



Milk Producers Council

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DATE: January 6, 2017
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0100	\$1.6700
Barrels	-\$0.0250	\$1.5750

Weekly Average, Cheddar Cheese

Blocks	+\$0.0013	\$1.6644
Barrels	+\$0.0281	\$1.5900

CHICAGO AA BUTTER

Weekly Change	-\$0.0475	\$2.2200
Weekly Average	-\$0.0581	\$2.2400

DRY WHEY

Dairy Market News	w/e 01/06/17	\$0.4475
National Plants	w/e 12/31/16	\$0.4140

NON-FAT DRY MILK

Week Ending 12/30 & 12/31

Calif. Plants	\$0.9681	3,471,600
Nat'l Plants	\$0.9932	12,085,732

Prior Week Ending 12/23 & 12/24

Calif. Plants	\$0.9615	10,248,455
Nat'l Plants	\$0.9704	19,145,101

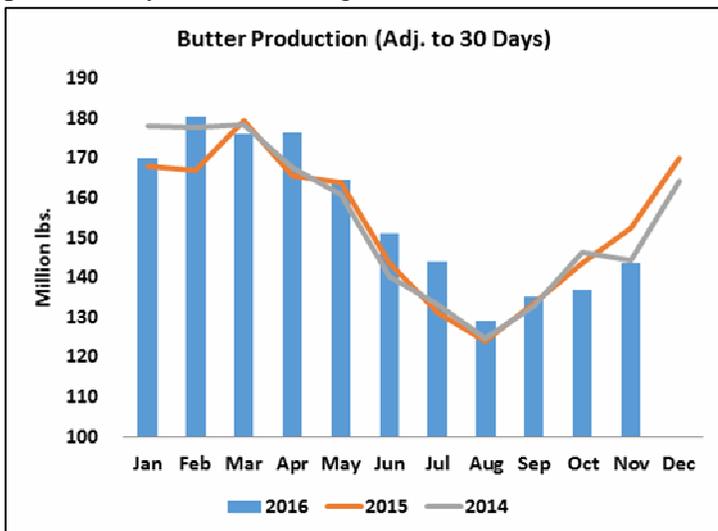
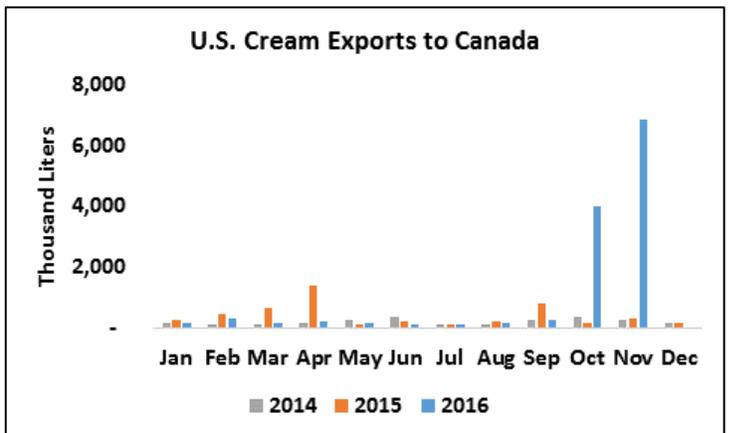
FRED DOUMA'S PRICE PROJECTIONS...

Jan 6 Est:	Quota cwt. \$17.13	Overbase cwt. \$15.44	Cls. 4a cwt. \$15.26	Cls. 4b cwt. \$15.83
Dec '16 Final:	Quota cwt. \$17.49	Overbase cwt. \$15.80	Cls. 4a cwt. \$14.79	Cls. 4b cwt. \$16.59

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

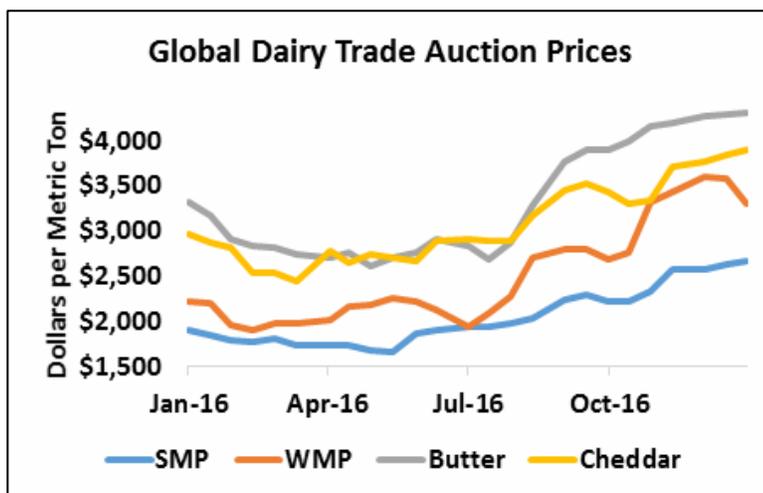
Milk & Dairy Markets

Every year, consumers quaff a little too much egg nog, eat a few too many cookies or slices of pie with a generous dollop of whipped cream, and then vow to eat their veggies and hit the gym as they tack a new calendar in the old one's place. And nearly every year, the butter market suffers a massive hangover following the egg nog binge. This year feels different. The gyms are still crowded, of course, and America's collective diet is probably less sugar-laden than it was a couple weeks ago. But even the most health-conscious are likely using a little more butter than they did in years past, as they sauté their vegetables or baste their lean cuts of meat.



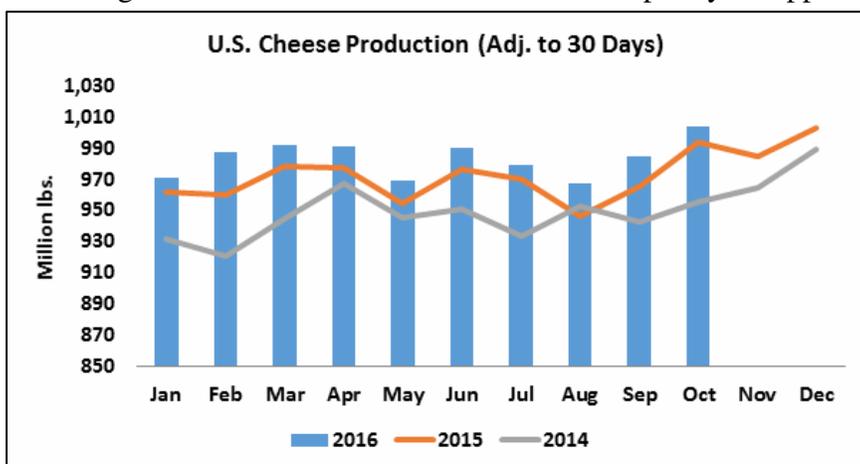
Since Christmas, the CME spot butter market has slipped 2.75¢ to \$2.22/lb. That's a modest setback given the impressive counter-seasonal increase through much of December. Demand for butterfat in all forms remains robust. In November, the U.S. exported 6.87 million liters of cream to Canada, shattering the record set just the month before and leaving less cream for domestic butter churns. U.S. butter output in November totaled 144 million pounds, down 5.7% from the year before. Additionally, U.S. exporters sent 3.1 million pounds of butter north of the border in November, 155% more than a year ago.

The milk powder market is looking lively. CME spot nonfat dry milk (NDM) climbed to a 15-month high today, finishing at \$1.0525. That's up 3.25¢ from last week's steady performance. But in New Zealand, there are signs of fatigue. At the Global Dairy Trade (GDT) auction, skim milk powder (SMP) prices climbed 2.3%, while whole milk powder (WMP) slumped 7.7%. That was enough to pull the GDT index down 3.9% although most other dairy products finished higher than at the previous event.



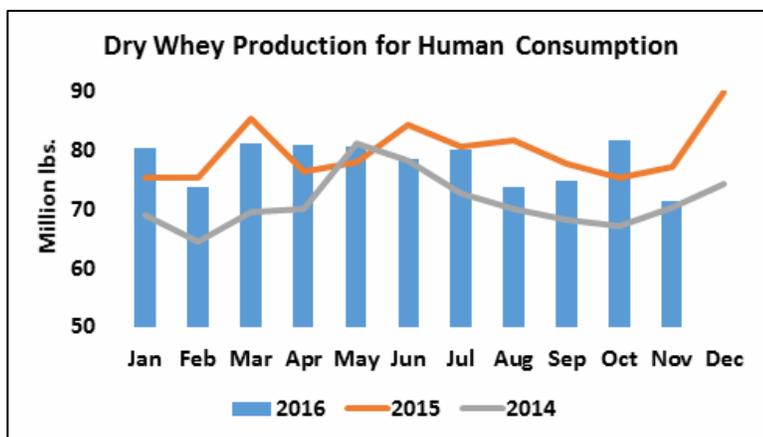
U.S. milk powder output in November was run-of-the-mill. At 174.9 million pounds, combined production of NDM and SMP was a little lower than daily average output in October and slightly higher than the year before. Manufacturers' stocks of NDM declined from October to November, but they remain 8.5% greater than they were a year ago. U.S. exporters sent 120.1 million pounds of NDM abroad in November. Although that was down from October, it was higher than most recent months and some 27.9% above year-ago volumes. Given the strong dollar and the fact that end users had plenty of opportunity to stock up on inexpensive milk powder ahead of November, the increase is noteworthy.

The spot Cheddar markets have wandered back and forth, but they haven't strayed far. Cheddar blocks closed today at \$1.67, down 2¢ in the past two weeks but up a penny from last Friday's close. Barrels have slipped 2.5¢ since Christmas; they stand at \$1.575. Class III futures took a step back. Most contracts lost 10 to 20¢ in the past two weeks.



Much of the increase in November milk output made its way to the vat. Cheese production reached 1.01 billion pounds, up 2.7% from a year ago and notably stronger than the preceding months. When cheese prices soared in early November, it clearly persuaded manufacturers to cater to the spot market's demands. Cheddar production was up an impressive 5.9% from the year before. Then, just as dark follows day and boom begets bust, the marked increase in Cheddar output prompted a selloff. The fact that the cheese market has since stabilized in the face of such heavy supply implies rousing demand and is arguably bullish.

The whey market continues to plod upward. While cheese output soared, production of dry whey dropped 7.5% from a year ago. Stocks grew 1.6% from October and stand 8.2% greater than year-ago volumes. WPC inventories grew month-to-month as well, but they are 11.2% lower than they were a year ago. Dry whey exports in November were up 46.7% from a year ago.



USDA announced the December Class III price at \$17.40/cwt., a two-year high. That is up 64¢ from November and \$2.96 higher than December 2015. California 4b milk was \$16.59, down 86¢ from November but up \$3.69

from a year ago. California 4a milk was \$14.79 for December, up \$1.10 from November and up 24¢ from last year. Class IV milk climbed \$1.21 in December to \$14.97, but that is 55¢ lower than it was a year ago.

According to the Margin Protection Program's feed cost formula, aggregate feed prices hit multi-year lows in November. The feed required to produce 100 lbs. of milk in November cost just \$7.62 on average across the nation. National average prices for corn, soybean meal, and alfalfa all retreated modestly in November.

Grain Markets

The corn market has strengthened in the past two weeks, although it retreated today. March corn settled at \$3.58, up 12.25¢ since Christmas. Meanwhile, the soybean market closed at \$9.9475, down nearly 3¢ from two weeks ago. Before this correction the market was clearly encouraging farmers to increase soybean acreage at the expense of corn. The recent strength in corn futures likely helped to shift farmers' calculus back towards corn at the margins, although soybean acreage is still likely to expand this spring. Global demand for soybeans remains strong, requiring ever larger crops.

The weather in South America has worsened of late. It's too dry in northern Brazil and too wet in parts of Argentina. While conditions are no longer ideal, they are still generally respectable. The weather pattern is expected to shift in a few days, bringing rain to most of the dry areas. Crops in both nations are likely to exceed last year's harvests.

A NEW YEAR – WHAT'S IN STORE? *(By Rob Vandenheuvel)* As we close the books on 2016, and all the unpredictable headlines it contained (Donald Trump, Brexit, and a Cubs World Series win!), we look forward into 2017 with wonder – what will this upcoming year bring to the U.S.? To the world? And more importantly, to the California dairy industry?

Our industry is certainly in a period of adjustment. The years of seemingly unrestrained milk production growth are a thing of the past (*we seem to have exported that mentality to other parts of the country*). That change – demonstrated by the more than 20 consecutive months of year-over-year declines in California milk production – is not simply a reflection of 2015-16, but rather the cumulative effect of the past eight years since 2009. Those eight years saw intense pressure on the farm from State-sponsored discounts in our farmgate milk prices, a fundamental shift upward in average feed costs, increasingly costly regulatory burdens (along with the promise of even more in the years to come), and a government-driven drought combined with a natural drought, just to name a few. One journalist recently pontificated that “California's run is done,” and who could look at the facts on the ground and argue against that sentiment?

What does this all say about the future of the California dairy industry, which by definition, begins in 2017? While feed costs will continue to ebb and flow, we are not likely to go back to the pre-ethanol days of low-cost feed (although today's prices are certainly better than a few years ago). Regulatory burdens rarely, if ever, go backwards. They only seem to get worse over time. And while some positive news came out of Washington, DC in December with regard to California's potential surface water availability, we have a long ways to go before we can feel that we have a reliable, sustainable source of adequate water supplies.

So in short, what this all says about the future of our industry is that if California's manufacturers of dairy products expect to have a reliable local source of the milk they so desperately need, they'd better get used to the idea of paying more for that milk. **The (hopefully soon) forward movement in the California Federal Order process is a key component of that adjustment – putting our producers on a more level playing field with our out-of-state competitors and ensuring that our dairy farmers are paid a more equitable share of the dollars generated by the market.** But it, of course, cannot stop there. Producers and the marketers of your milk need to continue to find every available opportunity to generate more revenue on the farm, whether through premiums, various forms of vertical integration, or other means (is it too far fetched to mix some marijuana into your crop rotation after the recent California vote?). Each year brings new opportunities to take those steps forward into a more prosperous future, and 2017 is no exception. Let's see what can be accomplished this year.