



Milk Producers Council

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DATE: June 10, 2016
 TO: Directors & Members

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 FROM: Rob Vandenhoevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0350 \$1.4750
 Barrels +\$.0650 \$1.5100

Weekly Average, Cheddar Cheese

Blocks +\$.0736 \$1.4655
 Barrels +\$.0720 \$1.4970

CHICAGO AA BUTTER

Weekly Change +\$.1000 \$2.2000
 Weekly Average +\$.0882 \$2.1745

DRY WHEY

Dairy Market News w/e 06/10/16 \$2.388
 National Plants w/e 06/04/16 \$2.584

NON-FAT DRY MILK

Week Ending 6/3 & 6/4

Calif. Plants \$0.7468 18,918,883
 Nat'l Plants \$0.7669 25,990,873

Prior Week Ending 5/27 & 5/28

Calif. Plants \$0.7464 9,427,515
 Nat'l Plants \$0.7843 12,910,646

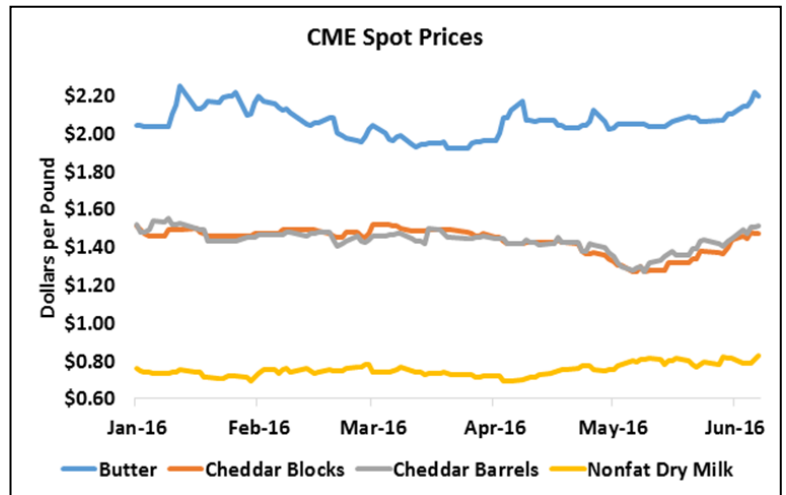
FRED DOUMA'S PRICE PROJECTIONS...

June 10 Est: Quota cwt. \$14.29 Overbase cwt. \$12.59 Cls. 4a cwt. \$13.16 Cls. 4b cwt. \$12.68
 Last Week: Quota cwt. \$14.10 Overbase cwt. \$12.41 Cls. 4a cwt. \$12.89 Cls. 4b cwt. \$12.45

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

Milk & Dairy Markets

Rarely do well-supplied markets feature raging volatility, but such was the case in the dairy complex this week. For several sessions, dairy futures shot violently upward. On Thursday, in the throes of a short-covering panic, a number of butter, cheese, and Class III contracts tested the high side of their daily trading limits; July through November butter futures settled a nickel higher and July, August, and September Class III futures jumped 75¢. But on Friday, they came crashing back down. Still, Class III futures finished the week 13¢ to 77¢ higher than where they began. Class IV futures posted gains between 44¢ and 66¢.

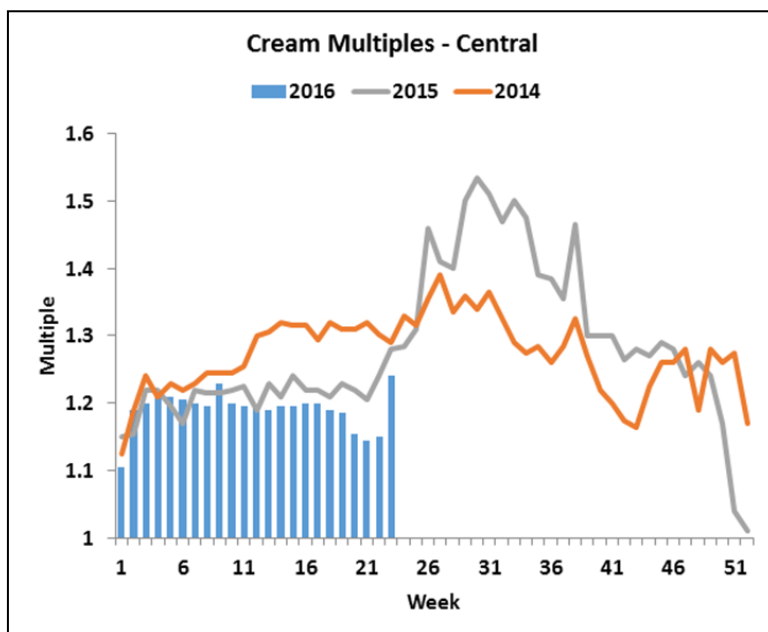


Fears of déjà vu proved self-fulfilling once again in the butter market. Ever mindful of the steep, relentless rallies in each of the past two years, edgy butter buyers bid the spot market up to \$2.22/lb., a price not seen since January. Spot butter settled Friday at \$2.20, a dime higher on the week. CME spot Cheddar barrels also returned to January highs. They finished at \$1.51, up 6.5¢. Blocks were not far behind, climbing 3.5¢ to \$1.475. Spot nonfat dry milk (NDM) gained 1.75¢ and reached 83¢, the highest price for that market since October.

The dairy trade seems to feel that the lows have been established, and better times lie ahead. There are some fundamental hints that justify this bullishness. Overseas markets are beginning to convalesce. By all accounts, domestic demand for cheese and butter remains robust. With product moving quickly, supplies of cheese fresh enough to meet CME spot market requirements could become tight, which might explain how spot cheese prices

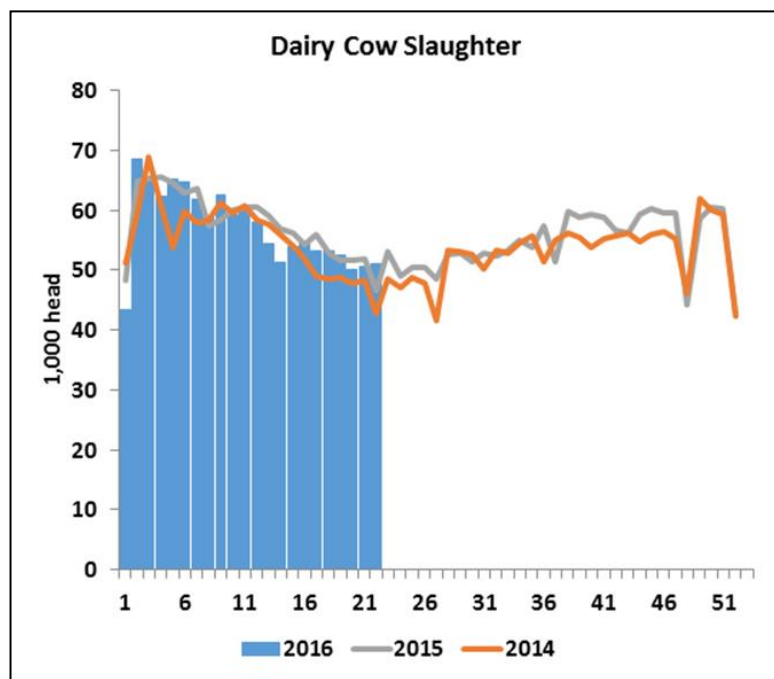
reached multi-month highs even as warehouses are full to bursting. Furthermore, in light of greater usage, cheese stocks don't seem quite so colossal. As the *Daily Dairy Report* noted earlier this week, "Year-to-date commercial disappearance is running 7.5% higher than the same period over the past three years. At that heady pace, U.S. consumers could go a long way toward clearing up excess stocks by year's end."

It was less sweltering this week in central California, and it was unseasonably cool in the Great Lakes region. But the forecast calls for hotter temperatures across the Midwest over the next few weeks, bringing an end to the prolonged and overwhelming spring flush. In many areas, milk production and component levels are already down. Ice cream manufacturers are stepping up production, and cream supplies are tightening. *Dairy Market News* reports that even in the Central region, where processors are all but drowning in milk, "Spot [cream] loads are not being offered at generous discounts like in recent weeks." Cream multiples remain well below year-ago levels, but they have jumped of late, indicating that end users are willing to pay a little more to secure supplies.



There are also signs that painfully low milk prices are having an effect. This is obviously the case in California and New Zealand and has been for some time. Financial pangs are starting to make an impact elsewhere as well. In the Great Lakes states and the Northeast, the appetite for expansion has been squelched by the sour taste of dumped milk. In Europe, output continues to grow, but at a slower rate. If global milk production growth does slacken, dairy markets could stage a sustained recovery.

However, in the short-run, the bears likely won't remain sidelined. The fundamentals that have long weighed on the dairy markets may be well-known and oft-repeated, but for all their staleness, they still ring true. Global dairy product inventories are immense. Chinese imports have been ho-hum, and Russia shows no signs of relaxing its ban on agricultural imports from the West. Gas prices are still low, but they are inching upward, giving the consumer less spending money. The economic recovery is looking a bit long in the tooth, and last week's jobs report cast dark clouds on the once-sunny horizon.



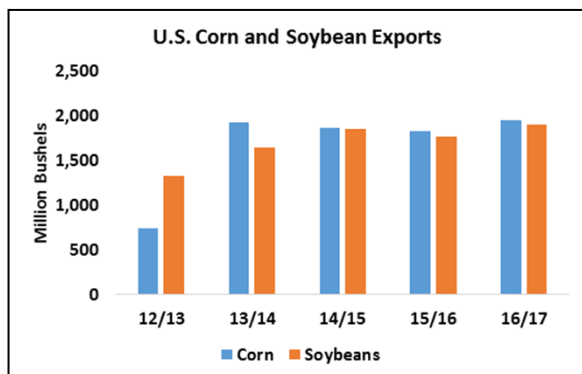
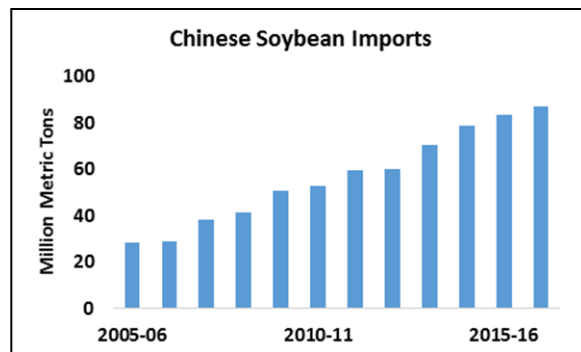
Ultimately, a global slowdown in milk production is not yet assured. The U.S. dairy herd has not been this large since December 2008 and dairy producers in Europe have filled their barns as well. The weather may cause some temporary flare-ups, but the size of the dairy herd has a more lasting impact on milk output. Despite poor profit margins, so far, dairy producers have not meaningfully increased cull rates. For the week ending May 29, dairy cow slaughter totaled 51,062 head. Year-

over-year comparisons were skewed by the timing of Memorial Day.

Grain Markets

Grain and oilseed prices extended their ascent this week. July corn futures climbed 4.75¢ to \$4.23 per bushel, while July soybeans jumped to \$11.7825, up some 46.25¢. Soybean meal futures retreated slightly to \$414 per ton, 30¢ lower than last Friday.

USDA issued its monthly update to its supply and demand balance sheets for crops, and the agency boosted its estimates of corn and soybean export demand, resulting in lower ending stocks. Both markets have rallied over the past month as the trade has come to the same conclusion, so reaction to the report was muted.



Compared to last month's report, USDA reduced its estimate of Brazilian corn production by 3.5 million metric tons, and trimmed 2 million metric tons from Brazilian soybean production. Because adverse weather has damaged crops in South America, the U.S. will have to answer for a greater share of the world's grain and oilseed needs, which remain formidable. In the first five months of the year, Chinese soybean imports are up 14% from the same period in 2015. The recent rally and decent spring weather likely allowed for a marginal increase in soybean acreage, but there is no room for a shortfall in yields. The soybean complex will be hypersensitive to any gyrations in the weather until the crop is safely in

the bin or on a ship. Storms will pass through the Corn Belt early next week; the depth and breadth of these rains will be crucial to price direction, because the forecast calls for hot, mostly dry weather thereafter.

BRIEF FOLLOWUP ON A BALLOT INITIATIVE REGARDING ENHANCED WATER STORAGE IN CALIFORNIA: *(By Rob Vandenheuvel)* Several months ago, we included in this newsletter an interesting article from the *LA Times* on a proposed ballot initiative that would take about \$8 billion currently intended for California's high speed rail project and instead direct it towards water storage projects in the State. At the time of that article, the coordinators of this effort – the California Water Alliance – believed they had the funding needed to gather enough signatures to qualify for the November 2016 ballot. If you missed that article or want to refresh your memory, you can find it at: <http://www.milkproducerscouncil.org/updates/021916.pdf>.

Unfortunately, the effort was not able to reach its goal of qualifying for the 2016 ballot, gathering about half the 585,407 signatures needed. While this is certainly unfortunate, they have not given up. **According to a California Water Alliance press release, the signatures that have been gathered thus far (nearly 300,000 as of April) can still be used to qualify for the 2018 General Election ballot, if they can submit them to the State by July 25, 2016.**

Last Friday, Congressman Devin Nunes (R-Visalia) did an interview on KMJ Radio with host Ray Appleton on this issue. For those of you interested in hearing those comments, you can find the interview at: <http://1.usa.gov/20Y0IeJ>. According to Congressman Nunes, the California Water Alliance believes they need about \$700,000 to fund the remaining signature gathering effort, which they are currently soliciting as they also continue to gather signatures through volunteers and rallies/events. You can check out their website for more information: <http://www.CAwater4all.com>.

Politically incorrect side note: Given the negative on-the-farm margins for California's dairy families, maybe our State's cheese manufacturers – who one would think should have a real interest in doing what they can to protect their long-term milk supply – could use a tiny sliver of their California Discount and fund this signature gathering effort without breaking a sweat. Just a thought...