# Milk Producers Council

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**DATE: March 4, 2016** **PAGES: 3**
**TO: Directors & Members** **FROM: Rob Vandenheuvel, General Manager**

### *MPC FRIDAY MARKET UPDATE*

| **CHICAGO CHEDDAR CHEESE** | | |
|---|---|---|
| Blocks | *+$.0400* | $1.5200 |
| Barrels | *+$.0300* | $1.4600 |
| **Weekly Average, Cheddar Cheese** | | |
| Blocks | *+$.0140* | $1.4760 |
| Barrels | *+$.0085* | $1.4430 |

| **CHICAGO AA BUTTER** | | |
|---|---|---|
| Weekly Change | *+$.0625* | $2.0400 |
| Weekly Average | *- $.0335* | $1.9925 |
| **DRY WHEY** | | |
| **Dairy Market News** | w/e 03/04/16 | $.2500 |
| **National Plants** | w/e 02/27/16 | $.2589 |

| **NON-FAT DRY MILK** | | |
|---|---|---|
| **Week Ending 2/26 & 2/27** | | |
| Calif. Plants | $0.7762 | 6,337,795 |
| Nat'l Plants | $0.7677 | 14,117,808 |
| ***Prior Week Ending 2/19 & 2/20*** | | |
| *Calif. Plants* | *$0.7789* | *6,490,672* |
| *Nat'l Plants* | *$0.7716* | *15,810,920* |

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**FRED DOUMA'S PRICE PROJECTIONS…**

| | | | | |
|---|---|---|---|---|
| **Mar 4 Est:** | **Quota cwt. $14.83** | **Overbase cwt. $13.13** | **Cls. 4a cwt. $12.87** | **Cls. 4b cwt. $13.41** |
| **Feb '16 Final:** | **Quota cwt. $14.77** | **Overbase cwt. $13.07** | **Cls. 4a cwt. $13.26** | **Cls. 4b cwt. $13.05** |

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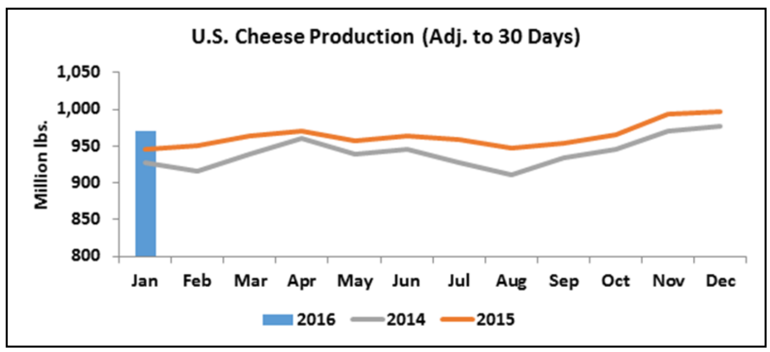
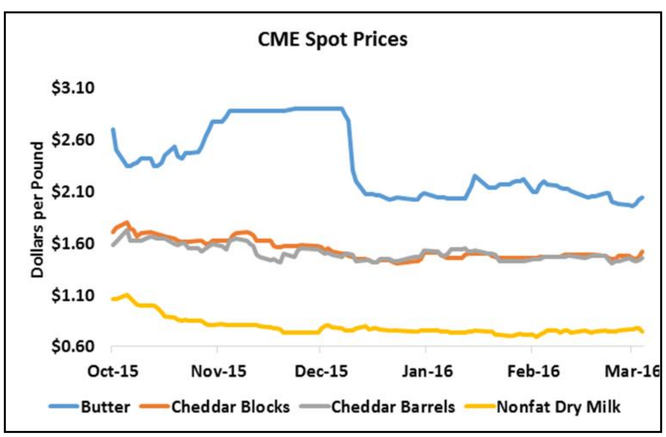
**MARKET COMMENTARY:** *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

*Milk & Dairy Markets*

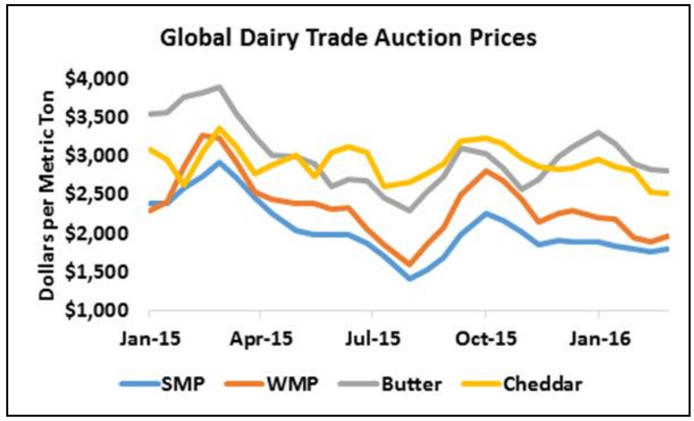



U.S. cheese production in January totaled 1.003 billion pounds, up 0.9% from the prior year and the largest January volume on record. *Dairy Market News* reports that, of late, "A number of plants [in the Midwest] concerned with further growth of long inventories of blocks and barrels, have begun to turn away loads of milk." The spring flush looms large. And yet, on Friday CME spot Cheddar blocks closed at $1.52/lb., up 4¢ to their highest price since early December. Barrels gained 3¢ and finished at $1.46. Nearby Class III futures climbed a few cents, but the June to December contracts settled mostly 10¢ to 20¢ lower than last week.

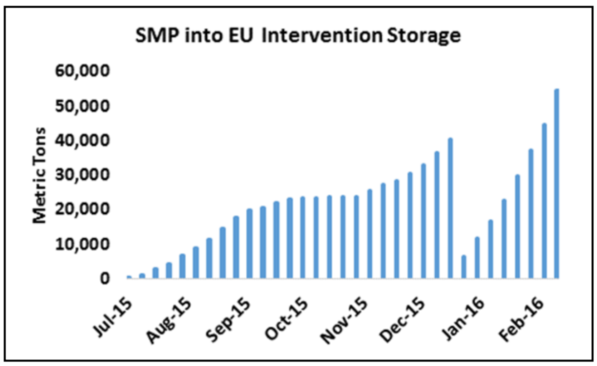



Butterfat flexed its muscle this week. Boosted by visions of post-Lent demand, the spot butter market and every 2016 futures contract on the board are comfortably over the $2.00 mark. CME spot butter closed at $2.04, up 6.25¢ from last Friday. The milk powder market started strong but faded Friday and spot nonfat dry milk (NDM) finished at 74¢, down 2¢ for the week. Class IV futures were mixed and little changed.

Milk powder prices moved higher at the Global Dairy Trade (GDT) auction Tuesday. Whole milk powder (WMP) was particularly buoyant, up 5.5% from the previous event. Skim milk powder (SMP) prices gained 1.3%. Lactose and casein were very strong. But anhydrous milkfat fared poorly, losing 8.3%. Butter and Cheddar posted small losses, down 0.5% and 0.7%, respectively. The trade-weighted index rose 1.4%, which represents both a welcome contrast to this year's string of losses and a modest disappointment relative to expectations.



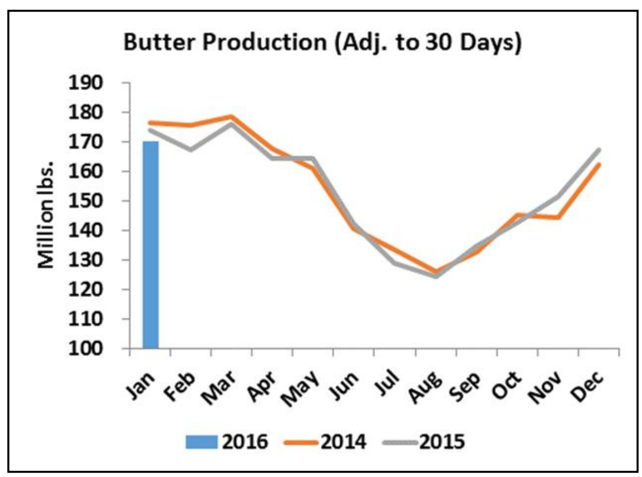

Milk output remains heavy in Europe and processors have expressed concerns about handling all the milk they will surely face during the flush. They are already sending ever larger volumes of product into the government's storage schemes. Last week, manufacturers sent 9,880 metric tons of SMP into the intervention purchase program, by far the largest volume in any week in years. That product will eventually have to return to the market, and it will face plenty of competition. U.S. SMP output in January totaled 51.2 million pounds, up 17.3% from a year ago. Domestic processors are eyeing the export market and shifting milk away from NDM into SMP. NDM output in January was down 17.4% from a year ago. Manufacturers' stocks of NDM still climbed relative to December volumes, but they were 5.7% below January 2015 inventories.




U.S. butter production in January totaled 175.7 million pounds, a curiously small total given low cream multiples and reports that churns were running heavy throughout the month. That volume is 1.6% greater than December but down 2.1% from a year ago.

USDA reported the national average All-Milk price at $16.10/cwt. in January, the lowest price by that measure since July 2010. The agency announced the February Class III price at $13.80, up 8¢ from the previous month, but down $2.46 from a year ago. At $13.05, the California 4b milk price is down 3¢ from January. California 4a milk was $13.28 in February, up 2¢ month-to-month. Class IV milk was $13.49, up 18¢ from January and down 33¢ from February 2015.

Feed costs are also coming down. Soybean meal prices – the last holdout of the ethanol and drought-era farm boom – have fallen to a more than five-year-low. Corn and alfalfa costs continue to languish. This has helped to offset some of the decline in milk prices. The national average milk income over feed margin, as calculated under the Margin Protection Program, totaled $8.06/cwt. in January. Unless the February average is $7.89 or lower, not even the 130 dairy producers who paid for the highest $8/cwt. insurance coverage will receive an indemnity payment in the January-February insurance period. On paper, the U.S. dairy industry is healthy.




But ask any dairy producer about their finances and they will scowl. Part of this is the flaw of national averages. What good does a $16.10/cwt. All-Milk price do for a California dairy producer earning much less? But dairy producers understand the ways that their individual operation differs from the average. The national average margin has typically at least provided an indication of the direction that margins have moved over time. Today, however, it is not capturing the pain that dairy producers unquestionably feel.

The reasons are numerous. There has been less opportunity to secure higher milk prices through hedging. Most dairy producers haven't enjoyed the full impact of lower feed costs, because they grow rather than purchase much of their own feed, or because they're sitting on a corn silage pile or a feed contract locked in somewhere north of the lows posted last month. For those who farm in the Midwest, lower feed costs are no solace at all in the interminable days of smaller milk checks. Indeed, they are likely losing money farming and then losing money making milk, all while watching the value of their farmland sink.

Indeed, nearly every asset on the dairy is declining in value. The beef value of cull cows and bull calves have fallen precipitously. Milk cow and heifer values are down from the 2014 peak but still surprisingly high in light of much lower milk prices and forecasts for more of the same. How long can that last? Dairy producers are feeling the pinch from all sides in ways that cannot be captured by subtracting national average feed costs from the All-Milk price. But they're still making plenty of milk.

For the week ending February 20, dairy cow slaughter totaled 58,813 head, up 2.6% from the same week a year ago. After eight weeks, the cull rate is 0.4% behind the 2015 pace.

_Grain Markets_
March corn futures ended the week right where they began, at $3.545 per bushel. March soybean futures closed at $8.7025, up 14.5¢. Soybean futures have been bolstered by strength in the Brazilian real. The currency gained 6% versus the dollar this week and climbed to a six-month high.

Brazil's currency and its stock market have been supported by news that police detained the popular former president Lula da Silva. That may not sound like a reason for strength, but the trade is hopeful that it signals the final stages of a far-reaching corruption investigation. A kick-back scandal involving the state-owned oil company has dragged on for two years and ensnared the current president, who has faced impeachment charges. The investigation has paralyzed the government, and investors clearly hope that Brazil can turn the page and get back to carrying out its most basic government duties.

But the strengthening real represents a discount to Brazil's farmers who were gladly selling their soybeans to the export market. Now that the price of soybeans in Brazil has fallen in real terms, farmers are selling less. U.S. exporters hope to take their place, and so the soybean market is on the way up.

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**SEVEN MONTHS INTO THE TEMPORARY CLASS 4B ADJUSTMENT, AND THE "RELIEF" IS STILL VERY LIMITED:** *(By Rob Vandenheuvel)* The California Discount continued in February *(now wait as our readers gasp in surprise…)*, with the California Class 4b price trailing the Federal Order Class III price by $0.75/cwt. Taking a look at CDFA's temporary Class 4b adjustment, we saw a net gain of +$0.07/cwt compared to what the Class 4b price would have been under the previous formula *(which will be restored in August 2016 unless something happens before then)*. To be fair, CDFA's temporary adjustment was structured to provide much more additional revenue in producers' milk checks (compared to the previous formula) when dry whey market prices are higher, which is obviously not the environment we are currently living in. So while we are certainly glad to see the California Discount at a lower rate than years past ***(which averaged $1.74/cwt from 2010-2015)***, we nonetheless yearn for a day when California dairy families are on a level playing field with our colleagues and competition around the country.

**CDFA's Temporary Class 4b Adjustment***

| | What Feb '16 would have been with<u>out</u> CDFA's Adjustment | Actual Feb '16 | Net Benefit in Feb '16 |
|---|---|---|---|
| **California Class 4b Price** | *$12.98* | **$13.05** | |
| **FMMO Class III Price** | *$13.80* | **$13.80** | |
| **Discount** | **($0.82)** | **($0.75)** | **+$0.07** |

** CDFA's temporary changes to the Class 4b pricing formula are set for August 2015 – July 2016*

To that end, some of you may be curious where the process stands in considering a California Federal Milk Marketing Order (CA-FMMO). The short answer is that hearing participants have finished submitting transcript corrections, and we are waiting to see any "post-hearing briefs and proposal modifications" submitted by the legal counsel for the four proposal authors. Those are due by March 31$^{st}$. Any replies must then be submitted by May 16$^{th}$. Assuming that schedule holds, the hearing record will then be officially closed, and the next thing we see should be USDA's draft "Recommended Decision," expected to be published later this year for review and comment. A long, but worthwhile process, so stay tuned…