



Milk Producers Council

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DATE: November 10, 2017
 TO: Directors & Members

PAGES: 5
 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	-\$.0050	\$1.7100
Barrels	+\$.0375	\$1.7525

Weekly Average, Cheddar Cheese		
Blocks	-\$.0745	\$1.6705
Barrels	+\$.0010	\$1.7235

CHICAGO AA BUTTER		
Weekly Change	+\$.0225	\$2.2550
Weekly Average	-\$.0245	\$2.2185

DRY WHEY		
Dairy Market News	w/e 11/10/17	\$3.275
National Plants	w/e 11/4/17	\$3.728

NON-FAT DRY MILK		
Week Ending 11/3 & 11/4		
Calif. Plants	\$0.7561	10,236,733
Nat'l Plants	\$0.7661	17,733,848

Prior Week Ending 10/27 & 10/28		
Calif. Plants	\$0.7712	8,529,512
Nat'l Plants	\$0.7865	16,960,981

Fred Douma's price projections...

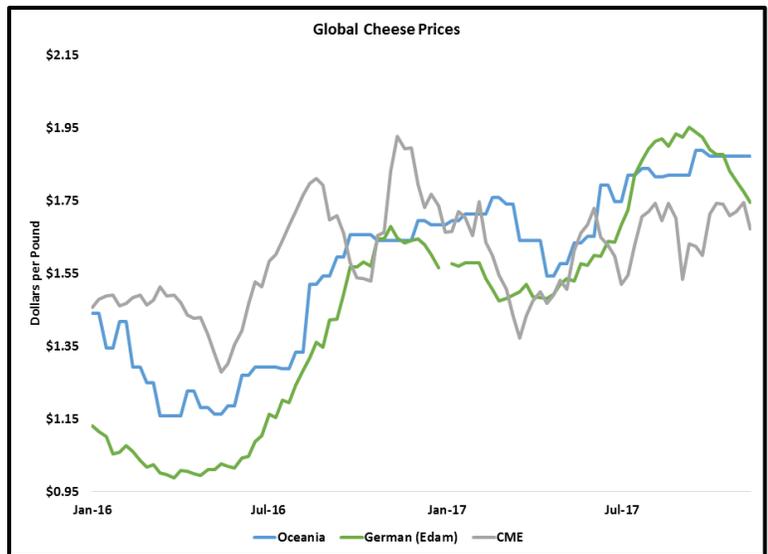
Nov 10 Est: Quota cwt. **\$16.99** Overbase cwt. **\$15.29** Cls. 4a cwt. **\$13.73** Cls. 4b cwt. **\$15.87**
 Last week: Quota cwt. **\$17.06** Overbase cwt. **\$15.36** Cls. 4a cwt. **\$13.76** Cls. 4b cwt. **\$16.00**

Market commentary

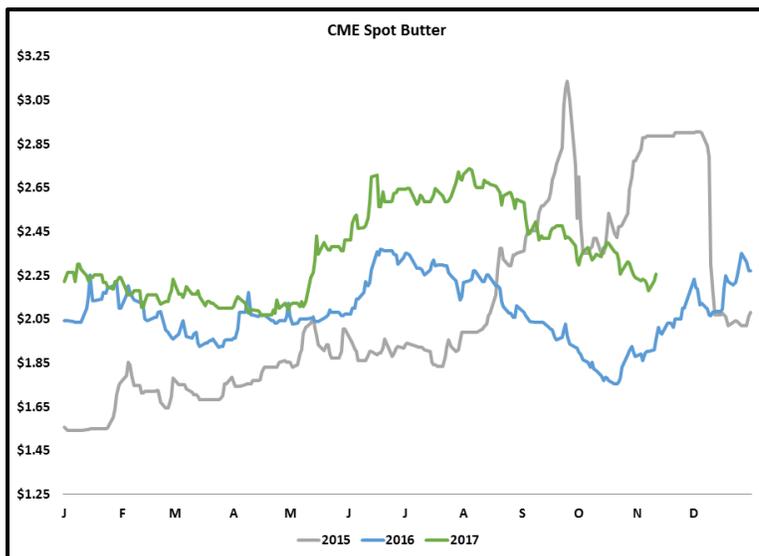
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

The cheese market took quite a tumble early in the week. On Tuesday, Cheddar prices at the Global Dairy Trade (GDT) auction dropped 2.8%. By Wednesday, CME spot Cheddar blocks had fallen to a two-month low of \$1.6025/lb., down 11.25¢ in just three sessions. But on Thursday the cheese markets came roaring back. Spot Cheddar blocks recouped all they had given up earlier in the week. After a modest setback today, they finished at \$1.71, down a mere half-cent since last Friday. Barrels reached parity with blocks last week and continued to gain. They closed today at \$1.7525, up 3.75¢ for the week. U.S. cheese is competitively priced, which may help to gin up some export demand. Closer to home, *Dairy Market News* reports that “buyers are getting a jump on the [holiday] season, but so far the purchases are void of any razzle-dazzle.” Given the size of the domestic stockpile, there is more than enough cheese to meet demand.



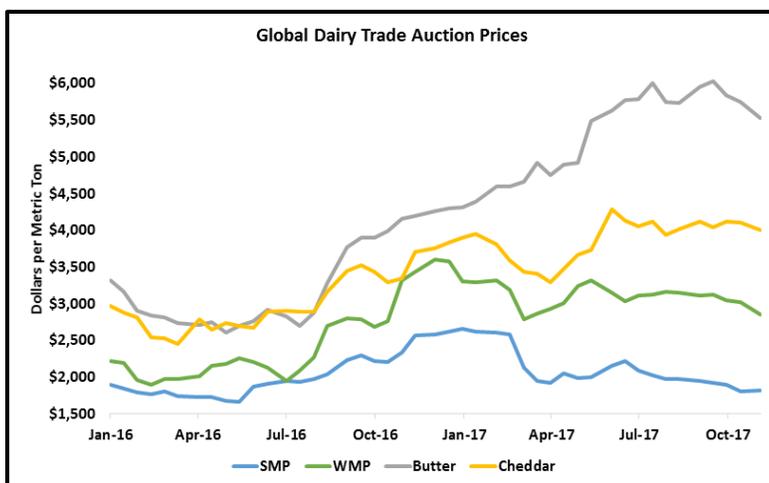
The whey market got off to a similarly dispiriting start. Class III futures slumped accordingly. With a little help from the cheese markets, they bounced back on Thursday. However, aside from the November contract, Class III futures still finished deep in the red. The January through April contracts settled below the \$15 mark.



A late week rally pushed CME spot butter to \$2.255, up 2.25¢ from last Friday. Butter looks like a bargain compared to the prices that have prevailed over the past five months, and traders rushed to move product. They exchanged 50 loads at the CME spot market, the highest weekly volume since mid-August. February butter futures settled a nickel higher today, at their upper daily trading limit. The February and March contracts managed to gain ground this week, but deferred butter futures did not. Most Class IV contracts settled between 20¢ and 40¢ lower than last Friday's closing price.

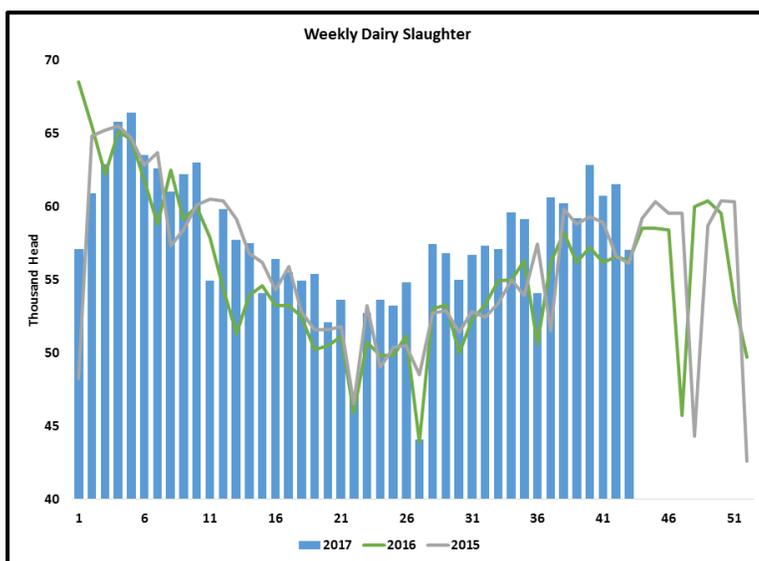
Over the past three months, the butter market has moved up one week and down the next. This week's reprieve, there is reason to expect the

volatility has masked a decidedly downward trend. Despite this week's reprieve, there is reason to expect the trend to hold, unless holiday demand is strong enough to interrupt. According to *Dairy Market News*, "the butter market emits a bearish undertone as stocks are adequate and generally exceed demand." Some manufacturers report that orders are seasonally higher, but below year-ago levels. Meanwhile, the European butter market continues to collapse, exerting a gravitational pull on all in its orbit. At the GDT, butter prices fell 3.6% from the previous event.



Milk powder prices diverged at the GDT. Closely-watched whole milk powder (WMP) fell 5.5%. In contrast, the average winning price for skim milk powder (SMP) rallied 1.2%. That was a bit of a surprise because Fonterra increased the volume of its SMP offerings over the next 12 months, an indication of ample supplies.

After adjusting for protein, SMP at the GDT is equivalent to nonfat dry milk (NDM) at 88¢. U.S. milk powder is inexpensive in comparison. At the CME spot market this week, NDM gained 0.25¢, reaching 72.25¢. Still, European manufacturers are offering product at very competitive prices, even into markets – like Mexico – where the U.S. enjoys a geographic advantage.

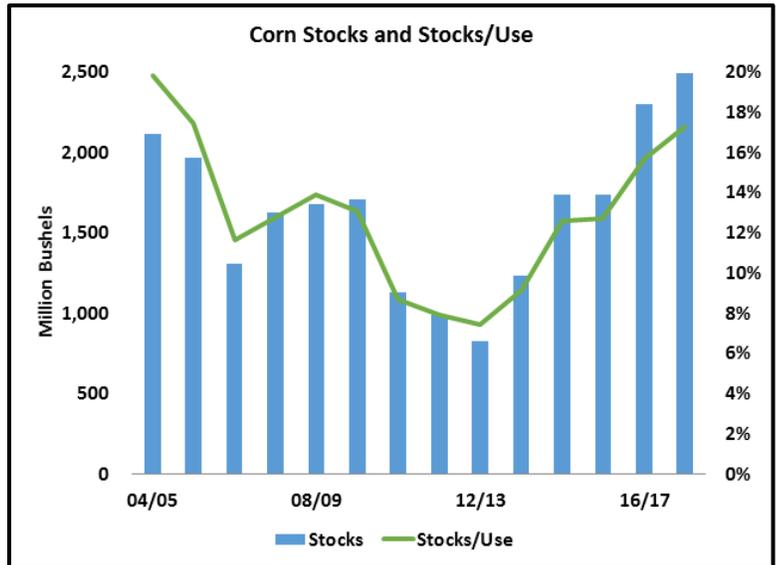


For the week ending October 28, dairy cow slaughter totaled 57,032 head, up 1.2% from a year ago but down noticeably from the elevated volumes of the preceding weeks. This puts year-to-date slaughter up 4.2% from the 2016 pace. Dairy margins are slim enough to discourage widespread expansion, which could allow demand to catch up

to the vast supply of milk and dairy products both here and abroad.

Grain Markets

USDA surprised the corn markets with its monthly update to its World Agricultural Supply and Demand Estimates. The agency increased its assessment of the national average corn yield by 3.6 bushels to 175.4 bushels per acre. That put this year's yield ahead of last season's record-breaking tally, a curious development after variable growing weather. With that, end-of-season corn stocks are expected to reach nearly 2.5 billion bushels. The ratio of ending stocks to annual use stands at 17.2%, the highest figure since the 2000-01 crop year. December corn futures settled at \$3.435 per bushel, down 4.75¢ this week.



USDA made few changes to its soybean balance sheet, trimming production negligibly. After this year's record-breaking harvest both soybean stocks and stocks as a percentage of use stand at their highest level since the 2006-07 season. January soybeans finished at \$9.87, basically steady with last Friday's close. Farmers in the U.S. and South America are sitting on huge piles of both corn and soybeans. In the absence of a problematic South American growing season, farmers will likely squelch any substantial rally in feed prices as they rush to sell.

Quota Implementation Plan referendum update

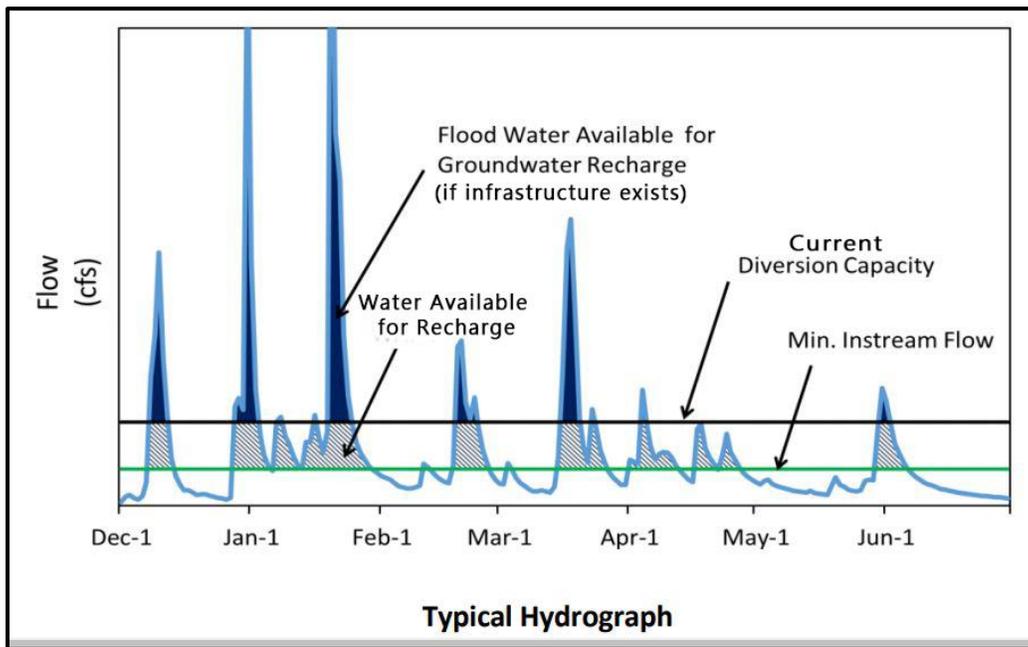
In early October, ballots were mailed to 1,054 producers deemed eligible to vote in this referendum. As of November 9, 2017, CDFA has received 322 ballots. That represents about 31% of the total. In order for the results of the referendum to be valid, 51% of the eligible voters must vote. So, there is a ways to go. The deadline for getting your ballot in is December 4. But don't wait. Vote today. Vote yes!

This week's CDFA-sponsored public forum: Scaling-up groundwater recharge big time

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

The 2014 passage of the Sustainable Groundwater Management Act (SGMA) by the legislature was a game changer for California agriculture, particularly in the San Joaquin Valley. This law requires every area of the state to develop and implement a groundwater management plan that assures the stabilization of groundwater levels in their area. This means that areas pumping more water out of the ground than is recharged will have to change their ways. The law requires that Groundwater Sustainability Agencies (GSAs) be established in every groundwater basin in the State, with responsibility of developing and implementing the groundwater management plans. The GSAs have been created. Now the hard work of identifying how much pumping is sustainable and who gets to do it is beginning.

In many areas, particularly in the San Joaquin Valley, the numbers are bleak. According to a Public Policy Institute of California study, between 2006 and 2016, the average annual overdraft in the San Joaquin Valley was 2.4 million acre-feet. If the only strategy to eliminate overdraft is to limit pumping to current water recharge levels in the groundwater basins, then many farmers will not have enough water to actually farm all their land. In addition to hurting the farmer, any significant reduction in agriculture production has real economic and social impacts on the surrounding communities. Therefore, relying on demand management alone as a strategy to stop overdraft has very negative consequences to producers and the public at large.



A public forum this week sponsored by the California Department of Food and Agriculture brought together many different stakeholders: Farmers, regulators, state and federal agencies, academics, non-profits, lawyers, trade groups and business people. The purpose was to learn and brainstorm about how to maximize the amount of water that can be captured and recharged into the groundwater aquifers.

The major untapped source of potential surplus water

that could be available for supplemental recharge are peak flows generated from time to time when atmospheric rivers dump massive amounts of rain and snow on California. The California Department of Water Resources estimates under current diversion capacities and river flow regulations that as much as 1.5 million acre-feet of water in those years could be available for supplemental groundwater recharge. But in addition to this, millions of acre feet of water could be captured without adverse impacts to the environment IF the infrastructure existed to take the peak flows from these events and the locations existed that could receive these flows and percolate them into the groundwater basins.

In order to accomplish the goal of scaling up the infrastructure to capture these massive flows, there are a variety of challenges that must be overcome. They include the conveyance facilities to deliver water to actual locations where it could be percolated into the ground. Secondly, those locations need to be identified. Percolation basins work the best; however, they are expensive to build and maintain, particularly since in many years there is no water to put in them. But as we discovered this past winter, existing farms, vineyards and orchards can also serve as recharge sites.

There is much research needed to determine the impact of spreading significant flood waters on cropland, vines and trees. Soil type makes a big difference. One of the speakers at the forum was from the Almond Board of California (ABC). She said that there are now 1 million acres of almonds in California and ABC's preliminary estimate is that about 600,000 of those acres might be suitable for recharge opportunities, but more specific research needs to be done. In fact, aerial electromagnetic mapping has started this week in the eastern part of the San Joaquin Valley near the foothills to identify soil types and locations that could be potential recharge locations.

Other challenges include regulatory permits to allow for diversions. The State Water Resources Control Board, which issues those permits, was at the forum talking about a streamlined permit process as well as more of an umbrella permit covering a region that would allow more flexibility in diversion and site of use permits. Obviously, there is a regulatory process that can either hinder or help facilitate the goal.

Then there is the issue of how do you finance these projects from planning all the way to implementation and operation. How is the water quantified and accounted for? What are the legal impediments? How do you incentivize people to actually do these projects? Who is going to operate them?

The forum had people who raised these questions as well as folks who proposed possible solutions. What was clear is that the state agencies are very eager to advance the goal of facilitating a massive scale-up of groundwater

recharge in California. But they believe that these efforts will only be successful if local communities initiate the projects. Several times in the forum, speakers implored communities to “bring your projects forward,” “don’t let the perfect be the enemy of the good,” and “get started and we can adjust as we go.” The GSAs, which are locally controlled, were identified as a great vehicle to facilitate the development of these efforts.

Many of our dairies are located in heavily over-drafted parts of the San Joaquin Valley. So, this problem is very real to us. It was encouraging to see the level of energy and passion present at the forum for actually doing something big to make a difference.

Many thanks to California Agriculture Secretary Karen Ross and the State Board of Food and Agriculture for sponsoring the forum. Various reports and action plans are being prepared to address this issue, but the primary spark that will ignite actual progress on the ground must come from us at the local level.
