



Milk Producers Council

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TO: Directors & Members

PAGES: 5
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	- \$.0100	\$1.3500	Weekly Change	-.0350	\$2.2075
Barrels	-.0925	\$1.2225	Weekly Average	+.0100	\$2.2320
Weekly Average, Cheddar Cheese			DRY WHEY		
Blocks	-.0030	\$1.3540	Dairy Market News	w/e 12/07/18	\$.4450
Barrels	-.0095	\$1.2615	National Plants	w/e 12/01/18	\$.4597
					Prior Week Ending 11/24
					Nat'l Plants \$0.8838 14,724,461
					Nat'l Plants \$0.8851 9,802,654

California Federal Milk Marketing Order Price Projections

FMMO Pricing	Class I Actual (Range based on location)	Class II Projected	Class III Projected	Class IV Projected
This Week (Dec Pricing)	\$16.65 - \$17.15	\$14.61	\$13.76	\$14.84
Last Week (Nov Pricing)	\$17.12 - \$17.62	\$14.67	\$14.46	\$15.07

November FMMO prices announced

The Class III and IV prices for the California FMMO were announced by USDA this week, and because the former California class 4b formula used data that came from on-going sources, we can calculate what the California 4b price for cheese milk for November would have been if California were still operating under the State order.

The California 4b price for November would have been \$13.55. The November FMMO class III price was just announced at \$14.44. So, while both of these prices are down from October, there is definitely going to be more money in California producers' pockets for November's milk because of the implementation of the Federal Milk Marketing Order.

Market commentary

By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

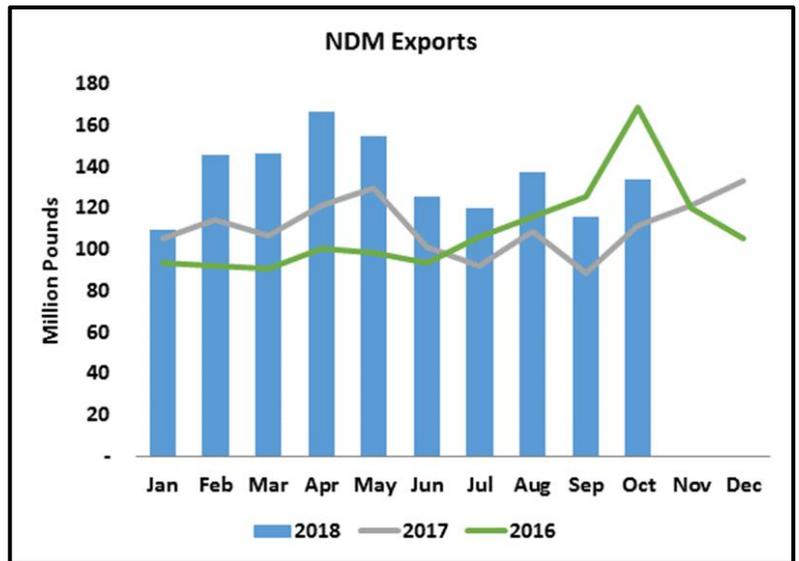
Milk & Dairy Markets

The dairy markets got off to a strong start this week, on the promise of improved trading relations with China. But Monday's euphoria about the successful meeting between President Trump and Xi quickly gave way to a clear-eyed and hard-nosed assessment of the likelihood, timing, and scope of a trade deal. As investors had a chance to digest the (lack of) details and a tweet from President Trump crowing that he is "a Tariff Man," the red ink began to flow.

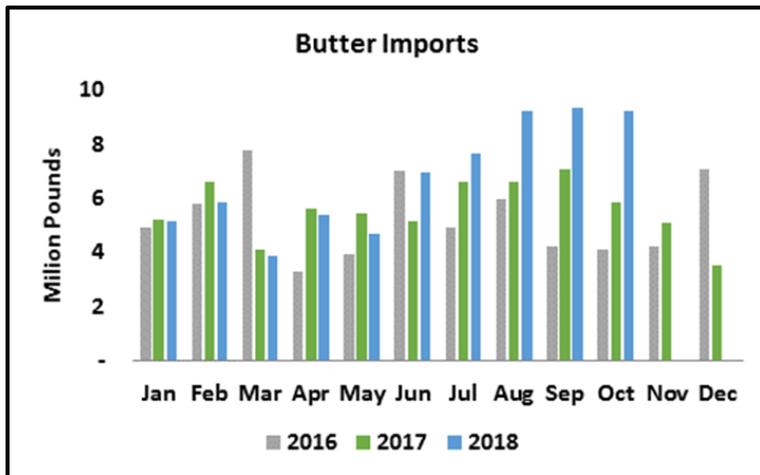
Still, the summit did bring about a temporary truce on trade, and China's commerce ministry promised that China "will begin implementing specific issues that have reached consensus immediately, the sooner the better." One

area of consensus includes agricultural trade, although soybeans and pork are likely to be at the front of the line, with dairy far behind.

Facing higher tariffs and a relatively strong currency, U.S. dairy exports are disadvantaged. Still, low prices fostered some improvement in export volumes, particularly for Class IV products. Compared to October 2017, the U.S. exported 19.5% more nonfat dry milk (NDM) and 75% more butter and milkfat. However, butter exports were dwarfed by imports. Imports of Irish butter alone were nearly 1.75 times larger than U.S. butter exports to all destinations.



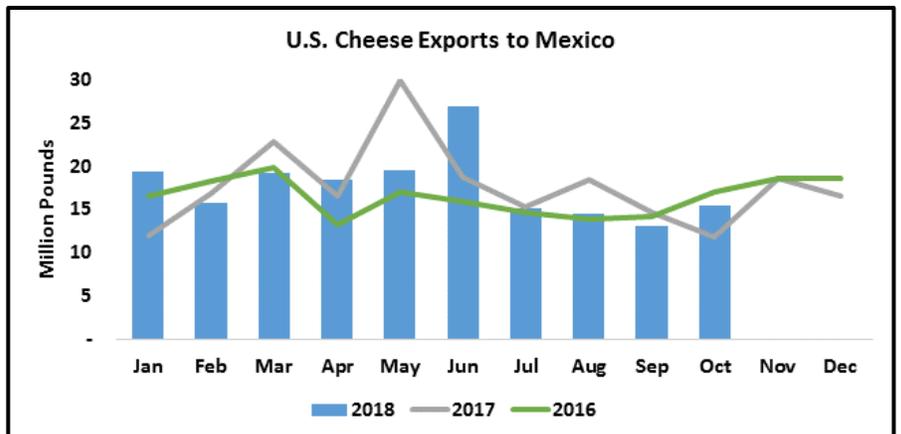
U.S. cheese exports slipped 0.2% from year-ago volumes. Despite the tariffs, U.S. cheese exports to Mexico jumped 30.8% from October 2017. However, in comparison to the robust pace of cheese shipments south of the border in the first half of the year, U.S. cheese



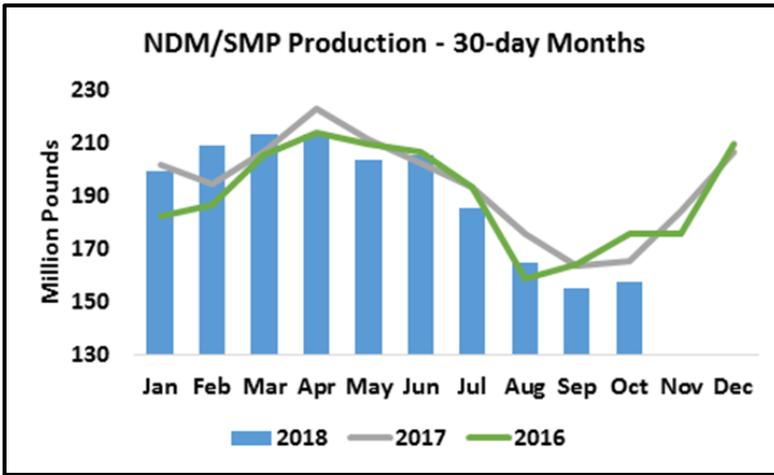
exports to Mexico disappointed. U.S. cheese was so cheap in October that it bested European product into Mexico even after accounting for tariffs. But the Daily Dairy Report warns, “Going forward, U.S. cheese could struggle to overcome the tariff and currency disadvantage, as cheese prices in Europe and Oceania follow the U.S. market lower.”

Whey products exports slumped. U.S. whey exports to China, our largest market, fell to the lowest volume since February 2015. Whey exports to all foreign markets fell 15.8% from October 2017.

U.S. dairy product output also shows a clear divide between Class III and Class IV. October cheese output was 3% higher than the prior year, at 1.12 billion pounds. Output of dry whey for human consumption jumped 7.9% from October 2017. Whey stocks climbed from September to October, but they were down 21.5% from the very high volumes of a year ago. However, butter output was down 0.3% from a year ago and combined production of NDM and skim milk powder (SMP) fell 4.8% from last year. Manufacturers’ stocks of NDM declined nearly 10 million pounds from September to October, and they’re down 20.2% from a year ago. Given the pace of slaughter and sellouts, milk powder output and inventories will likely continue to wane.



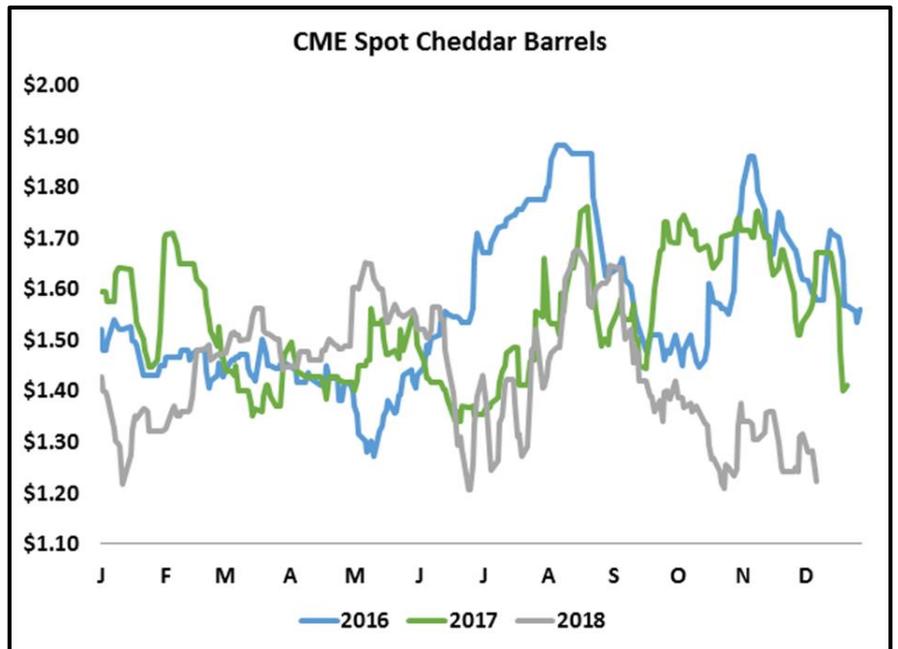
But milk is not tightening quickly enough to banish the bears. Fonterra lowered its milk price forecast this week, warning that they expect global milk supplies will continue to grow more quickly than demand, despite flatter growth in European milk output and their expectations for a 1% increase in U.S. milk production this year.



Prices moved higher at the Global Dairy Trade (GDT) auction on Tuesday; the GDT Index rallied 2.2% from the previous event, its first increase in six months. Fonterra offered considerably less product at this week's auction than at recent events, which likely helped to boost values. Dairy product prices on the NZX futures have climbed since the previous GDT auction, and the U.S. dollar has gained against the New Zealand dollar. So, the deck was stacked for an increase in values; in that context, the GDT did not impress. Skim milk powder (SMP) prices climbed just 0.3% to the equivalent of NDM at

95¢ per pound. Cheddar values fell 2.2%. Butterfat products fared better, with whole milk powder (WMP) up 2.5%, butter up 2.7%, and anhydrous milkfat up 3.9%. European dairy product prices are in retreat.

In Chicago, prices moved lower nearly across the board. Dairy markets and producers' resolve were battered once again. CME spot dry whey managed to eke out a quarter-cent gain this week, closing at 43.75¢ per pound. Spot NDM slipped 2¢ to 88.5¢. Butter dropped 3.5¢ to \$2.2075, near the low end of the long-standing trading range. CME spot Cheddar blocks lost a penny, falling to \$1.35, within striking distance of the calendar year low at \$1.34. Barrels simply won't get up off the mat. They closed today at \$1.2225, down 9.25¢ from last Friday. Class III futures continued to lose ground, with nearby contracts cementing new life-of-contract lows. Class IV futures moved lower as well.



It feels like the dairy markets are capitulating. Traders loudly lament bearish news while bullish reports are too-easily dismissed. This type of lopsided sentiment often comes in the last throes of a bear market. That doesn't mean that the bulls will suddenly charge. It is always darkest before the dawn, but those moments can be very dark indeed. Dairy producers and their lenders are shell-shocked, and milk is not yet tight enough to limit cheese output or rally Class III prices. Given the structural damage underway in the industry, those days are likely coming. But the cold, dark moments before dawn often crawl by at an unbearably slow pace.

Grain Markets

Cheered by the vague triumphs of the Trump-Xi trade talks, January soybeans surged to \$9.1675 per bushel, up 22¢ from last Friday. March corn futures climbed 7.75¢ to \$3.855. The Chinese are likely to follow through on their promise and buy a large but unspecified volume of U.S. soybeans, just as they offered to do twice earlier this year during trade discussions that ultimately soured. But it's too late to matter much.

U.S. soybean exports lag last season by more than 400 million bushels. If China starts buying U.S. soybeans, prices in Brazil will likely drop, securing business from the rest of the world and perhaps from China beyond its commitments to the U.S. Brazilian beans have filled the gaps in the global market with greater export volumes

than the trade thought were possible, suggesting last year's soybean crop was even larger than previously estimated. Farmers in Brazil are likely to harvest their earliest beans in a month or so, effectively closing the window for U.S. bean exports. This year's Argentine bean crop is likely to be substantially larger than last year's. The world will be awash in soybeans even before U.S. farmers begin to plant in the spring. The market should be discouraging soybean acreage, but at today's prices it is not doing its job.

MPC thanks Congressman David Valadao for service to constituents, dairy families

By Kevin Abernathy, MPC General Manager

Yesterday, Congressman David Valadao conceded to Democratic challenger TJ Cox in the race for California's 21st District, which includes areas of Fresno, Kern, Kings and Tulare counties. It was a close race, decided by 862 votes out of more than 113,000 cast as of yesterday. To say we are disappointed and surprised is an understatement, especially after several national news outlets had called the race for Congressman Valadao on election night as he led by about 5,000 votes.

The Congressman said in a statement, "There is no doubt we are disappointed in the results but we can take pride in knowing that we brought about real, tangible change. We have reduced taxes for middle class families, made huge strides in our battle for water, reformed the dairy industry for thousands of California farmers, improved access to healthcare for families throughout the Valley, and given our troops the support they deserve."

Congressman Valadao was a tremendous and effective advocate in the U.S. House of Representatives for California agriculture. On the issue of water – the lifeblood of California agriculture – he successfully championed policies aimed at restoring water deliveries to the Central Valley, including working with the President to support the signing of an Executive Memorandum to promote reliable water supplies for farmers.



Following the signing, the Congressman said, "After years of fighting obstruction from California Senators, this Executive action is a giant leap toward reducing regulatory burdens and improving water deliveries to California's Central Valley. I am proud our efforts have effectuated such substantial progress. With a reliable water supply, we can restore fallowed fields into fertile farmland, put Californian's back to work, and give all Central Valley families the opportunity they deserve."

Personally, the Congressman was someone I could call at any time to discuss matters affecting our dairy families and he immediately understood them because he is a dairy farmer. There was no need to "bring him up to speed" on anything related to dairy farming. He knew what dairy families were experiencing and that meant his time was devoted to working on solutions, not learning about the industry.

All of us at MPC thank Congressman Valadao for his service to his constituents and to the farmers of California. We wish him the best as he transitions from public to private life. We will surely miss his practical and common-sense voice in Congress. His loss is our loss.

DairyBusiness News: Sustainability Summit relevant in today's tough dairy economy

Published by DairyBusiness News

“Productivity will continue to drive sustainability,” explained Dr. Frank Mitloehner of UC Davis, internationally recognized leader in dairy environmental issues. The most efficient and productive cows and farms leave the smallest carbon footprint while providing the best opportunity for economic success.

This was the theme of the first California Dairy Sustainability Summit held Nov. 27 & 28 in Sacramento, attended by over 650 including over 200 dairy producers and a number of leading dairy processors. The audience also included state legislators, regulators, organizational leaders and commercial business exhibitors as well. People came from 27 states and six other countries.



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