



Milk Producers Council



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DATE: November 4, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenheuvel, General Manager

***** TUESDAY IS ELECTION DAY; DON'T FORGET TO VOTE! *****

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE
 Blocks +\$.1700 \$1.9000
 Barrels +\$.2625 \$1.8600

Weekly Average, Cheddar Cheese
 Blocks +\$.1675 \$1.8310
 Barrels +\$.2105 \$1.7755

CHICAGO AA BUTTER
 Weekly Change - \$.0325 \$1.8925
 Weekly Average +\$.0190 \$1.8840

DRY WHEY
Dairy Market News w/e 11/04/16 \$1.3700
National Plants w/e 10/29/16 \$1.3445

NON-FAT DRY MILK
Week Ending 10/28 & 10/29
 Calif. Plants \$0.8934 4,594,948
 Nat'l Plants \$0.9125 11,240,448

Prior Week Ending 10/21 & 10/22
 Calif. Plants \$0.8907 5,479,051
 Nat'l Plants \$0.9193 11,975,791

FRED DOUMA'S PRICE PROJECTIONS...

Nov 4 Est: Quota cwt. \$17.06 Overbase cwt. \$15.36 Cls. 4a cwt. \$13.20 Cls. 4b cwt. \$17.45
 Oct '16 Final: Quota cwt. \$15.80 Overbase cwt. \$14.11 Cls. 4a cwt. \$13.11 Cls. 4b cwt. \$14.43

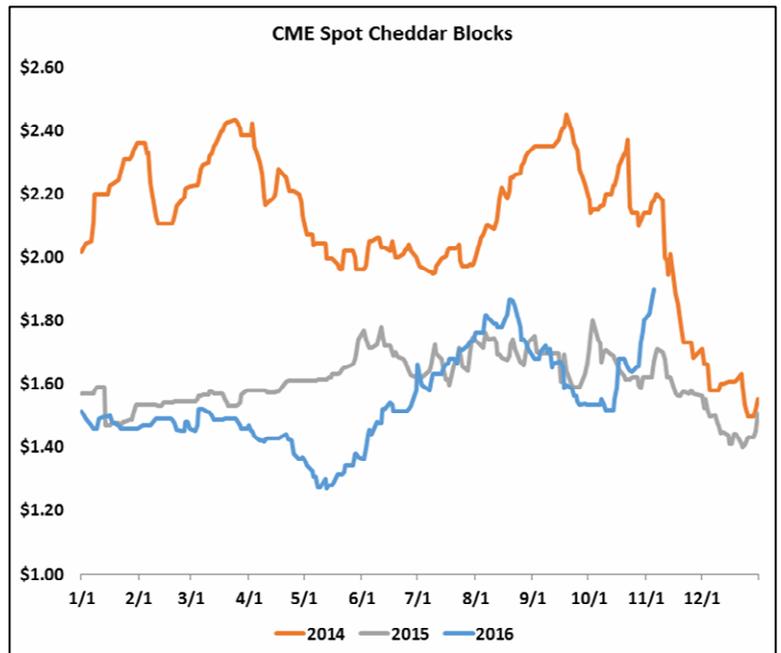
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

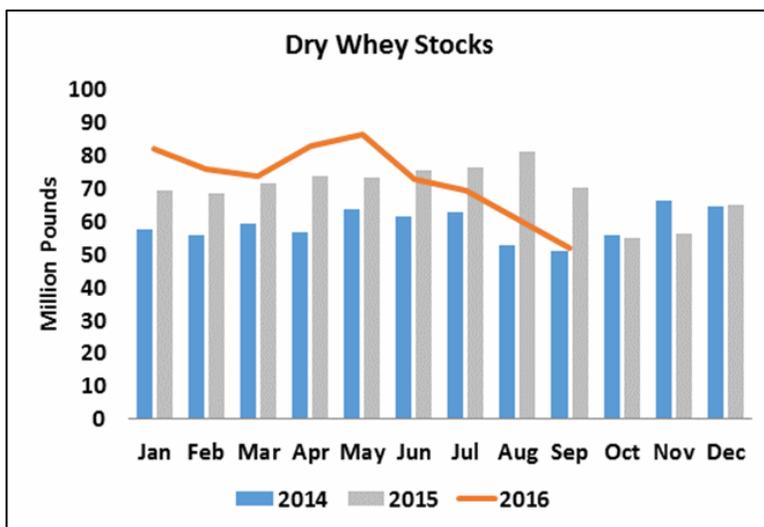
It was another big week in Chicago. Addison Street erupted after the Cubs won the World Series for the first time in more than a century. On LaSalle Street events were less historic, but still full of fireworks. CME spot Cheddar blocks jumped 17¢ to \$1.90/lb., a nearly two-year high. With that, blocks stand at a premium to the spot butter market for the first time since January 2015. Not to be outdone, CME spot Cheddar barrels surged 26.25¢ to \$1.86, the largest Friday-to-Friday rally in more than a decade.

Cheesemakers continue to make product in impressive volumes. In September, output reached 981.2 million pounds, the highest ever for the month and 1.6% more than a year ago. However, they continue to favor Italian varieties. Cheddar cheese production fell 0.5% short of year-ago volumes, which might help to explain the strength in Cheddar prices at the CME spot market. *Dairy Market News* reports, "Some processors suggest cheese stocks are mostly comfortable, but the seasonal increase in demand has tightened some cheese block inventories."

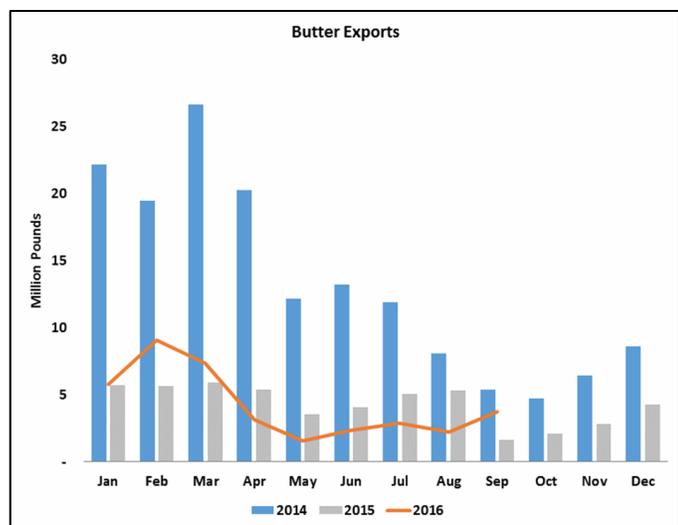
Tightening fresh cheese supplies explain the strength at the CME spot market, but the massive stockpile of aging product is weighing on deferred prices. October Class III futures climbed more than a dollar this week, while most 2017 contracts posted modest and begrudging gains.



Similarly, nearby dry whey futures moved sharply higher this week, while deferred contracts settled mostly lower. *Dairy Market News* notes that the dry whey market continues to improve, with “good demand, steady production, and tight inventories.” Indeed, inventories of dry whey for human consumption fell 26.4% from a year ago in September, and stockpiles dropped 14.5% from the month before. Considering record-large cheese production, whey product output is curiously light. Production of dry whey for human production dropped 5.5% from last year, and output of whey protein concentrates fell 8.7% shy of year-ago volumes. Meanwhile, exports of both products remain strong.



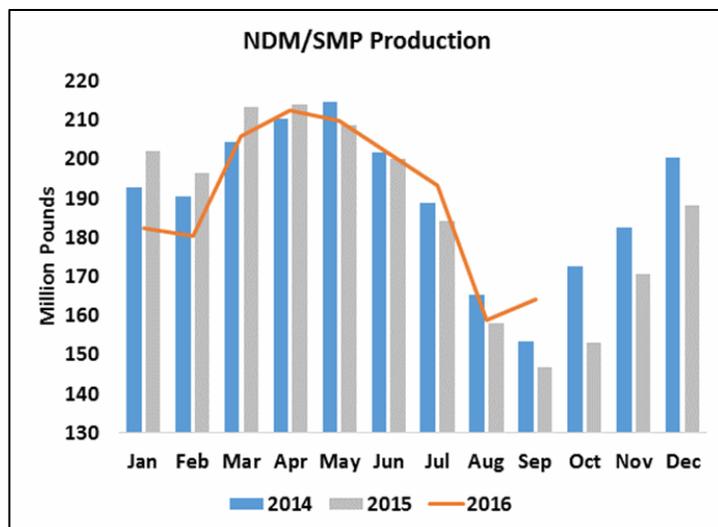
The Class IV markets struggled this week. CME spot butter dropped 3.25¢ to \$1.8925. Spot nonfat dry milk (DNM) strengthened early in the week but then faded; it finished at 84.75¢, down 0.75¢ from last Friday. Most Class IV contracts moved lower; losses were most pronounced at the front of the board.



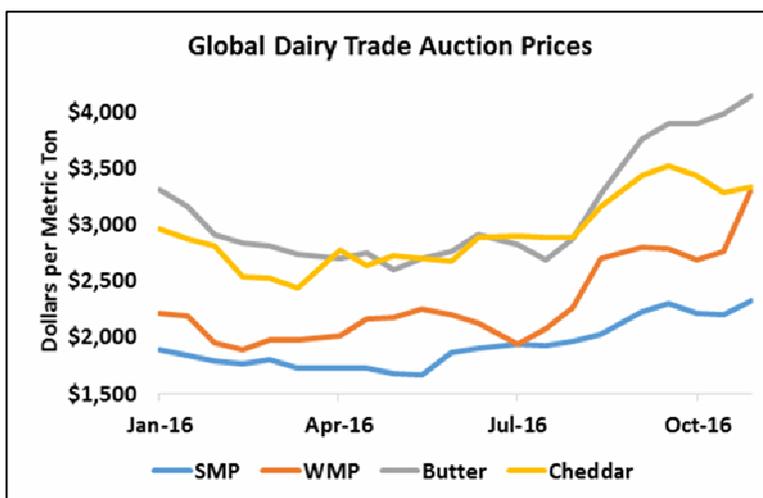
The fundamentals in the butter market have taken a somewhat bullish turn. Although cream is still plentiful in the West and Central regions, supplies are tightening in the East. Foreign buyers are lapping up some U.S. cream, and manufacturers are ramping up output of dips and spreads for the fast-approaching holidays. Butter output totaled 133.1 million pounds in September, down 0.4% from a year ago.

The effects of more competitive butter pricing are just beginning to show. At just over 3 million pounds, September butter exports reached a 13-month high, and they were more than three times as large as the paltry volumes shipped during September 2015. Still, they are none too impressive by historical standards, and they were once again dwarfed by imports, which retreated to 4.2 million pounds. Given current pricing, the trend toward higher exports and lower imports is likely to continue.

The driers were busy in September. Output of NDM for human consumption climbed to 125.6 million pounds in September, up 4.7% from a year ago to the largest September volume since 1962. Combined production of NDM and skim milk powder (SMP) was up 11.8% from a year ago. The *Daily Dairy Report* notes, “Daily average milk powder output typically reaches a low in September, when the lingering impact of summer heat retracts milk yields and schools ramp up demand for fluid milk. Over the past five years, daily average milk powder output has been 9.5% lower in September than in August. But this year, September milk powder production was 3.4% greater than August’s daily average output.”



Stronger than usual production may explain why the U.S. NDM market has failed to gain much traction even as prices continue to rise overseas. At the Global Dairy Trade (GDT) auction this week, whole milk powder (WMP) prices soared 19.8% higher and SMP jumped 6.5%. The average winning Cheddar price moved a little higher and butter prices jumped 4%. The GDT index rallied 11.4%.



U.S. milk powder is priced well to compete for market share, but buyers have had ample opportunity to stock up. U.S. exports of NDM stood at 110.3 million pounds in September, up 5.3% from a year ago, but off 1.8% from daily average shipments in August. Thanks to respectable export volumes, manufacturer's stocks of NDM declined from August to September. But because September NDM output was atypically large, the month-to-month drawdown was a smaller than normal 8% decline. On September 30, NDM inventories were 216.1 million pounds, up 2.1% from a year ago. That is the largest year-over-year increase in 14 months.

For the week ending October 22, dairy cow slaughter totaled 56,600 head, 0.9% higher than the same week a year ago. For the year-to-date, the cull rate is 1.6% ahead of last year's pace.

Grain Markets

Investors abhor uncertainty. As the race to the White House tightened over the past couple weeks, stocks sold off. The S&P 500 finished in the red for the ninth straight session today, its longest losing streak in 36 years. At first, the grains and oilseeds followed the broader markets lower. But Thursday and Friday they clawed out modest gains, proving themselves impressively resilient despite the size of the crops in the field and in the bin. December corn futures finished at \$3.4875 per bushel, down 6.25¢. November soybeans closed at \$9.815, down 19.25¢ from last Friday.

DAIRY CARES – CA DAIRIES ARE GOING SOLAR IN A BIG WAY: (By Rob Vandenheuvel) The latest Dairy Cares Column has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. This month's column focuses on the tremendous investment that California's dairy families – particularly those in the San Joaquin Valley – have made in recent years in solar power projects. By harnessing the sun's energy to create usable electricity on the farm, these dairies are not only cutting their energy costs and making operations more self-sufficient, but they are also reducing the overall reliance on fossil fuel-based energy, a key priority of California's energy policies.

While this trend is certainly not new, it is none-the-less yet another example of how California's dairy industry steps up to the plate when incentive-based programs give us the opportunity to team up financially with the State and Federal Governments (through tax credits, grants or other measures) and invest in technologies that provide benefits to BOTH the dairy and the environment. One might have thought this was a good model to follow in addressing methane emissions as well; if only our elected officials cared more about sustainable results rather than the power grab of regulation.

SCHEDULING NOTE: Next week, I will be unable to publish MPC's Friday Market Update. Our next issue will be Friday, November 18th.

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