



Milk Producers Council

P.O. Box 4030 ~ Ontario, CA 91761 ~ (909) 628-6018
 2328 Jonathon Court ~ Escalon, CA 95320 ~ (209) 691-8139
 Fax (909) 591-7328 ~ office@milproducers.org ~ www.MilkProducers.org



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TO: Directors & Members

PAGES: 4
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - \$.1050 \$1.4900
 Barrels - \$.1650 \$1.2850

Weekly Average, Cheddar Cheese

Blocks - \$.0895 \$1.5305
 Barrels - \$.1935 \$1.3215

CHICAGO AA BUTTER

Weekly Change - \$.0625 \$2.2900
 Weekly Average - \$.0640 \$2.3000

DRY WHEY

Dairy Market News w/e 06/22/18 \$3.250
 National Plants w/e 06/16/18 \$3.099

NON-FAT DRY MILK

Week Ending 6/15 & 6/16

Calif. Plants \$0.7790 7,296,259
 Nat'l Plants \$0.8212 12,299,027

Prior Week Ending 6/8 & 6/9

Calif. Plants \$0.7698 6,465,059
 Nat'l Plants \$0.8277 13,615,933

Fred Douma's price projections...

June 22 Est: Quota cwt. \$15.95 Overbase cwt. \$14.25 Cls. 4a cwt. \$14.24 Cls. 4b cwt. \$14.45
 Last Week: Quota cwt. \$16.07 Overbase cwt. \$14.38 Cls. 4a cwt. \$14.32 Cls. 4b cwt. \$14.67

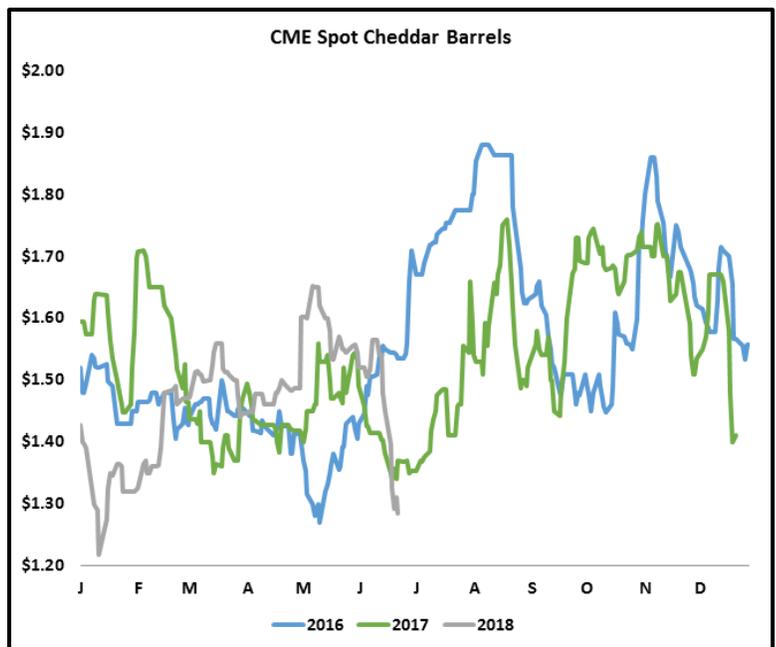
Market commentary

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

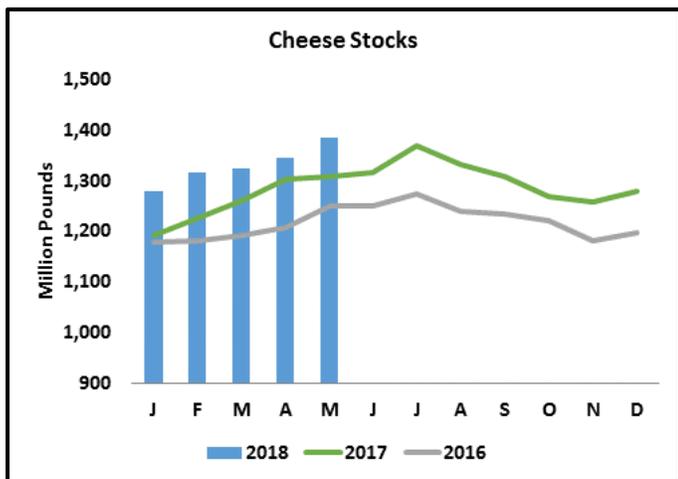
Milk & Dairy Markets

Summer has officially arrived, but the dairy markets are not heating up. Indeed, Class III and IV futures took another sizeable step back, retreating nearly every day this week. July Class III futures settled almost 80¢ lower than last Friday at \$14.66, a price that is surely unwelcome to dairy producers. Most deferred Class III and IV contracts lost between 20 and 60¢.

The dairy industry was not expecting to become a casualty in the escalating U.S.-China trade war, but over the weekend China announced that dairy products would be part of the next round of retaliatory tariffs. Most U.S. dairy products face a tax of between 10% and 15% at the Chinese border. Buttermilk is charged a 20% levy, and whey powder is taxed at 6%. Beginning July 6, all U.S. dairy products will suffer a 25% surcharge en route to China.



Some key players within the Trump administration hope to achieve a détente before the tariffs take effect. However, President Trump is playing tough, pushing for mutually assured economic destruction to make America great again. The president remains as unpredictable as ever, and he may change course before the tariffs start to



bite. But for now, investors assume the trade war will rage on. Stock and commodity values are sinking accordingly.

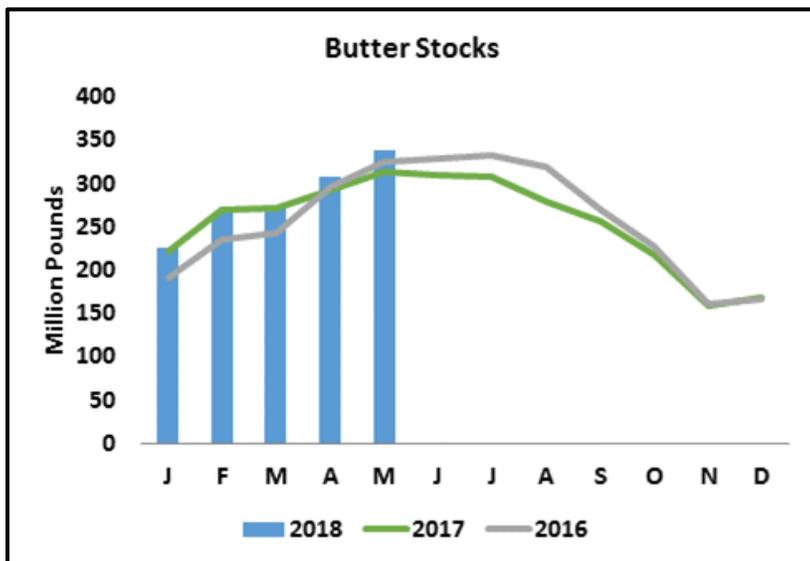
At the CME spot market, Cheddar barrels were once again the biggest loser. They plummeted 16.5¢ to \$1.285 per pound, and a whopping 88 loads changed hands. Aside from two days in January and a single session in May 2016, barrels haven't been this low since 2010. Blocks fared marginally better; they dropped 10.5¢ to \$1.49, the lowest value since February. Rising cheese inventories likely fueled the selloff. There were 1.386 billion pounds of cheese in inventory on May 31, the highest volume on record. That is 5.3% more than at the end of May 2017. Cheese stocks jumped 40.6 million pounds from April to

May, the largest increase in that time frame since 1999. Although the Cold Storage report was published after the closing bell this afternoon, the markets likely already reflect this bearish data.

China accounted for nearly half of U.S. whey product exports last year, so the whey market had every reason to wither this week. The fact that CME spot whey slipped just 1.25¢ – to 39.75¢ per pound – is a modest victory. For now, U.S. whey inventories are tight and product is moving. But the market is understandably unsettled.

CME spot butter dropped to a two-month low at \$2.29, down 6.25¢ this week. Demand for butter remains excellent, and U.S. butter is competitively priced. But for now, the bears rule the dairy complex, and butter has succumbed. *Dairy Market News* notes, “Butter sales have yet to disappoint producers, but butter markets are a different story.” The Cold Storage report offered a somewhat different narrative. There were 338.8 million pounds of butter in warehouses on May 31, the largest end-of-May volume since 1993, at the height of the low-fat craze. Inventories were 8% greater than prior-year levels and up 31.5 million pounds compared to April, a larger-than-typical stock build.

CME spot nonfat dry milk (NDM) fell 2.5¢ from last Friday and closed at 76.25¢. Prices moved lower at the Global Dairy Trade auction on Tuesday. The average winning price for skim milk powder (SMP) was down 1.1% from the previous event, while whole milk powder (WMP) fell 1%. The European Commission sold more than 50 million pounds of SMP from its Intervention storage program, mostly at the equivalent of 67¢ per pound, an improvement from the minimum sales price at its May tender. The fact that the Commission is able to move its stale powder at rising prices in respectable volumes is likely mildly supportive to the U.S. milk powder market, despite the fact that U.S. merchants must compete with the discounted product.



This week's price action will surely discourage dairy producers who were hoping – at long last – that the industry could sustain milk prices at profitable levels. The washout in the markets will likely further the washout in the industry. More dairy producers – with dairies of all sizes in all parts of the country – are looking to sell out, some at the behest of their lenders. Dairy cow slaughter is running 4.9% ahead of the 2017 pace. Nonetheless, USDA

SGMA presents challenges for agriculture

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

“The Consequences of Sustainable Groundwater Management” is the title of a talk recently given by Dr. Jeffrey Mount who is a Senior Fellow at the Public Policy Institute of California. It is not light reading, but it is a very important summary of the implications of the passage of the Sustainable Groundwater Management Act (SGMA) in 2014. I would encourage you to budget 20 minutes of your time to sit down and actually read what Dr. Mount has put together. Read it [here](#).



Photo credit: www.mavensnotebook.com

In my new role with Milk Producers Council, I am beginning to attend the many meetings that focus on implementing this law in our communities. All areas of the Central Valley have organized themselves into Groundwater Sustainability Agencies, which was an accomplishment in itself. Each of these organizations (there are 125 of them in the Central Valley) are in some sort of process to develop their plans for sustainability, known as Groundwater Sustainability Plans. They all start with data collection and will use that data to try to determine how much water is available in each area.

Still to come are the decisions about who gets what in dividing the water and what can be done to ease the pain of this game changing process. I represented agriculture for 20 years on the Chino Basin Watermaster Board which supervises the groundwater adjudication in the Chino Basin and served 28 years on the Chino Basin Water Conservation District Board dealing with groundwater recharge, so I have some experience in how to manage that groundwater basin in Southern California. I hope to be able to help our producers in the Central Valley navigate this huge additional task, which has been placed upon us. If you have any comments, questions or suggestions, or if you would like to chat about what is going on in your area, feel free to give me a call at 909-730-1240 or email me at Geoff@milkproducers.org.

As you will read in Dr. Mount’s talk, it is not all bad news.

Dairy Cares Member Update: Feed Additives Reduce Emissions

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 June edition of the Dairy Cares member update provides information on new feed additives being tested on dairy cows to reduce enteric emissions. The update also highlights opportunities for the instillation of methane digesters through the California Public Utilities Commission (applications due June 25).

Read the full article [here](#).

