



Milk Producers Council

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DATE: June 29, 2018
TO: Directors & Members

PAGES: 7
FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks + \$.0650 \$1.5550
 Barrels + \$.1050 \$1.3900

Weekly Average, Cheddar Cheese

Blocks - \$.0380 \$1.4925
 Barrels - \$.0435 \$1.2780

CHICAGO AA BUTTER

Weekly Change - \$.0225 \$2.2675
 Weekly Average - \$.0460 \$2.2540

DRY WHEY

Dairy Market News w/e 06/29/18 \$.3250
 National Plants w/e 06/23/18 \$.3222

NON-FAT DRY MILK

Week Ending 6/22 & 6/23

Calif. Plants \$0.7766 7,069,496
 Nat'l Plants \$0.7999 15,558,970

Prior Week Ending 6/15 & 6/16

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

Fred Douma's price projections...

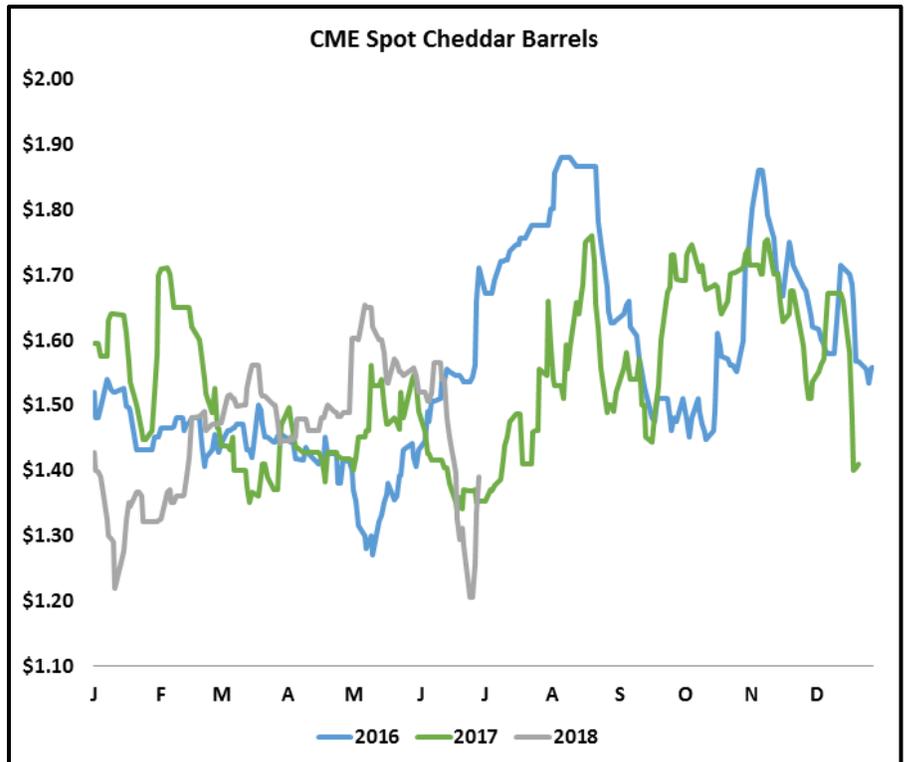
June '18 Final: Quota cwt. \$15.93 Overbase cwt. \$14.23 Cls. 4a cwt. \$14.22 Cls. 4b cwt. \$14.43
Last Week: Quota cwt. \$15.95 Overbase cwt. \$14.25 Cls. 4a cwt. \$14.24 Cls. 4b cwt. \$14.45

Market commentary

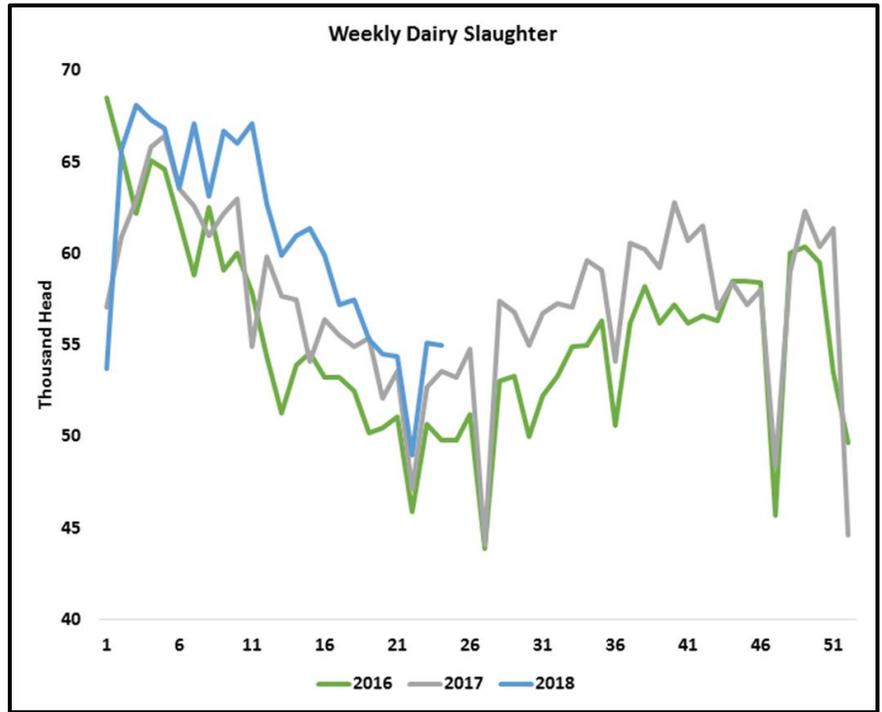
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

The dairy markets were pummeled by a one-two punch over the weekend. The bearish Cold Storage report provided the opening jab, and the Trump administration followed up with a powerful cross after a slew of comments that ratcheted up trade tensions. Already fatigued, CME spot Cheddar barrels hit the mat, dropping to \$1.205 per pound on Monday, the lowest price since July 30, 2009. Blocks fell to a four-month low, at \$1.45. Barrels failed to rise on Tuesday, but by Wednesday they were back in fighting shape, and on Thursday the *Rocky* soundtrack was booming in the background. Barrels finished today at \$1.39/lb., up 10.5¢ since last Friday. Blocks closed at \$1.555, up 6.5¢. Compared to a week ago, most Class III contracts were a few cents higher, but the July and August contracts were a little lower.



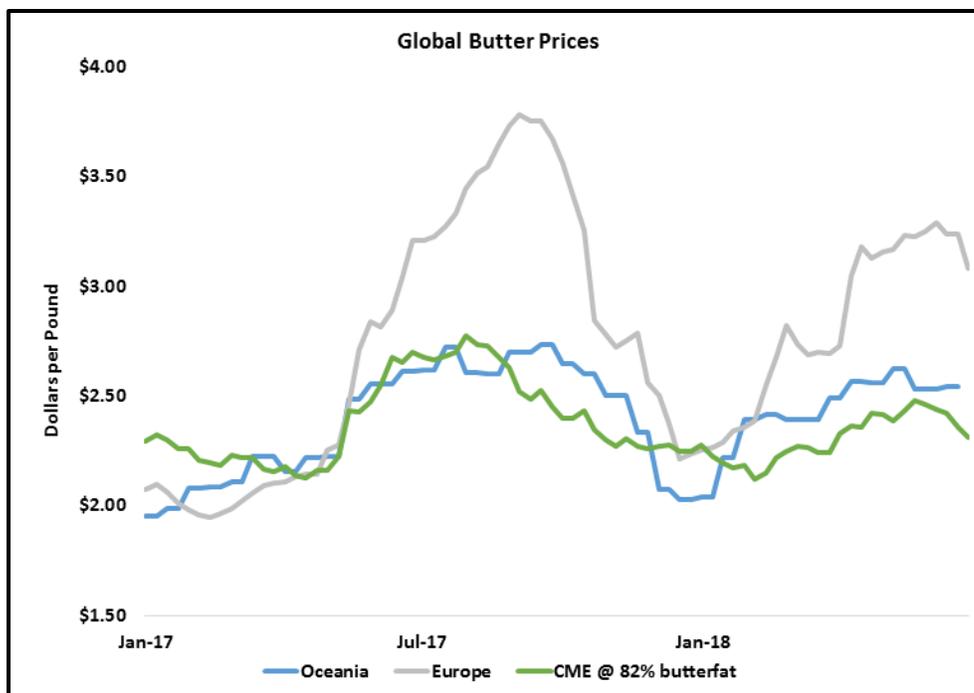
The early week rout was psychologically devastating for dairy producers who were already reeling from months of poor margins. Although the cheese markets managed to finish higher, the very low cheese prices from earlier this week will be factored into the monthly averages that determine producers' milk checks. And the financial recovery that seemed to be so close at hand suddenly seems much further out of reach. Herd dispersals continue and slaughter volumes remain elevated. Through mid-June, dairy slaughter is 4.8% ahead of the 2017 pace.



This week's comeback notwithstanding, the cheese markets have reason to remain on the defensive. Stocks are record large, milk has been plentiful, and domestic demand has turned sluggish. Barrels

abound; traders exchanged 88 loads at the CME last week and another 80 loads this week. Furthermore, *Dairy Market News* reports that "some overseas customers are cancelling their contractual orders" due to trade disputes. If the U.S. and Mexico can't come to terms, the tariff on a variety of U.S. cheeses will jump to 20% or 25% at the end of next week. Europe is taking the opportunity to encroach in the U.S.'s top cheese market.

On the other hand, at these prices, U.S. cheese demand is likely to improve. Importers may be attracted by U.S. cheese values despite the uncertain trade outlook. Meanwhile, it has turned unbearably hot in much of the country, and temperatures are likely to remain well above normal for at least the next two weeks. It's unusually stifling in the United Kingdom and northern Europe as well. Heat stress is building, and milk supplies will start to tighten accordingly.



CME spot whey climbed a penny this week to 40.75¢ per pound. Whey stocks remain tight, but the export-dependent market is on high alert regarding trade prospects. Some foreign customers are putting orders on hold until tariff rates are certain. Exporters are looking for ways to negate the trade impact in the near-term, offering discounts to offset new border taxes and keep product moving. Some cheese exporters are enacting similar measures to preserve sales to long-standing customers in Mexico. In the short run, U.S. dairy product merchants will absorb these cost. In the long run,

they will be borne by foreign consumers and U.S. dairy producers.

The Class IV markets retreated. Spot butter closed at \$2.2675, down 2.25¢ from last Friday. The European butter markets have been on a decidedly upward track since Christmas, but they have slipped in each of the past three weeks. Demand for butter remains respectable, but not strong enough to slow the seasonal stock build.

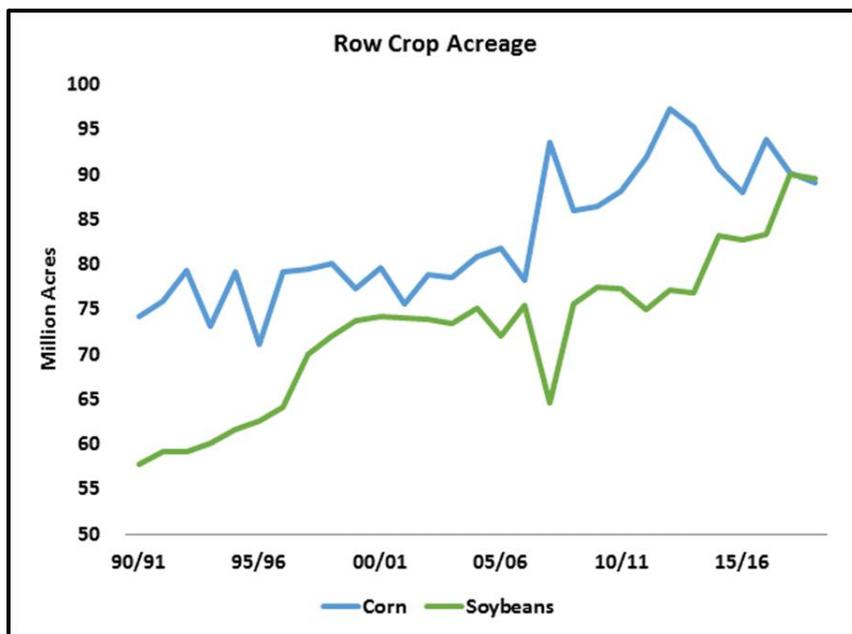
CME spot nonfat dry milk (NDM) slipped 1.5¢ this week to 74.75¢. Skim milk powder (SMP) futures have been falling on the European and New Zealand exchanges. India's Gujarat state government will provide a substantial subsidy on all of Amul's SMP exports over the next six months, which is expected to push 60,000 metric tons, or more than 132 million pounds, of SMP abroad. That volume represents about 10% of India's annual SMP output, and 60% of their typical annual surplus after domestic demand is satisfied. The European Commission is also trying to accelerate its milk powder sales. The Commission will go to twice-monthly tenders for SMP Intervention holdings, up from the current once-a-month offerings.

Fortunately, Chinese demand for SMP continues to impress. China is months behind on reporting its official trade data, but *Daily Dairy Report* calculations based on exports from China's major suppliers show continued year-over-year growth in nearly all dairy product categories through May.

Grain Markets

The feed markets continued to slide this week. The weather has been excellent and Chinese importers are clearly eschewing U.S. soybeans to increase their leverage in the trade war. July soybean futures settled at \$8.585 per bushel, down 36¢ from last Friday. Soybean meal futures dropped \$6.30 to \$332.80 per ton. Nearby corn futures were \$3.5025, down 7¢.

The corn and soybean crops are in great shape, but the next two weeks promise to be very hot. This will not help the corn crop, which is entering its critical pollination stage. The weather will continue to have a huge impact on yield potential and on the feed markets.



Today, USDA issued its annual Acreage and quarterly Grain Stocks reports. Farmers planted 89.1 million acres of corn, which is 1.1 million more acres than they expected based on the March Planting Intentions survey. At 89.6 million acres, soybean acreage was up 575,000 acres from March intentions. After a wet spring, analysts had anticipated a larger increase in soybean acres and a smaller increase to corn acreage, so today's report was arguably bearish for corn. The quarterly stocks figures implied corn and soybean demand was higher than the same three-month period a year ago but a little lower than expectations. This too was bearish. But corn futures shook off the negative news and rallied today. Given the corn market's recent propensity to hold

steady or move lower in the face of bullish news, this reaction was a bit of a head-scratcher. If nothing else, it suggests that grain prices have gone low enough for now.

Senate passes Farm Bill and other related thoughts

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

By a vote of 86 to 11, the U.S. Senate passed its version of the 2018 Farm Bill yesterday. The House passed its version by a vote of 213 to 211 last Thursday. A conference committee of House and Senate members will now meet to reconcile the differences between these two bills and produce one bill that will be considered by both chambers. While there are significant policy differences between the two bills related to food stamps, the dairy title has been remarkably free from the kind of acrimony that Farm Bill dairy policy has attracted in nearly all of the Farm Bills passed over the last 40 years.

So, what is in this Farm Bill for dairy? First off, a name change for the Margin Protection Program. The House wants to call it the Dairy Risk Management Program and the Senate wants to call it the Dairy Risk Coverage program. Who cares, right?

Next comes tweaks to the premium structure for the program. The House wants to make the premiums cheaper for the first five million pounds and raise the buy-up coverage level to a \$9 margin of income over feed cost level. The House leaves the premiums for coverage over 5 million pounds of production per year as they are currently. The Senate not only wants to make premiums cheaper for the first 5 million pounds and raise the coverage level to a \$9 margin, they also want to raise the premiums for the over 5-million-pound coverage levels.

Then to underscore that this program is really only viable for the smaller producers, they want to discount by 50% the premiums due from producers with less than 2 million pounds of annual production with a 25% discount for producers with 2 -10 million pounds of annual production. The one bone that is tossed to larger producers is that the catastrophic coverage level is raised in the Senate bill to a \$5 margin from the current \$4.

What this means is that if the income over feed margin gets under \$5 the program begins to pay, but to make it fit in the budget box, the catastrophic coverage payment will only cover 40% of your production instead of 90% of your production which is what it is now with the \$4 kick-in level. It is still an improvement; 40% of a \$5 margin is better coverage than 90% of a \$4 margin. But the bottom line is, in both the Senate and the House bills, the government's dairy safety net program is being blatantly re-designed as a small dairy only safety net program with mid-sized and large dairies left to fend for themselves.

There is one other thing in the farm bill worth noting. The Class I price formula is being changed in both of these bills. Currently the Class I formula uses the **higher of** either the Class III cheese/whey value or the Class IV butter/powder value to determine the base price every month for determining Class I price levels. The processors have complained for years that this "higher of" feature makes hedging Class I milk prices very difficult. Some time ago they approached the producers with the suggestion that instead of using the "higher of," the Class I formula would use the **average** of those two values. The producers expressed a willingness to consider this if the processors would support raising the Class I price level to offset the loss of the "higher of" feature. It was determined that since the implementation of the "higher of" formula in 2000 this feature added an average of \$0.74 to the Class I price. The processors are willing to support raising the Class I price by \$0.74 in exchange for changing the "higher of" to the average and both the Senate and the House Farm Bills order USDA to make this change in the Federal Order Milk Pricing formulas.

My thoughts: The dairy industry has changed a lot in the past 5 years. When the 2014 Farm Bill was passed, the big fight was over the supply management feature of National Milk Producers Federation's (NMPF) Foundation for the Future program. While modest, the Margin Protection Program that was ultimately adopted originally included a supply management feature that would kick-in when margin payments were being paid. House Speaker John Boehner in particular hated this concept and personally saw to it that it was removed from the final bill. Well that was then and this is now. In retrospect, the supply management component would not have worked. Because premiums were required and not many payments were made, people are complaining that the Margin Protection

Program is not valuable. So, Congress is in the process of making the program really valuable, but only to small farmers. Now there is a very logical reason for this. Politicians respond to their constituents and in dairy policy the politicians who have the most influence over the dairy title in the Farm Bill come from regions of the country that have seen the biggest change in the economic condition of their local dairymen. The surge in milk production in the Northeast and the Upper Midwest over the past 5 years has dramatically cut the premiums these folks were enjoying, resulting in a significant drop in mailbox prices and a corresponding cost/price squeeze on the local dairy industry, which translates into pressure on their elected officials.

But what else is going on that makes me say that supply management would not have worked? It's the market. When you are dependent on exports to move 18% of your production, then world prices for dairy products play a huge role in what we get paid for our milk. Canada only maintains their supply management program by spending massive amounts of political capital maintaining very high tariffs to keep out competing dairy products from the rest of the world. That won't work in the U.S. Modest national supply management programs like what was proposed in Foundation for the Future would not be enough to alter the supply/demand situation in the world, which is what you would have to do to have the supply management program have any effect on milk prices. So, like it or not, I don't think a national supply management program is viable.

Which leads me to another observation: We have witnessed for some time a huge gap between block and barrel cheese prices. The question that raises in my mind is how can barrel cheese manufacturers afford to sell their barrel cheese at that kind of a discount. My conclusion is that the only way they afford to do that is because those barrels were made with surplus milk they bought at a big discount. Having a lot of surplus milk sloshing around the upper Midwest and Northeast is not a good thing for those producers, but it's not good for the rest of us either because that milk gets turned into something, maybe barrel cheese and gets dumped on the CME where it is sold cheap and then undermines the price for all the other cheese and consequently undermines the milk prices producers everywhere get paid. While it is dairy farmers who are making the milk in these areas, there is a severe shortage of manufacturing capacity in those areas and building more is difficult economically because the make allowance for the cheese and to some extent powder has not been updated in many years and is now significantly lower than the actual cost to make bulk cheese and powder in this country.

Let me readily admit that I spent most of my career opposing generous make allowances in California, but that was because California operated a State Order and increases in the California make allowance lowered California producer prices, but not the milk prices of our competition in the rest of the country who were in the Federal Milk Marketing Order (FMMO) system. With California joining the FMMO system, changes to the FMMO make allowances will not disadvantage us relative to the rest of the country. And within reason, increased make allowances should incentivize the expansion of plant capacity in places where there is extra milk. This should, in time, alleviate some of the massive surpluses that are undermining our milk price now. As producers we really do need a healthy processing sector and some modest changes to the FMMO make allowances are part of the answer to shoring them up.

In the meantime, we are in a pretty volatile situation. We have a trade war brewing that we are powerless to control, which is creating havoc on both our milk pricing side and our feed cost side. We literally are pawns in a chess game being played by others. The Farm Bill will be of limited value to most of the larger dairy producers in the country. It could have been a big negative if payment limits on crop insurance subsidies were passed as some Senators were proposing. USDA's Risk Management Agency will be coming out soon with the Dairy Revenue – Insurance program that shows real promise as a risk management tool for all producers. But the bottom line is what it has always been for dairy farmers; you don't solve problems so much as you outlast them. You keep plugging away every day and eventually good things happen.

Spotlight on technology: Automatic feed pusher offers efficiency, air quality benefits

By Catherine Machado, MPC Northern Central Valley Representative

The modern California dairy farm continues to evolve through adaption and integration of new technologies, resulting in improved efficiencies throughout dairy operations. At Milk Producers Council, we like to take the opportunity to showcase new technologies to you, our members, because we know you are constantly looking for ways to be more productive on the farm, provide the best care for your animals, and be more efficient with your time and resources.

Today we spotlight the [Lely Juno](#), an automatic feed pusher gaining attention and interest throughout the dairy community. According to Lely, the goal of the Juno is to “ensure there is always clean feed for each individual cow, resulting in a positive effect on animal health, fertility, production and your financial results.”

In addition to this technology benefitting an individual dairy farmer, it also has a positive effect on local air quality by replacing diesel powered tractors typically used to push-up feed with an electric charging system. According to Lely, the Juno uses no more than 1 kilowatt per day based on the experience of their users.



The Lely Juno automatic feed pusher on E.J. de Jong's dairy in Hanford, California.

Lely recently teamed-up with MPC member E.J. de Jong, owner of Wreden Ranch in Hanford, and Avila Dairy Equipment to host a demonstration of the Juno feed pusher. We encourage anyone interested in the automatic feed pusher technology to contact me or Avila Dairy Equipment to schedule a visit to Wreden Ranch to see the Juno in action (contact information below).



From L to R: Richard Avila (Avila Dairy Equipment), Kevin Abernathy (MPC), Aaron Tarango (Air District), E.J. de Jong (Wreden Ranch) and Helge Cromann (Royal Danish Embassy) discuss the automatic feed pusher.

Earlier this month, members of the San Joaquin Valley Air Pollution Control District (Air District) and members of the Royal Danish Embassy toured de Jong's dairy to learn more about the automatic feed pusher. See video of the Juno automatic feed pusher on the Wreden Ranch [here](#).

Through the Air District's Electric Dairy Feed Mixing Pilot Program, producers are eligible to receive incentive funding for incorporating technology such as the Lely Juno on their dairies. Due to the complexity of the incentive funding application, I encourage producers to contact me or MPC General Manger Kevin Abernathy for assistance in applying for the program.

The ingenuity, leadership and innovative

attitude of MPC members such as E.J. de Jong provides tremendous opportunities for partnerships and incentive funding for the benefit of all California dairy families. We look forward to continuing to serve our members by identifying new opportunities to improve producer viability and growth across the California dairy community.

Contact Catherine Machado at Catherine@milproducers.org or 559-363-0313. Contact Richard Avila, Bill Davis or Darrin DeRuiter with Avila Dairy Equipment at 559-582-9649.

**The next MPC Friday Report will be published on Friday, July 13, 2018.
The MPC Board & Staff wish a Happy Independence Day to all our dairy families!
God Bless America!**

