



Milk Producers Council



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DATE: December 16, 2016
 TO: Directors & Members

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 FROM: Rob Vandenhoevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$.0900	\$1.8000
Barrels	+\$.1225	\$1.7000

Weekly Average, Cheddar Cheese

Blocks	+\$.0350	\$1.7660
Barrels	+\$.1000	\$1.6865

CHICAGO AA BUTTER

Weekly Change	+\$.1250	\$2.1900
Weekly Average	+\$.0145	\$2.1070

DRY WHEY

Dairy Market News	w/e 12/16/16	\$.4125
National Plants	w/e 12/10/16	\$.3932

NON-FAT DRY MILK

Week Ending 12/9 & 12/10

Calif. Plants	\$0.9435	4,626,757
Nat'l Plants	\$0.9557	15,236,651

Prior Week Ending 12/2 & 12/3

Calif. Plants	\$0.9187	12,031,380
Nat'l Plants	\$0.9260	22,188,369

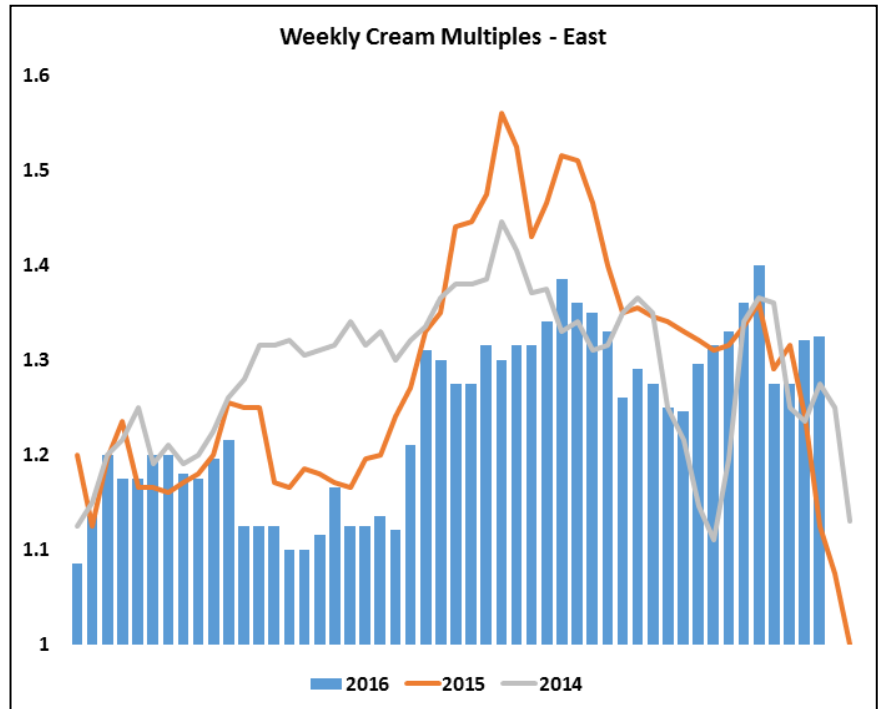
FRED DOUMA'S PRICE PROJECTIONS...

Dec 16 Est:	Quota cwt. \$17.50	Overbase cwt. \$15.80	Cls. 4a cwt. \$14.54	Cls. 4b cwt. \$16.76
Last Week:	Quota cwt. \$17.25	Overbase cwt. \$15.56	Cls. 4a cwt. \$14.32	Cls. 4b cwt. \$16.39

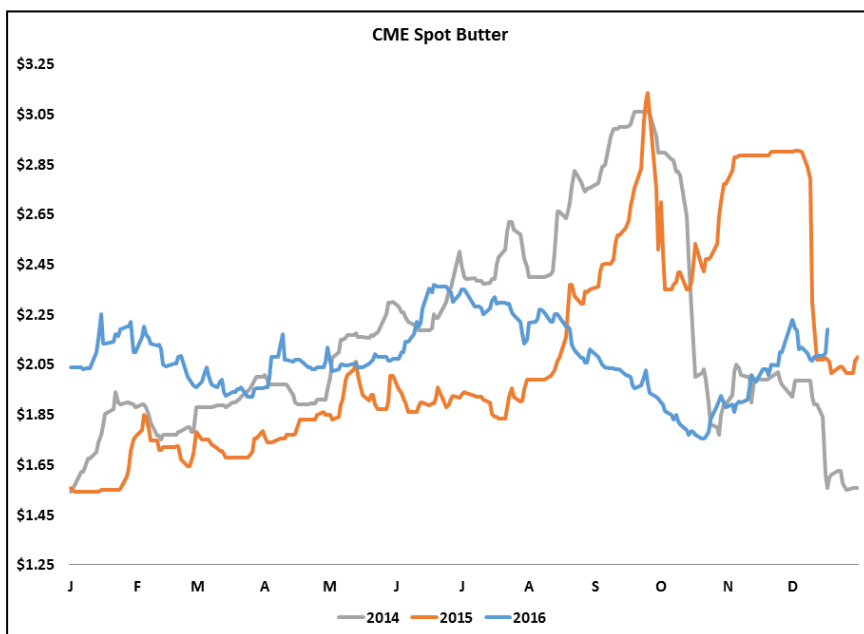
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

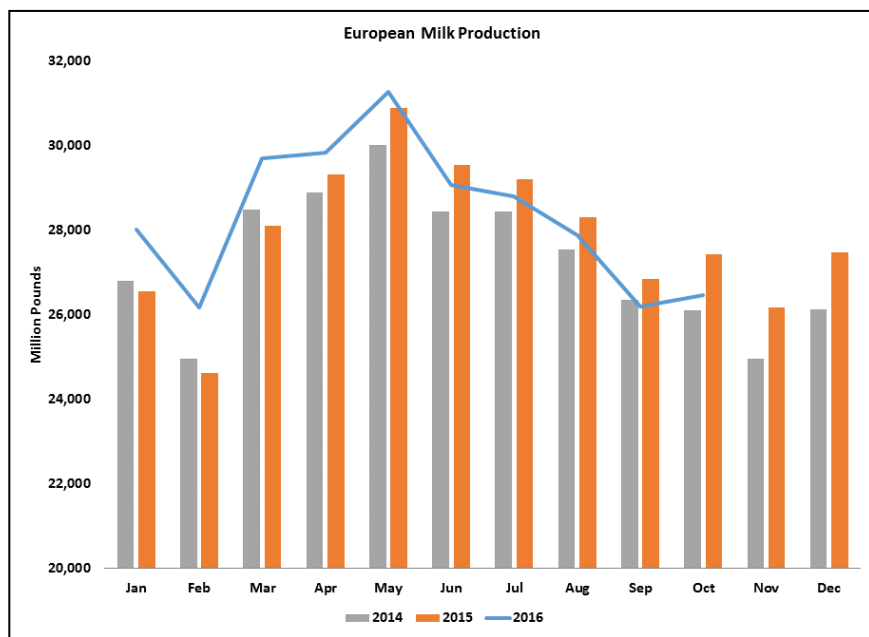
The holiday markets don't often bring much cheer for dairy producers as there is typically a lot of milk sloshing around in late December. Students are home, drinking less milk than they would at school. Processors are taking more downtime. Retailers are shifting their focus from holiday treats like egg nog and whipped cream to healthier fare for the new year. But this year feels different. *Dairy Market News* reports, that, as usual, "In the West and Central regions cream is becoming more available for churning as usage into Class II is waning." However, in the East, "the fluid cream market is firmer than market participants anticipated and supplies have been somewhat tight." Cream multiples firmed just a bit in the East this week, an unusual feat given the calendar. Canada continues to lap up cream, and domestic demand for butterfat of all varieties remains robust.



With demand running hot, the dairy markets are ablaze. CME spot butter surged 9.5¢ today to \$2.19/lb., up 12.5¢ on the week. March, April, and May butter futures settled a nickel higher, at their upper daily trading limit. Spot nonfat dry milk (NDM) climbed 4.75¢ to \$1.02, the highest price for that market since March 2015. Gains in Class IV contracts in the first half of next year ranged from 40 to nearly 70¢. Most contracts forged new highs. Rallies like this one should warm dairy producers' spirits as a rough year draws to an exciting close.



Spot Cheddar blocks climbed 9¢ this week to \$1.80. Barrels are reportedly still plentiful, but that market gained 12.25¢, reaching \$1.70. Whey futures moved higher nearly every day. Most Class III contracts settled 20 to 50¢ higher than last Friday. The trade was volatile, punctuated by surges and then selloffs. March Class III futures touched a high of \$18.08 on Tuesday, and dairy producers jumped at the opportunity to sell \$18.00 milk. The contract finished in the red on Tuesday and continued to slide throughout the week. But the psychological barrier has been broken. Going forward, end users may be more anxious about the potential for a further run-up, and those with product to sell will likely be more confident to hold out for higher prices.

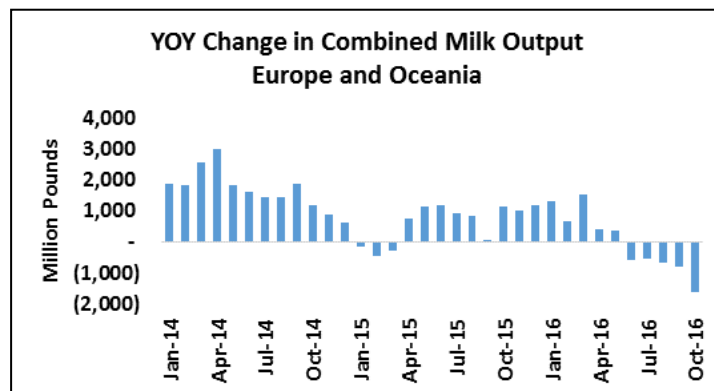


Milk output continues to contract in Europe. Production fell 3.5% from a year ago in October to less than 26.5 billion pounds. The roughly 957 million pound shortfall is greater than milk output in Texas in October. In both absolute and percentage terms, this is the largest year-over-year decline in European milk output in decades. These figures are based on preliminary and oft-revised data from the European Commission. (Austria and Cyprus have not yet reported October milk collections; the EU-28 volume assumes year-over-year changes equal to September in those nations.) October is the fifth consecutive month of lower year-over-year milk output in Europe and the first month in which the European Commission's Milk

Production Reduction Scheme was in effect. Sustained financial losses and the promise of a bonus for lower output have clearly incentivized producers to curtail production.

Together, Europe and Oceania produced 1.6 billion pounds less milk in October than the year before. The shortfall in the past few months was large enough to erase the sizeable surplus from the first half of the year. Milk production deficits in South America and China have augmented the global decline and increased the opportunity for U.S. dairy exports, even as the dollar strengthens. The greenback reached 13-year highs this week, reducing the competitiveness of U.S. dairy exporters. Still, with overseas output dropping, the U.S. dairy trade balance is likely to shift measurably in 2017. This could help demand to outpace continued growth in the U.S. milk supply.

This week the European Commission wrapped up its first tender for skim milk powder (SMP) from its Intervention program. Ever wary of actions that might send dairy markets lower and earn the ire of European dairy producers, the Commission rejected most bids as too low. The Commission offered 22,250 metric tons (49 million pounds) of its oldest product. It sold just 40 metric tons, half at €2,150 and half at €2,200, slightly higher than the going rate for spot SMP in Europe early this week. The Commission will continue to offer its powder twice a month until the remaining 22,210 metric tons of older SMP is gone. At this rate it will take a while. The Commission still holds a huge volume of somewhat fresher SMP, but private merchants won't have to compete with that for a while longer.



Grain Markets

The grain and oilseed markets were little changed this week. March corn finished at \$3.5675 per bushel, down 2.25¢. January soybeans closed at \$10.3675, down fractionally. The forecast looks favorable in South America. Rains are expected to pick up in Argentina over the next week or two. Fields there are parched, so if rainfall disappoints, yields will suffer and the corn and soybean markets would likely rally. On the other hand, conditions are excellent in Brazil, and analysts are penciling in higher and higher production estimates. The world is awash in grain, but always one bad crop away from a shortage of soybeans, so the futures have priced in a significant risk premium. It's too early to count on big yields, but if the Brazilian crop can finish as strong as it's started, the soybean market is likely to come under pressure.

UPDATE – CALIFORNIA DROUGHT RELIEF PROVISIONS APPROVED BY THE SENATE AND SIGNED BY THE PRESIDENT: *(By Rob Vandenheuvel)* Last week, I wrote about the Water Infrastructure Improvements for the Nation (WIIN) Act of 2016, which includes provisions aimed at providing drought relief in California (<http://www.milkproducerscouncil.org/updates/120916.pdf>). At press time last week, the bill had been approved by the U.S. House of Representatives and was being debated in the U.S. Senate. Late Friday night (*actually, early Saturday morning Eastern Time*), with California's own Senator Barbara Boxer fighting hard to kill the bill over her objections to the drought relief provisions (*a fitting end to her career in the Senate, proudly defending unwavering rights for fish* over drinking water for her own constituents*), the bill was approved by a vote of 78-21. Today, the bill was signed by President Obama, making it the law of the land.

As noted in last week's article, the language in the bill specific to California's water availability include both short-term and long-term provisions. In the short-term, the most significant provisions in the bill are aimed at creating opportunities for more pumping of water from the Sacramento-San Joaquin Delta to available storage for use in the Central Valley and Southern California. The bill does not repeal the Endangered Species Act, but rather makes adjustments that would allow more aggressive pumping of water from the Delta when fish populations are not near the pumps and safe from harm. These provisions should reduce the ridiculous amount of fresh water (*millions of acre-feet over the past few years!*) that is flushed out to the Pacific Ocean when State and Federal decision-makers prevent that water from flowing to available storage downstream.

In the longer-term, the bill provides more than \$500 million for water storage, recycling and desalination projects. These funds would be combined with previously-approved State bond funds geared towards long-term investments needed to upgrade our decades-old water systems that must cater to an ever-growing population.

While more certainly needs to be done, and we must still wait to see how these provisions are applied by Federal and State government agencies, this is an important step in addressing the pathetic (and largely ignored) man-made component of California's drought conditions.

**While defending the fish in the Delta, Sen. Boxer also ironically defended the salmon fisherman, arguing that this bill would negatively impact their business. Don't they kill her precious fish on purpose? Consistency is clearly not a requirement in this debate.*