federal Register. USDA will consider all comments submitted and will issue a final decision. Dairy farmers potentially covered by a California FMMO would vote on its adoption. A “Yes” vote by more than two-thirds of the dairy farmers voting or dairy farmers representing two-thirds of the milk volume accounted for in the voting process is needed to approve the order.

CAN WORMS HELP YOUR MANURE MANAGEMENT, WATER QUALITY COMPLIANCE?

Informational item of interest from the desk of Kevin Abernathy, MPC General Manager

Fanelli Dairy in Hilmar will host a biofilter tour and discussion on Tuesday, February 28 from 9 to 11 a.m.

A two-year evaluation of the worm biofilter was recently completed at the dairy, the first commercial scale worm biofilter on a U.S. dairy. Interested parties can learn about the cost of the system, operations and maintenance, and technical components.



The event is cohosted by the NRCS, Sustainable Conservation and BioFiltro. Please RSVP by February 20 at 209-846-9543. Space is limited. Event location: Fanelli Dairy, 7689 Washington Road, Hilmar, CA.
