



Milk Producers Council

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DATE: May 6, 2016
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0650 \$1.3050
 Barrels - \$.1125 \$1.3000

Weekly Average, Cheddar Cheese

Blocks - \$.0530 \$1.3270
 Barrels - \$.0550 \$1.3475

CHICAGO AA BUTTER

Weekly Change - \$.0700 \$2.0500
 Weekly Average - \$.0150 \$2.0430

DRY WHEY

Dairy Market News w/e 05/06/16 \$2.2338
 National Plants w/e 04/30/16 \$2.2470

NON-FAT DRY MILK

Week Ending 4/29 & 4/30

Calif. Plants \$0.7144 20,375,111
 Nat'l Plants \$0.7256 31,393,478

Prior Week Ending 4/22 & 4/23

Calif. Plants \$0.7349 10,528,568
 Nat'l Plants \$0.7273 23,098,787

FRED DOUMA'S PRICE PROJECTIONS...

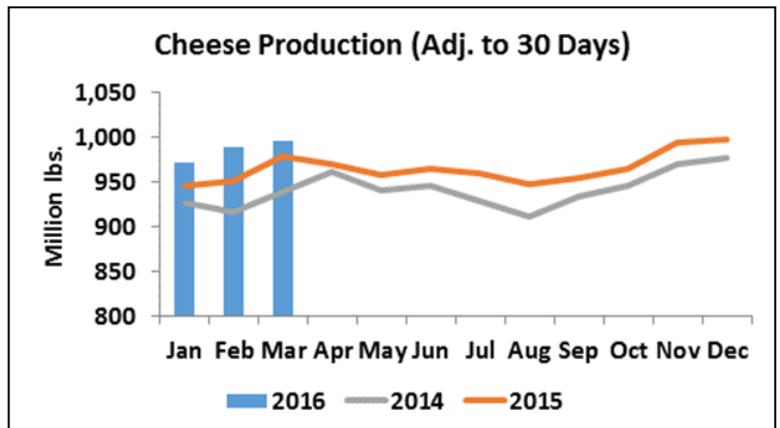
May 6 Est: Quota cwt. \$13.60 Overbase cwt. \$11.90 Cls. 4a cwt. \$12.49 Cls. 4b cwt. \$11.40
 Apr '16 Final: Quota cwt. \$14.31 Overbase cwt. \$12.61 Cls. 4a cwt. \$12.56 Cls. 4b cwt. \$12.71

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

Milk & Dairy Markets

For the first time since February 2010, Class III milk traded below \$13. The May and June contracts settled today at \$12.87 and \$12.92, respectively, down 30¢ and 34¢ for the week. Down the board, losses were more tempered; most contracts finished steady to 17¢ lower than last Friday. The Class III market was driven downward by a steep decline in the CME spot Cheddar market. Blocks dropped 6.5¢ to \$1.305/lb. Barrels plunged 11.25¢ to \$1.30. Both blocks and barrels stand at more than six-year lows.

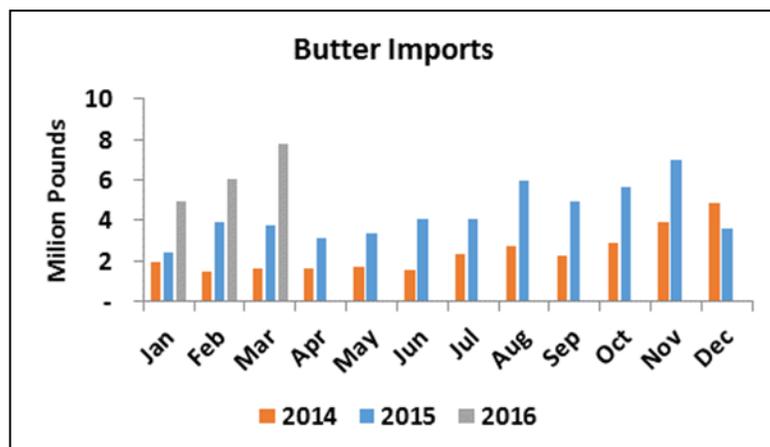
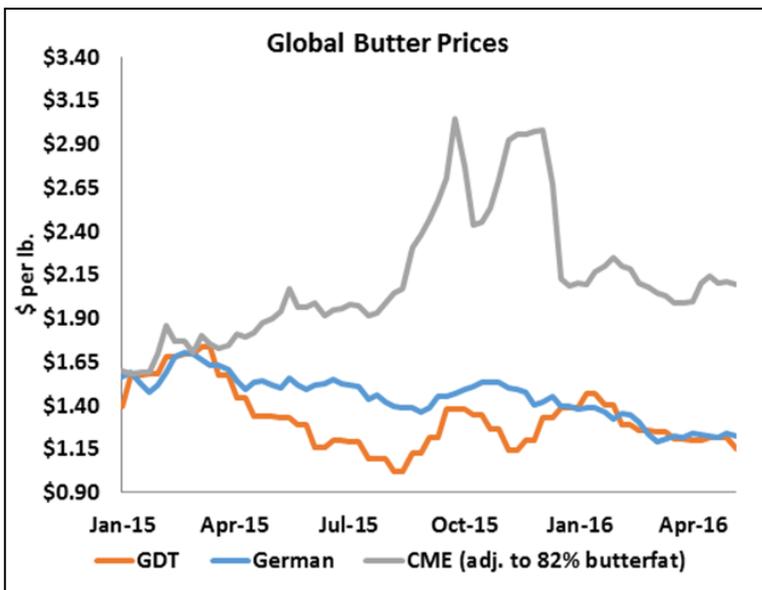
Domestic demand for cheese is strong, but it can't keep pace with output, and exports are flagging. In March, cheese production totaled 1.03 billion pounds, 1.8% more than last year's already formidable volume. U.S. merchants exported 2 million pounds of cheese in March, almost 20% less than in March 2015. Imports were up 16.2% from a year ago, at 40.9 million pounds. That leaves a lot of cheese for U.S. consumers, and even their ravenous appetite may be unequal to the task.



After surging last Friday, the CME spot butter market dropped 7¢ this week. But at \$2.05, it remains comfortably within the recent trading range. The butter market's steady strength belies its fundamentals. Cream is readily available and production is strong. Indeed, output climbed to 182 million pounds in March, 8.6% more than last year and the largest volume ever for the month.

After adjusting for currency and butterfat differences, U.S. butter is still nearly 90¢ more expensive than product from Europe. It should come as no surprise then that the U.S. imported 7.8 million pounds of butter and 6.6 million pounds of anhydrous milkfat in March. Butter imports were more than twice as large as year-ago volumes, and they overwhelmed exports, which totaled just 1.9 million pounds.

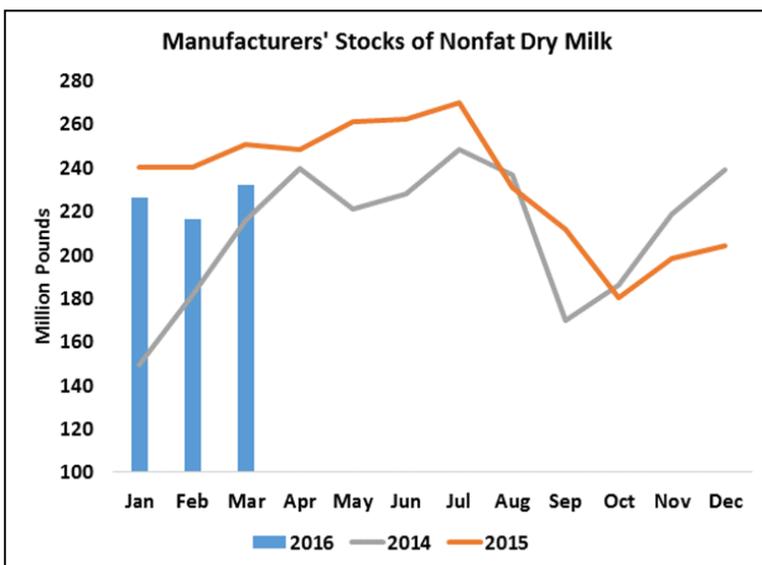
The milk powder market bucked the trend and moved cautiously higher. Spot nonfat dry milk (NDM) crept up 2.25¢ to 77.75¢. Manufacturers produced 5.1% less NDM in March than they did a year ago. Combined output of NDM and skim milk powder (SMP) totaled 212.2 million pounds, down 3.7% from March 2015. Nonetheless, stocks climbed 15.3 million pounds from February to March. At the end of March they stood at 231.9 million pounds, 7.5% lower than the hefty volumes of a year ago.



In order to keep product moving, manufacturers have had to lower their asking price. The U.S. exported 90.8 million pounds of milk powder in March, 25% less than the year before. They did so at an average price of 85.6¢/lb., down from 92.8¢ in February and \$1.226 a year ago. The global milk powder market is well supplied, and competition for exports is fierce. U.S. exporters may have to lower their prices again or see volumes slip further. But in at least one aspect, their station has improved over the past few months. Since early March the dollar has fallen about 5% against a

basket of currencies. Earlier this week the dollar index fell to a 15-month low.

In Europe, manufacturers are once again selling milk powder to the government intervention purchase program. Stocks reached the program's initial 109,000 metric ton ceiling at the end of March, and intervention purchases stalled for much of April while bureaucrats dotted all the i's and crossed the market-manipulating t's. In the two weeks since the ceiling was officially doubled to 219,000 metric tons, manufacturers have sold nearly 35,000 metric tons of SMP to the government. At this pace, they'll need to increase the ceiling again in short order, or face the perils of the open market.



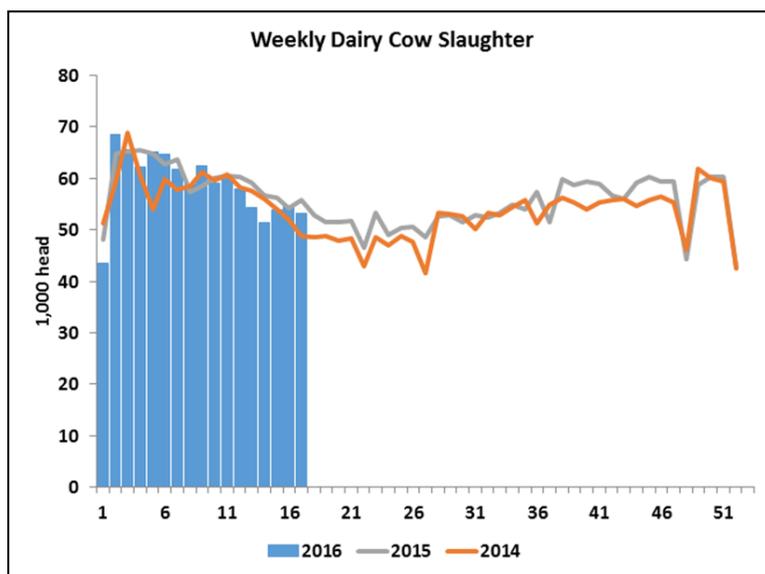
The market has indeed been perilous for dairy producers. USDA announced the April Class III milk price at \$13.63/cwt., down 11¢ from March and some \$2.45 lower than a year ago. California 4b milk was \$12.71 in April, down 53¢ from March. California 4a milk bounced a modest 13¢ last month to \$12.54. The April Class IV milk price was \$12.68, down 6¢ from March and 83¢ below April 2015. These milk prices are

obviously inadequate to cover costs, and futures project that May and June will be worse. Meanwhile, feed costs are on the rise, and beef prices have floundered.

The old trading adage, “Low prices are the best cure for low prices” is small comfort in times like these. Such a cure is painful and protracted, and it is no help at all for those without enough equity to tough it out until times are better. But the phrase still rings true, and while it may be some time before dairy producers can harvest better milk checks, the industry is sowing the seeds of recovery.

Growth in global milk output is unlikely to continue at the current pace. The flush will give way to summer heat, and cash-strapped dairy producers may trim their herds. In Europe, pastures are off to a poor start this spring, prices have been low enough for long enough to have an impact, and environmental regulations threaten to cut Dutch output going forward. In New Zealand, dairy producers are likely to start next season with fewer cows after culling hard this year. In the Midwest, and particularly in the Great Lakes region, dairy producers are feeling both the psychological and financial effects of dumped milk and steep discounts. All of this is taking place while low prices continue to boost demand for dairy.

For the week ending April 23, dairy cow slaughter totaled 53,201 head, down 4.8% from the same week a year ago. For the year to date the cull rate is down 1.7% nationally and down 3% in Region 9 (Arizona, California, Hawaii, and Nevada) compared to the 2015 pace.



Grain Markets

It was another volatile week for the crop markets. July corn settled at \$3.775 per bushel, down 14.25¢. July soybeans finished at \$10.3475, up a nickel. The same fundamentals that propelled the markets sharply higher over the past few weeks are still in play. South American crops suffered a bout of terrible weather and U.S. exports in the current and upcoming crop year will likely be much higher than was anticipated just a short while ago. But a bull market must consume fresh fodder daily, and there wasn't much to chew on this week. The prospect of larger exports has increased the need for a decent U.S. crop this year, so the grain markets will waver with the weather from now until harvest.

ANOTHER MONTH OF DISCOUNTS FOR CALIFORNIA'S CHEESE MANUFACTURERS: *(By Rob*

Vandenheuvel) It may not have been clear from the California cheesemakers' testimony last month at CDFA, or from the post-hearing briefs they filed blasting dairy farmers for daring to ask for a price just a bit closer to the Federal Order Class III price, but April was yet another month of steep discounts on the milk they need for their plants. The \$12.71/cwt Class 4b price in April lagged \$0.92/cwt below the Federal Order Class III price – the benchmark price for milk sold to cheese manufacturers throughout the U.S., other than in California of course.

To be fair, this discount is a far cry from the \$2.41/cwt discount we endured in 2014, or the \$1.62/cwt discount we endured in the first seven months of 2015 (before CDFA implemented their temporary adjustment in August). But even though the California Discount has shrunk to an average of \$0.82/cwt since last August, **that still represents a significant dollar amount at a time when our dairy farmers desperately need a level playing field with our fellow dairymen around the country.**

So how much money does an \$0.82/cwt discount on the Class 4b price represent since August 2015? **More than \$101 Million, or about \$12.6 Million per month.** For a 1000-cow dairy producing 65 lbs of milk per day, their

share of that discount is more than \$60,000 since August 1st of last year.

Now of course this is merely a snapshot in the overall long-term picture of why California dairy families are struggling in 2016. It's not just what's happening right now, but the *years* of financial stress that led to an industry very unprepared to handle yet another extended period of devastating red ink.

Since 2010, the California Discount on Class 4b milk compared to the Federal Order Class III milk price has now hit \$1.98 BILLION!! That's \$1,980,000,000 for those who need to see the zeros. For a 1,000-cow dairy producing 65 lbs/day, their share of that discount since 2010 is \$1,170,000!

And people wonder why California production has drop year-over-year for the past 16 months?!?!? We are competing with dairies around the country that *didn't* have to absorb their share of a \$1.98 Billion discount!

Hopefully CDFA has seen through the rhetoric that was spewed last month by a group of cheese manufacturers desperate to protect their valuable discount. We should know in the next month or so when the hearing results are announced. While a California Federal Order will continue to be the best opportunity to put our producers on the level playing field we need for long-term sustainability, CDFA has the ability, authority (and I would argue *responsibility*) to move us closer in the near term.

HEAT ILLNESS TRAINING SESSIONS: *(By Kevin Abernathy, Director of Regulatory Affairs)* As we've done in prior years, MPC has joined with other Central Valley agricultural organizations in working with the Department of Industrial Relations and Cal/OSHA to hold training sessions on California's "Heat Illness" regulations. With winter in our rear view mirror and summer rapidly approaching, we would encourage our Central Valley members to send their managers and supervisors to this training session in order to brush up on California's requirements for employers under "high heat" conditions (defined in California law as >95 degrees Fahrenheit). These sessions are provided at no cost.

The next training session is in a couple weeks, with an additional session scheduled for next month. Details are below. A flyer can be downloaded off our website at: <http://www.milkproducerscouncil.org/2016heatillness.pdf>.

Thursday, May 26, 2016

Spanish – 10:00 a.m. to noon
English – 1:00 p.m. to 3:00 p.m.
Kerman Community Center
15101 W Kearney Blvd
Kerman, CA 93630

Friday, June 24, 2016

Spanish – 10:00 a.m. to noon
English – 1:00 p.m. to 3:00 p.m.
Reedley Community Center
100 N East Avenue
Reedley, CA 93654