



Milk Producers Council

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DATE: November 30, 2018
 TO: Directors & Members

PAGES: 6
 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks + \$.0150 \$1.3600
 Barrels + \$.0750 \$1.3150

Weekly Average, Cheddar Cheese

Blocks - \$.0080 \$1.3570
 Barrels + \$.0085 \$1.2710

CHICAGO AA BUTTER

Weekly Change - \$.0375 \$2.2425
 Weekly Average - \$.0822 \$2.2220

DRY WHEY

Dairy Market News w/e 11/30/18 \$1.4400
 National Plants w/e 11/24/18 \$1.4587

NON-FAT DRY MILK

Week Ending 11/24

Nat'l Plants \$0.8851 9,802,654

Prior Week Ending 11/10

Nat'l Plants \$0.8944 13,159,855

California Federal Milk Marketing Order Price Projections

FMMO Pricing	Class I Actual (Range based on location)	Class II Projected	Class III Projected	Class IV Projected
This Week	\$17.12 - \$17.62	\$14.67	\$14.46	\$15.07
Last Week	\$17.12 - \$17.62	\$14.65	\$14.48	\$15.07

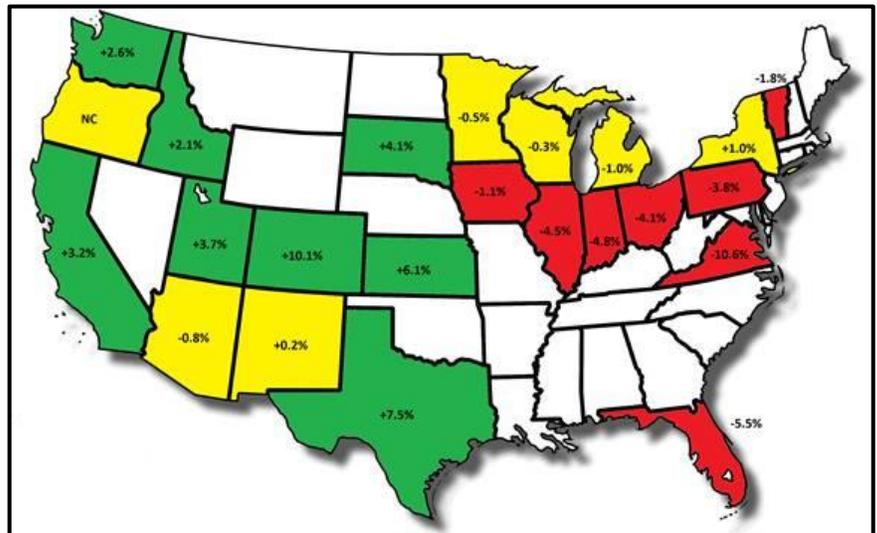
Market commentary

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

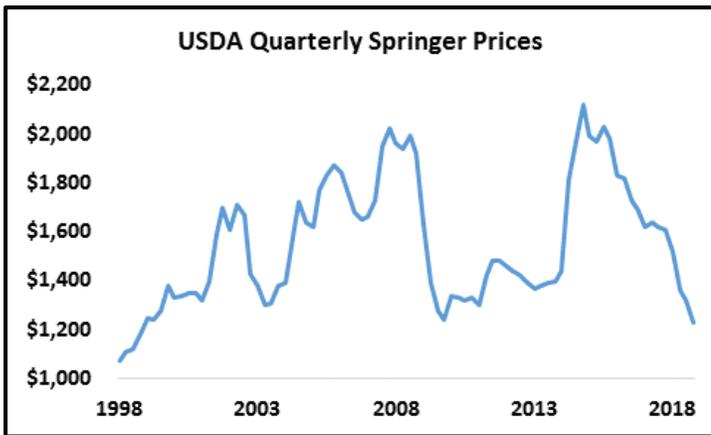
Milk & Dairy Markets

Dairy producers are dejected, and it's easy to see why. December Class III milk settled today at \$13.98/cwt., a new low for the contract. You can't make milk for \$14, especially with lower premiums and greater hauling deductions than in the past. There are wait lists to move cows to the slaughterhouse and the salesyard. USDA reports that the dairy producers received an average of \$1,230 per head for replacement heifers sold in August through October, the lowest value in 20 years. Few dairy producers are looking to buy, and many Holstein heifers are destined for feedlots. Sellouts are accelerating.

Year-Over-Year Change in Milk Production



The cheese market is the most despondent. Last week USDA reported a negligible decline in cheese stocks from September to October, a period during which cheese inventories typically drop by at least 25 million pounds.



Stocks of American cheese climbed 1.2% last month, marking only the fourth September-to-October inventory build since the early '80s. The national cheese stockpile is 8.2% greater than it was a year ago, at 1.37 billion pounds. American cheese stocks are up 9.9% from October 2017.

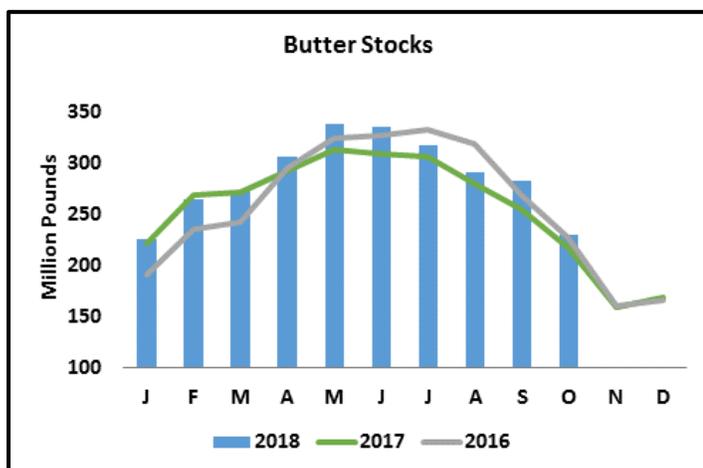
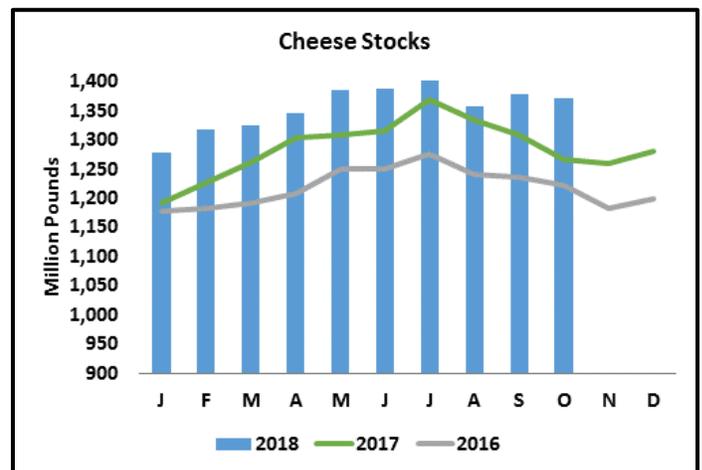
Heavy inventories continue to drag the cheese market lower, despite recent reports of better demand from Mexico, respectable domestic consumption, and slowing output in the Midwest. Just before Thanksgiving, CME spot Cheddar blocks dipped to

\$1.34 per pound, their lowest value since May 2016. They regained some ground this week but finished at an unimpressive \$1.36, down 9.25¢ from where they stood two weeks ago. Barrels dropped 4.5¢ over the past two weeks and traded today at \$1.315.

CME spot dry whey has moved up a half-cent since mid-November; it closed at 43.5¢. Output is slowing and inventories are tight, but USDA describes the whey market as “sluggish.”

Compared to their mid-November settlements, Class III contracts are sharply lower. The December contract lost 86¢ and first-quarter contracts are 32¢ to 64¢ in the red. Nearby Class IV contracts also moved lower, but they're looking markedly better than Class III. December Class IV dropped 22¢ over the past two weeks to \$14.88. January through May contracts lost between 3¢ and 15¢, while deferred contracts gained a little ground.

Over the past two weeks, CME spot butter slumped 3.25¢ to \$2.2425. U.S. butter stocks declined 52.5 million pounds from September to October, the largest decline in 25 years. Still, at 230.7 million pounds, inventories are 5.9% greater than they were a year ago. Cream remains tight, and components are down, due, in part, to poor feed quality in the Northeast.



The milk powder market remains a lone bastion of strength. CME spot nonfat dry milk (NDM) climbed 2¢ over the past two weeks to 90.5¢, its first foray above 90¢ since June 2017, aside from a brief rally in September. Milk has gotten tight in the Northeast and Upper Midwest, and driers are operating well below capacity. Milk powder inventories are less burdensome on both sides of the Atlantic.

Still, it will be difficult to boost milk powder prices domestically if the global market doesn't cooperate. At the Global Dairy Trade (GDT) auction on November 20, skim milk powder (SMP) prices slipped 1.6% to the equivalent of NDM at 95¢. Strong milk output in New Zealand is likely to anchor SMP values. New Zealand reported milk collections in October at 7.3 billion pounds, tying the all-time record from October 2014. Fluid collections were up 5.8% from the prior year, and milk solids collections were record large, up 6.5% from a year

ago. New Zealand may enjoy its greatest milk production season ever. Milk solids collections are up 6% for the season to date.

Global dairy demand typically grows 1% to 2% per year. Assuming 1.5% growth in demand, the world can absorb the New Zealand surplus without much impact to prices given lower milk output in Australia, stagnant production in Europe, and slower growth in the United States. However, current pricing remains inadequate; the status quo is intolerable. Big growth in New Zealand may not be forcing prices much lower, but it is constraining the ability for global dairy product prices to rally despite subpar growth among the other major dairy exporters.

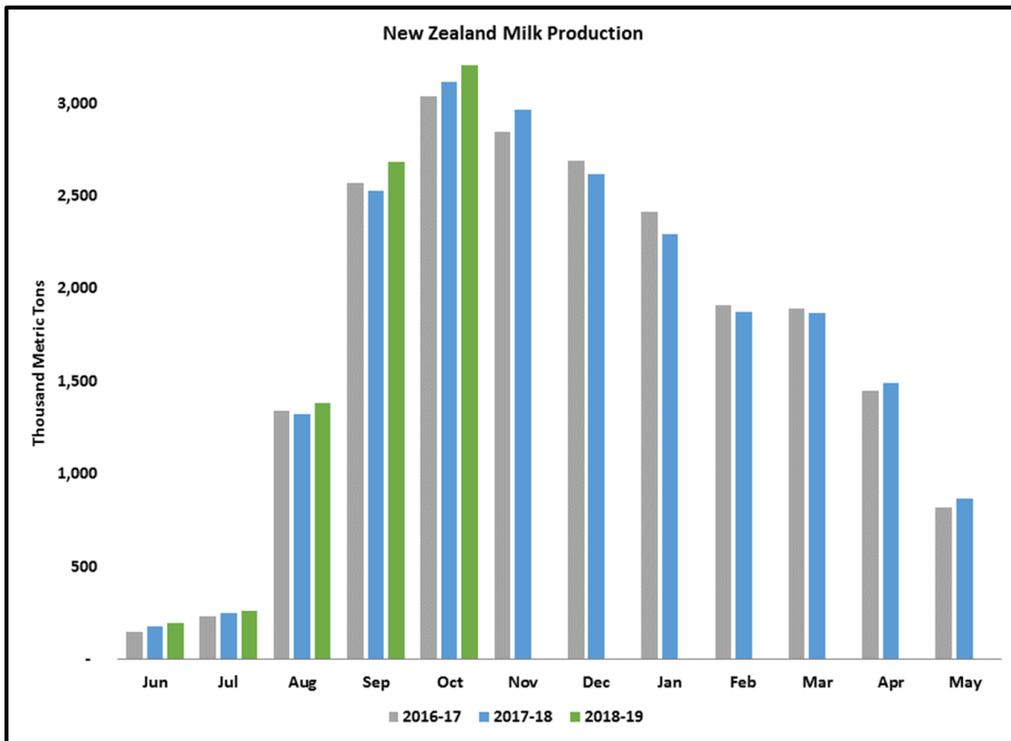
In the U.S., milk production totaled 17.9 billion pounds in October, up 0.8% from a year ago. East of the Mississippi River, output was down, and dramatically so in some states. Production slumped 10.6% year-over-year in Virginia, 5.5% in Florida, 4.8% in Indiana, 4.5% in Illinois, and 4.1% in Ohio. In the 11 major dairy states in the East, there were 61,000 fewer milk cows than there were in October 2017.

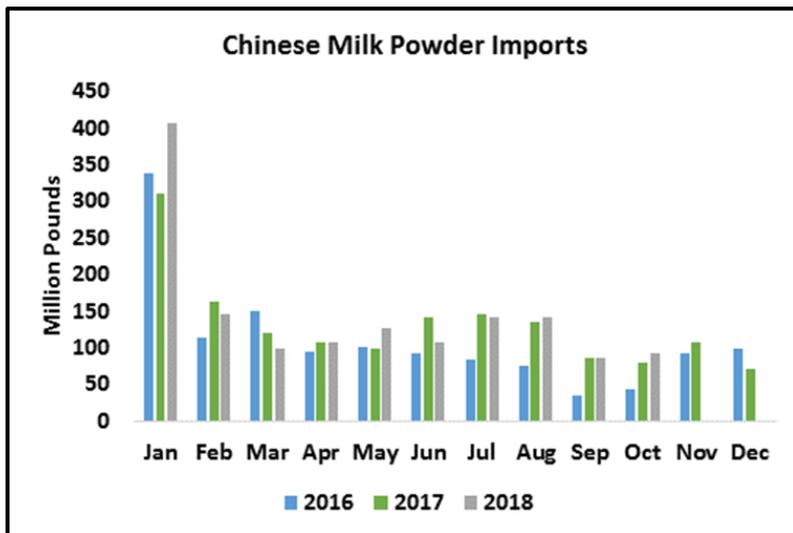
In the West, the picture is mixed. In some states, the herd has expanded, and in most states, milk yields have climbed. This combination led

to big year-over-year gains in Colorado (+10.1%), Texas (+7.5%), Kansas (+6.1%), and South Dakota (+4.1%). In California, milk production per cow improved dramatically from the very low levels of October 2017, allowing for a 3.2% jump in milk output despite a continued decline in the dairy herd. Going forward, California is likely to report more modest improvement in milk yields and a continued ebb in milk cow numbers.

Despite high slaughter volumes in October, the dairy cow herd declined just 2,000 head from September to October. At 9.365 million head, the herd was 30,000 head smaller than it was a year ago. Given the accelerated pace of sellouts and diminishing patience from lenders, the herd is shrinking today, and there is likely more contraction to come. *Dairy Market News* reports that in the mountain states, which have so far managed robust growth in milk output, “limited processing homes and low milk prices are hitting farmers in the northern part of the region especially hard. Some dairy farmers have lost access to their markets for milk and a few others are choosing to liquidate their herds.” The East-West divide in milk trends may not be quite so pronounced in subsequent Milk Production reports. Dairy producers are struggling across the nation.

President Trump will meet with Chinese President Xi Jinping to talk trade this weekend. It is difficult to predict the outcome, but comments from White House officials and their counterparts in Beijing suggest both sides hope to take back threats for new tariffs and work toward a more sweeping agreement. Even if the two leaders shake hands in Argentina, that does not mean China will immediately rescind its punitive tariffs on U.S. agricultural products, which they view as some of their best leverage to negotiate.





Lower tariffs cannot come soon enough for the U.S. dairy industry. Although China reported a 2.1% year-over-year increase in whey and permeate imports in October, U.S. whey exports to China dropped to their lowest monthly volume since February 2016. Chinese cheese imports disappointed once again in October, but milk powder imports climbed. Year-to-date Chinese imports of SMP and whole milk powder are up 5% from a year ago, marking the best January to October volume since 2014. Trade data from New Zealand suggests that Chinese milk powder imports will be high again in November.

The dairy markets have been almost impervious to bullish news in recent months, but eventually they will take notice. Slower growth in global milk output, rising Chinese dairy product imports, and perhaps a more amicable trade relationship between the U.S. and China (not to mention the U.S. and Mexico) will likely propel the dairy markets higher. Sub-\$14 milk is unlikely to last for long.

Grain Markets

March corn futures settled today at \$3.7775 per bushel, up 2¢ in the past two weeks. January soybeans closed at \$8.9475, up 2.5¢. The crop markets have been volatile, as conflicting comments from White House advisors muddled the outlook for the Xi-Trump meeting. This weekend’s events will set the tone for the feed markets, but, whatever the outcome, the U.S. must contend with the slow pace of soybean exports thus far and another big harvest.

Dairy farmers share their economic, environmental sustainability story in Sacramento

By Kevin Abernathy, MPC General Manager

Having worked in the California dairy community for the past 20 years, I thought I had been to every possible type of meeting imaginable. Tuesday and Wednesday of this week proved otherwise, as a truly unprecedented event took place in our state’s capital with dairy front and center.

660 people, including 201 dairy farmers, gathered at the Sacramento Convention Center for the first-ever California Dairy Sustainability Summit. Through panel discussions, more than 75 expert speakers addressed a wide range of topics affecting dairy farmers. Everything from economic sustainability on the farm to highlighting the tremendous progress dairy families have made to improve efficiency, save water, reduce emissions and care for their



Hear from dairy farmers at the California Dairy Sustainability Summit

animals was discussed. The speaker roster was impressive, led by a strong contingent of dairy farmers sharing their personal stories about the challenges they face – economic, regulatory and environmental – and the actions they are taking on their farms to address those challenges.

First, I want to thank the dairy farmers who attended. We all know it's tough to leave your family business for a couple of days, especially to go to a brand-new event, not knowing what's in store.

For me, the real power and success of this event was bringing the California dairy story to Sacramento. As I looked around the room over the two days, the highest-ranking officers and/or board members of several state and regional government agencies were in attendance, hearing the successes as well as the challenges and frustrations of dairy farmers. Agencies represented included the California Department of Food and Agriculture, the San Joaquin Valley Air Pollution Control District, the California Air Resources Board, the Central Valley Regional Water Quality Control Board and the State Water Resources Control Board. I believe that the conversations during the meeting sessions – and in the hallways – can lead to better collaboration with these agencies and we will continue our work representing the interests of our dairy families with these regulatory bodies.

I also want to thank the organizers and sponsors of the event. Hosting and organizing the first-ever anything is a challenge and can be a little daunting. MPC was proud to be an official event partner, working closely with the Dairy Cares coalition in planning and recruiting for this event. It's safe to say that our expectations were widely exceeded by every metric – attendance, quality of speakers, relevance of information and logistics. Again, a big thank you goes to our dairy families for supporting the event and attending.

With the success of the event, there is talk of hosting another California Dairy Sustainability Summit next year. Stay tuned!

A packed week

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

An agreement on the Farm Bill was made by the leaders of the House and Senate Agriculture Committee conferees, with details to be released next week. President Trump, Canadian Prime Minister Trudeau and Mexican President Nieto signed the modernized NAFTA trade agreement called USMCA today. Next it has to be ratified by the legislative branches of these three countries. The hope is that the retaliatory tariffs imposed by Mexico on American dairy products can be lifted soon. President Trump is at the G20 meeting in Argentina and is scheduled to have an important meeting with the President of China tomorrow. Unlike any other summit I can remember, people are looking to this meeting for a signal about what the future may hold for resolving the trade dispute between our two countries.

Closer to home, the California Dairy Sustainability Summit was held in Sacramento earlier this week. Here are some things I learned there: If a letter sized piece of paper represented the surface area of the earth, a ¼ sheet represents the land surface, with the remaining ¾ being water. Of that ¼ sheet, an amount the size of a business card represents the land that will support some type of agriculture. Two-thirds of that business card area is marginal land lacking adequate water to grow much more than native vegetation. This range land is where livestock have the ability to convert those grasses into protein. Only 1/3 of the area the size of a business card is arable and can be used to grow crops. The task ahead is to use this land to provide food to support a population of 10 billion people by 2050.

Shockingly, we learned that 1 out of 3 calories of food created goes to waste. In the U.S., the percentage of food that goes to waste is 40%.

I learned that there are hundreds of millions of cows in India, and hundreds of millions more in China and Africa, and many of those cows live for many years and produce very little milk, but they do produce a lot of greenhouse gases. As for the happy California cows, they are very efficient and we are making very substantial progress on dealing with the greenhouse gas emissions that come from our cows. Billions of dollars of public money have and will be spent to reduce the greenhouse gas footprint of California, including hundreds of millions of dollars that will go to curbing emissions from the dairy industry. Those public investments in manure management infrastructure have the potential to generate profits for dairy farmers, leading some folks to wonder if milk production may become a by-product of green energy production for some of California's dairy producers.

We also heard about obstacles to consider. The Sustainable Groundwater Management Act will impact the ability of some to have access to the same amount of groundwater that has been available in the past. But we also learned of subsurface irrigation tests that have demonstrated that growing 12 tons of high-quality alfalfa with 2.3-acre feet of water per year is possible. We learned that lagoon water, properly filtered, can be used in a subsurface drip irrigation system. We learned that there are extensive efforts underway to use technology to create new ways to utilize manure and to remove nitrogen and other elements from the dairy waste stream.

We witnessed the celebration by means of a milk toast of 20 years of success for the California Dairy Quality Assurance Program. Multiple high-level government air and water regulators indicated their desire to continue to partner with the California dairy industry in developing regulations and incentives to make environmental progress. They observed that the current cooperative efforts are yielding positive results and they want that to continue. They were reminded, most notably by dairy farmer Steve Maddox, that it's hard to be green when you are operating in the red. The economic pressure facing dairy farmers was evident in most of the discussions.



Dr. Frank Mitloehner from U.C. Davis discusses the carbon footprint of California dairy farming

There was also a panel discussion with dairy producers about labor challenges. All three participants indicated that they were likely to just pay the extra overtime costs rather than change employee time schedules when the new agriculture overtime rules kick in on January 1.

It was a very worthwhile conference. No doubt there will be multiple stories and videos in the dairy press in the coming days highlighting the significant amount of information and networking that happened during the Summit. Congratulations to the organizers. You can watch a *Dairy Business Magazine* video interview with Dr. Frank Mitloehner, one of the excellent keynote speakers at the Summit, [here](#).
