



Milk Producers Council

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DATE: May 5, 2017
 TO: Directors & Members

PAGES: 5
 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks	+ \$.1200	\$1.6000
Barrels	+ \$.0325	\$1.4500

Weekly Average, Cheddar Cheese

Blocks	-.0240	\$1.5060
Barrels	-.0020	\$1.4205

CHICAGO AA BUTTER

Weekly Change	+ \$.0025	\$2.1075
Weekly Average	+ \$.0040	\$2.1110

DRY WHEY

Dairy Market News	w/e 05/05/17	\$4.750
National Plants	w/e 04/29/17	\$5.259

NON-FAT DRY MILK

Week Ending 4/28 & 4/29

Calif. Plants	\$0.8394	16,293,738
Nat'l Plants	\$0.8468	25,845,958

Prior Week Ending 4/21 & 4/22

Calif. Plants	\$0.8306	11,717,769
Nat'l Plants	\$0.8471	19,518,175

Fred Douma's price projections...

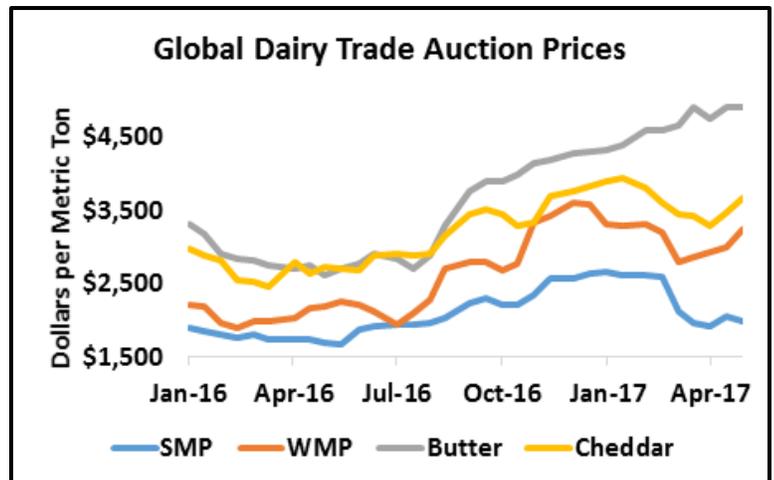
May 5 Est:	Quota cwt. \$16.03	Overbase cwt. \$14.34	Cls. 4a cwt. \$13.67	Cls. 4b cwt. \$14.95
Apr '17 Final:	Quota cwt. \$15.72	Overbase cwt. \$14.02	Cls. 4a cwt. \$13.70	Cls. 4b cwt. \$14.30

Market commentary

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

Milk & Dairy Markets

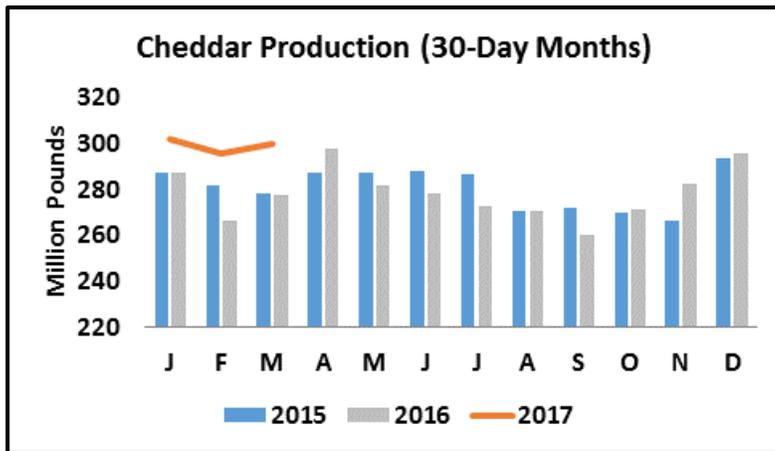
Cheese traders lay dormant for much of the week, with a fleeting movement every once in a while to signal that they were, in fact, still alive. Today they awakened from their slumber and burst into action. A flurry of bids pushed CME spot Cheddar blocks to \$1.60/lb., up 12¢ this week to the highest price since mid-February. Barrels climbed 3.25¢ to \$1.45 after an impressive 54 trades. Cheese futures followed suit. After trading within a well-defined range, the dry whey market climbed to two-month highs, helping to boost Class III futures even further. Most Class III contracts finished 30¢ to 40¢ higher, with much lesser gains in deferred contracts.



The Class IV markets offered far less drama. Spot butter gained a quarter-cent, reaching \$2.1075 after a whopping 43 trades. Spot nonfat dry milk (NDM) slipped 2.25¢ to 84.5¢. Class IV futures were mixed but mostly a little higher.

On Tuesday, the Global Dairy Trade index climbed 3.6%, its fourth straight increase and the largest gain since November. All products except skim milk powder (SMP) moved higher. Whole milk powder (WMP) prices rallied 5.2%. The world has plenty of milk and an abundance of low-fat dairy products, but milkfat remains in demand.

In March, U.S. processors shifted output away from NDM into SMP. Combined milk powder output was

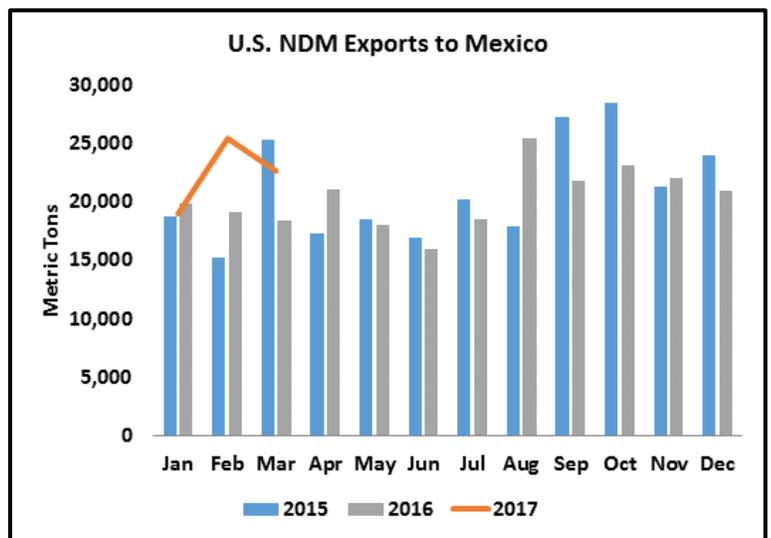


negligibly lower than the prior year. Manufacturers' stocks of NDM declined from February to March but remain 6.4% higher than year-ago levels.

The deluge of milk in the traditional cheese states has had obvious consequences. In March, U.S. cheese production climbed to a record-breaking 1.06 billion pounds, up 3.3% from a year ago. Output of Cheddar cheese, some of which will surely find its way to the CME spot market, jumped 8% year-over-year. For similar reasons, production of dry whey for human consumption

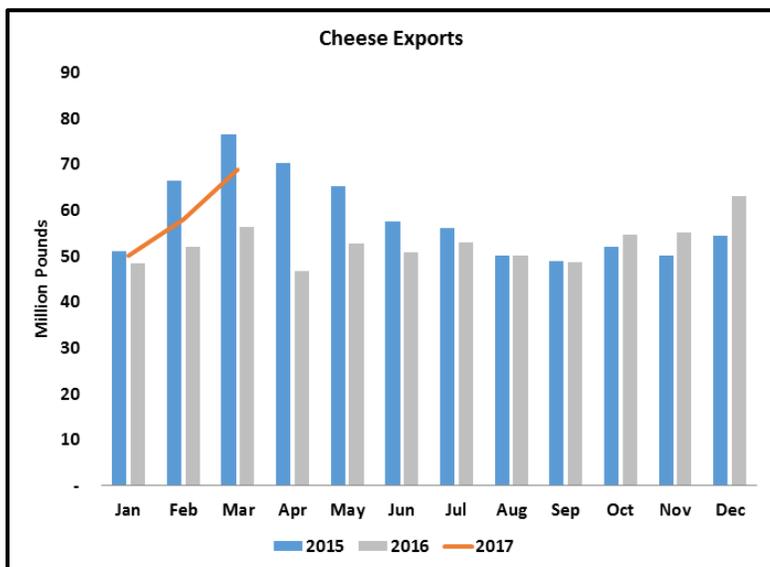
was up 6.7% from last March. Stocks of dry whey and whey protein concentrates climbed from February to March despite robust exports. At 175.5 million pounds, U.S. butter output was just 0.3% greater than year-ago volumes in March.

Uncertainties about trade relationships linger, but for now it seems that all the bluster between the United States and Mexico has been, to borrow from Shakespeare's *MacBeth*, "a tale told by an idiot, full of sound and fury, signifying nothing." U.S. milk powder exports to Mexico were up 17% from last year in the first quarter, driving an 18% increase in shipments to all destinations. Pesos matter more than politics. The U.S. sent nearly 23 million pounds of cheese to Mexico in March, a record-breaking volume for our top foreign market. Still, first quarter cheese exports to Mexico trailed last year by 5%. We've managed to make that up elsewhere, with total cheese exports up 12% compared to the first three months of last year.



The U.S. remains a net butter importer, extending a streak that began in May 2015. In March U.S. butter exports totaled 2.6 million pounds, up noticeably from the previous year's paltry volumes but well shy of imports which

totalled 4.1 million pounds. Hopefully, strengthening overseas butter prices and the weakening U.S. dollar will allow for a more meaningful slowdown in butter imports in the months to come.



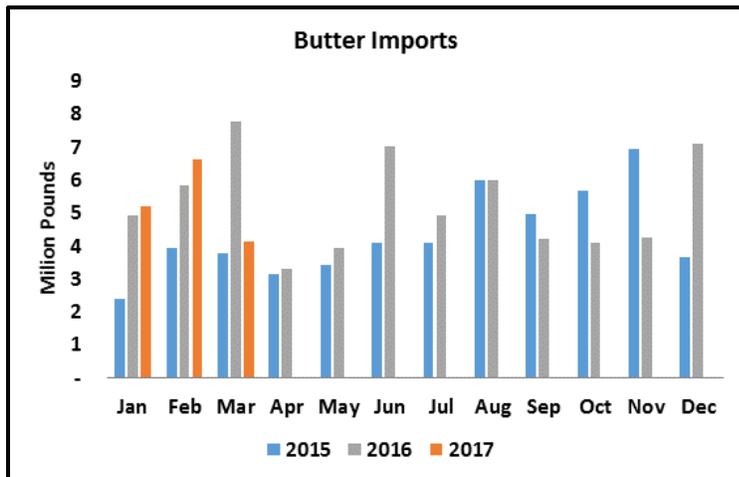
After months of eroding premiums and disappointingly low milk prices, dairy producers have stepped up cull rates. For the week ending April 22, dairy cow slaughter was 6% higher than last year, bringing year-to-date slaughter up 1.3% from the 2016 pace. Slaughter is running 4.2% ahead of year-ago levels in the Midwest and is up 4.1% in California, Arizona, and Nevada.

USDA announced the April Class III price at

\$15.22/cwt., down 59¢ from March but up \$1.59 from a year ago. California 4b milk improved 54¢ last month to \$14.30. The April Class IV price was \$14.01, down 31¢ month-to-month but up \$1.33 from April 2016. California 4a milk was \$13.73, down 23¢ from March.

Grain Markets

It has been a wild week in the weather-whipped crop markets. A snowstorm in the Central Plains damaged part of the wheat crop, although at this point it's difficult to say how much and how badly the crop was harmed. In the Corn Belt, a cold, wet weekend and a forecast promising more of the same raised concerns that farmers would be kept out of the fields until well past the ideal planting window. Grain and oilseed futures moved sharply higher on Monday, with the formerly downcast wheat market leading the way. Since then, the grain trade has moved violently back and forth, culminating in a strong performance today that pushed July corn futures to \$3.70 ³/₄ per bushel, up 4 ¹/₄ for the week. July soybeans finished at \$9.73, up 16 ³/₄.



If cool temperatures and soggy fields force farmers to keep their planters in the shed for a few more weeks, they are likely to switch some fields from corn to soybeans, boosting soy acreage from farmers' already record-breaking intentions. The world has plenty of both crops, and end-of-season inventories are expected to grow again this year, which is likely to prompt continued downward pressure on prices.

However, demand remains strong, particularly for soybeans. Chinese soybean imports in the first quarter are up 20% from a year ago, and U.S. soybean exports are running 18% ahead of last year's pace for the season-to-date. Some of this is due to Brazilian farmers' reluctance to sell soybeans at today's prices and tax rates. This will leave more South American crops to sell in the months to come, perhaps reducing U.S. export opportunities next season. But for now, robust demand means the trade cannot become complacent, and that U.S. crop yields will matter, large stockpiles notwithstanding. The crop markets will continue to bow to the whims of the weather for the foreseeable future.

Weekly commentary

By Geoff Vanden Heuvel, MPC Board member and Economics Consultant

The good news is it seems like the 70 or so dairy farmers who were cut off by Grassland Dairy Products in Wisconsin found a new home for their milk. That is always a relief. Finding yourself without a home for your milk is not something Wisconsin dairy farmers have had to cope with for several generations.

Grasslands blamed the Canadians for making some changes to their system, which made their domestic milk products more affordable, therefore squeezing out the American imports. But is Canada really the problem? I don't think so.

The fact is there is too much milk in the Upper Midwest and Northeast right now and that is putting pressure on the system. For several decades, California experienced too much milk and that caused dairy farmers to pay very close attention to who they ship their milk to. It is why most producers belong to cooperatives that are obligated by membership agreements to find a home for all their member's milk.

So while it is a new experience for Wisconsin producers to be scrambling for a home for their milk, it is not an unprecedented reality for dairy farmers located in the rest of the country. As for what Canada did or did not do, I

can remember clearly a decade ago when New Zealand created a product called Milk Protein Concentrate to get around American tariff restrictions and flooded the US with this cheaper powder substitute. We rightly protested to our government that it was unfair, but I do not believe anything was ever done about it. We have now done the same thing to the Canadians by inventing an ultra-filtered solids product to get around Canada's dairy trade restrictions and they decided to do something about it. Good for them.

The Upper Midwest and Northeast have greatly expanded production in the past few years and without any discernable supply management in place, farmers here in the US, as well as in Europe where supply controls were lifted in 2015, produce more milk than the market can absorb. This is a chronic problem that calls out for a solution, but so far there is no consensus behind a remedy.

In the meantime, the real threat to the US dairy industry comes from any action by our government that hurts our ability to export dairy products to Mexico and China. This is where we should focus our political attention. Both markets have generated strong demand for American dairy products. I am concerned about the rhetoric coming from some quarters in Washington, D.C. that might put those markets in jeopardy. We, American dairy farmers, and particularly California dairy farmers, have a lot riding on maintaining a good trading relationship with these customers. That should be our message to Washington, D.C.

Final round of NRCS EQIP funding ends May 26

By Kevin Abernathy, MPC General Manager

The deadline for the final round of NRCS EQIP funding is May 26. While NRCS accepts applications year-round, it bundles and ranks them for funding purposes three to five times per year, with this deadline marking the final bundle for fiscal year 2017.

NRCS welcomes applications for all conservation purposes, and is working to spread awareness on air quality opportunities, for which there is \$19 million available to California farmers to improve air quality. EQUIP payments are available for the following conservation practices:

- Replace old diesel-powered farm equipment with similar new equipment powered with the cleanest Tier emissions-certified diesel engines;
- Repower irrigation engines with new electric motors or new Tier 4 emissions-certified diesel engines;
- Adopt no-till or reduced-till conservation tillage practices;
- Utilize combined-tillage implements that perform multiple tasks in a single pass;
- Stabilize unpaved roads and traffic areas to limit dust;
- Establish windbreaks and shelterbelts at Confined Animal Feeding Operations.

More information about this program is available at <https://goo.gl/31QAW7>.

If you are interested in this program, please contact our office at office@milkproducers.org or your local [NRCS Service Center](#) very soon to start the conservation planning process, and apply for assistance.

CDFFA announces funding for Dairy Digester Development Program

The California Department of Food and Agriculture (CDFFA) is now accepting applications for project funding from the Dairy Digester Research and Development Program (DDRDP), authorized by the Budget Act of 2016. This program receives funding from California Climate Investments Program, with proceeds from the state's cap-and-trade auctions, to reduce greenhouse gas emissions while providing a variety of additional benefits to California communities. CDFFA-DDRDP will award between \$29 million and \$36 million for the installation of

dairy digesters in California that will reduce greenhouse gas emissions.

Existing milk producers and dairy digester developers can apply for funding of up to \$3 million per project for anaerobic digestion projects that provide quantifiable greenhouse gas reductions. The program requires a minimum of 50 percent of total project cost as matching funds.

Prospective applicants must access the “Request for Applications” at www.cdfa.ca.gov/go/DD for detailed information on eligibility and program requirements. To streamline and expedite the application process, CDFA is partnering with the State Water Resources Control Board, which hosts an online application tool, Financial Assistance Application Submittal Tool (FAAST). All prospective applicants must register for a FAAST account at <https://faast.waterboards.ca.gov>.

Applications and all supporting information must be submitted electronically using FAAST by Wednesday, June 28, 2017 at 5:00 p.m. PT.

CDFA will hold two workshops and one webinar to provide information on program requirements and the FAAST application process (see below). CDFA staff will provide guidance on the application process, provide several examples and answer any questions. There is no cost to attend the workshops. Individuals planning to attend should email grants@cdfa.ca.gov with his or her contact information, number of seats required and the workshop location.

Sacramento – Friday, May 12, 2017

1:00 p.m. – 3:00 p.m.

California Department of Food and Agriculture

2800 Gateway Oaks Drive, Room 101

Sacramento, CA 95833

Tulare – Monday, May 15, 2017

10:00 a.m. - 12:00 p.m.

Tulare County Agricultural Building Auditorium

4437 S. Laspina Street

Tulare, CA 93274

Webinar – Tuesday, May 16, 2017

9:00 a.m. – 11:00 a.m.

To register for the webinar, please visit the program webpage at www.cdfa.ca.gov/go/DD.

Prospective applicants should refer to the DDRDP webpage (www.cdfa.ca.gov/go/DD) for information regarding community outreach meetings coordinated by CDFA. These meetings are intended to provide assistance with community outreach requirements.

Prospective applicants may contact CDFA’s Grants Office at grants@cdfa.ca.gov with general program questions.