

MPC WEEKLY FRIDAY REPORT

DATE: FEBRUARY 1, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	+ \$.1100	\$1.5000	WEEKLY CHANGE	+ \$.0450	\$2.2900	WEEK ENDING 01/26/19		
Barrels	+ \$.1200	\$1.3000	WEEKLY AVERAGE	+ \$.0535	\$2.2300	NAT'L PLANTS	\$0.9713	18,638,748
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 01/19/19		
Blocks	+ \$.0785	\$1.4610	DAIRY MARKET NEWS	W/E 02/01/19	\$4.725	NAT'L PLANTS	\$0.9663	19,963,195
Barrels	+ \$.1061	\$1.2755	NATIONAL PLANTS	W/E 01/26/19	\$4.798			

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
FEB 1 ESTIMATE	\$16.90 - \$17.40	\$16.14	\$14.03	\$15.87
JAN '19 FINAL	\$16.72 - \$17.22	\$15.74	\$13.96	\$15.48



Milk, Dairy and Grain Market Commentary

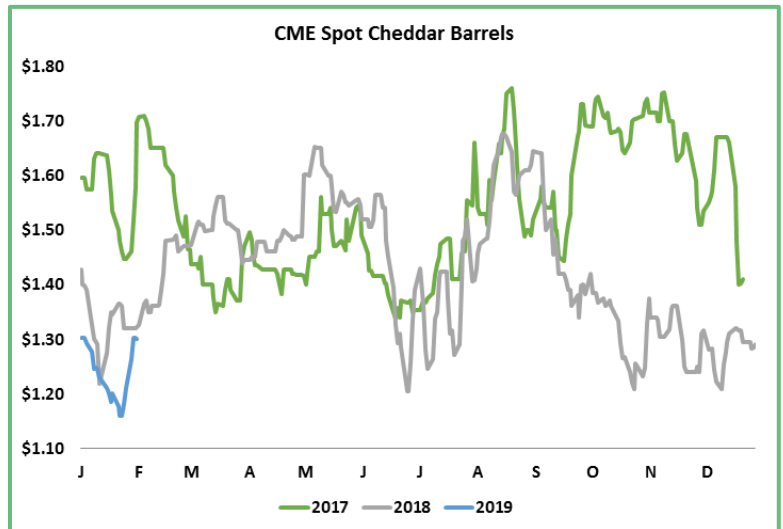
By Sarina Sharp, Daily Dairy Report
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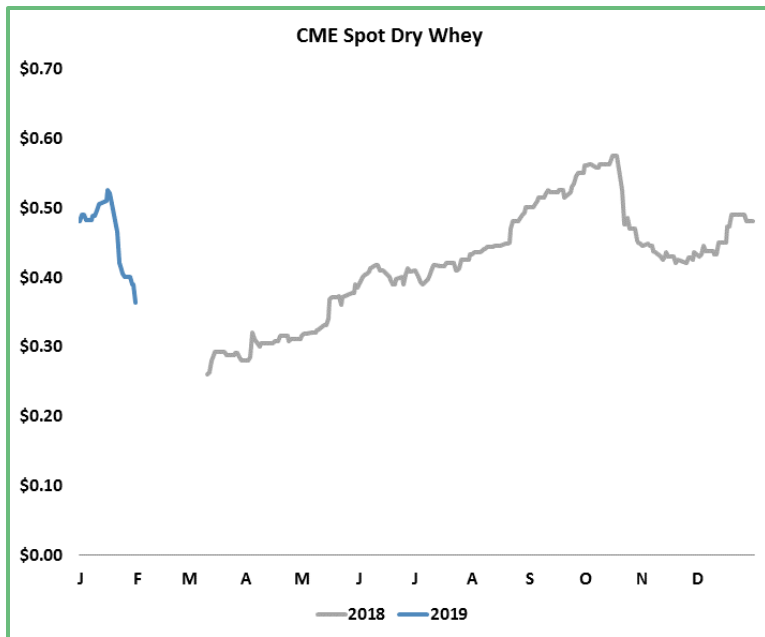
Milk & Dairy Markets

Bone-chilling cold in the Midwest and Northeast is expected to give way to unseasonably mild temperatures next week. The cheese markets undertook a similar journey from frigid to lukewarm pricing. CME spot Cheddar barrels jumped 12¢ to \$1.30 per pound, erasing three painful weeks of decline. Blocks climbed 11¢ to \$1.50, a three-month high.

The cold has likely reduced milk yields and disrupted transportation. However, there was still plenty of milk available for cheese vats. Cheesemakers across the country tell USDA's

Dairy Market News that production remains at or near capacity. Indeed, in the Northeast, "cheese manufacturers continue to receive heavy milk loads" despite the winter storm. Fortunately, the



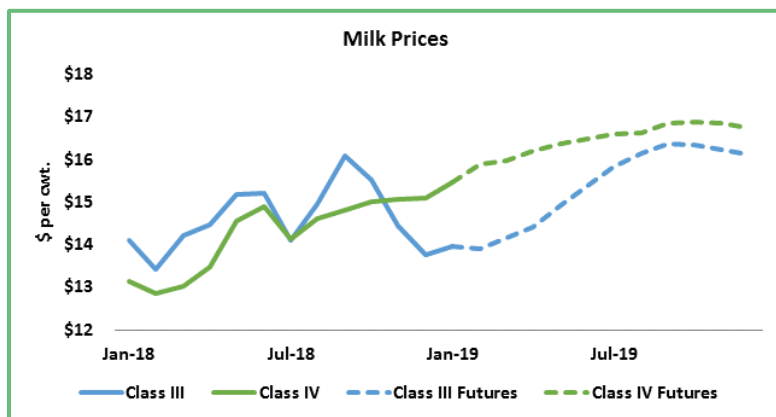


combination of Super Bowl pizza and nachos and comparatively inexpensive U.S. cheese for export has likely boosted demand.

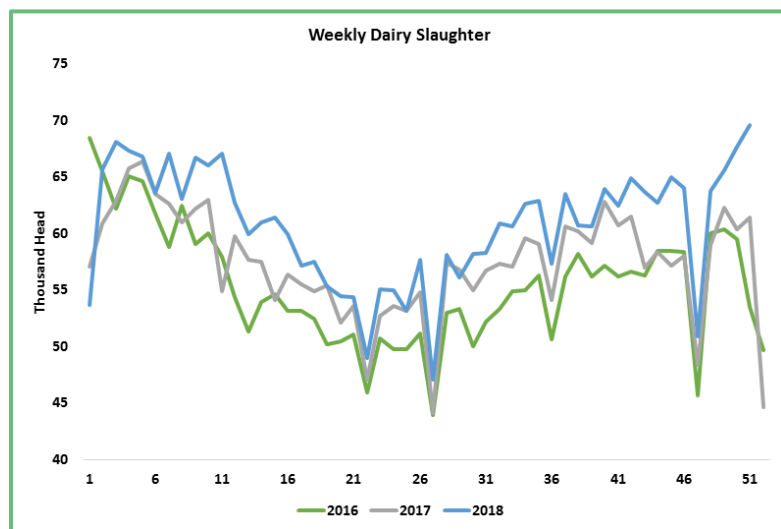
The whey market continued to deteriorate. CME spot dry whey dropped 4.25¢ to 36.25¢. This week’s more than 10% decline comes on the heels of a nearly 20% setback last week. The selloff has spooked whey buyers, who are trying to determine the reason before they step in to buy more. In the West, whey inventories are reportedly tight. However, some buyers in the Midwest report that “due to limited warehouse space, they have balked at offers they would typically consider,” according to *Dairy Market News*. A shortage of storage suggests there is plenty of product in inventory. The whey market must also

confront weaker permeate markets and steep tariffs in China, the largest foreign market for U.S. whey products.

The rebound in the cheese markets pushed Class III futures higher, although gains were muted by the setback in whey pricing. Most contracts finished a nickel or dime better than last Friday. USDA announced the January Class III price at \$13.96 per cwt. That terribly inadequate price is 18¢ higher than December and only 15¢ below January 2018. At \$15.48, Class IV prices were up 39¢ from December and \$2.35 higher than January 2018. Dairy producers in markets with a high Class IV utilization are looking at much better pricing than they did a year ago, and they hold a considerable advantage to their competitors in the cheese states.



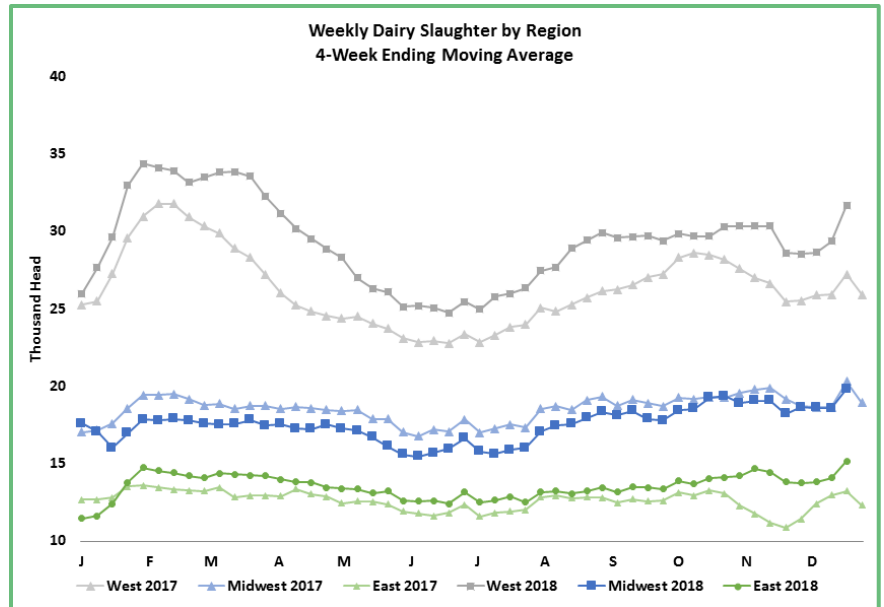
This week Class IV pricing was little changed. CME spot nonfat dry milk (NDM) seems comfortable around the dollar mark. Spot NDM slipped a penny this week to \$1.0025. The butter market offered more excitement. Spot butter climbed 4.5¢ to \$2.29, a more than two-month high in a market that remains stuck between \$2.20 and \$2.30. Cream is widely available and churns are active.



Going forward, milk supplies are likely to tighten. Low prices are taking a toll on the industry. In the week ending December 22, dairy producers sent 69,568 cows to slaughter, the highest total for any week since January 2013. The total may have been especially high as dairy producers rushed to

get their cows in ahead of the holidays, but it is massive nonetheless. Slaughter was particularly high in the West, which aligns with a pronounced increase in herd dispersals in the Pacific Northwest in December.

The dairy cow herd surely continued to contract in December, and there is no reason to suspect that the trend has changed. It probably won't until milk prices move substantially higher. A smaller U.S. dairy herd, waning milk output in Europe, and falling inventories of milk powder around the globe are setting the stage for much better prices. But heavy slaughter and a steady stream of sellouts make it clear that dairy producers cannot afford to wait for them to arrive.



Grain Markets

Once again, China has promised to purchase large volumes of U.S. soybeans. Although the Chinese commitments now add up to a substantial tranche, the total will hardly make a dent in the gargantuan U.S. soybean stockpile. U.S. exports are running well behind USDA's projections. Meanwhile, China is simply front-loading the purchases it would have to make eventually, in hopes that it can avoid more difficult trade concessions. Indeed, it is possible that Chinese soybean demand will fall substantially, delaying soybean purchases beyond those meant to foster goodwill. China is struggling to combat the virulent African swine fever. It has already slaughtered one million hogs, and the disease could cause substantial death loss as it spreads throughout the world's largest pig herd. Fewer pigs would consume less soybean meal, and Chinese soybean imports would drop accordingly. Soybean futures rallied after the trade announcement, but it was not enough to overcome early-week weakness. March soybeans settled at \$9.1775 per bushel, down 7.5¢ from last Friday. March corn futures slipped 2¢ to \$3.7825.



MPC Submits Comments to FDA Regarding Labeling of Plant-Based Products

By Kevin Abernathy, General Manager
Kevin@MilkProducers.org

MPC submitted comments this week to the Food and Drug Administration over the use of “milk” in the labeling of Plant-Based Products. Here's what we said:

RE: Docket No. FDA-2018-N-3522 for “Use of Names of Dairy Foods in the Labeling of Plant-Based Products”

To Whom It May Concern,

Milk Producers Council, a dairy farmer trade association founded in 1949 to represent family dairy farmers across California, respectfully submits the following comments in support of the U.S. Food and Drug Administration's (FDA) consideration to restrict the use of dairy terms on plant-based drinks. We strongly encourage the FDA to enforce its clear, existing regulation for products labeled “milk,” outlined

in the agency's existing standard of identity definition in Title 21, Chapter 1, Subchapter B, Part 131, Subpart B, Section 131.110 Milk, which states, "Milk is the lacteal secretion, practically free from colostrum, obtained by the complete milking of one or more healthy cows..."

Milk is often described as nature's perfect food, offering nine essential nutrients important to human growth and development. It's no surprise or coincidence that imposter plant-based beverages have lined-up to cash-in on milk's good name, enjoying the benefit of consumer confusion to their advantage. An IPSOS survey commissioned by Dairy Management Inc. in 2018 found that 73 percent of consumers believed that almond-based drinks had as much or more protein per serving than milk, even though milk has eight times as much protein; 68 percent of consumers who solely buy plant-based beverages strongly or somewhat agreed that those drinks have the same nutritional content as milk.

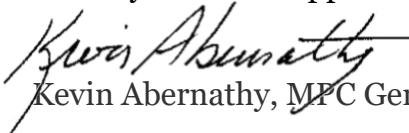
Doing better for consumers – through accurate, honest labeling – must be a priority to ensure they are getting what they think they are getting when it comes to nutrition for their families. Words have definitions, shaped by multiple generations' worth of experience, understanding and value. It is widely perceived – and most importantly backed by science – that real milk offers a unique, unmatched nutritional package compared to other drinks. Faux-milk plant-based drinks do not stand up to the complete nutritional package found in milk but do enjoy the positive nutritional halo by using the same word, which was built over thousands of years throughout human history by the real thing.

From the perspective of our dairy families, it's pretty simple. Ask them what they do everyday and they will say they milk cows. Other farmers don't get up in the morning to milk almonds, soybeans, oats, peas or potatoes because those agricultural commodities don't produce milk. If they did, then there are some interesting, little-known plant-animal husbandry practices occurring that warrant further study and regulatory oversight. The absurdity that plant-based imitation milk resembles real milk produced on the farm is cleverly parodied in the viral video, "Nut Milking EXPOSED" by KNOW IDEAS MEDIA: <https://www.youtube.com/watch?v=JJCTIPWPNTw&vl=en>

Even though the FDA regulation is clear, purveyors of plant-based beverages continue to openly flaunt the regulations, continuing to market their products as "milk." Doing so is as dishonest as it would be to call margarine "butter" or to call tofu "cheese."

Again, Milk Producers Council strongly encourages FDA to enforce its existing standard of identity definition for milk, restricting the use of names of dairy foods in the labeling of plant-based products, and reserving the label for products that meet FDA's current standard.

Thank you for the opportunity to submit these comments.


Kevin Abernathy, MPC General Manager



End of Government Shutdown Allows for Resumption of Dairy Revenue Protection Crop Insurance Program

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

The Dairy Revenue Protection (Dairy RP) program is a crop insurance style program that is backed by the Risk Management Agency of the USDA. This program allows participants to purchase policies that guarantee a certain level of milk income. This program officially

launched on October 9 of last year and was available for purchase continuously until the government shut down on December 20. With the reopening of the government this week, Dairy RP policies are again available for purchase.

Dairy RP is very similar to a put option. Purchasing a policy will essentially set a floor price for your milk. The table below put together by my colleague Ron Mortensen from Dairy Gross Margin LLC is a comparison chart based on today's closing (2/1/19) class III prices. A couple of things to note: Futures and options must be purchased during the business day. Dairy RP policies are sold after the market closes for the day and based on those closing prices. Secondly, the cost to purchase a put option must be paid up front at the time of purchase. Dairy RP policies do not have to be paid for until the Quarter you purchased coverage for is over. Thirdly, Dairy RP policies are structured to cover an entire Quarter of milk production. Put options can be purchased for individual months. For the purposes of the table below we are comparing the Quarterly Dairy RP price to the put option price for the month that is in the middle of each Quarter.

DAIRY RP COMPARISON TO CME PUT OPTIONS: FEBRUARY 1, 2019

April May June	Price	Floor Price	Premium Cost	Net Price	Net Floor Price
Forward/Futures 3-month avg	\$15.11			\$15.11	
May CME Put Option closest to futures price		\$15.00	\$0.38		\$14.62
May CME Put Option closest to 95% DRP Coverage		\$14.25	\$0.14		\$14.11
95% DRP Coverage-CA		\$14.35	\$0.10		\$14.25

July Aug Sept	Price	Floor Price	Premium Cost	Net Price	Net Floor Price
Forward/Futures 3-month avg	\$16.23			\$16.23	
Aug CME Put Option closest to futures price		\$16.25	\$0.63		\$15.62
Aug CME Put Option closest to 95% DRP Coverage		\$15.50	\$0.31		\$15.19
95% DRP Coverage-CA		\$15.42	\$0.19		\$15.23

Oct Nov Dec	Price	Floor Price	Premium Cost	Net Price	Net Floor Price
Forward/Futures 3-month avg	\$16.36			\$16.36	
Nov CME Put Option closest to futures price		\$16.25	\$0.65		\$15.60
Nov CME Put Option closest to 95% DRP Coverage		\$15.50	\$0.35		\$15.15
95% DRP Coverage-CA		\$15.54	\$0.27		\$15.27

Two other things to note: The highest **price** you can cover with Dairy RP is 95% of the futures price. With put options it is possible to cover 100% of that price. The table reflects that cost. Secondly, Dairy RP premiums are different in each state. California premiums are a bit higher than premiums in other regions of the country. The table is based on California premiums. Finally, there are no production limits or income restrictions on participation in Dairy RP so larger dairies can participate without discrimination. If you would like to know more about the program, I am licensed to sell Dairy RP and you can contact me or any other licensed crop insurance agent. I can be reached at Geoff@dairygrossmargin.com or 909-730-1240.

CDQAP January 2019 Update: Checklist for Heavy Storms and Floods, Winter Resources, Western Dairy Management Conference

Courtesy CDQAP

The California Dairy Quality Assurance Program's (CDQAP) January 2019 newsletter features a checklist for preparing for heavy storms and flooding risk as well as resources for managing your dairy in the winter. Details about the upcoming Western Dairy Management Conference to be held in Reno February 26-28 are also featured. Read the entire newsletter [here](#).



CMAB Hosting District Meetings in February, March

By Kevin Abernathy, General Manager

The California Milk Advisory Board (CMAB) is hosting District Meetings beginning this month. These meetings will focus on current CMAB activities and programs, offering dairy farmers an excellent opportunity to see how their investment in building demand for California milk is spent. If you have any questions, you can contact Kris Costa, Director of Producer Relations at CMAB, at 209-678-3466 or KCosta@CMAB.net. See the meeting schedule on the next page.



District	Date	Venue/Address	Guest Speaker
9	Tuesday, February 5	Valley Oaks Golf Course – Iron Wood Grill 1800 South Plaza Street Visalia, CA 93277 Social - 6:00 p.m./Dinner - 6:30 p.m.	Janet Arellano, CMAB Manager of International Business Development (CA dairy opportunities in Mexico & Asia)
7/8	Wednesday, February 6	Cattlemen's Steakhouse 1880 Art Gonzales Pkwy Selma, CA 93662 Social - 6:00 p.m./Dinner - 6:30 p.m.	Dr. Mike Payne, Director of CDQAP and School of Veterinary Medicine at University of California, Davis (dairy farm security)
10	Thursday, February 7	Benji's 4001 Rosedale Hwy Bakersfield, CA 93308 Social - 6:00 p.m./Dinner - 6:30 p.m.	Dr. Mike Payne, Director of CDQAP and School of Veterinary Medicine at University of California, Davis (dairy farm security)
1	Tuesday, February 19	Ridgetop Café 623 Fernbridge Dr, Fortuna, CA 95540 N Social - 6:00 p.m./Dinner - 6:30 p.m.	Dr. Mike Payne, Director of CDQAP and School of Veterinary Medicine at University of California, Davis (dairy farm security)
3	Thursday, February 21	Washoe House 2801 Stony Point Road Petaluma, CA 94952 Social - 6:00 p.m./Dinner - 6:30 p.m.	Dr. Mike Payne, Director of CDQAP and School of Veterinary Medicine at University of California, Davis (dairy farm security)
4	Thursday, February 28	Rolling Hills Casino 2655 Everett Freeman Way Corning, CA 96021 Social - 6:00 p.m./Dinner - 6:30 p.m.	Dr. Mike Payne, Director of CDQAP and School of Veterinary Medicine at University of California, Davis (dairy farm security)
5	Tuesday, March 12	Papavalos 501 N. Lincoln Center Stockton, CA 95207 Social - 6:00 p.m./Dinner - 6:30 p.m.	Glenn Millar, CMAB Director of International Business Development (CA dairy and the international marketplace)
6	Thursday, March 14	Vista Ranch & Cellars 7326 East Highway 140 Merced, CA 95340 Social - 6:00 p.m./Dinner - 6:30 p.m.	Bob Carroll, CMAB VP of Business Development (CA dairy and the domestic and international marketplaces)
11	Tuesday, March 19	Mission Inn – Ho-O-Kan Room 3649 Mission Inn Avenue Riverside, CA 92501 Social - 5:30 p.m./Dinner - 6:00 p.m.	Mike Gallagher, CMAB Foodservice Consultant (CA dairy opportunities in the foodservice business)

To RSVP, please email Kris Costa, kcosta@cmab.net or call/text 209.678.3466.

