



Milk Producers Council

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DATE: August 18, 2017

TO: Directors & Members

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FROM: Kevin Abernathy, General Manager

CHICAGO CHEDDAR CHEESE

Blocks	+ \$.0125	\$1.7550
Barrels	+ \$.1625	\$1.7500

Weekly Average, Cheddar Cheese

Blocks	+ \$.0475	\$1.7410
Barrels	+ \$.1255	\$1.6805

MPC Friday Market Update

CHICAGO AA BUTTER

Weekly Change	- \$.0375	\$2.6450
Weekly Average	- \$.0075	\$2.6605

DRY WHEY

Dairy Market News	w/e 08/18/17	\$.4100
National Plants	w/e 08/12/17	\$.4326

NON-FAT DRY MILK

Week Ending 8/11 & 8/12			
Calif. Plants	\$0.9015	6,749,566	
Nat'l Plants	\$0.8822	13,166,262	

Prior Week Ending 8/4 & 8/5

Calif. Plants	\$0.8948	4,023,348
Nat'l Plants	\$0.8620	26,171,145

Fred Douma's price projections...

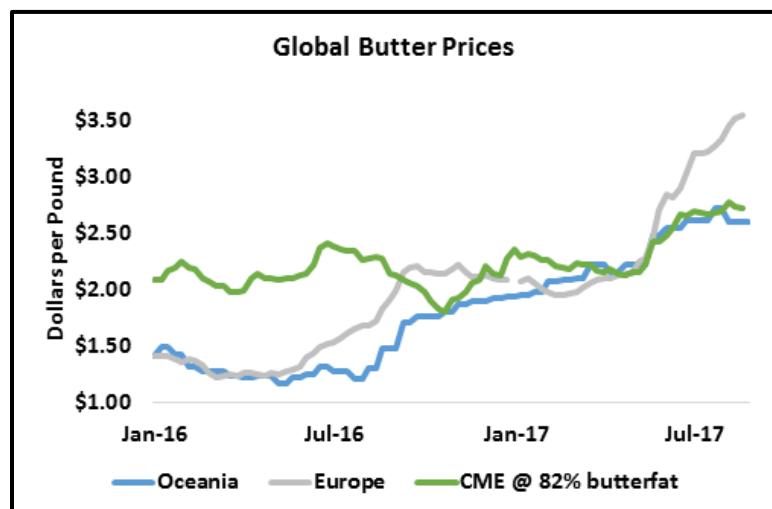
Aug 18 Est: Quota cwt. \$17.89 Overbase cwt. \$16.20 Cls. 4a cwt. \$16.61 Cls. 4b cwt. \$16.24
 Last Week: Quota cwt. \$18.02 Overbase cwt. \$16.33 Cls. 4a cwt. \$16.66 Cls. 4b cwt. \$16.48

Market commentary

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

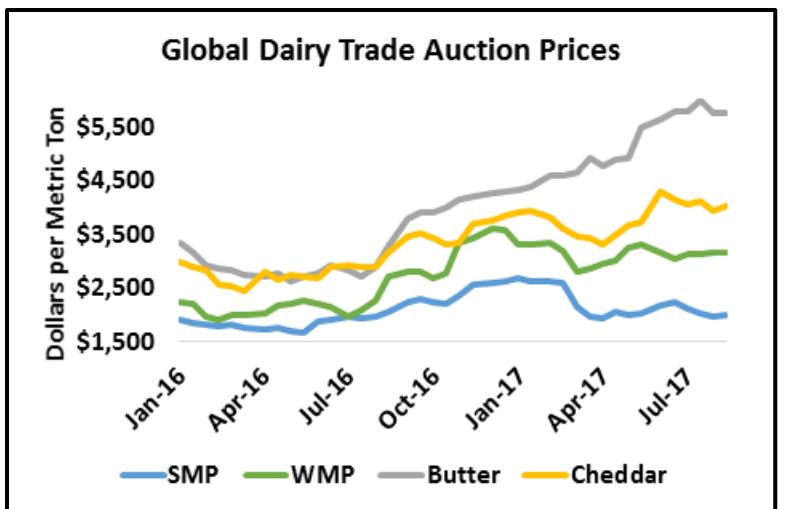
Milk & Dairy Markets

All year, the oversupplied barrel market has been a drag on the Class III complex. With expanded barrel processing capacity and plenty of milk, cheese makers have stepped up Cheddar barrel output noticeably. But demand for processed cheese has not kept pace, and cheese makers have been dumping unprecedented volumes of product at the CME spot market. Finally, summer heat and back-to-school milk demand seem to be tightening supplies. Barrels are still readily available, but there is less surplus milk searching for a home at a discount, and cheese production is slowing accordingly. Today CME spot Cheddar barrels jumped to \$1.75/lb., a nine-month high. Barrels are up 16.25¢ this week, and they finished just a half-cent behind blocks, the narrowest block-barrel spread since mid-March. The 1.25¢ gain in the block market was much less exciting, but it helped to boost nearby Class III futures a little above last Friday's settlements. However, deferred contracts lost ground.



The Class IV products moved lower this week. The futures lost between a nickel and 45¢ compared to last Friday. CME spot butter fell 3.75¢ to \$2.645. That puts U.S. butter at a modest premium to product from Oceania and a growing discount to Europe, where prices hover around \$3.50 after adjusting to 80% butterfat. Demand remains firm both at home and abroad.

Spot nonfat dry milk (NDM) slipped 1.75¢ this week to 83.25¢. At the Global Dairy Trade (GDT) auction, the

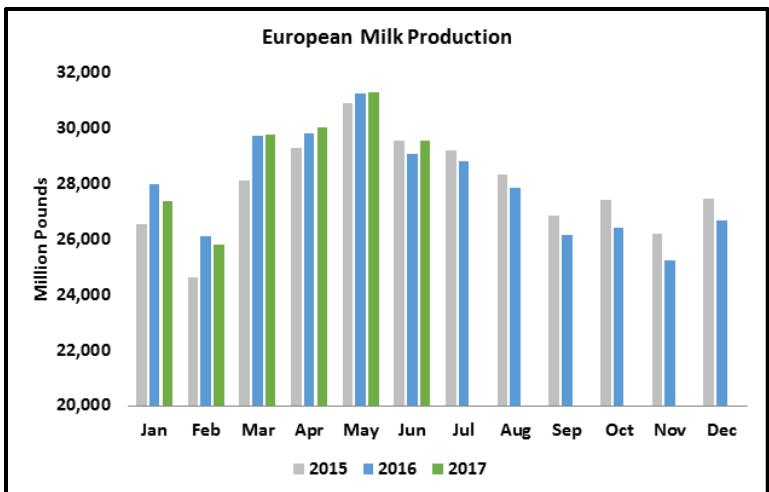


average winning price for skim milk powder (SMP) was up negligibly from the previous event, putting GDT SMP at the equivalent of 95¢ NDM after adjusting for protein. Whole milk powder (WMP) prices dipped 0.6%, and the trade-weighted index fell 0.4%. In Europe, Lithuania offered a paltry volume of SMP into the government's Intervention storage program. More is likely to follow as manufacturers look to move product before the program closes at the end of September. It will reopen in the spring.

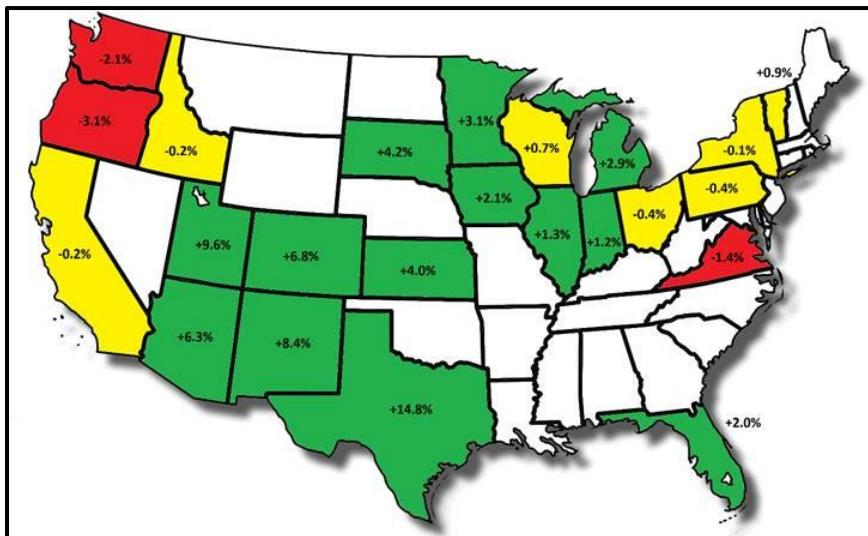
European milk production climbed 1.7% in June to 29.55 billion pounds, assuming steady contraction

in Croatia, which has yet to report June collections. That is the largest year-over-year growth since April 2016, and it puts first-half milk output in the eurozone slightly below the first six months of 2016. On the whole, European dairy producers are expected to step up milk output modestly in the second half of the year, but trends will likely continue to vary widely in individual nations.

U.S. milk output reached 18.2 billion pounds in July, up 1.8% from the year before. The Southwest and Mountain states once again fueled the increase. Production was up 14.8% year over year in Texas, 9.6% in Utah and 8.4% in New Mexico. The Midwest continues to report modest growth, while the Northeast suffered a deficit. Milk output was lower again along the Pacific Coast; Idaho ticked downward as well.



Dairy producers culled aggressively in July, and at 9.403 million head the July dairy herd was 1,000 head lower than the June peak. This is the first month-to-month contraction since the one-off decline in September 2016.



There are still cows in abundance, setting the stage for plenty of milk. But August culling data suggests that further contraction in the U.S. dairy herd is possible. For the week ending August 5, dairy cow slaughter totaled 56,740 head, up 8.6% from a year ago. Year-to-date slaughter is up 3.4% from last year's pace.

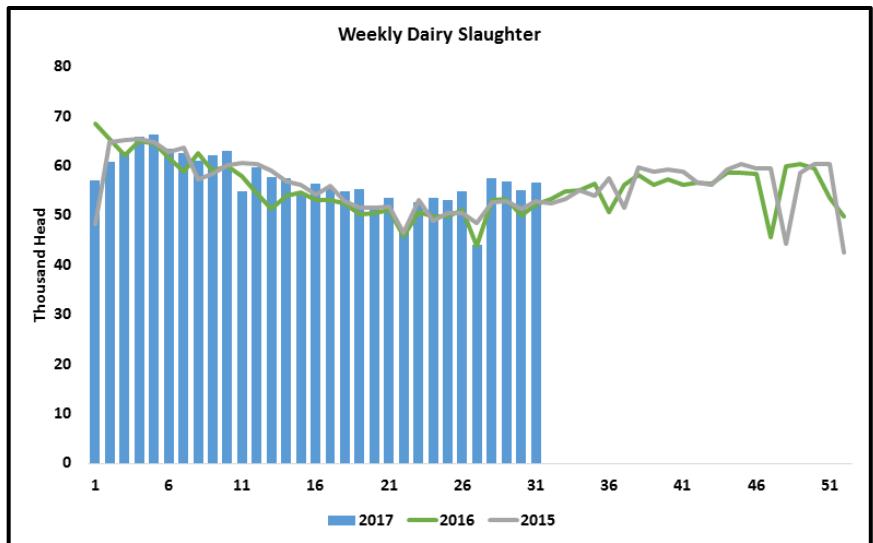
Grain Markets

Nearby corn and soybean contracts finished roughly a dime lower than last week. September corn settled at \$3.52 per bushel with September soybeans at \$9.375. The weather has been fine but far from

perfect. Iowa and the eastern Corn Belt could use a good shower. The National Drought Mitigation Center estimates 44.6% of the state of Iowa in drought, up from 40.4% last week and compared to just 1% at this point last year. Rich topsoil and cooler-than-normal temperatures will help to mitigate the impact, but Iowa's crops

would surely benefit from a drink.

Why then do the markets continue to decline? We have moved one week closer to harvest without a weather disaster, which may have allowed weather risk premiums to erode just a little. But the real answer is likely momentum. Once the markets moved convincingly lower, investment funds and other big players rushed to sell, fueling greater losses. The trade has a tendency to overdo it during momentum moves like this one. Today's prices may not be the lowest we'll see this season, but they offer a good opportunity for dairy producers to lock in some feed at historically reasonable levels.



Abernathy completes whirlwind summer trip; returns to office in one piece

By Kevin Abernathy, MPC General Manager



With summer almost over, it is the perfect time to get in a road trip before the close of the season. I spent last week doing just that, attending the Sturgis Motorcycle Rally. The rally takes place in Sturgis, South Dakota, as it has since 1938, and is attended by over 500,000 people annually. I trekked 4,000+ miles over the course of 10 days, from California to South Dakota via Nevada, Utah, and Wyoming. On the ride back I rode through Idaho, Washington, and Oregon, finally arriving in California through the North Coast.

With the big summer trip behind me, it will be business as usual around the MPC office. I hope everyone had a great summer!
