// Milk Producers Council

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Milk Producers Council

DATE: June 9, 2017 **PAGES: 5**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE			**CHICAGO AA BUTTER**			**NON-FAT DRY MILK**		
						Week Ending 6/2 & 6/3		
Blocks	*- $.0700*	$1.6300	Weekly Change	*- $.0100*	$2.4750	Calif. Plants	$0.8784	9,281,043
Barrels	*- $.0750*	$1.4150	Weekly Average	*+ $.0722*	$2.4885	Nat'l Plants	$0.8966	18,017,162
Weekly Average, Cheddar Cheese			**DRY WHEY**			***Prior Week Ending 5/26 & 5/27***		
Blocks	*- $.0801*	$1.6480	**Dairy Market News**	w/e 06/09/17	$.4450	*Calif. Plants*	*$0.8956*	*8,171,285*
Barrels	*- $.0994*	$1.4275	**National Plants**	w/e 06/02/17	$.4992	*Nat'l Plants*	*$0.8871*	*16,533,930*

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Fred Douma's price projections…

June 9 Est:	**Quota cwt. $16.99**	**Overbase cwt. $15.30**	**Cls. 4a cwt. $15.59**	**Cls. 4b cwt. $15.76**
Last Week:	**Quota cwt. $17.30**	**Overbase cwt. $15.60**	**Cls. 4a cwt. $14.52**	**Cls. 4b cwt. $16.38**

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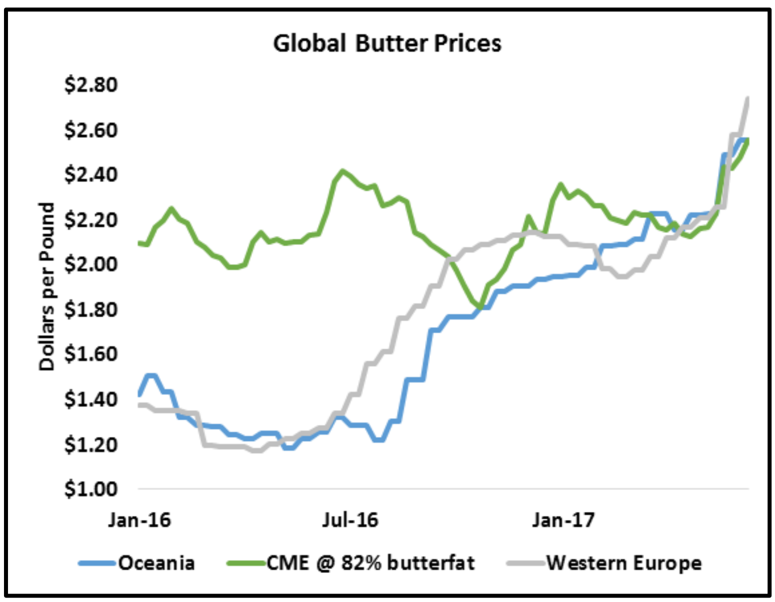
Market commentary

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

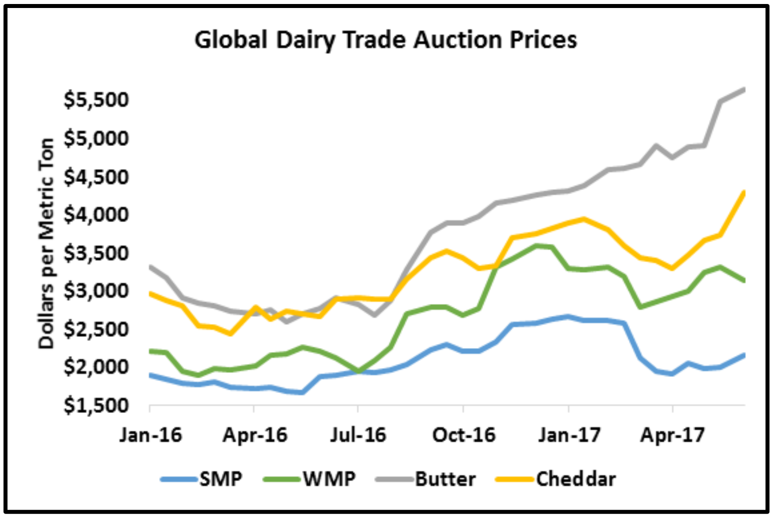
Milk & Dairy Markets

The U.S. butter market raced higher early this week, trying to keep up with the frantic European rally. CME spot butter climbed to an 18-month high of $2.525/lb. on Tuesday. But while it managed an enthusiastic sprint, spot butter lacked the endurance to keep pace. Spot butter finished the week at $2.475, down a penny from last Friday. USDA reports that butter at European ports is going for between $2.67 and $2.80 (or the equivalent of $2.61 to $2.74 after adjusting to 80% butterfat), with prices climbing quickly.



The other dairy product markets are also strengthening abroad. At the Global Dairy Trade (GDT) auction, Cheddar surged 14.5% to an average of $1.94/lb., a more than two-year high. GDT butter climbed 3.3% from the previous event to a new high for the auction. The average winning price for skim milk powder (SMP) was up 7.9%. However, whole milk powder (WMP) prices dropped 2.9%. The bulls quickly dismissed the decline as the natural result of greater product offerings.

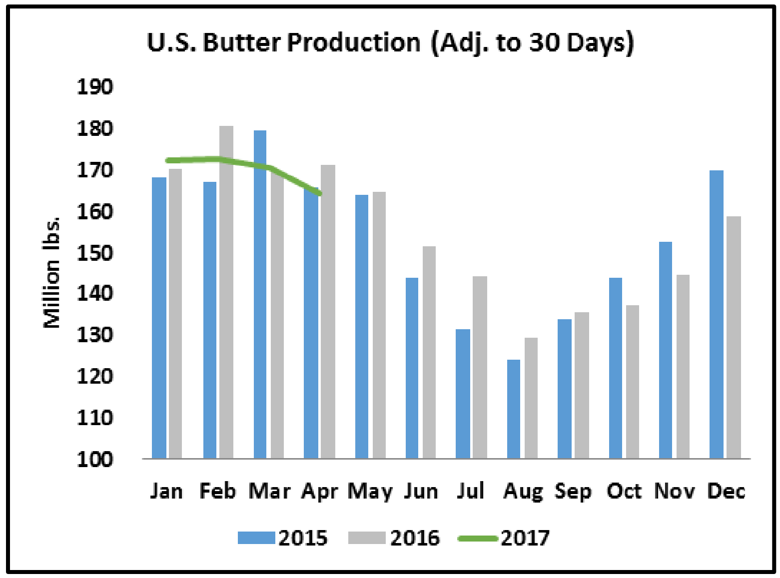
In contrast, domestic dairy product prices drifted lower. Spot nonfat dry milk (NDM) slipped 4¢ to 90.75¢. Class IV futures settled 5¢ to 30¢ lower than last Friday. Cheddar blocks fell 7¢ to $1.63, while barrels closed at $1.415, off 7.5¢. The block-barrel spread stands at a very wide 21.5¢, signaling that barrels remain well-supplied. Dry



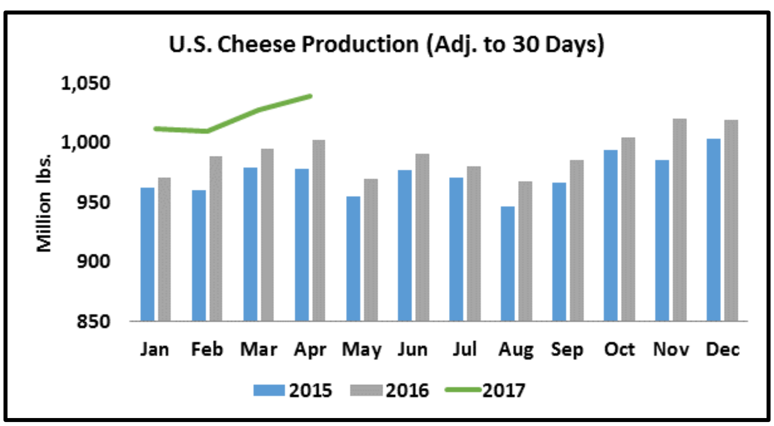
whey futures struggled this week, and nearby Class III futures posted double-digit losses. However, deferred contracts managed to post modest gains.

The relative weakness in U.S. dairy product markets creates an excellent opportunity for export. U.S. competitiveness is augmented by the fact that the dollar is hovering near six-month lows against a basket of currencies, although it remains above the levels that prevailed last spring and summer. Notably, the peso stands at ten-month highs against the dollar, and sales of U.S. dairy products south of the border are reportedly picking up. Since reaching a near-term low in early April, U.S. NDM prices have rallied 8.6%. But to Mexican buyers using today's exchange rate, prices appear to be up just 5.9%.

Meanwhile, domestic demand is just so-so. Cheese sales at retail have not impressed. Butter demand is running about 1% above year-ago levels. Given the size of the U.S. appetite for butter over the past few years, even modest growth is respectable. But in light of the 2% increase in U.S. milk production and strong components, it does not support a spring rally in butter prices. Rather, today's strength is built on improving trade prospects, a noticeable decline in imports of butter oil, and the flat futures curve and competing uses for cream that have slowed the flow of cream to butter churns.

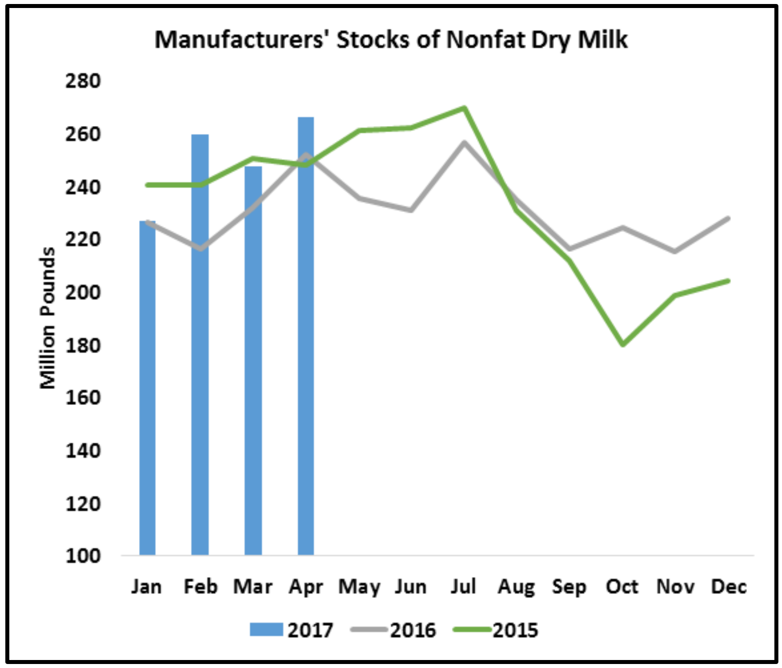


In April, U.S. butter production totaled 164 million pounds, down 4.1% from a year ago. That puts year-to-date production 1.6% behind 2016, after adjusting for leap day. In contrast, U.S. cheese production reached 1.04 billion pounds, up 3.7% from the year before. Year-to-date cheese output is up 3.3%. April Cheddar production climbed to 314 million pounds, the highest monthly total since record-keeping began.



U.S. NDM output was 171 million pounds in April, steady with last year. SMP output was up 16% from last year, as manufacturers are clearly interested in making product for foreign buyers to the extent that processing capacity allows flexibility in the product mix. Manufacturers' stocks of NDM climbed to 266.3 million pounds in April, the highest level since July 2015.

The Midwest is in the midst of an early summer heat wave. USDA reports that this has yet to deter milk output, and the flush continues. However, temperatures are expected to rise over the weekend and there are already fewer loads of surplus milk looking for a home. According to Dairy Market News, "A number of cheese producers [in the Central region] reported receiving fewer milk offers this week than in previous weeks. Some producers, who have forgone fortifying their cheese with NDM stocks because of the amount of discounted milk coming in, have begun to dip into their NDM inventories." Given the size of U.S. milk powder stockpiles, this is a welcome change of events.



Grain Markets

After three months of quiet, range-bound trade, the corn market was off to the races this week. July corn futures settled at $3.87 ¾, up 15 ½ cents since last Friday. The December contract topped the $4 mark for the first time since March and closed at $4.06. The soybean market rallied as well, but after selling off for months, it failed to achieve any major milestones. July soybeans settled at $9.41 ½, up a little more than 20¢.

USDA updated its crop balance sheets today, but offered no remarkable changes. The agency confirmed that South American crops are large. There are more than enough grain and oilseeds to meet the world's needs this season, and likely in the one to come.

But there are concerns that wheat – and high protein wheat in particular – will be in short supply. Acreage is down, and the weather has turned for the worse. Dry conditions in the Dakotas and northern Minnesota have likely crimped spring wheat production. Drought is spreading. For years, the wheat market has been a pitiful laggard. Today, wheat market bulls are leading a charge that is rippling through the entire grain complex. Speculative traders were leaning heavily short of crop futures, and they are now rushing to cover their positions.

Weather in the Corn Belt is also less than ideal, although it is too early to assume much impact on final yields. In parts of Wisconsin, Indiana, and Ohio, the wet spring drowned some early corn stands, and farmers will need to replant. Now things have turned noticeably drier, with high temperatures and brisk wind. The forecast calls for rains in the middle of next week. If these showers disappoint, look for continued strength in crop prices. The market didn't hold much of a weather risk premium over the past few months; it is making up for it now.

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A background on California Producer-Handlers

By Geoff Vanden Heuvel, MPC Board Member and Economics Consultant

Dairy farmers who also process and market fluid milk (class 1) are a special class of producers, both in California and in the Federal Milk Marketing Order system. However, the way Producer-Handlers are treated in the two systems is significantly different. How to deal with this issue is the one item that the Producer Review Board was unable to decide last week at their meeting.

Federal Order policy with regards to Producer-Handlers (P-H) is pretty straightforward. There is no historical barrier to becoming a Producer-Handler. That is, anyone who can meet the criteria can become a P-H. However, the criteria are difficult to meet.

The basic principle is that the producer needs to balance their supplies with their own resources and remain completely separate from the FMMO pool. That is, they cannot rely on the pool or other handlers in the market to balance out the inevitable disconnect between fluid milk sales and production. The way the FMMO carries this out is that they have a very strict limit on how much milk a P-H can buy outside of their own production each month. It is limited to 150,000 pounds of milk per month, or about three loads. There is also a total monthly volume limit on the size of an FMMO Producer-Handler. The rule is a cap of 3,000,000 pounds of fluid packaged sales per month. If a producer goes over this amount, they lose their Producer-Handler exemption and become fully regulated back to the first pound they produce. This is called a “hard-cap” and is a rule that is applied uniformly in every FMMO and is the rule that will be embedded in a California FMMO as well according to the Recommended Decision put out by USDA.

The California State Order treats Producer-Handlers much differently. There is an opportunity for any producer to become an exempt Producer-Handler in California, but their entire production and fluid milk sales must average less than 500 gallons per day during each 12-month period from September 1 through August 31. There are apparently two producers in California who meet these criteria.

The more significant California Producer-Handlers obtained that status by being in business at the beginning of the Pooling program in 1969. At that time, 49 producers qualified as Producer-Handlers, but by 1995 that number was down to 6 and there are now only 4 Producer-Handlers that have this unique status. None of these 4 will likely qualify as Producer-Handlers in the California FMMO. They are all large processing firms that buy significantly more milk than the 150,000 pounds per month that they would be limited to in a FMMO, and it seems clear that they all sell more than 3,000,000 pounds per month of fluid milk which exceeds the “hard cap” contained in the FMMO rules. The other 45 Producer-Handlers all had the right to convert their exemption to regular pool quota and join the pool … “but with only the production base and pool quota to which he would have originally been entitled or his average daily production and class 1 usage during the 12 months preceding his entry into the pool, whichever is less.” (Section 62708). Essentially the exempt volumes of these 45 producers were exchanged for regular quota on a “one pound for one pound” basis.

Additionally, the four remaining Producer-Handlers have had the opportunity during certain periods of time to buy regular pool quota and turn it into more exempt producer-handler volumes. In fact, of the 59,039 pounds of daily solids-non-fat that Producer-Handlers exempt from pool obligations, 42,700 of those pounds were purchased as regular quota and converted into that additional exemption on a one for one basis.

There were two periods of time where this opportunity existed. The first was back in the late 1970’s when something known as “Equalization” occurred. At the beginning of the quota program in 1969 all Grade A producers who shipped milk were issued production base consistent with their farms production during the base period which was in the late 1960’s. These producers were then issued quota for the percentage of their production base that was used for class 1 purposes. Some producers received quite a bit less quota relative to their production base because the class 1 utilization of their milk was low. The promise made in 1969 was that as class 1 sales increased in California, new quota representing those sales would be issued and the low quota holders would get that new quota until they become “Equalized”. Equalization is defined as having quota equal to at least 95% of your production base. Well, in the 1970’s, class 1 sales were not increasing as fast as was anticipated. The solution to this problem was negotiated among producers and the Legislature, and the result was a change in the law that permitted the issuance of “blue sky” quota in 1977 and 1978, which was used to bring all of the original 1969 producers up to the Equalization point. It was at this time that Producer-Handlers could convert any pool quota they had obtained between 1969 and 1978 into additional exempt volumes.

The second opportunity to convert regular pool quota into additional exempt volumes occurred in 1993 when the $1.70 fixed differential was implemented. In what turned out to be a limited time because the Legislature terminated this opportunity in 1996, Producer-Handlers could purchase pool quota and turn it into additional exempt volumes on a one for one basis. According to a Senate Bill analysis for SB105 in 1996, which was the bill that ended this opportunity, just prior to the 1993 passage of the $1.70 bill, Producer-Handlers in California exempted approximately 44,000 gallons per day from pool obligations. By 1996 that had increased to 87,000 gallons per day.

So the Producer Review Board (PRB) is tasked with the job of designing a Stand Alone Quota program to coincide with the adoption of a California Federal Milk Marketing Order. One of the questions that they must answer is: How would California's historical Producer-Handler exempt volumes be administered?

A motion was made and seconded that "Exempt quota should receive the same payout as producer quota and be funded through assessments on the same grouping of milk (Grade A and Grade B) that would fund producer quota." After a robust discussion, the PRB voted to table this motion and ask the Department to provide more data and information at the next meeting. So this issue will come up again for discussion and possible decision at the June 15, 2017 PRB meeting in Modesto.

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California Milk Advisory Board to hold district meetings in June and July

The California Milk Advisory Board (CMAB) will host a series of district meetings beginning in June, which will highlight the ongoing activities of the producer-funded marketing order. The meetings begin with a social at 6 p.m. and the program starts at 7 p.m. with a short presentation by CMAB and followed by dinner. Most of the meetings are completed by 9 p.m. and are open to all California dairy farmers.

RSVPs for the meetings should be sent to Kris Costa via phone/text at 209.678.3466 or email at kcosta@cmab.net.