



Milk Producers Council



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DATE: September 15, 2017
 TO: Directors & Members

PAGES: 4
 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	- \$.0325	\$1.6100
Barrels	- \$.0900	\$1.4500

Weekly Average, Cheddar Cheese

Blocks	- \$.0060	\$1.6240
Barrels	- \$.0449	\$1.5120

CHICAGO AA BUTTER

Weekly Change	- \$.0100	\$2.4475
Weekly Average	- \$.0335	\$2.4240

DRY WHEY

Dairy Market News	w/e 09/15/17	\$3.800
National Plants	w/e 09/9/17	\$4.243

NON-FAT DRY MILK

Week Ending 9/8 & 9/9		
Calif. Plants	\$0.9074	3,208,267
Nat'l Plants	\$0.8735	8,693,116

Prior Week Ending 9/1 & 9/2

Calif. Plants	\$0.9104	5,971,101
Nat'l Plants	\$0.8706	13,264,810

Fred Douma's price projections...

Sept 15 Est:	Quota cwt. \$17.05	Overbase cwt. \$15.35	Cls. 4a cwt. \$15.88	Cls. 4b cwt. \$14.88
Last Week:	Quota cwt. \$17.14	Overbase cwt. \$15.44	Cls. 4a cwt. \$15.93	Cls. 4b cwt. \$15.02

From Kevin Abernathy

Sarina Sharp from Ag Business Solutions regularly provides market commentary for MPC, but is off this week for good reason! She and her family welcomed baby #2 into the world on Tuesday, September 12. Karis Evelyn Sharp arrived at 9 lbs., 3 oz. and 21 inches. Mom and baby are doing great. From everyone at MPC, welcome to the world, Karis, and congratulations, Sarina! Mary Ledman, publisher of the Daily Dairy Report, Inc., will be providing commentary during Sarina's maternity leave.

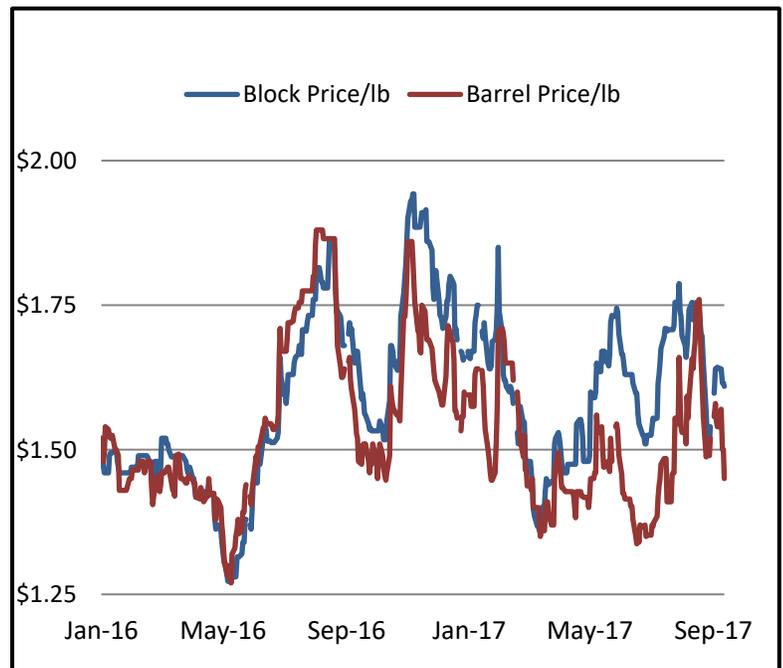
Market commentary

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

Milk & Dairy Markets

CME cash dairy markets are struggling to maintain any traction. Price gains earned during the first week of the month vanished during the following week. On Sept. 15, CME cash Cheddar blocks and barrels settled at \$1.61/lb. and \$1.45, respectively. Blocks shed 3.25¢, while barrels dropped 9¢ from last Friday's close, expanding the block/barrel price spread to 16¢. Lower cheese prices permeated the Class III futures, which settled below \$16 in every month through June 2018.

The CME cash butter market closed 3¢ higher on Friday, recovering some early week-losses, but settling a penny lower than last week at \$2.4475/lb. Friday's cash market gain boost CME butter futures, which closed modestly higher on the day. The recent downturn in CME cash butter prices



places U.S. butter in a more competitive position in the global butter market. As a result, lower Q3 butter prices could spur butter prices in Q4 higher, which is what happened in both 2015 and 2016.

The CME spot nonfat dry milk (NDM) market traded lower as well as higher during the week. Cash NDM closed at 82.25¢, down a penny from Wednesday's peak and 0.25¢ off last week's closing price. The global NDM/SMP prices are eroding, and U.S. prices are following suit. European SMP is flowing into the government-sponsored intervention program, which closes its doors on Sept. 30 and does not reopen until March 1, 2018. While EU milk production is seasonally declining, year-over-year growth is expanding. Southern Hemisphere production is heading toward its peak in October and November. In the United States, manufacturers' stocks are at record levels. In summary, it's hard to find a bull in the global NDM/SMP market. Nevertheless, Class IV futures were steady to slightly higher from last week.

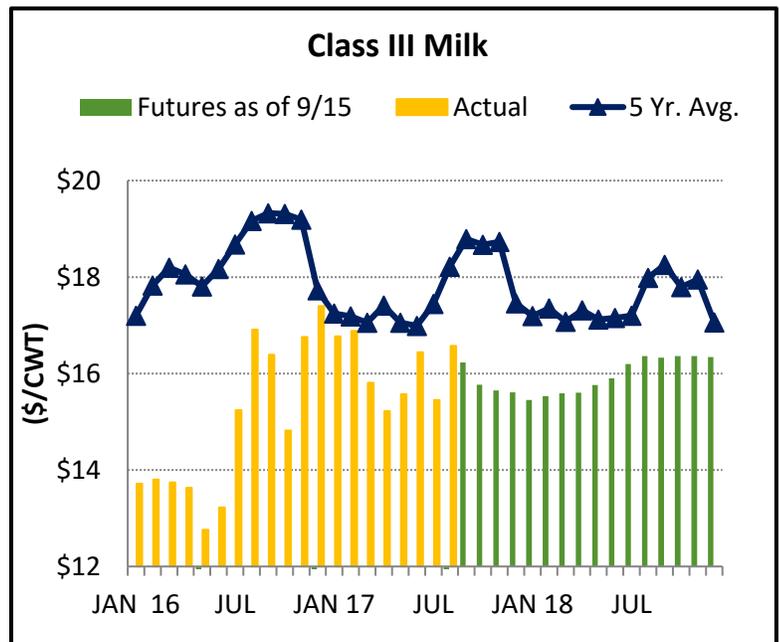
WASDE Summary

Corn, soybean, and soybean meal futures softened this week after the release of USDA's World Agricultural Supply and Demand Estimates (WASDE) report. USDA published a more optimistic corn and soybean production report from last month, and it surpassed the trade's expectations. USDA lowered the projected range for the season average corn price received by producers to \$2.80 to \$3.60 per bushel, down 10¢ on both ends of the range from last month. USDA also reduced the projected range for the season average soybean price by a dime on both ends, \$8.35 to \$10.05.

USDA raised its outlook for 2017 milk production based on greater growth in milk per cow that offsets a slower rate of dairy herd expansion. Butter, nonfat dry milk, and whey price estimates for 2017 were lowered while cheese prices were raised. The higher cheese prices lifted the 2017 Class III price forecast, but the Class IV price estimate was lowered from last month. As a result, USDA expects the 2017 Class III price average to range from \$16.05 to \$16.25, up 15¢ from last month. The 2017 Class IV price estimate is \$15.40 to \$15.70, down 35¢ from last month.

Grain Markets

Grain markets retreated after Tuesday's WASDE report. DEC corn initial fell 6¢ to \$3.5150 per bushel but recovered somewhat to close at \$3.5475 on Friday. November soybean futures fell 9.5¢ on Tuesday to \$9.5050, rebounded to \$9.76 on Thursday just to retreat to \$9.6875 on Friday. Soybean meal futures also recovered during the week. The December soybean meal futures finished the week at \$311.40/ton, up from Tuesday's \$296.70 settlement. Price improvements in the soybean complex are linked to increased export demand by the Chinese and South American weather concerns.



Producer Review Board sends Stand-Alone Quota Program to Secretary Karen Ross for consideration

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

At its September 12, 2017 meeting in Modesto, the Producer Review Board (PRB) reviewed the public comment letters that were submitted on the preliminary plan for the Stand-Alone Quota Program. California Department of Food and Agriculture staff prepared a summary of the comments and their responses to them in a document you can read [here](#). That summary was very helpful because it allowed the PRB to narrow down the

issues it wanted to discuss. There were a few minor word and title changes that had everyone's support, but the majority of the time was spent on two issues.

Section 1100 of the Quota Implementation Plan said: "The continuation of this Plan is subject to a producer survey every five years. The survey shall be conducted by an independent party selected by the Producer Review Board. The survey shall evaluate the effectiveness of the Plan, and the desire of producers to continue operation of the Plan."

There were pretty strong objections to this section, voiced both in comment letters and in oral public comment at the meeting. Various PRB members also voiced concerns about how this provision would be perceived. It took a while, but different language was worked out and the recommended plan Section 1100 now reads: "A producer survey shall be conducted by an independent party selected by the Producer Review Board at least every five years. The survey shall evaluate the effectiveness of the Plan."

Not changed from the prior version was the next sentence "The results of the review will be provided to the Producer Review Board for their consideration, and recommendation to the Secretary." This satisfied the board members and was adopted.

The other issue that took a lot of time was re-hashing the Producer Handler issue. At the June PRB meeting the Producer Handlers that are members of the PRB made a motion to allow them to exchange each pound of their exempt quota for 1.96 pounds of regular quota. That failed by a vote of 5 yes to 9 no. The board then voted 11 yes to 3 noes "that exempt quota should receive the same payout as producer quota and be funded through assessments on all grade A milk produced and marketed in California, and/or California grade A milk received by a California handler, to fund a stand-alone quota program."

At the September 12 meeting, the Producer Handlers made one more attempt to get a reconsideration of their desire to get extra regular quota in exchange for their exempt quota. The Dairy Institute attorney spoke out against any change by explaining his view that giving the current California Producer Handlers any type of premium for their exempt quota would create legal problems in the Federal Order. Of course, the attorney for the Producer Handlers had a completely different view. The discussion was robust, but at the end of it, a motion to reconsider was not entertained due to Robert's Rules of Order. Since a motion on the subject had already been rejected by the PRB at the June meeting, a motion to reconsider could only be made by someone who had voted no on the previous motion. None of the 9 no votes on the original motion were willing to make a motion to reconsider, so the effort to change the one for one exchange of exempt quota for regular quota died.

Obviously, the Producer Handlers think they deserve a better deal. But going from a State Order to a Federal Order means different impacts to a number of different parties, not just Producer Handlers. Under the current California state milk order these four legacy Producer Handlers are exempt from paying into the pool on a certain amount of their class 1 sales. It is worth noting that in a Federal Order Producer Handlers are also allowed to exempt their class 1 sales from paying into the pool, but the rules about who qualifies for that exemption are different in the FMMO and the four current California Producer Handlers are way too big to qualify.

As for their exempt quota, **it was never worth more than regular quota because the exemption was non-transferable.** In fact, these Producer Handlers have had two opportunities to convert regular quota into exempt quota. Of the 59,039 pounds of daily solids-non-fat exempt quota that currently exist, 42,700 of those pounds started out as regular quota and were converted to exempt quota on a one for one basis. For more detail on this topic, refer to an article in the June 9 MPC Friday Report which you can read [here](#). When the Pooling Plan started in 1969 there were 49 exempt Producer Handlers. Over the years, 45 of them have converted their exempt quota to regular quota on a one for one basis. These four remain. If California producers vote to join the Federal Milk Marketing Order system, the FMMO rules on producer handlers will apply to the California dairy

industry. The PRB's job was to protect the value of quota in new system. They have done that for all producers, including the Producer Handlers.

The next step is for Secretary Ross to review the work and approve it for consideration by producers. A ballot will then be sent out to producers requiring them to vote on the Stand-Alone Quota program. Remember the Stand-Alone Quota Program will ONLY be implemented IF California producers also vote to join the Federal Milk Marketing Order system. Because the cooperatives, who are the petitioners for a California FMMO have said that they will only consider a FMMO for California IF it protects Quota value, it is very important that the Stand-Alone Quota Plan passes or we will not get a chance to consider a FMMO for California. In order for a vote to pass, 51% of California producers need to vote and of those voting, in order for the referendum to pass, 65% of the producers representing at least 51% of the milk that is voting need to vote yes or 51% of the votes representing 65% of the voting milk need to vote yes. Watch your mailbox for the ballot which should come within the next few weeks.

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