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DATE: July 28, 2017 **PAGES: 5**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	+ *$.0475*	$1.7550
Barrels	+ *$.1450*	$1.5550
Weekly Average, Cheddar Cheese		
Blocks	+ *$.0130*	$1.7185
Barrels	+ *$.0135*	$1.4685

CHICAGO AA BUTTER		
Weekly Change	+*$.1350*	$2.7200
Weekly Average	+ *$.0170*	$2.6345
DRY WHEY		
Dairy Market News	w/e 07/28/17	$.4225
National Plants	w/e 07/22/17	$.4413

NON-FAT DRY MILK		
Week Ending 7/21 & 7/22		
Calif. Plants	$0.9053	8,196,328
Nat'l Plants	$0.8909	20,944,532
Prior Week Ending 7/14 & 7/15		
Calif. Plants	*$0.9155*	*6,259,934*
Nat'l Plants	*$0.9028*	*14,765,436*

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Fred Douma's price projections…

July 28 Final:	**Quota cwt. $17.08**	**Overbase cwt. $15.38**	**Cls. 4a cwt. $16.42**	**Cls. 4b cwt. $15.28**
Last Week:	**Quota cwt. $17.07**	**Overbase cwt. $15.37**	**Cls. 4a cwt. $16.40**	**Cls. 4b cwt. $15.28**

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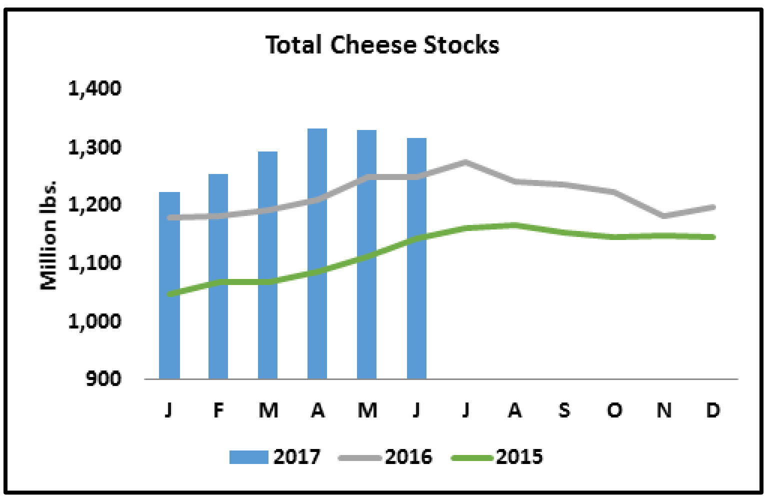
Market commentary

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

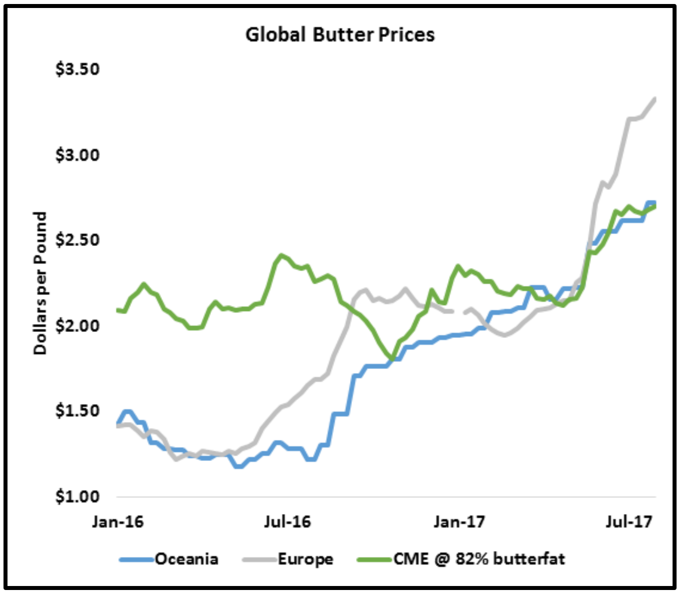
Milk & Dairy Markets

The dairy markets are showing a little summer sizzle. CME spot Cheddar barrels surged to a two-month high at $1.555/lb., up 14.5¢ for the week. Blocks made a smaller ascent but reached a greater milestone. They climbed 4.75¢ to $1.755, the highest spot block price since early February. Not to be outdone, CME spot butter jumped 13.5¢ to $2.72, the highest price since December 2015. Only the milk powder market couldn't manage a rally. Spot nonfat dry milk (NDM) slipped 1.25¢, finishing at 86¢. Most Class IV futures contracts gained 15 to 20¢ this week. Class III futures were even stronger. The September contract jumped 70¢.



After months of anxiety about overwhelming output and lackluster demand, the cheese market got a reassuring boost from the Cold Storage report. USDA revised its May 31 cheese stocks figure downward by more than 10 million pounds, resulting in a decline in cheese stocks from April to May rather than the previously reported increase. The agency reported June 30 cheese inventories at 1.32 billion pounds, down 13 million pounds from May. Manufacturers typically add to cheese stocks in both May and June. The fact that they didn't in either month this year reveals much better than anticipated clearance in the still amply supplied cheese market. Cheese inventories remain 5.3% larger than they were a year ago.

At 310 million pounds, U.S. butter stocks were down 5.5% from a year ago. They ebbed 3.5 million pounds from May to June, a slightly smaller than typical decline. The Cold Storage report had little impact on a butter market

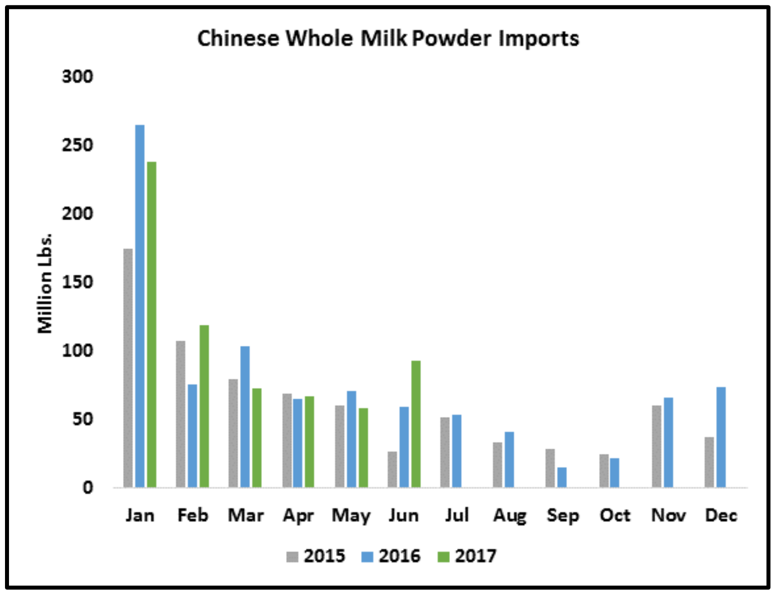


that is more concerned about rising overseas markets. After pausing for a few weeks, benchmark European butter prices are climbing once again.

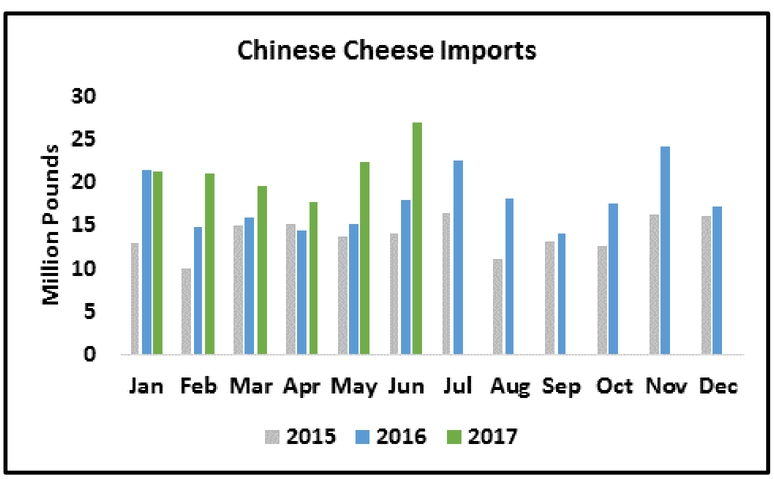
Dairy Market News notes that "international demand [for NDM] is increasing as industry contacts report end users are actively bidding." However, anecdotal reports suggest that the bids quickly dry up as prices move higher. Demand has improved, but end users know there is no shortage of product, and they are not inclined to overpay.

Chinese milk powder imports were surprisingly strong in June. China imported 93 million pounds of whole milk powder (WMP), 57% more than the previous year. Chinese imports of skim milk powder (SMP) reached nearly 48 million pounds in June, up 45% from last year. According to the *Daily Dairy Report*, "Some anecdotal reports indicate China's milk production is running behind last year's pace due to limited profitability at the farm level, suggesting China might need to rely more on imports this year." It has also been unusually hot in China, which is likely exacerbating lower domestic production.

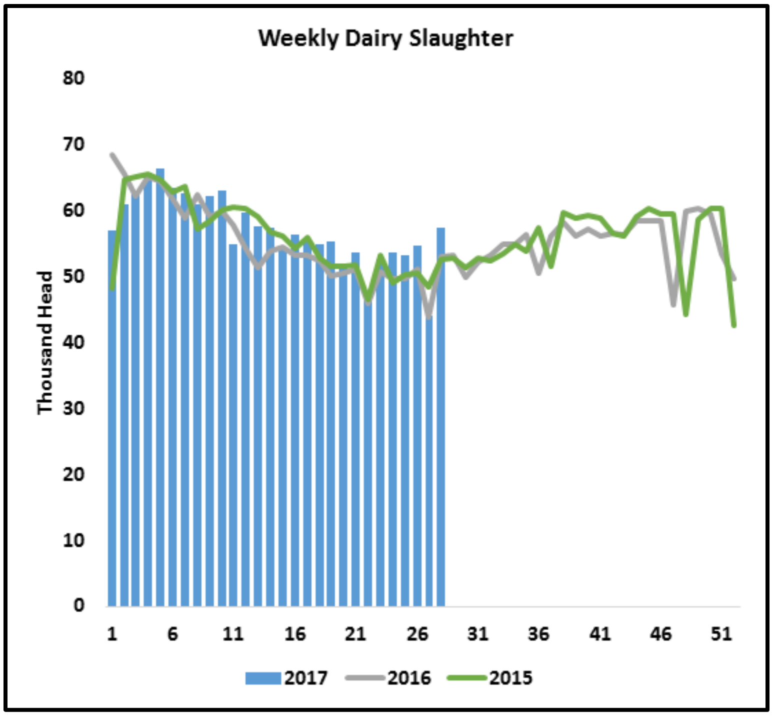
Chinese imports of other dairy products were even more impressive. China imported 27 million pounds of cheese in June, the highest monthly volume on record and some 52% more than a year ago. After a poor showing in May, Chinese whey imports reached 122 million pounds in June, also an all-time high. Chinese butterfat imports jumped to nearly 20 million pounds in June, up 32% from a year ago. China typically steps up butter imports in the third quarter. Like everyone else, Chinese buyers may be trying to get ahead of the anticipated holiday shortage. But if this is evidence of greater demand for butterfat in China, and not just precautionary stock building, it will tighten global butterfat supplies even further.



Improved demand from China and elsewhere and the thrillingly tight butter market have elevated prices everywhere. Fonterra once again raised its forecasted pay-price for the 2017-18 season, this time to NZ$6.75 per kg of milk solids, up from $6.50 in May. Including dividends, this puts the New Zealand milk price roughly equivalent to Class III at $16/cwt., the third highest payout in the past decade.



At these prices, dairy producers around the world are likely inclined to increase output to the extent that their banks will allow. But in the U.S., growth is likely to plod along after years of unrelenting expansion. As the *Daily Dairy Report* states, "Dairy slaughter volumes are running high, and a slow but steady stream of dairy producers is leaving the industry." For the week ending July 15, dairy cow slaughter totaled 57,379, putting year-to-date culling up 2.9% from a year ago. Furthermore, "processing capacity is strained in many regions, including the Southwest, where new facilities are likely to be filled as soon as they are opened. Numerous cooperatives have put provisions in place to limit growth in milk output from their members." The U.S. dairy industry is not likely to respond to higher prices with the same enthusiastic growth we can expect from abroad.



Grain Markets

The crop markets took a step back this week. September corn futures dropped 5.5¢ to $3.7425 per bushel. September soybean futures were off 8.25¢ at $10.06. Crops perked up after solid rains moved through the Western Corn Belt late last week and into the weekend. But showers since then have been spotty, and there is little in the near-term forecast. Timely rains saved the corn crop from pollinating in adverse conditions. Parts of Minnesota, Wisconsin, and Illinois have fared quite well. But the crop remains variable, including in the crucial state of Iowa. More rain will be needed or potential corn yields will start to drop. Cooler temperatures have offered some relief, but soybeans still face the prospect of pollination with very little moisture. Unless the forecast changes, the crop markets have good reason to rally next week.

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Stand-Alone Quota Program regulatory language ready for review

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

On August 2, 2017, the Producer Review Board (PRB) will hold its next meeting to review the actual language of a Stand-Alone Quota Implementation Plan drafted by CDFA staff. The language, which can be viewed here, for the most part mimics the relevant parts of the current pooling plan and uses words to describe and implement the policy decisions made by the PRB at their May and June meetings. For example, there is a section dedicated to describing how quota would be allocated to new producers. However, the parts of the current pooling plan that describe how new quota is created through an increase in Class 1 sales is not in the new plan. Consequently, there will be no new quota issued and the only quota available for allocation to new entry producers will be quota returned to the pool due to a hardship.

In the proposed Stand-Alone Quota plan, there is no provision for producer-handler exempt quota, thereby implementing the PRB decision that current exempt quota be treated like all other quota that exists. The quota transfer provisions are nearly identical to those in the current pooling plan. Handler reports and obligations are what you would expect using the current pooling plan as a model. The Regional Quota Adjusters (RQA) are in place and identical to the RQA used in the current pooling plan.

The way the draft language handles the computation of the Quota Revenue Assessment is interesting. It establishes that the assessment rate will be adjusted every three months. The rate will be computed by dividing the quota premium paid to producers, net of the RQA, for the most recent three-month period by the pounds of assessable solids-not-fat produced in those three months.

It then sets the initial assessment rate at $0.045 per pound of solids-not-fat (snf) produced which equates to

$0.3915 per cwt. of 8.7% snf standardized milk. Current estimates indicate that it would take an assessment of about $0.37 to fund the Stand-Alone Quota program, so CDFA is starting a bit high with the initial assessment. Remember the assessment will change after three months if it proves to be too high. But the language goes on to say: **The continuance of the Plan shall be subject to approval by Producer referendum any time the computed rate reaches a new threshold level of $0.0050 per pound of solids not fat above the initial rate.** What this means is that if the assessment necessary to fund the Quota Premium reaches $0.05 per pound of snf (or $0.435 per cwt.) a new referendum will be necessary to continue the program. This provision was never discussed by the PRB and will no doubt be the subject of some discussion on August 2.

Another provision in the language likely to spark discussion is Section 1100 which states: the continuation of this Plan is subject to a producer survey every five years. The survey shall be conducted by an independent party selected by the Producer Review Board. The survey shall evaluate the effectiveness of the Plan, and the desire of producers to continue the operation of the Plan. The results of the review will be provided to the Producer Review Board for their consideration, and recommendation to the Secretary.

Section 1101 states: Substantive, or significant amendments to this Plan require producer referendum to be held in the same manner as the referendum approving this plan.

Section 1103 states: Upon receipt of a petition signed by at least 25 percent of market milk producers regarding the amendment or termination of this Plan, the Secretary shall convene the Producer Review Board to review the merits of the petition and make a recommendation to the Secretary.

If the Secretary finds that the Plan no longer tends to effectuate the purpose intended, termination shall be submitted for referendum in the same manner as provided for its initial approval.

These are significant items which the PRB will be discussing on August 2. CDFA has also invited written comments on the Plan which must be received by 4 p.m. on August 23, 2017. The PRB will meet again on September 12, 2017 to review the public comments and adopt a formal recommendation for the Secretary. These opportunities for input from the public are intended to enable CDFA to meet the public hearing requirements of the law which are required when a major change is being considered. CDFA anticipates that upon approval by the Secretary, the Plan will be mailed to all eligible producers for a referendum vote. The referendum period will remain open for 60 days and is expected to be concluded by early December.

Remember, this Stand-Alone Quota Plan only goes into effect IF California producers adopt a Federal Milk Marketing Order for California.

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Dairy Cares newsletter highlights sustainability efforts of California dairy farmers

By Kevin Abernathy, MPC General Manager

MPC has been a long-standing member of Dairy Cares, a coalition from across the California dairy community that focuses on environmental stewardship and animal care.

The following is an excerpt from the latest Dairy Cares newsletter.

For more than two centuries, families in California have sustained their dairy farming legacy by passing down core values and refining the science of caring for the cows and the land. As they strive for continuous improvement, they are updating much of the technology used inside their barns and milking parlors. Implementing ongoing operational and efficiency advancements is one way dairy families have reduced their dependence on fossil fuels and have helped sustain their operations.

The higher costs of labor, regulatory compliance, and energy are just a few of the challenges dairy farm families face today. In the last ten years, utility rates for California dairy farms have increased as much as 54 percent. To combat these rising costs, dairy farmers have partnered with their local utility companies to become more energy efficient.

The entire Dairy Cares July newsletter is available here.

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California Dairy Quality Assurance Program shares helpful information in latest e-update

By Kevin Abernathy, MPC General Manager

The July e-update from the California Dairy Quality Assurance Program (CDQAP) provides important information related to the FARM Program Version 3.0 and employee training opportunities through a partnership between CDQAP and Beef Quality Assurance. Additional information about preparing dairy facilities for winter rains and biosecurity tips on keeping your herd healthy are also included. Be sure to give it a read!

The entire CDQAP e-newsletter is available here.

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