

# MPC WEEKLY FRIDAY REPORT

DATE: APRIL 12, 2019  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES:6



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## MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	- \$.0150	\$1.6450	WEEKLY CHANGE	- \$.0125	\$2.2575	WEEK ENDING 04/06/19		
Barrels	+ \$.0425	\$1.6175	WEEKLY AVERAGE	+ \$.0045	\$2.2600	NAT'L PLANTS	\$0.9569	27,749,905
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 03/30/19		
Blocks	- \$.0050	\$1.6490	DAIRY MARKET NEWS	W/E 04/12/19	\$3.812	NAT'L PLANTS	\$0.9515	28,005,546
Barrels	+ \$.0165	\$1.5955	NATIONAL PLANTS	W/E 04/06/19	\$3.859			

## CALIFORNIA FEDERAL MILK MARKETING ORDER PRICE PROJECTIONS

PRICE PROJECTIONS	CLASS I ACTUAL (RANGE BASED ON LOCATION)	CLASS II PROJECTED	CLASS III PROJECTED	CLASS IV PROJECTED
APRIL 12 EST	\$17.36 - \$17.86	\$16.22	\$15.92	\$15.87
APRIL 5 EST	\$17.36 - \$17.86	\$16.45	\$15.85	\$15.90

## MARCH 2019 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

FEB '18 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT
MINIMUM CLASS PRICE	\$17.58 (TULARE) \$18.08 (L.A.)	\$16.61	\$15.04	\$15.71	\$15.53 (TULARE) \$16.03 (L.A.)	\$15.15 (TULARE) \$15.65 (L.A.)
PERCENT POOLED MILK	19.8%	5.3%	62.7%	12.2%	100% (2.258 BILLION LBS. POOLED)	



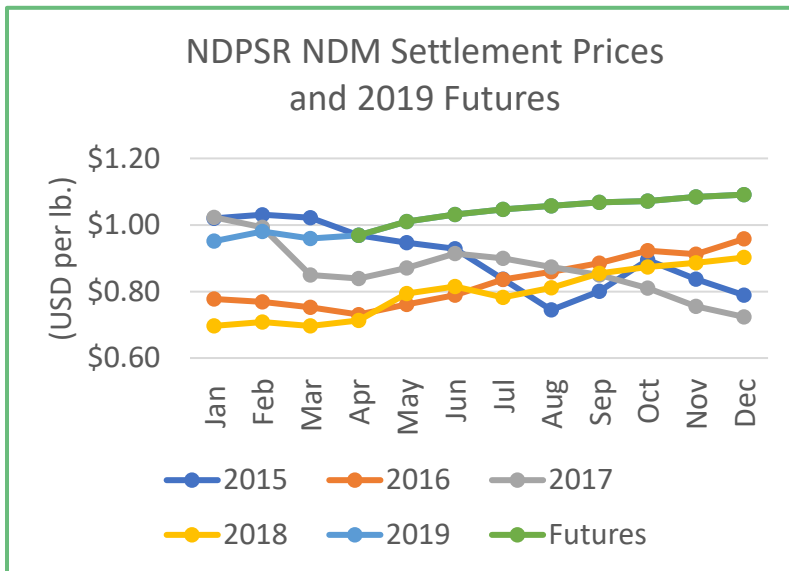
### Milk, Dairy and Grain Market Commentary

By Sara Dorland, Daily Dairy Report  
[Sara.Dorland@ceresdrm.com](mailto:Sara.Dorland@ceresdrm.com)

#### Milk & Dairy Markets

Concern is growing among nonfat dry milk (NDM) buyers that milk powder prices could reach into the \$1.15 range, if not higher later this year. That has supported nearby spot NDM prices and pushed CME Q4 2019 NDM futures to an average of \$1.08/lb. this week.

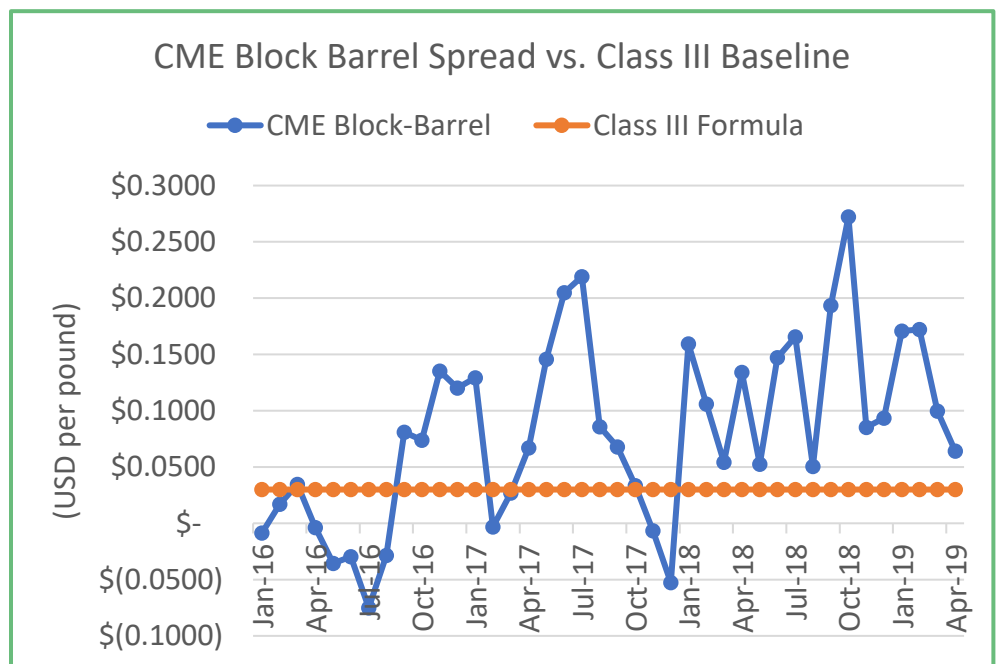
The market sentiment now is that if the longer prices remain in the high 90¢ range this spring, the higher prices could move up later this year. This week, the CME spot NDM price averaged 98.75¢, up 1.05¢ compared to the prior week. This year will be the first year in five years that market prices have



not been weighed down by an overhang of EU Intervention skim milk powder (SMP) stocks. If the higher NDM price levels materialize, they could result in some of the highest-Class IV milk prices in a long time for western dairy producers, which would be much needed good news. As of the end of this week, CME Class IV milk futures averaged \$16.83/cwt. for the back half of 2019.

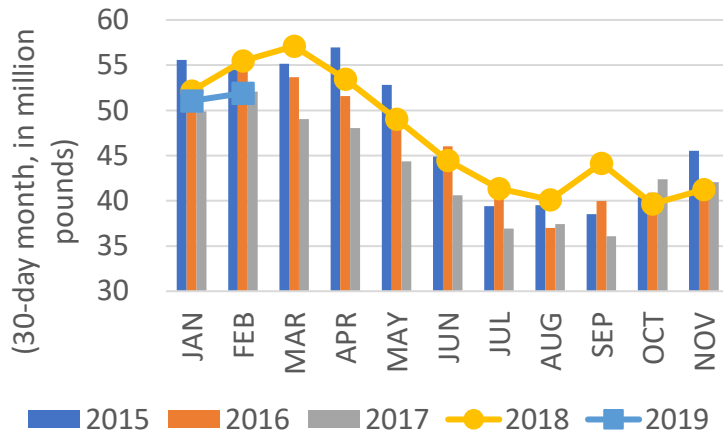
Cheese has been trading in the \$1.60 range and seems unlikely to budge from those levels. Sales across the country have varied ahead of the Easter holiday, with several processors reporting better-than-expected orders. Yet in the same breath, they state

that they are not having trouble finding most varieties of cheese. Several processors are indicating that Cheddar blocks are harder to come by, and with just 10 loads changing hands at the CME this week, that's likely the case. Barrels are plentiful and readily available, both on and off market. On Friday alone, CME participants exchanged 20 loads of barrels with the price settling at \$1.6175/lb., up 2.25¢ on the day. The block-barrel price spread of 5.35¢ was above the Class III formula's 3¢ assumption, but well below this year's first-quarter average spread of 14.7¢. Whey prices remain in the upper-30¢ range, but continued weakness from Southeast Asia related to African swine fever (ASF) is pressuring both permeate and whey prices, which are showing signs that prices could continue to trend downward for some time. The second-quarter Class III milk futures price average closed at \$15.83/cwt. today, which was much better than the actual first-quarter average of \$14.30 and 88¢ higher than Q1 2018.



While the United States has more butterfat this year, it has less butter, largely driven by production declines in California and Pennsylvania. In February, California produced 51.9 million pounds of butter. Two months into the year, that puts California butter production down 4.3% from the same period in 2018. Last year, Golden State butter output grew steadily until October. Lower butter output in California could be related to last November's federal order expansion into the state, which increased the cost of production for bulk butter by eliminating the freight allowance in the formula. Nationally, USDA's

## California Butter Production



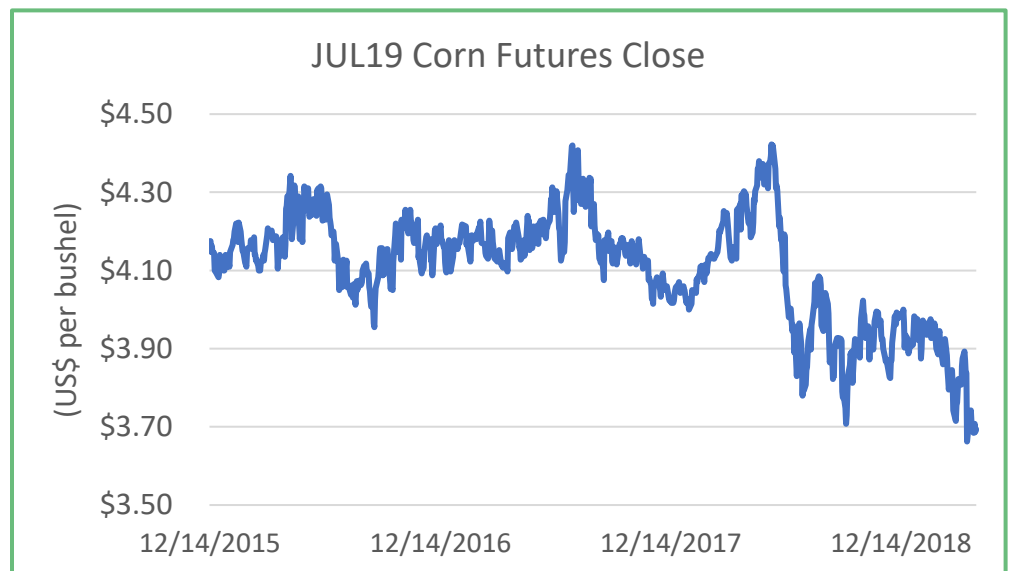
Agricultural Marketing Service reported Class I butterfat utilization at 20.4 million pounds for the first two months of this year, which is 14.8% higher than the comparable period a year ago. That confirms that consumers are consistently reaching for 2% and whole milk at the retail level more often. As a result, there is less butterfat available to churns this year. That combined with lower milk production on the East Coast could drive volatile cream multiples as ice cream season approaches.

### Grain Markets

July corn futures remained muted this week as another bomb cyclone hammered the

Midwest and northern plains. July corn closed at \$3.695/bu. on Friday, a bit higher than earlier in the week, but this week's prices were still some of the lowest since contract inception. Rumbblings intensified

that gasoline prices in California could rise above \$4/gallon for the first time in five years due to weather disruptions impacting ethanol processing in the Midwest. However, the latest set of storms appears to have been far less damaging than the original forecast and actual flooding materialize compared to initial expectations. While there are thousands of acres of cropland still underwater or drying out, technology and a few dry weeks could allow fieldwork to commence and planting could be back on schedule by the end of May. For now, markets are keeping weather premiums at bay.



### Federal Order Class I Formula Modification to Occur Starting May 1

By Geoff Vanden Heuvel, Director of Regulatory & Economic Affairs  
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For nearly 20 years, Federal Milk Marketing Order (FMMO) Class I prices have been set each month based on the “higher of” either the value of milk manufactured into cheese or the value of milk manufactured into butter and nonfat dry milk powder. Because the relationship of these values shifts around in an unpredictable fashion, Class I processors have had a very difficult time managing their price risk because the hedging tools that exist in the dairy industry for processors do not match up well with a “higher of” butter/powder – cheese scenario. As a result, a couple of years ago the

processors approached the producer community with a proposal to use the “average” of these two values instead of the “higher of” so that hedges could be obtained that would provide them the opportunity to do price risk management.

Producers were sympathetic to the processors concerns but made the obvious point that using the “average” instead of the “higher of” was going to cost them money. A study was done and it was determined that over a long period of time, the “higher of” component of the Class I pricing formula added \$0.74 per cwt to the Class I value. The processors agreed that in exchange for changing the underlying Class I base price from the “higher of” to the “average,” they would support raising the Class I differential in all Federal Milk Marketing Orders by \$0.74 per cwt. Congress took this agreement between the processor and producer communities and ordered this change with the passage of the Farm Bill. The change will be effective on May 1, 2019.

I think this change could be quite positive for producer income. The \$0.74 increase in the Class I price was based on a long period of history. When you do the math, you realize that if the difference between the value of milk for cheese and the value of milk for butter/powder is less than \$1.48, then using the average of the two values plus \$0.74 will result in a higher Class I price. The FMMO Class I price is announced in advance of each month and uses the most recent two weeks of sales price data for cheese and butter/powder in the formula. Right now it looks like these values are pretty close in price and so at least in May this change should result in a higher Class I price.



## Alert For Employers: Watch Out For Social Security "No-Match" Letters

*By Kevin Abernathy, General Manager*  
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The Social Security Administration (SSA) will be sending out Employer Correction Requests (also known as “no-match” letters) this spring for the first time since 2012. These notices alert employers of mismatches between submitted W-2 form information and SSA records.

These letters should **not** be ignored. Failing to comply with the requests could be subject to federal prosecution under immigration laws.

If you receive a “no-match” letter, there will be instructions for employers to access a list of their affected employees by logging into SSA’s Business Service Online system. Access this list immediately upon receiving the letter.

Once you access the list, employers should check employment records for typos or other errors. If a discrepancy is found, contact the SSA to correct the issue. If no errors are found, notify the employee and instruct them to contact SSA to sort it out.

Employers should confer with an attorney before communicating with the SSA in order to be in compliance with discrimination laws.

Employers should **not** take adverse action against an employee based on receiving the “no-match” letter alone. The request warns against such action, stating:

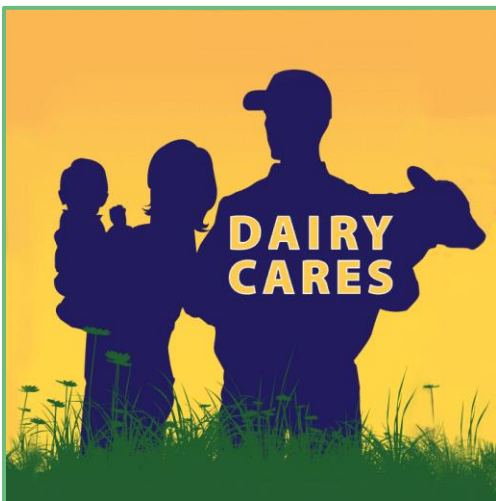
*You should not use this letter to take any adverse action against an employee, such as laying off, suspending, firing, or discriminating against that individual, just because his or her SSN or name does not match our records. Any of those actions could, in fact, violate State or Federal law and subject you to legal consequences.*

The mistake could be anything from errors in hyphenated last names to one number being off in their social security number. Receiving a letter does not necessarily equal an unauthorized or undocumented worker.

Bottom line: If you receive the letter, follow the instructions and consult with your attorney before taking any actions.

## **Dairy Cares Member Update: Exploring Opportunities to Export Manure**

*Courtesy of Dairy Cares*



*Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues. A portion of this month's Dairy Cares Member Update focuses on manure exports.*

### **Exploring opportunities to export manure**

While some dairy farms already sell composted manure to neighboring farms, the potential for manure to serve as a soil amendment is still widely untapped. Exporting manure off dairy farms can help improve on-farm manure-nitrogen balance, while providing a valuable source of organic matter to other farmers – and a potential revenue source for the dairy. Dairy Cares staff have been working with partner organizations, researchers, technology providers, and others to dig into potential opportunities.

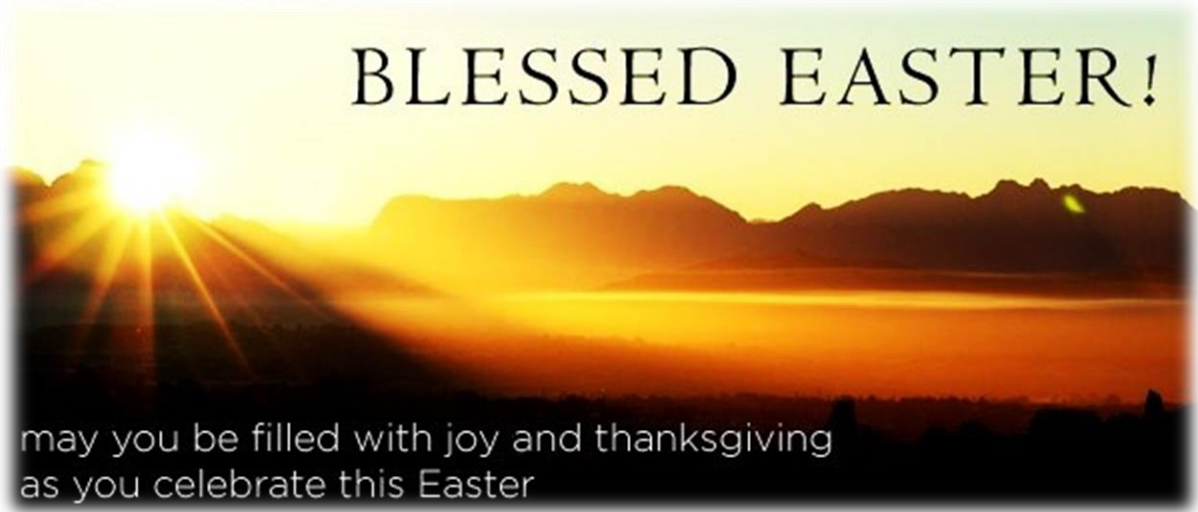
Avenues for marketing manure-based products are currently being explored through a project funded by the California Dairy Research Foundation (CDRF). The project aims to gain a better understanding of the soil amendment needs of farmers across the state, toward developing reliable, economically sound markets for manure-based products and to help inform future research and pilot projects. More research will be needed to explore how a long list of technologies and strategies could potentially offer cost-effective solutions.

Dairy Cares staff are working closely with CDRF and other partners to promote synergy between research projects and current incentive programs. The industry's goal is that all efforts to improve manure management work in harmony to most effectively reduce methane emissions *and* improve water and air quality. In recent years, the state has placed a high priority on building healthy soils, and Dairy Cares is working to communicate how dairy farms can contribute to this goal.

There is still much work ahead. Research and incentive programs will play a critical role in developing cost-effective solutions. Dairy Cares and CDRF are working closely to ensure research gaps are identified and to help guide the development of projects with high potential for success. If someone is reaching out to your farm or organization about a research project, we recommend you contact J.P.

Cativiela with Dairy Cares (916-261-6556 or [jcativiela@cogentcc.com](mailto:jcativiela@cogentcc.com)). This communication will be helpful, as the industry aims to continue working in a coordinated and strategic manner, developing solutions that will best serve the needs of California farmers.

**In observation of Good Friday, MPC will not produce a Friday Report on April 19, 2019. The next MPC Friday Report will be sent on April 26, 2019.**



**California Dairy Sustainability Summit**

**March 25–26, 2020**  
Cal Expo | Sacramento, CA

**SAVE THE DATE**



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