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DATE: November 20, 2015
 TO: Directors & Members

PAGES: 5
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0500 \$1.5700
 Barrels + \$.0350 \$1.5025

Weekly Average, Cheddar Cheese

Blocks - \$.0900 \$1.5760
 Barrels - \$.1020 \$1.4460

CHICAGO AA BUTTER

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

DRY WHEY

Dairy Market News w/e 11/20/15 \$0.2325
 National Plants w/e 11/13/15 \$0.2313

NON-FAT DRY MILK

Week Ending 11/13 & 11/14

Calif. Plants \$0.7988 10,631,775
 Nat'l Plants \$0.8219 16,705,886

Prior Week Ending 11/6 & 11/7

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

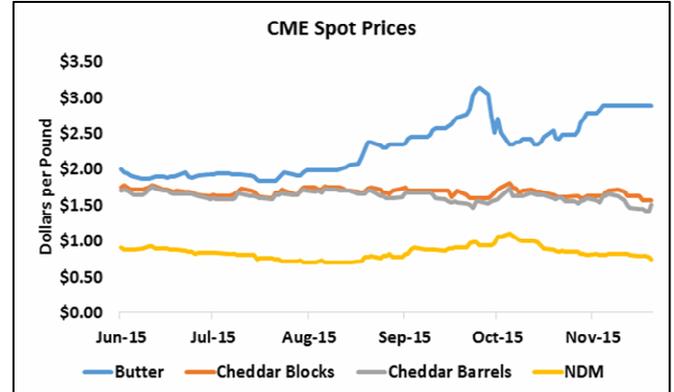
FRED DOUMA'S PRICE PROJECTIONS...

Nov 20 Est: Quota cwt. \$16.73 Overbase cwt. \$15.04 Cls. 4a cwt. \$16.49 Cls. 4b cwt. \$14.42
 Last Week: Quota cwt. \$16.95 Overbase cwt. \$15.26 Cls. 4a cwt. \$16.95 Cls. 4b cwt. \$14.58

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

Milk & Dairy Markets

The cheese market has been a bit of a homebody this year, never straying too far from the comfort of its narrow trading range. But last week CME spot Cheddar barrels ventured out, moving lower amidst a flurry of offers. They strayed even farther this week, dropping to \$1.415/lb. on Thursday, their lowest price since the spring of 2012. The discount enticed buyers, who bid barrels back to \$1.5025 on Friday, up 3.5¢ for the week. Spot Cheddar blocks dropped a nickel to \$1.57.



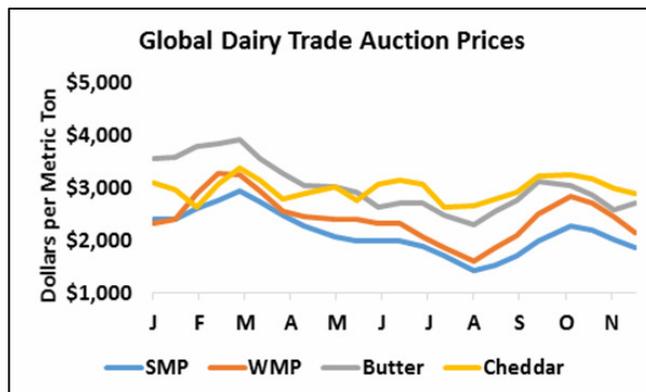
Wholesale whey prices are looking a little better. In October the midpoint of the mostly range averaged 20.88¢ in the West, short of the 21¢ required to add any value to the California 4b price. But so far this month it has averaged 23¢, enough to offset some of the decline in cheese prices in the 4b formula. However, whey futures continue to slip, and Class III futures followed suit. Most contracts settled between 10¢ and 30¢ lower than last Friday.

The silence in the spot butter market is deafening. Wednesday marked the eighth consecutive trading day without a bid or offer. On Thursday, a single bid surfaced. On Friday, there was a low-ball bid of \$2.48, and spot butter held at \$2.885, unchanged for the 11th session and still vastly higher than the global market. Meanwhile milk powder prices retreated. Spot nonfat dry milk (NDM) fell 6.5¢ to 73.5¢, the lowest price since mid-August. Nearby Class IV futures were cheered by the steady performance in spot butter, and the December contract gained 76¢ this week. But most 2016 contracts closed in the red.

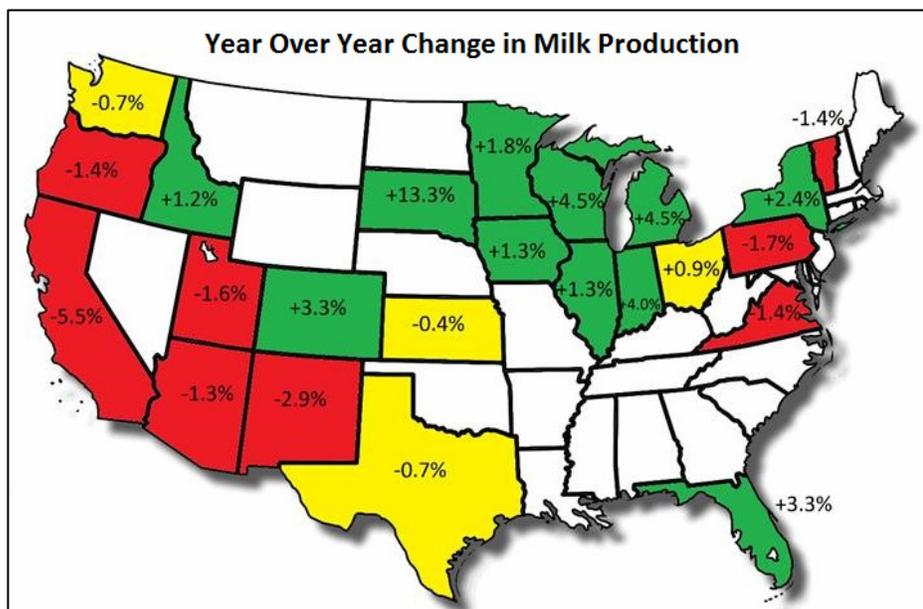
Dairy product prices moved mostly lower at the Global Dairy Trade (GDT) auction. Only butter managed to gain ground; the average winning price was 5.6% higher than at the previous event. The trade-weighted index dropped

7.9%. Cheddar prices slipped 5%, and milk powder was notably weak. Skim milk powder (SMP) fell 8.1% and whole milk powder (WMP) was 11% lower. On a pound of protein basis, SMP at the GDT was equivalent to 90¢ NDM. U.S. manufacturers are offering some of the cheapest milk powder in the world, but global demand remains lackluster.

U.S. milk production totaled 17.1 billion pounds in October, only 0.1% greater than a year ago. The dairy herd contracted to 9.309 million head, 1,000 fewer than in September, but still 32,000 greater than October 2014.



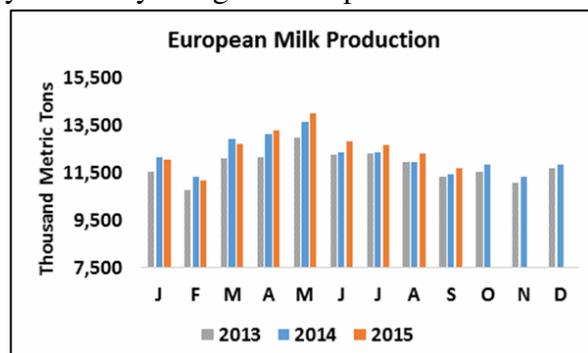
Production continues to slow in the West. California output typically climbs in October as cooler temperatures increase production per cow. But this year daily average production in October fell short of September volumes, pushing the Golden State to a year-over-year deficit of 5.5%. Given the steady drip of herd dispersals and the high cull rate, perhaps the drop in output has more to do with a shrinking herd than production per cow. California wasn't the only state with a shortfall. Arizona, New Mexico, Oregon, Utah, and Texas all reported lower production than a year ago. Output in the Texas panhandle is likely to rebound as a number of producers in the region intend to expand next year.



Milk is still gushing in the Midwest. Both Wisconsin and Michigan stepped up output by 4.5% from a year ago, and Indiana production climbed 4%. Expansions in South Dakota pushed milk output up 13.3% from a year ago, and both Florida and Colorado increased production by 3.3%.

Dairy producers in the Northeast have tapped the brakes after overwhelming processing capacity earlier this year. A few cooperatives in the area have restricted their members from expanding as they don't have a ready home for new milk. Capacity constraints are also an issue in the Midwest, and the 2016 spring flush may once again merit big discounts. Dairy producers there will have to confront a lower blend price and perhaps once again pour some milk down the drain. This may prove sufficiently disheartening to stymie future growth, although it hasn't yet.

In Europe milk production continues to exceed year-ago levels by a healthy margin. In September collections topped last year by 2%, excluding output from Spain which has not yet reported preliminary data. The rate of year-over-year growth has slowed from 2.8% in July and 2.9% in August. However, production is still great enough to weigh on prices and as *Dairy Market News* noted last week, "Prices are not yet low enough to restrict milk flow." Indeed, year-over-year gains have accelerated in Germany and France, the two largest milk-producing nations in the Eurozone. Given Europe's size, sustained growth in milkflows would easily fill any void left by a disappointing season in New Zealand.



For the week ending November 7, dairy cow slaughter totaled 60,261 head, up 7.9% from a year ago and the highest kill in any week since March. For the year-to-date, culling is 4.1% ahead of last year's pace. Slaughter in Region 5 – Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin – has not been this high since January.

Grain Markets

After sizeable declines last week, the corn and soybean markets managed a modest bounce. December corn futures settled at \$3.6325, up a nickel. January soybeans closed at \$8.575, up 2.25¢. Weekly export sales figures for both crops impressed this week, propelling the futures higher.

But future demand for U.S. crops from overseas remains in question. The weather in South America is favorable. Although it's early in the season, analysts are pushing their estimates of both acreage and production a little higher. Voters in Argentina will head to the polls this weekend. If they elect opposition candidate Mauricio Macri, farmers are sure to respond to his promises for lower export taxes and a freer currency by stepping up soybean production and sales.

China has been buying up huge volumes of soybeans and they are on pace to import a record-breaking total in November. Stockpiles are growing and Chinese soybean meal prices are falling quickly. Dairy producers are painfully aware of the impact that a sudden shift in Chinese appetites can have on a market, and soybean exporters may face a similar change of fortunes in the coming months. U.S. exporters may have to contend with greater competition for a much smaller market even as the strong dollar puts U.S. crops at a pronounced disadvantage.

CA-FMMO HEARING WRAPS UP!!: *(By Rob Vandenheuvel)* For our readers in the Fresno area, you may have heard a celebratory cheer around noon on Wednesday, as USDA's hearing on a California Federal Milk Marketing Order (CA-FMMO) wrapped up. This week's 2 ½ days of hearing included "rebuttal" testimony from the cooperatives, as well as some brief testimony from the Dairy Institute of California and the California Producer Handlers Association on the issue of quota.

First, with regard to the rebuttal testimony, since the supporters of Proposal 1 (*submitted by California Dairies, Inc., Dairy Farmers of America and Land O'Lakes, and supported by California Dairy Campaign, MPC and Western United Dairymen*) presented our case first, we were given the opportunity to submit testimony and evidence in response to issues presented after that by the Dairy Institute of California (DIC), the California Producer Handler Association and Ponderosa Dairy. Most of this testimony included information and exhibits directly refuting claims made by the DIC and their witnesses during the presentation of their case in support of Proposal 2. This rebuttal also included some modifications to Proposal 1 in response to evidence heard later in the hearing. Those modifications included:

- A provision allowing small manufacturers to be non-pool plants and therefore be exempt from pricing regulations (*small manufacturers were defined as purchasing no more than 300,000 lbs of milk per month*).
- Expanding the producer/handler provisions to allow for dairies that are vertically-integrated and manufacturing Class II, III and IV products to receive the same treatment as current FMMO producer/handlers of fluid milk. These operations must have control of both the dairy and the manufacturing operation, process and sell no more than 3 million lbs of milk per month, and purchase no more than 150,000 lbs of milk per month from outside the operation.
- Modify the Transportation Credit program (*which is currently known as the Transportation Allowance program under the California State Order*) in two ways: (1) limit the number of miles eligible for the credit to 175 (*it was previously proposed with a 225 mile maximum*); and (2) allow the credit for *any* milk sold to a plant with greater than 50% Class I/II utilization (*it was previously proposed for milk from California dairy farms only*).

While these modifications are obviously different from the original proposal submitted by the three cooperatives, they now become part of that proposal under consideration by USDA. They represent areas that the legal team for the cooperatives felt needed to be addressed after hearing testimony from the other three proposals.

Testifying this past week on behalf of the cooperatives in presenting this rebuttal testimony was:

- **Dr. Eric Erba**, *California Dairies, Inc.*
- **Pete Garbani**, *Land O'Lakes*
- **Lon Hatamiya**, *Hatamiya Group*
- **Elvin Hollon**, *Dairy Farmers of America*
- **Dennis Shad**, *Land O'Lakes*

We also heard testimony from four more California dairy farmers this week. Again, a heartfelt thanks to all the dairy farmers who took time away from their operations to come provide their perspective to USDA in this hearing. This week's witnesses included:

- **Joey Airoso**, *Dairyman in Tulare County*
- **Tom Barcellos**, *Dairyman in Tulare County, CA*
- **Michael Oosten**, *Dairyman in San Jacinto, CA*
- **Case Van Steyn**, *Dairyman in Galt, CA*

Finally, there were two witnesses that testified on issues surrounding the value of California's quota program. This portion of the hearing was vigorously objected to by the cooperative team, but was the result of Judge Jill Clifton's request to hear testimony related to the valuation of dairy-farmer-owned quota.

- **Dr. Bill Schiek**, *Dairy Institute of California*
- **Dennis Lund**, *Controller, Foster Dairy Farm*

It is important to note that the legal counsel for the cooperatives, Marvin Beshore, not only objected to this presentation of evidence at the sole request of Judge Clifton, but also made it abundantly clear that the cooperatives strongly support the continuation of the California quota program within a California Federal Milk Marketing Order, and are not willing to even entertain any ideas about retiring or diminishing the value of that quota through this Federal Order process.

Before going into the next steps, I thought it would interesting to give a "stat-line" tallying up what took place over the past couple months. Here's the breakdown:

- 40 days of hearing, spread out over 9 weeks (September 22 – November 18)
- By my count, 83 witnesses testified, some multiple times. Of that total:
- Testifying in support of Proposal 1 (*cooperative/producer proposal*):
 - **32 dairy farmers** (*31 California dairy farmers and 1 from Nevada*)
 - **11 staff/consultants from the cooperatives and trade associations**
- Testifying in support of Proposal 2 (*submitted by Dairy Institute of California, on behalf of their California processor members*):
 - **21 representatives of individual processors**
 - **4 staff/consultants from or arranged by Dairy Institute of California**
- Testifying in support of Proposal 3 (*submitted by the California Producer Handler Association*)
 - **4 individuals representing 3 of the 4 current exempt California producer handlers**
 - **2 consultants retained by the California Producer Handler Association**
- Testifying in support of Proposal 4 (*submitted by Ponderosa Dairy, a dairy in Amargosa Valley, NV*)
 - **2 Nevada dairy farmers** (*one that also testified as a California producer/handler in support of Proposal 3*)
 - **1 consultant retained by Ponderosa Dairy** (*who also was one of the 2 consultants testifying in support of Proposal 3*)

Next Steps: With this hearing now in the rearview mirror, we move to the next phase of the process – verifying the accuracy of the hearing transcript, and drafting post-hearing briefs. That process will take place between now and mid-May 2016 (there are two separate briefing periods – an initial brief and a reply brief). At that point, USDA will begin the process of developing a “Recommended Decision” based on the evidence in the record. No timetable has been set for that to be completed, although it’s probably realistic to estimate that would be completed late next year. After a comment period and additional revisions, a “Final Decision” is put forth by USDA for a referendum vote by producers. All expectations are that would take place sometime in 2017. So while the hearing is behind us, we still have a lengthy process in front of us.

A final note on the presentation of Proposal 1: While MPC has proudly reported that we are co-supporters of Proposal #1, we were merely a part of a much larger team, led primarily by a few key individuals. **Marvin Beshore** – longtime legal counsel for DFA and counsel for all three cooperatives for this process – led the legal team that included **John Vlahos** (*longtime California dairy attorney and also co-counsel for the three cooperatives in this hearing*) and his associate **Megan Oliver Thompson**. On the economic side, **Elvin Hollon** – economist for DFA – took on the lion’s share of the presentation duties, and was assisted often by his fellow economists **Dr. Eric Erba** (CDI), **Tom Wegner** (LOL) and **Dennis Shad** (LOL).

Together, this team put forward a strong presentation of testimony/exhibits in support of Proposal 1 (and of equal importance, strong cross examination of the testimony/exhibits in opposition of the proposal). Producers should be proud of the representation they received in this hearing, and on behalf of MPC, we are extremely appreciative of the tireless work that went into presenting such a strong and coordinated case on behalf of California producers. And for what it’s worth, I believe the team provided USDA with significant justification in support of implementing a CA-FMMO that mirrors the cooperative proposal. Only time will tell.

Now that the hearing is over, for those of you who would like to go back and listen to parts of the hearing, I would remind you that **Tom Van Nortwick, editor of Agribusiness Dairyman, has created a website (www.my-dairyman.com)** that has pulled together a significant portion of the audio from the nine weeks of hearing. 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 once again to Tom for making this information available!**

SOME GREAT TESTIMONY FROM ONE OF YOUR FELLOW CALIFORNIA PRODUCERS: (*By Rob Vandenheuvel*) While there were 32 extremely valuable producer witnesses during the course of this hearing, I thought our readers might enjoy the opportunity to read through the testimony of one of those producers in particular. Two weeks ago, Rien Doornenbal – dairyman from Escalon, CA – took the stand and presented a 10-page statement entitled, “Why Now?” His statement went through some history of his family and the California industry, and did a great job of outlining how we got to this position of unified support of a CA-FMMO proposal by the three major cooperatives and the three major producer trade associations. **I thought it was a shame that Rien put so time into preparing this testimony, only to be heard by the 30-35 individuals in the room and the ~30 folks listening in on youtube!** So I’ve posted the testimony to our website, which you can link to at: **<http://www.milkproducerscouncil.org/doornenbaltestimony.pdf>**. **Our thanks to Rien for the significant time and effort he spent in preparing and delivering this statement that undoubtedly represents the sentiments of many, if not most, of his fellow California dairy producers.**

SCHEDULING NOTE: Due to the Thanksgiving holiday next week, MPC will NOT be publishing its weekly newsletter. Publication will resume on Friday, December 4th. On behalf of the board and staff, we hope you and your families have a wonderful Thanksgiving!