



Milk Producers Council

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DATE: March 9, 2018
TO: Directors & Members

PAGES: 5
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks + \$.0100 \$1.5700
 Barrels + \$.0225 \$1.4975

Weekly Average, Cheddar Cheese

Blocks + \$.0480 \$1.5830
 Barrels + \$.0375 \$1.5090

CHICAGO AA BUTTER

Weekly Change +\$.0050 \$2.2050
 Weekly Average + \$.0245 \$2.2175

DRY WHEY

Dairy Market News w/e 03/09/18 \$2.500
 National Plants w/e 03/03/18 \$2.589

NON-FAT DRY MILK

Week Ending 3/2 & 3/3

Calif. Plants \$0.7174 18,283,285
 Nat'l Plants \$0.7012 16,942,074

Prior Week Ending 2/23 & 2/24

Calif. Plants \$0.7171 13,893,527
 Nat'l Plants \$0.7114 18,649,230

Fred Douma's price projections...

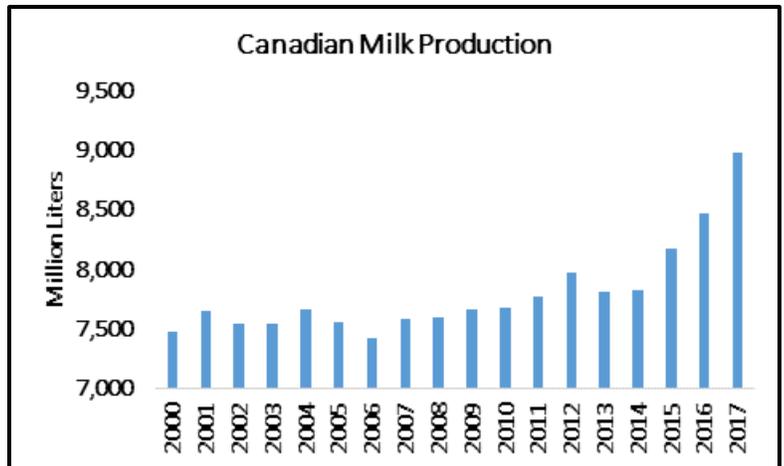
March 9 Est: Quota cwt. **\$15.10** Overbase cwt. **\$13.40** Cls. 4a cwt. **\$13.10** Cls. 4b cwt. **\$13.99**
 Last Week: Quota cwt. **\$15.04** Overbase cwt. **\$13.34** Cls. 4a cwt. **\$13.07** Cls. 4b cwt. **\$13.88**

Market commentary

By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

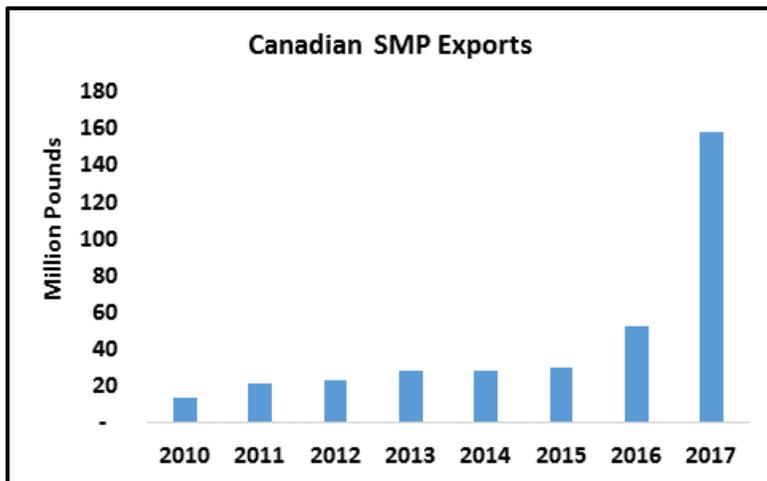
The bulls came charging out of the gate on Monday in the cheese markets. CME spot Cheddar blocks jumped to \$1.6025/lb., the highest price since late-November. But bulls must be fed daily, and there was not enough fodder to last the week. The bulls retreated to greener pastures and the cheese markets pared their gains. Still, blocks closed at \$1.57, up a penny from last Friday. Barrels finished at \$1.4975, up 2.5¢. Whey futures perked up a bit. Class III futures were mixed, but most contracts settled a few cents lower.



The butter market also faded from early-week highs. CME spot butter closed today at \$2.205, up a half-cent from last Friday. The spot butter market is clearly comfortable in its well-trodden range from \$2.05 to \$2.25. The spring holidays are fast approaching, and cream demand is on the rise. Cream multiples are climbing accordingly.

CME spot nonfat dry milk (NDM) spent a few days wallowing at 64.75¢, matching the all-time low set in December. But it bounced back convincingly today to 68.5¢, finishing 2.25¢ higher this week. There is milk powder in abundance, which suggests rallies will be fleeting. However, the milk powder market does not seem inclined to spend much time below 65¢. Despite modest gains in spot butter and powder values, Class IV futures finished in the red.

Headline skim milk powder (SMP) prices moved 5.5% higher at the Global Dairy Trade (GDT) auction on

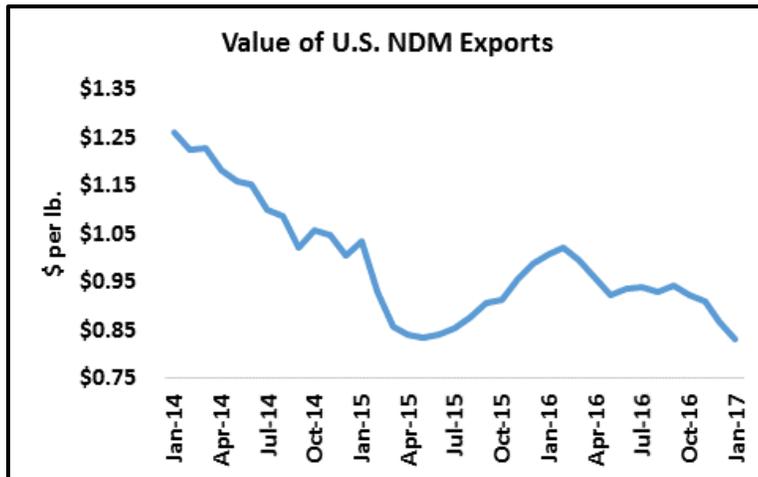


Tuesday. However, this was skewed upward by ultra-high temperature product. After adjusting for protein, Fonterra sold medium-heat SMP from New Zealand for May delivery at the equivalent of NDM at 92¢/lb, which was a little lower than values at the two preceding auctions. Arla sold medium-heat SMP from Europe at the equivalent of 77¢. The U.S., Europe, and Canada are in a three-way race to the bottom as they compete for NDM and SMP exports.

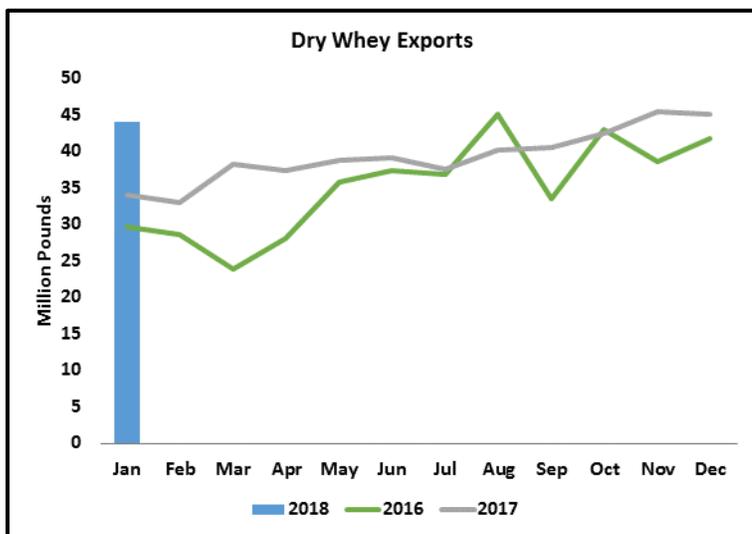
Our neighbor to the north has been uncharacteristically ruthless in the dairy trade arena. Canada has crowded out U.S. butterfat

imports by increasing its milk production quotas. Canadian milk production was up 4.5% year over year in 2015, up 3.6% in 2016 and up 6.1% in 2017. Last year's annual growth was the largest since 1931. In consequence, Canadian butter imports were down 27% in 2017, and cream imports were down 45%. Canadian SMP exports were up more than three-fold.

On the whole, U.S. dairy product exports faded in January relative to the hefty volumes sent abroad in the fourth quarter of 2017. However, they were noticeably higher than prior-year levels, with aggregate exports up 9% according to the U.S. Dairy Export Council. In January, the U.S. sent 109.4 million pounds of NDM/SMP abroad, up 3.9% from January 2017. That is the highest volume ever for the month of January, but in order to achieve it, milk powder merchants dropped the average export price to 83.1¢/lb., the lowest value in more than a decade.



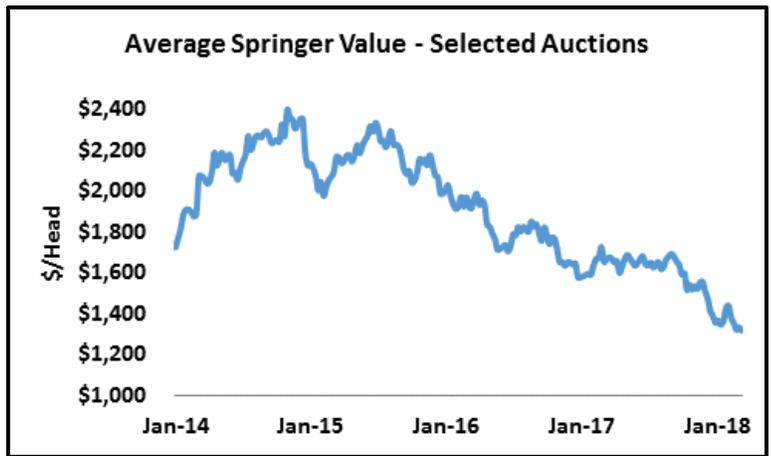
Butter and milkfat exports jumped 24.6% from a year ago in January, while cheese and curd exports climbed 18.9%. Whey product exports logged a new high for the month of January, and whey protein concentrate exports were the second highest on record, up 15.7% from January 2017. Dry whey exports were 29.8% greater than prior-year volumes, a welcome boost in the well-supplied whey market.



The raw milk market is not as problematic as it was early last spring. However, there are signs of trouble, exacerbated by bad weather, unscheduled downtime at some processing plants, and a nationwide trucking shortage. Spot milk is moving to cheesemakers in the Midwest at steep discounts. A cooperative serving the Atlantic and Mideast regions was forced to further reduce advance pay prices. Some producers in the same region are scrambling to find new homes for their milk as Walmart displaces some of Dean Foods' milk bottling demand. Dairy producers in Arizona are subject to production bases with stiff penalties for

excess milk. USDA's *Dairy Market News* reports that in some parts of the mountain states, "output exceeds available processing capacity." That's adding up to lower premiums for dairy producers in many parts of the country.

It should come as no surprise, then, that dairy producers are culling hard. In the week ending February 24, dairy cow slaughter was 63,098 head, up 3.4% from the same week a year ago. For the year to date, slaughter is up 3% from 2017. Springer values continue to decline, reflecting lower profit margins.



Grain Markets

The grain and oilseed markets have been as fickle as the forecast. The prospect of somewhat wetter conditions in Argentina dampened enthusiasm in the soybean market as the week wound down. May soybeans settled at \$10.3925 per bushel, 31.75¢ lower than last Friday. May soybean meal closed at \$373.60 per ton, down nearly \$20.

The swift selloff brought a sigh of relief to dairy producers and other end users who have watched the soybean meal market climb relentlessly since the La Niña-induced drought took hold in Argentina's farm belt in early February. Still, while next week's forecast looks wetter, widespread soaking rains are not expected, and considerable damage has been done. USDA slashed its monthly estimate of Argentine soybean production by 7 million metric tons, putting it at 47 million metric tons. Many private estimates are lower still.

Reduced soybean production in South America will eventually translate to greater demand for U.S. soybean and soybean meal exports. But the timing on such an increase is cloudy. Brazilian soybean exports have been running strong, and U.S. exports lagged during the prime post-harvest period. Yesterday, USDA lowered its estimate of U.S. soybean exports for the 2017-18 crop year to 2.07 billion bushels, down 35 million bushels from the February estimate and 85 million bushels lower than its initial projection in May. However, off-season exports could be stronger than anticipated. Last week's export sales figure was surprisingly large. Global demand for soybeans remains immense. The market will be depending on a huge U.S. soybean crop, and any hint of bad weather will likely trigger a rally.

USDA boosted its estimates of corn demand for both ethanol and exports, resulting in a 225-million-bushel decline in ending corn stocks. Corn remains plentiful, but perhaps not abundant enough to justify the market's foray down to \$3.50 at the turn of the year. May corn settled today at \$3.905 per bushel, up 5.25¢ to a nearly seven-month high.

USDA solves FMMO Hearing Record problem; process back on track

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

On February 6, 2018 USDA put out a notice informing everyone that they were indefinitely delaying the issuing of a California Federal Milk Marketing Order (FMMO) because of a U.S. Supreme Court case that calls into question the validity of the appointment of administrative law judges. California producers reacted with alarm at this news and through our cooperatives, trade associations and politicians, communicated with U.S. Agriculture Secretary Sonny Perdue that we objected to this delay. This news was troubling to say the least since it was an administrative law judge named Jill Clifton who presided over the California FMMO hearing back in 2015.

One week later on February 13, USDA announced that they had come up with a cure to this legal problem. Secretary Perdue assigned USDA's Judicial Officer William Jensen, whose appointment and therefore ability to serve as a judge is not under any legal question, to serve as the judge for the purpose of reviewing and ratifying the work of Judge Clifton. Jensen was required to read and review the entire hearing record. Today, Judge Jensen completed his review and issued an order ratifying Judge Clifton's work. You can read the order [here](#).

This means the process is back on track and we can expect a California FMMO to be released very soon.

CDFA announces date for next round of Alternative Manure Management Program funding

By Kevin Abernathy, MPC General Manager

Back in August of 2017, we announced to our members that applications for CDFA's Alternative Manure Management Program (AMMP) were open for any dairy operator interested in methane reduction projects not related to methane digesters. Of the \$99 million allocated to CDFA through the 2017-18 Greenhouse Gas Reduction Fund, CDFA plans on putting \$19-\$33 million of that towards AMMP projects, with the remainder of the funds being spent on its Dairy Digester Research and Development Program (DDRDP).

CDFA will announce the next round of AMMP funding recipients on **March 27, 2018**. They are also funding application assistance to dairy operators through third party Technical Assistance Providers (TAPs). These TAPs include Resource Conservation Districts, University Cooperative Extensions, and non-profit organizations. These applications for third party technical assistance are due March 14, 2018 by 5 p.m. PDT. More information is available [here](#). You can also contact our office regarding this program at office@milkproducers.org.

Application period still open for San Joaquin Valley Air District Dairy Feed Mixer Incentive Program

By Catherine Machado, MPC Northern Central Valley Representative

The San Joaquin Valley Air Pollution Control District is still accepting applications for the Electric Dairy Feed Mixing Pilot Program and we encourage anyone interested in applying to contact MPC staff to get more information about the benefits of this program and how it can be implemented into your operation.

Since the opening of the application process, I've had the opportunity to work with several dairy farmers to help them get their applications completed and submitted. Here are some questions I've heard throughout this process, which may be helpful for you to determine if this program is right for you.

Q: Does the program only fund the electric mixer?

A: NO. The program funds all improvements made to the ENTIRE feeding operation. This includes, but is not limited to, the electric mixer(s), conveyor(s), replacing old loaders, tractors, hay squeeze, etc. for newer, higher tiered equipment with cleaner engines and a much lower rate of emissions. The Air District will be funding 75% of the total eligible project costs.

Q: Can I still apply even if I'm not ready to implement this change within the year?

A: YES. It's important to get your application in as soon as possible to "hold a spot" in the program, but if your turn comes up and you're not ready, you will simply be put back in the queue.

The application process includes consideration of the following:

1. What does your operation look like now?
 - a. Equipment
 - b. Total time to complete feeding
 - c. Gallons of diesel currently used



Electric feed mixer installation on MPC member Phillip Verwey Farms' dairy.

2. What will the new operation look like? What can we do to increase your feed program's efficiency while also reducing as many emissions as possible?
 - a. New equipment
 - b. Potential reduction of hours to complete feed operation by:
 - i. Restructuring your commodity barn and where you keep your feed to make it more accessible
 - ii. Increasing pounds of feed per load with the larger delivery boxes thus reducing total loads
3. Consider which vendors you want to use and get bids on the new equipment, concrete, and electrical work that will be necessary for your project.

This funding opportunity can be a complete feed operation renovation, designed however you want, to maximize efficiency on your dairy and thus reducing your feed operation's total time by more than half. If you are interested in applying or having a conversation to learn more about the program, please contact me at catherine@milkproducers.org or 559-363-0313.
