



Milk Producers Council

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DATE: March 11, 2016
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0200 \$1.5000
 Barrels +\$.0100 \$1.4700

Weekly Average, Cheddar Cheese

Blocks +\$.0360 \$1.5120
 Barrels +\$.0230 \$1.4660

CHICAGO AA BUTTER

Weekly Change - \$.0525 \$2.9875
 Weekly Average - \$.0115 \$1.9810

DRY WHEY

Dairy Market News w/e 03/11/16 \$2.500
 National Plants w/e 03/05/16 \$2.530

NON-FAT DRY MILK

Week Ending 3/4 & 3/5

Calif. Plants \$0.7590 12,313,745
 Nat'l Plants \$0.7626 25,640,164

Prior Week Ending 2/26 & 2/27

Calif. Plants \$0.7762 6,337,795
 Nat'l Plants \$0.7677 14,117,808

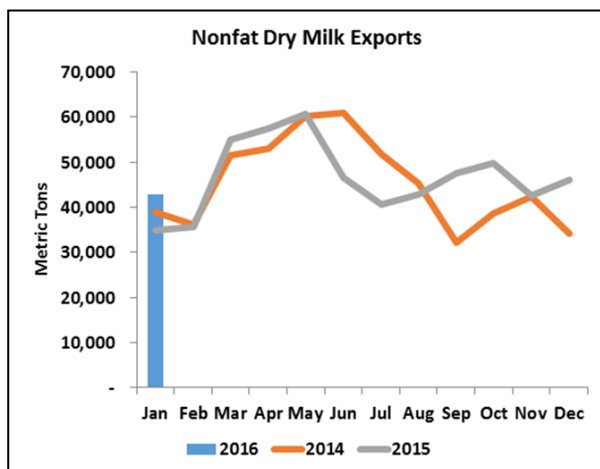
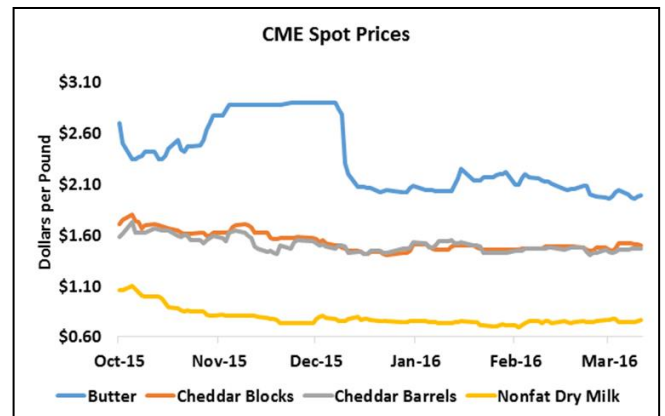
FRED DOUMA'S PRICE PROJECTIONS...

Mar 11 Est: Quota cwt. \$14.71 Overbase cwt. \$13.01 Cls. 4a cwt. \$12.67 Cls. 4b cwt. \$13.29
 Last Week: Quota cwt. \$14.83 Overbase cwt. \$13.13 Cls. 4a cwt. \$12.87 Cls. 4b cwt. \$13.41

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

Milk & Dairy Markets

Strength in the milk powder market has been fleeting; recovery is always six months away. This week the futures market is calling for somewhat better prices with a bit more conviction. CME spot nonfat dry milk (NDM) climbed 3¢ from last Friday to close at 77¢. October NDM futures scored a limit up finish on Friday, and November and December contracts fell just short of the 4¢ daily limit. Deferred futures are trading well above the early February lows.

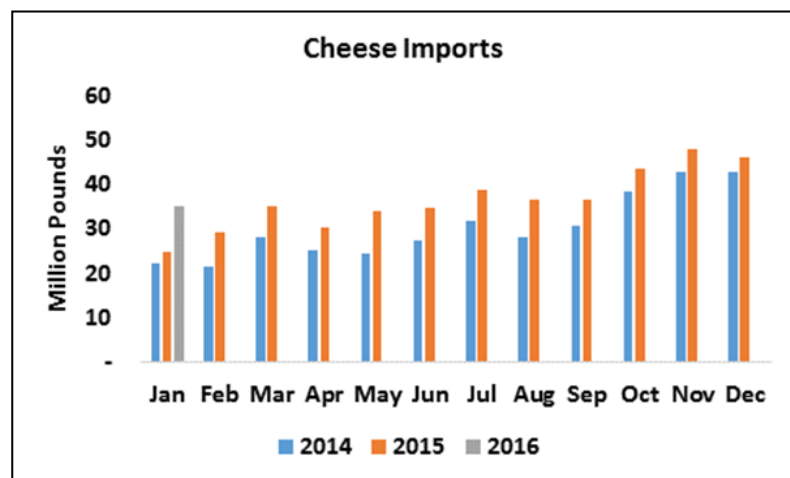
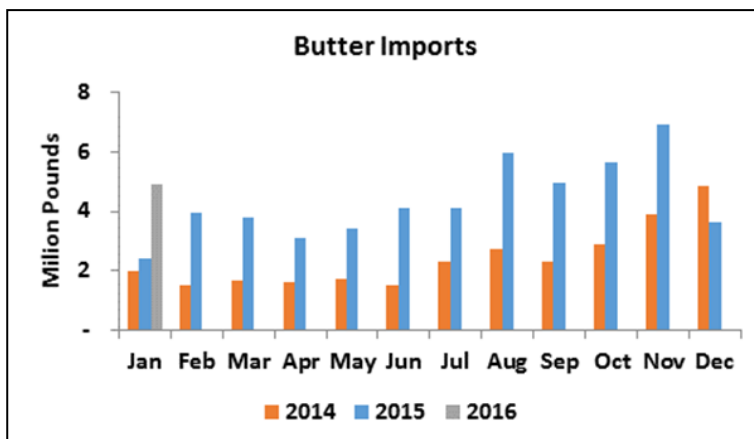


Milk powder production will surely be formidable during what promises to be a very strong spring flush. Nonetheless, the trade seems optimistic that rising demand will be equal to the challenge. In January, U.S. exports of NDM and skim milk powder (SMP) were indeed impressive. They totaled 94.6 million pounds, up 23% from a year ago and the largest January volume on record. Shipments to Mexico were up 6%.

The butter market has less to celebrate. Butter and milkfat exports totaled just 5.7 million pounds in January, compared to imports of 9.2 million pounds. Churn operators have had no trouble filling their Easter orders. Cream is plentiful and Dairy Market News reports that "butter inventories are building across

the nation.” The CME spot market dropped back under the \$2 mark this week, posting steep losses Monday and Tuesday and a more modest decline Wednesday. Late in the week spot butter began to claw its way back; it finished at \$1.9875/lb., down 5.25¢ from last Friday. Nearby Class IV futures held steady, but deferred contracts lost ground.

The spot cheese market diverged this week. CME spot Cheddar blocks slipped 2¢ to \$1.50. Barrels gained a penny and finished at \$1.47. Cheese production is rising along with milk output, outpacing holiday demand. Most buyers are waiting to see where the market lands after Easter before making further commitments. Class III futures were mixed but mostly lower this week. Deferred contracts were particularly anemic.



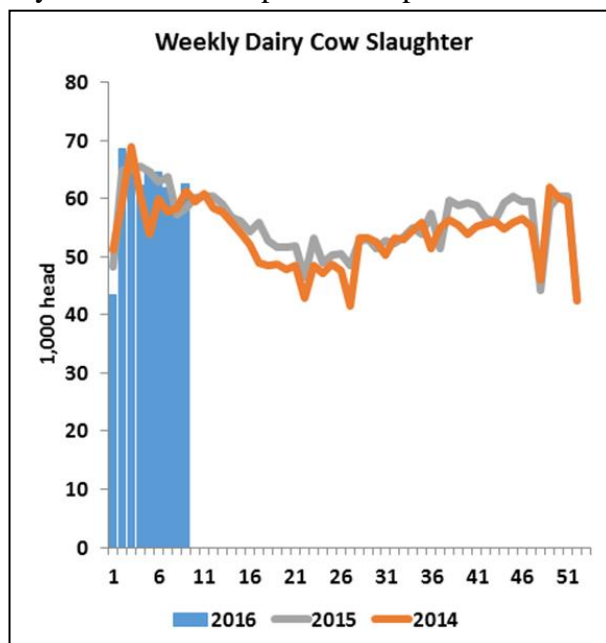
Dairy Market News aptly lays out the issues facing the cheese market. “At some point cheese warehouses will be full unless one or a combination of three things happen: milk flows decline and less cheese is made; domestic cheese consumption increases even further; or export sales increase.” The first of those propositions is especially dubious – at least in the short term – given the sustained herd expansion in the cheese states. This winter was uncharacteristically mild in the Midwest, and it feels like spring has already arrived. Milk is flowing. The export market is also of little help in reducing U.S. cheese supplies.

Cheese and curd exports in January totaled 48.4 million pounds, down 7.6% from a year ago. Cheese imports totaled 35 million pounds, up 41% from last January. Almost two thirds of U.S. cheese imports came from Europe.

European dairy producers continue to call for financial relief, but they are not meaningfully slowing production. In January, Irish milk production was 19.5% greater than the year before. Output was up 15.5% in the Netherlands, 13.8% in the Czech Republic, and 7.9% in both Poland and Belgium. Manufacturers once again offered large volumes of SMP into the government’s intervention purchase program. European dairy product prices continue to slip.

Fonterra once again lowered its pay price, this time from \$4.15/kg of milk solids to \$3.90. After dividends and retentions, this is roughly equal to Class III milk around \$9/cwt., well below the average cost of milk production in New Zealand. After two years of negative cash flows, New Zealand’s dairy producers are heavily indebted and feeling the pinch.

Dairy producers in California are also responding to margin pressure. According to data from the California Department of Food and Agriculture, the number of cows per dairy has declined for the first time in decades. In Tulare County, the average dairy had 1,693 cows in 2015, 30 head fewer than the year before. There were 32 fewer dairies in the Golden State in



2015 than in 2014. This is largely due to consolidation, but as the drop in both the state milking herd and the number of cows per dairy reveal, it is also a sign of capitulation. Milk production deficits in California and other Western states, South America and New Zealand, and slowing growth in the Midwest, Northeast, and Europe will eventually reinvigorate the dairy product markets, but it will take time.

For the week ending February 27, dairy cow slaughter totaled 62,504 head, up 7% from the same week a year ago. This puts year-to-date slaughter slightly ahead of the 2015 pace.

Grain Markets

March corn futures jumped 11.5¢ this week to \$3.66 per bushel. March soybean futures settled at \$8.88, up 17.5¢. The whole grain complex was buoyed by a general sense that, after a sustained downturn, the commodity markets are on the way up again. The big players in the commodity world invested accordingly.

The psychology may have shifted, but the fundamentals of the grain markets are little changed. USDA's monthly update to its World Agricultural Supply and Demand Estimates was unremarkable. Global stocks of corn and soybeans are ample, and that has reduced the amount of weather risk premium the market is willing to add to crop prices. Still, there is a lot of weather between now and harvest. If the mild winter and warm spring are the harbingers of a hot summer, the corn and soybean markets could heat up as well, abundant supplies notwithstanding.

CDFA ANNOUNCES HEARING TO CONSIDER EXTENSIONS/AMENDMENTS TO THE TEMPORARY CLASS 4B CALCULATION: *(By Rob Vandenheuvel)* As regular readers of this newsletter have seen in recent issues, California producers are currently in our 8th month of a 12-month "modified" Class 4b calculation, specifically with respect to how dry whey market prices impact the Class 4b milk price. That modified calculation is designed to maintain a closer relationship (although far from equal) between the California Class 4b and Federal Order Class III milk prices. Having said that, given the low current dry whey market prices, we've unfortunately seen very little actual impact on producer prices as a direct result of this modified calculation.

However, as dry whey market prices hopefully strengthen, this modified calculation will provide a meaningful improvement for California producers over the previous calculation. To that end, producers should be encouraged at the news this week that the California Department of Food and Agriculture (CDFA) has called a hearing on its own motion to consider proposals to extend or possibly modify that current, temporary piece of the Class 4b milk price calculation. The hearing will be held on Monday, April 11th at 9:00 am in the auditorium at CDFA's office (1220 N Street, Sacramento, CA). MPC will be working with our fellow producer trade associations and cooperatives in developing a coordinated producer approach to this hearing.

While MPC is firmly committed to the long-term goal of a California Federal Order that would put our producers on a level playing field with fellow dairies around the country, we nonetheless should take advantage of this opportunity to seek positive adjustments for producers in the near term. More on this to come...

WHAT A WASTE - PERFECTLY GOOD WATER, JUST FLUSHED OUT TO THE PACIFIC: *(By Rob Vandenheuvel)* As March has brought some much-needed rain to California, the natural instinct may be to take a break from thinking about the man-made component to this historic drought, such as the environmental regulations that prevent adequate storage from being built or policies that force millions of gallons of perfectly usable water out to the Pacific Ocean. This week, I saw a great informational graphic right on point. So with all credit to the "Coalition For A Sustainable Delta" (<http://www.sustainabledelta.com/features/update-lost-water-lost-opportunity.html-1>), below is that informational graphic. Enjoy!

LOST WATER IS LOST OPPORTUNITY

March 11, 2016

As California struggles to recover from record drought conditions, environmental regulations to protect fish continue to force hundreds of thousands of acre feet of precious water to be flushed out to the ocean. Stormwater flows that could be captured, stored, and utilized for parched cities and farms are now simply being lost to the ocean.

Meanwhile, *residents, farms and businesses* are asked to **CUT BACK** and there is no scientific evidence to show endangered fish populations are benefitting.

