



Milk Producers Council

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DATE: June 3, 2016
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0600	\$1.4400
Barrels	+\$0.0050	\$1.4450

Weekly Average, Cheddar Cheese

Blocks	+\$0.0399	\$1.3919
Barrels	+\$0.0220	\$1.4250

CHICAGO AA BUTTER

Weekly Change	+\$0.0350	\$2.1000
Weekly Average	+\$0.0103	\$2.0863

DRY WHEY

Dairy Market News	w/e 06/03/16	\$2.388
National Plants	w/e 05/28/16	\$2.500

NON-FAT DRY MILK

Week Ending 5/27 & 5/28

Calif. Plants	\$0.7464	9,427,515
Nat'l Plants	\$0.7843	12,910,646

Prior Week Ending 5/20 & 5/21

Calif. Plants	\$0.7643	7,591,388
Nat'l Plants	\$0.7841	13,007,601

FRED DOUMA'S PRICE PROJECTIONS...

June 3 Est:	Quota cwt. \$14.10	Overbase cwt. \$12.41	Cls. 4a cwt. \$12.89	Cls. 4b cwt. \$12.45
May '16 Final:	Quota cwt. \$13.61	Overbase cwt. \$11.91	Cls. 4a cwt. \$12.57	Cls. 4b cwt. \$11.37

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

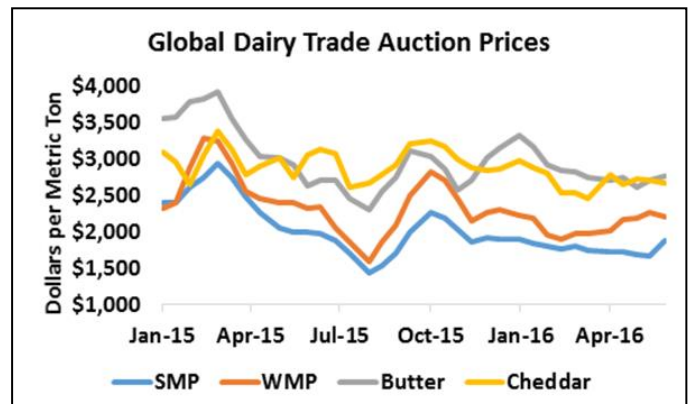
Milk & Dairy Markets

The dairy market bulls have long been cowed, banished to the sidelines and silenced by gargantuan growth in global milk output and burdensome dairy product inventories. But this week, the bulls started to bellow again. At the CME spot market, Cheddar blocks surged to \$1.44/lb., up 6¢ to the highest price in more than six weeks. Barrels eked out a half-cent increase, rallying to \$1.445. Nearby whey futures moderated after sustaining a recovery through all of last month, and deferred futures continued to climb. With that, Class III futures posted double digit gains this week, and the July contract added 76¢.

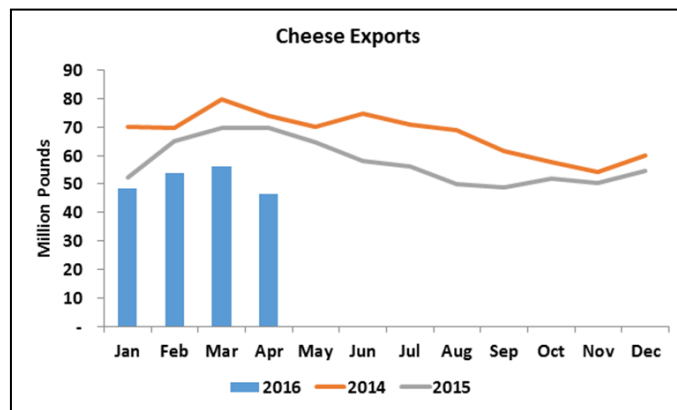
The spot butter market finished at \$2.10, up 3.5¢ to the highest price in over a month. On Tuesday, spot nonfat dry milk (NDM) reached 82¢, a level not breached since October. It failed to hold there, slipping back to 81.25¢ on Friday, still up 1.75¢ for the week. Butter and NDM futures spent most of the holiday-shortened week moving upward, and Class IV futures followed suit. Compared to last Friday, most Class IV contracts gained between 25 and 40¢.

Prices overseas have started to climb as well. At the Global Dairy Trade (GDT) auction on Wednesday, most products moved higher and the trade-weighted GDT index climbed 3.4%. Skim milk powder (SMP) jumped 12.1% from the previous event to the equivalent of 90¢ NDM. Butter added 3.2%. The average winning price for Cheddar slipped 0.9% from the prior auction. Whole milk powder (WMP) fell 1.7%.

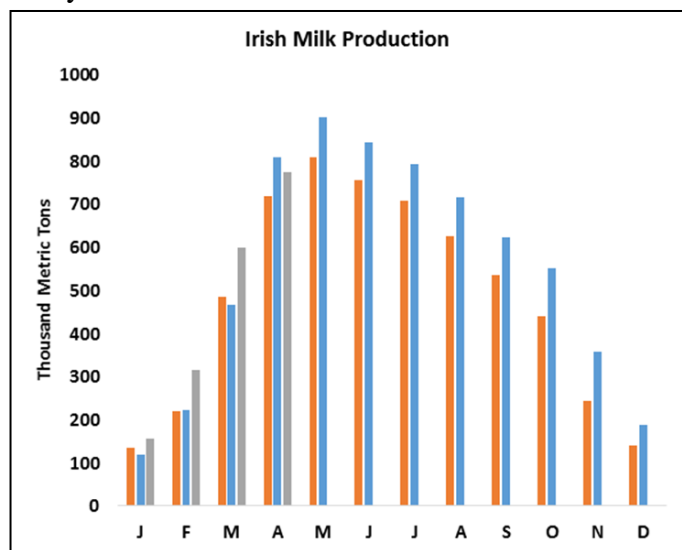
On the heels of a disappointing jobs report, the dollar index collapsed today, augmenting the rebound in global dairy product prices after adjusting for currency differences. Priced in dollars, German butter and cheese stand at their highest marks since January and February, respectively. Still, the rally in the U.S. markets makes an uptick in exports of those products unlikely.



In April, U.S. butter exports dropped 42% from a year ago to 2.72 million pounds. Imports were slightly higher than last year, at 3.3 million pounds. U.S. cheese exports in April dropped to 46.7 million pounds, down 33% from the prior year to the smallest monthly shipments since early 2013. The U.S. is bringing in increasing volumes of cheese from Europe. Milk powder exports in April were stronger than in the first quarter but still 19.5% shy of year ago levels at 101.9 million pounds. Exporters once again had to lower prices to keep product moving.



If the dairy market recovery is to be sustained, it must be accompanied by increased demand or a slowdown in production. Demand is already quite strong, so supply is likely to be the driver. There are a few indications that milk output growth will not continue at the recent, heady

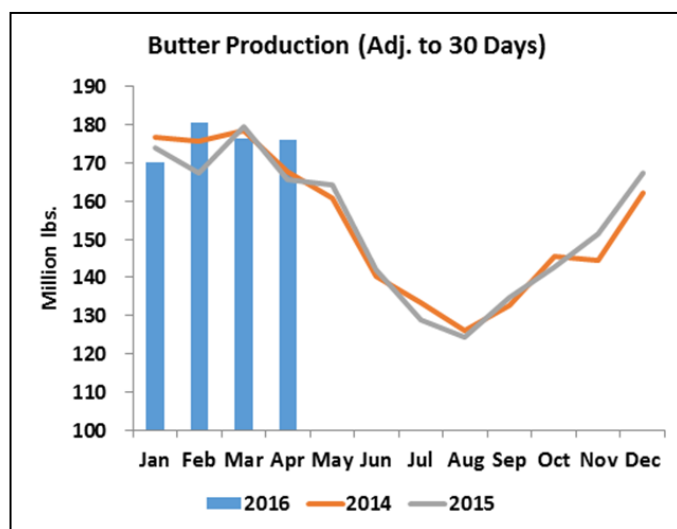


pace. Dairy producers in New Zealand will start the new season with fewer cows and less capital than a year ago, and at prices that discourage discretionary expenditures to boost milk production. Through April, Australian milk production is running 1.4% below last year with just two months left in the season. A lack of credit and adverse financial conditions have curtailed production in Brazil and Argentina. Hot weather in Central California and continued contraction in the dairy herd are restraining output.

Meanwhile, in Ireland, the poster child for European post-quota exuberance, milk production fell 4.1% from a year ago in April. However, this is at least partly due to imperfect weather and thus likely a temporary setback.

Furthermore, of the 16 other Eurozone nations who have reported April collections, just two reported lower output than last year. Production in the Netherlands was up 10.8%.

In the U.S., milk is heading for the cheese vat and the butter churn. April cheese output climbed 1.4% from a year ago to 992 million pounds. Butter production jumped 6.4% from a year ago to 176 million pounds despite a 9.5% drop in California output. Combined production of NDM and SMP totaled 213 million pounds, slightly lower than a year ago but up 3.6% on a daily average basis from March. Manufacturers' stocks of NDM jumped to 250 million pounds, up 7.9% from March and above year-ago volumes for the first time since September.



After months of steep declines, the nascent recovery and signs of moderating output are encouraging. But the pain isn't over. USDA announced the May Class III milk price at \$12.76, the lowest monthly price since September 2009. That is down 87¢ from April and \$3.43 lower than a year ago. California 4b milk dropped \$1.34 to \$11.37. California 4a milk improved 3¢ from April, reaching \$12.57. May Class IV milk was \$13.09, up 41¢ from April but down 82¢ from a year ago.

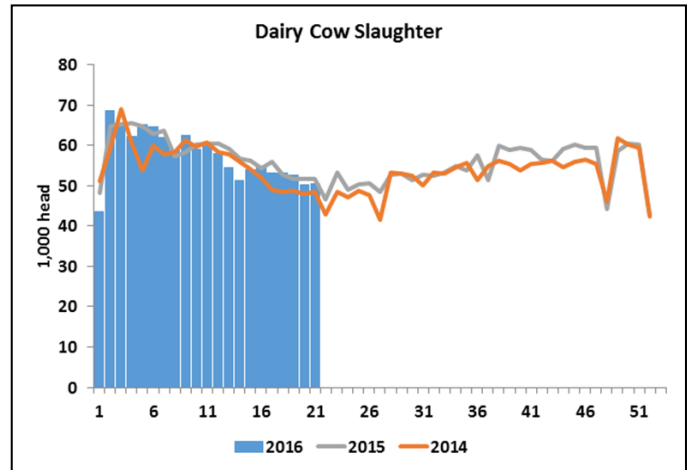
Milk checks are clearly inadequate to cover expenses. In April, the national All-Milk price slipped to a six-year low of \$15. The Margin Protection Program's income over feed formula for the March-April period averaged

\$7.15, triggering indemnity payments for the 345 producers who paid up for coverage at the \$7.50 and \$8.00 level, including just two Golden State dairy producers.

Despite painful margins, dairy producers have yet to step up slaughter. For the week ending May 21, the dairy cow kill totaled 50,534 head, down 2.5% from the same week a year ago. Year-to-date slaughter is running 1.5% behind last year's pace.

Grain Markets

It was another big week in the grain markets. July corn settled at \$4.1825 per bushel, up 5.5¢. July soybeans climbed 45.5¢ to \$11.32. July soybean meal futures reached \$414.30, up \$11.70 per ton on top of the relentless gains of the past few weeks. Amidst warm weather and intermittent rains, crops are generally off to a great start. However, traders have added a sizeable weather risk premium, particularly in the soybean market, which cannot afford sub-par yields. The U.S. is the exporter of choice for corn and soybeans, and demand continues to impress.



MPC MOURNS THE PASSING OF FORMER PRESIDENT GENE KOOPMAN: *(By Rob Vandenheuvel)*

This past week, longtime California dairyman and former MPC President Gene Koopman passed away at the age of 73 after a lengthy battle with health issues. Gene, who served on MPC's board for 18 years – 10 as President – was a longtime fixture in the Chino Valley dairy industry, serving on numerous boards, including nearly 20 years as a Director for the Inland Empire Utilities Agency. While I did not have the pleasure of working at MPC during Gene's tenure on our Board, his reputation as a leader preceded him.

MPC's current President Cornell Kasbergen, who served on the Board with Gene, had this to say:

"As I reflect on my time as a director with MPC and Gene as President, I have many fond memories. I was young and eager to learn as much as possible from leaders such as Gene Koopman. His calm demeanor served the organization and industry well. He cared deeply not only for the MPC membership but for the community as a whole, and I am grateful for having the honor of serving with Gene as President. I will be forever changed for the better by the knowledge I gained from leaders such as Gene Koopman."

I've been informed that the Koopman family will be organizing a memorial service for Gene sometime in July, so we will certainly pass that information along when we get it. Please keep Gene's wife Nancy and the rest of his extended family in your thoughts and prayers in this difficult time.

"AG OVERTIME BILL" FAILS TO GET APPROVAL IN THE CALIFORNIA ASSEMBLY: *(By Rob Vandenheuvel)*

It's not too often that common sense prevails in Sacramento, but we got a glimpse of what that looked like yesterday. AB 2757, the "Ag Overtime Bill," failed to get the 41 votes of support that it needed (it got 38), effectively killing the bill for this Legislative session.

As a reminder, while California is already one of the few states that require agricultural employers to pay overtime wages, the State has recognized that ag jobs are unique from other jobs for various reasons, and therefore have different overtime triggers, currently applying to hours worked above 10 per day or 60 per week. AB 2757 would have eliminated this ag-specific rule and required overtime wages for all hours worked above 8 per day or 40 per week. As we noted in last week's issue, combined with the significant rise in the California minimum wage, this would create a choice for ag employers in just a few short years to either pay at least \$22.50 per hour (\$15 minimum wage X 1.5) for any hours worked beyond an 8-hour shift (an unsavory thought given the financial condition of the California dairy producer sector), or reshuffle the workers' hours to make sure no one exceeds an 8-hour shift, resulting in less take-home wages for those workers and their families.

Fortunately, enough levels heads in the California Assembly took the common sense route and did not support AB 2757. While almost all of the Assembly members who publicly spoke out against the bill were Republicans, I want to give recognition to Assemblyman Adam Gray, a Democrat from the Merced area, who gave an outstanding speech about the devastating impacts that Sacramento policies have had on California's ag and rural communities. He pointed out that this Ag Overtime Bill was merely the latest in a long list of bills/laws that are making it harder and harder each year for the agricultural communities to merely survive in California. MPC greatly appreciates Assemblyman Gray's comments, and could not agree more.

For a tally of who voted how, you can check out the roll call at: <http://goo.gl/KcY08n>. MPC and the dairy families we represent extend a heartfelt thanks to the Members of the Assembly who stood up for California agriculture and opposed this bill. The supporters of AB 2757 did not make it easy; they stooped so low as to make comparisons of California farm work to slavery, claiming this bill was a "long-overdue fix" to "Jim Crow era" laws. They pulled out the Bible to quote Scripture verses on multiple occasions (although to balance the scales, one opponent of the bill refuted these arguments with a Bible quote of his own).

It's also worth noting that in a close vote like this, where 3 votes out of 80 were the difference between pass and fail, every single phone call, email, dairy tour, letter, etc. played a critical role in educating our elected officials on the challenges and realities of the California dairy industry, and why AB 2757 was not only bad for farmers, but bad for our employees as well. So for those of you who took time out of your day to do any form of outreach, your efforts were what made this result possible.

Given what we know about Sacramento, this will certainly not be the last we hear on this issue, nor is it the only issue of concern in Sacramento this year. So it is critical that we continue our work in helping our elected officials better understand the challenges faced by dairy families, and how Sacramento's policies hurt our ability to fairly compete in the U.S. and global marketplace.

CALIFORNIA DISCOUNT ON CLASS 4B WIDENS IN MAY – WHY?: *(By Rob Vandenheuvel)* Last week, I wrote about the recent decision by CDFA to permanently implement the current (previously temporary) Class 4b milk price calculation. In that article, I pointed out that since the revised calculation began last August, the Class 4b price had averaged \$0.82/cwt below the Federal Order Class III price (the benchmark price for milk sold to cheese plants throughout the U.S.), compared to a discount in the Class 4b price of \$2.09/cwt in the 12 months leading up to that change. In fact, if our current calculation had been in place since 2010, the "California Discount" on California's Class 4b price compared to the FMMO Class III price would have averaged about \$0.80/cwt throughout that time period, rather than the painful \$1.69/cwt our dairy families actually endured.

So wouldn't you know it that in the very next week following that report, we'd see that May's Class 4b price was \$11.37 compared to the FMMO Class III of \$12.76; **a discount of \$1.39/cwt, or about \$0.60 more than what I said the long term average would have been?** Talk about some bad timing.

So what happened in May? It's actually quite simple. California's Class 4b price is driven largely by the daily activity in the CME block cheddar cheese market, while the FMMO Class III price is driven by a weekly survey of what prices are received by large U.S. plants that make qualifying block/barrel cheddar cheese. In general, the CME price moves more quickly than the USDA-surveyed price, so while the long-term average prices for both series are fairly close, they can have periods where timing differences drive larger gaps. In May, the difference between those two prices happened to be more than \$0.09/lb, contributing about \$0.90/cwt to the gap between May's Class 4b price and the FMMO Class III price.

Does this explanation make the \$1.39/cwt May Class 4b Discount any less painful for California dairy families already bleeding red ink? Of course not. My goal was merely to explain the difference between the long-term structural Discount and the month-to-month variable differences. It's sure no fun to be on the losing end of both; hence the need to eliminate the gap altogether through a California Federal Milk Marketing Order.