



Milk Producers Council

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TO: Directors & Members

PAGES: 6
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks + \$.0450 \$1.6650
 Barrels + \$.1125 \$1.6000

Weekly Average, Cheddar Cheese

Blocks + \$.0375 \$1.6570
 Barrels + \$.0930 \$1.5790

CHICAGO AA BUTTER

Weekly Change - \$.0075 \$2.3525
 Weekly Average - \$.0055 \$2.3565

DRY WHEY

Dairy Market News w/e 05/04/18 \$2.800
 National Plants w/e 04/28/18 \$2.627

NON-FAT DRY MILK

Week Ending 4/27 & 4/28

Calif. Plants \$0.7236 19,171,500
 Nat'l Plants \$0.7290 28,100,760

Prior Week Ending 4/20 & 4/21

Calif. Plants \$0.7042 17,495,461
 Nat'l Plants \$0.7177 24,428,360

Fred Douma's price projections...

May 4 Est: Quota cwt. \$15.56 Overbase cwt. \$13.86 Cls. 4a cwt. \$13.76 Cls. 4b cwt. \$14.45
 Apr '18 Final: Quota cwt. \$15.31 Overbase cwt. \$13.62 Cls. 4a cwt. \$13.29 Cls. 4b cwt. \$14.27

Market commentary

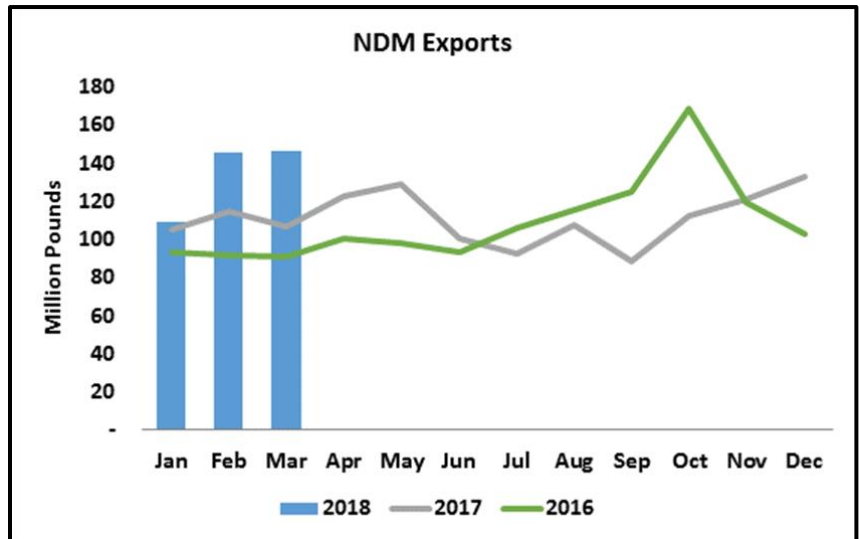
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

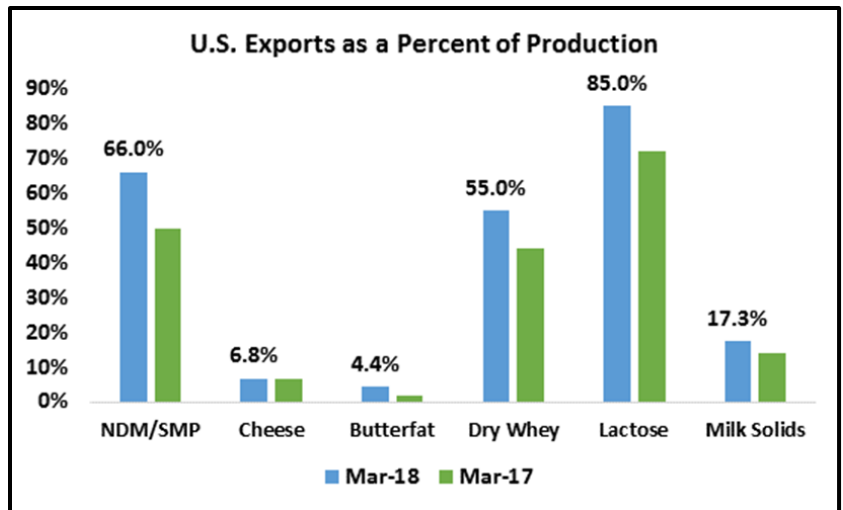
Dairy is in demand. There are signs of the world's growing appetite across all products, and none more so than milk powder. Despite robust stockpiles in the U.S. and Europe, the CME spot nonfat dry milk (NDM) market scored fresh eight-month highs this week and finished at 84.25¢ per pound, steady with last Friday.

New Zealand boosted its skim milk powder (SMP) exports in March to 81.7 million pounds, up 39.4% from a year ago. The *Daily Dairy Report* opines, "Although many surmised New Zealand was holding larger SMP stockpiles headed into the end of its production season, March exports likely put a dent in those holdings and could indicate stronger demand."

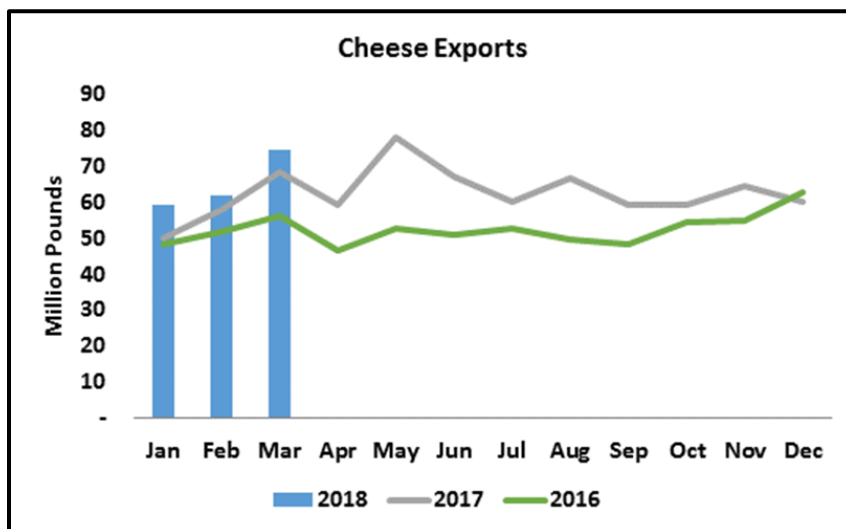
USDA's *Dairy Market News* adds, "Much of current [SMP] production is committed which makes available spot supplies costlier." In Europe, SMP demand is also improving, and, thanks to consistently low prices, manufacturers have been assiduously avoiding overproducing milk powders. Eurostat reports that from March 2017 to February 2018, European SMP output increased just 0.5% from the same 12-month period a year earlier. In February, European SMP exports jumped 17% from the prior year, reaching a six-month high. With slow growth in supplies and accelerating demand, inventories are tightening.



The U.S. is also moving milk powder abroad at a brisk pace. In March, U.S. exports of NDM and SMP reached 146.4 million pounds, a new record high for the month and 37.2% more than in March 2017. That helped to keep U.S. inventories in check. Manufacturers held 298 million pounds of NDM on March 31, which was slightly lower than stockpiles on February 28 despite a 3.6% year-over-year increase in U.S. NDM/SMP output in March. That's a veritable mountain of milk powder, to be sure, but it's appreciably lower than USDA's initial assessment of February NDM stockpiles. The agency revised downward its estimate of manufacturers' stocks of NDM on February 28 by 25.6 million pounds, a decline of 7.9%.



The U.S. Dairy Export Council reports that the U.S. exported 66% of all NDM/SMP output in March, up from just half in March 2017. U.S. exporters stepped up sales of other dairy products as well, boosting total dairy product exports to account for 17.3% of U.S. milk solids production, up from 14.1% in March 2017. Compared to last year, exports improved for every dairy product in both absolute volumes and as a share of production. That's particularly impressive in light of yesterday's Dairy Products data, which showed that in March the U.S. dairy industry churned out 4.8% more butter, 2.7% more cheese, 1.6% more dry whey for human consumption, and 2.9% more whey protein concentrates (WPC) than the prior year.

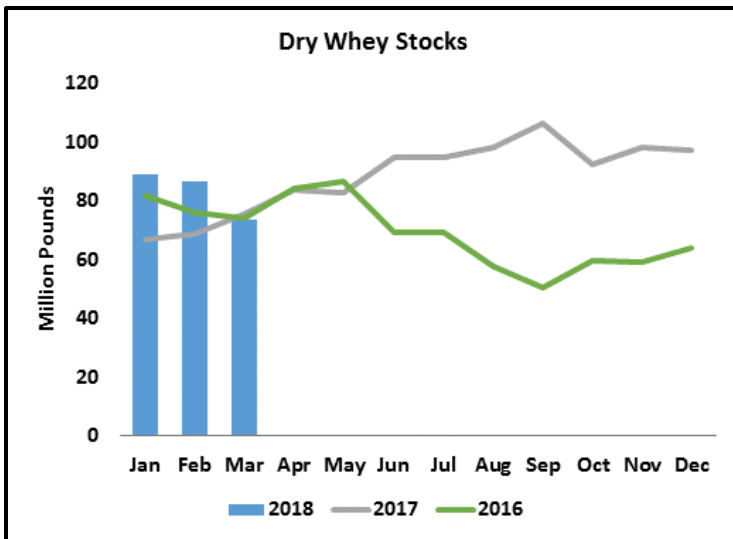


U.S. cheese exports enjoyed their strongest first quarter since 2014. In March, exports totaled 74.6 million pounds, up 8.7% from a year ago. Meanwhile, cheesemakers are making more cheese but less Cheddar. Cheddar production slipped 2.7% below year-ago levels in March. That may have helped to fortify the uncharacteristically strong barrel market. CME spot Cheddar barrels gained an impressive 11.25¢ this week, closing at \$1.60 per pound, just shy of the year-to-date high established earlier in the week. Blocks climbed 4.5¢ to \$1.665, the highest price since mid-November. After big gains last week. Class III futures were

little changed from last Friday.

The whey futures market leaked lower for much of the week, but the fundamental news is encouraging. Although production of whey powder for human consumption climbed 1.6% from a year ago, inventories of dry whey plunged 15.2% from where they stood on February 28 and dropped below year-ago levels for the first time since last May. Whey product exports improved 19% from a year ago and WPC shipments reached an all-time high.

U.S. butterfat exports remain small, but they have improved dramatically. At 5.4 million pounds, U.S. butter exports were more than double year-ago volumes, and exports of all varieties of butterfat were nearly 2.5 times as large as in March 2017. Exports accounted for 4.4% of U.S. butterfat output in March, up from 1.7% a year ago.

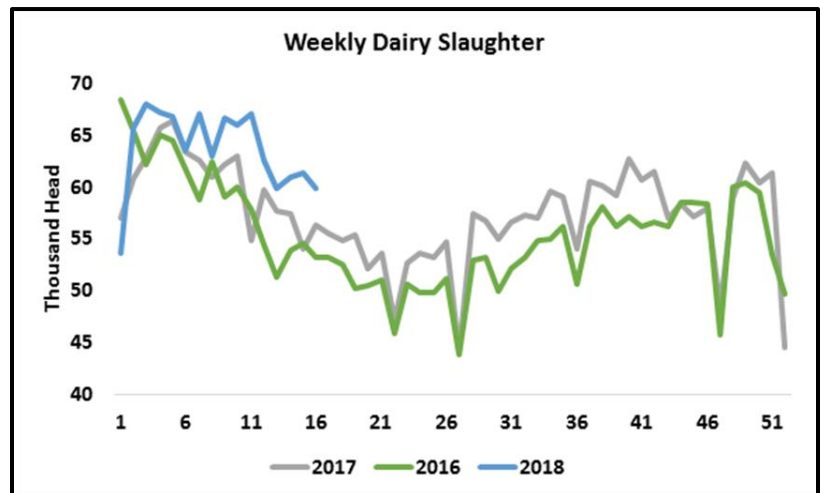


The outlook for butter is mixed. In March, U.S. butter output climbed to a new high for the month. The fact that stocks grew only slightly from February to March reveals strong demand, but that should have been expected given this year’s early Easter. The butter market is the most dependent on domestic growth. If output remains elevated, consumption will have to keep pace, or prices are likely to slip despite continued strength overseas. This week CME spot butter slipped 0.75¢ to \$2.3525, still near the highest levels since last autumn. Most Class IV futures contracts finished 10¢ to 20¢ lower than last Friday.

Better demand for dairy will help to lap up excess milk, assuming global milk production remains

strong. But there are reasons to expect slower growth among the world’s major dairy exporters. Painful on-farm margins are leading to elevated slaughter and a steady stream of sellouts in the U.S. Cold weather delayed and likely reduced the spring flush in the Midwest and Northeast, along with Ireland and parts of Northern Europe. New Zealand’s season is rapidly winding down, and the weather woes of a few months ago have reportedly led to another season with relatively low conception rates.

After months of malaise, the global dairy markets are displaying more vigor. But there are still plenty of clouds on the horizon. Prices are improved, but they certainly aren’t exciting, especially as feed costs climb. Milk cow herds in Europe and the U.S. remain large, demand for dairy may ebb as prices rise, and diplomatic blunders and the strengthening U.S. dollar could reverse some of the gains in U.S. trade. Nonetheless, the forecast is much sunnier than it was just a few months ago.



Grain Markets

The corn markets climbed nearly every day this week. The July contract settled at \$4.0625 per bushel, up 7.75¢. Grain demand is strong, and U.S. export prospects are climbing. It is too dry in the U.S. winter wheat belt, in Brazil’s second-crop corn states, and in the Australian and Black Sea wheat regions. After years of rising grain stocks, inventories will decline this year, although they are not expected to be tight.

The soybean market moved violently back and forth as traders tried to assess the likely outcome of negotiations between the U.S. and China. Concluding that little progress was made on trade, July soybeans settled 20¢ lower, at \$10.3675 per bushel. July soybean meal retreated just \$1.40 per ton from last Friday, to \$393.70. If the U.S. and China cannot come to terms, U.S. crops, including soybeans, will face a hefty tariff upon arrival in China. That may shift China toward more South American soybeans in the short run, but in the long run they cannot do without U.S. supplies. However, U.S. and Brazilian soybean premiums will likely adjust to reflect the “Made in America” disadvantage.

Decision made to transition California to Federal Milk Marketing Order

By Geoff Vanden Heuvel, MPC Board member and Economics Consultant

While the formal closing of the election period for California producers to vote on whether or not they wish to become part of the Federal Milk Marketing Order (FMMO) system does not end until tomorrow, very reliable sources have indicated that the governing boards of the three major California cooperatives have all voted “yes” in the FMMO election. Since these three cooperatives are voting on behalf of all of their members, and since collectively these three cooperatives represent over 75% of the producers in California, it is safe to say that the election has passed and California will become the 11th Federal Milk Marketing Order in the United States.

When the USDA officials were out a few weeks ago, they said that if the election was successful they were committed to a November 1, 2018 start date for the Order. That is less than six months away and a lot has to be accomplished during that time for a successful transition from the California State Order to the FMMO. Congratulations to our producer leaders on the cooperative boards who had to make this weighty decision essentially on all of our behalf. It is a huge responsibility that they had and I know they took it very seriously. It is a new day. Let us pray that God will continue to watch over us as an industry and provide us the grace we need to make for a better future.

Official identification requirements for cattle entering and moving within California

By Kevin Abernathy, MPC General Manager

Earlier this week, the California Department of Food and Agriculture (CDFA) issued a reminder regarding official identification laws for cattle entering or moving within California. Please take a moment to review these regulations and exceptions.

Effective April 1, 2017, the law requires official identification for the following cattle **entering** California.

- Female dairy cattle of any age
- Male dairy cattle born after March 11, 2013, including steers
- Sexually intact beef breed male cattle and bison 18 months of age or over
- Sexually intact beef breed female cattle and bison six (6) months of age and over
- Cattle and bison of any age used for rodeo, recreational, show, or exhibition purposes
- Mexico origin cattle regardless of age or sex
- Exceptions: [here](#).

Effective April 1, 2017, the law requires official identification for the following cattle **moving within** California.

- Dairy cattle born in California after January 1, 2017, prior to leaving their birth premises
- Dairy cattle on change of ownership
- Non-virgin sexually intact male cattle less than 18 months of age and sexually intact male cattle 18 months of age and over, prior to change of ownership
- Exceptions: [here](#).

For more information, please visit the CDFA [website](#). You may also call the main Animal Health Branch office at 916-900-5002 or your local district office (Redding: 530-225-2140; Modesto: 209-491-9350; Tulare: 559-685-3500; Ontario: 909-947-4462) with any questions.

Guest Commentary: Section 199A “Fix”

By Kevin Abernathy, MPC General Manager

Earlier this year, our January MPC newsletter included information on a new tax law known as “Section 199A.” The article had an excerpt of a letter from the Select Milk Producers cooperative detailing Section 199A’s inconsistencies with taxing farmers. The letter points out how farmers who belong to a cooperative could qualify for deductions while independent farmers would be left out under the law’s new provisions.

Since that time, amendments have been made to Section 199A. Paul Neiffer of *Top Producer* provides a great analysis of the changes in a blog post made on *AgWeb*. His post provides details about the final version of the law and analyzes the “winners and losers” of Section 199A.

Below is an excerpt of Paul Neiffer’s post. You can read the entire article [here](#).

The "fix" for the "grain glitch" that we have previously posted on several times is now part of the budget bill that should be passed by the end of this week. Since we are now fairly certain as to what the final 199A law will be, I thought it would be good to go over the winners and losers of 199A (in its final form).

First, for all non-corporate farmers, there are no losers compared to the old law in effect before 2018. In almost all cases, your deduction under Section 199A will be greater than any deduction that you got under Section 199 DPAD. At a minimum, you will get an 11% deduction for dealing with a cooperative. This is the worst case and it is still larger than the old 9% which was then limited to 50% of wages paid. Under the old law, if you had no wages paid, you got no deduction (other than any DPAD from a cooperative). Under the new law, you get a minimum of 11% (up to the threshold amount).

California Dairy Quality Assurance Program e-newsletter: New regulations for heifer facilities and feedlots

By Kevin Abernathy, MPC General Manager

The April e-update from the California Dairy Quality Assurance Program (CDQAP) provides information on the bovine General Order that was approved last June by the Central Valley Regional Quality Control Board. Dr. Deanne Meyer of UC Davis’ Animal Science Department explains the actions farmers and ranchers will need to take to be in compliance with the new regulation. This includes details from the General Order and how to plan ahead to make sure your operation is in compliance. The e-update also includes information on agriculture theft prevention workshops put on by CDQAP, local law enforcement, the FBI, and the Animal Agriculture Alliance.



The entire CDQAP e-newsletter is available [here](#).

Dairy Cares newsletter: California dairy farms provide valuable careers

By Kevin Abernathy, MPC General Manager

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.

The April edition of the Dairy Cares newsletter highlights career growth opportunities found in the California dairy industry. The newsletter gives a profile of Juan Castellanos, a college student who is using education to turn his job at a dairy into a full-time career working on methane digesters and cow monitoring systems.

Read the full article [here](#).