

MPC WEEKLY FRIDAY REPORT

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 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 6



P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
 2328 Jonathon Court, Escalon, CA 95320 • (209) 691-8139
Office@MilkProducers.org • www.MilkProducers.org • Fax (909) 591-7328

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	-\$.0075	\$1.4100	WEEKLY CHANGE	+.0075	\$2.2575	WEEK ENDING 01/05/19	
Barrels	-.0575	\$1.3025	WEEKLY AVERAGE	+.0037	\$2.2375	NAT'L PLANTS	\$0.9165 17,412,501
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 12/29/18	
Blocks	-.0306	\$1.3900	DAIRY MARKET NEWS	W/E 01/11/19	\$4.625	NAT'L PLANTS	\$0.9017 25,918,303
Barrels	-.0379	\$1.2615	NATIONAL PLANTS	W/E 01/05/19	\$4.843		

CALIFORNIA FEDERAL MILK MARKETING ORDER PRICE PROJECTIONS

PRICE PROJECTIONS	CLASS I ACTUAL (RANGE BASED ON LOCATION)	CLASS II PROJECTED	CLASS III PROJECTED	CLASS IV PROJECTED
THIS WEEK	\$16.72 - \$17.22	\$15.77	\$14.07	\$15.43
LAST WEEK	\$16.72 - \$17.22	\$15.77	\$14.25	\$15.46

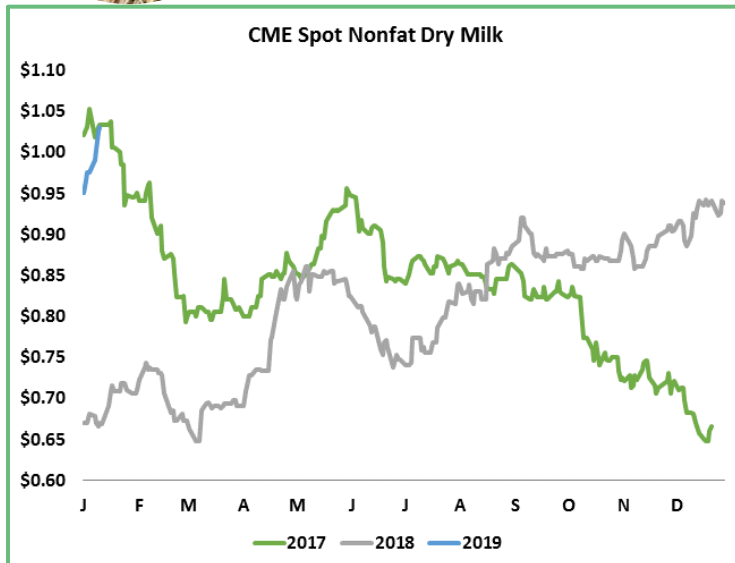


Market Commentary
 By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

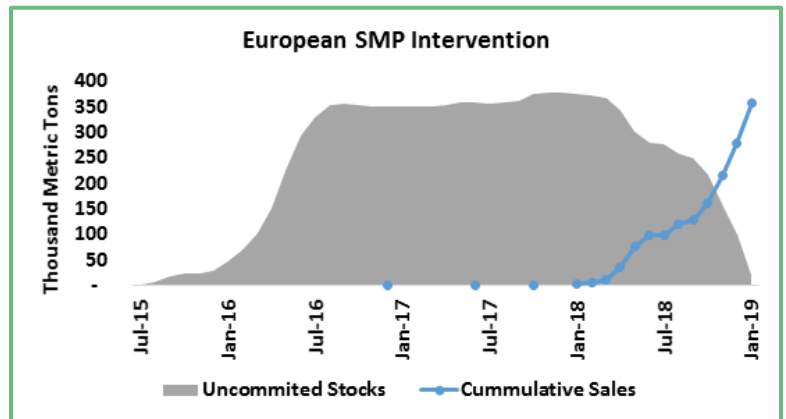
CME spot NDM topped a dollar this week and closed at \$1.03 per pound, a two-year high. Spot milk powder is up 5.5¢ from last Friday and hasn't suffered a down day in more than two weeks. The other spot markets were less impressive. Butter held steady at \$2.25. Cheddar blocks slipped 0.75¢ to \$1.41. Barrels finished 5.75¢ in the red, at \$1.245, a one-month low. Dry whey eked out a half-cent gain and closed at 49.5¢. First-quarter Class III futures took a sizeable step back this week but deferred contracts were little changed. Class IV futures moved sharply higher.

There is simply less milk available for driers in the eastern U.S., despite a seasonal surplus of raw milk for manufacturing. Year-end downtime pushed more milk to driers temporarily, but the holiday hangover has been



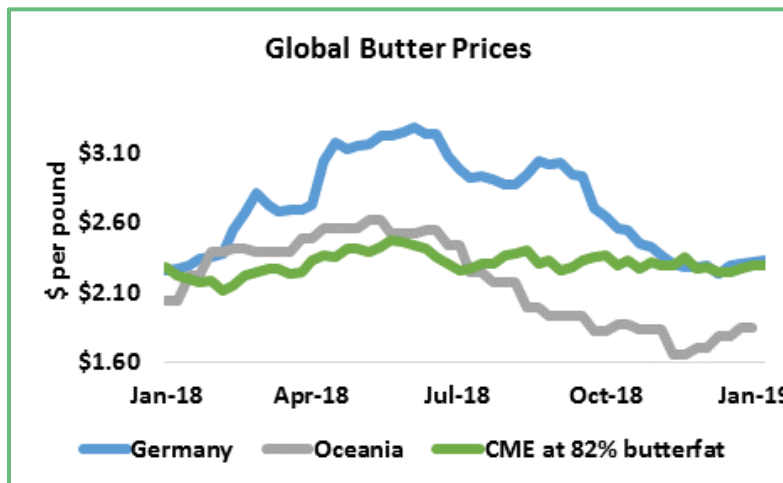
shorter and less severe than in years past. A relatively mild start to the winter has likely boosted milk production per cow in the Upper Midwest and Northeast, but not by nearly enough to offset the steady march of cows and heifers to the auction, the feedlot, and the slaughterhouse. These trends, along with a significant increase in the share of dairy cows bred to beef suggest that the industry could be short of heifers in the coming years. For now, milk is tight in some places, and driers are running – or idled – accordingly.

Meanwhile, milk powder inventories wane. The European Commission managed to sell nearly all of its remaining Intervention skim milk powder (SMP) this week. In just 13 months, the government’s uncommitted holdings of SMP have fallen from more than 800 million pounds to 48.5 million pounds. The market will still have to absorb that 48.5 million pounds in addition to the product that the Commission has sold to private buyers that remains in government storage.



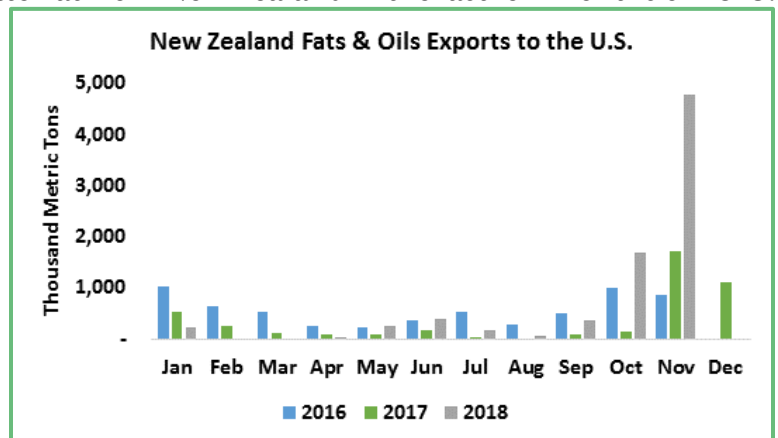
Daily Dairy Report analysts estimate that if buyers continue to move product out of storage at the current rate, both government and private SMP holdings in Intervention will be used up by June. U.S. inventories are likely ebbing as well, and Canadian stocks of SMP have fallen to more than four-year lows (although Statistics Canada did not report inventory volumes from August 2015 through January 2017).

This suggests that Canadian SMP exports, which are still selling at a below-market rate and displacing product from other dairy exporters, could slow, creating greater demand for milk powder from the U.S., Europe, Oceania, and South America. Such an increase could lend further support to global milk powder prices.



Less milk for driers means less cream for butter churns and makers of yogurt, dips, and other creamy delectables. Cream multiples and anecdotal reports suggest supplies are indeed tightening. However,

foreign butterfat has supplemented the domestic supply. U.S. butter prices held roughly steady throughout 2018. But in Oceania and Europe, prices dropped throughout the second half of last year. U.S. manufacturers imported loads of cheap butterfat from New Zealand in the last few months of 2018. In November, U.S. imports of New Zealand fats and oils derived from milk surged to a four-year high, topping November 2017 volumes by 178%. After a very slow start, U.S. imports of kiwi butterfat increased 140.5% in the first eleven months of 2018, compared to the same period the year before. With foreign fat, the U.S. can maintain butter production volumes even as milk tightens.



Cheese output is not likely to slow either. Class IV prices hold a wide – and growing –

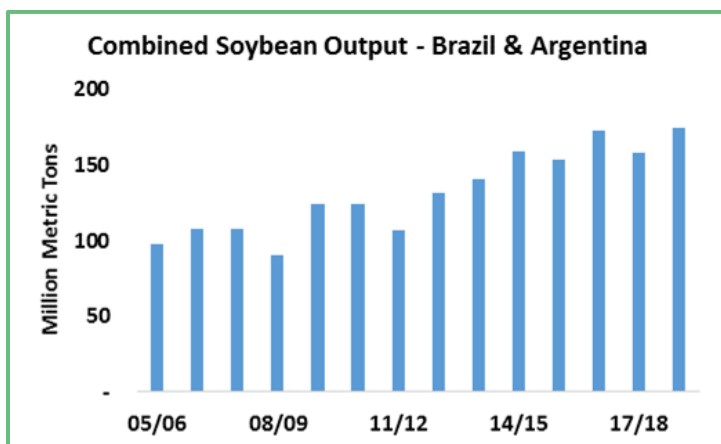
premium to Class III, suggesting that milk should move away from cheese and whey processors and into the Class IV products. That's a rational theory, but it is confounded by geography and by processors' motivations. Lower milk output along the East Coast is not likely to pull much milk away from cheese manufacturers in Wisconsin, much less Texas. Most cheese makers have their milk supplies contracted years, and in some cases decades, in advance. A processor with a shiny new cheese plant considers his budget and his sales projections when deciding how much milk to add to the vat. He doesn't give a single thought to the spread between Class III and Class IV prices. The absence of cheap spot milk may reduce overtime at plants where cheesemakers had previously managed to squeeze in an extra load here and there. But that is pulling a pebble off the scale while new capacity adds a boulder.

That is not to say that economics will have no impact on cheese production and prices. Low prices could help to improve demand. As the cost of NDM rises, cheese processors will use less milk powder to fortify their vats, reducing yields. Milk checks in the cheese states will be very small in the coming months, which will continue to signal to dairy producers that they should be slowing output. Class III prices are likely to move higher in the long run, but they'll probably lag Class IV for much longer than dairy producers in the cheese states would like. On the other hand, dairy producers in areas with high Class I or Class IV utilization, including California dairy producers in their new federal order, will benefit from high Class IV pricing. Further, the futures project that from May forward, the new structure of Class I premiums – the average of Class III and IV plus 74¢ – will make dairy producers better off than they were under the “higher of” calculation.

Grain Markets

Chinese buyers were at U.S. ports once again this week, securing cargoes of soybeans. But in the absence of government data, it's unclear just how much they bought. It is clear that it won't be enough to lower U.S. – or global – soybean stockpiles from burdensome levels.

Soybean and soybean meal futures moved mostly higher in the first half of the week, spurred by comments that U.S.-Chinese trade negotiations were going well. But when the trade talks wrapped up and negotiators stayed mum, excitement turned to uncertainty. The futures moved sharply lower on Thursday. A wetter forecast in northern Brazil, which will help soybeans fill toward their full potential, also dampened bulls' enthusiasm.



Brazil's soybean crop is in good – but not perfect – condition. The Brazilian government revised its assessment of the crop to 118.8 million metric tons, down from last months' estimate of 120.1 million. But that's still the second-largest crop on record, and combined South America output is likely to be the highest ever. Big crops and big inventories do not justify \$9 soybeans, but the

trade is shrugging off that pesky reality for now. March soybeans settled at \$9.105 per bushel, down 11¢ from last Friday.

The corn market was relatively quiet again this week, but the Thursday soybean selloff dragged corn futures lower as well. March corn settled at \$3.79, down 4¢ this week.



Application Deadline Extended for Market Facilitation Program

By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs
Geoff@MilkProducers.org

On January 8, USDA Secretary Sonny Perdue announced an extension deadline for producers to apply for their second and final round of trade mitigation payments through the Market Facilitation Program. The application deadline is extended for a period of time equal to the number of business days USDA Farm Service Agency offices were closed, once the partial government shutdown ends. Read the press release from USDA [here](#).

In last week's MPC Friday Report, we noted that January 15, 2019 was the deadline for producers to apply for the next round of trade mitigation payments. MPC contacted Congressmen Jim Costa (D-CA 16th District) to express concern about producers' ability to apply for the program, with the Congressman offering to send a letter to Secretary Perdue to request an extension of the deadline. Prior to sending his letter, Congressman Costa secured the signatures of Congressmen Josh Harder (D-CA 10th District), Jimmy Panetta (D-CA 20th District), TJ Cox (D-CA 21st District) and John Garamendi (D-CA 3rd District). Read their joint letter [here](#).



Dairy Cares: Dairy Farmers and Regulators "Mixing" Their Way Toward Cleaner Air in the San Joaquin Valley

By Kevin Abernathy, General Manager
Kevin@MilkProducers.org

Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues.

This month's e-newsletter from Dairy Cares features the successful partnership between dairy families and the San Joaquin Valley Air Pollution Control District to implement cutting edge projects, benefitting farm operations and valley air.

From Dairy Cares

Dairy farmers in the San Joaquin Valley have a long history of working with the San Joaquin Valley Air Pollution Control District (SJVAPCD) to improve air quality. Through this partnership, regulatory officials and dairy farmers have created innovative pathways to decrease the use of fossil fuels



and significantly reduce air pollution. Through the SJVAPCD's latest incentive-based program, dairy farmers will continue to make tremendous progress.

This cooperative partnership was an important part of the conversation at the inaugural [California Dairy Sustainability Summit](#), held November 27-28 in Sacramento. Through a panel discussion, SJVAPCD Executive Director Samir Sheikh and leading officials from other state and local agencies shared their visions for helping dairy farmers continue to achieve milestones in environmental stewardship. Sheikh noted that research and cooperation have been critical to implementing effective



Through the San Joaquin Valley Air Pollution Control's Electrified Dairy Feed Mixing Program, dairy farmers will continue making significant improvements to air quality.

technologies and strategies for reducing emissions on dairy farms. He noted that while there are still significant challenges ahead, much progress has been made.

“The dairy industry and the ag industry in general have been great partners over the years in developing what are considered the most innovative regulations in this area,” Sheikh said.

Todd DeYoung, Manager of Strategies and Incentives for the SJVAPCD, also spoke at the summit. He discussed efforts to work with dairy farmers in designing cost-effective incentive programs that will play an important role in achieving aggressive goals to reduce smog-form emissions, known as criteria pollutants.

“A number of clean air milestones can be largely attributed to efforts and investments

made by Valley dairy farmers,” DeYoung said. “Despite significant reductions, more reductions are still needed to meet ever-tightening state and federal air quality standards. Incentive-based programs are critical for achieving further reductions in new attainment strategies.”

Continue reading [here](#).

New Appointments Made to the Producer Review Board

By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs

California Department of Food and Agriculture Secretary Karen Ross appointed four new

members to the Producer Review Board (PRB) this week. They are Will Dyt of Corona, Kerri Vander Poel of Shafter, Art Van Beek of Tipton and Tony Nunes III of Tulare. The continuing PRB board members consist of Case Van Steyn, Craig Gordon, Scott Magnuson, Jarrid Bordessa, John Moons, Fred Douma, Arie De Jong, Joey Fernandes, Mike Gallo, Chuck Ahlem and Ted De Groot.

Under the new Quota Implementation Plan, the PRB is responsible for reviewing hardship quota transfer cases and the budget. It has also been charged with evaluating any petition for major program changes that may be submitted by producers in the future. Regulations governing how any such petition would be handled were adopted by the PRB in December and you can read a draft of those [here](#).

Opinion: It is Way Past Time to End the Government Shutdown

By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs

The only way this thing gets solved is with the President getting some steel fence funding, the Dreamers granted legal status, the folks who are already here from war-torn countries getting some protection from deportation, and the Ag Jobs package – which protects our existing agriculture work force and sets-up a legal guest ag worker program – getting adopted. Both sides get something, America wins and we move on.

