



Milk Producers Council

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DATE: October 19, 2018
TO: Directors & Members

PAGES: 4
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - \$.1125 \$1.4975
 Barrels - \$.0925 \$1.2675

Weekly Average, Cheddar Cheese

Blocks - \$.0835 \$1.5675
 Barrels - \$.0670 \$1.2990

CHICAGO AA BUTTER

Weekly Change + \$.0100 \$2.2600
 Weekly Average + \$.0200 \$2.2710

DRY WHEY

Dairy Market News w/e 10/19/18 \$4.750
 National Plants w/e 10/13/18 \$4.367

NON-FAT DRY MILK

Week Ending 10/12 & 10/13

Calif. Plants \$0.8554 6,776,561
 Nat'l Plants \$0.8732 11,370,690

Prior Week Ending 10/5 & 10/6

Calif. Plants \$0.8492 9,154,239
 Nat'l Plants \$0.8685 13,686,120

Fred Douma's price projections...

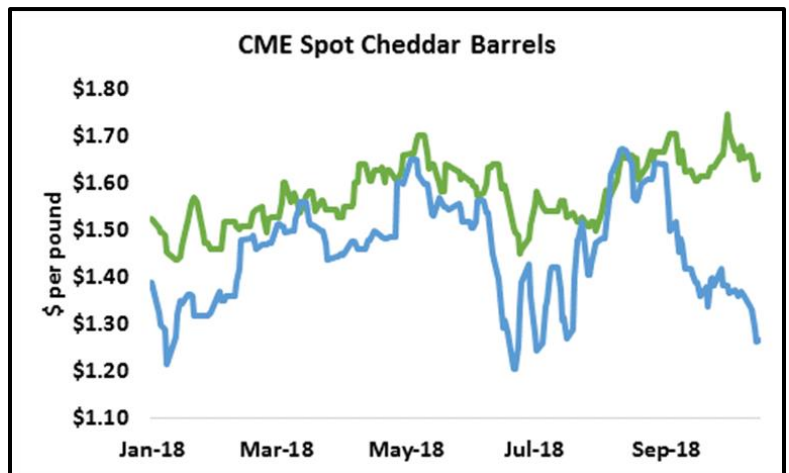
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|--------------------|---------------------------|------------------------------|-----------------------------|-----------------------------|
| Oct 19 Est: | Quota cwt. \$16.73 | Overbase cwt. \$15.03 | Cls. 4a cwt. \$14.53 | Cls. 4b cwt. \$15.45 |
| Last Week: | Quota cwt. \$16.87 | Overbase cwt. \$15.17 | Cls. 4a cwt. \$14.49 | Cls. 4b cwt. \$15.75 |

Market commentary

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

Milk & Dairy Markets

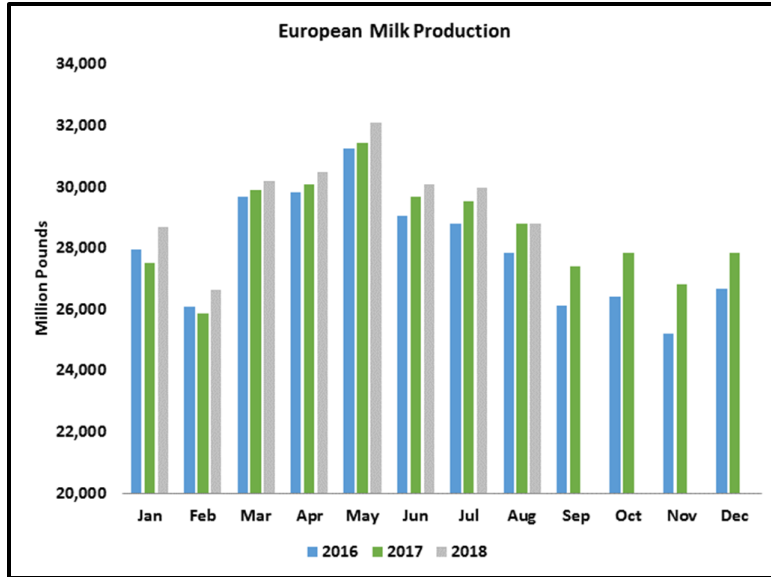
October typically features lots of melting cheese, gracing pizza, nachos, and dips. But this week it was the cheese markets doing the melting. CME spot Cheddar blocks plunged 11.25¢ to \$1.4975 per pound, the first time that blocks have dropped below \$1.50 in October since 2009. Barrels dropped 9.25¢ to \$1.2675. The spot cheese markets have not wallowed at these levels since late June and early July, when the panic about punitive tariffs was at its peak. Milk is tight in the Midwest, which is likely slowing barrel production, but bulk cheese inventories remain heavy. These prices signal that demand is not adequate, despite the fast-approaching holiday season and previous indications of improved sales. Or perhaps, as the *Daily Dairy Report* suggests, the disparity between actual freight costs and the CME hauling credit are encouraging cheesemakers in the West to market their product in Chicago, distorting perceptions about cheese availability and weighing on pricing.



The other spot markets moved higher. CME spot dry whey added another 1.25¢ this week, and reached a new high of 57.5¢. That was not enough to undergird Class III prices. November through February futures were mostly 25¢ to 35¢ in the red. October through February contracts are trading in the mid-\$15 range, and the futures project that Class III pricing won't top \$16 until June.

CME spot butter added a penny this week, and reached \$2.26 per pound. Spot nonfat dry milk (NDM) climbed a half-cent to 87.25¢. Class IV futures gained a little ground. Cream prices are rising as befits the season, and butter

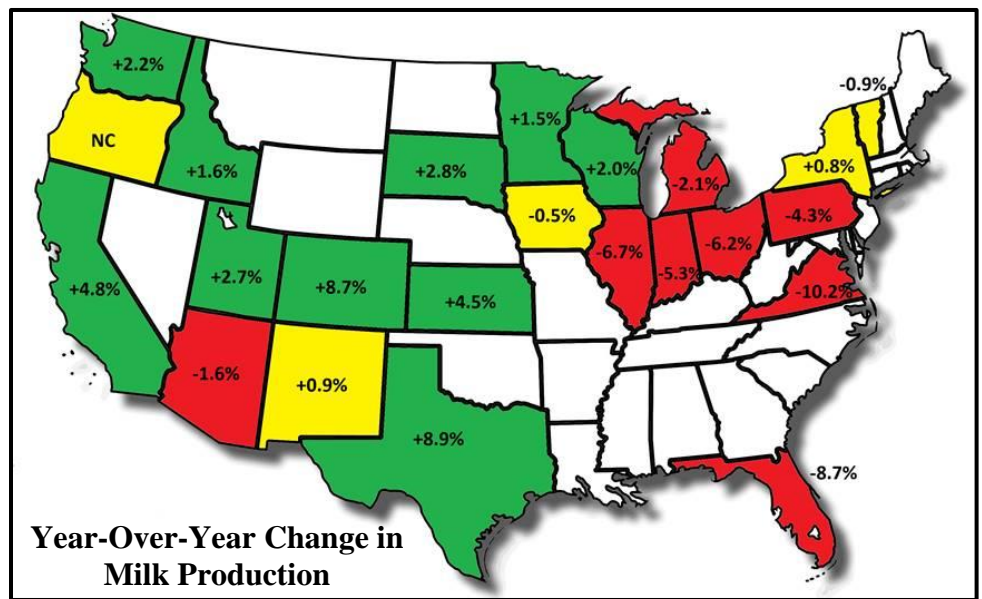
buyers have stepped up their purchases. Consumers are likely to do the same. USDA's National Retail Report – Dairy showed a 45% jump in the number of retailers advertising butter compared to the same week a year ago.



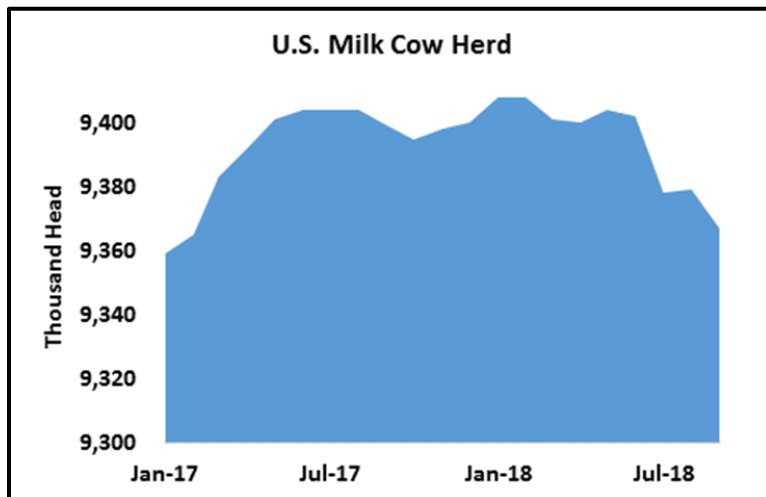
Although prices have barely budged, the milk powder market has tightened. There is less milk destined for balancing plants in the Northeast and Midwest, as bottlers are using more. And cheesemakers are aggressively fortifying with powder, likely helping to deplete NDM inventories. Exports to Mexico remain strong. Across the pond, the European Commission sold 57 million pounds of skim milk powder (SMP) out of its Intervention storage program, whittling the stockpile down to 427.5 million pounds. The

Commission set its minimum sales price at €1,231 per metric ton, one euro higher than the previous three tenders. SMP moved nominally lower at the Global Dairy Trade (GDT) auction on Tuesday, to the equivalent of NDM at 96¢ per pound.

European milk collections wilted in August after a brutally hot summer in northern Europe. Output in many of the major dairy nations was still higher than the prior year, but growth slowed considerably relative to the preceding months. In Germany, for example, milk collections were 0.5% greater than in August 2017, compared to 3.3% year-over-year growth, on average, in January through July. Across the eurozone, collections were basically unchanged from last



year. The lack of growth translated to a little less cheese and SMP output in Europe than during the comparable period last year.

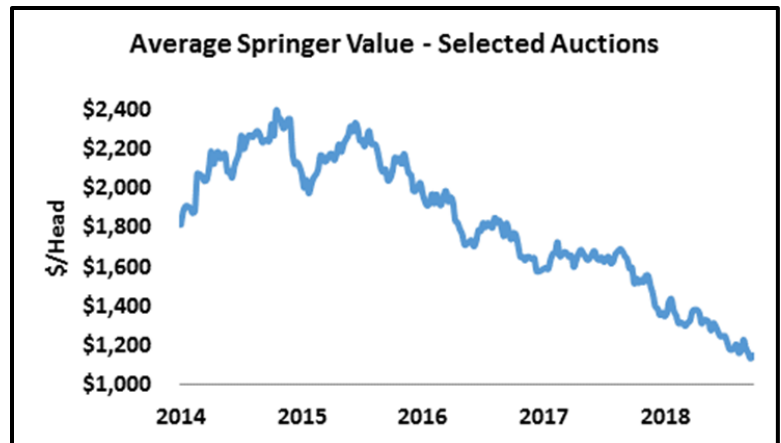


In the U.S., milk production continued to grow in September, rising 1.3% from a year ago to 17.4 billion pounds. Milk output jumped 4.8% in California; the additional 146 million pounds accounted for two-thirds of the national year-over-year gain. The Golden State bounced back from a 3.2% decline in September 2017, when sweltering temperatures sapped milk production. Output was up 8.9% in Texas and 8.7% in Colorado.

Production was down hard in the Great Lakes states and the Southeast, confirming reports of lower milk supplies in those regions.

More importantly, the dairy herd is considerably smaller than it was just a few months ago. USDA estimates the September dairy herd at 9.367 million head, 33,000 head fewer than the curiously high 9.4 million head the agency initially reported in August and down 32,000 head from September 2017. USDA revised its estimate of the August milk-cow herd down to 9.379 million head, putting it more in line with reports of high slaughter and a slate of sellouts.

Dairy producers continue to send cattle to the auction and the slaughterhouse. If floundering springer values are any indication of dairy producers' appetite for expansion, the dairy herd is likely to continue to shrink. The industry is slowly, painfully, reducing dairy cow numbers, which will help to stop the decline in milk premiums and set the stage for better prices.



Grain Markets

The grain bulls came charging out of the gate on Monday, but then quickly retreated. Losses mounted throughout the week as harvest pressure mounted. December corn settled at \$3.67 per bushel, down 6.25¢ from last Friday. November soybeans closed at \$8.5675, roughly a dime lower. U.S. soybean exports are starting to fall behind year-ago comparisons, as Chinese purchases have slowed dramatically – but not stopped entirely – relative to the very large volumes that are typical at harvest. The new trade paradigm is likely to continue to weigh on the market, particularly as USDA and market analysts adjust their forecasts in light of weekly export shipments.

Federal Milk Marketing Order Pricing Starts

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

On Wednesday October 17, the first advanced pricing announcement was released by the California Federal Market Administrator. You can view the two-page document [here](#).

Also recently released was a four-page Market Administrator's Bulletin that can be read [here](#).

Like the California state system that we are used to, the California Federal Milk Marketing Order (FMMO) announces prices for class I and II milk ahead of the month. It uses formulas to establish these prices based on the average of the first two weeks of the prior month butter, cheese, dry whey and nonfat dry milk prices. One difference in the FMMO is that class I prices are announced for the Los Angeles County market, which is the highest priced zone in the order. The Class I price in the other zones of the state are lower. These location differentials apply to the prices purchasers of class I milk must pay, but that same differential also applies to the payment to producers or their cooperatives for all the pooled milk you sell. That pool price is based on the location of first receipt of your milk.

The FMMO deliberately sets the highest Class I price in the largest population center of an order to incentivize producers and cooperatives to sell their milk there. Theoretically that is where the highest demand for class I milk is. Recognition of the location value of milk was somewhat muted in the old California state order by a system of transportation subsidies. Those producer-funded subsidies were used to facilitate the movement of milk to population centers like Los Angeles County. As more and more milk moved out of Southern California, the cost of the transportation subsidy program to producers became significant. In addition, cooperatives and other

handlers actually structured their milk movement plans to take advantage of the transportation subsidy program. With the elimination of the subsidy, milk movement patterns will change and the location of your buyer will play a bigger role in the determination of the price you will get paid for your milk. If you haven't already, it would be a good idea to ask your handler how they plan to pay you in this new system.

Early Bird registration ends today! Act now!

California Dairy Sustainability Summit

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