



Milk Producers Council

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DATE: November 18, 2016
TO: Directors & Members

PAGES: 5
FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0250	\$1.9100
Barrels	-\$0.0050	\$1.7500

Weekly Average, Cheddar Cheese

Blocks	-\$0.0340	\$1.8925
Barrels	-\$0.1200	\$1.6990

CHICAGO AA BUTTER

Weekly Change	+\$0.0200	\$2.0300
Weekly Average	+\$0.0765	\$2.0120

DRY WHEY

Dairy Market News	w/e 11/18/16	\$3.775
National Plants	w/e 11/12/16	\$3.670

NON-FAT DRY MILK

Week Ending 11/11 & 11/12

Calif. Plants	\$0.9080	9,265,578
Nat'l Plants	\$0.9088	15,768,680

Prior Week Ending 11/4 & 11/5

Calif. Plants	\$0.9081	10,970,708
Nat'l Plants	\$0.9109	21,338,753

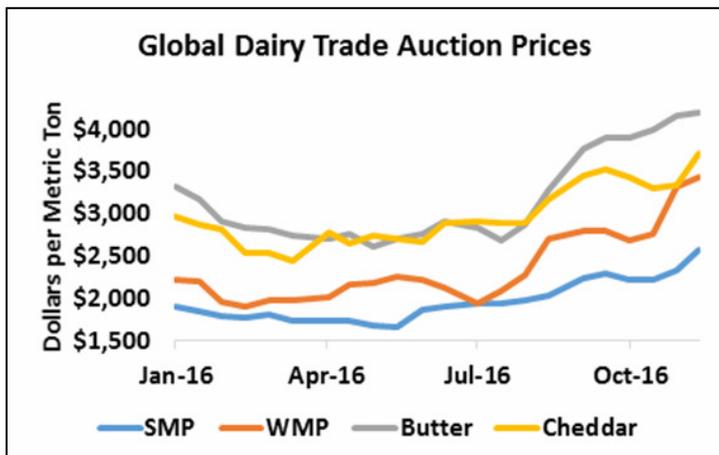
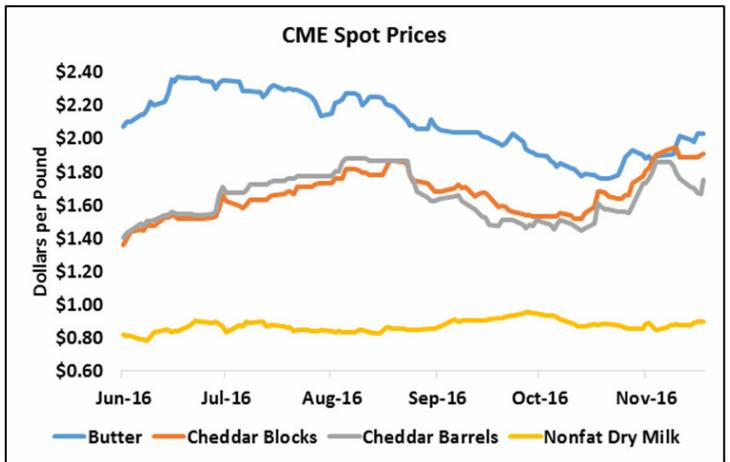
FRED DOUMA'S PRICE PROJECTIONS...

Nov 18 Est:	Quota cwt. \$17.22	Overbase cwt. \$15.52	Cls. 4a cwt. \$13.63	Cls. 4b cwt. \$17.52
Last Week:	Quota cwt. \$17.16	Overbase cwt. \$15.47	Cls. 4a cwt. \$13.57	Cls. 4b cwt. \$17.45

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

Milk & Dairy Markets

The bulls continue to bellow in Chicago. Over the past two weeks, the CME spot butter market jumped 13.75¢ to \$2.03/lb., its first foray over the \$2 mark in nearly two months. European butter prices have held their ground, but the euro has not. It has fallen for ten straight sessions, the longest losing streak since the bloc adopted the currency in 1999. In the past two weeks, the euro lost 4.6% of its value against the dollar. The competitive edge in the U.S. dairy products market has eroded by a similar margin. Still, as we look forward to giving thanks for abundance, butter traders are focusing on scarcity. Holiday demand is



tightening the cream market, multiples have climbed, and milk output is waning abroad.

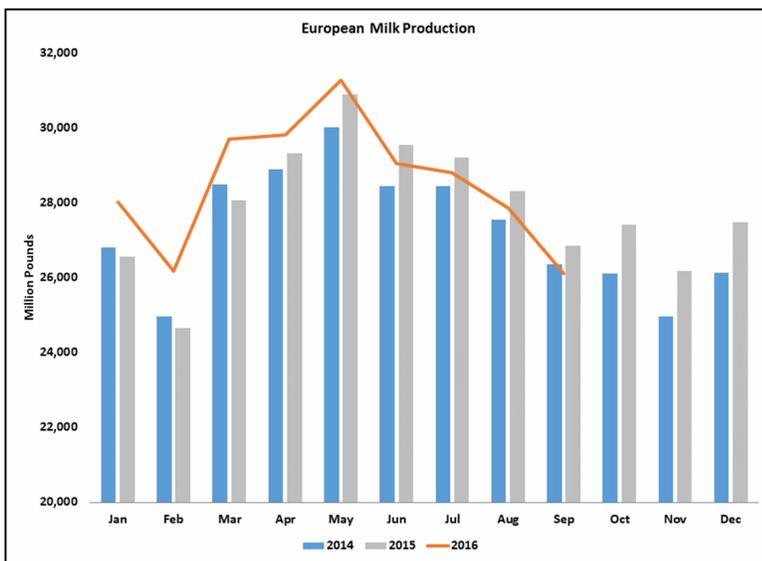
With a boost from the Global Dairy Trade (GDT) auction, the milk powder market moved modestly higher. CME spot nonfat dry milk (NDM) climbed 5.25¢ over the past two weeks to 90¢, a five-week high. At the GDT, whole milk powder (WMP) rallied 3.2% and skim milk powder (SMP) surged 9.8%. All other dairy products also gained ground, and the GDT index increased 4.5%.

Now that the milk powder market has proven its

strength, the European Commission is looking to part with a portion of the product that it has piled up as part of its Intervention purchase program. The Commission announced that it would tender up to 22,150 metric tons of its oldest SMP for sale in mid-December, with further bimonthly tenders beginning in January. As expected, the Intervention program, which once served as a life raft under the milk powder market, will soon become an anchor.

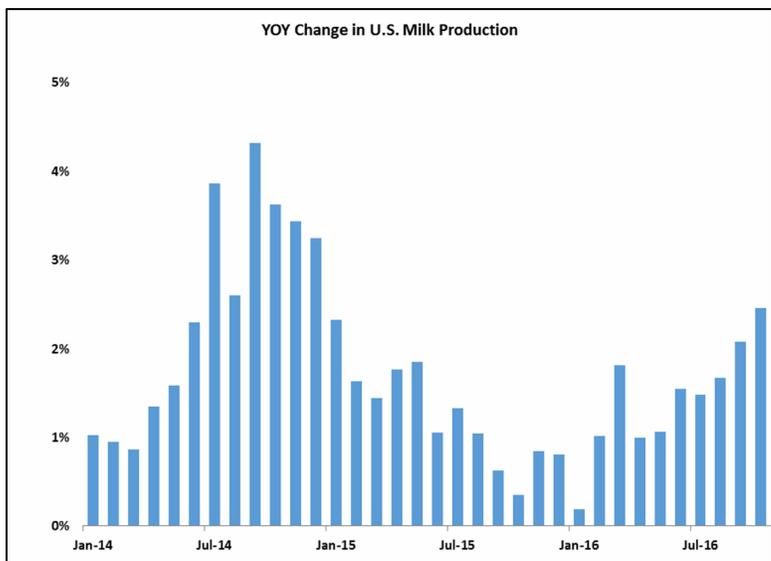
The spot Cheddar market has diverged. Blocks attempted to soar last week but were ultimately pulled back down by the over-supplied barrel market. Blocks finished at \$1.91, a penny higher than where they stood two weeks ago. After a convincing rebound today, barrels closed at \$1.75, still down 11¢ over the past two weeks. Volume was heavy, with 21 loads of barrels changing hands today. Both Class III and Class IV futures have posted double digit gains since the start of the month. December and first quarter Class IV futures have been particularly lively.

The recent strength is surely premised on the news that milk output is falling overseas and the hope that it will continue. Preliminary – and often revised – data from Europe show a 2.8% year-over-year decline in milk collections in September, the largest shortfall since January 2015, when producers in some countries were slowing output to avoid over-quota penalties. Production was down 3% in Germany, 7.3% in France and 8.2% in the United Kingdom. In the Netherlands, collections were 3.9% higher than a year ago in September and up 2% in October, notably smaller than the nearly 5% gains seen throughout the summer.



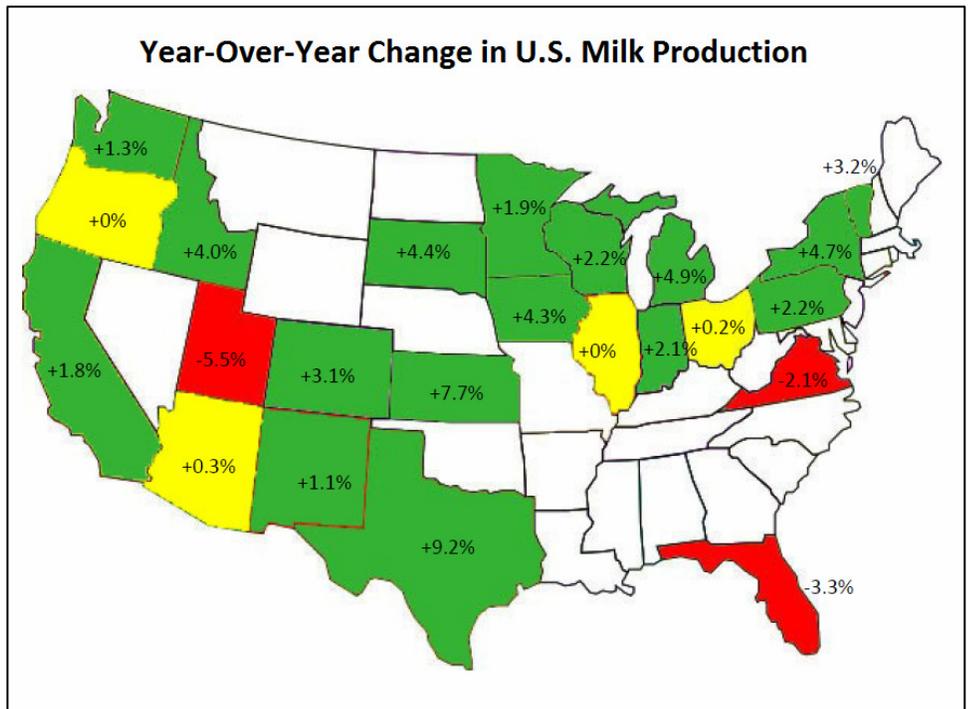
European milk output likely continued to contract last month. In addition to sustained financial pressures, producers were incentivized to tap the brakes to collect bonuses from the European Commission’s Milk Production Reduction Scheme, which took effect in October and continues through the end of the year. However, the significant rally in European dairy product prices may be encouraging producers to step cautiously on the gas. Fortunately, this metaphor is imperfect. A dairy is not a car, and it takes dairy producers time to shift gears. In the near term, contractionary momentum is likely to prevail in Europe.

In New Zealand, Fonterra continues to report collection deficits prompted by soggy pastures. Adding insult – and



in some cases injuries – to injury, the South Island was rocked by a powerful earthquake and a series of aftershocks. The major dairy cooperatives report that no processing facilities were damaged, but in some areas roads buckled and many dairy producers lost power. A dozen farms reported that their rotary parlors were knocked off their pedestals. According to the *Daily Dairy Report*, “The combination of reduced milkings and milk that is unable to be collected will weigh on New Zealand’s November milk production. Longer-term impacts could include early drying-off of cows not milked in a timely manner, and delayed calving later this year as cows miss a breeding cycle due to impassable roads that prevent breeding technicians from accessing dairies.”

In the U.S., the milk just keeps flowing. October milk output reached 17.55 billion pounds, up 2.5% from a year ago, the largest increase change in nearly two years. Production climbed 1.8% from a year ago in California, the Golden State's first month of growth since December 2014. Output dropped in only three of the 23 major dairy states; it fell 5.5% in Utah, 3.3% in Florida, and 2.1% in Virginia. Production continues to impress in Texas (+8.2%), Kansas, (+7.7%), Michigan (+4.9%), and New York (+4.7%).



Unless dairy producers cull aggressively over the next few months, the Great Lakes states and the Northeast are certain to struggle with a deluge of milk in the spring. There are 12,000 more cows in Michigan than there were a year ago. Intriguingly, the dairy herd is no bigger in New York than it was a year ago, and it is 2,000 head smaller in both Vermont and Wisconsin. USDA estimates the national herd at 9.335 million head, down 2,000 from September but still 15,000 head larger than it was a year ago. The bulk of the robust increase in milk production was due to larger production per cow, thanks in part to unusually mild weather. The larger dairy herd accounted for just 0.2% of the year-over-year gain.

For the week ending November 5, dairy cow slaughter totaled 58,524 head, down 3% from the same week a year ago. Year-to-date slaughter is down 1.7%.

Grain Markets

It's been a wild few weeks in the commodity markets. Traders have been trying to position themselves to capitalize on a new administration with the ambition to update the nation's infrastructure. In China this led to a steep run-up in the metals markets; the government took measures to discourage speculation, which fostered a quick selloff. This volatility spilled over into the grains. Compared to two weeks ago, December corn futures are down a couple cents at \$3.45. January soybean futures are a few cents higher, at \$9.93. But the broader picture is not much changed. The crops are big, and stocks are ample. South American weather is not perfect, but it is too early for much concern on that front.

STILL COUNTING THE VOTES IN CALIFORNIA: *(By Rob Vandenheuvel)* Ten days after election day, most of the political races have been decided. Votes are still being counted across the nation, but unless a race is close, the outcome has already been announced. With regard to President, California's vote counts are simply adding to Hillary Clinton's lead in the national popular vote (*as of last count, Clinton had about 1.5 million more votes than Trump across the country due to states like California; our State's voters cast almost 3.5 million more votes – and counting – for Clinton than for Trump*).

This phenomenon (*Trump slated to win in the electoral college while losing the national popular vote*) has led outgoing Senator Barbara Boxer (D-CA) to introduce legislation to abolish the Electoral College, although I doubt the elected officials from "flyover country" would support such a measure that would significantly marginalize their input into Presidential elections. The framers of the Constitution seemed to anticipate a scenario like 2016 when they drafted Article Two of the Constitution, creating the Electoral College. While

California is granted the largest number of electoral votes (55 out of 538), those 55 electoral votes go to the candidate receiving the most votes, whether California voters support that individual by a margin of 3.5 million or a single vote.

As for the State's Legislature, Democrats were able to re-establish a supermajority (2/3) in the State Assembly, and are anxiously watching the continued vote-counting in the race for Senate District 29 to see if they will have a supermajority in the State Senate as well. As of last count, Republican Ling-Ling Chang, State Senator from the Diamond Bar region, was holding a tenuous 187 vote lead (out of more than 290,000 votes cast in that district) over Democrat challenger Josh Newman. If Mr. Newman is able to win that seat, it will give the Democrats a 2/3 supermajority in the Senate as well.

Why is a supermajority in both houses of the Legislature a big deal? It means that if all the Democrats vote together, they could raise taxes, place items on the statewide ballot, enact laws immediately under an "urgency" provision, and/or override a veto by the Governor, all without a single Republican vote. Now obviously some Democrat legislators are more moderate and others are more liberal, so just because the party is a measly 187-vote margin away from a supermajority in both houses, doesn't guarantee that those 2/3 supermajorities will all vote en bloc on major issues. It does, however, still represent significant power granted to the Democrats in Sacramento by the State's voters, and this year was a classic example of how aggressive anti-business laws can be approved in the Legislature – such as the regulation of methane on dairy farms and the elimination of overtime rules specifically tailored to agriculture – with just a vote or two over the minimum. Regardless of supermajorities, we can say with certainty that adding to the Democrats' power in Sacramento is not going to moderate the aggressive business-killing agenda that their liberal leaders are promoting.

California's Democrat voters certainly flexed their muscles this year and sent our State even further to the left politically, but much of the rest of the country pivoted the opposition direction, resulting in what we will see in 2017, with Donald Trump about to control the White House and Republican majorities in both the House and Senate. While California's businesses – including our dairy families – are certainly still justifiably fearful of the back-breaking regulations that can result from the liberal agenda in Sacramento, I hate to send you off into the Thanksgiving holiday on such a negative note! So below is an article looking at nation's pivot to the political right, and what impact a Trump Administration might have on California businesses, even though our state's voters overwhelmingly voted for Clinton. Enjoy!

California rejected Trump but could benefit anyway

From Inland Valley Daily Bulletin, November 18, 2016

By Susan Shelley, a columnist for the Southern California News Group

<http://www.dailybulletin.com/general-news/20161117/california-rejected-trump-but-could-benefit-anyway>

On Jan. 20, when Donald Trump takes his hand off the Bible and picks up the phone, he could cause a near-seismic upheaval in California just by changing some federal rules and implementing new policies.

Let me break the news to you gently: it might work out well.

The federal government continuously writes stacks of regulations that cause consumers to pay more for everything than they otherwise would. But because of the length of time between the writing and the paying, it can be hard to recognize the cause and effect.

If you've noticed that food is a lot more expensive, consider that because of federal regulations, the water supply was cut off to California's breadbasket, the once-prosperous agricultural gold mine of the Central Valley.

Members of Congress from the area have introduced legislation over and over again to adjust federal law to override those regulations. Most recently, the Western Water and American Food Security Act was attached

to the bill that funds the Interior Department. But President Obama has threatened a veto, arguing that the regulations are necessary to protect species like the Delta smelt.

The regulations could easily be changed if the new administration chooses to make abundant food production a policy priority over the protection of the smelt.

Other federal regulations have led to arguably impossible targets for further reducing fine particles, like dust and soot, in the air. To meet these goals, state regulators have repeatedly tightened the requirements for new diesel engines, raising the cost of trucking and the price of everything that's moved by truck. The U.S. Environmental Protection Agency has even enforced California's rules on out-of-state trucking firms when state regulators lacked jurisdiction.

Similarly, federal regulations have caused the South Coast Air Quality Management District to write up a new list of proposed tax increases to raise up to \$14 billion. The bureaucrats need the money for policies and plans that are required in order to avoid federal sanctions for missing air-quality targets. But under a new administration, there's an opportunity to take the bureaucracy off auto-pilot and look carefully at what we're doing to ourselves. Some regulations may no longer be reasonable or necessary, and the cost may not be justified.

Federal rules that discourage the use of coal have made electricity more expensive, raising the cost of living for everyone. The next president's policies could lower your utility bills.

Policy changes from the new administration will save taxpayers money in other ways, too.

A 2011 report from the U.S. Government Accountability Office said California paid \$1.1 billion in 2009 to incarcerate criminals who were in the country illegally.

President-elect Trump was criticized by state legislative leaders for his plan to immediately deport up to 3 million criminals who are in the country illegally. Senate President pro Tem Kevin de León and Assembly Speaker Anthony Rendon wrote in a joint letter, "We will lead the resistance to any effort that would shred our social fabric or our Constitution."

But what is the argument for not deporting convicted criminals who are in the country illegally? How does that shred the social fabric or the Constitution?

Maybe California politicians should start working now on how they're going to explain to voters that they rejected federal funds that could have been used for education, transportation and health care because they wanted to protect criminals who are in the U.S. without legal authorization.

It's long past time for state leaders to give some thought to the damage caused by policies that have gone unquestioned because their cost didn't become clear until years later.

From housing to energy to transportation to health care to law enforcement to education, federal policies and regulations have consequences that are sometimes both unintended and disastrous. A new administration is an opportunity to take a fresh look at everything.

It might just work out well, even for California.

SCHEDULING NOTE: Due to the Thanksgiving holiday next week, MPC will NOT be publishing its weekly newsletter. Publication will resume on Friday, December 2nd. On behalf of the board and staff, we hope you and your families have a wonderful Thanksgiving!