



Milk Producers Council

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DATE: April 14, 2017
 TO: Directors & Members

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 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	+ \$.0150	\$1.4750
Barrels	-.0075	\$1.4275

Weekly Average, Cheddar Cheese

Blocks	-.0305	\$1.4675
Barrels	-.0330	\$1.4275

CHICAGO AA BUTTER

Weekly Change	-.0100	\$2.0875
Weekly Average	-.0417	\$2.0863

DRY WHEY

Dairy Market News	w/e 04/14/17	\$5.000
National Plants	w/e 04/08/17	\$5.339

NON-FAT DRY MILK

Week Ending 4/7 & 4/8		
Calif. Plants	\$0.8737	6,448,258
Nat'l Plants	\$0.8254	15,241,675

Prior Week Ending 3/31 & 4/1

Calif. Plants	\$0.8310	25,756,620
Nat'l Plants	\$0.8272	38,117,981

Fred Douma's Price Projections...

April 13 Est:	Quota cwt. \$15.65	Overbase cwt. \$13.96	Cls. 4a cwt. \$13.66	Cls. 4b cwt. \$14.19
Last Week:	Quota cwt. \$15.61	Overbase cwt. \$13.92	Cls. 4a cwt. \$13.64	Cls. 4b cwt. \$14.12

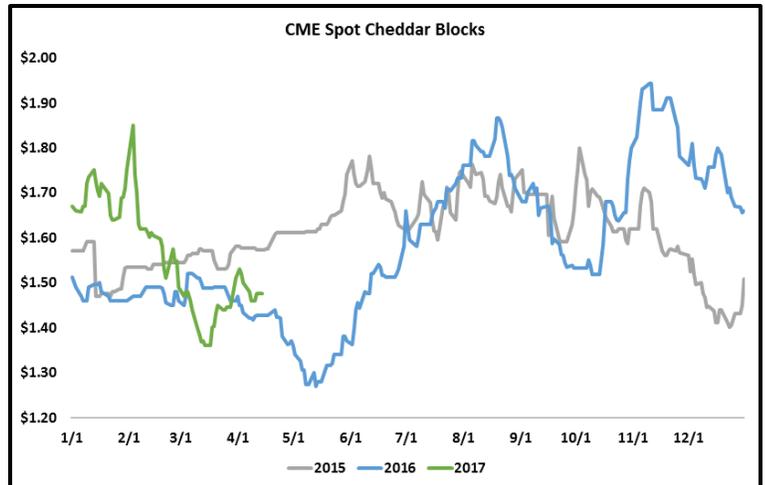
Market Commentary

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

Milk & Dairy Markets

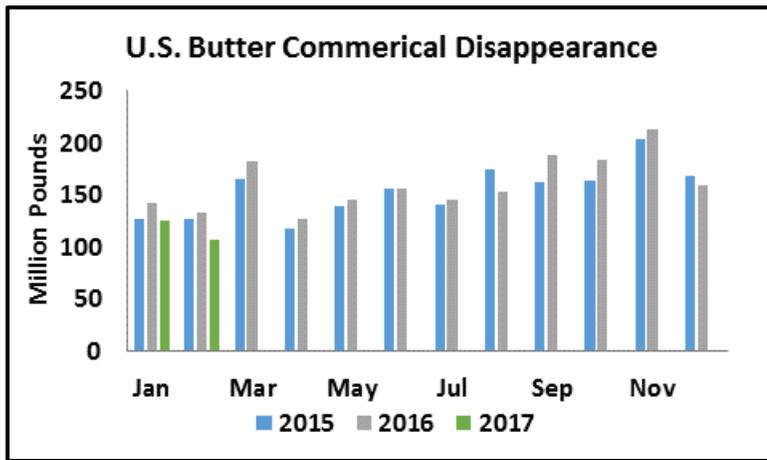
We've got plenty of cows, lots of milk, and piles of dairy products. The spring flush is upon us and components are up noticeably. Cheese demand remains a concern, which will exacerbate the seasonal stock build. Manufacturers are able to keep some product moving at today's prices, but processors in the West note little opportunity for sales beyond those already contracted. End users have had ample opportunity to buy cheese and store it to meet upcoming needs.

Milk flows are particularly overwhelming in the Midwest. *Dairy Market News* reveals, "Class III producers have started to turn away spot milk, reported from \$1.50 to \$5.00 under Class, due to cheese stocks being at or near capacity. Class I demand is not helping the supply situation. School districts are reportedly not ordering as much as expected following spring break." Processing capacity is strained in the Northeast and Southwest as well.



Whey production is robust, which is to be expected given formidable cheese output. Domestic demand has not impressed, but exporters continue to ship large volumes to Asia. The futures got off to a weak start on Monday, but they climbed every day thereafter.

Manufacturers suggest that butter demand is on firm footing. However, inventories continue to grow. And, like cheese, butter use got off to a slow start this year. According to *Daily Dairy Report* analysts' estimates,

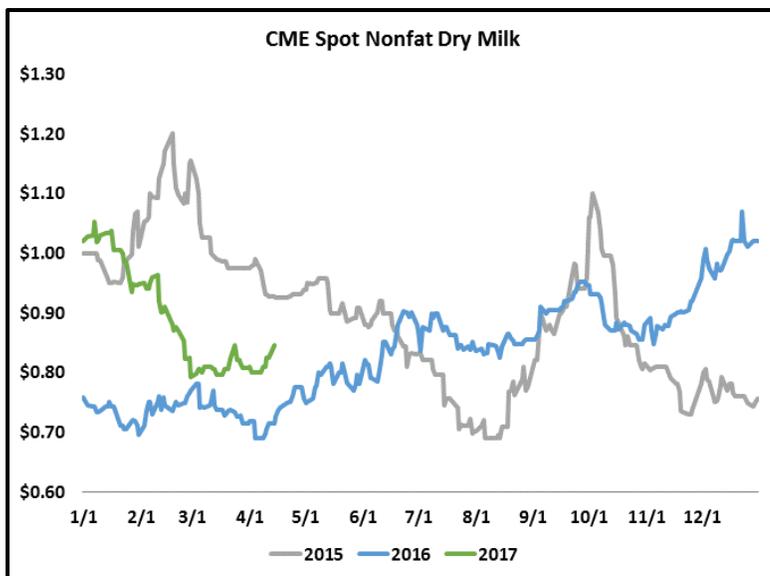
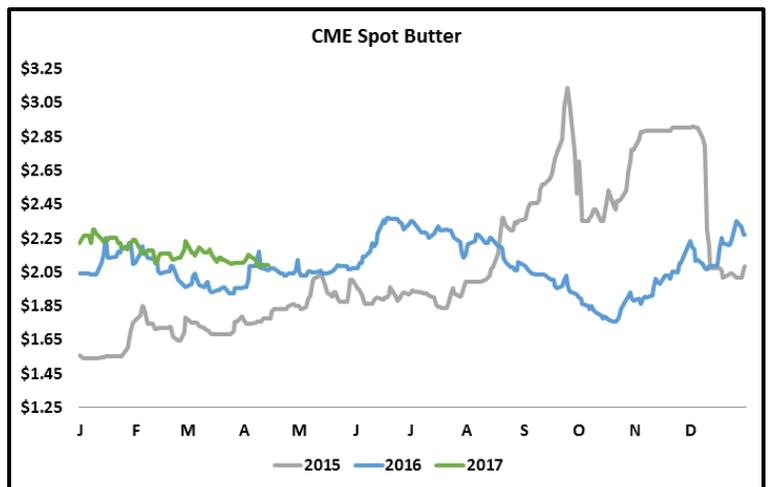


commercial butter disappearance in February was 17% lower than the year before, after adjusting for leap year. “Commercial disappearance for the first two months of this year has fallen 14% behind last year pace and is 9% lower than the five-year average pace for the same months.” This may be due, in part, to the later Easter this year, but it merits concern nonetheless.

With milk in abundance, driers are running full throttle. Buyers feel no sense of urgency, but sellers are also patient at today’s prices. Product is moving across the border to Mexico in growing

volumes, as drought has crimped Mexican milk production. Overseas, prices are stable at low levels. Lithuania and Denmark both pushed skim milk powder (SMP) into the government’s Intervention purchase program. The volume of product moving into government storage is not large, but this is the second consecutive week in which Europe has added to its already colossal government stockpile.

As is often the case at this time of year, the profusion of dairy products has weighed on prices. But the market seems to feel that the recent declines are enough for now. CME spot butter reached four-month lows on Monday and closed the holiday-shortened week at \$2.0875/lb., down a penny from last Friday. Cheddar blocks rallied 1.5¢ to \$1.475 and barrels slipped 0.75¢ to \$1.4275. Spot nonfat dry milk (NDM) climbed 3.5¢ to 84.5¢. After some big swings, both Class III and Class IV futures finished near last Friday’s settlements.



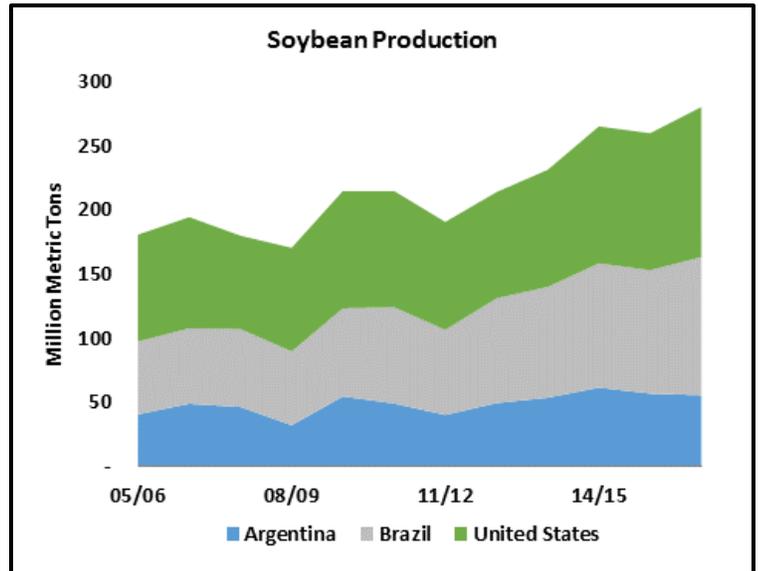
Grain Markets

Soybean futures plunged to one-year lows on Tuesday immediately following USDA’s latest World Agricultural Supply and Demand Estimates (WASDE) report. But the initial weakness gave way to a resilient strength. May soybeans closed Thursday at \$9.55 ½ per bushel, up 13 ½¢. Not to be outdone, May corn futures finished at \$3.71, up 11 ½¢ this week.

The WASDE didn’t contain any surprises. Indeed, changes to the domestic balance sheets were negligible. However, USDA confirmed that crops around the world – and particularly in South America – are getting bigger. USDA increased its estimate of corn production for all three of our

major export competitors, Argentina, Brazil, and South Africa. The agency estimates that end-of-season corn inventories will be just shy of 223 million metric tons, up 2.3 million metric tons from its March estimate to a fresh record high, and up 5.3% from the 2015-16 season.

Similarly, USDA raised its estimates of the Brazilian, Argentine, and Paraguayan soybean crops, pushing global production to nearly 346 million metric tons, up 10.5% from the previous season. Global soybean inventories are expected to climb 13.3% from the 2015-16 crop year. Despite large stocks and a robust crop in South America, the United States has been exporting soybeans at a good clip. But prospects for next season's exports are less certain given competition from the Southern Hemisphere.



Abundance is likely to continue to weigh on the grain and oilseed markets. However, day-to-day trading could be as fickle as the weather. Spring is off to a rather wet start in the Corn Belt, with few sunny days in the forecast for the next two weeks. Persistently soggy weather could give corn futures a boost, as the delay might encourage farmers to shift even more acreage to soybeans. But barring a weather disaster, dairy producers will likely see continued declines in feed costs. That's surely welcome news for dairy producers who are being pinched in a myriad of ways.

Governor Brown and Legislature Increase Taxes on Gas and Diesel

By Kevin Abernathy, MPC General Manager

As you may have heard in the news, the Road Repair and Accountability Act of 2017, or SB-1, was signed into law last week. The new taxes will generate an additional \$5.2 billion a year for repairs to California's roads and highways. This new law increases the tax on gas and diesel in the state, dealing another major blow to California farmers' bottom line.

Effective **November 1, 2017**, the new gas and diesel taxes are as follows:

- **20 cent increase per gallon on diesel excise tax**
- **12 cent increase in the gasoline excise tax**
- **4% increase on diesel sales tax**
- **10% increase on gas sales & excise tax**

These tax increases also carry annual adjustments based on the Consumer Price Index, so they will go up over time.

In addition to higher taxes at the pump, you can expect an additional \$25 to \$175 fee for all new vehicles. The new taxes are meant to be enforced over the next 10 years to generate a total of \$52 billion for infrastructure repairs in California.

But what about the money already being used on road repairs in the state? According to the 22nd Annual Highway Report released by the Reason Foundation, California ranks 42nd when it comes to overall cost-effectiveness on highway maintenance spending. According to recent data, California spends more than \$500,000 per state-controlled mile of highway, more than 10 times that of the most efficient states in the country. Instead of increasing the efficiency of road repairs with existing dollars, Sacramento's solution is to once again put the burden on the taxpayers and businesses. For anyone thinking that Sacramento politicians would vote to actually fix a broken system and live within their means, think again.

One thing that is certain for California farmers is an increase in the cost of inputs. For instance, if you have to fill a 30-gallon tank with diesel, you are looking at paying an extra \$6 per tank thanks to the new taxes. Consider this additional cost being in affect over the next 10 years and it becomes clear why it is so hard for a California farmer to turn a profit.

NRCS Funding Available for Stanislaus and Merced County Dairy Producers

The Natural Resources Conservation Service (NRCS) recently announced that Environmental Quality Incentives Program (EQIP) funding is available for dairy farmers in Stanislaus and Merced counties. The cost share funding is available for water quality and conservation projects, such as irrigation pipelines, solid separators, pumping plants, structure for water control, waste storage facilities and Comprehensive Nutrient Management Plans (CNMPs).

For more information, contact the NRCS at the following numbers:

- Stanislaus County: (209) 491-9320 ext. 3
- Merced County: (209) 722-4119 ext. 3

**The MPC Board of Directors and staff wishes each of you
and your families a very blessed Easter Sunday.**