



Milk Producers Council

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DATE: May 25, 2018
TO: Directors & Members

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FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	+ \$.0275	\$1.6100
Barrels	+ \$.0125	\$1.5450

Weekly Average, Cheddar Cheese

Blocks	+ \$.0195	\$1.6285
Barrels	- \$.0135	\$1.5560

CHICAGO AA BUTTER

Weekly Change	+ \$.0300	\$2.4150
Weekly Average	+ \$.0430	\$2.4175

DRY WHEY

Dairy Market News	w/e 05/25/18	\$3.138
National Plants	w/e 05/19/18	\$2.727

NON-FAT DRY MILK

Week Ending 5/18 & 5/19

Calif. Plants	\$0.7675	13,834,053
Nat'l Plants	\$0.8171	15,147,109

Prior Week Ending 5/11 & 5/16

Calif. Plants	\$0.7464	14,995,864
Nat'l Plants	\$0.7873	19,016,060

Fred Douma's price projections...

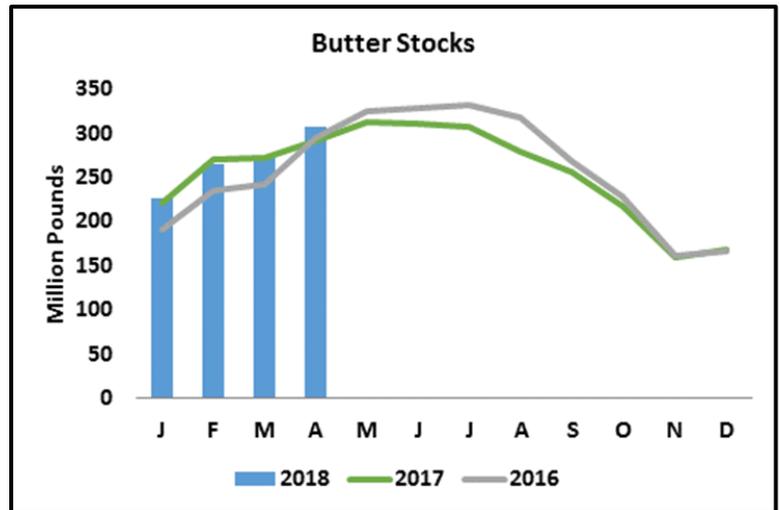
May 25 Final:	Quota cwt. \$15.83	Overbase cwt. \$14.13	Cls. 4a cwt. \$13.97	Cls. 4b cwt. \$14.90
Last Week:	Quota cwt. \$15.75	Overbase cwt. \$14.05	Cls. 4a cwt. \$13.88	Cls. 4b cwt. \$14.80

Market commentary

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

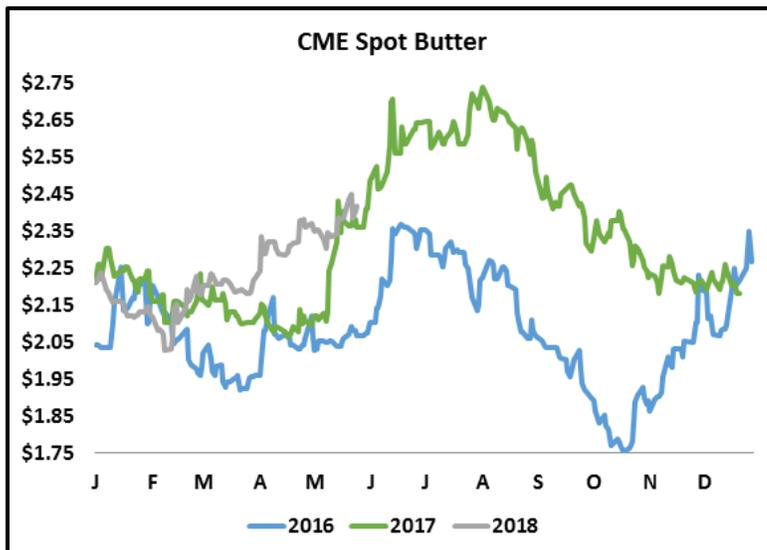
Milk & Dairy Markets

Like Justify at the Derby and the Preakness, the dairy markets came charging out of the gate this week. CME spot butter scored fresh year-to-date highs on Monday and again Tuesday, reaching \$2.45 per pound. But unlike the thoroughbred, the butter market could not keep that pace. After a somewhat disappointing Cold Storage report, spot butter dropped 6.5¢ on Wednesday. June through September futures finished a nickel lower, at their daily trading limit. Spot butter managed to find a second wind and regained some ground late in the week. It closed at \$2.415, well below the early-week highs but still up 3¢ from last Friday. That helped Class IV futures to double-digit gains this week.



USDA estimated April 30 butter inventories at 307.3 million pounds, the largest end-of-April stockpile since 2013. Butter stocks were 5.2% greater than they were a year ago. Inventories climbed 33.4 million pounds from March to April, in line with historical trends. However, that is on the low end of the typical April stock build for years when Easter falls in late March or early April, as it did this year.

Butter is not in short supply, and the Cold Storage report suggests the market may have run too far, too fast. But demand remains brisk, and prices seem well-supported after the setback. In Europe, butter prices moved up once

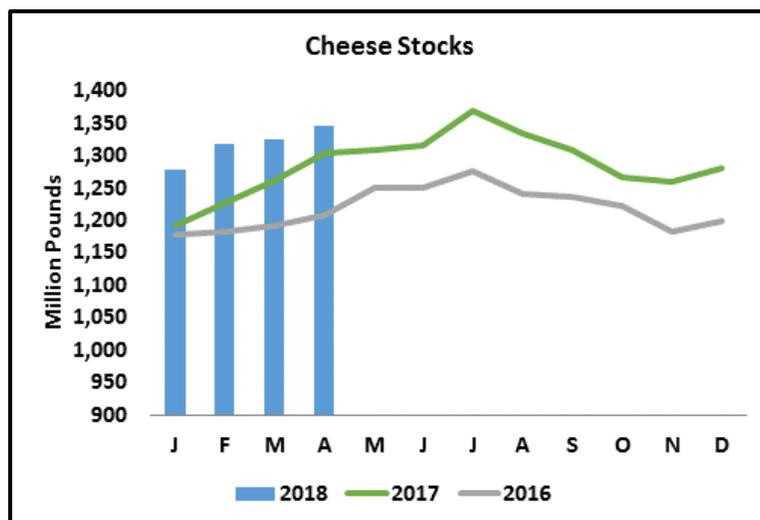


again this week. However, the increase was more than offset by the currency effect. German butter priced in U.S. dollars is actually a little less expensive than it was last week. Still, U.S. butter is competitively priced and should continue to move abroad.

CME spot Cheddar rallied Monday but spent the rest of the week in retreat. Nonetheless, blocks finished 2.75¢ higher than last Friday, at \$1.61. Barrels added 1.25¢, trading today at \$1.545. USDA estimated April 30 cheese stocks at 1.35 billion pounds, up 3.3% from the prior year. That’s the smallest year-over-year increase in U.S. cheese stockpiles since November 2016. Cheese plants are running hard to keep up with the spring

flush. Demand is good and USDA’s Dairy Market News characterizes the market as “resilient.”

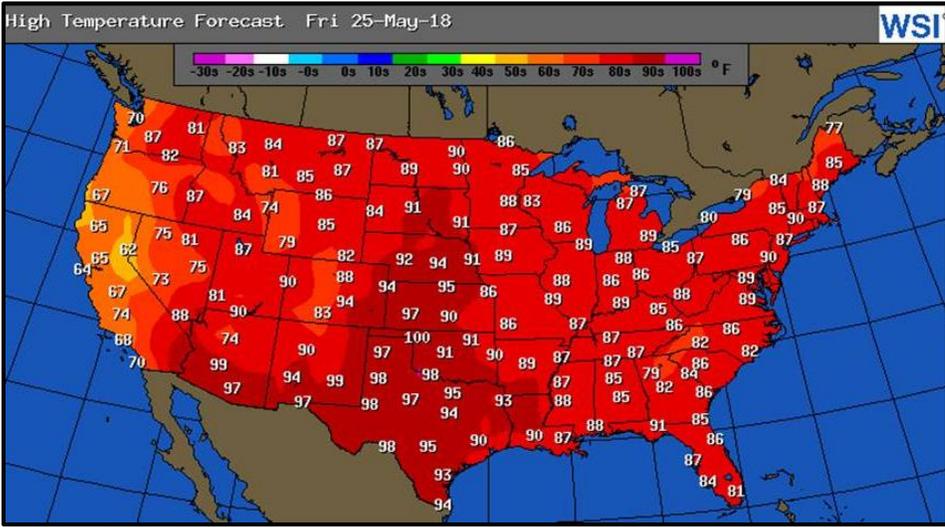
The spot dry whey market climbed 0.25¢ to a new high of 37.25¢. According to Dairy Market News, “demand is strong; however, some buyers have been more skeptical of the renewed vigor of the whey market,” while others expect continued strength. Class III futures put in a mixed performance. June through October futures settled higher, but deferred contracts closed a nickel or so in the red.



CME spot nonfat dry milk (NDM) slipped a penny this week to 84.25¢, still a respectable price in a well-supplied market. Fonterra expressed confidence in milk powder pricing, noting “a continued positive global supply and demand picture” and lifted its farmgate milk price forecasts for both the current and upcoming seasons. For the 2017-18 season, which wraps up next month, Fonterra raised the base price by 20¢ to NZ\$6.75 per kg of milk solids, but lowered their dividend a little. The average all-in pay price of NZ\$6.93 per kg is roughly equal to Class III milk at \$16.15 per cwt., according to Daily Dairy Report calculations. At NZ\$7.00, the opening salvo for the 2018-2019 season is the third highest price for New Zealand’s dairy producers in the past decade, and greater than \$16.30 Class III milk.

It seems likely that milk pricing won’t discourage growth in milk output in New Zealand in the near term. But there are other factors at play. Rough spring weather made for a difficult breeding season in New Zealand. Dairy producers are also battling the spread of *Mycoplasma bovis*, which could further raise costs and lower output. Stricter limits on pasture stocking rates and supplemental feeding will reduce dairy producers’ ability to maintain production if the weather turns against them.

After a rough start, the spring flush is in full swing in the U.S. Midwest, Northeast, and Europe. But it’s suddenly feeling like summer in the states, with highs in the upper-80s in much of the country, which may sap momentum. Temperatures are approaching 100° in the Southern Plains and Southwest, home to some of the most pronounced growth in milk output. It’s unseasonably cool in California’s Central Valley, and the cows are surely loving it. But the forecast looks warm. So far this year, much of the tepid growth in U.S. milk output has come from



improved production per cow. If the summer is as hot as expected, milk yields may start to decline along with cow numbers.

Grain Markets

July corn futures closed at \$4.06 per bushel today, up 3.5¢ to the highest closing price since late last summer. July soybeans settled at \$10.415, up 43¢ for the week. The grain markets are perpetually one tweet away from a sudden selloff, but for now trade tensions between the U.S. and China seem to be thawing. Chinese

crushers – including state-owned entities – are inquiring about U.S. soybeans, and inspectors are no longer conspicuously holding up U.S. soybean cargoes at the ports. China wants to make it clear that they are entering trade negotiations in good faith, which is good news for U.S. agriculture in general and soybeans in particular.

The soybean market got a further boost from a crippling – but short-lived – truckers’ strike in Brazil, which slowed the flow of soybeans from the fields to the ports. That helped to make it clear that the U.S. represents a stable source for soybeans, and for all its posturing, China cannot do without them.

The long-term outlook features rising demand for grains and oilseeds resulting in smaller stockpiles and higher prices. But after the sustained rally, the market may have priced in a little too much premium in the near term, especially in light of the benign weather forecast.

May 2018 Dairy Cares Member Update

By Kevin Abernathy, MPC General Manager

Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors and allied industry members that work together on sustainability related issues affecting dairy farm families.

Dairy Cares recently published its May 2018 member update, which includes information about the California Department of Food and Agriculture’s Alternative Manure Management Program, the recently adopted Bovine Order for commercial heifer ranches and feedlots, and upcoming funding timelines.

Read the Dairy Cares update [here](#).

