



Milk Producers Council

13545 S. Euclid Avenue, Unit B ~ Ontario, CA 91762 ~ (909) 628-6018
 801 S. Mount Vernon Avenue ~ Bakersfield, CA 93307 ~ (661) 833-2549
 222 S. Thor Street, Suite 20 ~ Turlock, CA 95380 ~ (209) 250-1801
 Fax (909) 591-7328 ~ office@milksproducers.org ~ www.MilkProducers.org



DATE: October 28, 2016
 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$0.0800	\$1.7300
Barrels	+\$0.0275	\$1.5975

Weekly Average, Cheddar Cheese

Blocks	+\$0.0105	\$1.6635
Barrels	-\$0.0020	\$1.5650

CHICAGO AA BUTTER

Weekly Change	+\$0.1650	\$1.9250
Weekly Average	+\$0.1015	\$1.8650

DRY WHEY

Dairy Market News	w/e 10/28/16	\$0.3650
National Plants	w/e 10/22/16	\$0.3428

NON-FAT DRY MILK

Week Ending 10/21 & 10/22

Calif. Plants	\$0.8907	5,479,051
Nat'l Plants	\$0.9193	11,975,791

Prior Week Ending 10/14 & 10/15

Calif. Plants	\$0.8993	8,063,329
Nat'l Plants	\$0.9217	15,091,116

FRED DOUMA'S PRICE PROJECTIONS...

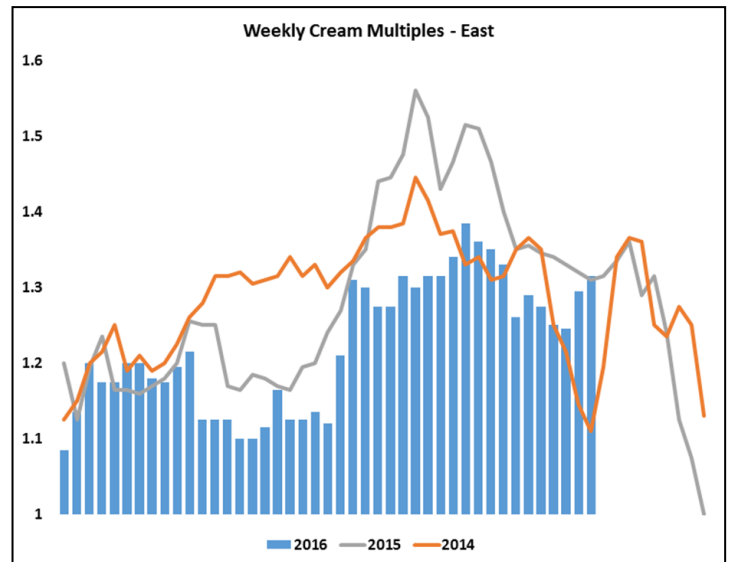
Oct 28 Final:	Quota cwt. \$15.80	Overbase cwt. \$14.11	Cls. 4a cwt. \$13.10	Cls. 4b cwt. \$14.43
Last Week:	Quota cwt. \$15.79	Overbase cwt. \$14.10	Cls. 4a cwt. \$13.05	Cls. 4b cwt. \$14.44

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

Milk & Dairy Markets

After months on the sidelines, the bulls are bellowing in Chicago once again. They have been particularly bold in the butter market. CME spot butter jumped to 1.925/lb. today, up 16.5¢ for the week. Traders exchanged 38 loads, the highest weekly volume in two years. *Dairy Market News* reports that "cream is readily available for churning," but in some areas supplies are getting tight. In the East, cream multiples have climbed above year-ago levels for the first time since February. With that, Class IV futures moved decidedly higher. The December contract gained 40¢.

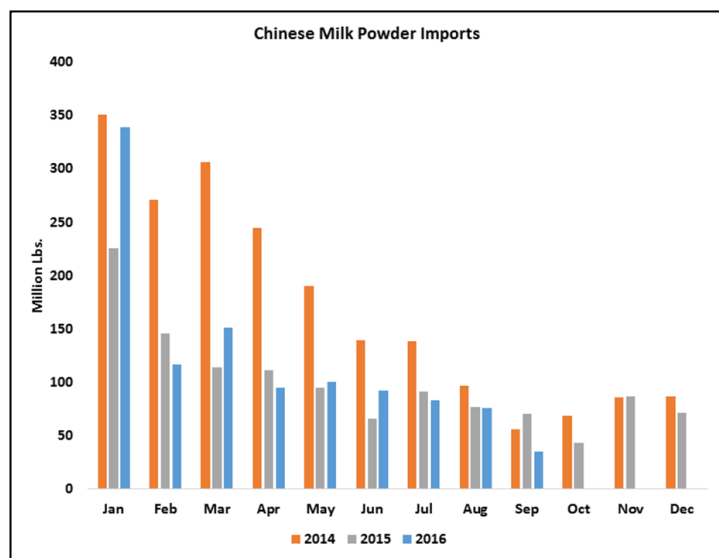
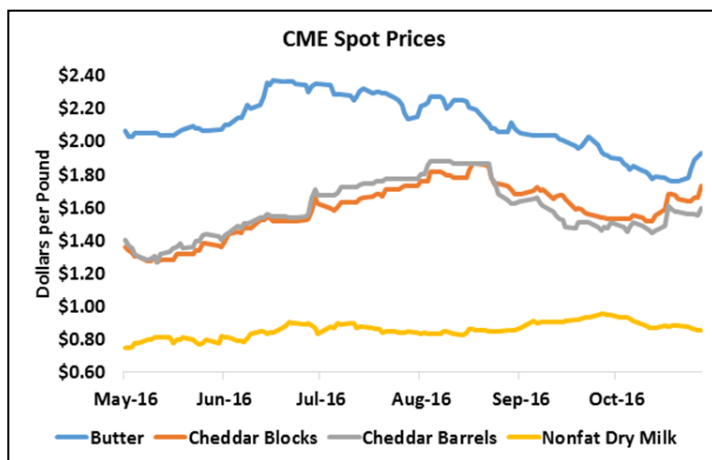
Nonfat dry milk (NDM) prices took a step back this week. Spot NDM slipped 2.5¢ to 85.5¢, its lowest showing since August. The milk powder market has fallen into the doldrums in the wake of the latest Chinese dairy product import data, which revealed a September slump. Chinese skim milk powder (SMP) imports dropped to just 20 million pounds, a 12-month low. Shipments from the U.S. were down 48% compared to last year. China imported 15.3 million pounds of whole milk powder (WMP) last month, the smallest volume since September 2011.



Last Friday's Cold Storage report painted a picture of plentiful supplies and underwhelming demand, but the cheese market shrugged that off as old news. Cheddar blocks climbed 8¢ this week to \$1.73, a two-month high. Barrels posted a less spectacular 2.75¢ gain and reached \$1.5975. *Dairy Market News* reports, "Inventories are a little heavy for barrels but in better balance for blocks."

China continued to import large volumes of cheese and whey in September. At 14 million pounds, cheese imports were up 7% from a year ago. Year-to-date shipments are up 27%. China imported nearly 104 million pounds of whey last month, 26% more than in September 2015. This is only the fifth time in the past nine years that Chinese whey imports have surpassed 100 million pounds. The U.S. accounted for 56% of Chinese whey imports in September.

The U.S. whey market continues to climb and *Dairy Market News* characterizes stocks as tight. National Dairy Product Sales Report showed whey prices at 34.3¢, up more than 5% from the previous week to the



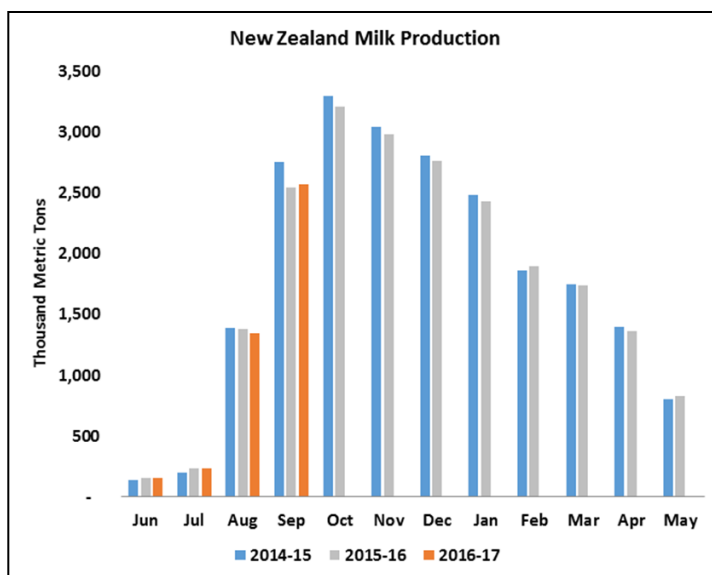
tons, up 1.1% from last year. This brings season-to-date output down just 0.2% from a year ago, much better than pre-season forecasts which called for full season declines around 3%. On a milk solids basis, season-to-date collections are 0.6% shy of last year.

Fonterra, which handles the bulk of New Zealand’s milk, reported that since September “the continuing impact of materially wetter than normal spring weather in most parts of the country has seen further reductions in Fonterra’s milk volumes across New Zealand.” But the cooperative’s producers are apparently suffering more than their competitors; Fonterra reported season-to-date collections down 3% from last year, while nationwide output is nearly flat. Fonterra has expressed concerns that in the wettest areas, disappointing spring milk yields will be similarly stagnant through the summer. This begs the question: will New Zealand continue to produce more milk than feared, or will it succumb to the Fonterra deficit? The answer will have a big impact on the direction of the milk powder market, the decline in European milk output notwithstanding.

highest value since August 2015. With that, Class III futures jumped back to their highest level since mid-September. The November through May contracts posted double-digit gains.

Newfound strength in the dairy markets is built on the assumption that output is falling overseas. This is certainly true in Europe. The European Commission reported August milk collections down 1.9% from last year, the largest year-over-year deficit since April 2013. Declines are likely to persist throughout the fourth quarter, thanks to the government’s generous milk production reduction scheme. Milk output remains depressed in Australia and South America.

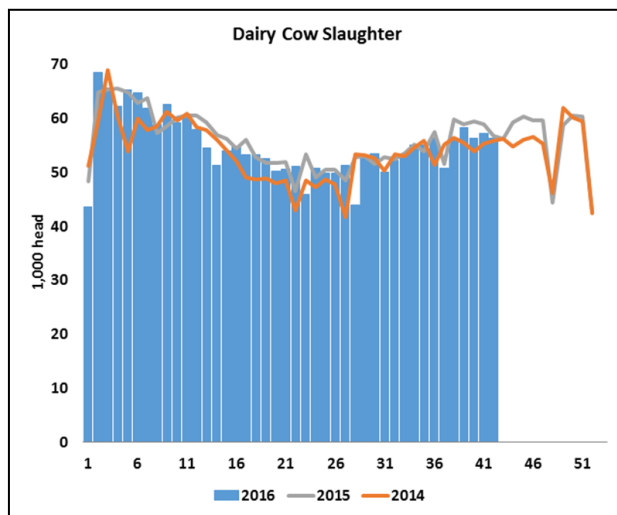
The outlook for New Zealand is a bit muddier. In September, milk collections reached 2.57 million metric tons, up 1.1% from last year. This brings season-to-date output down just 0.2% from a year ago, much better than pre-season forecasts which called for full season declines around 3%. On a milk solids basis, season-to-date collections are 0.6% shy of last year.



For the week ending October 15, dairy cow slaughter totaled 56,208 head, down 0.7% from the same week a year ago. This brings season-to-date slaughter down 1.6% from 2015.

Grain Markets

In times of plenty, the trade has often offered producers what little comfort could be found in the well-worn phrase, “The best cure for low prices is low prices.” The adage has proven true once again. A glut of everything from almonds to zinc has pressured commodity prices, and agricultural goods were particularly vulnerable. The rout has attracted bargain shoppers. U.S. agricultural exports are surging, and investors are flocking to commodity futures. The major investment banks are recommending greater exposure to commodities, with an emphasis on those that have fared poorest. The beleaguered cattle market is finally looking lively, and the grain and oilseed markets have been downright peppy.



December corn futures approached \$3.60 per bushel this week, and posted their highest price since July. They settled at \$3.55, up 2.5¢ from last Friday. Soybeans were even stronger, climbing to prices not seen since June. Even after a sizeable setback on Friday, November soybeans finished at \$10.0125, up 18.25¢ for the week.

Soybean prices have been helped by strength in the Malaysian palm oil market and robust exports. The trade has been singularly focused on demand. But if exports start to wane, they might turn their attention to supplies. The Corn Belt enjoyed a fabulous season, and crops are immense. In South America, planting season is off to a good start. The nation’s grain bins are full of reasons for crop prices to retreat.

WITH ELECTION DAY NEARING, A RACE TO WATCH: *(By Rob Vandenheuvel)* The 21st Congressional District in California stretches from the Fresno region down into parts of Kern County. While the district has a Democrat advantage in voter registration (*President Obama won the district in 2012 with nearly 55% of the vote*), Republican Congressman David Valadao has won both of the past two elections (*2012 and 2014*) with nearly 58% of the vote.

Rep. Valadao has taken those election victories and used his time in Washington, DC well, leading the efforts to take on the biggest challenges facing his South San Joaquin Valley constituents – most notably our screwed up Federal water policies that are driving the man-made drought in California! Rep. Valadao has worked with Republicans and Democrats to introduce AND pass comprehensive, bi-partisan legislation on the issue in the U.S. House of Representatives (we’ve written about his bill in this newsletter before). **His constituents – which includes not only farmers but also the many others who rely on a vibrant Central Valley ag industry for their jobs and economic welfare – are certainly well-represented in Washington, DC.**

However, the Democrat establishment clearly feels the political climate is different this year, and they believe they have an opportunity to defeat Rep. Valadao in 11 days and are pulling out all the stops – putting their weight behind Emelio Huerta, a Bakersfield lawyer and the son of labor-activist, United Farm Workers co-founder Delores Huerta. There were already reports that a Democrat-aligned organization (“House Majority PAC”) funneled more than \$800,000 into the district to run ads against Rep. Valadao (*ads which certainly play fast-and-loose with the truth, in one case spreading an outright lie*). Today, that effort continued, with President Obama getting involved and officially his endorsement of Huerta.

For those of you who live in the 21st Congressional District – or know someone who does – Rep. Valadao needs (and has earned) your support! His supporters need to cast their votes and make sure that this unpredictable election doesn’t take remove a strong leader in the Central Valley from a position we very much need him in!