

MPC WEEKLY FRIDAY REPORT

DATE: MAY 17, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 5



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	- \$.0075	\$1.6725	WEEKLY CHANGE	N.C.	\$2.3400	WEEK ENDING 05/11/19	
Barrels	- \$.0850	\$1.6250	WEEKLY AVERAGE	+.0590	\$2.3615	NAT'L PLANTS	\$1.0088 22,319,876
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 05/04/19	
Blocks	- \$.0345	\$1.6630	DAIRY MARKET NEWS	W/E 05/17/19	\$.3700	NAT'L PLANTS	\$0.9914 31,907,298
Barrels	- \$.1050	\$1.6175	NATIONAL PLANTS	W/E 05/11/19	\$.3840		

CALIFORNIA FEDERAL MILK MARKETING ORDER PRICE PROJECTIONS

PRICE PROJECTIONS	CLASS I ACTUAL (RANGE BASED ON LOCATION)	CLASS II PROJECTED	CLASS III PROJECTED	CLASS IV PROJECTED
MAY 17 EST	\$18.02 - \$18.52	\$16.48	\$16.30	\$16.28
MAY 10 EST	\$18.02 - \$18.52	\$16.37	\$16.33	\$16.15

APRIL 2019 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

APR '18 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT
MINIMUM CLASS PRICE	\$17.36 (TULARE) \$17.86 (L.A.)	\$16.38	\$15.96	\$15.72	\$15.92 (TULARE) \$16.42 (L.A.)	\$15.54 (TULARE) \$16.04 (L.A.)
PERCENT POOLED MILK	20.7%	5.2%	28%	46.1%	100% (2.18 BILLION LBS. POOLED)	



Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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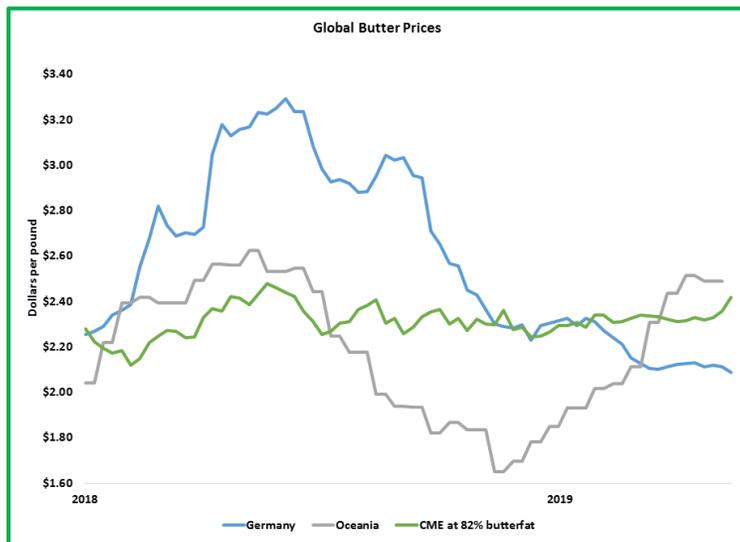
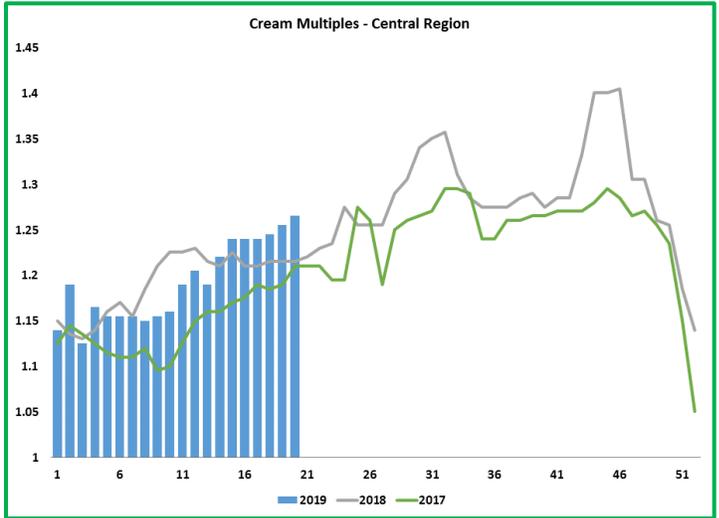
Milk & Dairy Markets

The United States, Mexico and Canada have reportedly reached a deal to waive the Trump administration's Section 232 steel and aluminum tariffs. That's great news for dairy. The metal tariffs prompted Mexico to retaliate with a 10% tariff on U.S. cheese imports, and it's likely that Mexico will drop the punitive border tax. The Section 232 tariffs have also stood in the

way of Congress taking up a vote on the U.S.-Mexico-Canada Agreement (USMCA) to replace the North American Free Trade Agreement (NAFTA). If the USMCA can pass Congress, it will phase in limitations on Canadian skim milk powder (SMP) exports. In the meantime, our friendly neighbors to the north have been dumping SMP abroad at rock-bottom prices.

The cheese and Class III markets moved sharply higher in response to the positive trade news. Most contracts settled 30¢ to 40¢ higher than last Friday, and the August through December Class III contracts climbed back above the \$17/cwt. mark. Nearby Class IV futures moved upward this week, while deferred contracts lost ground. Class IV futures are sitting comfortably above \$17 throughout the second half of the year.

CME spot butter surged to a fresh year-to-date high on Thursday, at \$2.385 per pound. But it took a big step back today and finished at \$2.34, steady with last Friday. Cream multiples are climbing, which is likely reducing churn rates. Given the belated arrival of ice cream season and tighter milk supplies, cream is likely to remain pricey. Some butter buyers are growing apprehensive, according to USDA's *Dairy Market News*. "End users are anxious to assure coverage and possibly avoid the risk of higher butter prices later in the year. As favorably-priced bulk offers come available, buyers have been jumping at them." However, European butter is priced to move. Imported butterfat may put a lid on the butter market before it reaches the frothy levels last seen in 2014 and 2015.



reduced the truck lineup at driers around the country. European SMP is by far the cheapest in the world, which helped Europe to export milk powder in record volumes in March. While European SMP prices may drag U.S. NDM lower, the reverse seems more likely.

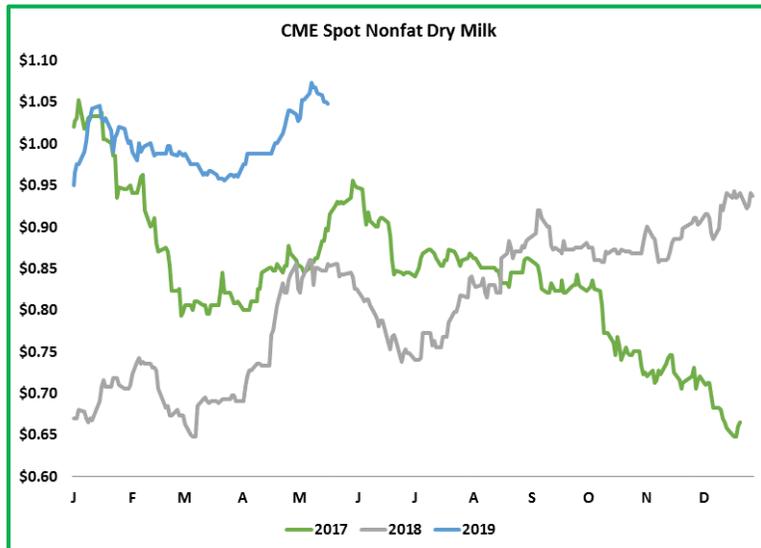
The trade headlines came too late to prevent a setback in spot Cheddar. Blocks slipped 0.75¢ to \$1.6725. Barrels fell 8.5¢ to \$1.625. The cheese markets seemed a bit tired after last week's sprint, and they struggled to find their footing early in the week. The prospect of the trade deal may give cheese a stronger start out of the gate next week. Prices are likely to remain well-supported. Spot milk is generally trading par with Class III, compared to a \$3 discount at this time last year and a \$4.50 discount during mid-May in 2017. Barrel makers have much less incentive to run their plants at capacity, and fewer processors are putting in seven-day work weeks, despite the flush. But higher prices

are having an impact. Midwestern processors tell *Dairy Market News* that orders are a bit softer, and U.S. cheese is looking expensive relative to product from Europe.

CME spot whey closed at 34¢, down 0.75¢ for the week. The whey market fundamentals are bleak. The U.S.-China trade relationship seemed to sour after a string of miscues; our largest foreign market will keep its punitive border tax in place for now. The U.S. is taking increasingly smaller bites of a shrinking pie. China's hog herd, which consumes much of the nation's whey, has been decimated by African swine fever. China's Ministry of Agriculture and Rural Affairs found sow inventories in March down 21% from a year ago. Most hog producers in China who have faced the disease say that they will wait for some time – perhaps a year or more – before restocking their barns



to make sure the disease doesn't strike them again. Chinese demand for imported whey is likely to remain depressed for years. But the bad news is widely known, and the futures have likely fallen far enough for now. They climbed nearly every day this week.

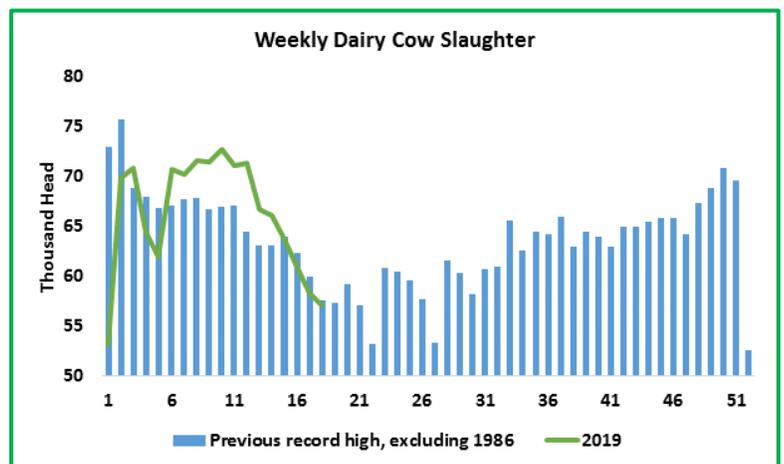


Better milk checks are finally hitting the mailbox. Are dairy producers turning their sights toward expansion? It's very unlikely. There is a lot of healing left to be done. The auction dockets remain full. At first glance it seems that dairy producers may have finally stopped culling at a liquidation pace. In the week ending May 4, dairy producers slaughtered 57,074 head. That's down 0.7%

from the same week a year ago. However, last year's slaughter was the largest on record for this time of year, excluding 1986, the year of the cow kill program. The industry is still culling cows at a historic rate, and year-to-date slaughter is 5.1% ahead of the record-setting 2018 pace. Dairy producers are not likely to overwhelm the recovery with overproduction anytime soon.

Grain Markets

Rain makes grain, but only if you can get the crop in the ground. As of Sunday evening, farmers had only planted 30% of their intended corn acreage and 9% of planned soybean area. Muddy fields and cloudy skies slowed progress this week, and the forecast holds heavy rains across the Corn Belt for at least the next two weeks. Millions of acres are likely to lie fallow, as farmers opt to take Prevented Planting insurance payments rather than ruin their



fields and equipment trying to plant seeds into muddy ground. Corn prices jumped. The July contract settled at \$3.8325, up more than 30¢ per bushel. Soybeans rallied 12.5¢, with July beans at \$8.2175. If the weather clears, some corn acreage could shift to soybeans. But the forecast suggest that soybean acreage is likely to suffer as well.

Dairy Industry Cheers Rollback of Tariffs That Bolsters USMCA Chances

By the National Milk Producers Federation (NMPF)



U.S. dairy officials today congratulated the governments of the United States, Mexico and Canada for reaching an agreement to roll back metal tariffs that have soured U.S.-Mexico cheese trade and slowed passage of the United States-Mexico-Canada Agreement (USMCA).

The United States agreed to end Section 232 tariffs on steel and aluminum imports from its North American neighbors. In return, U.S. dairy officials expect that Mexico will drop their retaliatory tariffs against U.S. dairy products – including duties as high as 25 percent on U.S. cheese exports to Mexico.

“This is an important development for the U.S. dairy industry, and we applaud the hard work of negotiators from all three countries that made it possible as well as the numerous members of Congress that have insisted upon the need to resolve the Section 232 metal tariffs dispute with our North American partners,” said Tom Vilsack, president and CEO of the U.S. Dairy Export Council. “If Mexico lifts its tariffs on U.S. dairy in response, it would be a welcome return to normalcy with our number one export market. It would also build vital momentum for swiftly advancing USMCA towards passage.”

“America’s struggling dairy farmers are in need of some good news, and today’s announcement certainly helps,” said Jim Mulhern, president and CEO of the National Milk Producers Federation. “This paves the way for Mexico to drop retaliatory tariffs that have harmed dairy, and for Congress to take its next step to help our producers – to vote on USMCA and quickly ratify it.”

Mexico is, by far, America’s biggest dairy customer, with \$1.4 billion in sales last year. U.S. products accounted for 80 percent of Mexican dairy imports by value in 2018, but that dominant market share was being jeopardized by the retaliatory tariffs.

The tariffs were likewise making it politically difficult for Congress to pass USMCA – a pact that modernizes the North American Free Trade Agreement, maintains U.S. dairy sales into Mexico, expands dairy market access in Canada, and reforms many nontariff barriers.

Vilsack and Mulhern also stressed the importance of finding similar common ground with China, which also slapped retaliatory tariffs on U.S. dairy exporters in 2018 and recently upped the ante by hiking them further on some products. As a result of last year’s move by China, U.S. exports to that fast-growing dairy market fell by more than 40 percent in the first quarter of 2019 compared to the same period last year. NMPF and USDEC have consistently advocated the urgency of resolving both the 232 and China disputes to allow our exporters to compete effectively in those markets.



California Federal Milk Marketing Order Monthly Newsletter

By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs
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The California Federal Milk Marketing Order (FMMO) Administrator's office publishes a very informative monthly newsletter. April's issue was just published, and it can be found [here](#). The newsletter and much more can be found on the California FMMO website: www.cafmmo.com

Letter Drafted From House Dairy Caucus to USDA Regarding Trade Mitigation Assistance

By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs

Representative Peter Welch (D-VT) drafted a letter to USDA Secretary Sonny Perdue expressing concerns regarding future trade mitigation assistance payments. MPC is very concerned about the ongoing impacts from the continued trade dispute with China, which have negatively affected our dairy farm families, their employees and the allied support industries that depend on a healthy dairy economy. The latest news regarding stalled trade talks between the U.S. and China indicates that further trade actions are imminent and the impact on milk prices will definitely be negative.

MPC will be reaching out to California Congressional Members to encourage them to sign-on to the letter. You can read the full letter [here](#).



Upcoming CDFA Food Safety Workshops

By Kevin Abernathy, General Manager
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You are invited by the CDFA to attend one of two workshops which will explore the food safety interface between livestock and fresh produce operations. The impetus for these workshops began several months about following a producer's inquiry about what he could do to avoid legal complications if a fresh-produce operation near his farm was determined to be the source of a food borne outbreak.

Attending these workshops could potentially reduce producer liability in the wake of fresh produce outbreaks, especially as more urgency was brought to the issue with two separate 2018 multi-state Romaine E. coli outbreaks in Arizona and California.

The workshops are being held in June 11th in Holtville and June 13th in Stockton.

If your dairy farm is contiguous to or near a vegetable operation, contact me for more details about these workshops at Kevin@MilkProducers.org.

