



Milk Producers Council

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DATE: July 1, 2016

TO: Directors & Members

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FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks	+\$.1125	\$1.6250
Barrels	+\$.1350	\$1.6700

Weekly Average, Cheddar Cheese

Blocks	+\$.0700	\$1.5830
Barrels	+\$.0885	\$1.6285

CHICAGO AA BUTTER

Weekly Change	+\$.0050	\$2.3500
Weekly Average	- \$.0240	\$2.3340

Dairy Market News
National Plants

DRY WHEY

w/e 07/01/16	\$2.2550
w/e 06/25/16	\$2.2657

NON-FAT DRY MILK

Week Ending 6/24 & 6/25

Calif. Plants	\$0.7821	9,288,422
Nat'l Plants	\$0.8138	17,642,149

Prior Week Ending 6/17 & 6/18

Calif. Plants	\$0.7689	8,022,184
Nat'l Plants	\$0.7955	16,558,248

FRED DOUMA'S PRICE PROJECTIONS...

Jul 1 Est: Quota cwt. \$15.51 Overbase cwt. \$13.81 Cls. 4a cwt. \$14.22 Cls. 4b cwt. \$14.50

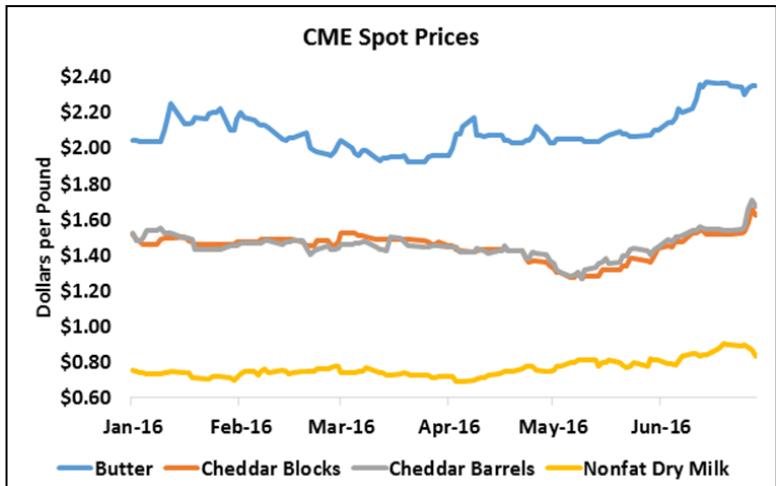
Jun '16 Final: Quota cwt. \$14.57 Overbase cwt. \$12.87 Cls. 4a cwt. \$13.51 Cls. 4b cwt. \$13.03

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

Milk & Dairy Markets

The dairy markets were full of fireworks again this week. CME spot Cheddar barrels rocketed to \$1.71/lb. on Thursday, their highest level since early October. They fizzled Friday, and finished at \$1.67, up 13.5¢ on the week. Similarly, Cheddar blocks soared to \$1.66 Thursday and closed at \$1.625, up 11.25¢ since last Friday.

The fact that barrels have persistently traded at a premium to blocks – rather than the typical 3¢ deficit – suggests that the market has been fueled by demand for processed cheese. A warm, sunny start to grilling season has likely boosted America's appetite for cheeseburgers. The dairy industry has clearly benefitted from a strong consumer response to McDonald's all-day breakfast offerings and an array of cheesy breakfast items from its competitors. *Dairy Market News* reports that in the Midwest, "Sales into food service [are] approaching all-time highs."

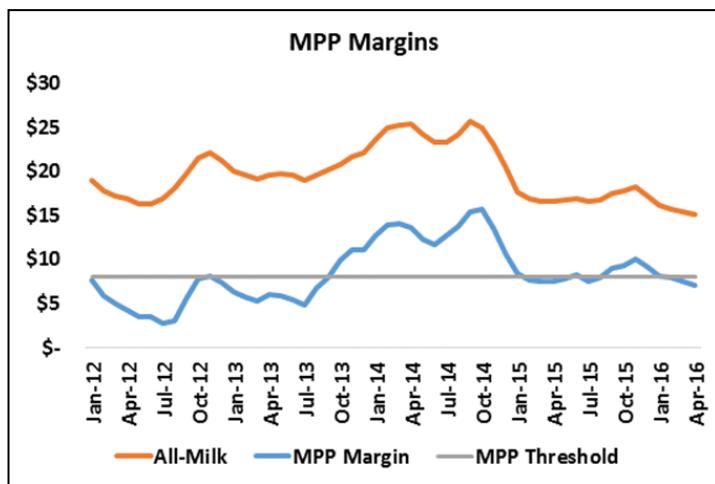


Still, it's going to take a lot of Egg McMuffins and double cheeseburgers to use up the 1.25 billion pounds of cheese in storage. Meanwhile, "Many U.S. cheese manufacturers are running near or at full schedules. Intakes remain high," according to *Dairy Market News*. Perhaps that is why Class III futures began retreating even as spot cheese reached nearly nine-month highs on Thursday. They dropped further Friday and settled mostly lower than the week before. The September contract lost the most ground, falling 30¢.

The spot butter market slipped early in the week but by Friday it had rebounded to \$2.35, up a half cent on the week. As has been the case for two years now, the butter market remains strong in the face of sizeable production

amidst strong demand and fears about the future. Although inventories are ample, *Dairy Market News* reports that “retail outlets and end users are eager to lock in prices or set up contracts in order to assure coverage through the end of the year.” Such anxiety may be justified by stubbornly high prices, but the fundamentals tell a different story. Churns are running and cream is plentiful; cream multiples dropped this week and remain much below the normal range for this time of year.

While cheese and butter climbed, spot nonfat dry milk (NDM) dropped 6.5¢ to 83.5¢. The strong dollar likely weighed on sentiment in the milk powder market, although international buyers are reportedly seeking dry whey and milk powder in volume. Led downward by the milk powder market, 2016 Class IV futures finished in the red this week, but 2017 futures moved higher.

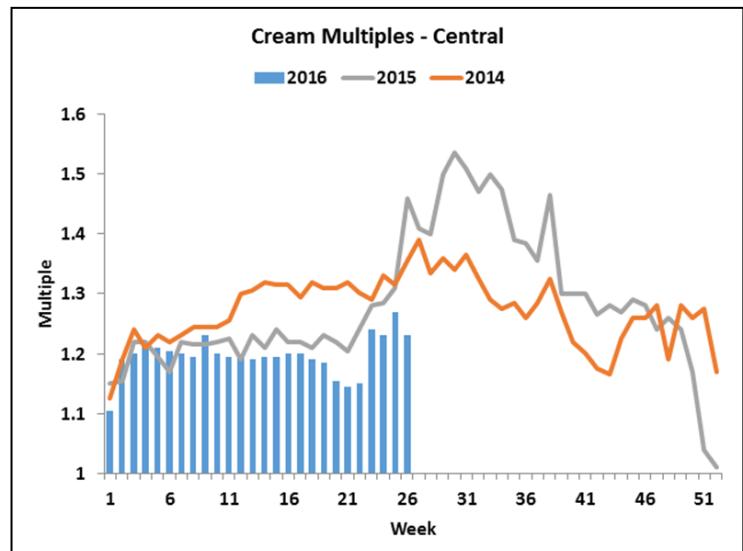


USDA announced the June Class III milk price at \$13.22/cwt., up 46¢ from May but down \$3.50 from a year ago. The California 4b milk price in June was \$13.03, inadequate but much better than \$11.37 in May. California 4a milk was \$13.51, up 42¢ from May. June Class IV milk was \$13.77, up 68¢ from the previous month.

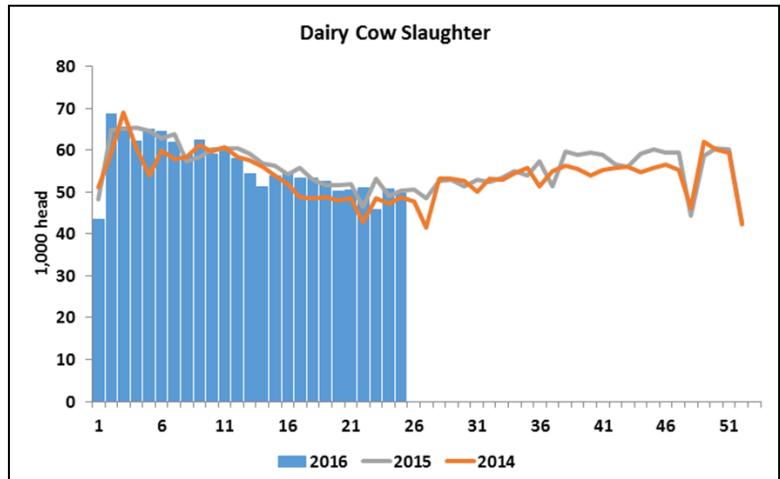
For the week ending June 18, dairy cow slaughter totaled just 49,801 head, down 1.2% from the same week a year ago. Despite sustained losses, dairy producers do not seem to be stepping up cull rates. So far this year, dairy slaughter is 1.4% behind the 2015 pace.

Grain Markets

After climbing to great heights, the corn market has taken quite a dive. Today July futures settled at \$3.53 per bushel, down 31.5¢ from last week and down 74.5¢ in just the past two weeks. Corn prices had been following soybeans higher, despite plentiful global inventories and a sizeable crop in the field. After surveying farmers, USDA reported corn plantings at 94.1 million acres, much greater than the trade had anticipated and up 547,000 acres from farmers’ original intentions, as reported in March. Furthermore, USDA reported quarterly corn stocks up 6% from a year ago. There is a lot of weather between now and harvest, but there will likely be plenty of corn to meet demand.

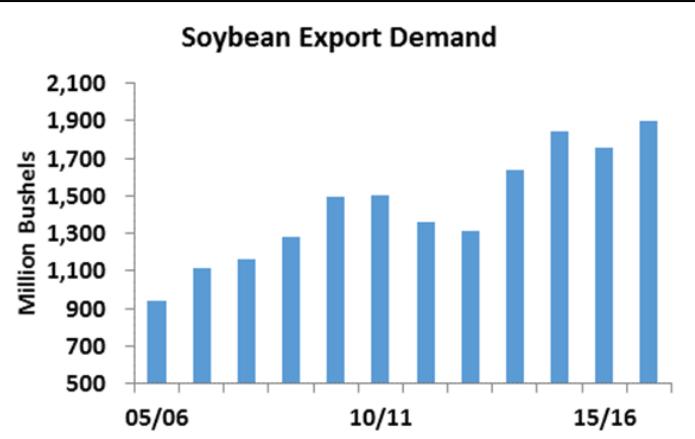


It was a very rough spring for dairy producers, but the worst days seem to be in the past. The All-Milk price fell 50¢ to \$14.50/cwt. in May, the lowest national average price since October 2009. May income over feed costs (as calculated by the Margin Protection Program formula) fell to \$5.77/cwt., the lowest margin since July 2013. USDA has not yet reported national average prices received for milk and feed in June, but they are likely to bring the May-June MPP average low enough to warrant an indemnity payment for the 2,605 dairy producers who insured their income at or above the \$6.50 level.



In contrast, the soybean market staged a significant comeback this week. July futures closed at \$11.6875, up 65.75¢ from last Friday. According to USDA, farmers planted a record-breaking 83.7 million acres to soybeans. Although this was 1% more acreage than last year and 1.45 million acres more than farmers said they intended to plant in March, it was smaller than the trade had expected after a wet spring and a sustained rally in oilseed prices.

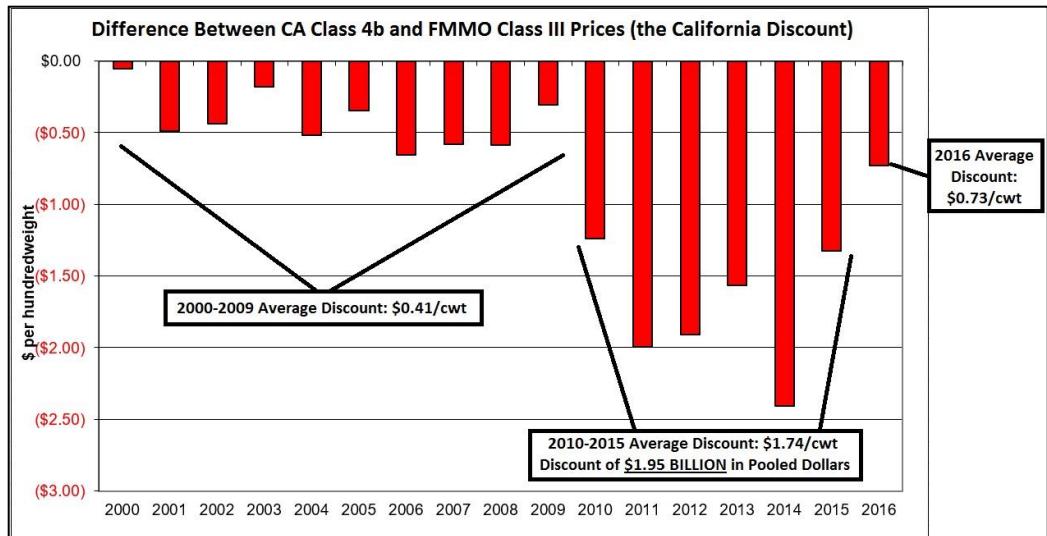
Soybean stocks on June 1 were larger than anticipated and notably larger than they were a year ago. However, U.S. soybean export sales are strong, and outstanding commitments to ship soybeans abroad are unusually large. Until exports begin to slow or the market is assured of a crop that is large enough to meet global demand, the oilseed market will remain buoyant and volatile.



THROW SOME EXTRA CALIFORNIA CHEESE ON THAT BURGER!: (*By Rob Vandenheuvel*) As you are standing over your barbecue this Independence Day Weekend, make sure to throw an extra slice or two of Real California cheese on your burger! In addition to making your burger just that much tastier, you would also be helping our State's cheese manufacturers, who were forced to "endure" a month where their California Discount shrunk to \$0.19/cwt, the closest their regulated cost of milk has been to the FMMO Class III price in more than 5 years!

All sarcasm aside, we noted the likelihood of this happening last month, when timing differences in how the cheese market is "measured" on a monthly basis by CDFA and USDA resulted in a larger-than-expected California Discount of \$1.39/cwt (*if you missed that article, you can find it at: <http://www.milkproducerscouncil.org/updates/060316.pdf>*). This month, we saw the flip side of those timing differences, as the CME Cheddar Block price (*which drives California's Class 4b prices*) rose more quickly than the USDA-surveyed Cheddar Cheese price (*which drives the FMMO's Class III prices*).

As we've written numerous times over the past year since CDFA implemented the current Class 4b calculation, we can expect the average California Discount to be about \$0.80/cwt over the long-term (*based on what it would have been the past few years*), with peaks and valleys in any given month. **A generous discount for California cheesemakers? No doubt. Better for**



producers than the discounts of \$1.50-2.50/cwt we saw for the past several years? You bet it is. A long-term solution for the financial sustainability of our State's dairy farmers? Not a chance. A level playing field is our producers' only chance at long-term viability; fortunately we are already on our way along the path to get there, and look forward to seeing USDA's work on a California Federal Order later this year.

The MPC Board and staff would like to wish all of you and your families a wonderful Independence Day!