



Milk Producers Council

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DATE: June 24, 2016
 TO: Directors & Members

PAGES: 3
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0025 \$1.5125
 Barrels - \$.0100 \$1.5350

Weekly Average, Cheddar Cheese

Blocks - \$.0130 \$1.5130
 Barrels - \$.0050 \$1.5400

CHICAGO AA BUTTER

Weekly Change - \$.0225 \$2.3450
 Weekly Average +\$.0475 \$2.3580

DRY WHEY

Dairy Market News w/e 06/24/16 \$2.488
 National Plants w/e 06/18/16 \$2.630

NON-FAT DRY MILK

Week Ending 6/17 & 6/18

Calif. Plants \$0.7689 8,022,184
 Nat'l Plants \$0.7955 16,558,248

Prior Week Ending 6/10 & 6/11

Calif. Plants \$0.7721 8,284,927
 Nat'l Plants \$0.7892 16,185,225

FRED DOUMA'S PRICE PROJECTIONS...

June 24 Est: Quota cwt. \$14.55 Overbase cwt. \$12.85 Cls. 4a cwt. \$13.48 Cls. 4b cwt. \$13.03
 Last Week: Quota cwt. \$14.48 Overbase cwt. \$12.79 Cls. 4a cwt. \$13.46 Cls. 4b cwt. \$12.90

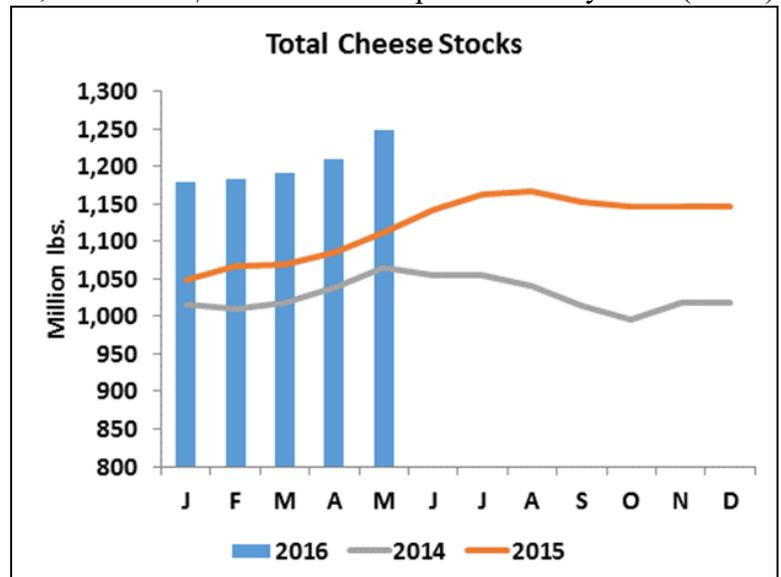
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

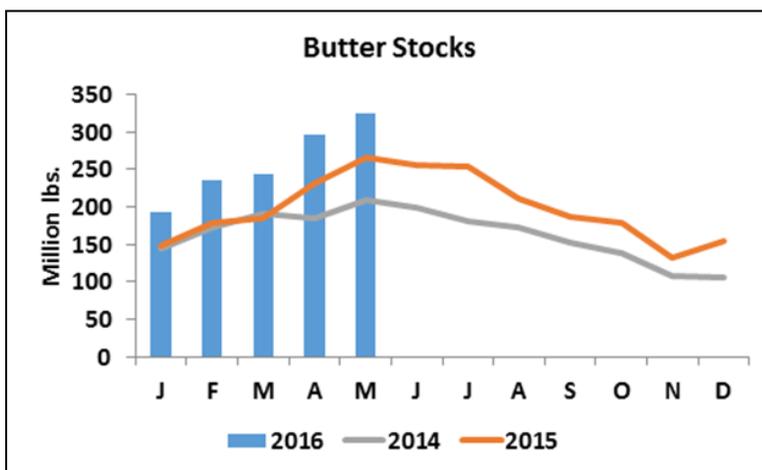
The dairy markets flared up and then flamed out in spectacular fashion this week. As the temperature climbed in the West, the dairy futures markets heated up as well, only to be doused by uncertainty in the wake of the Brexit vote. In contrast, the spot trade was relatively calm. CME spot Cheddar blocks retreated to \$1.5125, down 0.25¢ for the week. Barrels slipped a penny to \$1.535. The whey market is moving higher, which helped to boost the already buoyant Class III futures. Friday's collapse failed to overcome earlier strength and August through December Class III futures settled between 12 and 53¢ higher than last week. July Class III futures closed 20¢ lower.

The CME spot butter market finished Friday at \$2.345, down 2.25¢ on the week. Spot nonfat dry milk (NDM) reached eight-month highs Wednesday at 90.25¢ and closed at 90¢, up 5.75¢ from last Friday. Class IV futures put in a mixed performance relative to last Friday's settlements.

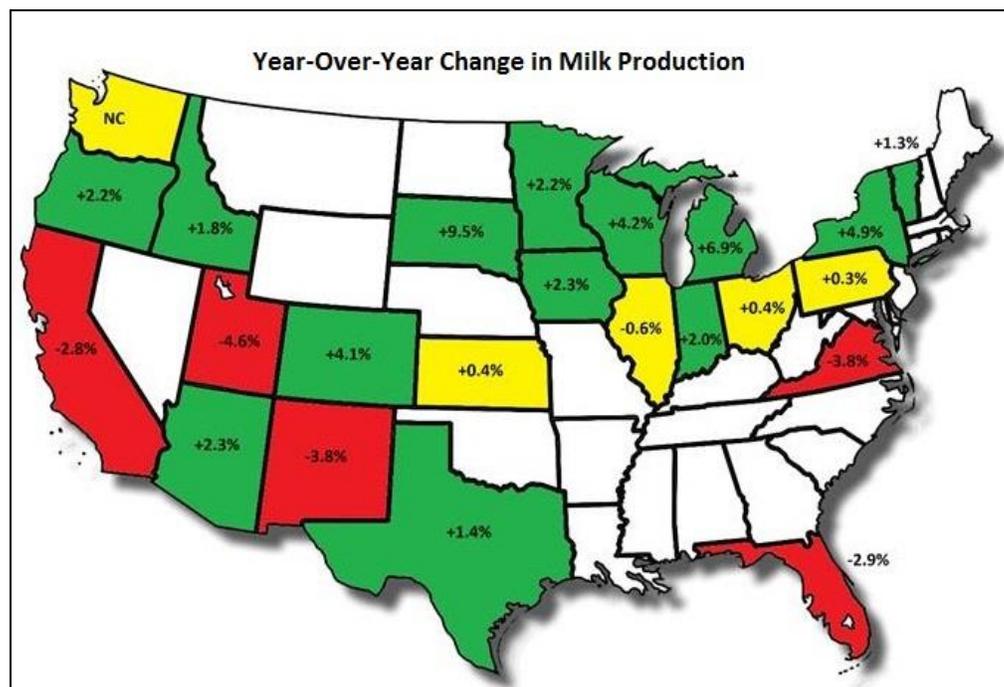
It is sweltering in much of the country, which is weighing on milk production and boosting ice cream demand. The cream market is tightening tangibly. Dairy product prices are moving decidedly higher abroad and the whey market seems to be shaking off its doldrums. Still, overseas prices stand at a vast discount to U.S. product, and it was hardly hot enough to justify the immensity of this week's rally, especially on the heels of big gains last week. The market is still flush with supply.



Indeed, inventories of cheese in cold storage rose to 1.25 billion pounds at the end of May, the highest volume since USDA began keeping records in 1917. Stocks jumped 40 million pounds from April, a 3.3% increase that was more than twice as large as the typical April-to-May build. Inventories are 12.4% greater than they were a year ago. Butter inventories reached 324.9 million pounds, the largest May volume since 1993. Stocks were up 9.9% from April and 22.5% from the prior year.



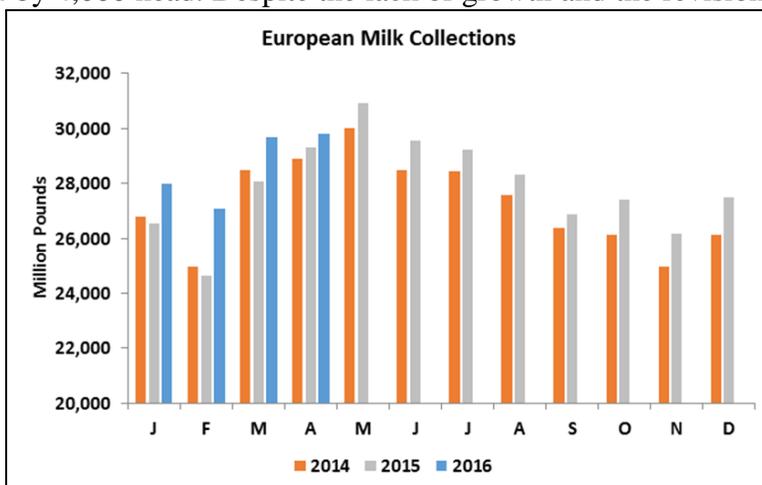
Cheese production is not likely to slow until milk output in the Midwest ebbs, and dairy producers in the region show little sign of holding back. U.S. milk production reached 18.6 billion pounds, up 1.2% from a year ago. South Dakota (9.5%), Michigan (+6.9%), and New York (+4.9%) continue to post impressive year-over-year gains.



Wisconsin stepped up output by 107 million pounds compared to last year, an increase of 4.2%. That was more than enough to offset California's 101 million pounds deficit, a decline of 2.8% relative to a year ago. The Golden State produced 201 million pounds less milk last month than in May 2014, the equivalent of 130 truckloads a day. Low prices and painful margins are beginning to weigh on other states as well. Output in Utah dropped 4.6% relative to May 2015, New Mexico and Virginia posted 3.8% declines, and production fell 2.9% in Florida.

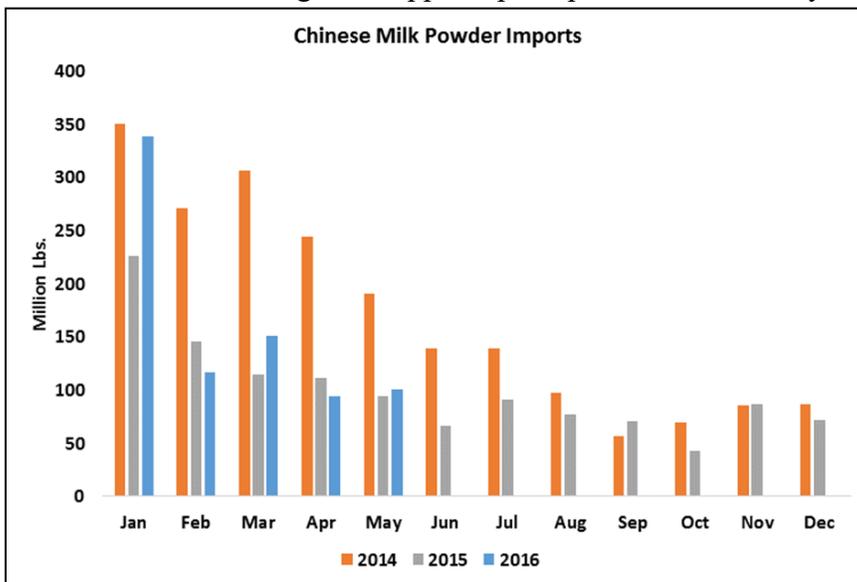
Forecasters are calling for above-average temperatures in July and August, which could crimp milk output for a time. But the long-term outlook calls for persistent growth in milk production unless the U.S. dairy herd begins to contract. It held steady in May at 9.327 million head, equal to the herd in both March and April after USDA revised its estimate of the April dairy herd downward by 4,000 head. Despite the lack of growth and the revision, the U.S. dairy herd remains larger than it has been in any month since December 2008. Dairy producers continue to cull selectively; slaughter is running 1.4% behind the 2015 pace.

European dairy producers pumped out 29.8 billion pounds of milk in April, 1.6% more than a year ago. Although April's year-over-year growth was considerably lower than the 5.7% jump in first-quarter collections, this comparison is skewed by the fact that year-over-year milk production was negative in early 2015 in the waning months of the quota system. As the *Daily Dairy Report* noted



earlier this week, “Future expansion is likely to moderate due to environmental, capital, and facilities constraints... but even a modest increase from last year’s large volumes represents an abundance of milk.”

China has helped to sop up a little of Europe’s excess. The trade giant stepped up its purchases of nearly all varieties of dairy products in May. Chinese imports of ultra-high temperature (UHT) milk were record large and more than double year-ago volumes at 132.5 million pounds. Germany was the top supplier, followed by France. China has also displayed a growing penchant for imported whey, which has surely helped boost the U.S. market. Chinese imports of skim milk powder (SMP) slipped a little, but whole milk powder (WMP) imports improved. Combined SMP and WMP imports reached 100.7 million pounds in May, up 3% from a year ago.



Grain Markets

While the dairy markets moved violently back and forth this week, crop futures moved in only one direction: downward. Speculators who had rushed in to buy corn in light of last week’s hot, dry forecast got a painful lesson in the vagaries of weather markets. July corn futures settled at \$3.845 per bushel today, down 53.25¢ from last Friday. July soybean futures closed at \$11.03, 56.5¢ lower than last Friday.

The forecast has improved. Showers moved across the Corn Belt this week; rainfall totals were not huge, but there will likely be more over the weekend and into early next week. It’s not expected to get really hot until the second week of July, which should favor the corn crop in the early stages of pollination. Still, there is a lot of time between now and harvest, and the forecast is fickle.

It’s important to remember that it was robust demand – not the weather – that drove the grain and soybean markets higher in the first place. U.S. corn and soybean exports remain strong, with lots of outstanding sales on the books. In the long run, and assuming normal weather, the corn market could continue to drift lower, as global grain stocks abound. Global oilseed supplies are tighter, and demand continues to impress. After a hard, fast break, both crop markets are exceedingly vulnerable to a rebound.

MPC’S BOARD AND STAFF EXTEND THEIR CONDOLENCES TO THE OFFINGA FAMILY: *(By Rob Vandenheuvel)* This week, we mourn the passing of Sidney Offinga, a long-time California dairy farmer and MPC member. Sid, who was 80 years old and immigrated to the U.S. from the Netherlands in 1947, originally entered the dairy business with his father in Artesia, CA in 1952, later moving to the Chino Valley and ultimately to the San Jacinto Valley where the family dairy continues to operate today. Sid is survived by his wife of 47 years, Wilma, daughters Irene (Jason) Sadler, Susan (Steve) Van Dam, Synthia (Travis) Mouw, and son William (Jayleen) Offinga, as well as his 15 grandchildren.

A memorial service was held today, where many of Sid’s family, friends and colleagues were able to come celebrate the life of a man who had a great love for his family, the dairy industry, and the Lord. MPC’s Board and staff extend our thoughts and prayers to Wilma and the rest of the Offinga family. Memorial gifts may be given in honor of Sid to the “Christian Education Fund” maintained by The River Christian Reformed Church in Redlands, CA (459 E. Highland Avenue, Redlands, CA 92373).