



Milk Producers Council

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DATE: January 15, 2016
 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0350	\$1.4950
Barrels	-\$0.0150	\$1.5250

Weekly Average, Cheddar Cheese

Blocks	+\$0.0085	\$1.4870
Barrels	+\$0.0215	\$1.5245

CHICAGO AA BUTTER

Weekly Change	+\$0.2150	\$2.2500
Weekly Average	+\$0.0775	\$2.1145

DRY WHEY

Dairy Market News	w/e 01/15/16	\$0.2400
National Plants	w/e 01/09/16	\$0.2339

NON-FAT DRY MILK

Week Ending 1/8 & 1/9		
Calif. Plants	\$0.8041	5,443,499
Nat'l Plants	\$0.7807	13,315,418

Prior Week Ending 1/1 & 1/2

Calif. Plants	\$0.7872	7,228,110
Nat'l Plants	\$0.7879	14,692,331

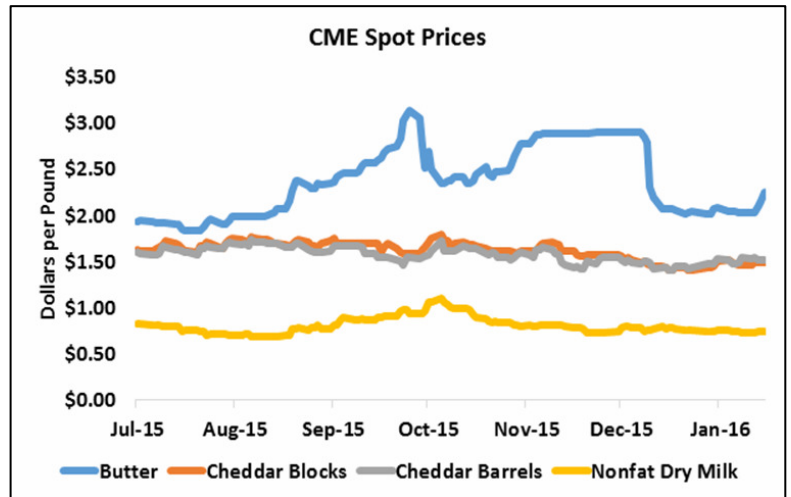
FRED DOUMA'S PRICE PROJECTIONS...

Jan 15 Est:	Quota cwt. \$15.15	Overbase cwt. \$13.45	Cls. 4a cwt. \$13.37	Cls. 4b cwt. \$13.01
Last Week:	Quota cwt. \$14.91	Overbase cwt. \$13.21	Cls. 4a cwt. \$12.93	Cls. 4b cwt. \$12.83

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

Milk & Dairy Markets

The butter market is sizzling. This week CME spot butter reached \$2.25/lb., up 21.5¢ from last Friday. Butter futures crept higher early in the week and then surged. Several contracts posted limit up moves, gaining a nickel Wednesday and a dime Thursday. October and November butter futures traded at their upper limit today, jumping 20¢ under expanded trading ranges. A number of Class IV contracts climbed the 75¢ limit on Thursday and made further gains today. For the week Class IV futures were sharply higher. The March, April, June, and July contracts all gained more than a dollar.



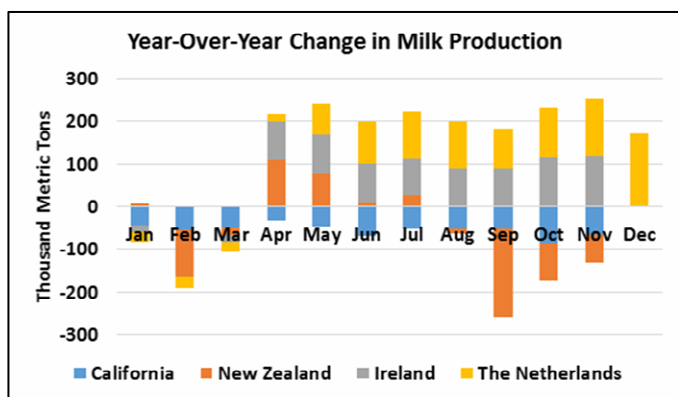
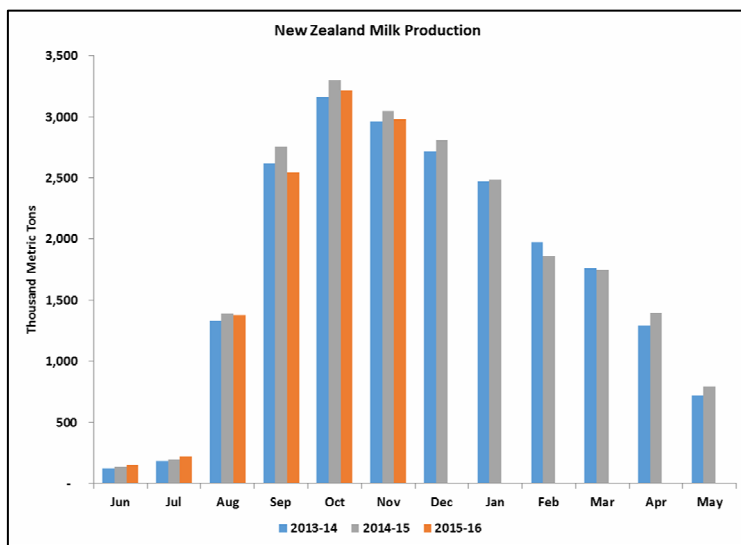
The other spot markets were more circumspect. Nonfat dry milk (NDM) reached 75¢, up 1.75¢ from last Friday. Cheddar blocks moved 3.5¢ higher, to \$1.495. Cheddar barrels retained their atypical premium to the block market but they narrowed the gap, slipping 1.5¢ to \$1.525. Whey futures dropped early in the week but then posted a modest rally. Class III futures finished between 2¢ lower and 63¢ higher than last Friday.

The commodity markets have been under immense pressure from pervasive pessimism in global equity markets. Since peaking just before Christmas, China's Shanghai Composite Index is down more than 20% and officially in bear market territory. The Dow Jones Industrial Average dropped nearly 400 points Friday, and the S&P 500

Index slumped to a 15-month low. Oil prices dropped below \$30 per barrel, straining budgets in the petrostates, many of whom use revenue from oil exports to import other goods, including dairy products.

Meanwhile, the world is still awash in milk. Dairy product prices in Europe are slipping and manufacturers are offering SMP into intervention storage at an accelerated rate. European output of skim milk powder (SMP) in January through October was up 8% from 2014. Butter production over the same period was 3.3% greater than the year before.

Milk collections remain high. Irish milk output totaled 362.6 thousand metric tons (nearly 800 million pounds) in October, up 48.1% from the year before. The Dutch managed to grow output by 13.8% from a year ago in October and by 16.6% in November. New Zealand milk collections dropped 2.1% on a year-over-year basis in November, putting season-to-date collections down 3.1% from a year ago. Ireland and the Netherlands more than offset year-over-year production deficits in New Zealand and California, augmenting a continued global surplus amidst lackluster demand.

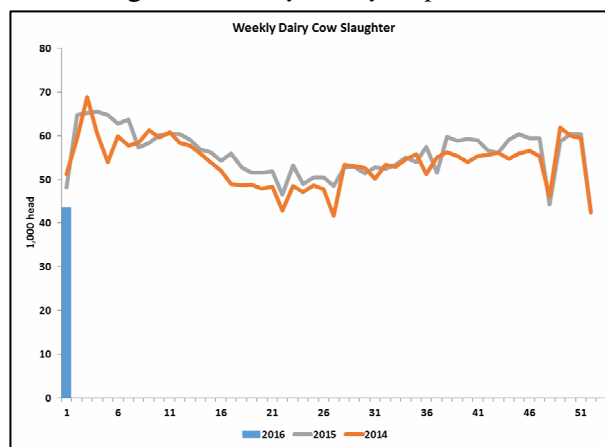


In this bearish environment, it is especially impressive to see the butter market soar. Easter and Passover are early this year, so butter makers have a shorter window to restock for post-Lent demand after the holiday baking season. But by all accounts they are doing so. Cream multiples are low enough to encourage manufacturers to churn at capacity rather than to sell excess cream. USDA's *Dairy Market News* reports that "surplus [butter] stocks are clearing to inventory." Nonetheless, butter buyers are on edge after watching the market move higher almost without pause in each of the last two years. They are also

wary of the impact of Winter Storm Goliath, which disrupted the flow of milk to processors in the Southwest. Furthermore, CME spot butter contract specifications require a grading certificate with each transaction, "[limiting] the amount of bulk butter available to the spot market," according to the *Daily Dairy Report*.

It seems likely that the butter market is offering a bit of a boost to cheese prices; churns and cheese vats are competing for cream. Cheese demand remains robust, particularly for mozzarella as football season approaches its pinnacle. However, U.S. cheese output is going strong, there is plenty of product coming in from overseas and precious little going out.

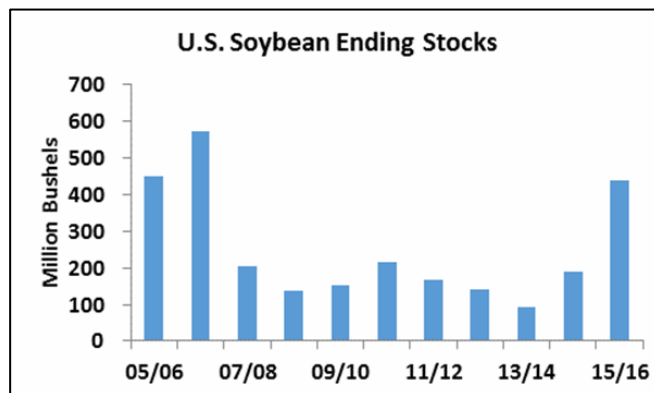
For the week ending January 2, dairy cow slaughter totaled 43,533 head. The holiday hampered slaughter volumes, which were down 9.8% from the first week of 2015.



Grain Markets

The grain markets rallied after USDA's World Agricultural Supply and Demand Estimates (WASDE) and quarterly Grain Stocks reports. Compared to last Friday, March corn is up 6.25¢ at \$3.6325 per bushel. Soybeans climbed 13.75¢ to \$8.79.

USDA trimmed its estimate of corn and soybeans yields in the 2015-16 crop year, resulting in lower production than previously reported. The agency also dropped its estimate for corn and soybean exports, and the decline in export demand for corn was large enough to push ending stocks higher than USDA's December forecast. Soybean inventories at the end of the crop year on August 31 are expected to total 440 million bushels, down from 465 million bushels on the previous report, but sharply higher than the 2014-15 crop year, when ending stocks totaled just 191 million bushels.



USDA's reports were bullish enough to propel soybean futures upward despite broad declines in other commodity markets. However, there was likely not enough fodder in the reports to feed the rally much longer. Global grain and oilseed inventories are ample, farmers are waiting to sell much of their crops, and South American exporters have a huge advantage over the U.S. Feed costs are likely to remain depressed barring a major weather event in 2016.

FEDERAL ORDER UPDATE: (By Rob Vandenheuvel) This week, the U.S. Department of Agriculture (USDA) announced a brief update on the process to consider a California Federal Milk Marketing Order (CA-FMMO). They announced that the official hearing transcripts and exhibits had been completed and posted on their website for review. While this may seem like a minor issue, it's actually a critical one, as USDA is limited to the information included in the official hearing record in deciding how to craft the CA-FMMO language. That is why between now and February 16th, those 8,000+ pages of hearing transcripts will be subject to corrections from those parties who were involved in the hearing.

Following the completion of that correction process, there is a period of time for submitting "post-hearing briefs," which are written submittals to USDA that amplifies or expands previous testimony and becomes part of the official hearing record. The initial briefs are due by March 31st, and additional "reply briefs" responding to issues raised in the initial briefs are due by May 16th. We will obviously be watching the briefs submitted by all parties very closely.

At that point, the hearing record will presumably be certified as complete, and USDA will begin the task of drafting a "recommended decision," which would lay out their initial draft of a CA-FMMO. There is no hard deadline for releasing that decision, but producers are obviously hopeful that it would be as quickly as possible (*manufacturers are likely less excited about a quick timeline, as each month of the California Discount means more discounted milk going into their plants*). That recommended decision would be subject to a comment period prior to USDA ultimately issuing a "final decision" that will be voted on by producers in California. The safe bet is that the process would come to a vote at some point in early 2017, although producers certainly wouldn't be disappointed if the process moved along even quicker than that! So stay tuned...
