



Milk Producers Council



P.O. Box 4030 ~ Ontario, CA 91761 ~ (909) 628-6018
 801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
 222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
 Fax (909) 591-7328 ~ office@milkproducers.org ~ www.MilkProducers.org

DATE: September 22, 2017
 TO: Directors & Members

PAGES: 5
 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	+ \$.0025	\$1.6125
Barrels	+ \$.1500	\$1.6000

Weekly Average, Cheddar Cheese

Blocks	- \$.0255	\$1.5985
Barrels	+ \$.0020	\$1.5140

CHICAGO AA BUTTER

Weekly Change	N.C	\$2.4475
Weekly Average	+ \$.0405	\$2.4645

DRY WHEY

Dairy Market News	w/e 09/22/17	\$3.750
National Plants	w/e 09/16/17	\$4.178

NON-FAT DRY MILK

Week Ending 9/15 & 9/16

Calif. Plants	\$0.8858	6,424,609
Nat'l Plants	\$0.8476	16,668,540

Prior Week Ending 9/8 & 9/9

Calif. Plants	\$0.9074	3,208,267
Nat'l Plants	\$0.8735	8,693,116

Fred Douma's price projections...

Sept 22 Est:	Quota cwt. \$17.01	Overbase cwt. \$15.32	Cls. 4a cwt. \$15.81	Cls. 4b cwt. \$14.85
Last Week:	Quota cwt. \$17.05	Overbase cwt. \$15.35	Cls. 4a cwt. \$15.88	Cls. 4b cwt. \$14.88

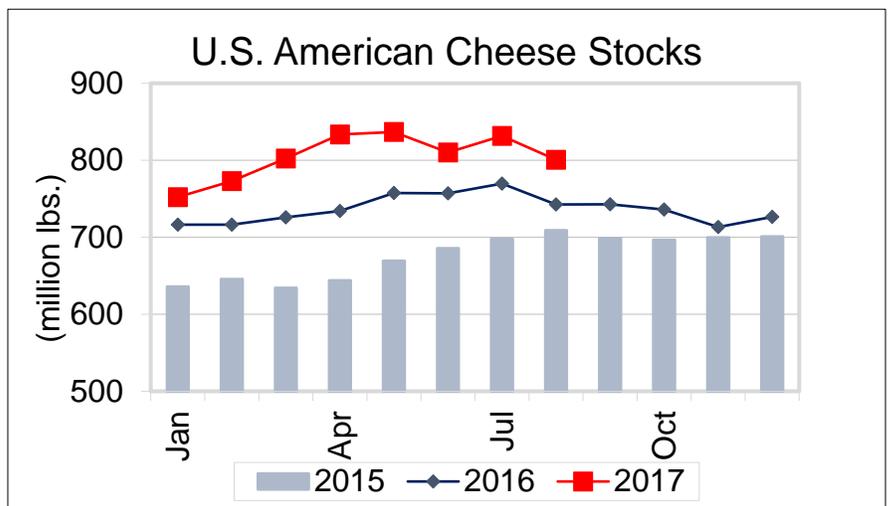
Market commentary

By Mary Ledman, Daily Dairy Report mary@dailydairyreport.com

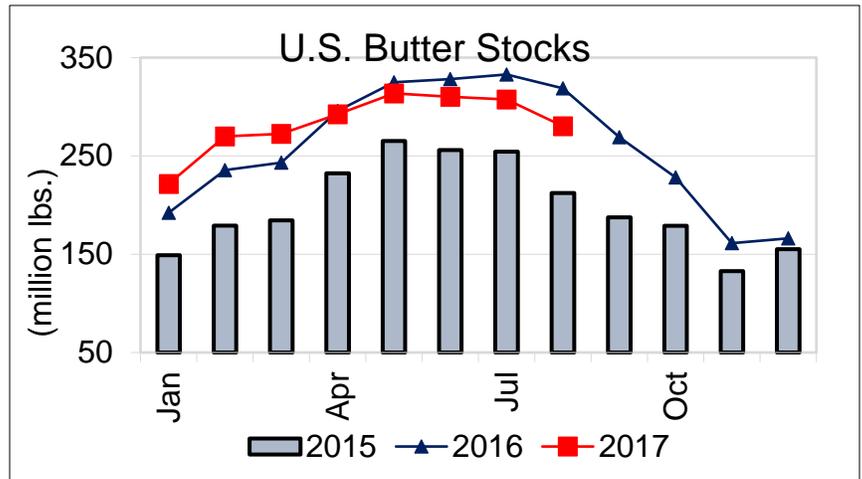
Milk & Dairy Markets

USDA's Cold Storage report, released after the close of today's dairy cash and futures markets, showed that the August stock draw-downs of butter and American cheese exceeded the five-year average. Month-ending August butter stocks totaled 280.2 million pounds, down 8.8% or 27.2 million pounds from last month, besting the five-year average of 25.9 million pounds. August butter stocks were 12.1% lower than last year, but still the second highest August tally during the past decade. American cheese stocks fell by 31 million pounds in August, besting the five-year average draw-down of 16.6 million pounds. At 800.5 million pounds, American cheese inventories remain 7.8% above August 2016, and the highest level of commercial stocks on record for the month.

CME cash Cheddar block and barrel cheese prices closed the week ending September 22 on a high note. Both markets topped a \$1.60/lb. and pushed Class III futures higher. The spot butter market averaged \$2.4645/lb., up \$0.0405 from the prior week, but below Friday's cash settlement price of \$2.4475. CME butter futures settled mostly lower. The nonfat dry milk (NDM) market remains the weakest of the dairy markets. The CME spot NDM market closed the week at \$0.8225, on par with Monday's settlement price. CME NDM futures closed modestly higher, albeit below \$0.90/lb. for all contract months through May 2018.



New Zealand based Global Dairy Trade (GDT) auction concluded on Tuesday with mixed results. Prices indices for butterfat-derived products improved while skim milk powder (SMP), lactose, and Cheddar cheese retreated from the previous event. The GDT SMP price index for the six-month period October 2017 through March 2018 averaged \$1,920 per metric ton (MT), down 1.2% vs. the prior auction. Adjusted to a nonfat dry milk equivalent at 35% protein, the latest German and New Zealand SMP prices averaged \$0.93/lb. and \$0.90, respectively. In comparison, the latest National Dairy Products Sales Report (NDPSR) NDM price averaged \$0.8476, and the California Weighted Average Price (CWAP) for NDM averaged \$0.8858/lb. But the United States may not have the lowest price in the world. Canada seems to be undercutting everyone with SMP exports averaging less than \$0.84/lb. in August; sales to Mexico averaged closer to \$0.77, according to Global Trade Atlas data. Continued market pessimism is likely to increase price pressure on U.S. NDM/SMP.



The GDT Cheddar cheese price index eased by 1.9% from the prior event but exceeded \$1.81/lb. through each contract period from October 2017 through February 2018. Cheese-making byproduct lactose posted the largest price decline from the previous auction at 3.8% to \$0.34/lb., which matches the high end of this week’s Dairy Market News lactose mostly price range, \$0.25 to \$0.34.

GDT butter prices averaged \$2.67/lb. for the five contract months October 2017 through February 2018. Each contract closed higher than the prior auction. U.S. butter prices are at a significant discount to New Zealand and European butter markets. As a result, the U.S. butter market is poised to move seasonally higher.

U.S. milk production posted a 2% year-over-year (YOY) increase over August 2016 and matched July’s YOY gain. Greater YOY milk output was driven by a 1.2% gain in milk per cow and a 0.8%, or 71,000 head increase in the U.S. dairy herd. At 9.405 million head, the U.S. dairy herd stands at near a 20-year high. California milk production continues to lag the prior year. August output trailed the previous year by 0.7%, due to a 13,000-head decrease in the dairy herd, as milk per cow was unchanged from August 2016. In contrast, Wisconsin reported a 1.8% YOY increase in milk production, entirely driven by greater milk per cow, as the dairy herd was unchanged at 1.278 million head. For the most part, U.S. milk production east of the Rockies remains above last year and in some cases, exceeds processing capacity. At least two major milk buyers in Wisconsin recently informed their patrons that premiums would decrease (approximately \$0.50/cwt) and hauling rates increase during Q4 2017. As a result, manufacturing milk costs are narrowing across the United States.

Major New Risk Management Tool for Dairy Being Proposed

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

For the rest of America’s big agriculture industries, Federal Crop Insurance is their number 1 tool for managing price risk. The dairy safety net programs run by the federal government over the past decades have not utilized the crop insurance model, but instead have been either indirect income support like the Price Support Program that purchased butter, nonfat dry milk and cheese at prices which would enable plants to pay at least the support price for the milk made into those products. Or direct payment programs like the Milk Income Loss Program (MILC) and now the Margin Protection Program (MPP), which make direct cash payments to producers when certain circumstances occur.

The current program, MPP seeks to accomplish two goals for dairy farmers. It provides a safety net to cover margin losses under a catastrophic occurrence like what occurred in 2009. This part of the coverage is fully financed by the federal government. MPP also has a “buy up” feature that allows producers to get margin protection at higher margin levels, but dairymen have to pay part of the cost for that additional coverage. Producers have by and large abandoned the buy up component of the MPP because of a perceived lack of cost/benefit. There are various efforts by the industry and Congress to make changes to the MPP in the next farm bill. Unfortunately, many of the proposed changes seem designed to make the “buy up” part of the program much more favorable to very small producers with little or no consideration for the needs for risk management tools for medium and large producers. The government picking winners and losers in the subsidy game is not a good idea, but given the very limited amount of money in the federal budget allocated to the dairy safety net programs, this is about all that can be done. The budget for the dairy safety net in farm bill is about \$50 million per year. That is a fraction of the \$35 billion per year of annual milk sales that you are trying to provide safety for.

So what is the new big deal? The Federal Crop Insurance Corporation approves of agriculture commodity insurance products. Under their **commodity program** they have policies for everything from almonds and apples to cranberries and figs. Corn, wheat, soybeans and cotton are the big ones, but milk does not have an insurance product. There is a Livestock Gross Margin (LGM) program that includes dairy but the funding for premium subsidies for the LGM program is shared with other **livestock programs** and limited to \$20 million per year. While the livestock programs are limited in the federal budget, by law there is no budget limit for agriculture commodity insurance programs. So the Federal Crop Insurance Corporation spends billions of dollars in premium subsidies on insurance policies for these other commodities. Congress seems ok with this approach because it is not a direct payment program, it uses market pricing mechanisms to establish insurance premiums and producers have to share in the cost of the insurance.

There are two things going on right now and the American Farm Bureau is in the middle of both of them. One is that the Farm Bureau has developed a Dairy – Revenue Protection insurance policy under the Federal Crop Insurance program guidelines that they are seeking to get approved as an agriculture commodity insurance program. This product will allow dairy farmers to buy price protection insurance policies. The second related effort is to get Secretary of Agriculture Sonny Perdue to classify milk as an agriculture commodity instead of a livestock program. Congress helped on this last point by including language in an appropriations bill this past spring clarifying that livestock insurance programs are for the purpose of insuring animals and not the products of those animals like milk and eggs.

Dr. John Newton from the American Farm Bureau has been writing and giving presentations on the specifics of how the Dairy – Revenue Protection program would work. Essentially producers would be able to purchase a policy that would guarantee a certain amount of revenue for their milk, or the components in their milk, as they would choose. The program sells coverage based on the average quarterly price of milk, or the components of milk, for the next quarter and the four following quarters. The policies can be purchased every day, and the premiums are not due until after the period is over. The government will cover somewhere between 44% and 60% of the premium depending on the deductible level the producer chooses. Much more information on the workings of this program is available on the Farm Bureau website [here](#).

I have had the chance to talk to Dr. Newton on a number of occasions about this program and I like what I hear. Because you can tailor the insurance policy to fit your particular milk utilization by picking a blend of class III and IV, or if you have high butterfat and protein you can utilize the component feature, you minimize the basis risk that exists in the current “buy up” part of the MPP. You can choose to cover any time period up to 15 months out and you can choose your coverage levels and deductibles. This is not a replacement for the catastrophic portion of the MPP because the insurance is based on market prices. When the market collapses, there is no decent market price available to insure. It is at that time that only the government can provide a safety net to help producers through the wreck. But this does seem like a much more flexible and therefore more valuable substitute for the

“buy up” portion of the MPP.

Milk Producers Council has sent letters of support to Agriculture Secretary Perdue and the Federal Crop Insurance Board which you can read [here](#).

MPC extends condolences to DeBos, Vander Dussen families

It is with heavy hearts that we need to update you that former MPC chairman Syp Vander Dussen's wife, Ann, passed away Friday, September 15, 2017. A memorial service was held at Cornerstone Community Church in Chowchilla today at 10a.m. with a luncheon at the church following the ceremony. We hold the Vander Dussen family up in prayer as they navigate the loss their beloved wife and mother Ann.

The link for the full obituary for Ann Vander Dussen can be found [here](#).

Long time dairyman, Andy DeBos passed away on September 9, 2017 at the age of 95 of natural causes and his Memorial service was held in Chino on Saturday September 16, 2017. He was born in Tijnje, Freisland on November 30, 1921

He immigrated with his family to Artesia, California in 1928. His father started a 26-cow dairy in Artesia in 1928. After graduating from high school Andy took over the family dairy, which had grown to 100 cows. In 1957, he moved to a dairy he had built in Corona, CA, with his wife, Jo DeBos, son Tom, and daughters Debbie and Sandy.

Andy was the Chairman of the Board of Directors for Protected Milk Producers Association (PMPA) in 1974 when the Board decided to merge with three cooperatives forming what was known as California Milk Producers (CMP).

Andy later remarried Sondra Willy. Sondra had 2 sons, John and Wayne. He sold the Corona dairy at the turn of the century and retired to Palm Desert. Andy and Sondra also enjoyed spending time at their house in Idyllwild. Andy is survived by his wife Sondra, step sons, John and Wayne and, daughters Debbie and Sandy.

Andy will be greatly missed by many in the dairy community.
Memorial donations can be made to Angel Light Academy in memory of Andy DeBos

Make checks payable to: Angel Light Academy
108 Saron Circle
Palm Desert, CA 92211

California Milk Advisory Board Announces 2017 Annual Information/Nomination Meetings

The California Milk Advisory Board (CMAB) and CMAB CEO, John Talbot, invite all California dairy families to attend annual meetings this fall, held in each district throughout the state of California. At the meeting, attendees will learn about ongoing activities to promote California dairy. The meeting will highlight the 2018 plan, performance of the Return to Real campaign and the continuing marketing activities the CMAB

conducts to promote dairy products made with your California milk in the state, across the U.S. and around the world. Dairy farmers will also vote on open board member seats.

District	Date	Time	Venue
1	October 10	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	RIVER LODGE 1800 Riverwalk Drive Fortuna, CA 95540
3	October 12	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	HERMANN SONS HALL 860 Western Avenue Petaluma, CA 94952
6	October 18	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	TURLOCK GOLF & COUNTRY CLUB 10532 N Golf Link Road Turlock, CA 95380
8	October 19	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	COPPER RIVER COUNTRY CLUB 2140 E Clubhouse Drive Fresno, CA 93730
10	October 23	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	LUIGI'S 725 E 19th Street Bakersfield, CA 93305
9	October 24	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	TULARE GOLF COURSE Pitching Wedge 5300 S Laspina Street Tulare, CA 93274
7	October 25	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	KINGS COUNTRY CLUB 3529 12th Avenue Hanford, CA 93230
11	November 2	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	MISSION INN Spanish Art Gallery 3649 Mission Inn Avenue Riverside, CA 92501
4	November 7	No-Host reception - 6:00 p.m. Dinner - 7:00 p.m.	ROLLING HILLS CASINO 2655 Everett Freeman Way Corning, CA 96021
5	November 8	No-Host reception - 5:30 p.m. Dinner - 6:30 p.m.	WINE & ROSES 2505 W Turner Road Lodi, CA 95242

To RSVP for the Annual Meeting in your district, please email promotions@cmab.net or contact the office at 209.690.8240. Please be sure to RSVP no later than seven days prior to meeting date.