



Milk Producers Council

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DATE: July 8, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0050 \$1.6300
 Barrels +\$.0500 \$1.7200

Weekly Average, Cheddar Cheese

Blocks +\$.0183 \$1.6013
 Barrels +\$.0590 \$1.6875

CHICAGO AA BUTTER

Weekly Change - \$.0675 \$2.2825
 Weekly Average - \$.0371 \$2.2969

DRY WHEY

Dairy Market News w/e 07/08/16 \$2.2625
 National Plants w/e 06/25/16 \$2.2657

NON-FAT DRY MILK

Week Ending 7/1 & 7/2

Calif. Plants \$0.7755 7,988,919
 Nat'l Plants \$0.8103 19,314,557

Prior Week Ending 6/24 & 6/25

Calif. Plants \$0.7821 9,288,422
 Nat'l Plants \$0.8138 17,642,149

FRED DOUMA'S PRICE PROJECTIONS...

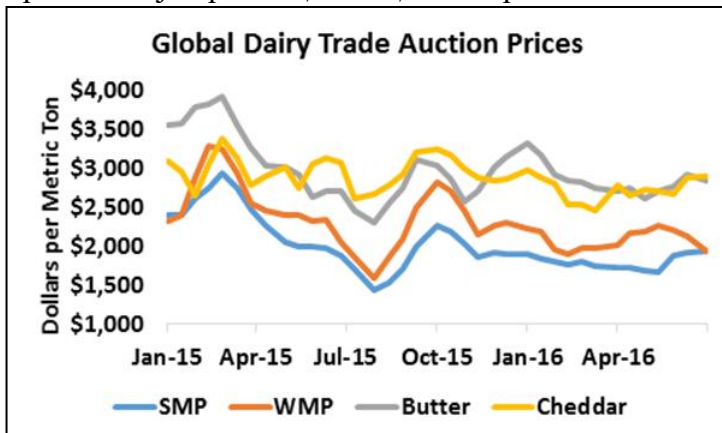
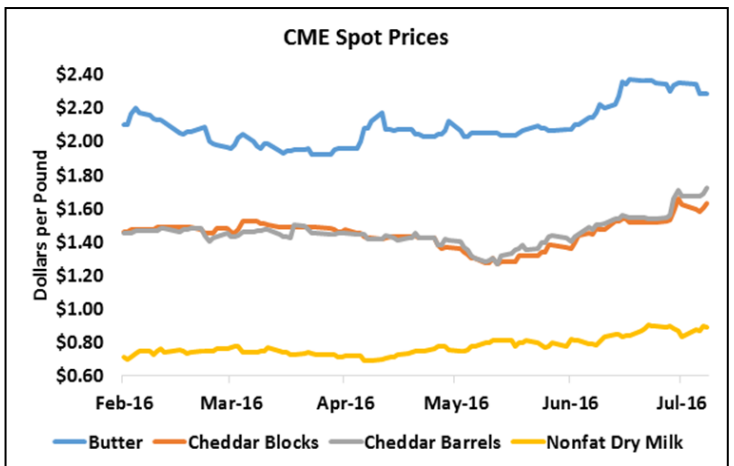
Jul 7 Est: Quota cwt. \$15.45 Overbase cwt. \$13.75 Cls. 4a cwt. \$14.01 Cls. 4b cwt. \$14.48
 Last Week: Quota cwt. \$15.51 Overbase cwt. \$13.81 Cls. 4a cwt. \$14.22 Cls. 4b cwt. \$14.50

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

Milk & Dairy Markets

The CME spot barrel market continues to heat up. It moved to fresh multi-month highs this week as fresh cheese is apparently still difficult to come by. Barrels closed at \$1.72/lb. today, up a nickel for the week after 18 loads changed hands. Blocks retreated early in the holiday-shortened week but then bounced back and finished at \$1.63, up a half cent. Class III futures put in a mixed performance, but most contracts settled a few cents higher.

CME spot nonfat dry milk (NDM) was lively this week despite widespread concerns about the global economy and the deterrence of a strengthening U.S. dollar. Spot NDM jumped 5.5¢ to 89¢. The spot butter market lost ground Tuesday and never recovered. It shed 6.75¢ this week and closed at \$2.2825. Most Class IV contracts were steady to 20¢ lower.

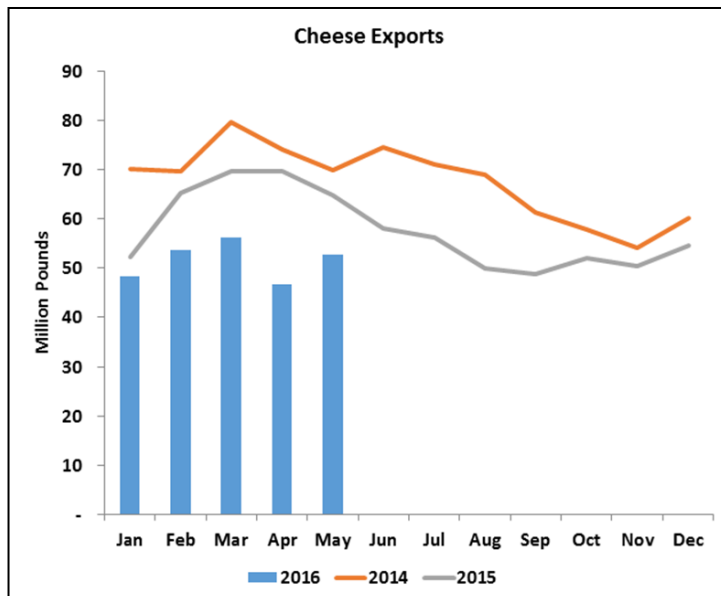


Prices were mixed at the Global Dairy Trade (GDT) auction Tuesday. The GDT index slipped 0.4%, largely driven lower by whole milk powder (WMP) prices, which dropped 1.6%. In contrast, skim milk powder (SMP) prices were up 2.6%. Butter fell 3.1% from the previous event and Cheddar lost 0.5%.

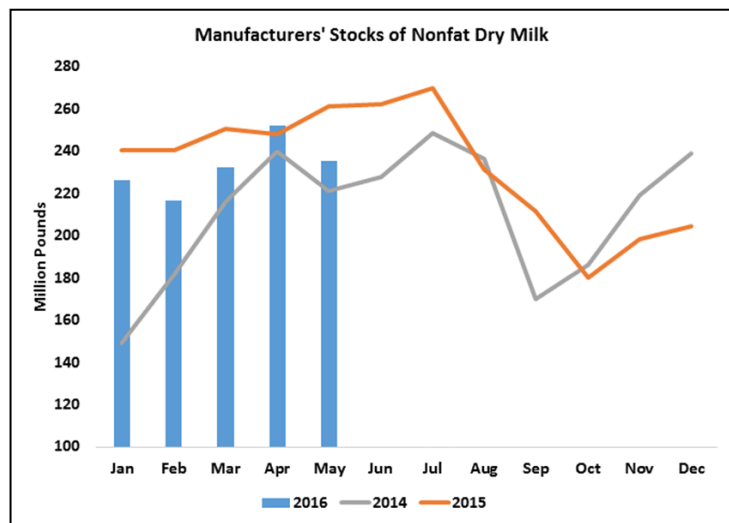
The recovery in the U.S. cheese and butter markets has been driven by strong domestic demand – a supportive

force for years now – and the perception that global dairy production is finally on the verge of slowing down. Wednesday’s Dairy Products report puts the first premise on somewhat shaky ground, as growth in cheese and butter inventories outpaced increases in production in May.

U.S. cheese output reached 998.1 million pounds in May, up 1.2% from a year ago but down 2.5% compared to April on a daily average basis. That growth in production was surprisingly modest given the much larger than typical increase in cheese inventories in May. One month of subdued demand growth is not enough to signal that cheese consumption has gone soft, but when coupled with a puzzling slowdown in restaurant traffic it may become a cause for concern.



Manufacturers churned out 169.9 million pounds of butter in May, up 0.3% from a year ago. Output in California fell 9.3% from year-ago levels, and this time, other Western states did not make up the difference. Production in the West fell 8.3% from a year ago, but output was up 6.7% in the Atlantic region and 10.6% in the Central region.



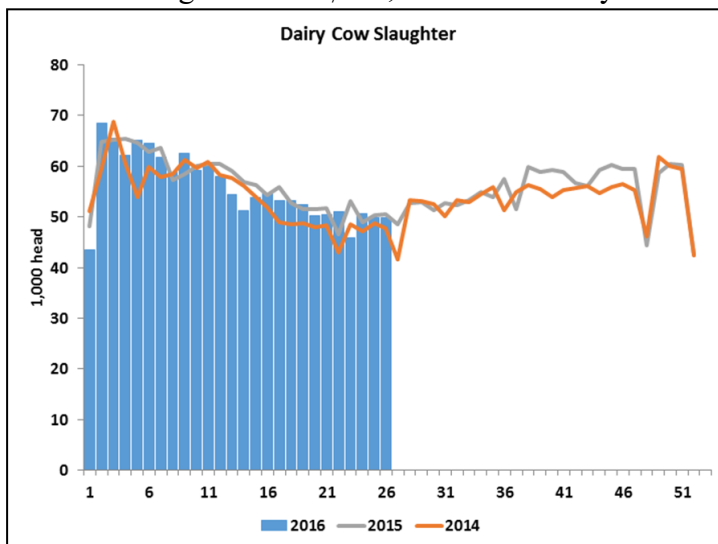
product moving, exporters dropped their sales price. Nonetheless, manufacturers’ stock of NDM contracted in May to 235.4 million pounds, down 6.6% from April and nearly 10% lower than the previous year.

For the week ending June 25, dairy cow slaughter totaled 48,974 head, down 1.4% from the same week a year ago. For the year-to-date, the cull rate is also running 1.4% from last year’s pace.

After a very rough first half of the year, the trade is counting on slightly better on-farm finances in the second half and continued improvement next year. July through December Class III futures averaged \$15.90/cwt. today, and 2017 futures clocked in at \$16.27. Hope that next year’s prices will go higher still

Given the strong dollar and the persistent gap between U.S. and international cheese and butter prices, it is no surprise that exports continued to languish in May. U.S. butter exports totaled just 1.3 million pounds in May, the lowest volume since September. Imports reached 3.9 million pounds, up 26% from a year ago. At 52.7 million pounds, cheese exports were in line with 2016 volumes but down 18.3% from last year.

Combined output of NDM and SMP stood at 215.3 million pounds in May, down slightly from a year ago. For the third consecutive month, milk powder exports fell short of year-ago levels. For the year-to-date, they are down 11%, and values continue to slip. To keep to an average of 83.5¢/lb., a new multi-year low.



are largely based on the assumption that after much pain, dairy producers will rein in production. In some places contraction is evident, but in others it is fleeting. The subdued cull rate suggests that U.S. dairy producers are filling their milk tanks and waiting for their competitors to trim the herd. To the extent that this forbearance has been fueled by the summer rally, today's higher prices may have pared next year's potential.

Grain Markets

The grain markets whipsawed back and forth from one overreaction to another this week. Corn and soybeans fired up Friday, but it was not enough to overcome early-week weakness. July corn settled at \$3.4975 per bushel, down 3.25¢. July soybeans finished at \$10.8975, down 79¢.

Timely rains weighed on the market for much of the week, and next week's forecast promises more showers. But it's too soon to count on high yields, and so the market added back some risk premium today. The risk of sub-par yields is especially high for the soybean market, which needs every bushel to supply the world's voracious appetite for oilseeds. If the forecast so much as hints at hot, dry weather, look for soybeans to rally further. If the weather remains benign, the amply-supplied corn market is likely to drift lower.

LATEST DAIRY CARES NEWSLETTER POSTED ON OUR WEBSITE: *(By Rob Vandenheuvel)* The June 2016 Dairy Cares Newsletter entitled, "Real California Milk Sets the Standard," has been posted on our website at: <http://www.milkproducerscouncil.org/cares.htm>. With June designated as "Real California Milk Month," the column focuses on our industry's significant impact on the California economy, as well as the leadership our dairies have shown over the years in promoting advancements aimed at more efficiencies on the farm.

This column is a good reminder of the hard work and dedication put forth by our State's dairy farmers to be as efficient as possible. As we listen to the rhetoric coming out of the environmental extremists (and increasingly from our own elected officials in Sacramento), you lose sight of just how much our industry has invested in producing nature's most perfect food as efficiently as possible. And all while receiving some of the lowest milk prices in the nation!

It is easy to get frustrated with the success our enemies have had in demonizing farmers; it's even become the hip thing to do (see Chipotle advertisements from a couple years back). Too often the public acts in a way that seems to say, "Who needs the dairies? I buy my milk and cheese from the store!" But we need to continue telling our story to our neighbors, elected officials and anyone else who will listen. This industry is worth preserving, even if some in the public won't appreciate it as long as there is plenty of food on the store shelves.

And of course we can't have this conversation without noting that first and foremost, our dairies need to receive a milk price in line with our competitors around the country. I know we are an industry operating in an odd regulatory pricing environment where you don't know what you will be paid for your milk until after you produce it, but we don't get a pass from economics. The revenue has to exceed the expenses, or none of these "sustainable practices" mean a thing.