



Milk Producers Council

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DATE: October 2, 2015
 TO: Directors & Members

PAGES: 5
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.1575 \$1.7475
 Barrels +\$.0675 \$1.6175

Weekly Average, Cheddar Cheese

Blocks +\$.0685 \$1.6700
 Barrels +\$.0485 \$1.5675

CHICAGO AA BUTTER

Weekly Change - \$.6350 \$2.5000
 Weekly Average - \$.2675 \$2.7020

DRY WHEY

Dairy Market News w/e 10/02/15 \$2.2075
 National Plants w/e 09/26/15 \$2.2341

NON-FAT DRY MILK

Week Ending 9/25 & 9/26

Calif. Plants \$0.8386 9,199,866
 Nat'l Plants \$0.8365 19,789,428

Prior Week Ending 9/18 & 9/19

Calif. Plants \$0.8475 10,854,124
 Nat'l Plants \$0.8257 21,036,435

FRED DOUMA'S PRICE PROJECTIONS...

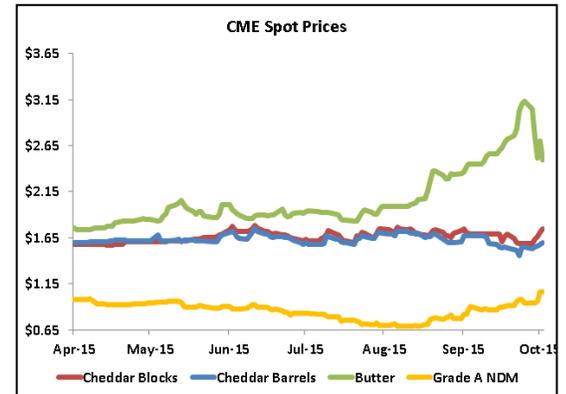
Oct 2 Est: Quota cwt. \$16.86 Overbase cwt. \$15.17 Cls. 4a cwt. \$15.60 Cls. 4b cwt. \$15.28
 Sept '15 Final: Quota cwt. \$16.60 Overbase cwt. \$14.90 Cls. 4a cwt. \$15.40 Cls. 4b cwt. \$14.94

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

Milk & Dairy Markets

After an efficient ascent, the roller coaster that is the butter market plunged over a heart-stopping, stomach-churning drop this week. By Wednesday, the CME spot butter market had fallen 62.5¢, including a 30¢ rout on Tuesday. It regained 19¢ Thursday only to drop another 20¢ Friday. Butter closed Friday at \$2.50, down 63.5¢ from last week.

In contrast, the once anemic milk powder market looked lively. Spot nonfat dry milk (NDM) futures gained 12¢ this week and settled at \$1.06. Nearby Class IV futures suffered whiplash along with the butter market. The October and November contracts were 38¢ and 68¢ lower, respectively, than last Friday. But deferred contracts had never called for butter above \$2, much less \$3, and so they did not pay much heed to the drubbing in the spot pit. Most 2015 Class IV futures contracts closed this week a little higher than the last, and the January contract gained 36¢.

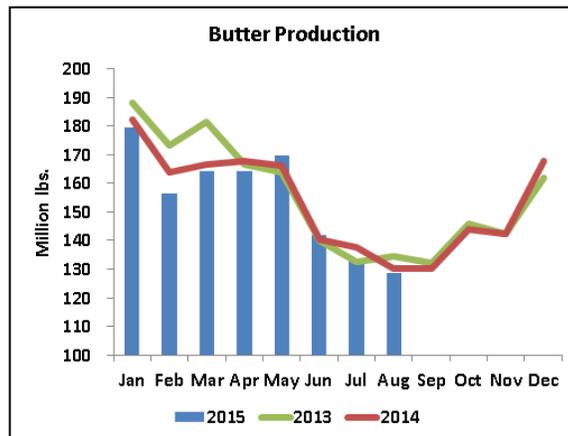


The cheese market also strengthened. CME spot Cheddar blocks rallied 16¢, pushing to a one-month high at \$1.75. Barrels gained 6.75¢ and closed at \$1.6175. Dry whey futures continued the arduous climb from their recent depths. Most Class III futures added between 10¢ and 20¢ this week, but the November and December contracts ended in the red.

USDA announced the September Class III price at \$15.82, down 45¢ from August and down \$8.78 from a year ago. California 4b milk was \$14.94 in September, down 80¢ from the previous month. California 4a milk was \$15.40 in September, up \$2.32 from August. Class IV milk rose \$2.18 to \$15.08 in September. This put

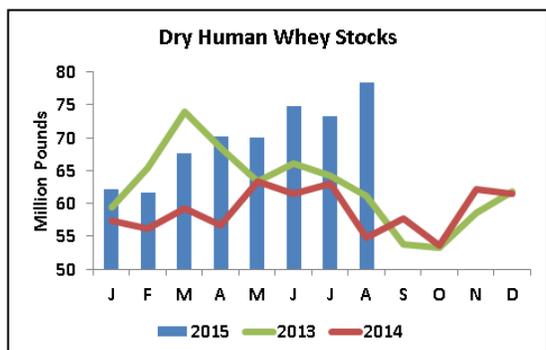
September Class IV milk \$7.50 below last year, which, unbelievably, marks the smallest year-over-year deficit for Class IV milk in 2015.

U.S. butter production totaled just 128.6 million pounds in August, the lowest for the month since 2010. Output was 1.2% lower than a year ago and 3.5% lower than July. Butter demand remains strong. But despite a 20.8 million pound shortfall in butter production compared to the first eight months of 2014, butterfat stocks are well above the meager volumes of last year.



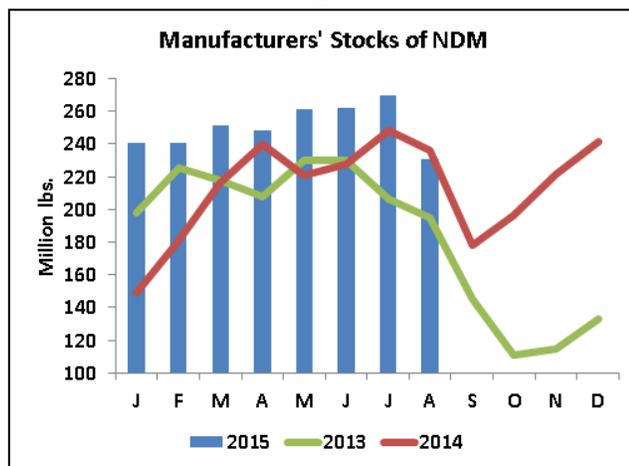
Why then, did butter soar to such heights? The *Daily Dairy Report*

notes that USDA's Cold Storage report "includes consumer packaged butter, bulk butter, concentrated milkfat (CMF), and anhydrous milkfat (AMF)." The persistent gap between U.S. and foreign butterfat markets encouraged strong imports of CMF and AMF this year, and these products likely account for a larger than normal share of butterfat in storage. The warehouses may be far from empty, but bulk, salted butter remains in short supply, and there are not a lot of home chefs clamoring for AMF to compliment their Thanksgiving mashed potatoes or their pie crusts.

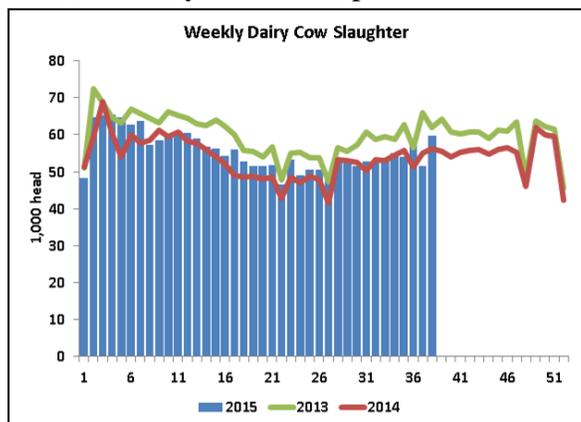


U.S. cheese production totaled 974.4 million pounds, 3.5% greater than last August. So far this year, American cheese output is 2.9% higher than 2014 volumes. Robust cheese output has translated to

formidable whey production, but demand has failed to keep pace. After eight months, 2015 dry whey output for human consumption is 64.1 million pounds, or 11.1%, ahead of the 2014 pace. Stocks of dry whey jumped 6.9% from July to August and reached 78.4 million pounds, the highest inventory since USDA began keeping records in 1976. Stocks are 43.1% higher than year-ago levels. Perhaps whey prices have fallen low enough, but with inventories at record highs, there may not be much reason for a rally.



Combined output of NDM and skim milk powder (SMP) totaled 163.7 million pounds in August, down 4% from a year ago. Stocks tumbled to 230.9 million pounds, down 2.3% from a year ago. This marks the first month since June 2014 in which NDM inventories fell below prior year volumes. As such, the Dairy Products report was considered bullish of milk powder prices.



It is cold and wet in New Zealand, and pastures have been somewhat stunted. This is particularly concerning in a strong El Niño year, because spring pastures can be mowed to provide fodder in case of drought later in the year. The seasonal peak is approaching, and milk production is lagging year-ago levels. Most analysts are calling for 2015-16 milk collections to fall roughly 3% to 4% short of last season, but this week the Bank of New Zealand called for a much steeper 6% deficit. Meanwhile, European milk output remains strong. As *Dairy Market News* noted, "The lower milk prices are still concerning for most farmers, but [they have] not slowed production."

For the week ending September 19, dairy cow slaughter totaled 59,804 head, up 6.2% from the same week a year ago. So far in 2015, culling is 3.7% ahead of last year's pace. Live cattle futures and beef prices continued to dive this week, although they showed a little more vigor on Friday.

Grain Markets

December corn futures settled at \$3.8925 per bushel, basically steady with last week. November soybeans closed at \$8.7425, down 15¢ from last week. The weather has been excellent for harvest, and anecdotal reports suggest national average yields may be slightly better than what was expected.

The soybean and wheat markets both rallied in the wake of USDA's quarterly Grain Stocks and Small Grains Summary reports on Wednesday. USDA trimmed its wheat production estimates by more than the trade had anticipated. However, global grain supplies remain plentiful, and U.S. wheat is too expensive to garner much attention in the export arena. Thus, the post-report rally petered out by Friday.

In the Grain Stocks report, USDA took the unusual step of revising 2014 soybean production downward, "based on an analysis of end-of-marketing year stock estimates, disappearance data for exports and crushings, and farm program administrative data." The 2014 soybean crop totaled 3.93 billion bushels, 41.7 million bushels below their most recent assessment. This helps to explain the disconnect between soybeans that were plentiful on paper and physically scarce. That is why dairy producers and other end users were forced to pay such a steep basis on top of sky-high soybean meal futures prices last year.

AN UPDATE ON THIS WEEK'S CA-FMMO HEARING PROCEEDINGS: *(By Rob Vandenheuvel)* The U.S. Department of Agriculture's (USDA) hearing on a California-Federal Milk Marketing Order (CA-FMMO) continued this week with testimony in support of the proposal submitted by California Dairies, Inc., Dairy Farmers of America and Land O'Lakes, and supported by California Dairy Campaign, MPC and Western United Dairymen. Witnesses this week included individual dairy farmers, trade association representatives and cooperative staff.

Many thanks to the following individuals who testified this week in support of the producer proposal:

- **Cornell Kasbergen**, Dairy farmer from Tulare County, CA
- **Jared Fernandes**, Dairy farmer from Tulare County, CA
- **Xavier Avila**, Dairy farmer from Tulare County, CA
- **George Mertens**, Dairy Farmer from Sonoma, CA
- **Sietse "Sean" Tollenaar**, Dairy farmer from Wheatland, CA
- **Pete Olsen**, Dairy Farmer from Fallon, NV
- **Scott Magneson**, Dairy farmer from Ballico, CA
- **Joaquin Contente**, Dairy farmer from Hanford, CA
- **Joe Machado**, Dairy farmer from Hanford, CA
- **Elvin Hollon**, Dairy Farmers of America
- **Tom Wegner**, Land O'Lakes
- **Eric Erba**, California Dairies, Inc.
- **Annie AcMoody**, Western United Dairymen
- **Lynne McBride**, California Dairy Campaign

Many of these witnesses were "cross-examined" by Charles "Chip" English, the attorney for the Dairy Institute of California (representing many California milk processors), as well as other processor representatives. In fact, the three cooperative staff that testified took up about four of the five days, mostly due to extensive cross-examination. However, despite the exhausting process, the witnesses did very well in presenting clear testimony and evidence supporting the implementation of the cooperatives proposal.

Next week, the hearing will continue with testimony from additional witnesses in support of the cooperative proposal, including testimony I will give on behalf of Milk Producers Council. Once the witnesses in support of the cooperative proposal have completed their testimony, the Dairy Institute of California will begin their presentation of witnesses, testimony and evidence in support of their proposal, which has some significant differences with the cooperative proposal (*some of those differences can be read about in previous articles written in this newsletter: <http://www.milkproducerscouncil.org/cafmemo.htm>*).

As we've written before, this process is very producer-oriented, with dairy farmer testimony strongly encouraged. Producers interested in providing testimony at the hearing are strongly encouraged to plan a trip to Clovis in the coming days/weeks. The Administrative Law Judge in charge of the proceedings has made it clear that producers will be given opportunities to testify on the day(s) they are able to attend the hearing – regardless of the issues other witnesses may be testifying on that day.

THE CALIFORNIA DISCOUNT – SMALLER, YET CONTINUED: (*By Rob Vandenhoevel*) The monthly milk prices for September are in, and to no one's surprise, California's Class 4b price (*which applies to California milk sold to California cheese manufacturers*) trailed the Federal Order Class III price (*the benchmark price for milk sold to cheese plants around the country*) by \$0.88 per hundredweight. While this is a far cry from the discounts we have seen in recent years – which has been as high as \$3.63 per hundredweight in December 2011 – it is nonetheless a substantial discount on approximately 45% of the milk produced and sold in California.

The temporary adjustments to the Class 4b pricing formula recently implemented by the California Department of Food and Agriculture (CDFA) had *no* impact on the gap in September. Those adjustments are based on how the Class 4b uses market prices for dry whey in establishing the minimum milk price, but with dry whey prices falling to an average of \$0.2270 per pound in September, CDFA's new temporary calculation resulted in *exactly the same* September Class 4b price as the previous calculation would have generated.

CDFA's Temporary Class 4b Adjustment			
	Sept '15	What it would have been without CDFA's Adjustment	Aug '15 – Present
California Class 4b Price	\$14.94	\$14.94	\$15.34
FMMO Class III Price	\$15.82	\$15.82	\$16.05
Discount	(\$0.88)	(\$0.88)	(\$0.71)
<i>* CDFA's temporary changes to the Class 4b pricing formula are set for August 2015 – July 2016</i>			

NEXT WEEK – COME JOIN US FOR A DEMONSTRATION OF ELECTRIFIED FEEDING STATION: (*By Kevin Abernathy, Director of Regulatory Affairs*) Next Wednesday, MPC will join Philip Verwey Farms in Hanford, California for an open house demonstrating an electrified stationary feed mixing operation. This alternative to traditional diesel-powered mixer trailers was part of a Technology Advancement Program, which is the San Joaquin Air Pollution Control District's "strategic approach to encouraging innovation and development of new emission reduction technologies" (from their website). MPC was able to work with Philip Verwey Farms to secure the grant funding, and the project is now fully operational.

The open house will take place at **10 am on Wednesday, October 7th at Philip Verwey Farms #2, located at 19765 13th Avenue in Hanford.** A flyer with more details on the event is attached to this newsletter. I'd encourage any interested folks to mark their calendars to come check out this demonstration. If you have any questions, please contact me at kevin@milkproducers.org or 209-678-0666.

Philip Verwey Farms & Milk Producers Council

In conjunction with the San Joaquin Valley Air Pollution Control District and EPA Region 9

Invite you to an OPEN HOUSE at
Philip Verwey Farms #2
19765 13th Ave, Hanford CA 93230
October 7, 2015 at 10 a.m.



Showcasing an Electric Feed Mixing Operation

WHY: This is the result of the Technology Advancement Program (TAP) from the San Joaquin Valley Air District that encourages innovation and development of new emission reduction technologies. The electric feed mixing operation is a new technology that is helping the Air District meet the stringent air quality goals.

WHAT IS PLANNED: This open house will feature a brief tour of the feeding operation, followed by speakers giving an overview of the project. Speakers will include:

- **Philip Verwey**, Verwey Farms dairy owner
- **Frank Cardoza**, Verwey Farms manager
- **Seyed Sadredin**, Executive Director/APCO, San Joaquin Valley Air District
- **Craig Pederson**, King Co. Supervisor & Valley Air District, Governing Board member
- **Buddy Mendes**, Fresno Co. Supervisor & Valley Air District, Governing Board member (*invited*)
- **Steven Worthley**, Tulare Co. Supervisor & Valley Air District Governing Board Member (*invited*)
- **Kerry Drake**, Associate Director, Air Division, Region 9 EPA
- **Kevin Abernathy**, Director of Regulatory Affairs, Milk Producers Council

Lunch will be served

Please join us to see this innovative project that is an asset to dairy farmers and helps regulators meet their goals. Through cooperation, communication and innovation we find ways to improve our environment.

Event Sponsors: Milk Producers Council, San Joaquin Valley Air Pollution Control District, Duport TMR Equipment Company, Inc., and Supreme International

To RSVP or ask any questions, please contact Kevin Abernathy 209-678-0666 or kevin.abernathy1@gmail.com

