



# Milk Producers Council

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**DATE: May 18, 2018**  
**TO: Directors & Members**

**PAGES: 5**  
**FROM: Kevin Abernathy, General Manager**

## MPC Friday Market Update

### CHICAGO CHEDDAR CHEESE

Blocks - \$.0500 \$1.5825  
 Barrels - \$.0875 \$1.5325

### Weekly Average, Cheddar Cheese

Blocks - \$.0700 \$1.6090  
 Barrels - \$.0750 \$1.5695

### CHICAGO AA BUTTER

Weekly Change + \$.0500 \$2.3850  
 Weekly Average + \$.0450 \$2.3745

### DRY WHEY

Dairy Market News w/e 05/18/18 \$2.2975  
 National Plants w/e 05/12/18 \$2.2693

### NON-FAT DRY MILK

#### Week Ending 5/11 & 5/12

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

#### Prior Week Ending 5/4 & 5/5

Calif. Plants \$0.7287 12,472,381  
 Nat'l Plants \$0.7631 20,743,176

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## Fred Douma's price projections...

May 18 Est: Quota cwt. \$15.75 Overbase cwt. \$14.05 Cls. 4a cwt. \$13.88 Cls. 4b cwt. \$14.80  
 Last Week: Quota cwt. \$15.69 Overbase cwt. \$13.99 Cls. 4a cwt. \$13.72 Cls. 4b cwt. \$14.79

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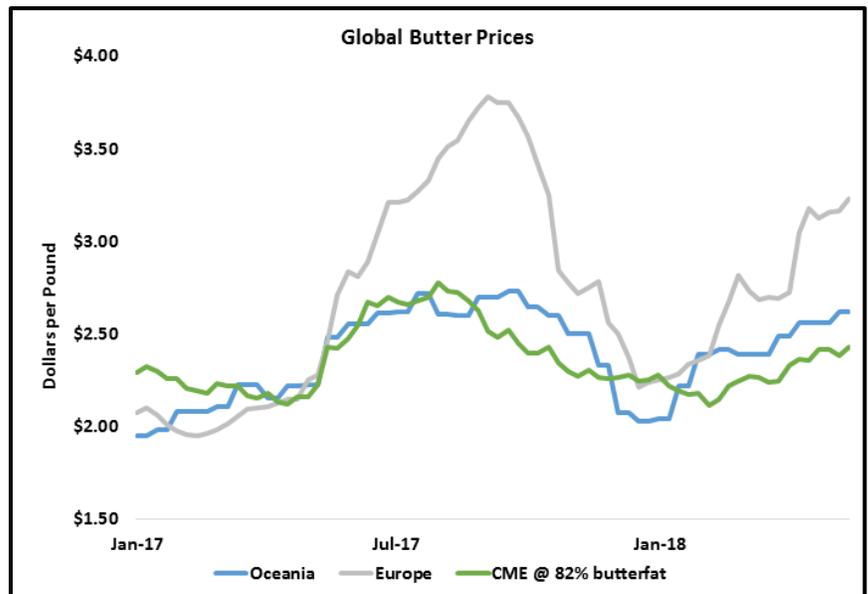
## Market commentary

By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com)

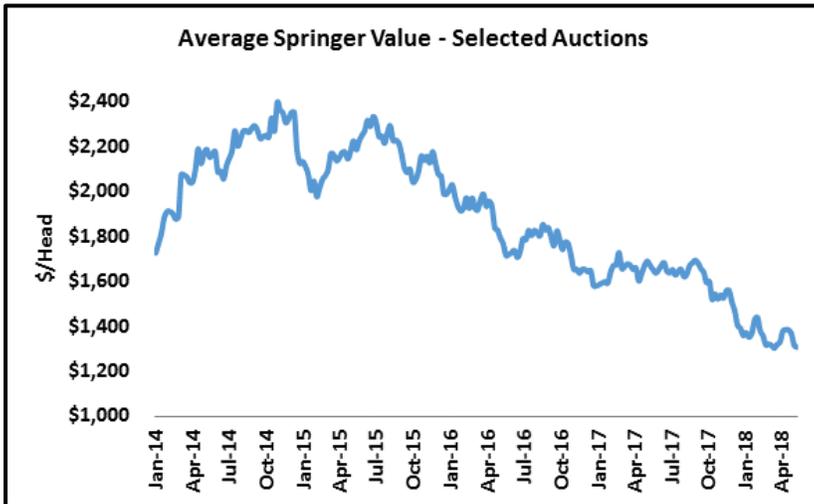
### Milk & Dairy Markets

It was another big week in the whey markets. *Dairy Market News* reports that “whey is quickly moving out of the warehouses” and “inventories are tight and continue to decrease.” That lifted CME spot whey to fresh highs at 37¢ per pound, up 4.5¢ from last Friday. That’s an increase of 13.85%, not bad for a week’s work. Every penny higher in the monthly average National Dairy Product Sales Report dry whey price results in a 6¢ boost to the Class III price. This week’s rally helped most Class III futures to a positive finish despite a weaker cheese market. Indeed, September and October Class III contracts briefly topped the \$17 mark, although they settled well below there. Most Class III contracts closed 10¢ or 20¢ higher for the week, but the June contract retreated.

The cheese markets have enjoyed an impressive rally, but they took a sizeable step back this week. CME spot Cheddar finished a nickel lower than last Friday, at \$1.5825 per pound. Barrels dropped 8.75¢ to \$1.5325. A slowdown in demand for Italian-style cheeses has boosted fresh Cheddar production, making more cheese available at CME spot market specifications. Still, cheese industry chatter suggests demand is solid for this time of year.



The Class IV products moved higher this week, likely fortified by strength abroad. CME spot butter jumped a nickel to \$2.385 per pound. German butter climbed to the equivalent of roughly \$3.15 per pound at 80% butterfat, the highest price since October. The average winning price for butter at Tuesday's Global Dairy Trade (GDT) auction climbed 2.4%.



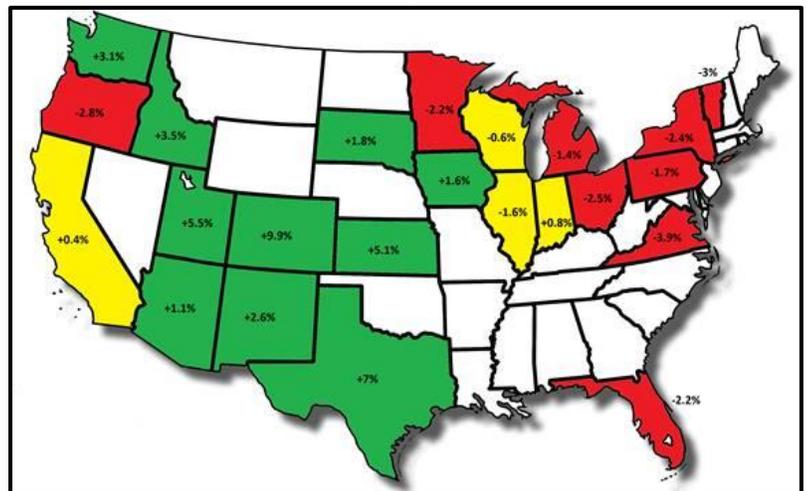
Skim milk powder (SMP) prices moved 3% higher at the GDT. Whole milk powder (WMP) prices were basically steady, allowing the GDT Index to rally 1.9%. The European Commission moved another tranche of aging SMP out of its Intervention storage program this week, offering further evidence of strong demand. In fact, it sold a hefty 92.5 million pounds at a minimum price of €1,155 per metric ton, the equivalent of nonfat dry milk (NDM) at roughly 62¢ per pound. The price was not impressive, but it was still markedly higher than at all previous tenders since January. More importantly, the European

Commission has pared its inventories to their smallest volume since May 2016. The Commission's milk powder stockpile remains massive, but things are at least moving in the right direction.

In light of all that, this week's 0.25¢ rally in the spot NDM market offered little excitement. But at 85.25¢, the spot milk powder market is dramatically higher than the 65¢ to 75¢ range where it languished for months. With both butter and milk powder in the green, Class IV futures gained a little ground.

Better milk prices on the board in Chicago have yet to translate to meaningfully higher milk checks, and many dairy producers remain dejected. Higher feed and labor costs are not helping matters. Auction and slaughter houses remain busy. Springer values creep ever lower. At the monthly dairy sale in Pipestone, Minnesota, yesterday, the top 25 springers averaged \$1,332, the lowest average value since November 2011. For the week ending May 5, dairy cow slaughter averaged 57,457 head, up 4.7% from the same week a year ago. That puts year-to-date slaughter 5.4% ahead of the 2017 pace.

Year-Over-Year Change in Milk Production

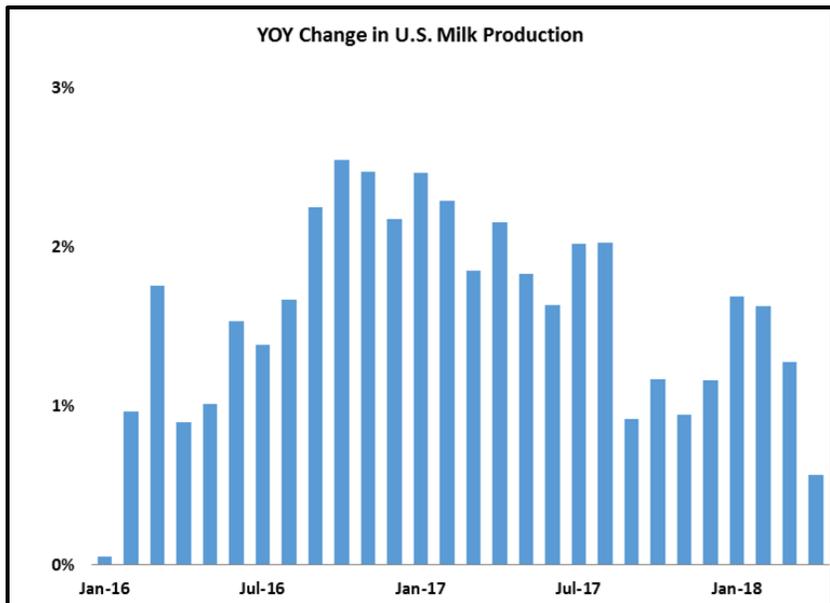


Dairy producer pain is finally translating into fewer cows and slower growth in U.S. milk output. The milk cow herd contracted to 9.4 million head in April, a five-month low. USDA revised its estimate of the March milk cow herd downward by 4,000 head, to 9.402 million head. Cow numbers are lower than year-ago levels in California (-19K), Minnesota (-5K), Ohio (-5K), Wisconsin (-5K), Michigan (-3K), Oregon (-3K), Vermont (-2K), Virginia (-2K), and Florida (-1K).

Pleasant April weather helped maintain strong production per cow in the Pacific and Mountain states. In contrast, the cold, wet spring chilled output in the Midwest and Northeast. With that, U.S. milk production climbed just 0.6% in April, the smallest year-over-year gain since January 2016. Poor on-farm financials, lower cow numbers

in some key dairy states, and the potential for a hot summer suggest U.S. milk production may continue to grow at a very low rate.

European milk production reached 30.15 billion pounds in March, up 0.9% from a year ago, the smallest increase since May 2016. Here too, winter temperatures lingered deep into spring, compressing the flush and reducing milk output. All but two European nations reported either lower year-over-year gains or greater contraction than in the preceding six months. Better weather in the second half of April may have fostered higher milk yields of late, but rising dairy product prices suggest that demand continues to outpace supply in Europe.

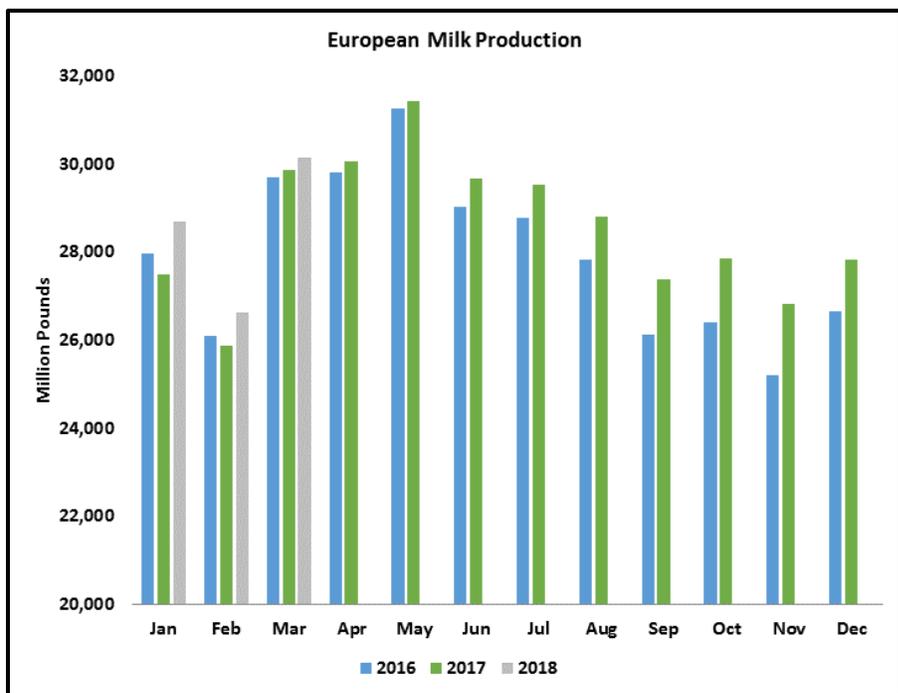


New Zealand’s milk output has been better than expected as the season winds down. Collections totaled 148,177 kg of milk solids in April, up 3.1% from last year and the first year-over-year gain since November. Season-to-date production is 1.1% behind 2016-17 volumes.

Grain Markets

The grain markets are still adrift in a sea of volatility, blown this way and that by the fickle winds of U.S. trade policy – or rumors thereof – and the whims of the weather. July corn settled at \$4.025 per bushel, up 14.25¢ from last Friday. July soybeans closed at \$9.985, down 33.75¢.

Unsubstantiated claims that China and the U.S. are coming to terms on some aspects of trade negotiations buoyed the grain markets today. However, soybean futures settled well below the highs upon news that foreign buyers had cancelled contracts to purchase a large volume of U.S. soybeans. The Brazilian real is dropping precipitously, allowing Brazilian farmers to sell soybeans at



attractive values even as dollar-denominated soybeans retreat. Chinese soybean crushers are buying Brazilian soybeans aggressively. However, at this pace it may not take long for China to use up reserves from its preferred market. Chinese crushers are already turning to nontraditional sources. Russia’s soybean exports to China this season are expected to be more than triple the volumes of recent years. China may have to turn to the U.S. for soybeans eventually, but importers have demonstrated that they are willing to get creative to avoid the potential for steep tariffs on U.S. soybeans until the trade relationship is more clearly defined or they have exhausted all other options.

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## **From *The Washington Post* Business Section: House fails to pass massive farm bill**

*By Erica Werner and Mike DeBonis*

A sweeping farm bill failed in the House on Friday in a blow to GOP leaders who were unable to placate conservative lawmakers demanding commitments on immigration.

The House leadership put the bill on the floor gambling it would pass despite unanimous Democratic opposition. They negotiated with members of the conservative House Freedom Caucus up to the last minutes. But their gamble failed. The vote was 213 to 198, with 30 Republicans joined 183 Democrats in defeating bill.

The outcome exposed what is becoming an all-out war within the House GOP over immigration, a divisive fight the Republicans did not want to have heading into midterm elections in November that will decide control of Congress.

The bill's collapse also highlight the splits within the GOP conference that have bedeviled House Speaker Paul D. Ryan (R-Wis.) and will be certain to dog the top lieutenants in line to replace him, Majority Leader Kevin McCarthy (R-Calif.) and Majority Whip Steve Scalise (R-La.).

With moderate Republicans maneuvering to force a vote on legislation offering citizenship to some younger immigrants who arrived in the country as children, conservatives revolted. The farm bill became a bargaining chip as they lobbied leadership for a vote on a hard-line immigration bill.

Leaders tried to come up with a compromise, but 11th-hour negotiations, offers and counteroffers failed. McCarthy and Scalise will face a share of the blame for the failure, and their fortunes in the race to replace Ryan next year could suffer accordingly.

The farm bill itself became practically a sideshow, despite its importance to agriculture and the significant changes it would institute to food stamp programs.

On immigration, Scalise described a deal that would ensure a vote on a conservative immigration bill from Reps. Bob Goodlatte (R-Va.) and Michael McCaul (R-Tex.), while also allowing moderate Republicans the opportunity to negotiate on legislation that could win the support of President Trump and resolve the status of immigrants who face losing protections offered by the Deferred Action for Childhood Arrivals program, or DACA.

"We came to an agreement that I think gives everybody what they want," Scalise said ahead of the farm-bill vote. "That's a vote on Goodlatte-McCaul as well as an opportunity to try to work with the president on an alternative that can pass on DACA. We want to solve the DACA problem and secure the border, and I still think there's a path to get there working with the president."

The solution may eventually emerge, but it did not do so in time to save the farm bill Friday.

Goodlatte-McCaul bill authorizes construction of a border wall, cracks down on "sanctuary cities" that protect immigrants against federal immigration authorities and provides for three-year temporary guest work permits that do not offer a chance at citizenship. Leaders and conservatives agree that it does not have the votes to pass the House, but nonetheless conservatives want to vote on it.

The farm bill itself broke open partisan House divisions as Democrats abandoned negotiations with Republicans over the food stamp changes, which would require adults to spend 20 hours per week working or participating in a state-run training program as a condition to receive benefits. Democrats argue that a million or more people would end up losing benefits, because most states do not have the capacity to set up the training programs required.

House Minority Leader Nancy Pelosi (D-Calif.) described the legislation as “cruel” and argued that with the proposed changes to food stamps, “Republicans are taking food out of the mouths of families struggling to make ends meet.”

Republicans contend the food stamp changes are a reasonable approach that would help move able-bodied adults from poverty to work. “Our bill goes shoulder to shoulder with recipients to help get them the training and education they need to attain a job that can provide for them and their families,” said Agriculture Committee Chairman K. Michael Conaway (R-Tex.).

The House farm bill would have been a non-starter anyway in the Senate, which is writing its own farm bill. Any legislation that ultimately makes it to Trump’s desk will have to look more like the version in the Senate, where bipartisan support will be necessary for anything to pass and there is not sufficient support for the food-stamp changes.

Trump had tweeted his support for the House bill late Thursday, writing: “Tomorrow, the House will vote on a strong Farm Bill, which includes work requirements. We must support our Nation’s great farmers!” The current farm bill expires Sept. 30, and the legislation would have reauthorized numerous programs and policies. In addition to food stamps, flash points included an extension of supports for the sugar program, which a coalition of conservative lawmakers, backed by outside free-market groups, tried unsuccessfully to get rid of in an amendment defeated Thursday.

The legislation also would have extended the Agriculture Department’s subsidy program that compensates farmers when average crop prices fall below certain levels — and expanded it by widening who counts as a “farmer,” for subsidy purposes.

Conaway pleaded for the legislation before the vote. “Times are not good right now in the heartland. Many of our nation’s farmers and ranchers, who have been struggling under the weight of a five-year recession, are just one bad year away from being forced out of business,” he said. “And in the face of these serious challenges, the last thing they need is the uncertainty of a prolonged debate over the 2018 farm bill.”

*Appeared in the May 18 online edition as ‘In blow to GOP, House fails to pass massive farm bill in face of conservative Republican showdown’. Read the full story [here](#).*

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