



# Milk Producers Council

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**DATE: December 9, 2016**  
**TO: Directors & Members**

**PAGES: 4**  
**FROM: Rob Vandenhuevel, General Manager**

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks - \$.1000 \$1.7100  
 Barrels - \$.0375 \$1.5775

### Weekly Average, Cheddar Cheese

Blocks - \$.0640 \$1.7310  
 Barrels - \$.0535 \$1.5865

### CHICAGO AA BUTTER

Weekly Change - \$.1200 \$2.0650  
 Weekly Average - \$.0690 \$2.0925

### DRY WHEY

Dairy Market News w/e 12/09/16 \$.4025  
 National Plants w/e 12/03/16 \$.3770

### NON-FAT DRY MILK

#### Week Ending 12/2 & 12/3

Calif. Plants \$0.9187 12,031,380  
 Nat'l Plants \$0.9260 22,188,369

#### Prior Week Ending 11/25 & 11/26

Calif. Plants \$0.9108 5,646,530  
 Nat'l Plants \$0.9176 10,090,863

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## FRED DOUMA'S PRICE PROJECTIONS...

**Dec 9 Est: Quota cwt. \$17.25 Overbase cwt. \$15.56 Cls. 4a cwt. \$14.32 Cls. 4b cwt. \$16.39**  
**Last Week: Quota cwt. \$17.63 Overbase cwt. \$15.93 Cls. 4a cwt. \$14.65 Cls. 4b cwt. \$16.96**

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

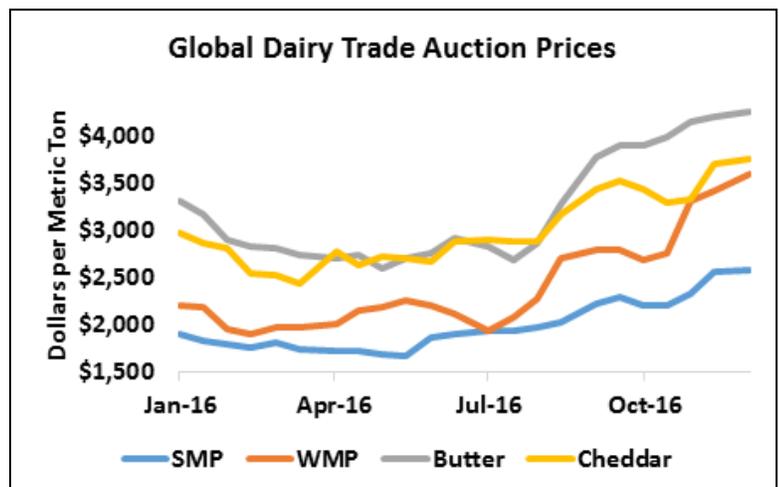
### Milk & Dairy Markets

Over the past couple months the U.S. dairy markets have marched upward with energy and conviction. This week, they retreated. At the CME spot market, Cheddar blocks lost ground every day, dropping a dime to \$1.71/lb. Barrels slipped 3.75¢ to \$1.5775. Spot butter plunged 12¢ to \$2.065. Nonfat dry milk (NDM) slid 3.5¢ to 97.25¢. Compared to last Friday, the January and February Class III contracts lost 47¢ and 27¢, respectively. Class IV futures posted double-digit losses through June.

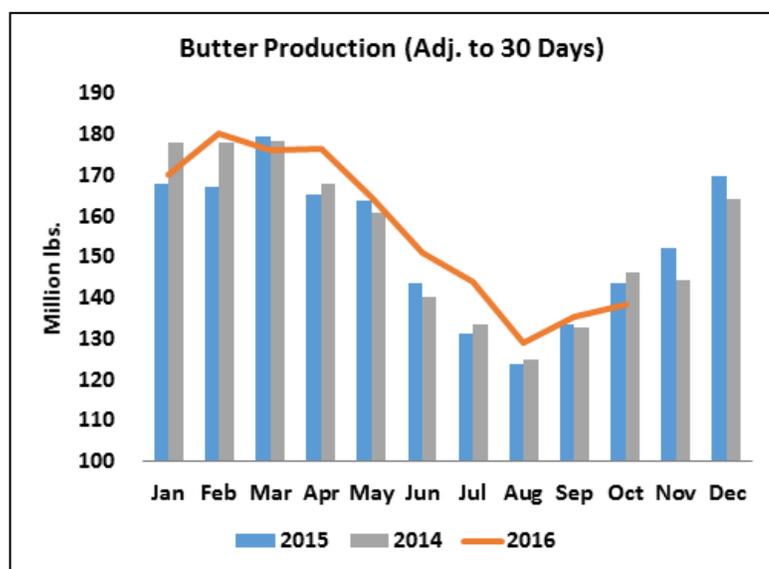
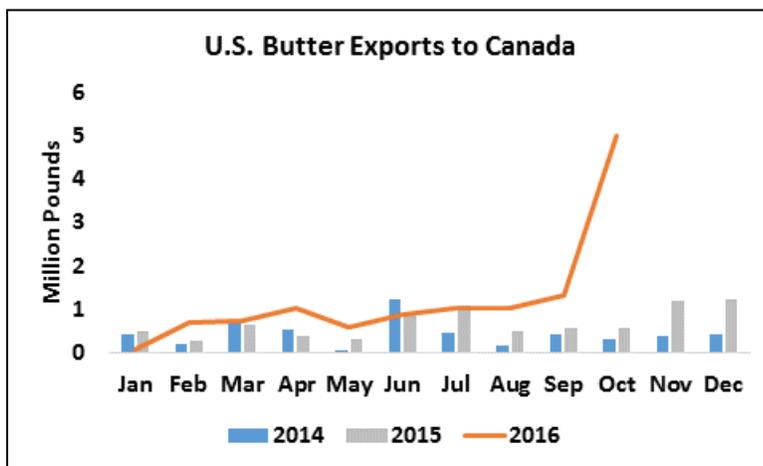
Still, the mood is buoyant. While nearby Class III futures finished deep in the red, many deferred contracts continued to climb. Both Thursday and Friday, Class III futures posted impressive gains despite the setback in spot Cheddar. Fueled by waning output and rising prices overseas, the U.S. dairy markets are on firm footing. Aside from a modest decline in Cheddar barrels, the National Dairy Product Sales Report and *Dairy Market News* indicate steady to higher domestic pricing for every dairy product.

At the Global Dairy Trade (GDT) auction, the trade-weighted GDT index rallied 3.5%, marking the eighth gain in the past nine events. All dairy products except buttermilk powder finished higher. Whole milk powder (WMP) prices rose 4.9%.

Despite the strong dollar, prospects for U.S. dairy exports continue to improve, buttressed by milk production deficits overseas. Exports already



impressed in October. According to the Dairy Export Council, exports accounted for 15.7% of U.S. milk solids production. Imports were equivalent to 3.4% of production, the lowest share since April. Canada bought a record-breaking 5 million pounds of U.S. butter, helping to push butter exports to the highest volume since August 2014. Butter imports slipped to 4.1 million pounds, down 27.8% from a year ago. China stepped up its purchases of whey products, and U.S. dry whey exports surged 55% from last year in October, putting year-to-date exports steady with 2015 volumes. Compared to last October, the U.S. exported 16% more NDM and 5% more cheese. However, year-to-date cheese exports remain 13% smaller than in the first ten months of 2015.

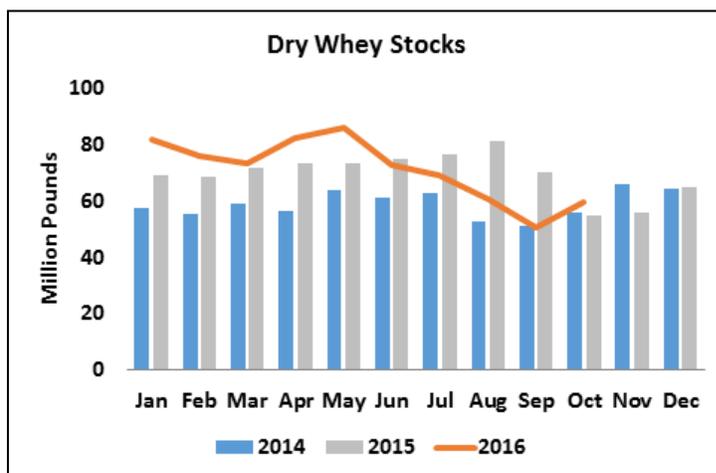


With Thanksgiving behind us and Christmas just around the corner, retailers are wrapping up their holiday orders. Still, for the moment, cream is in demand. *Dairy Market News* reports interest from our neighbors to the north and south. With cream moving across the border, U.S. butter output has lagged. It totaled 143 million pounds in October, down 3.6% from last year. Lower butter output and a shifting trade balance have created the potential for stocks to erode to near 2015 levels by year-end. This is a startling change of circumstances from August, when butter stocks were 50% higher than year-ago volumes. The *Daily Dairy Report* estimates “October domestic commercial disappearance of butter at 186 million pounds, up 14% from the prior year and the highest total for

that month since 2012.”

U.S. cheese production reached 1.03 billion pounds in October, just 0.5% more than the same month a year ago. For the year-to-date, U.S. cheese output is up 1.8%. Over the same period dry whey output is up just 0.1% from last year, thanks to an 8.5% increase in October output of dry whey for human consumption. Despite strong exports in October, stocks of dry whey reached 59.7 million pounds on October 31. Inventories are 8.8% larger than the year before, reversing the 28.2% deficit posted at the end of September.

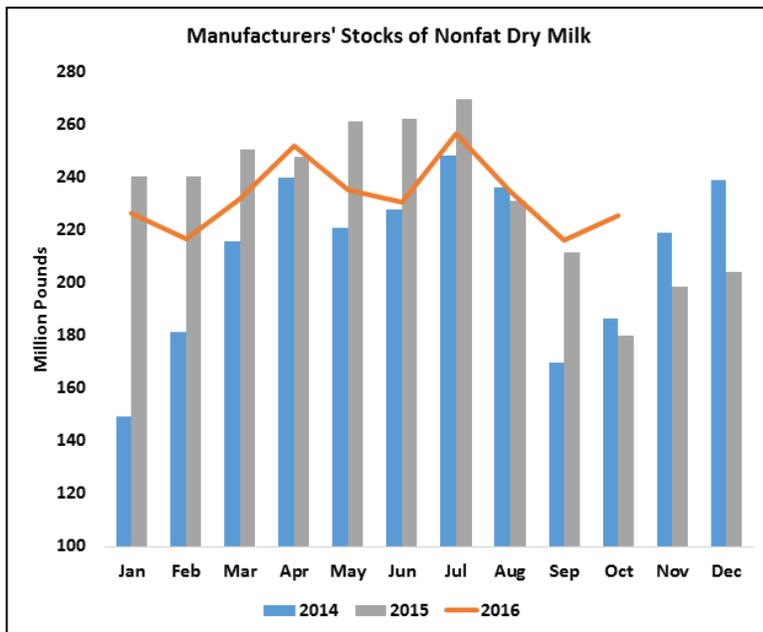
For the year-to-date, production of whey protein concentrates (WPC) is down 10.1%. WPC with between 25% and 49.9% protein has been particularly unfashionable; January through October output was down 21% from last year and 37% from 2014. WPC 34% can serve as a substitute for NDM, so the depressed milk powder market earlier this year likely encouraged manufacturers to shift to higher protein varieties of WPC and whey protein isolates (WPI). Now that the milk powder market is looking livelier, WPC 34 supplies are inadequate to meet the sudden increase in demand.



Production of NDM and skim milk powder (SMP) soared in October to 182.6 million pounds, up 15.5% from last year. With that, manufacturers' stocks of NDM climbed to 225.4 million pounds, up 25.1% from a year ago. These supplies will have to compete with government-owned stocks as the European Commission looks to lighten its holdings in the coming year.

### Grain Markets

USDA issued its latest update to the World Agricultural Supply and Demand Estimates report today. As we are now in the bleak midwinter, the agency made no changes whatsoever to the U.S. corn, soybean, and wheat balance sheets. USDA raised its outlook for crop production overseas, leaving no fodder for the bulls in today's report. Nonetheless, the grain and oilseed markets rallied, likely because investors remain hungry for commodities of all varieties. March corn settled at \$3.595 per bushel, up 12.25¢ this week. January soybeans finished at \$10.375, up 9¢.



Crops are off to a great start in Brazil, but southern Argentina is uncomfortably hot and dry. There are chances for rain some ten days from now. It will be important to see this forecast come to fruition, or the market will have to start lowering its expectations for South America's production prospects.

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**MARGIN PROTECTION PROGRAM PAPERWORK DUE BY DECEMBER 16<sup>TH</sup>:** *(By Rob Vandenheuvel)* For anyone interested in signing up for the Margin Protection Program (MPP) or if you already signed up last year and need to designate your coverage level for 2017, the deadline to submit that paperwork to your local Farm Service Agency (FSA) office is NEXT Friday, December 16<sup>th</sup>. For dairies that already signed up for the program last year, the process this year is very simple, including a 2-page document (Form CCC-782) and your \$100 administration fee. Any premiums associated with enrolling in higher levels of coverage would be due by September 2017.

MPC members needing assistance in evaluating your options or processing this paperwork should contact Kevin ([kevin@milkproducers.org](mailto:kevin@milkproducers.org)), Betsy ([betsy@milkproducers.org](mailto:betsy@milkproducers.org)) or myself ([rob@milkproducers.org](mailto:rob@milkproducers.org)), or call the MPC office at (909) 628-6018.

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**CALIFORNIA DROUGHT RELIEF A KEY ISSUE AS 2016 CONGRESSIONAL SESSION CLOSES OUT:** *(By Rob Vandenheuvel)* The U.S. House of Representatives has closed out their session and gone back home to their districts, and the U.S. Senate is poised to soon do the same very soon. However, before leaving, the House approved – and the Senate is currently debating as I draft this newsletter – a bill known as the Water Infrastructure Improvements for the Nation (WIIN) Act of 2016. Included in this several-hundred-page bill are provisions aimed at providing drought relief to California's residents. As we've written about many times, our drought conditions have more to do with ridiculous State and Federal regulations that prioritize fish over humans than our weather patterns.

The language in the bill specific to California's water availability include both short-term and long-term provisions. In the short-term, the most significant provisions in the bill are aimed at creating opportunities for

more pumping of water from the Sacramento-San Joaquin Delta to available storage for use in the Central Valley and Southern California. The bill does not repeal the Endangered Species Act, but rather makes adjustments that would allow more aggressive pumping of water from the Delta when fish populations are not near the pumps and safe from harm. If approved and signed into law, these provisions should significantly reduce the ridiculous amount of fresh water (millions of acre-feet over the past few years!) that is flushed out to the Pacific Ocean when State and Federal decision-makers prevent that water from flowing to available storage downstream.

In the longer-term, the bill provides more than \$500 million for water storage, recycling and desalination projects. These funds would be combined with previously-approved State bond funds geared towards long-term investments needed to upgrade our decades-old water systems that must cater to an ever-growing population.

Is this a perfect bill? I think most of us in the California dairy industry would have liked to see the legislation go further to provide increased water supplies throughout Central and Southern California. This sentiment was captured by the folks in Congress that have been working hard to find solutions to these issues – people like Majority Leader Kevin McCarthy (R-Bakersfield) and Congressman David Valadao (R-Hanford):

- Majority Leader McCarthy: *“Our work on California water is not complete, but this legislation represents commonsense solutions that will help get water flowing again in our state.”*
- Rep. Valadao: *“These provisions will not solve California’s water crisis, but they will provide interim relief, which my constituents desperately need. With 2017 upon us, I look forward to working with the new Republican Administration and my colleagues in both the House and the Senate to reach a complete agreement.”*

So what are the politics surrounding this legislation? First, it should be noted that beyond the California drought relief provisions that we are watching, there are many provisions in this bill that have interest from around the country. Receiving the most national attention is the \$170 million it includes to help in the Flint, Michigan drinking water crisis. So it comes as no surprise that the House of Representatives approved the bill 360-61, with 138 Democrats joining 222 Republicans in supporting the bill. Specific to California, 35 of our 53 House members voted in support of the bill. (*House Minority Leader Nancy Pelosi (D-San Francisco) and many of her Bay Area Democrat colleagues voted against the bill.*)

Over in the Senate, where California has 2 out of the 100 votes, our 2 votes are split. Senator Dianne Feinstein (D), who played a key role in negotiating this compromise package being voted on this week, obviously supports the provisions. On the other side, Senator Barbara Boxer (D) (who is retiring from the Senate as soon as this year’s business is concluded) has taken to the Senate floor to urge opposition to the provisions, claiming that they are a direct attack on the Endangered Species Act. That’s right, in her last act before retiring, Senator Boxer has reminded us all why California’s residents have the problems we do; despite specific language in the bill that states in no uncertain terms that the Endangered Species Act cannot be violated, she is nonetheless urging opposition to the bill out of a fear that this water – so desperately needed by California’s residents and farmers growing much of the State’s and nation’s food supply – might not be available for the fish she is concerned about. She simply doesn’t care about the people of the State of California – at least not as much as she cares about a 3-inch fish known as the Delta Smelt. Maybe Senator Boxer figures the dairy products/beef/almonds/pistachios/tomatoes/vegetables/oranges/grapes and many other products she and her California constituents enjoy on a daily basis just magically come from her local grocery store...

The debate continues to rage on as I prepare to send out this newsletter, and a vote is expected on the issue tonight or over the weekend. If the bill passes – which we are hopeful it will – President Obama must sign it before it becomes law. He has indicated opposition to the package of California drought provisions, but it remains to be seen whether he would veto the full bill over those provisions (and would therefore also be vetoing the assistance for Flint, Michigan residents and others around the country). So stay tuned...