



# Milk Producers Council

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**DATE:** November 13, 2015  
**TO:** Directors & Members

**PAGES:** 5  
**FROM:** Rob Vandenheuvel, General Manager

## MPC FRIDAY MARKET UPDATE

### CHICAGO CHEDDAR CHEESE

Blocks	- \$.0800	\$1.6200
Barrels	- \$.1825	\$1.4675

### Weekly Average, Cheddar Cheese

Blocks	+ \$.0195	\$1.6660
Barrels	- \$.0555	\$1.5480

### CHICAGO AA BUTTER

Weekly Change	N/C	\$2.8850
Weekly Average	+\$0.0390	\$2.8850

### DRY WHEY

Dairy Market News	w/e 11/13/15	\$2.325
National Plants	w/e 11/07/15	\$2.3368

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### NON-FAT DRY MILK

#### Week Ending 11/6 & 11/7

Calif. Plants	\$0.8319	7,690,583
Nat'l Plants	\$0.8761	14,120,771

#### Prior Week Ending 10/30 & 10/31

Calif. Plants	\$0.8416	8,933,046
Nat'l Plants	\$0.8666	17,162,596

### FRED DOUMA'S PRICE PROJECTIONS...

Nov 13 Est: Quota cwt. \$16.95 Overbase cwt. \$15.26 Cls. 4a cwt. \$16.95 Cls. 4b cwt. \$14.58

Last Week: Quota cwt. \$17.14 Overbase cwt. \$15.45 Cls. 4a cwt. \$17.01 Cls. 4b cwt. \$14.94

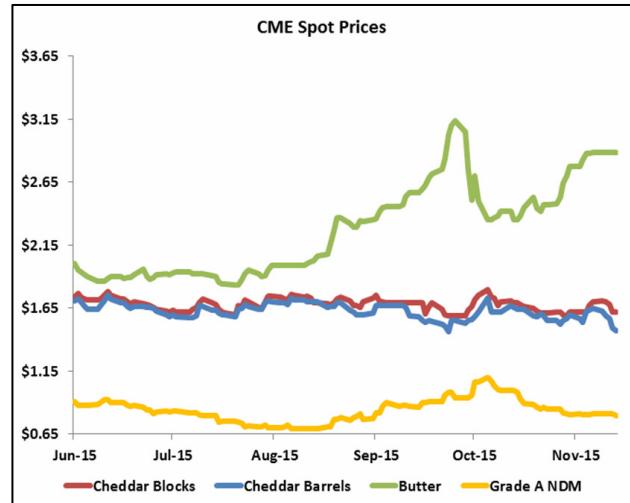
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**MARKET COMMENTARY:** (By Sarina Sharp, Daily Dairy Report, [sarina@dailydairyreport.com](mailto:sarina@dailydairyreport.com))

### Milk & Dairy Markets

The CME spot Cheddar market is wallowing at the low end of its well-trod range. This week barrels plunged 18.25¢ to \$1.4675/lb. Besides a brief dip to \$1.46 in late September, barrels have not been this low since January. Traders exchanged 38 loads, more than in any week in nearly four years. *Dairy Market News* reports, "Inventories are a little long for barrel cheese but a little tighter for blocks." Spot Cheddar blocks also retreated, falling 8¢ to \$1.62. The whey market continued to slip. Class III futures had no recourse; most contracts lost between 20 and 50¢.

Spot nonfat dry milk (NDM) shed a penny on Friday, and closed at 80¢. The butter market was disconcertingly quiet. Traders didn't bother to utter a single bid or offer so butter held at \$2.885. Futures traders interpreted the silence as strength. Nearby butter and Class IV futures closed higher this week. However, 2016 contracts settled lower, and the March Class IV contract lost 60¢.

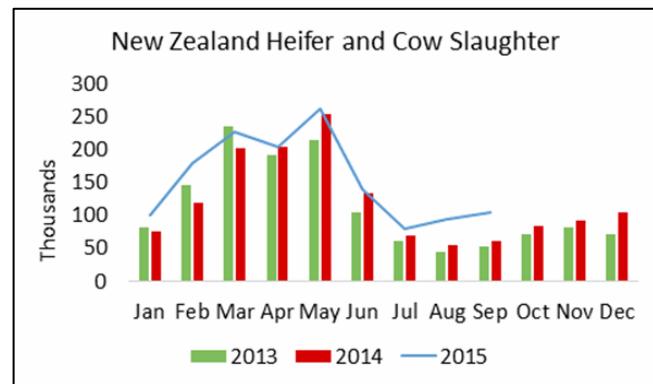


As the calendar turns from November to December, dairy producers will be pumping out a product that is suddenly less valuable. Class III futures stand at \$15.41 for November, and they are poised to drop to \$15.06 in December, the lowest monthly Class III price since mid-2010. Producers will surely feel the pinch. But this is nothing compared to the cliff-dive in the Class IV market, where the futures forecast a drop from \$16.46 all the way down to \$14.68. Class I milk will switch from the "higher of" November Class IV price of \$16.46 down to December Class III at \$15.06.

Dairy producers with heavy exposure to the Class IV markets are no strangers to smaller milk checks. At \$16.43, the October Class IV price towers over the monthly announced prices for the rest of the year. October and November offered dairy producers a brief respite in what has otherwise been a pronounced disadvantage to their

competitors in regions with a higher share of Class III sales. If the butter market suffers a post-holiday hangover, this regional disadvantage will worsen. Class IV prices will almost certainly not be rescued by milk powder. *Dairy Market News* characterizes the NDM market tone as “unsettled and weak.” The export-dependent powder market must also contend with a stronger dollar and lower prices overseas. Over the past two weeks, dairy product prices have fallen across the board in both Europe and Oceania.

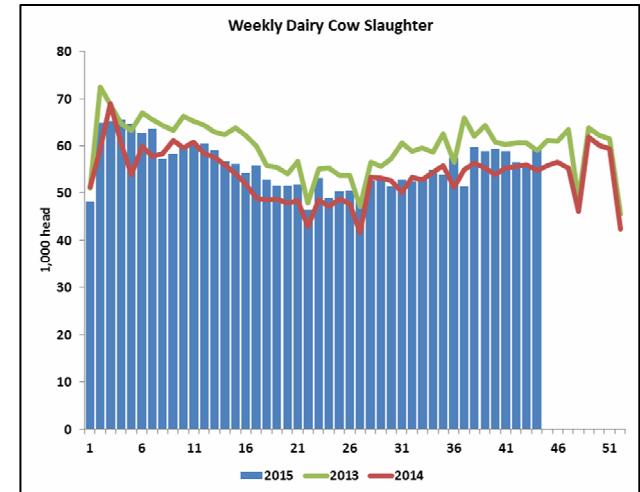
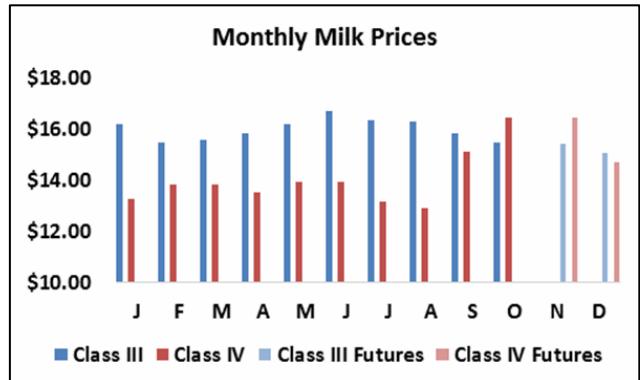
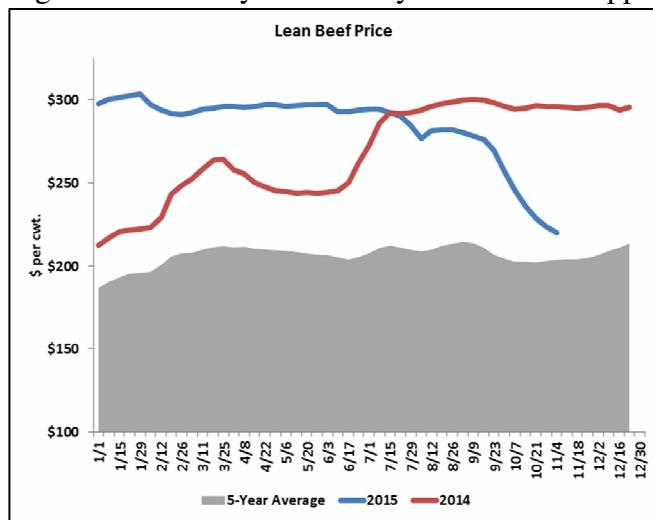
Despite lower prices, milk production in Europe continues to exceed year ago volumes. Dairy producers have responded to margin pain by shouting in the streets of Brussels. They have not, however, allowed many of their newly built stalls to sit empty. They have accumulated equity over decades and can likely tough out low margins for a long while. That is not to say that low margins have had no effect on European milk output; it likely would have been much greater if prices were higher. But European dairy producers have waited impatiently for the opportunity to meaningfully expand, and they aren’t much inclined to walk away from those investments.



combined heifer and dairy cow culling surpassed 2014 levels by more than 70%. Veal calf slaughter is also elevated which could limit industry regrowth when dairy finances improve.

In the U.S., dairy producers slaughtered 59,234 head in the week ending October 31. This was up 8.2% from the same week a year ago, putting year-to-date slaughter up 4% from last year after ten months. Dairy culling in Region 5, which includes Indiana, Michigan, Minnesota, Ohio and Wisconsin, has lagged 2014 volumes throughout the year, but in October slaughter was nearly 5,000 head greater than last year.

Dairy producers in the Midwest have chosen an inopportune time to step up cull rates. Lean beef prices reached record highs earlier this year but they have been dropping hard since



August. For the 21 days ending November 6, lean beef averaged \$219.81/cwt., down \$76.20 or 25.7% from a year ago. The cattle futures market has been under pressure and incredibly volatile over the past few weeks. Cattle supplies remain tight, which argues that prices should remain high. However, cattle feeders have been raising cattle to record-heavy weights, which created a backlog of finished cattle and gave leverage to packers who pushed the markets sharply lower.

There is reason to believe that lean beef prices will recover. Imports of beef from Australia will slow for a couple months until quota volumes reset in 2016. The strong El Niño promises a wet winter in the Southern Plains, which could

hamper feedlot performance and push cattle weights back down. And the drop in prices is likely to stir up demand. However, there is no reason for the beef market to return to the dizzying heights of a year ago. Dairy producers should expect smaller checks for their bull calves and cull cows.

### Grain Markets

The market was leaning bearishly ahead of USDA's Crop Production and World Agricultural Supply and Demand Estimate (WASDE) reports on Tuesday. Nonetheless, USDA managed to publish a bearish surprise with corn and soybean yields and production estimates that were notably larger than the trade anticipated. This pushed futures notably lower and they continued to fade through Friday. December corn futures settled at \$3.5825 per bushel, down nearly 15¢. November soybean futures rolled off the board on Friday at \$8.59, the lowest close ever for the contract after a more than 20¢ drop this week.

USDA expects greater demand for U.S. soybeans than it did in last month's WASDE, but not by enough to offset its higher production figures. The agency stepped up its estimates for the crush and for export. The former is good news for dairy producers, as it will increase soybean meal supplies.

USDA lowered its outlook for corn demand by a total of 100 million bushels, resulting in a significant increase in ending corn stocks after accounting for greater production. This represents a marked change in sentiment from the previous report; 2015-16 corn ending stocks are now expected to exceed inventories at the end of the 2014-15 crop year. USDA's previous assessment had called for a 9.8% drop in end-of-season corn stocks. The bins are full and the corn market is not likely to sustain a rally of any significance in the near future.

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**AN UPDATE ON THIS WEEK'S CA-FMMO HEARING PROCEEDINGS:** (*By Rob Vandenheuvel*) We are now **37 days** into the U.S. Department of Agriculture's (USDA) hearing on a California-Federal Milk Marketing Order (CA-FMMO), and folks are beginning to see the light at the end of the tunnel. The hearing session today concluded with talks of a possible end of the hearing next Wednesday, although given the inability to predict how long testimony and cross-examination can last for each witness, predicting end dates in this process is a risky business.

Having said that, we did see measurable progress this week. The Dairy Institute of California wrapped up their "case-in-chief" in support of their alternative proposal on behalf of their processor members. We also were able to receive all planned testimony on the other two proposals: one by the California Producer Handlers Association (CPHA) and one by Ponderosa Dairy. What remains next week are rebuttal witnesses from the cooperatives (California Dairies, Inc., Dairy Farmers of America and Land O'Lakes) who have the opportunity to respond to testimony they heard after they closed their case-in-chief several weeks ago, as well as some additional testimony on issues relating to California's quota program, as requested by the presiding Administrative Law Judge Jill Clifton.

So who did we hear from this past week? The early week included a wrap-up of the Dairy Institute's case presenting the details on a number of the major areas where their proposal differs from the proposal put forth by the cooperatives (and supported by California Dairy Campaign, MPC and Western United Dairymen).

The following witnesses spoke this week either on behalf of the Dairy Institute or in support of their proposal:

- **Rob Blaufuss, Dean Foods**
- **Dr. Bill Schiek, Dairy Institute of California**
- **Sue Taylor, Leprino Foods**
- **Alan Zolin, Hilmar Cheese Company**

Later in the week, USDA began to hear testimony from the advocates of "Proposal 3", which was put forth by the California Producer Handler Association (*consisting of Foster Dairy, Hollandia Dairy, Producers Dairy, and Rockview Farms*). This testimony was largely in support of the cooperatives' original proposal, but with the

caveat that they want the current treatment of their exempt producer-handler production continued in a California FMMO.

For those of you who may not be familiar with the history of this exemption, these four dairies (who have processing operations, hence the “Producer-Handler” label) currently hold an exemption on a portion of the milk they produce and process into Class 1 (fluid milk) products. This exemption dates back to the origins of milk pooling in California in the late 1960’s, and allows those farms to receive the Class 1 price for the volume of milk covered by this exemption. According to testimony, there were originally 49 of these producer-handlers who received this exemption at the start of California’s milk pooling program. That exemption cannot be transferred outside the family who originally received it, and the four dairies that make up the CPHA are the last remaining dairies that hold this exemption.

The total volume of milk covered by this exemption is approximately 20 million pounds of milk per month, spread out amongst the four producer-handlers. Testimony confirmed that these four companies buy much more milk than that, and are regulated just like any other processor on those additional volumes of milk, even if it is purchased from their own dairy. (*The exception is if the milk is purchased from outside of California, which we’ll discuss more below with regard to the Ponderosa Dairy proposal.*)

The witnesses speaking on behalf of the CPHA proposal largely discussed the history of the exemption and its connections to the traditional quota program operated in California. Those witnesses included:

- **Ted DeGroot, Dairyman in California/Nevada and owner of Rockview Farms**
- **Anthony Gonsalves, Partner in Joe A. Gonsalves & Son and Sacramento Representative for the CPHA; he is also the son of Assemblyman Joe Gonsalves, who authored the Gonsalves Milk Pooling Act of 1967**
- **Dennis Lund, Controller for Foster Dairy**
- **Richard Shehadey, Dairyman in Fresno County and owner of Producers Dairy**
- **Frank Otis, Dairyman in Stanislaus County and owner of Foster Dairy**
- **Gino Tosi, Consultant for Producer Handler Association**

After concluding the testimony in support of the CPHA proposal, **Gino Tosi** and **Ted DeGroot** conducted a second round of testimony in support of “Proposal 4”, which was put forth by Ponderosa Dairy – a dairy in Amargosa Valley, NV owned by the DeGroot family. This proposal seeks to provide the opportunity to essentially exempt out-of-state milk from participating in a potential California FMMO pooling system. As noted above, this dairy shares ownership with Rockview Farms in Downey, CA. Under California rules, the dairy is currently able to sell milk into their Southern California plant and be paid a “plant blend” milk price, which essentially means there is no association with the California milk pool. Under the proposed CA-FMMO put forth by both the cooperatives and the Dairy Institute, Rockview Farms would be required to account to the pool for all milk purchases, even if the milk originates outside of California. Proposal 4 is aimed at preserving the current exemption from the pool for out-of-state milk being sold in California.

In addition, USDA received testimony this week from several out-of-state dairy farmers who shared concerns about the potential impact a California-FMMO could have on milk prices in their respective regions. Those witnesses included:

- **Richard Sparrow, Dairyman in Kentucky and President of Kentucky Dairy Development Council**
- **Walter Whitcomb, Dairyman in Maine and Commissioner of Maine Department of Agriculture, Conservation and Forestry**
- **J. Everett Williams, Dairyman in Georgia and President of Georgia Milk Producers**

The common theme amongst these three dairymen – which we also heard earlier in the hearing – is concern about the USDA economic modeling data that was presented earlier in the hearing. That model indicated that if California dairies were paid based on Federal Order prices, we would see an increase in producer revenue of

about \$700 million a year, which the model assumed would result in significant growth in California's milk production, which in turn would drag down milk prices in most other regions of the country. I wrote an article on that analysis earlier this year (<http://www.milkproducerscouncil.org/081415econometricanalysis.htm>).

While an economic model can be a valuable tool, at the end of the day it is really an educated guess on what might happen, limited to the data we currently have available. However, out-of-state producers have nonetheless taken notice, and their message to USDA was that there needs to be a consideration of those national impacts if a CA-FMMO is implemented. All the witnesses supported California producers' right to advocate for a CA-FMMO, but expressed caution.

As usual, we also had the pleasure of hearing from several more California dairy farmers this week in support of the cooperatives' proposal. We thank all the producers who have taken time out of their schedules to come express their support for the cooperatives' proposal. Those producers who testified this week were:

- **Lantz Adams, Dairyman in Kings County, CA (14 year old son of Rick and Michelle Adams)**
- **Michelle Adams, Dairywoman in Kings County, CA**
- **Rick Adams, Dairyman in Kings County, CA**
- **Antoinette Duarte, Dairywoman in Elk Grove, CA**
- **Linda Lopes, Dairywoman in Turlock, CA**
- **Melvin Medeiros, Dairyman in Kings County, CA**
- **Christina Medeiros, Dairywoman in Kings County, CA**
- **James Netto, Dairyman in Hanford, CA**

Week 9 of the hearing will convene on Monday at 9 am at the "The Falls Event Center," located at 4105 W Figarden Dr, Fresno, CA 93722. **For those of you planning to attend, PLEASE NOTE THE LOCATION CHANGE.** Those folks who cannot attend but are interested in listening to the hearing live can tune into the audio feed at: <https://www.ams.usda.gov/live>. USDA also continues to post the available transcripts to their website at: <http://www.ams.usda.gov/rules-regulations/moa/dairy/ca/transcripts>. Remember that there is a two-week lag in getting these transcripts finalized and posted.

**ONE IMPORTANT ON AUDIO ACCESS:** While there has been a consistent group of roughly 25-35 folks at any given time listening in to the live audio feed on youtube.com, a new option has emerged for anyone interested in going back and listening to previous recordings. **Tom Van Nortwick, editor of Agribusiness Dairyman, has created a website ([www.my-dairyman.com](http://www.my-dairyman.com))** that has pulled together a significant portion of the audio from the past eight weeks of hearings. He has been able to split it up into morning and afternoon sessions for many of the days, as well as pull together the hearing exhibits as they become available on USDA's website. **Our thanks to Tom for making this information available to anyone interested!**

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**MARGIN PROTECTION PROGRAM PAPERWORK DUE BY NOVEMBER 20<sup>TH</sup>:** (By Rob Vandenheuvel) For anyone interested in signing up for the Margin Protection Program (MPP) or if you already signed up last year and need to designate your coverage level for 2016, the deadline to submit that paperwork to your local Farm Services Agency (FSA) office is **NEXT Friday, November 20<sup>th</sup>**. For dairies that already signed up for the program last year, the process this year is very simple, including a 2-page document (Form CCC-782) and your \$100 administration fee. Any premiums associated with enrolling in higher levels of coverage would be due by September 2016 (this deadline was extended from last year's earlier due date).

MPC members needing assistance in evaluating your options or processing this paperwork should contact Kevin ([kevin@milkproducers.org](mailto:kevin@milkproducers.org)), Betsy ([betsy@milkproducers.org](mailto:betsy@milkproducers.org)) or myself ([rob@milkproducers.org](mailto:rob@milkproducers.org)), or call the MPC office at (909) 628-6018.