

MPC WEEKLY FRIDAY REPORT

DATE: JULY 19, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	- \$.0050	\$1.7800	WEEKLY CHANGE	-\$.0150	\$2.3975	WEEK ENDING 07/13/19	
Barrels	-.0350	\$1.7050	WEEKLY AVERAGE	+.0140	\$2.4175	NAT'L PLANTS	\$1.0507 16,006,503
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 07/06/19	
Blocks	-.0505	\$1.7745	DAIRY MARKET NEWS	W/E 07/19/19	\$.3375	NAT'L PLANTS \$1.0529 11,735,123	
Barrels	-.0605	\$1.7005	NATIONAL PLANTS	W/E 07/13/19	\$.3681		

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
JUL 19 EST	\$18.78 - \$19.28	\$17.62	\$17.41	\$16.90
JUL 12 EST	\$18.78 - \$19.28	\$17.57	\$17.35	\$16.91



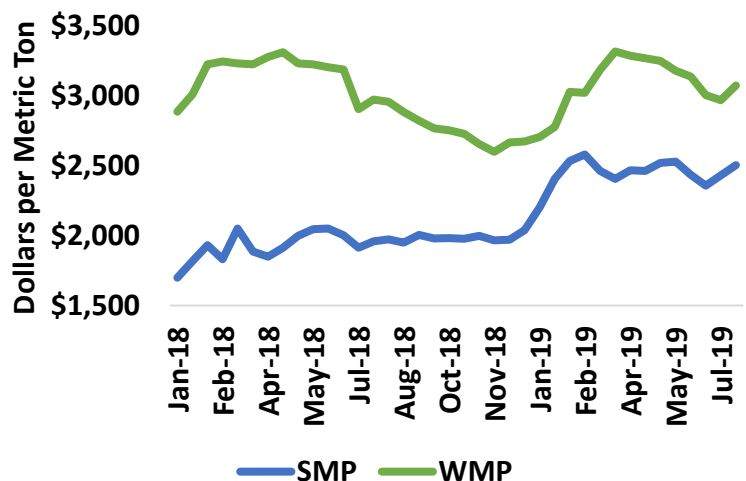
Milk, Dairy and Grain Market Commentary

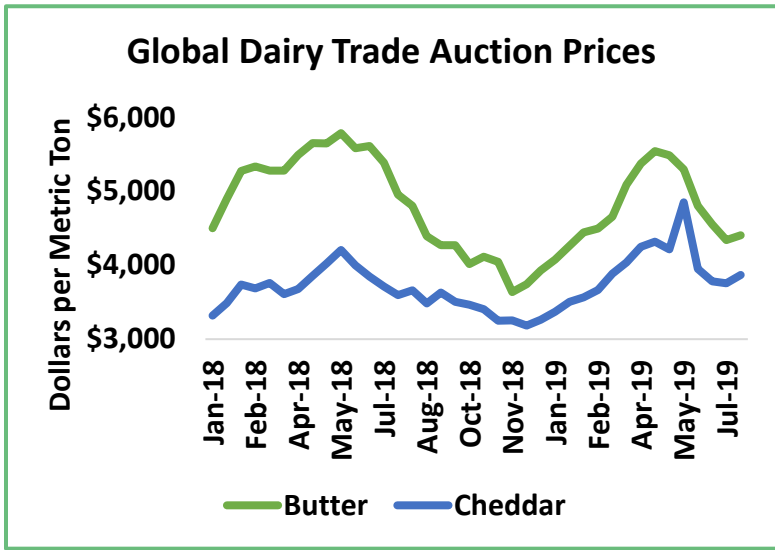
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

The CME spot dairy markets slipped this week. Spot butter fell 1.5¢ to \$2.3975 per pound. Nonfat dry milk (NDM) fell 1.75¢ to \$1.0075, a nearly three-month low. Class IV futures were little changed from last Friday. Cheddar blocks fell a half-cent to \$1.78. Barrels were 3.5¢ lower at \$1.7050. Spot whey powder was, uncharacteristically, the strongest market. It climbed 1.75¢ to 34¢. The Class III futures shrugged off the weaker spot cheese prices and gained considerable ground. Most contracts finished 20¢ to 30¢ higher, and 2020 futures posted life-of-contract highs.

Global Dairy Trade Milk Powder Prices



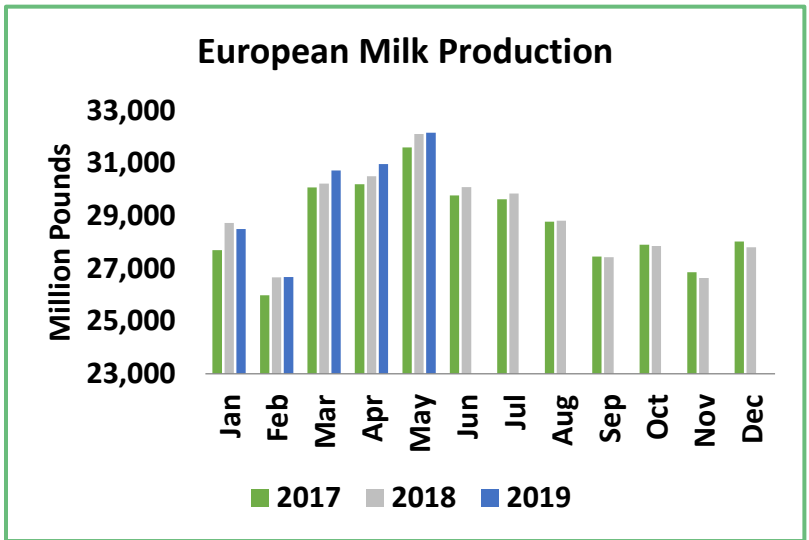


All products rallied at the Global Dairy Trade (GDT) auction on Tuesday, with the exception of rennet casein. The GDT Index broke its two-month losing streak and climbed 2.7%. The milk powders were especially strong. Whole milk powder (WMP) jumped 3.6%. Skim milk powder (SMP) gained 3.8% and reached the equivalent of NDM at \$1.21 per pound, after adjusting for protein. The average winning butter price finished 1.7% higher than the previous auction, and Cheddar added 3.3%. However, in Europe dairy product prices continue to slip.

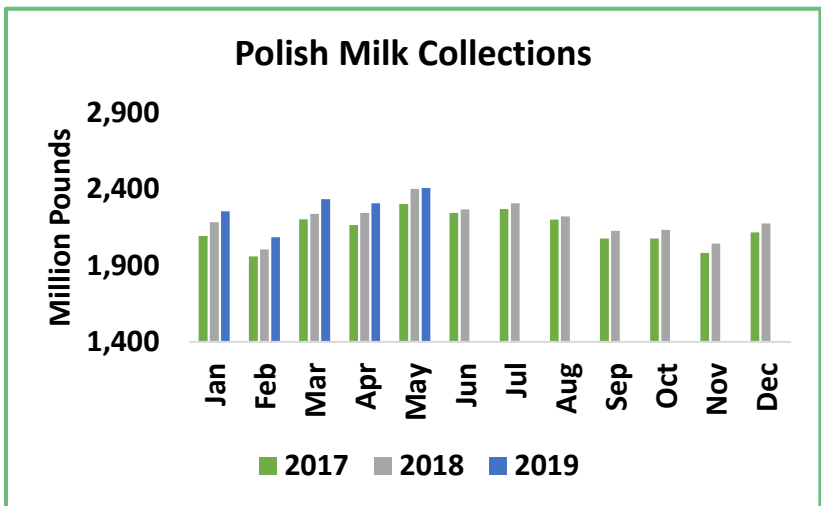
year growth in milk production slowed to a crawl in May after modest gains in March and April. Preliminary data from the European Commission suggest that milk collections were just 0.1% greater than the prior year. Year-over-year deficits widened in Germany, France, and the Netherlands. Output in Poland, the source of much of Europe's recent growth, exceeded May 2018 by just 0.3%, the smallest margin since October 2016. Collections in Ireland continue to impress.

Milk output is also falling in Europe, which may arrest the decline in prices. Year-over-

Miniscule growth in European milk output in May likely gave way to a shortfall in June, as a record-breaking heat wave swamped the continent. The weather remains sultry in some key dairy areas, but the most extreme temperatures have abated. Still, tempers are running hot, and farmers and cows are clearly stressed. In France, dairy producers have protested inadequate milk prices by blocking roads with manure and burning tires. They now have more cause to protest. France has declared 21 of its 96 districts in crisis-level drought. In parts of the

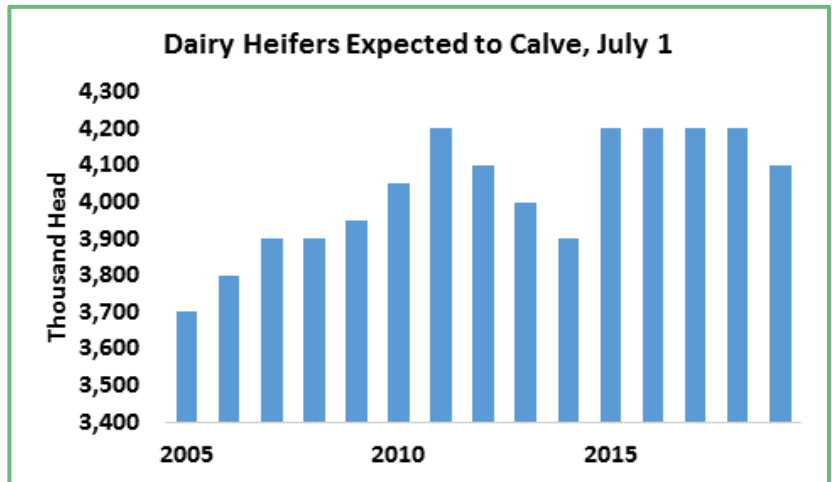


21 driest districts, irrigation and other agricultural water use is banned, which will surely raise the cost and limit the availability of feed for dairy producers. Milk output is likely to suffer in Europe's second-largest dairy nation in the near term. In neighboring Germany, gains in milk output will have to come from improved milk yields, which may be fleeting this summer. Germany's Statistical Office reports that there were 2.04 million milk cows in Germany in May, 2.4% fewer than in May 2018.



Heat is also taking a noticeable toll on milk yields and components in much of the United States. USDA's Dairy Market News reports that many processors in the East and Upper Midwest are running below capacity. In contrast, mild weather has boosted milk yields and prolonged the flush in the Pacific Northwest. Surplus milk is moving at steep discounts, and "contacts speculate that there may be some milk that is being discarded."

Springer prices and slaughter volumes signal that dairy producers are still convalescing. They are rebuilding their finances and restoring their relationships with their lenders. They lack the energy and resources to add significantly to their herds. But when their vigor returns, many will surely look to expand. However, the industry's collective ambitions may be limited by a lack of young stock. USDA estimates there were 4.2 million heifers for milk cow replacement at midyear in 2015 through 2018, the highest total since 1989.



That glut of heifers allowed dairy producers to expand the milk-cow herd to well north of 9.4 million head from April 2017 to June 2018. But this year, USDA estimates July 1 heifer inventories at 4.1 million head, down 100,000 head or 2.8% from the previous four years. Heifers have been cheap for years, incentivizing dairy producers to eschew sexed semen, introduce more beef genetics, and place excess heifers in feedlots. These collective decisions will take years to reverse, and will limit expansion, helping to extend the dairy market recovery. Today, dairy producers are not attempting to boost heifer supplies and slow their use of beef crossbreeds. If anything, beef crossbreeding is accelerating.

Grain Markets

It was a hot, mostly dry week in the Corn Belt, but it was neither as hot nor as dry as feared, so the markets retreated. President's Trump's comments that they U.S. and China "have a long way to go" before reaching a trade agreement likely also weighed on the grain markets. But the trade market remains concerned about acreage and crop yields, making selloffs difficult to sustain. On Friday, the grain markets regained much of the ground they lost earlier in the week. September corn closed at \$4.3075 per bushel, down 23.5¢ from last Friday. August soybeans settled at \$9.015, down 11.75¢.



And So It Begins: A Process For Addressing Quota Emerges

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
Geoff@MilkProducers.org

A press release came out this week announcing an organized effort by California producer interests to tackle the quota issue. The effort outlines a multi-phased process that includes three key parts: An idea gathering phase, a producer feedback phase, followed by an analysis phase, where economic impacts and legal pathways to adoption will be identified.

The group has hired Dr. Marin Bozic, a very qualified dairy industry economist, and Matt Gould, a dairy market analyst, to assist in the process of developing a path forward. You can read more about Dr. Bozic and Gould, as well as the proposed process to address the state's quota program, in the full press release

published on page six of today's Friday Report. The first series of public producer meetings have been scheduled, and producers are encouraged to attend and participate. These meetings are:

- **Tuesday, July 30 | 2-4 p.m. | Embassy Suites, Ontario**
- **Wednesday, July 31 | 9-11 a.m. | Heritage Complex, Tulare**
- **Wednesday, July 31 | 2-4 p.m. | Turlock Ballroom, Turlock**
- **Thursday, August 1 | 9-11 a.m. | Washoe House, Petaluma**

Meeting space is limited, so all participants are strongly encouraged to register as soon as possible at www.dairyfamilies.org/events.

Commentary by Geoff Vanden Heuvel

I have been an active participant in the policy and politics of the California dairy industry since the early 1980s. Many times over these decades, I have been asked by people both inside and outside of California about the future of quota. Folks would point to the growing number of producers with little or no quota and wonder how long the system could continue. My answer has always been the same. As long as overbase producers were simply complaining at the coffee shop about the system, nothing was going to change. But if producers with little or no quota ever got organized and demonstrated that they had a plan – and a commitment to carry out that plan – then folks would know that the beginning of the process for fundamental change had started.

Like many, I was surprised how quickly after the implementation of the Federal Milk Marketing Order that an organized effort for change began. But the seeds for change have been in the ground for many years. Now it is here.

I have been impressed by the STOP QIP folks' ability to get organized and be as effective as they have been. Getting producers to sign petitions is no small feat. And getting as many signed petitions as they did was impressive. But I have been equally impressed by the folks who saw the need to establish a new group specifically dedicated to finding an equitable and reasonable solution to this problem.

The United Dairy Families group has demonstrated amazing skill and competence in putting together a plan and process for how as a producer community we get to an answer that can be supported by a vast majority of California producers. Now that the cooperatives have stepped up to assist, I am very optimistic that a way forward can be found.

You might wonder where Milk Producers Council fits into all of this. Producer trade associations are volunteer organizations and we have members on all sides of the quota issue. We exist to serve all of our members, and to that end, I have been a resource for folks regardless of their particular perspective on this issue. I have shared what I have learned over the years and whatever perspectives I have to those who are interested in that perspective.

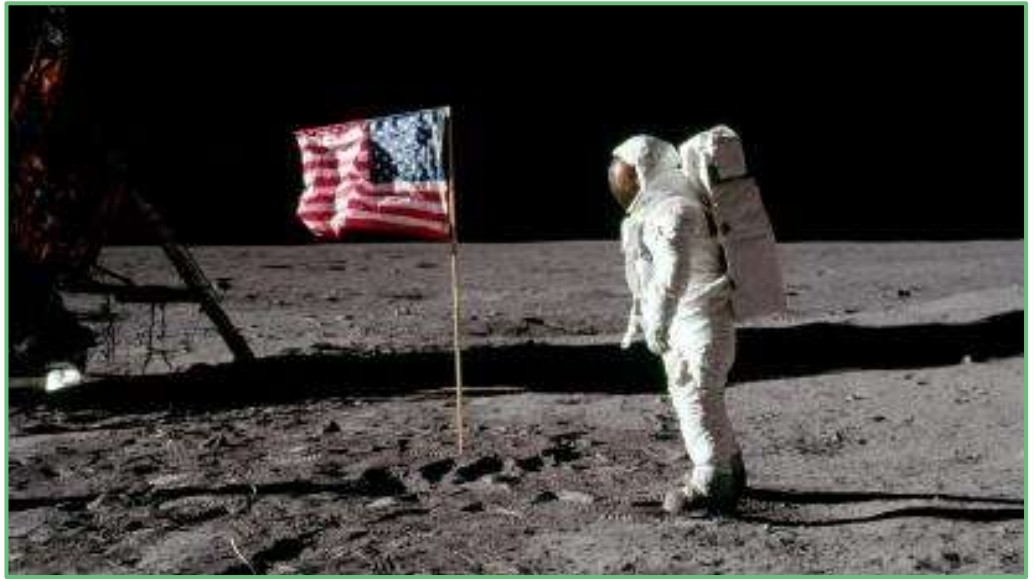
The quota issue was always going to be addressed at some point. The way this has played out so far is that it appears both sides are willing to explore meaningful options for change. Certainly, both sides have risks and something to lose. The outcome of a straight-out termination vote carries risks to the quota holders, but losing that vote carries risks and uncertainties for the non-quota holders as well.

Getting Dr. Bozic and Gould involved at the front end of the process is a good idea, but ultimately producers will have to empower their leaders to make a deal. The cooperatives and trade groups stand ready to assist and support the effort. But change is difficult and this issue is not only an economic one,

but also an emotional one, so there will likely be bumps in the road. It will go too fast for some and too slow for others, but that tension is to be expected and is unavoidable when a family tackles an issue as big as this one. In the end, I have utmost confidence that we will end up in the right place.

In the meantime, the very first California Quota milk price was announced by the California Department of Food and Agriculture for milk produced in July of 1969, making this month the golden anniversary for the California quota system. You can see the actual price sheet [here](#). Doing the math (3.5 pounds of butterfat and 8.7 pounds of solids nonfat per cwt. of milk), the Quota price in July of 1969 was \$5.71 per cwt. and the overbase price was \$4.16 per cwt.

In addition to California's first ever quota price announcement 50 years ago this month, other notable events of July 1969 included: The Apollo 11 spaceflight, where Neil Armstrong would become the first person to ever walk on the moon; the withdrawal of the first 25,000 American troops from the Vietnam War; the release of Johnny Cash's "A Boy Named Sue" recorded live at San Quentin State Prison; and Senator Edward Kennedy's guilty plea of leaving the scene of an accident a week following a car accident on Chappaquiddick Island, which took the life of Mary Jo Kopechne.





LAND O'LAKES, INC.



**California Dairy Organizations Collaborate on
Process to Address State's Quota Program
Groups Launch Exploratory Effort to Solicit and
Analyze Proposals**

FOR IMMEDIATE RELEASE
Tuesday, July 16, 2019

Contact: Dino Giacomazzi
dairyfamilies@gmail.com

CALIFORNIA – Today, the United Dairy Families of California, California Dairies, Inc., Land O'Lakes, Inc., Dairy Farmers of America and the STOP QIP organization announced a multi-phase process aimed at soliciting and analyzing industry input on California's historic quota program.

Included in this process is a series of meetings, starting later this month, open to all dairy producers and interested parties. These meetings are intended to solicit various pathways for the state's quota program.

This multi-phase process includes three key parts: The Think Tank, Producer Feedback and Analysis.

1. The Think Tank phase is for information gathering from various segments of the dairy industry. This will include the meetings identified below, where producers will be able to voice their opinion and contribute ideas or concepts.
2. The Producer Feedback phase will allow producers to comment and challenge the ideas developed in the Think Tank phase.
3. In the Analysis phase, dominant ideas from the Producer Feedback phase will be analyzed for economic impacts and legal pathways to adoption will be determined.

This process will be implemented with the assistance of dairy industry economist Dr. Marin Bozic and dairy market analyst Matt Gould. Dr. Bozic and Mr. Gould will be conducting an economic analysis of the proposed ideas.

The first series of meetings associated with the Think Tank phase are as follows:

- Tuesday, July 30, 2019 - 2 pm to 4 pm – Embassy Suites, Ontario
- Wednesday, July 31, 2019 - 9 am to 11 am - Heritage Complex, Tulare
- Wednesday, July 31, 2019 - 2 pm to 4 pm - Turlock Ballroom
- Thursday, August 1, 2019 - 9 am to 11 am - Washoe House, Petaluma

Meeting space is limited. All participants are strongly encouraged to register at www.dairyfamilies.org/events



LAND O'LAKES, INC.



About Dr. Marin Bozic and Matt Gould

Dr. Marin Bozic is the President of Marin Bozic LLC and an Assistant Professor in the Department of Applied Economics at the University of Minnesota. His expertise includes U.S. dairy policy, risk management, and market analysis. Dr. Bozic is the architect of the world's largest dairy markets data portal at <https://commoditymarkets.com> with over 60 subscribers on four continents. Recently, Dr. Bozic co-created the Dairy Revenue Protection crop insurance program in partnership with the American Farm Bureau Federation. Matt Gould is the author of the Dairy & Food Market Analyst, a weekly subscription-based report for managers and leaders in the dairy industry. Mr. Gould holds a B.S. in economics from the University of Pennsylvania's Wharton School.

About United Dairy Families of California

United Dairy Families of California is an all volunteer group of dairy farmers committed to creating a platform for sharing ideas on quota and the Quota Implementation Program (QIP). The organization is built on the belief that the California Dairy Industry is stronger together. Learn more at www.dairyfamilies.org.

About California Dairies, Inc.

California Dairies, Inc. is the largest member-owned milk marketing and processing cooperative in California producing 40 percent of California's milk. Co-owned by nearly 400 dairy producers who ship 16 billion pounds of Real California Milk annually. California Dairies, Inc. is a manufacturer of quality butter, fluid milk products and milk powders. In addition, California Dairies, Inc. is the home of two leading and well-respected brands of butter – Challenge and Danish Creamery. California Dairies' quality dairy products are available in all 50 United States and in more than 50 foreign countries.

About Land O'Lakes, Inc.

Land O'Lakes, Inc., one of America's premier agribusiness and food companies, is a member-owned cooperative with industry-leading operations that span the spectrum from agricultural production to consumer foods. With 2018 annual sales of \$15 billion, Land O'Lakes is one of the nation's largest cooperatives, ranking 212 on the Fortune 500. Building on a legacy of more than 98 years of operation, Land O'Lakes today operates some of the most respected brands in agribusiness and food production including LAND O LAKES® Dairy Foods, Purina Animal Nutrition, WinField United and Land O'Lakes SUSTAIN™. The company does business in all 50 states and more than 60 countries. Land O'Lakes, Inc. corporate headquarters are located in Arden Hills, Minn.

About Dairy Farmers of America

Dairy Farmers of America is a national, farmer-owned dairy cooperative focusing on quality, innovation and the future of family dairies. While supporting and serving 14,000 family farmers, DFA works with some of the world's largest food companies to develop ingredients that satisfy their customers' cravings while staying committed to social responsibility and ethical farming. For more information, please visit www.dfamilk.com.

About Stop QIP Tax

The Stop Dairy QIP Tax Coalition seeks to remove the \$.38 tax on every 100-pounds of milk that Grade A shippers produce in California. The Quota Implementation Program (QIP) was a statewide referendum in 2017 and its sole purpose is to collect this money from all Grade A producers and redistribute it to those who hold Quota. The Coalition's only goal is to end this assessment. www.stopqipdairytax.com