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DATE: October 16, 2015
 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0350 \$1.6650
 Barrels +\$.0200 \$1.6400

Weekly Average, Cheddar Cheese

Blocks - \$.0405 \$1.6870
 Barrels +\$.0060 \$1.6480

CHICAGO AA BUTTER

Weekly Change +\$.0325 \$2.4500
 Weekly Average +\$.0160 \$2.3895

DRY WHEY

Dairy Market News w/e 10/16/15 \$2.100
 National Plants w/e 10/10/15 \$2.240

NON-FAT DRY MILK

Week Ending 10/9 & 10/10

Calif. Plants \$0.8708 16,224,081
 Nat'l Plants \$0.8917 21,472,345

Prior Week Ending 10/2 & 10/3

Calif. Plants \$0.8945 12,165,033
 Nat'l Plants \$0.8757 18,363,059

FRED DOUMA'S PRICE PROJECTIONS...

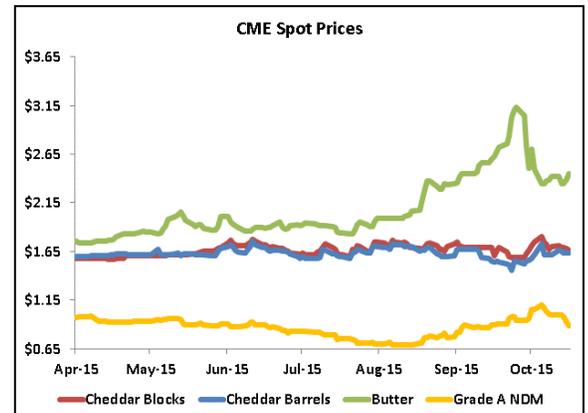
Oct 16 Est: Quota cwt. \$16.65 Overbase cwt. \$14.95 Cls. 4a cwt. \$15.56 Cls. 4b cwt. \$14.86
 Last Week: Quota cwt. \$16.70 Overbase cwt. \$15.00 Cls. 4a cwt. \$15.52 Cls. 4b cwt. \$14.99

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

Milk & Dairy Markets

Fall is here. In much of the country, the air is crisp and cheese is on the menu. Nothing pairs better with football than pizza and nachos, and holiday demand is right around the corner. *Dairy Market News* noted last week, "Mozzarella sales in all regions are strong. Recent increased Cheddar demand has helped keep inventories at a comfortable level even with higher recent production."

Comfortable seems a particularly apt description for a spot cheese market that has shown no inclination to stray from its \$1.60 to \$1.80 range. Cheddar barrels lost a nickel last week and slipped 3.5¢ this week, closing Friday at \$1.665/lb. Barrels ticked up 0.25¢ last week and gained a couple cents this week, ending at \$1.64.



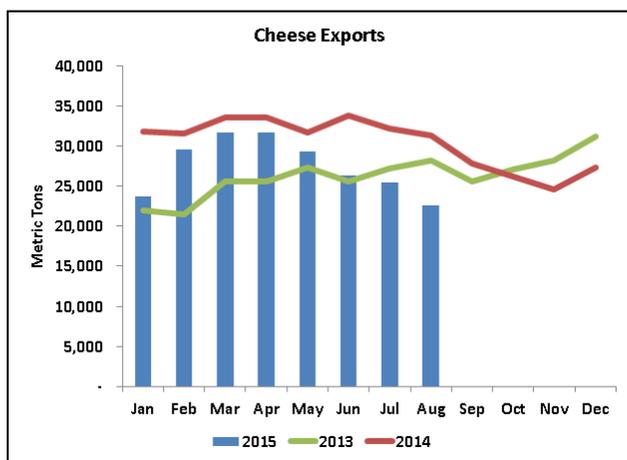
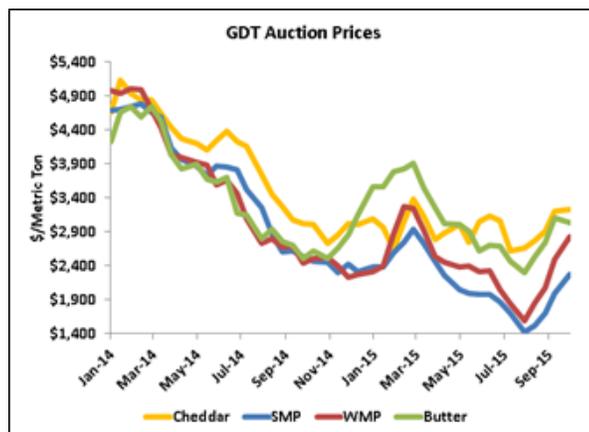
The whey market has retreated over the past few days, but prices and demand are both notably stronger than the bargain basement levels of late September. With a boost from the whey market, Class III futures jumped last week but retreated this week; most contracts ended roughly a dime lower than their settlement two weeks ago.

The butter market continued its dramatic slide last week, losing another 8.25¢. But it bounced Thursday and surged Friday, closing at \$2.45, up 3.25¢ on the week. In contrast, the milk powder market beat a sustained retreat from the highs of two weeks ago. Spot nonfat dry milk (NDM) dropped 6.5¢ last week and fell 10.5¢ from there to 89¢. Nearby Class IV futures settled sharply lower, but most 2016 contracts remained afloat around \$16 despite taking on water this week.

For the fourth time in as many auctions, prices moved higher at the Global Dairy Trade (GDT) event last Tuesday. The GDT index gained 9.9%. Butter was the only product to lose ground. As it seeks to clean up last

year's inventories, Fonterra offered greater volumes of milk powder, but this did not scare away buyers. Skim milk powder (SMP) and whole milk powder (WMP) prices rose 13.4% and 12.9%, respectively.

European manufacturers predictably greeted the rise in global milk powder prices with a wave of sales. The milk powder market is back above intervention levels, so rather than placing milk powder into government storage, they are once again selling it overseas, reducing the opportunity for the U.S. and New Zealand to do the same. Through August, European SMP exports were already record large, at 1.04 billion pounds, up 10% from the first eight months of 2014. Over the same period, U.S. exports of NDM fell 54.6 million pounds, a 6.2% deficit from 2014.

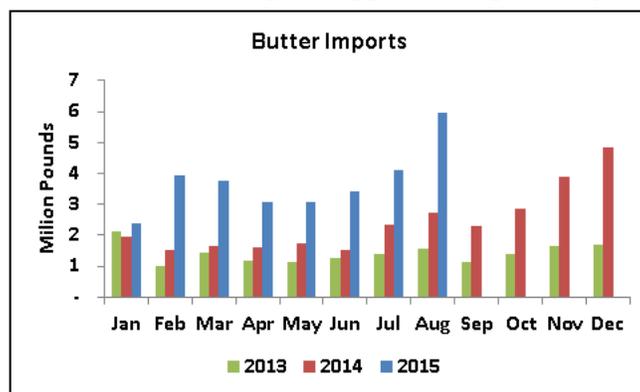


Thanks to formidable domestic demand, the U.S. cheese and butter markets have held a persistent, gaping premium over their foreign counterparts. That premium has eroded demand for U.S. dairy product exports and enticed imports. August cheese exports tumbled 27.7% compared to last year, to the lowest volume in more than 2 1/2 years.

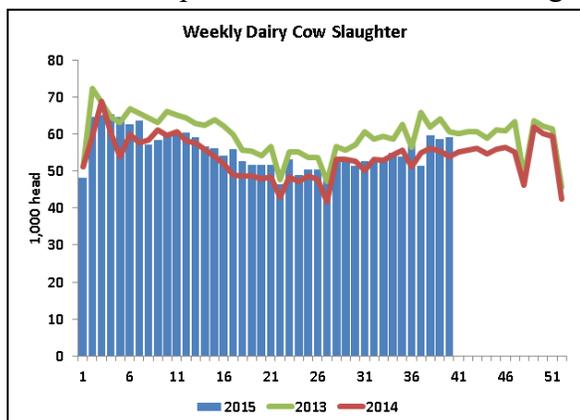
The decline in butter exports has been even more dramatic. For the year-to-date, U.S. butterfat exports have fallen 71.7% from the same period in 2014. Butter imports surged in August to nearly 6 million pounds, the greatest monthly volume since June 2004. Butter import volumes have reached high enough

to trigger tariffs, which could slow orders from some sources in what remains of the year. However, free trade agreements will negate this tariff for Mexico and Australia, the second and third largest suppliers, respectively, of U.S. butter imports.

The spot butter market's recent plunge is a nod to pressure from overseas, but the gap between domestic and foreign prices remains. Seasonal demand is helping to undergird the cheese market, but with product arriving from offshore, inventories are probably growing at the margins. Once holiday demand has passed, the cheese market might suffer a bit of a hangover.



Amidst lower margins and heavy culling, milk output in New Zealand is expected to fall. USDA's Foreign Agricultural Service called for a 2.3% decline in calendar year 2015



and followed by a 3% decline in 2016. Back-to-back declines of this magnitude could help to chip away at currently burdensome global dairy product inventories. However, milk production in Australia, Europe and the United States continues to exceed last year's already robust output by volumes that are more than large enough to compensate for New Zealand's shortfall.

For the week ending October 3, dairy cow slaughter totaled 59,298 head, up some 10% from a year ago. Year-to-date slaughter is up 4%. While dairy producers in the West have consistently culled at greater rates than last year, cull rates in the Midwest and Northern Plains have lagged. However, dairy producers there have stepped

up culling since mid-September. The most recent weekly slaughter data for the region marks the highest culling in more than eight months. It is too soon to call this a change in trend, but it is an intriguing shift in a region that has been at the heart of the industry's steady expansion over the past two years.

Grain Markets

Last week the corn market attempted to rally above \$4 per bushel, but it faltered and settled Friday at \$3.7675, down 13.5¢ over the past two weeks. The crop is large and farmers are already sitting on plenty of grain from last year. Harvest weather has been nearly perfect, and demand for U.S. corn exports is in question. It is no surprise then that the corn market has slipped to the lower end of its \$3.60 to \$4.00 range.

Despite reports of impressive yields, the soybean market is climbing. Over the past two weeks it gained 24¢, settling Friday just shy of \$9.00 per bushel. Although U.S. exporters' commitments to ship soybeans throughout the year are smaller than normal, the number of cargoes leaving the ports has been unexpectedly large. This is especially surprising given the currency disadvantage that U.S. exporters face. Over the past year, the Chinese yuan has fallen 3% against the dollar but risen 54% against the Brazilian real.

The U.S. harvest is wrapping up quickly and without incident. The market is shifting its focus to South America, where planting is underway. Farmers are struggling with dry conditions in northern Brazil and flooding in southern Brazil. If the weather there does not improve, the soybean market could quickly reassert its strength.

AN UPDATE ON THIS WEEK'S CA-FMMO HEARING PROCEEDINGS: *(By Rob Vandenheuvel)* The U.S. Department of Agriculture (USDA) took a two-day break for Columbus Day in the hearing on a California-Federal Milk Marketing Order (CA-FMMO). Wednesday, the hearing resumed with a continuation of the testimony in support of the proposal submitted by California Dairies, Inc., Dairy Farmers of America and Land O'Lakes, and supported by California Dairy Campaign, MPC and Western United Dairymen. Witnesses this week included:

- **Annie AcMoody**, *Western United Dairymen* *
- **Joey Fernandes**, *Dairy farmer in Tulare County*
- **Roger Fluegel**, *Dairy farmer in Tulare County*
- **Elvin Hollon**, *Dairy Farmers of America* *
- **Steve Maddox**, *Dairy farmer in Fresno County*
- **Dennis Schad**, *Land O'Lakes*

* Asterisk identifies witnesses who also testified in previous weeks, but added additional testimony this week.

Elvin Hollon and Dennis Schad spent the majority of the three days of hearing on the witness stand, as they testified in great detail on issues such as milk pricing formulas, pooling rules and the transportation subsidy program included in the cooperatives' proposal.

As we mentioned in last week's update, we are approaching the end of the scheduled witnesses planning to testify in support of the cooperatives' proposal (*with the exception of individual dairy farmers, who are encouraged to testify at any time during the remaining weeks of the hearing*). It is anticipated that early next week, we will move into the next phase of the hearing: testimony in support of the proposal submitted by the Dairy Institute of California (on behalf of their processor members). Based on the pace of the hearing thus far, it is reasonable to think that the testimony put forth by the Dairy Institute along with cross-examination of those witnesses could consume the next several weeks of the hearing.

For those of you who are interested in listening to the live audio stream of the hearing, USDA has created a new link to the audio feed: <https://www.ams.usda.gov/live>. USDA has also posted the available transcripts to their website at: <http://www.ams.usda.gov/rules-regulations/moa/dairy/ca/transcripts>. There is a two-week lag in getting these transcripts finalized and posted, so only the first week of the hearing is available so far (September 22-25); I would expect the second week's transcripts to be posted very soon.