



Milk Producers Council

P.O. Box 4030 ~ Ontario, CA 91761 ~ (909) 628-6018
 2328 Jonathon Court ~ Escalon, CA 95320 ~ (209) 691-8139
 Fax (909) 591-7328 ~ office@milproducers.org ~ www.MilkProducers.org



DATE: August 31, 2018
TO: Directors & Members

PAGES: 7
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	+ \$.0250	\$1.6950	Weekly Change	- \$.0450	\$2.2150	Week Ending 8/24 & 8/25		
Barrels	+ \$.0450	\$1.6450	Weekly Average	+ \$.0220	\$2.2710	Calif. Plants	\$0.7758	10,104,115
Weekly Average, Cheddar Cheese			DRY WHEY			Nat'l Plants	\$0.8209	20,254,624
Blocks	+ \$.0350	\$1.6720	Dairy Market News	w/e 08/31/18	\$4.136	Prior Week Ending 8/17 & 8/18		
Barrels	+ \$.0285	\$1.6190	National Plants	w/e 08/25/18	\$3.769	Calif. Plants	\$0.7858	9,375,977
						Nat'l Plants	\$0.8142	19,123,299

Fred Douma's price projections...

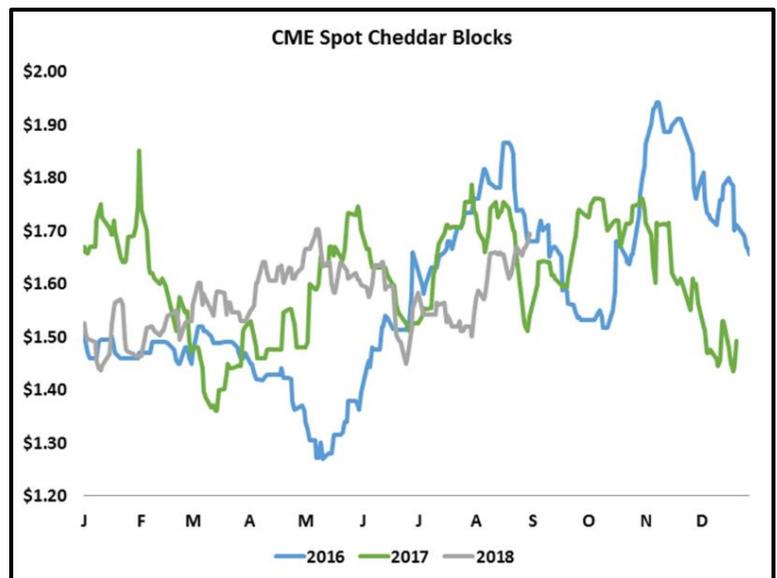
Sept 1 Est: Quota cwt. **\$16.58** Overbase cwt. **\$14.88** Cls. 4a cwt. **\$13.72** Cls. 4b cwt. **\$15.92**
 Aug '18 Final: Quota cwt. **\$16.09** Overbase cwt. **\$14.40** Cls. 4a cwt. **\$14.03** Cls. 4b cwt. **\$15.06**

Market commentary

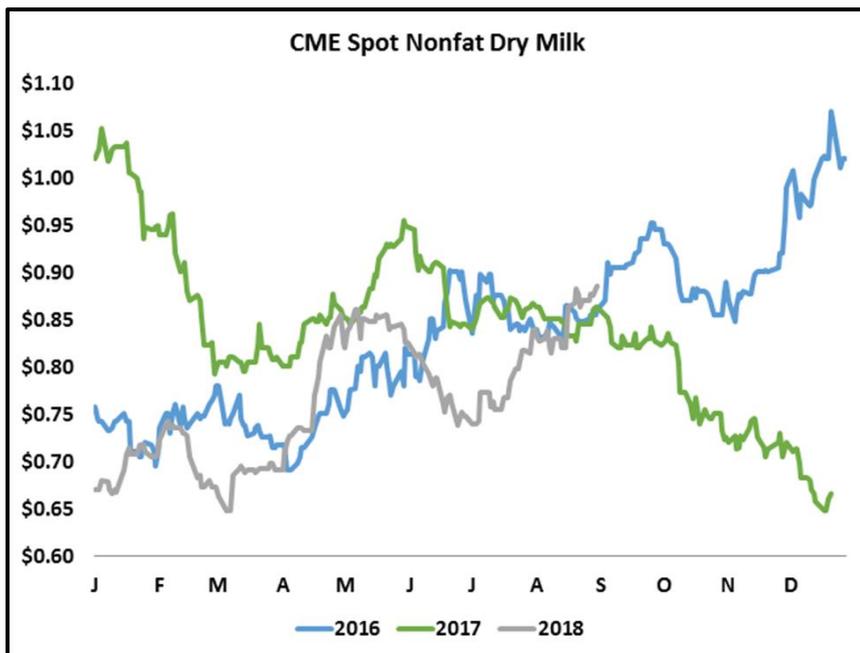
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

Summer comes to an unofficial close over the long holiday weekend, but sweltering conditions are likely to persist long past Labor Day. While cooler nighttime temperatures have offered relief to California's cows, heat and humidity have sapped milk output in other key dairy regions, particularly along the eastern seaboard. Southeast milk bottlers are pulling unusually large volumes of milk from other regions, tightening supplies. USDA's *Dairy Market News* reports, "Cheese plant managers [in the Midwest] saw fewer options on the spot market this week than in any other week this year... There were a number of cheesemakers who reported actively seeking milk out and were unable to locate it."



The cheese market is heating up accordingly. CME spot Cheddar blocks have spent only two days this year above the \$1.70 mark, but they seem poised to do so again soon. Blocks closed today at \$1.6950 per pound, up 2.5¢ from last week to the highest price in almost four months. Barrels added 4.5¢ and reached \$1.6450, only a few cents away from the 2018 highs set two weeks ago. Cheese demand has been excellent, with both foreign and domestic customers boosting orders. Some Midwestern cheesemakers have been able to attract new buyers, perhaps setting the stage for continued support for cheese pricing.

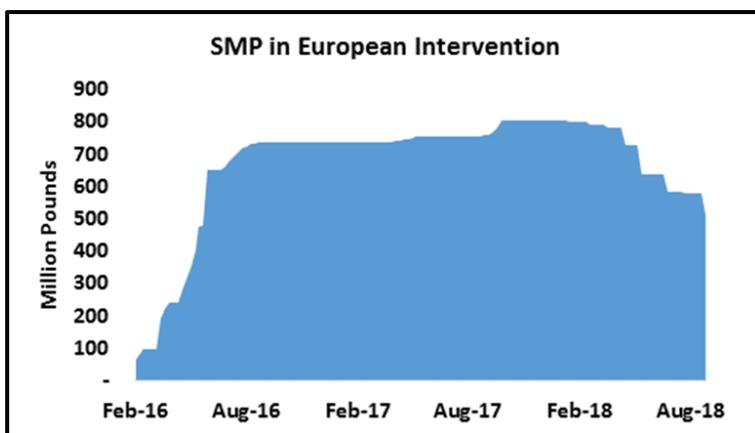


The spot dry whey market just keeps climbing. Today it reached a new high at 50¢ per pound, up 2¢ from last week. “Undoubtedly, whey demand is higher,” according to *Dairy Market News*. “Supplies are short and demand is strong.” With both the cheese and whey markets on firm footing this week, Class III futures climbed. The September contract added 31¢ and reached \$16.52 per cwt.

The tighter milk market is helping to boost milk powder prices as well. CME spot nonfat dry milk (NDM) gained 1.5¢, rallying to a 14-month high of 88.5¢ per pound. With a dearth of discounted milk, some cheesemakers are fortifying vats with NDM. Export demand is also robust,

particularly from Mexico. Mexican buyers may be stepping up purchases just in case NAFTA negotiations sour. Without NAFTA, U.S. milk powder exports would face much higher Most Favored Nation tariff rates. However, the U.S. trade relationship with Mexico has improved markedly in recent weeks, and the two allies have reached a bilateral trade agreement in principle. Caution about tariffs may be contributing to the sudden increase in U.S. milk powder exports, but increased consumption is likely the main catalyst. Whatever the cause, booming exports are helping to clean up U.S. milk powder inventories.

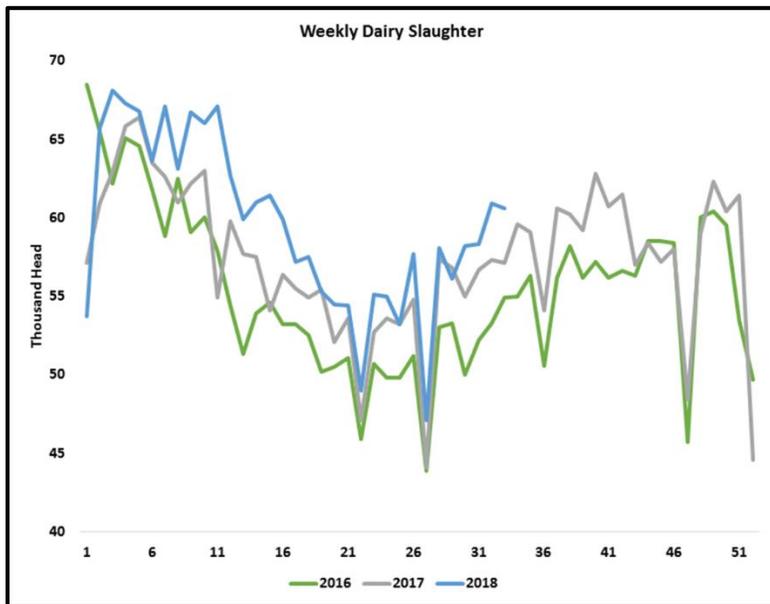
Across the pond, milk powder demand and pricing have also improved. *Dairy Market News* SMP prices for Western Europe stand at calendar-year highs. At its most recent auction, the European Commission sold 69.4 million pounds of SMP out of its Intervention storage program at €1,230 per metric ton, equivalent to NDM at roughly 69¢ per pound. The volume is considerably higher than the amounts sold in June and July, and it trims the Commission’s Intervention stockpile to 510 million pounds, down from a peak of nearly 805 million pounds. The price is well below the Commission’s initial purchase price, but it is higher than the minimum sales price at any auction since November.



While the bulls ran freely through most of the dairy product markets, they only nosed around the edges of the butter market before they were unceremoniously herded away today. CME spot butter closed at \$2.2150 per pound, down 4.5¢ this week. Cream values are dropping seasonally as fluid milk processing spins off more cream and ice cream production wanes. There is plenty of cream available for the churn. On the other hand, the same fundamentals that are propping up the other dairy markets will likely support butter prices in the medium term.

For now however, butter is losing ground. Nonetheless, Class IV futures finished a little higher than last week. The September contract fared best; it added 18¢.

It feels as though the worst is behind us, although milk checks remain disappointingly small. USDA announced the August Class III price at \$14.95, up 85¢ from the painfully low July price but down \$1.62 in comparison to August 2017. Similarly, at \$14.63, the August Class IV price was 49¢ higher than July but \$1.98 below last year’s August price. The futures project better times ahead, with most Class III contracts at \$16 or above.



But the road to recovery still offers a painful ride for dairy producers. Herd dispersals continue. Heifer values languish. Slaughter volumes are lofty, particularly for this time of year. Culling is also sharply higher in Ireland and northern Europe as the feed shortage worsens. These factors are contributing to contraction in the dairy herd in the world's two largest dairy regions, laying the foundation for a sustained recovery in milk prices.

Strong global demand for dairy is also likely to provide a tailwind for the dairy markets. But U.S. trade policy – and its impact on U.S. dairy product exports – remains uncertain. The U.S. and Mexico may have shaken hands on NAFTA reform, but Congress and Canada prefer a three-part pact, so the bilateral agreement is not a done deal. Trade

representatives from the U.S. and Canada failed to meet today's deadline for negotiations. They'll try again next week, but a trilateral accord is far from assured. And steel and aluminum tariffs – which prompted Mexico to enact tariffs on U.S. cheese – will be a separate discussion; they remain in place for now. Meanwhile, the U.S. and China are still at odds.

Acknowledging some of the damage that the dairy industry has suffered due to trade spats, USDA allocated \$127.4 billion for direct payments to dairy producers, and \$84.9 million to purchase dairy products to distribute through food aid programs. As always, the direct payments will favor smaller dairy producers. Only entities with adjusted gross incomes averaging below \$900,000 will qualify, and payments will be capped at \$125,000. The commodity purchases may be mildly supportive of milk prices, although they will not boost demand dollar-for-dollar as food bank offerings will likely cannibalize grocery store sales. The payments are inadequate to cover the losses from just a few months of trade uncertainty. Dairy producers would be better off with more liberal trade agreements, or at least the status quo ante.

Grain Markets

Corn futures settled a few cents higher this week, with the September contract at \$3.51 per bushel. Further reports of poor yields in the Black Sea region and in Europe supported global grain prices. But soybeans fell under pressure. The U.S. crop is large, and the earliest soybeans are already making their way to the ports. China is not standing ready to buy them this year, and values continued to slip. September soybeans settled at \$8.33 per bushel, down 9¢ from last Friday. September soybean meal closed at \$304.60, down more than \$8 per ton.

USDA Announces Farmer Trade Assistance Program

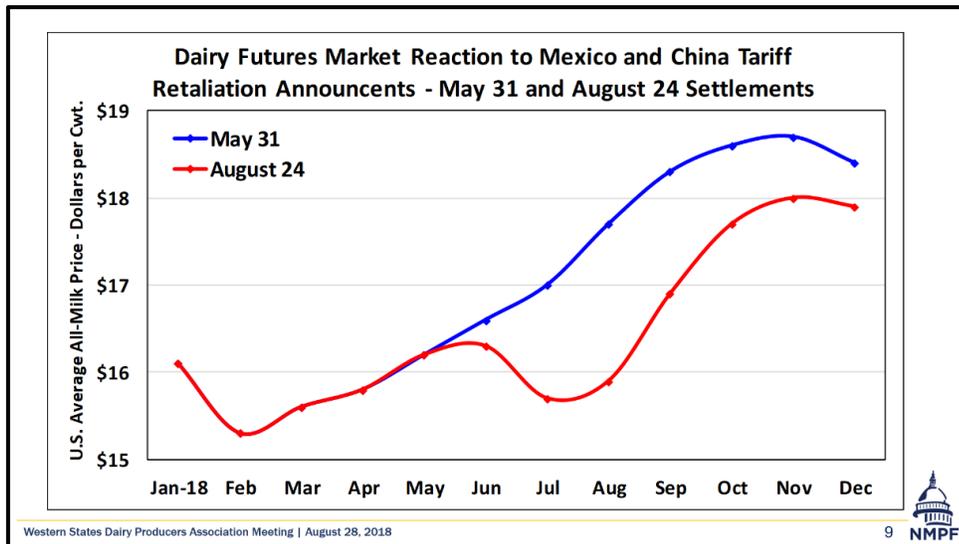
By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

To say dairy producers were disappointed with the announcement of the \$0.12 per cwt. payment for trade damage compensation would be an understatement. Since the banner year for milk prices in 2014, milk prices have struggled, and at the beginning of 2018, there was some hope for some price recovery later in the year.

By May of 2018, slivers of optimism were emerging as futures prices indicated “all milk” prices were heading up to peak at about \$18.60 in November. Then the trade war started on May 31 and futures prices and cash prices dropped like a rock. Early analysis indicated reductions in futures prices nearing \$1.65 per cwt., and more frustrating still, was a lack of understanding of the Trump administration's strategy and end game.

Milk Producers Council is the California member of the Western States Dairy Producer Trade Association. We have a conference call every other Friday with our colleagues from Washington, Oregon, Idaho, New Mexico, Texas, Utah and Arizona to discuss whatever is going on in the dairy industry, both nationally and in the West.

At our early July call, after consulting with folks who are usually close to the policy makers in Washington D.C., we realized that no one we knew really knew the administration's strategy or end game. We only knew that as dairy producers we were pawns in game being played by others that was causing real pain for our industry.



Courtesy of National Milk Producers Federation

We made an initial decision to plan a trip to Washington D.C. for early September to directly interact with policy makers to communicate our concerns and hopefully get something that would make things better. By the time of our call two weeks later, USDA Secretary Perdue announced that there would be up to \$12 billion available to make payments to farmers, including dairy farmers, who were impacted by the trade war. This was something surprising to hear. While authority to make such payments has existed under federal law for many decades, this provision has rarely, if ever been used. But it was something positive, and so at Western States we switched from wondering what was going on, to trying to let USDA know what our damages were and make suggestions on how the assistance could be paid out. You can read the letter we sent to Secretary Perdue [here](#).

On Monday, USDA released the details of the Market Facilitation Program. At an estimated total value of \$127 million for dairy farmers, it falls far short of compensating producers from the immediate impacts of the trade war. To get the money producers will have to apply for it with the Farm Service Agency. The payment is \$0.12 per cwt. based on 50% of your Margin Protection Program annual base production. If you recall, the base production for the MPP program is the highest annual production year for your dairy of the calendar years 2011, 2012 or 2013.

To calculate your payment, take that total production figure, divide by 2 and multiply by \$0.12. For easy figuring, a 1,000-cow dairy is looking at a payment of about \$15,000. There is a cap of \$125,000, but it will obviously take a pretty big dairy to hit that number.

Also included in the USDA package of trade relief programs was a "Food Purchase and Distribution Program." Their initial announcement outlined the specific amounts of actual food products they are planning on buying. It makes for interesting reading. You can see it [here](#).

They are going to buy \$93.4 million worth of apples and \$48.2 million worth of grapes. They are buying \$18 million worth of navy beans and \$14.2 million worth of kidney beans and one wonders what they are going to do with \$32.8 million worth of cranberries. Oh yeah, they are also going to buy \$84.9 million worth of dairy products and there is some indication that these purchases are having an impact on cheese inventories already. Futures prices have begun to tick up but are still significantly short of where they were before the trade war erupted.

So what is going on? Is it possible that there really is a strategy and an end game?

In the March/April 2018 edition of *Foreign Affairs Magazine* (published before the launching of the trade actions), an article titled “The China Reckoning” by Kurt Campbell and Ely Ratner quotes Richard Nixon in 1967 saying that, “The world cannot be safe until China changes. Thus our aim, to the extent that we can influence events, should be to induce change.”

The article goes on to say, “Ever since, the assumption that deepening commercial, diplomatic and cultural ties would transform China’s internal development and external behavior has been the bedrock of U.S. strategy. Even



those in U.S. policy circles who were skeptical of China’s intentions still shared the underlying belief that U.S. power and hegemony could readily mold China to the United States liking. Nearly half a century since Nixon’s first steps toward rapprochement, the record is increasingly clear that Washington once again put too much faith in its power to shape China’s trajectory. All sides of the policy debate erred: free traders and financiers who foresaw inevitable and increasing openness in China, integrationists who argued that Beijing’s ambitions would be tamed by greater interaction with the international community, and hawks who

believed that China’s power would be abated by perpetual American primacy. Neither carrots nor sticks have swayed China as predicted. Diplomatic and commercial engagement have not brought political and economic openness. Neither U.S. military power nor regional balancing has stopped Beijing from seeking to displace core components of the U.S. led system. And the liberal international order has failed to lure or bind China as powerfully as expected. China has instead pursued its own course, belying a range of American expectations in the process. That reality warrants a clear-eyed rethinking of the U.S. approach to China.” You can read the full article [here](#).

My apologies for the long quote, but U.S. dairy farmers are a pawn in a much bigger game, which the quote sheds light on. The Europeans have many of the same problems with China as we do. President Trump has decided to do something about it. He did launch simultaneous trade actions against NAFTA and Europe, but in recent days there is strong evidence that the situation with Mexico and maybe Canada is close to resolution. There are also encouraging signs that disputes with Europe can be patched up as well. But the problems the world has with China run deep and it seems a resolution of those issues may be a long time in coming.

So fasten your seat belts for a bumpy ride. There is an old Chinese curse which says, “May you live in interesting times.” Interesting indeed.

Western States Dairy Producers Association Board Meeting discusses wide range of topics impacting dairy farmers

By Kevin Abernathy, MPC General Manager

Earlier this week, MPC Secretary/Treasurer Daryl Koops, Geoff Vanden Heuvel and I attended the Western States Dairy Producers Association (WSDPA) Board Meeting in Draper, Utah. The two-day meeting covered a diversity of important issues affecting dairy families and provided an opportunity share insights and learnings with our fellow dairy trade organization representatives from the western United States.

MPC membership in WSDPA dates back more than a decade ago, and today, MPC is the California representative

in this eight-state coalition of dairy trade groups. Our regular conference calls and in-person meetings provide a unique infrastructure to share news, opportunities and solutions related to dairy industry issues. This week's meeting was no different, with an agenda packed full expert speakers discussing topics ranging from the 2018 Farm Bill to trade policy and animal well-being to environmental regulations.

Jim Mulhern, president and CEO of National Milk Producers Federation (NMPF), provided an update on actions and issues at the national level. He reported that the House and Senate passed their respective versions of the Farm Bill back in June and that a conference committee will be working to resolve differences in the bills, with all players focused on getting it passed by September 30.

We also had significant discussion on the recent trade policy developments, which Geoff Vanden Heuvel summarizes in his article this week. Be sure to read it!

Mulhern discussed NMPF's efforts to battle product labeling related to imitation dairy products. There's no shortage of milk imposters out there seeking to replace nature's perfect food. At the risk of sounding like Forrest Gump talking about shrimp, there's "potato milk," "algae milk," "canary grass seed milk," "tiger nut milk," "duckweed milk," "green pea milk," "hemp milk," and the list goes on.

The DAIRY PRIDE (Defending Against Imitations and Replacements of Yogurt, Milk, and Cheese to Promote Regular Intake of Dairy Everyday) Act would compel the FDA to enforce its standard of identity regulation for milk, which states it is "the lacteal secretion, practically free from colostrum, obtained by the complete milking of one or more healthy cows." According to Mulhern, the DAIRY PRIDE Act has bi-partisan support in both the House and the Senate.

Other topics we discussed at the meeting included the activity in D.C. related to immigration, Right to Farm laws in the nation, Dairy Risk Management and animal well-being. Dr. Robert Hagevoort, associate professor and extension dairy specialist with New Mexico State University, delivered a thought-provoking presentation on how we care for cows and the training our dairy employees need to have on the farm.

Dr. Hagevoort noted that while animal well-being programs, such as the National Dairy FARM Program, are important for setting standards and meeting the needs of dairy customers, attention to on-farm training of animal caregivers is critical to meet those standards. He really focuses on the human-to-cow interaction and connection that must exist for animal well-being to be achieved, emphasizing that animal welfare is not a state, but rather an outcome, and that our dairy employees are essential to achieving that outcome.

Central to Dr. Hagevoort's message is that while we train our employees "how" to complete tasks, we also must train them in the "why" of what we are teaching them to do. They need to understand why cows think, move and react in certain situations, saying that "not understanding the 'why' leads to poor decisions and results."

Since our meeting in Utah, I've been thinking a lot about Dr. Hagevoort's presentation and I encourage any of our members who are interested in this topic to reach out to him by email at dairydoc@nmsu.edu. We plan to feature more information from Dr. Hagevoort in a future edition of the MPC Friday Report.

In our effort to better serve you, MPC staff and leadership will continue to work collaborative with the Western States Dairy Producers Association on issues of shared interest throughout the western U.S. dairy community.

We hope everyone has a safe and happy Labor Day weekend!

USDA Seeks Applications for Renewable Energy, Energy Efficiency Grants

The U.S. Department of Agriculture (USDA) Rural Development is seeking applications for grants to support renewable energy and energy efficiency improvement projects.

Eligible agricultural producers and rural small businesses may apply for funding through the [Rural Energy for America Program \(REAP\)](#) to install renewable energy systems or make energy efficiency improvements to their operations.

Eligible renewable energy systems include those that produce energy from wind, solar, renewable biomass (including anaerobic digesters), ocean, geothermal, and small hydroelectric sources, as well as hydrogen derived from renewable sources.

The deadline to apply for REAP grants of \$20,000 or less is October 31, 2018.

To discuss a potential project, contact [Rick Sturtevant](#), California Energy Coordinator, (831) 975-7762.

Additional information is also available [here](#).



The banner features a top section with the event title and dates: "California Dairy Sustainability Summit" and "November 27-28, 2018 Sacramento, CA". Below this is a green banner with the text "Save with Early Bird Rates!". The central image shows a herd of black and white dairy cows in a field with solar panels in the background. The bottom section lists sponsors and organizers, including Dairy Cares, California Dairy Quality Assurance Program, California Dairy Research Foundation, Dairy Council of California, and Real California Milk.

California Dairy Sustainability Summit November 27-28, 2018
Sacramento, CA

Save with Early Bird Rates!

Organized by **gna**

Hosted by:

DAIRY CARES **CALIFORNIA DAIRY Quality Assurance PROGRAM** **CALIFORNIA DAIRY RESEARCH FOUNDATION** **DAIRY COUNCIL OF CALIFORNIA** **REAL CALIFORNIA MILK** Look for the Seal [RealCaliforniaMilk.com](#)

Learn more at www.cadairysummit.com. Register [here](#).