



Milk Producers Council



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DATE: December 22, 2017
TO: Directors & Members

PAGES: 4
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - \$.0375 \$1.4925
Barrels - \$.2500 \$1.4100

Weekly Average, Cheddar Cheese

Blocks - \$.0215 \$1.4620
Barrels - \$.2135 \$1.4545

CHICAGO AA BUTTER

Weekly Change - \$.0650 \$2.1800
Weekly Average - \$.0300 \$2.1930

DRY WHEY

Dairy Market News w/e 12/22/17 \$2.775
National Plants w/e 12/16/17 \$3.145

NON-FAT DRY MILK

Week Ending 12/15 & 12/16

Calif. Plants \$0.7615 13,164,799
Nat'l Plants \$0.7274 17,697,713

Prior Week Ending 12/8 & 12/9

Calif. Plants \$0.7485 10,946,458
Nat'l Plants \$0.7310 16,731,875

Fred Douma's price projections...

Dec 22 Est: Quota cwt. \$15.45 Overbase cwt. \$13.75 Cls. 4a cwt. \$13.41 Cls. 4b cwt. \$13.52
Last Week: Quota cwt. \$15.61 Overbase cwt. \$13.91 Cls. 4a cwt. \$13.44 Cls. 4b cwt. \$13.83

Market commentary

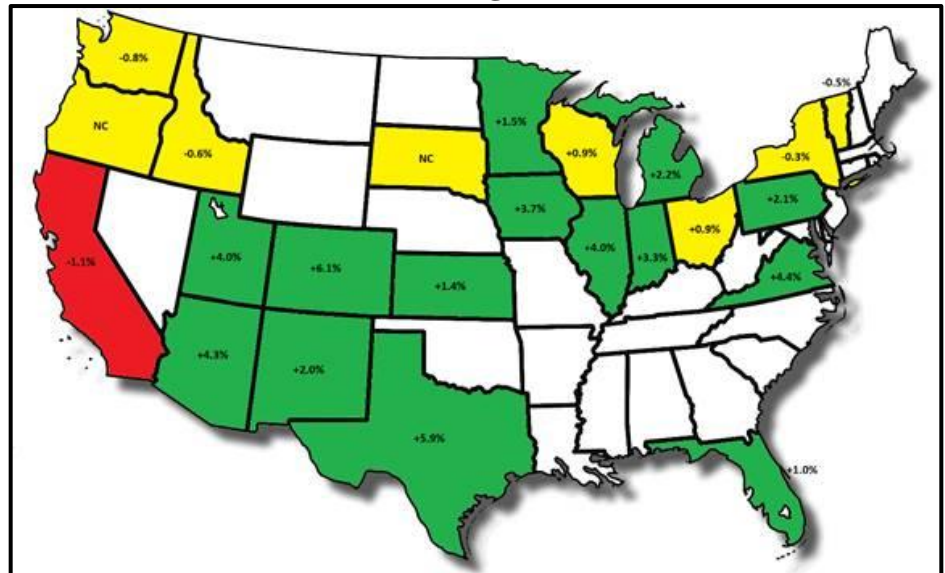
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

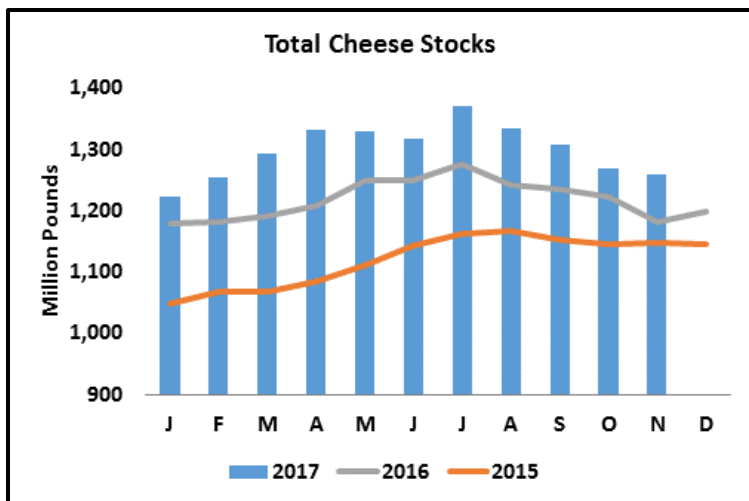
Bah! Humbug. Christmas cheer was in short supply in Chicago this week. CME spot Cheddar barrels plunged 25¢ to \$1.41 per pound. Blocks tested nine-month lows on Wednesday but then bounced back to \$1.4925, still down 3.75¢ for the week. Class III futures were not impressed. The January through June contracts lost around 50¢, on average, and most contracts scored new contract lows this week. The new year will greet dairy producers with \$13 to \$14 milk, a prospect that is likely to strain finances and slowly reduce the U.S. dairy herd. Already the slow drip of dairy sellouts has turned into a trickle.

It will likely grow into a stream in the first half of 2018.

Year-Over-Year Change in Milk Production



In November the U.S. dairy herd totaled 9.397 million head, steady with October but 4,000 head fewer than at the peak in August. There are still 53,000 more cows than a year ago. There were 1.743 million milk cows in California in November, the smallest herd in the nation's top dairy state since February 2005. According to USDA's estimates, the Golden State has lost 12,000 head since April. Judging by slaughter volumes and auction

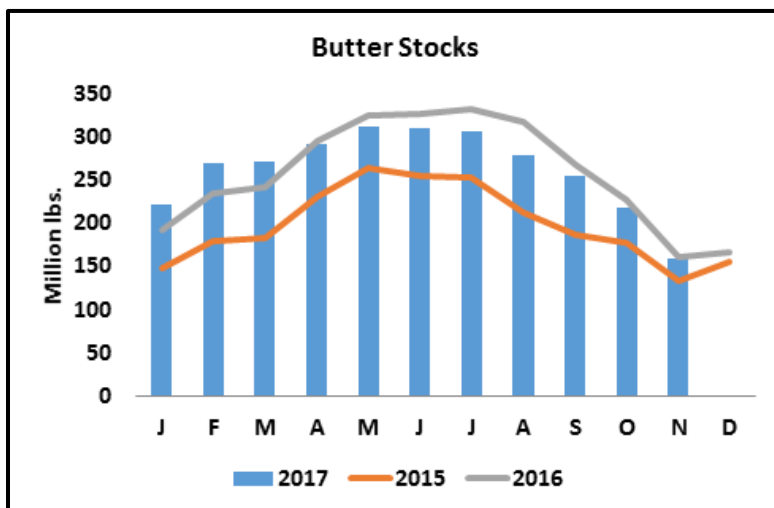


lineups, other states will likely see cow numbers fall in the months to come.

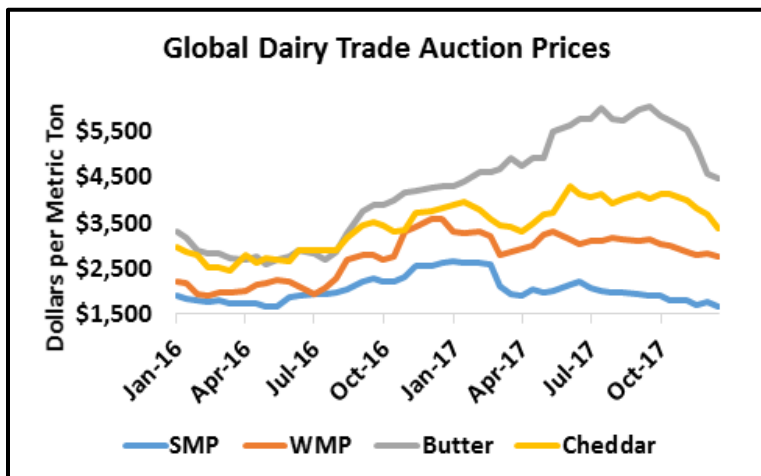
U.S. milk production totaled 17.3 billion pounds in November, up a modest 1.05% from a year ago. The Southwest continues to drive the increase, but production is no longer growing by double-digit percentages. The Midwest and Northeast are making more milk than they did a year ago, but the rate of growth has slowed noticeably. Output along the West Coast continues to slip. The weather has been mild, but it is expected to turn bitterly cold, which could slow production per cow from New Mexico to New York in January.

For now however, the markets must contend with milk in abundance, and much of it is headed for the cheese vat. Cheese remains plentiful. There were 1.26 billion pounds of cheese in storage on November 30, 6.4% more than a year ago. Cheese inventories declined 9.3 million pounds from October to November, in line with the historic average drawdown.

Butter inventories dropped to 158.8 million pounds in November, down 59.1 million pounds from October. That was a larger than typical drawdown, and inventories are now 1.5% below year-ago levels. Cream abounds, and butter prices are starting to ebb. CME spot butter fell 6.5¢ this week to \$2.18, the lowest spot price since May. Still, the butter market looks resilient in contrast to the other listless dairy markets.



After making fresh all-time lows on Tuesday CME spot nonfat dry milk (NDM) bounced back. It closed at 66.5¢, up 0.75¢ for the week. That wasn't enough to buoy the Class IV market. First-half futures finished with double-digit losses. The milk powder market remains weighed down by the global surplus. At the Global Dairy Trade (GDT) auction, the average winning price for skim milk powder (SMP) fell 4.8% to the equivalent of NDM at 81¢. SMP hasn't been this low at the GDT since May 2016. Whole milk powder prices fell 2.5%, pushing the trade-weighted GDT index down 3.9%, its worst performance of the year.



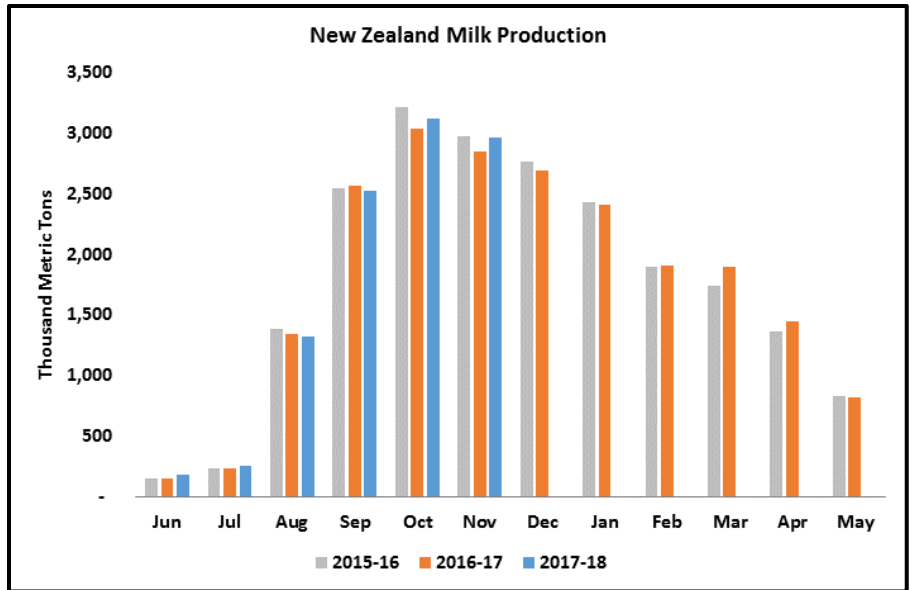
U.S. milk powder is a bargain, but buyers know that they can afford to be patient. Inventories are heavy in the U.S. and Europe, and in New Zealand milk is flowing. Milk collections in November reached 2.965 million metric tons, up 4.2% from a year ago. That puts season-to-date production up 1.8% from the 2016-17 season. Complaints about the cold, wet winter and dry spring have so far done nothing to restrict milk production on the islands.

2018 promises to be a tough year for dairy producers, but the industry is already sowing the

seeds of recovery. Inexpensive cheese, whey, and milk powder is sure to attract demand, and the U.S. dairy herd is beginning to shrink. Most of the bearish news has already been accounted for, and the bulls may reassert themselves. Adverse weather in New Zealand, an uptick in global demand, or other unanticipated events could fertilize the green shoots that may spring up by the second half of next year.

Grain Markets

The corn market bounced back from new contract lows. March corn settled today at \$3.52 per bushel, up 4.5¢ from last Friday. In contrast, January soybeans dropped 17.75¢ to \$9.495. U.S. soybean exports continue to lag, and now they will face a new hurdle. The United States agreed to cap foreign matter in soybean shipments to China at 1%, rather than the industry norm of 2%. This will make it more costly for exporters to move U.S. soybeans to the world's largest soybean market. China has not imposed these stricter standards on imports from Brazil, which puts the U.S. at a distinct disadvantage. China cannot satisfy its voracious appetite for soybeans without U.S. supplies, but U.S. trade is likely to suffer at the margins.



The Disaster Relief Bill is a big deal for dairy

By Geoff Vanden Heuvel, MPC Director and Economics Consultant

It was a very productive week for Congress in Washington, D.C. The Tax Cut bill got lots of attention, as well it should. The House and Senate also passed a short-term funding bill to keep the government running until January 19, 2018.

The House also passed a Disaster Relief Bill, most of which provides funding assistance for clean-up efforts from last year's hurricanes. The bill also has a provision to lift the \$20 million cap on government expenditures for the Livestock category of the Federal Crop Insurance program. The Senate is scheduled to take up this bill in January. So why is this a big deal?

Most of the government's risk management support for American agriculture comes in the form of Crop Insurance. There are about 75 different commodities that have some type of Crop Insurance Program. Everything from apples to blueberries, from sweet potatoes to soybeans and nearly everything in between has a Crop Insurance Program authorized by the Federal Crop Insurance Board. In these programs, the government pays a significant part of the insurance premium. These crops are covered under the "commodity" category of the Crop Insurance Program, which pays premium subsidies on these insurance products without a federal budget limit. Over the past 10 years, the government has on average spent about \$6 billion per year in Crop Insurance premium subsidies.

On the other hand, the Federal Crop Insurance Corporation also operates a Livestock Insurance Program which covers cattle/beef, dairy, and swine. LGM-Dairy is the current offering for the dairy industry in this program. Unlike the commodity category of Crop Insurance, which has NO budget limit on premium subsidies, the Livestock category has an annual cap of \$20 million for all Livestock programs combined. This cap severely limits the effectiveness of the Livestock programs. What Congress is doing in the Disaster Relief Bill is lifting that cap to bring about some fairness in the way the Crop Insurance program operates.

The timing of this cap lifting could not be better because there is a NEW Dairy Revenue Protection insurance program that has been proposed by the American Farm Bureau. This new insurance program is in the final stages of being accepted by the Federal Crop Insurance Board. Lifting the cap on the Livestock category premium subsidy costs would enable the Federal Crop Insurance Corporation to provide sufficient premium subsidies to make the Dairy Revenue Protection program a very attractive risk management option for America's dairy producers.

The American Farm Bureau, with support from Milk Producers Council and many others, has been trying to get USDA to classify milk as a "commodity" so that the Dairy Revenue Protection program could be covered under the "commodity" category of the Crop Insurance Program instead of the budget capped Livestock category.

If the Senate will go along with the House version of the Disaster Relief Bill and eliminate the cap on the Livestock category premium subsidies, then there would no longer be a premium subsidy restriction and we would be good to go with the new Dairy Revenue program when it gets final approval, anticipated sometime this spring.

In a future article I will go into more detail about how the Dairy Revenue Protection insurance program would work, but as producers have come to understand what this program will offer in the way of price protection, they become very excited about its potential value to their operations. You can check out the American Farm Bureau presentation of the Dairy Revenue Protection program here: <https://www.fb.org/market-intel/what-is-dairy-revenue-protection>

MPC supports 2018 California Water Bond; Signature phase underway

By Kevin Abernathy, MPC General Manager

MPC is supporting a proposed state ballot initiative during its signature phase to get the measure on the November 2018 ballot. The "Californians for Safe Drinking Water and a Clean and Reliable Water Supply" bond is an important measure to help ensure that a healthy dairy and agriculture industry remain in California. More information about the 2018 Water Bond is available at www.WaterBond.org. While you're out finishing your Christmas shopping, you may see petitioners soliciting signatures and we encourage you to sign it, as well as encouraging others to do the same.

MPC extends condolences to the family of Butch Dias

By Kevin Abernathy, MPC General Manager

We are sad to report that longtime MPC member Gregory O. Dias Jr., better known as Butch, passed away earlier this week. Our hearts go out to his wife, Alice, sons Darren and Greg, and the entire Dias family at this difficult time.

Anyone who knew Butch knows that he loved his family and he loved dairy farming. He spent his life serving both, operating the family dairy farm in Visalia for four decades. In recent years, Darren and Greg began running the dairy and farming operations respectively, a fact that made Butch very proud. He and Alice noted on several occasions that the farm was "in good hands" with Darren and Greg at the helm.

Off the farm, Butch was a tremendous leader in the California dairy community, providing his knowledge and experience on



numerous industry boards and committees. Listing them all would fill the page! Some of them included The California Milk Advisory Board, California Dairy Research Foundation, Farm Credit West, Dairy Council of California, and California Jersey Cattle Association just to name a few.

Personally, I write this note with a very heavy heart. Butch was a trusted mentor and counselor to me over the years, both professionally and personally. When I lost my wife, Melany, to cancer earlier this year, Butch understood what I was going through, having lost his 17-year old daughter, Rachele, in a tragic car accident more than 20 years ago. Butch's comfort meant the world to me during that difficult time and I hope that we as a dairy community can be a source of comfort for Alice, Darren, Greg and their families during this holiday season.

We will share more information about funeral services in this newsletter when they are made available by the family.

Godspeed, Butch.

The next MPC Friday report will be published on January 5, 2018.

