



Milk Producers Council

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DATE: February 19, 2016
 TO: Directors & Members

PAGES: 5
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0025 \$1.4875
 Barrels N/C \$1.4800

Weekly Average, Cheddar Cheese

Blocks +\$.0074 \$1.4894
 Barrels - \$.0004 \$1.4706

CHICAGO AA BUTTER

Weekly Change - \$.0550 \$2.0550
 Weekly Average - \$.0804 \$2.0506

DRY WHEY

Dairy Market News w/e 02/19/16 \$2.2500
 National Plants w/e 02/13/16 \$2.2375

NON-FAT DRY MILK

Week Ending 2/12 & 2/13

Calif. Plants \$0.7767 7,758,298
 Nat'l Plants \$0.7631 15,856,830

Prior Week Ending 2/5 & 2/6

Calif. Plants \$0.7797 7,954,560
 Nat'l Plants \$0.7735 17,448,361

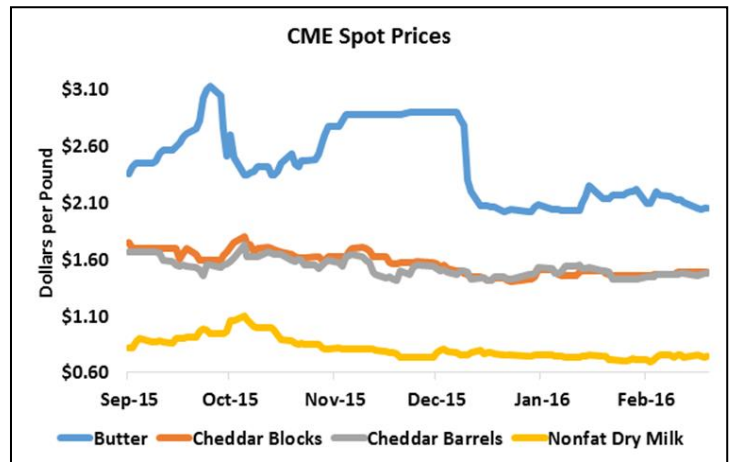
FRED DOUMA'S PRICE PROJECTIONS...

Feb 19 Est: Quota cwt. \$14.81 Overbase cwt. \$13.12 Cls. 4a cwt. \$13.32 Cls. 4b cwt. \$13.10
 Last Week: Quota cwt. \$14.85 Overbase cwt. \$13.16 Cls. 4a cwt. \$13.42 Cls. 4b cwt. \$13.11

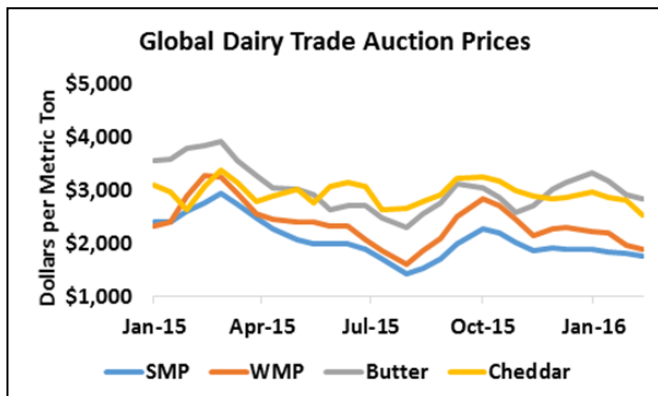
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

The CME spot butter market dropped hard on Tuesday after a long holiday weekend. It slipped further on Wednesday to a five-week low at \$2.0425/lb. After a modest rebound spot butter closed at \$2.055, down 5.5¢ from last Friday. Cream is plentiful even as Easter and ice cream season approach, and the butter and cream markets are in retreat. But after two years of high butter prices, buyers are stepping in periodically as prices fall. This has resulted in a stair-step decline in the butter market rather than a rout.

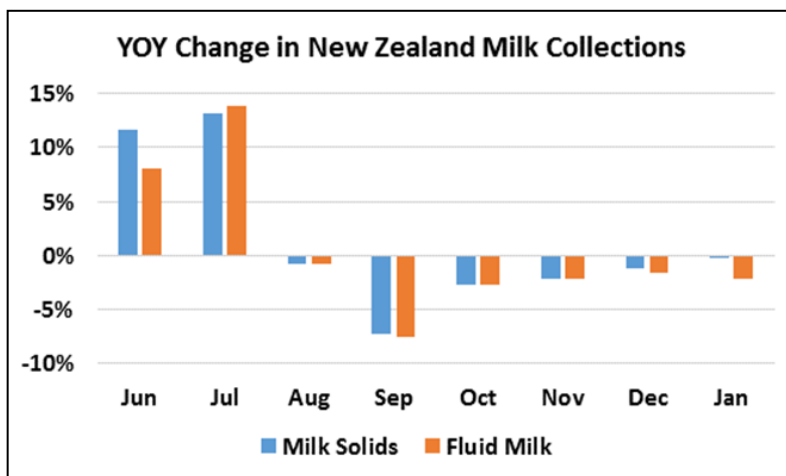


The other dairy product markets were relatively quiet this week. Spot Cheddar blocks slipped 0.25¢ to \$1.4875 and barrels held steady at \$1.48. Grade A nonfat dry milk (NDM) climbed 0.25¢ to 74¢ despite another decline in milk powder prices at the Global Dairy Trade (GDT) auction. Most Class III and IV futures contracts lost between 10¢ and 20¢ this week.

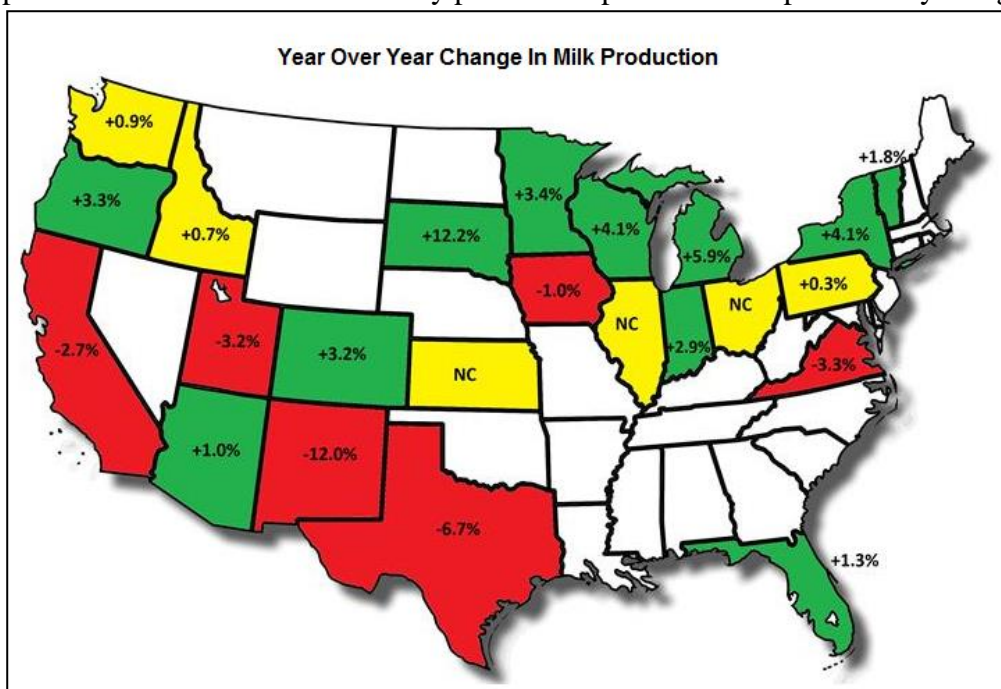


The GDT index moved lower for the fourth consecutive auction. The trade-weighted average fell 2.8% on Tuesday. All products except anhydrous milkfat moved lower. Butter fell 1.2% from the previous auction and Cheddar dropped 5.6%. Skim milk powder (SMP) traded 1.4% lower and whole milk powder (WMP) lost 3.7%. The continued decline in WMP prices suggests that Fonterra may have to lower its pay price estimate once again.

New Zealand's dairy producers cannot afford smaller milk checks. Most have been operating at a loss for back-to-back seasons, and they are heavily leveraged. The Reserve Bank of New Zealand estimated industry-wide debt at NZ\$37.9 billion when the season began in June. That is equivalent to roughly NZ\$7,300 per milk cow. New Zealand's dairy producers are among the world's most beleaguered. In the past two years they have culled heavily and drastically reduced the use of supplemental feeding. January milk collections fell 2.1% from a year ago, putting season-to-date production down 2.7%.



But on a milk solids basis, January milk production in New Zealand was just 0.25% below that of January 2015. Milk component levels dropped in January of last year as dairy producers scaled back their use of supplemental feed and pastures withered. Although fluid milk production in January 2015 was slightly greater than the year before, milk solids production fell 1.3%. This year, the situation is reversed. The slight decline in milk solids production will translate into dairy product output almost on par with a year ago.



Meanwhile, U.S. milk production is still growing at a modest pace. In January, milk output totaled 17.73 million pounds, up 0.3% from a year ago. Milk continues to gush in the Midwest. Production was up 12.2% in South Dakota, 5.9% in Michigan, and 4.1% in Wisconsin. Output was also notably strong in New York, Minnesota, Oregon, and Colorado. California milk production totaled 3.435 million pounds, down 2.7% from a year ago and down 5.2% from January 2014.

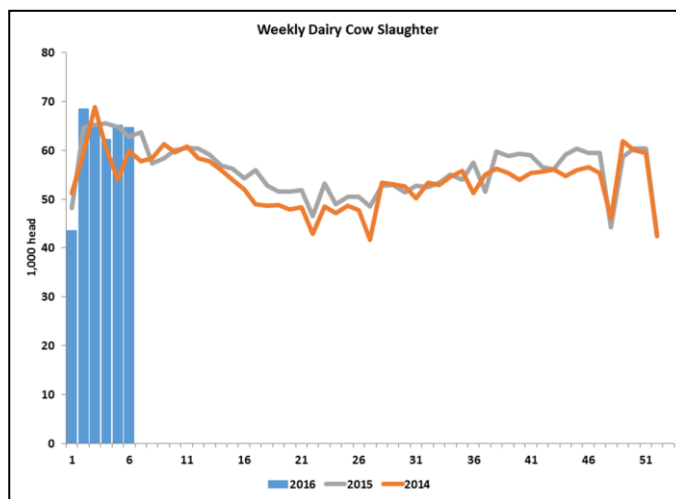
Production suffered in Texas and New Mexico in the wake of Winter Storm Goliath. January output dropped 6.7% from the prior year in Texas and plunged 12% in New Mexico. USDA estimates the Texas milk cow herd at 455,000 head, down 15,000 head from January 2015. Similarly, at 310,000 head, the New Mexico dairy herd is 13,000 head smaller than it was a year ago. The storm exacerbated herd contraction that had begun months before in the Lone Star State, but Goliath is almost entirely to blame for lower cow numbers in New Mexico. The national dairy herd contracted to 9.31 million head, down 10,000 head from December to an 11-month low. Still, the U.S. milk cow herd is 2,000 head larger than it was in January 2015.

European dairy producers continue to pump out milk and clamor for aid. According to *Dairy Market News*, most of the surplus is moving into butter, processed cheese, and SMP production. Last week processors sent 16.5 million pounds of SMP into the government's intervention storage scheme, the largest weekly volume in years. At the current pace, the intervention program will be maxed out in around two and a half months. For now, the government has put a floor under the European SMP price at the equivalent of 83¢ NDM, but this may prove ephemeral.

For the week ending February 6, dairy cow slaughter totaled 64,632 head, up 2.9% from the same week a year ago. After six weeks, U.S. dairy cow slaughter is 0.5% behind the 2015 pace.

Grain Markets

The grain markets moved tentatively higher this week. March corn settled at \$3.655 per bushel, up 7.75¢ from last Friday. March soybeans climbed 5.5¢ to \$8.7825. A few farmers are selling into the rally, but most are holding out for a corn price north of \$4.00 or soybeans around \$9.00. The U.S. crop markets are largely in a holding pattern until spring arrives and the trade can begin to worry about the weather. The National Oceanic and Atmospheric Administration’s outlook for the next three months calls for above-normal temperatures in the northern U.S. Farmers were able to complete a lot of preparatory fieldwork in the fall. If they can get in the field early this spring, the potential for a weather rally will be limited until summer.



CENTRAL VALLEY WORKSHOPS NEXT WEEK ON TRACTOR REPLACEMENT GRANT OPPORTUNITIES: (By Kevin Abernathy) Next week, a series of workshops will be held in the Central Valley to assist dairies and other farmers in applying for grant funding for agricultural tractor replacements. While replacing older tractors is not mandated by regulation at this time, the San Joaquin Valley Air Pollution Control District (SJVAPCD) and USDA’s Natural Resources Conservation Service (NRCS) have incentive grant dollars available for dairies and other farmers who wish to voluntarily upgrade their older tractors to newer, cleaner burning models.

Monday, February 22, 2016

- **8:30 am:** Merced County Farm Bureau (646 California 59, Merced)
- **11:00 am:** Stanislaus County Ag Center (3800 Cornucopia Way, Harvest Hall Rooms D & E, Modesto)
- **2:00 pm:** San Joaquin Ag Commissioner’s Office (2101 E. Earheart Ave., Stockton)

Tuesday, February 23, 2016

- **9:30 am:** Kern County Cooperation Extension Conference Room (1031 S. Mt Vernon Ave, Bakersfield)
- **1:30 pm:** Tulare County Ag Commissioner's Office Auditorium (4437 S. Laspina, Tulare)

Wednesday, February 24, 2016

- **8:30 am:** City of Hanford Training Room (319 N Douty Street, Hanford, CA)
- **11:00 am:** San Joaquin Valley Air Pollution Control District (1990 East Gettysburg Ave, Fresno)

I would recommend that anyone interested in taking advantage of this grand funding opportunity make plans to attend one of these sessions to get more information. MPC members can also contact me at kevin@milkproducers.org with any additional questions you might have.

AN INTERESTING BALLOT PROPOSITION BREWING; USE THE HIGH SPEED RAILS DOLLARS TO IMPLEMENT WATER PROJECTS INSTEAD: (By Rob Vandenheuvel) Late last year, a prospective ballot initiative was submitted for consideration on the November 2016 ballot that would redirect \$8 billion of public funding for the “bullet train” towards new water projects instead. While the submission received little media attention at the time, this past week it was reported in the *Los Angeles Times* that the proponents of this initiative have approximately \$2 million committed to their cause – enough to secure the needed signatures to qualify for the ballot! In case you missed it, below is that article for your reading pleasure...

Proposal would shift bullet train funding for use on new water projects

By Ralph Vartabedian, LA Times

February 16, 2016

<http://www.latimes.com/local/lanow/la-me-ln-bullet-train-ballot-20160215-story.html>

The state's powerful agriculture industry and its political allies are gathering signatures for a November ballot initiative that would grab bond money earmarked for California's bullet train and use it instead for new water projects. Supporters believe the measure taps two politically powerful sentiments: growing public concern about the state's future water supply amid a historic drought and increasing opposition to the high speed rail project, which is behind schedule and over budget.

Unlike past grass-roots efforts to kill the high speed rail project, the new proposed initiative has \$2 million set aside for a signature-gathering campaign, backers say. And it has moved with such speed that it is barely on potential opponents' radar screens.

Fierce opposition certainly will come from rail proponents, the construction industry and environmental groups — which have deep commitments to preserving the \$68-billion transportation project as well as existing water policy.

The initiative calls for the reallocation of about \$8 billion in remaining rail system bonds approved by voters in 2008 and \$2.7 billion previously approved for water storage under Proposition 1 in 2014. Half that money would go to specific projects, including raising Shasta Dam by 18.5 vertical feet, expanding the San Luis Reservoir, building a new reservoir near the Sacramento River and a new storage system on the San Joaquin River. The other half of the funding is not designated, but could be tapped for such projects as expanding the capture of storm runoff in urban areas.

In addition, the measure would make substantial changes to state water law via a constitutional amendment, setting domestic water use and irrigation as the first- and second- highest priorities — ahead of environmental conservation. "Water is more important than rail," said George Runner, a member of the state Board of Equalization who authored the proposition along with Sen. Bob Huff (R-San Dimas).

But the state, said rail authority spokeswoman Lisa Marie Alley, would not only lose jobs, but may have to pay back billions of dollars in federal grants if it loses the bond money.

The effort is being run by the California Water Alliance, a Central Valley nonprofit backed by farmers. The group has hired Michael Arno — who runs one of the nation's best-known petitioning companies — to gather the 585,000 valid voter signatures needed. Arno said he has 500 to 700 people in the field on any given day collecting signatures, along with volunteers from Central Valley groups opposed to the rail project.

Aubrey Bettencourt, executive director of the group, said it has commitments to meet a \$2-million budget for the signature campaign. The secretary of state's campaign fundraising website shows much less, about \$250,000 in receipts since Jan. 1.

"Two million dollars is real," Runner said. "That is what we need to be able to get it on the ballot."

If the measure does qualify, California's \$53-billion-a-year agriculture industry will probably haul out checkbooks to support it.

But the nation's biggest engineering and construction firms would probably do the same thing to defend the billions of dollars expected to flow their way for the bullet train, which began construction in the Central Valley last year and is more than two years behind schedule. The building industry underwrote the campaign to persuade the public to pass the bonds.

In addition, Gov. Jerry Brown has a campaign fund of more than \$20 million, which he could use to defend what has become his signature project. Brown's office declined to comment on the proposition.

Huff said he doubted Brown would fully commit those funds, noting that the governor was deeply interested in two other prospective ballot propositions and may recognize the problems he faces keeping high speed rail on track. "Even he has to recognizing the waning support," Huff said. "At some point, when you have a losing hand, you have to fold."

A recent poll by Stanford University's Hoover Institution found that 53% of voters would approve of shifting the rail bonds to water projects.

The \$2 million collected so far to fund the proposition has come from unidentified agriculture interests in the Central Valley, where thousands of acres of land have been left fallow as water allocations have been slashed in recent years. The industry is also deeply resentful of the rail project's impact on farms and processing plants. Along every major highway in the Central Valley, signs plead for more water with slogans like: as "Crops grow where water flows."

Environmental groups long have supported the bullet train and would strongly oppose the dam construction called for under the proposed initiative. They also certainly would dispute a constitutional amendment that downgraded the environment's claim to water.

However, environmentalists also are growing weary of the high-speed rail project's use of greenhouse gas fees — given that the train may not reduce carbon dioxide emissions in the state for decades to come.

The Sierra Club is on record opposing most of the projects that the proposal would fund.

Union positions on the measure are not clear. Although they have strongly supported the bullet train, unions may be indifferent as to whether jobs are produced by dams or a rail project. Labor has other competing interests.

"I don't know if we will get involved in the fight," said Robbie Hunter, president of the State Building and Construction Trades Council of California.

If passed, the ballot measure would create a nine-member board, appointed by regional water management agencies, that would control spending decisions.

Bettencourt said the proposal's guiding principle is more water for every use.

"Conservation communities will get more water than they did before," she said. "Environmental justice communities will get better water quality."

But Jim Earp, a member of the California Transportation Commission who led the rail bonds campaign, said the water measure could have a difficult time because its backers were greedy. "They have basically a deeply flawed measure," Earp said. "They couldn't resist overreaching. They couldn't resist the temptation to rewrite water laws to benefit corporate farmers who are going to underwrite the campaign."

The other critical issue, Earp said, was that water projects traditionally have been paid for largely by users — whether agricultural or residential. "They are trying to shift the cost of water from users to taxpayers," Earp said. "They might as well throw their money into one of the rivers they want to dam. All you have to do is create enough confusion and doubt in the voters' minds that it won't pass the smell test."

Runner said the opposite was true, that voters will see the proposal's inherent logic. "This comes at a time when everybody is aware of the water problem," Runner said. "You have water rationing and you are paying more for water. The average person doesn't get high speed rail."