



Milk Producers Council

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DATE: December 23, 2016
TO: Directors & Members

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FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.1100 \$1.6900
 Barrels - \$.1450 \$1.5550

Weekly Average, Cheddar Cheese

Blocks - \$.0310 \$1.7350
 Barrels - \$.0805 \$1.6060

CHICAGO AA BUTTER

Weekly Change +\$.0575 \$2.2475
 Weekly Average +\$.1200 \$2.2270

DRY WHEY

Dairy Market News w/e 12/23/16 \$.4138
 National Plants w/e 12/17/16 \$.4030

NON-FAT DRY MILK

Week Ending 12/16 & 12/17

Calif. Plants \$0.9596 4,466,110
 Nat'l Plants \$0.9671 15,596,958

Prior Week Ending 12/9 & 12/10

Calif. Plants \$0.9435 4,626,757
 Nat'l Plants \$0.9557 15,236,651

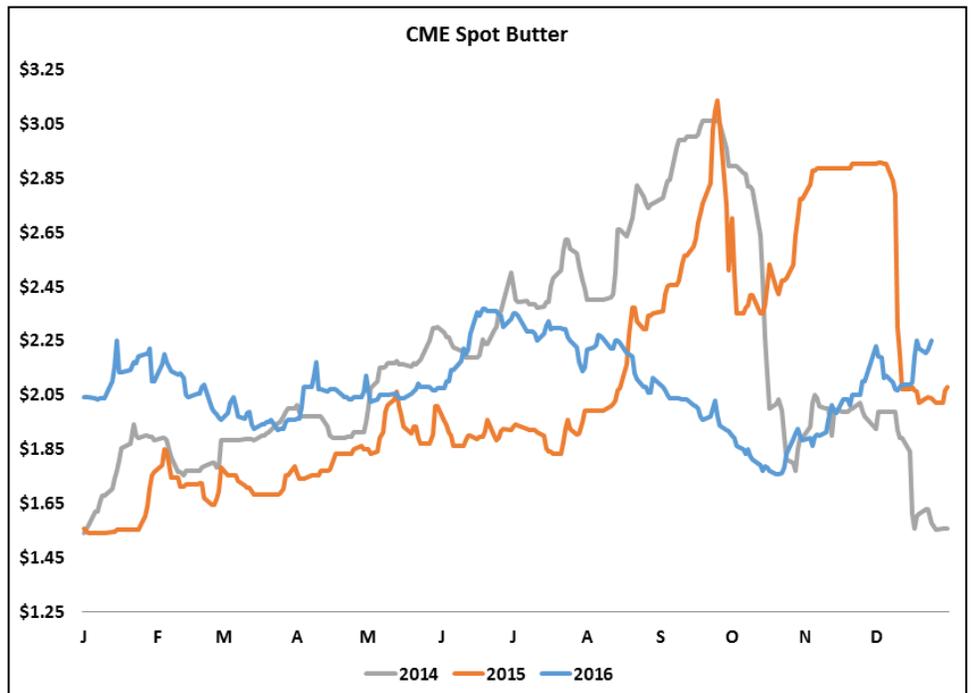
FRED DOUMA'S PRICE PROJECTIONS...

Dec 23 Final: Quota cwt. \$17.46 Overbase cwt. \$15.76 Cls. 4a cwt. \$14.67 Cls. 4b cwt. \$16.59
Last Week: Quota cwt. \$17.50 Overbase cwt. \$15.80 Cls. 4a cwt. \$14.54 Cls. 4b cwt. \$16.76

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

Milk & Dairy Markets

The butter market is no stickler for holiday traditions. Eschewing its customary year-end collapse, CME spot butter climbed to \$2.2475/lb. this week, a price more akin to the heat of summer than the waning days of a year characterized by surplus. This week's 5.75¢ gain put spot butter at its highest level since August. And why not? Butter demand is formidable. Last month, butter stocks dropped more than 67 million pounds, the largest October-to-November drawdown on record. At 160.9 million pounds, butter inventories remain 21.2% higher than they were a year ago. But since September, butter stocks have been falling month-to-month in much greater than typical volumes. A modest decline in December would put butter stocks lower than prior-year levels for the first time since March 2015.

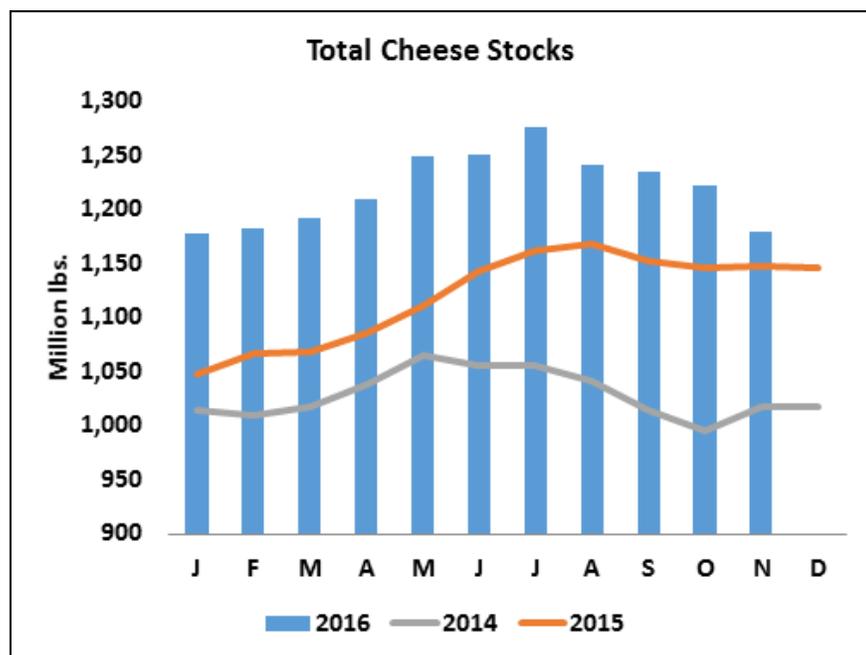
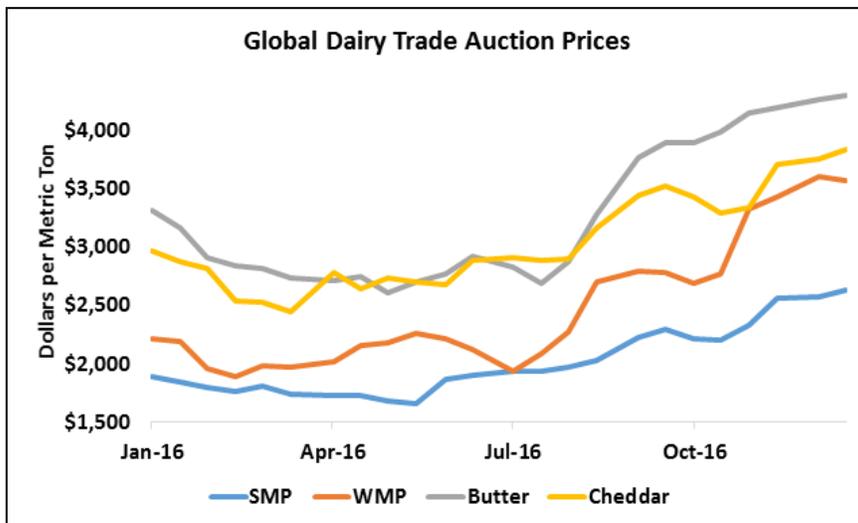


The accelerated drawdown in butter inventories this fall coincided with a marked increase in demand for cream and butter from our neighbor to the north. Canada's appetite for butterfat is likely to remain strong, but their need

for foreign product might ebb. Canada will increase its milk production quotas in 2017, allowing output to grow for the third consecutive year. USDA staff expect Canadian butter production to expand by 5.3% in 2017 to more than 220 million pounds.

The milk powder market offered a little holiday excitement of its own. Spot nonfat dry milk (NDM) reached \$1.07 yesterday, a 14-month high. It finished today at \$1.02, steady with last Friday. Most Class IV futures contracts gained 20 to 30¢ this week.

At the Global Dairy Trade (GDT) auction prices were mixed. Skim milk powder (SMP) prices were up 2% from the previous auction, while whole milk powder (WMP) prices slipped 0.8%, likely because Fonterra recently increased the volume of product on offer. Cheese and butter prices moved a little higher. The trade-weighted GDT index slid 0.5% but finished significantly higher than where it began the year.



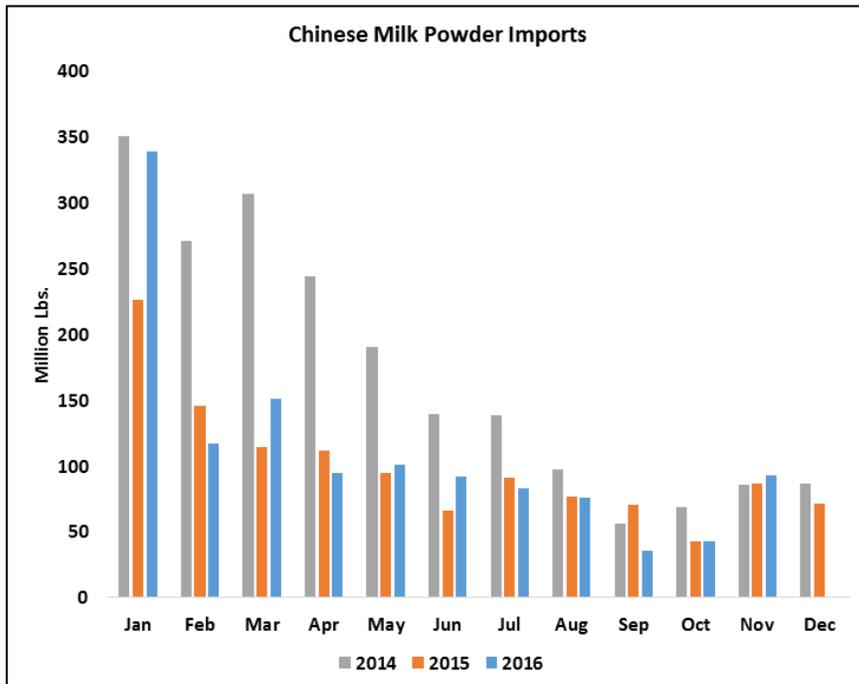
The cheese market was decidedly less festive. CME spot Cheddar blocks dropped 11¢ to \$1.69, and barrels plunged 14.5¢ to \$1.555. Nearby Class III futures succumbed to spot cheese weakness, but from May onward, contracts moved higher. Cheese inventories dropped 42.6 million pounds from October to November, the largest decline since 2011. At 1.18 billion pounds, cheese stocks are 2.8% larger than they were a year ago, the smallest year-over-year increase in nearly two years.

Whey futures enjoyed a sizeable rally this week. The National Dairy Product Sales Report and *Dairy Market News* indicate continued strength in the whey market, thanks in part to improved exports. China

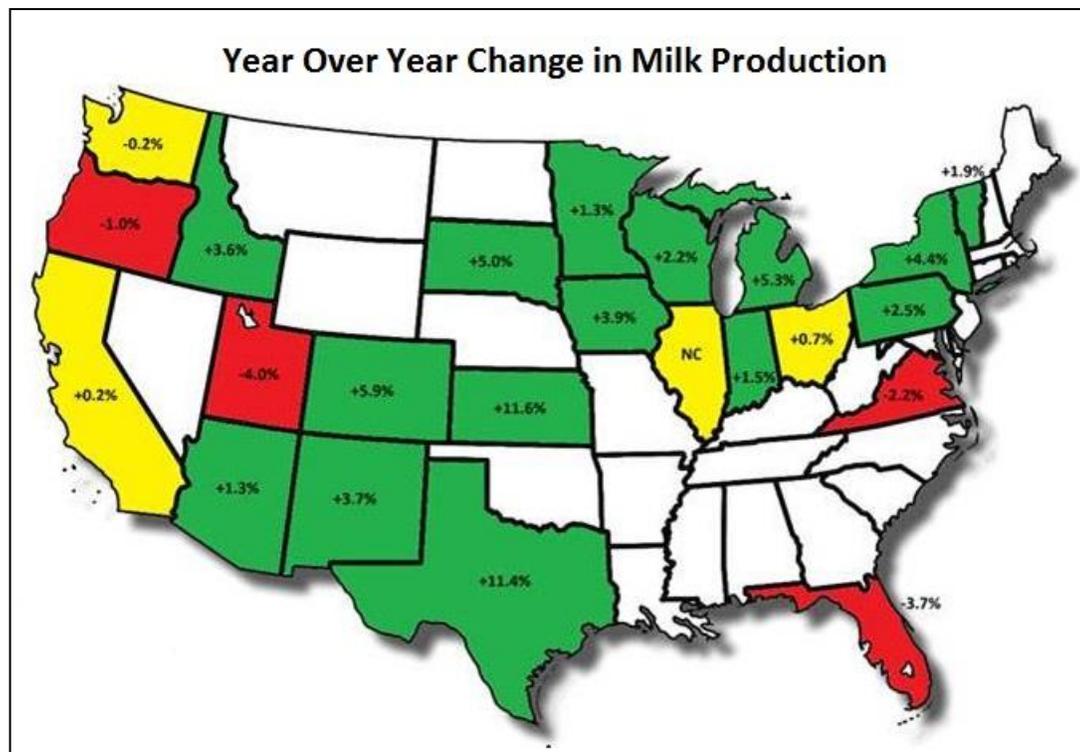
brought in 100.7 million pounds of whey products in November, up 28.3% from a year ago. For the year-to-date, Chinese whey imports are up 16.6% and U.S. whey exports to China are 25.6% higher than last year.

Chinese demand for imported milk powder bounced back after a seasonal lull. Volumes were respectable but not impressive. Combined, imports of WMP and SMP reached 92.7 million pounds, up 7.3% from November 2015. China imported a record-breaking 24.2 million pounds of cheese in November, 48.4% more than the same month a year ago. Chinese imports of ultra-high temperature (UHT) milk reached 112.7 million pounds, up 20% from last year. For the year-to-date, Chinese UHT milk imports have grown a remarkable 44.9%.

In November, U.S. milk production totaled 17.1 billion pounds, up 2.4% from a year ago. This was in line with growth rates in September and October, so it had little impact on the market. The dairy herd expanded by 4,000 head to 9.339 million, up 17,000 from a year ago. Texas reported an increase of 11.4% - some 94 million pounds – from a year ago. Michigan, New York, Wisconsin, and Idaho contributed robust growth as well. In California, milk output totaled 3.2 billion pounds, up 0.2% from a year ago. There were 11,000 fewer cows in the nation’s largest dairy state in November than the year before.



Growth in U.S. milk output is likely to persist, but it is more than offset by shortfalls elsewhere. Argentine milk production has been running around 12% below last year, but in November it dropped to an 18% deficit. Declines in milk production in Argentina have offset roughly 75% of the growth in U.S. milk output this year.



In New Zealand, milk output dropped to 2.85 million metric tons in November, down 4.5% from a year ago. Season-to-date production is down 3% on a fluid basis, and milk solids output is down 3.6%. New Zealand’s dairy producers have trimmed their herds and they are looking to trim their debt. The dairy market recovery might put some producers in an expansionary mood, but they’ll have to improve their standing with their bankers first.

For the week ending December 10, dairy cow slaughter totaled 60,388 head, steady with the same week a year ago. Year-to-date slaughter is 1.5% behind the 2015 pace.

Grain Markets

The corn market has dropped in each of the last seven trading sessions. Today it settled at \$3.4575 per bushel, down 13.5¢. Timely rains in Argentina and falling grain prices in China have pressured this well-supplied market. January soybean futures finished at a one month low of \$9.89, almost 50¢ lower than where they began the week. South American weather will determine the direction of the grain and oilseed markets in the next six weeks or so.

A SPECIAL THANKS TO OUR 2016 MPC ASSOCIATE MEMBERS: *(By Rob Vandenhoevel)* As we approach the end of another year, we are reminded of the generous support our organization has received from our numerous associate members. While a majority of the funding for Milk Producers Council comes from our committed membership of dairy families we are humbled and honored to represent, MPC is proud to have strong support from other businesses and individuals that have an interest in maintaining a vibrant dairy industry in California. These Associate Members recognize the value MPC brings to the California and U.S. dairy industry and their financial support plays an integral role helping us be a strong voice our members.

A special thanks on behalf of the MPC board of directors, members and staff goes out to:

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Thanks again to all of our Associate Members for your support!

Anyone else interested in supporting MPC with an associate membership should visit our website (www.milkproducers.org) or contact us directly at office@milkproducers.org or (909) 628-6018. **The dairy families we represent greatly appreciate the support!**

*Note: The MPC Friday Market Update will not be published next week,
so our next publication will be Friday, January 6th.*

**On behalf of the MPC Board and Staff,
we want wish all of you and your families a wonderful Christmas!**