



Milk Producers Council



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DATE: April 7, 2017
 TO: Directors & Members

PAGES: 4
 FROM: Kevin Abernathy, General Manager

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE

Blocks - \$.0600 \$1.4600
 Barrels - \$.0350 \$1.4350

Weekly Average, Cheddar Cheese

Blocks + \$.0250 \$1.4980
 Barrels + \$.0545 \$1.4605

CHICAGO AA BUTTER

Weekly Change - \$.0100 \$2.0975
 Weekly Average + \$.0265 \$2.1280

DRY WHEY

Dairy Market News w/e 04/07/17 \$.5000
 National Plants w/e 04/01/17 \$.5285

NON-FAT DRY MILK

Week Ending 3/31 & 4/1

Calif. Plants \$0.8310 25,756,620
 Nat'l Plants \$0.8272 38,117,981

Prior Week Ending 3/24 & 3/25

Calif. Plants \$0.8308 21,067,814
 Nat'l Plants \$0.8379 30,630,051

Fred Douma's Price Projections...

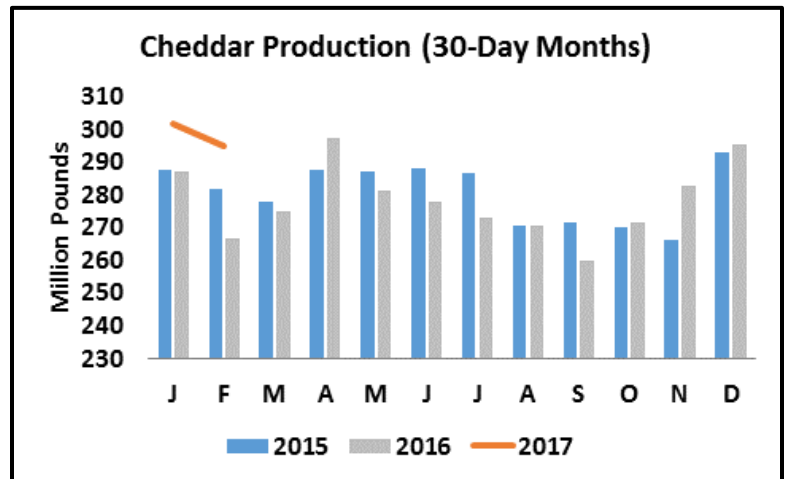
April 7 Est: Quota cwt. \$15.61 Overbase cwt. \$13.92 Cls. 4a cwt. \$13.64 Cls. 4b cwt. \$14.12
 Last Week: Quota cwt. \$15.79 Overbase cwt. \$14.09 Cls. 4a cwt. \$13.64 Cls. 4b cwt. \$14.50

Market Commentary

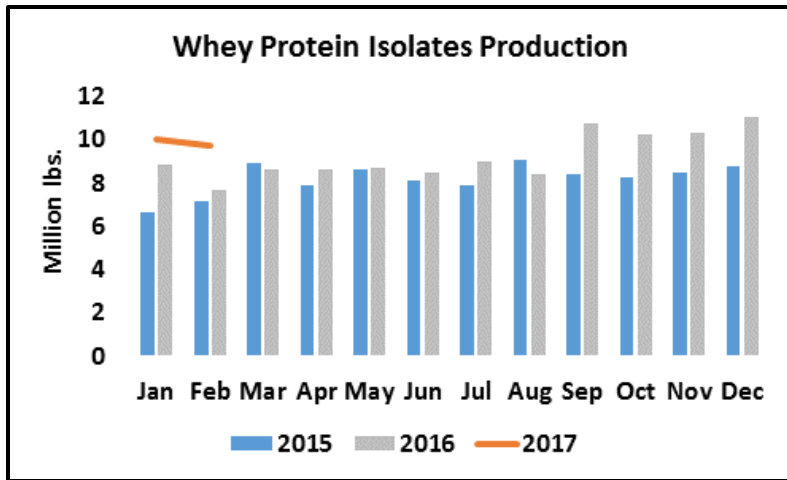
By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets

It is inevitable; more milk means more dairy products. Cheese output totaled 941.7 million pounds in February, up 2.1% from a year ago after adjusting for leap day. Production of Cheddar cheese, the CME benchmark product, jumped an astounding 10.7% year-over-year. *Dairy Market News* reports that in the Northeast, "cheese plants continue to operate seven-day workdays. Cheese stocks are building." Demand has been mixed, with some reports of increased interest due to cheaper offerings, and the hope that more competitive pricing will increase export opportunities. Export sales did pick up in February, but European cheese prices have since retreated. Meanwhile, the uptick in domestic demand appears to be more of a willingness to stockpile product and wait for a rally than a sign of increased consumption. Retail sales have been disconcertingly sluggish. The CME spot market retreated this week. Blocks finished at \$1.46/lb., down 6¢. Barrels closed 3.5¢ lower at \$1.435.



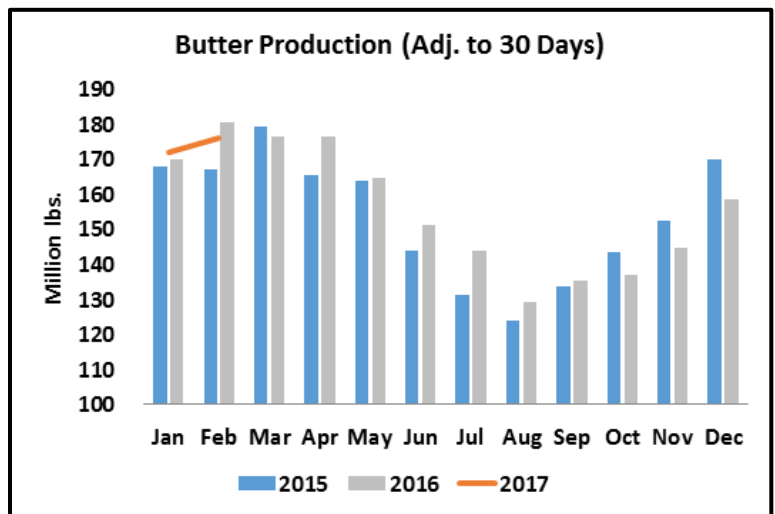
After adjusting for leap day, February production of dry whey for human consumption was 6.8% greater than a year ago. There was plenty of whey for other products as well. Production of whey protein concentrates (WPC) was 3.4% greater than a year ago, and output of whey protein isolates continues to impress, with year-over-year production up 27.3% in February. Protein demand has been robust. Dry whey exports were up 15.6% from a year ago in February, and WPC exports surged nearly 40%. But higher prices cloud the outlook for demand. Dry whey prices reached two-year highs at the end of March, according to the National Dairy Product Sales Price Report.



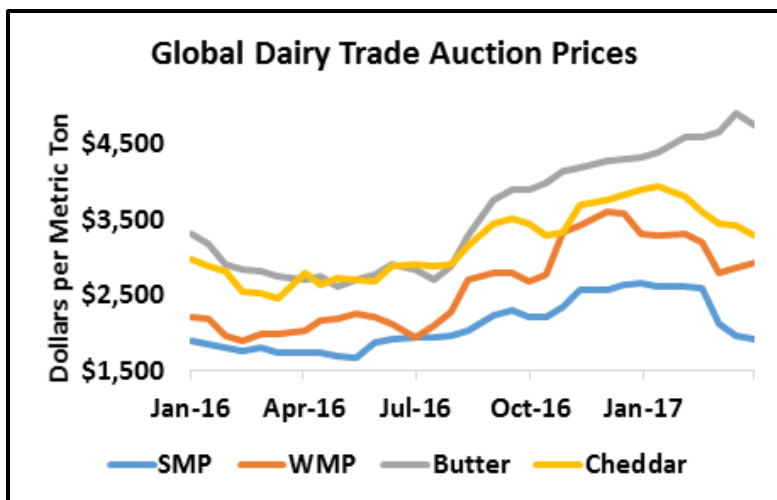
Competition is picking up overseas and milk powder offers a cheap source of protein at home. Whey futures retreated this week, and Class III futures finished deep in the red. The June contract lost 68¢.

The butter market rallied early in the week and then faded. CME spot butter finished today at \$2.0975, down 1¢ from last Friday. Most Class IV contracts settled between 10¢ and 30¢ lower. February butter output faded to 164.3 million pounds, down 2.4% from a year ago. Production was constrained along the West Coast and in Idaho after a bout of harsh winter weather. Going forward, churns are likely to increase output. Cream is plentiful, and Passover and Easter orders have been filled.

The CME spot nonfat dry milk (NDM) market lost a penny on Monday and regained it on Friday, finishing steady at 81¢. At the Global Dairy Trade (GDT) auction, skim milk powder (SMP) fell 0.8%, while whole milk powder (WMP) climbed 2.4%, enough to push the GDT Index up 1.6% from the previous event. Adjusting for protein, GDT SMP is equivalent to NDM at 93¢, well above the spot price in the U.S. In Europe, prices have dipped back below the government’s floor price. The Intervention purchase program is once again in play, and Poland added a small volume to the government’s colossal milk powder stockpile.



U.S. production of NDM and SMP totaled 180.1 million pounds in February, up 3.4% from a year ago, but short of daily average output in January. Low prices allowed merchants to keep product moving. Exports reached 114.6 million pounds, up 30.6% from the previous year on a daily average basis. Despite all the heated rhetoric, shipments to Mexico were up an impressive 38% from last February. Nonetheless, manufacturers stocks climbed 33 million pounds to 259.7 million pounds, up 19.9% from a year ago.



Dairy products will continue to pile up unless demand grows more quickly than supply. That is unlikely to happen in the near term. Milk is sloshing around, and the lack of processing capacity is becoming a major issue. This week Wisconsin-based Grassland Dairy Products

informed 75 dairy producers that beginning in May it could no longer take their milk. Grassland had been selling the equivalent of one million pounds of milk per day to Canada in the form of ultra-filtered milk. Canada has been threatening to cut off those imports for a while, reclassifying the milk as “Class VII” so that it could be stopped at the border. Canada made good on those threats with very little notice, leaving Grassland and others without a market. The National Milk Producers Federation, U.S. Dairy Export Council, and the International Dairy Foods

Association are calling on the U.S. to take immediate action against Canada's trade violation. But the wheels of bureaucracy turn slowly, and milk and dairy product markets sour quickly.

In this oversupplied environment, dairy producers are bearing the brunt of the pain. Some small producers in Wisconsin and those in similar straits in New York could throw in the towel. Others will scramble to find new homes for their milk, and they probably won't be well-paid. The impact of this excess milk on dairy producer premiums will ripple through both regions.

USDA announced March Class III milk at \$15.81/cwt., down \$1.07 from February but up \$2.07 from a year ago. California 4b milk was \$13.76, down \$2.05 for the month and up 52¢ from last year. At \$14.32, March Class IV milk was down \$1.27 from last year but up \$1.58 from March 2016. California 4a milk dropped to \$13.96 in March, down \$1.44 from February but up \$1.55 from last March.

Grain Markets

May corn settled at \$3.595 per bushel today, almost a nickel lower than last Friday. At \$9.42, May soybeans were 4¢ lower. South America's big crops and abundant domestic supplies continue to weigh on both markets. In Brazil, weather conditions are nearly ideal. In parts of Argentina, heavy rains have damaged the soybean crop and slowed harvest. Still, estimates of South American crop production continue to climb. Feed prices will move back and forth on the whims of the weather, but it will be difficult to sustain a substantial rally without widespread crop issues this season.

CDFFA Holds a Meeting and Makes an Announcement

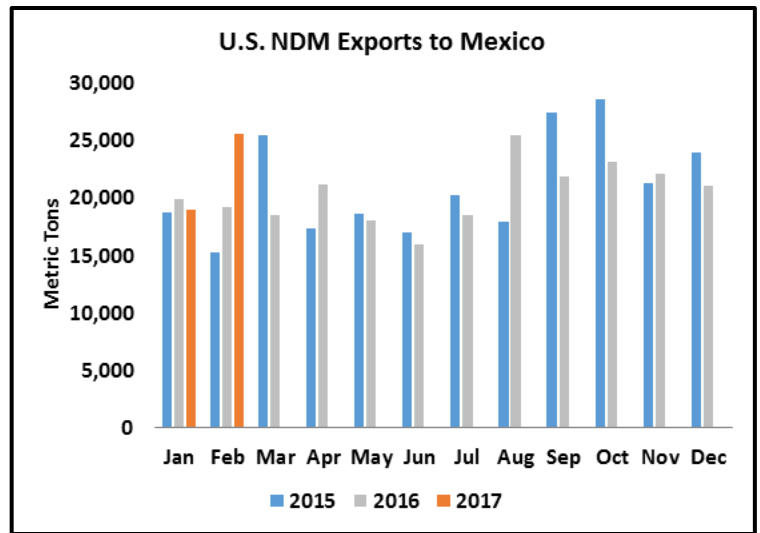
By Geoff Vanden Heuvel, MPC Board Member and Economic Consultant.

On Tuesday, April 4, 2017, the California Department of Food and Agriculture (CDFFA) conducted a public meeting in Modesto. Dairy producers provided input as to how CDFFA should manage quota in the event that California producers vote to enter the Federal Milk Marketing Order (FMMO) program.

The meeting, which was very well attended by producers and other interested parties, was led off by comments from CDFFA Deputy Secretary Jim Houston. He said the department was reviewing the legal authorities and responsibilities given it by California law and emphasized that Secretary Karen Ross and the entire department were committed to facilitating industry self-determination with regards to the decision about whether or not to join the FMMO system. He stated that CDFFA recognized its role that USDA had assigned in regards to the California Quota program, in a FMMO. There were three questions CDFFA was seeking answers to. They were:

1. Should all Grade A milk be subject to a quota assessment or only pooled milk?
2. What is the best mechanism to gather the requisite data from handlers to calculate the necessary deduction as this will not be provided for under the FMMO?
3. What is the process by which CDFFA shall collect, distribute and enforce quota payments?

As we mentioned in last week's article, the first question is really the important one: Should all Grade A milk be



subject to a quota assessment or only pooled milk? This question was addressed by almost all speakers.

The meeting was organized by panels, the first made up of representatives of Land O Lakes, California Dairies, Inc., and Dairy Farmers of America, and among other comments, they strongly supported assessing all Grade A milk in California to fund the quota payments. Next a panel made up of California Dairy Campaign, Western United Dairymen and Milk Producers Council spoke and they too, among other comments, strongly supported assessing all Grade A milk in California to fund the quota payments.

After the panels were through, a microphone was passed around which enabled anyone in the audience to make a comment. Many producers said that even though they owned little or no quota, they supported the idea that all Grade A milk be assessed in order to fund the quota program, understanding that without the continuance of the quota program there would not be sufficient support from producers to adopt a California FMMO. And of course, producers that were large quota holders made it clear that the millions of dollars they have invested in the quota program needed to be protected in order for them to support the adoption of a California FMMO.

The support for assessing all Grade A milk to fund the quota program was not unanimous. There was a large California producer, who also operates a cheese plant, who said that even though they shipped Grade A milk they are not part of the California pool now and would object to having to pay an assessment to fund the quota program in a California FMMO. There was dialogue around that objection, which was healthy, but clearly there are trade-offs. The bottom line is that the reason to consider adopting a FMMO is that the milk price will be higher for all producers, but the quota values need to be protected and there are probably other concerns that will need to be considered as well.

Deputy Secretary Jim Houston outlined the way the department intended to proceed and made an announcement that the Producer Review Board (PRB), which has existed since the beginning of the Milk Pooling Plan in 1969 and usually meets just to review quota transfer hardship cases and the Milk Pooling Branch budget, would be tasked with the responsibility to design and then recommend the actual mechanism that CDFA would use to carry out the administration of the quota program in a California FMMO. He indicated that the current PRB has six California producer members and the Secretary would be appointing seven more California market milk producers for a total committee of 13.

Applications were distributed at the meeting and are also available on-line at: <https://goo.gl/dya0Ad>. If you are interested in being part of that committee and you meet the criteria outlined on the application you need to get your application in before May 1, 2017. The responsibility that is being given to this committee is huge, but the opportunity to have producers actually design the system is well in keeping with the task performed by our grandfathers when they created what became the Gonzalves Milk Pooling Act nearly 50 years ago. Let us pray that we will rise to the occasion and produce a result that will do as well to serve the next generations of California dairy families.
