



Milk Producers Council

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TO: Directors & Members

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FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	- \$.0150	\$1.5250
Barrels	- \$.0175	\$1.3525

Weekly Average, Cheddar Cheese

Blocks	- \$.0490	\$1.5190
Barrels	+ \$.0105	\$1.3615

CHICAGO AA BUTTER

Weekly Change	+ \$.0525	\$2.6425
Weekly Average	+ \$.0440	\$2.6340

DRY WHEY

Dairy Market News	w/e 06/30/17	\$1.4375
National Plants	w/e 06/24/17	\$1.4757

NON-FAT DRY MILK

Week Ending 6/23 & 6/24

Calif. Plants	\$0.9024	7,660,873
Nat'l Plants	\$0.9212	17,337,158

Prior Week Ending 6/16 & 6/17

Calif. Plants	\$0.8973	6,496,276
Nat'l Plants	\$0.9199	11,919,315

Fred Douma's price projections...

July 1 Est:	Quota cwt. \$16.66	Overbase cwt. \$14.96	Cls. 4a cwt. \$16.50	Cls. 4b cwt. \$14.40
Jun '17 Final:	Quota cwt. \$17.01	Overbase cwt. \$15.31	Cls. 4a cwt. \$15.90	Cls. 4b cwt. \$15.60

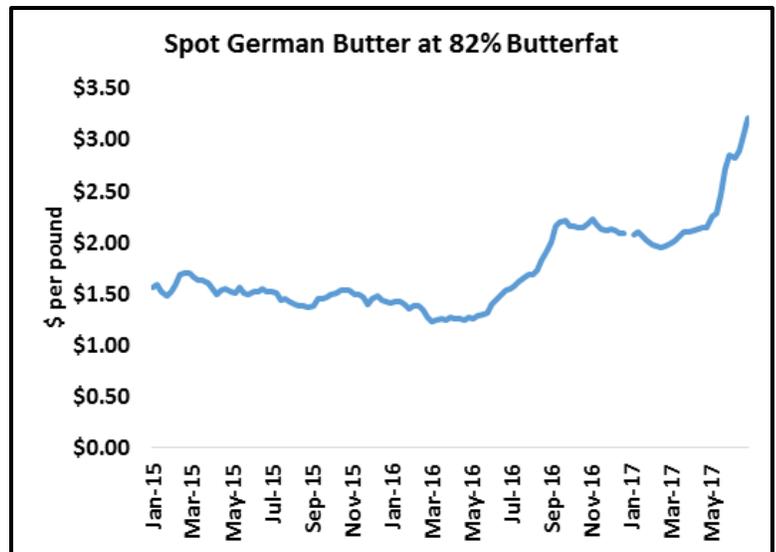
Market commentary

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

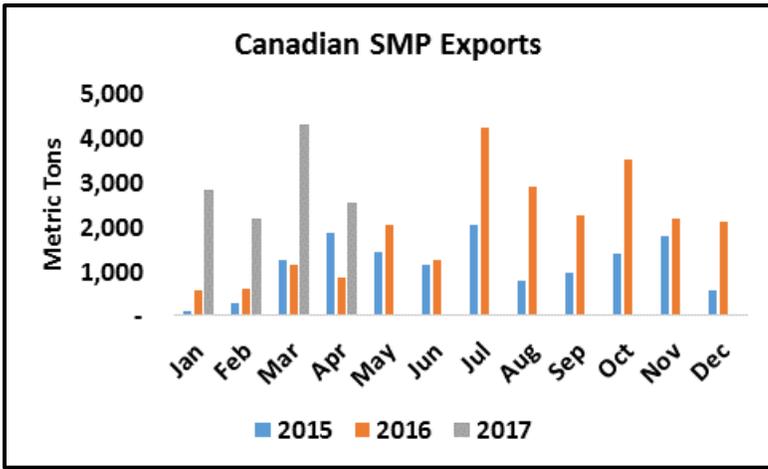
Milk & Dairy Markets

The world has cheese and milk powder in abundance, but butter is much more difficult to come by. The impacts of this product imbalance are rippling across the globe in myriad ways. In Europe, butter prices are climbing relentlessly, while the government's mountain of milk powder languishes. In the U.S., spot butter stands near 18-month highs.

In Canada, five provinces have voted to – once again – raise milk production quotas in order to meet butter demand with fewer imports. Beginning July 1, dairy producers in Prince Edward Island, New Brunswick, Nova Scotia, Quebec, and Ontario will be allowed to sell 5% more milk than the record-breaking volumes of 2016. Like the rest of the world, Canada is already burdened with a surplus of skim milk powder (SMP), which prompted them to create a new class of milk. The new Class 7 milk protein price is equal to the lowest global price, crowding out imported milk proteins, including ultra-filtered milk and milk protein concentrates from the U.S. This controversial change has reduced the volume of milk that manufacturers in the Midwest and Northeast can process, as they have lost a key market for filtered products.

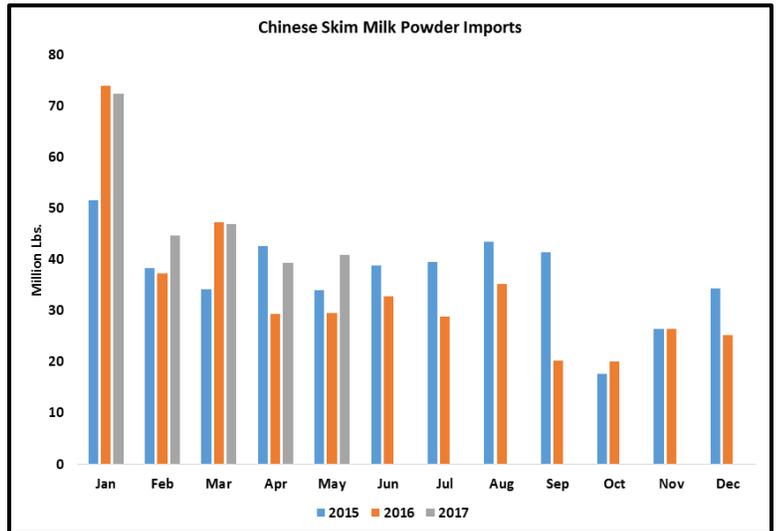


Canadian manufacturers are churning more butter and turning the leftovers into SMP. Due to the new Class 7 rules, it is among the cheapest SMP in the world, and Canadian SMP exports have predictably swelled. This may be a violation of WTO rules, and it has attracted the ire of Canada's competitors in the dairy export arena. In a



joint letter to their respective trade ministers, dairy groups from Argentina, Australia, the European Union, Mexico, New Zealand, and the United States called for increased pressure on Canada to reverse its policy changes. Jaime Castaneda, senior vice president of trade policy for the U.S. Dairy Export Council and National Milk Producers Federation, said Canada “is now actively using policy tools to help its industry dispose of excess milk powder into global markets at fire-sale pricing.” But the wheels of diplomacy turn slowly. In the meantime, Canada will continue dumping SMP onto a global market that already has plenty.

Fortunately, China’s appetite for the most abundant products is improving. China imported 40.8 million pounds of SMP in May, up 39% from a year ago. January-through-May Chinese SMP imports are up 12%. Year-to-date Chinese cheese imports are up nearly 25% from the first five months of 2016, and May cheese imports were up 48% year-over-year. However, Chinese whole milk powder (WMP) imports were down 18% from a year ago, pushing combined milk powder imports down 4% from May 2016.



In late May, the high cost of butterfat lifted the price of U.S. cheese as well. But the strength didn’t last; the U.S. cheese market is weighed down by heavy supplies and spot cheese prices have fallen almost without pause over the past month.

This week CME spot Cheddar blocks slipped 1.5¢ to \$1.525/lb. Barrels were down 1.75¢ at \$1.3525. Spot nonfat dry milk fell 0.25¢ to 84.5¢. Butter continued to climb, jumping 5.25¢ to \$2.6425. Class III futures posted double digit losses. The September contract plunged 43¢. Class IV futures were mixed but mostly lower.



California and Arizona have been scorched by triple-digit temperatures; milk production and components have taken a hit. But much of the northern U.S., from the Pacific to the Great Lakes, has enjoyed cooler than normal weather. July promises to be more summery, but given the size of the dairy herd, there will be no shortage of milk.

Grain Markets

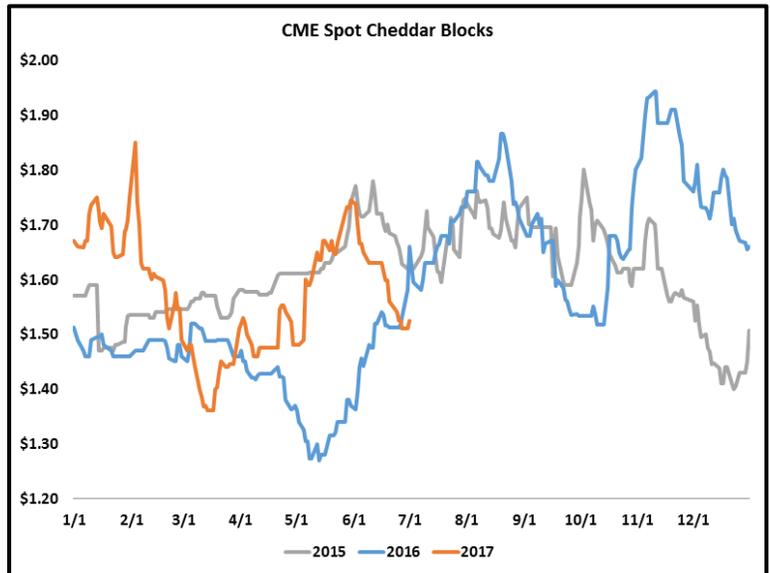
USDA roiled the market with its Acreage and quarterly Stocks reports. September corn futures surged 11.5¢ per bushel today and settled at \$3.81,

up more than 15¢ on the week. August soybean futures jumped 26.25¢ on the day and closed at \$9.47, nearly 40¢ higher than last Friday.

The agency reported a negligible increase in soybean area, putting it at 89.5 million acres. However, the market had expected a larger gain. Corn area also increased, from 89.99 million acres in the March Planting Intentions report to 90.9 million acres today. Acreage for both crops was up noticeably in North Dakota, which has been severely stressed by drought and in any event, is not a high-yielding state.

USDA reported lower than expected stocks of soybeans on June 1, while corn and wheat inventories were larger than anticipated.

The trade honed in on the smaller-than-expected soybean stocks and acreage figures, and the grains followed soybeans higher. The grains were also propelled by the drop in both U.S. and Canadian wheat acreage. Statistics Canada reported that, for the first time ever, canola acreage will exceed wheat area. After the big sell-off over the past two weeks, there was plenty of room for corn and soybeans to rebound, and the wheat market continues to find fundamental reasons for strength. Today's reports did not give the trade confidence that grains and oilseeds would be plentiful no matter the weather. As we head into pollination season the forecast will continue to set the tone in the grain and oilseed markets.



Big step forward in quest to shore up California's water supply

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

As we all know, Central and Southern California are for the most part, desert areas with very low annual rainfall. Yet millions of people and millions of acres of very productive farmland are sustained year after year by means of irrigation. The backbone infrastructure that makes this wonderful place we call home possible is primarily a plumbing system that collects and transports water from areas of abundance in the Northern part of our state to dry areas of need in the Central and Southern part of California.

The two major water delivery systems in the heart of California are the federally sponsored Central Valley Project (CVP) and the State of California sponsored State Water Project (SWP). The SWP exclusively, and the CVP substantially, gather the water supply that they deliver behind big dams, upstream of the Sacramento River, in the Northern part of California. Nature and gravity are sending that water out to the ocean, but before it enters the San Francisco Bay on its way to the ocean, it passes through the Delta. As you may remember from your school days, a delta is a geographic region where fresh water meets the salt water environment of an ocean or sea, and we learned about the Nile Delta in Egypt, or the Mississippi Delta in the American South.

In California, we have our own Delta where the Sacramento River from the North and the San Joaquin River from the South converge and head out to the Pacific Ocean. This is an area about 60 miles long and 40 miles across where all kinds of important ecological processes take place. It is also a place where agriculture has been developed and flourished through the decades.

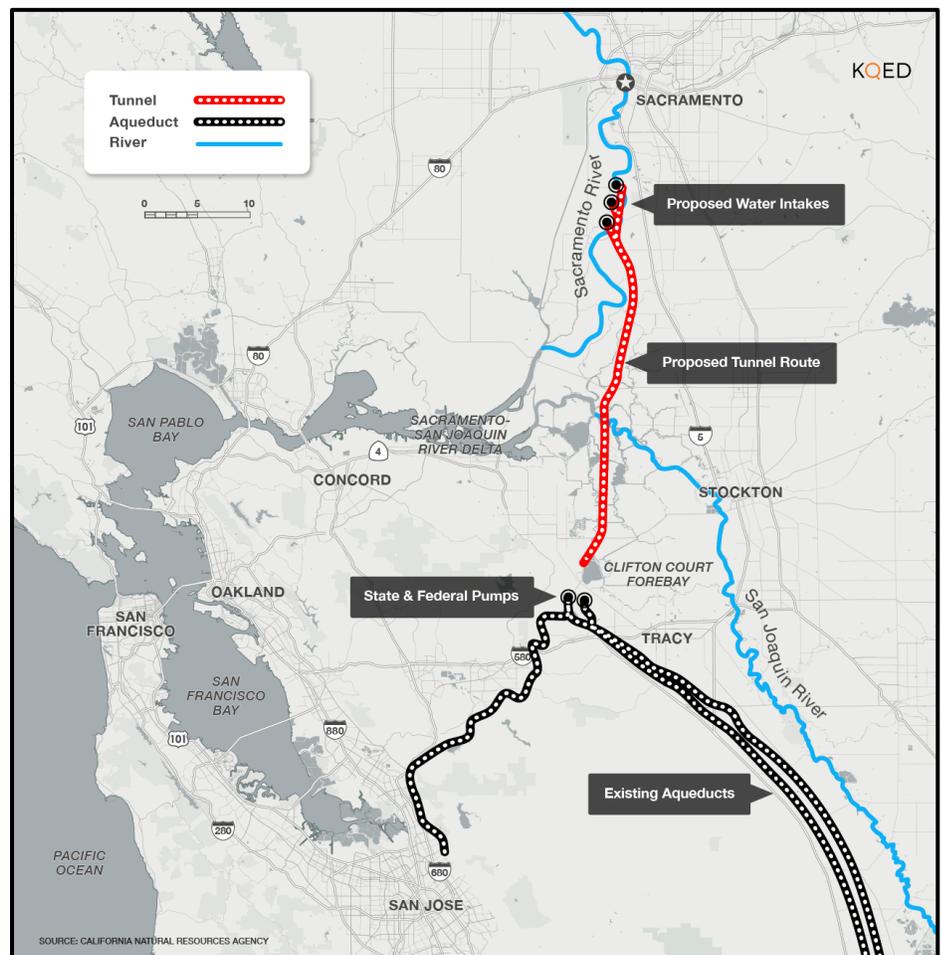
When the engineers first conceived and then designed and built the CVP and SWP systems, they knew that the Delta was going to be a vulnerable part of this system. This is because these projects are designed to divert water that nature is sending to the sea, into canals for delivery to the dry parts of California. The Delta itself has been significantly altered over the past 150 years. Its soil is primarily peat, which is accumulated dead plant material

from thousands of years of being a marshy area. One of the characteristics of peat soil is that when it is plowed and exposed to the air it oxidizes and disappears.

The Delta area today consists of islands that are really holes, because the land surface has fallen in some cases by 30 plus feet. The water that now flows through the Delta is up above the land and is held there by levies consisting of peat soil which are very susceptible to failure. And they do fail.

In addition, a number of endangered species live in the Delta. Protecting them is the Endangered Species Act, the most powerful environmental law ever conceived by man. This law governs the operation of the CVP and SWP because their diversion points impact these endangered fish. Millions of acre feet of fresh water that could have been used to help California deal with the consequences of drought over the last few years were lost to the ocean because of pumping restrictions brought about by Endangered Species Act regulations. For these reasons, from the beginning, the designers of these projects knew that there needed to be a by-pass facility constructed to be able to move the relatively small percentage of the total flow of the Sacramento River that would be diverted into the CVP and SWP canals through or around the Delta, so as not to depend on the Delta as a water transfer valve.

Building this by-pass facility has proved to be the most politically difficult water infrastructure project in California. Many attempts to build either a peripheral canal (a canal that would take the export water around the periphery of the Delta) or some type of isolated through-Delta canal have been opposed by either or both environmentalists, local Delta farmers or in the case of the 1982 effort, powerful Central Valley farming companies, who thought the “deal” to build the canal gave too much to the environment. It is interesting history for another day. But today what we have before us is the latest effort named the California Water Fix. Sponsored by Governor Brown, it proposes to build two side-by-side tunnels (or big pipelines) to transport the export water directly from new intakes on the Sacramento River (north of the Delta) 35 miles underground directly to the California Aqueduct and Delta-Mendota Canal.



What happened this week is that the federal agencies in charge of enforcing the Endangered Species Act (ESA) issued biological opinions that the construction and operation of the California Water Fix would not jeopardize the continued existence of the ESA listed species or destroy or adversely modify critical habitat for those species. This is a huge step forward for the California Water Fix. There are a number of important steps ahead, not the least of which is that SWP and CVP water users need to be willing to pay for the costs of building the project. But without the actions of the federal agencies in charge of the ESA, no progress is possible.

Until a reliable delivery system is constructed in the Delta, the backbone water infrastructure that makes

California possible remains extremely vulnerable, and therefore undermines our long-term success as a society. The stakes are large. We stand on the shoulders of previous generations that made the investments that made our success possible. We owe future generations no less.

More information about the California Water Fix is available [here](#).

CDQAP issues Emergency Mortality Disposal Advisory

By Kevin Abernathy, MPC General Manger

The California Dairy Quality Assurance Program (CDQAP) published today an Emergency Mortality Disposal Advisory, which provides guidance for producers whose normal mortality disposal was disrupted due to the recent heatwave. Read the full CDQQP advisory [here](#).

Producers have the following options for disposing of carcasses:

1. Directly transport the carcasses to an alternative rendering facility or permitted landfill if one can be located which will accept them.
2. Temporarily store mortalities on their farm in composting piles for later transport to a permitted landfill.
3. Permanently bury mortalities on farm in an emergency landfill. This process requires a permit application, fees and paperwork with the Regional Water Quality Control Board.

More information about each of the options as well as heat stress information related to dairy cows and employees is available in the full advisory at the link above.

For questions or help regarding mortality disposal, please contact MPC field staff or the office at office@milkproducers.org.

Follow-up: New dairy cattle official identification requirements

By Kevin Abernathy, MPC General Manger

In the [March 31 edition](#) of the MPC Newsletter, we provided you an update on new CDFA dairy cattle official identification requirements, which took effect on April 1, 2017. Here's a follow-up to that article, with a letter from Dr. Annette Jones, State Veterinarian, which provides more information about the new requirements. Within the letter, are links to a list of approved tagging sites and summaries of changes for animal disease traceability and trichomonosis.

Read the full letter from Dr. Jones [here](#).

