Milk Producers Council

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DATE: August 10, 2018 **PAGES: 5**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	*+ $.0700*	$1.6575
Barrels	*+ $.1450*	$1.6200
Weekly Average, Cheddar Cheese		
Blocks	*+ $.0670*	$1.6110
Barrels	*+ $.0995*	$1.5345

CHICAGO AA BUTTER		
Weekly Change	*+ $.0200*	$2.3400
Weekly Average	*+ $.0170*	$2.3240
DRY WHEY		
Dairy Market News	w/e 08/10/18	$.3900
National Plants	w/e 08/04/18	$.3543

NON-FAT DRY MILK		
Week Ending 8/3 & 8/4		
Calif. Plants	$0.7781	10,878,523
Nat'l Plants	$0.7976	20,899,674
Prior Week Ending 7/27 & 7/28		
Calif. Plants	*$0.7666*	*10,702,657*
Nat'l Plants	*$0.7795*	*22,861,529*

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Fred Douma's price projections…

August 10 Est:	**Quota cwt. $16.13**	**Overbase cwt. $14.44**	**Cls. 4a cwt. $14.08**	**Cls. 4b cwt. $15.11**
Last Week:	**Quota cwt. $15.95**	**Overbase cwt. $14.25**	**Cls. 4a cwt. $14.04**	**Cls. 4b cwt. $14.73**

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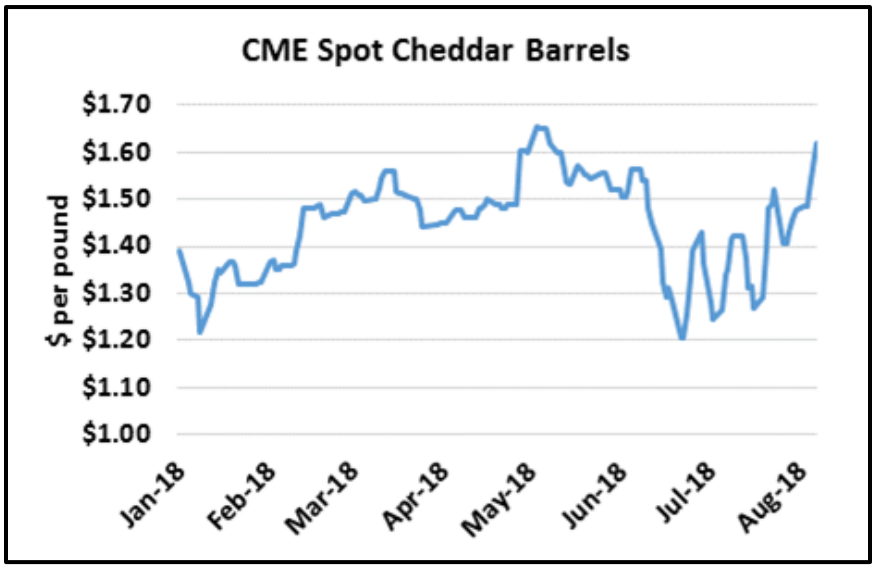
Market commentary

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

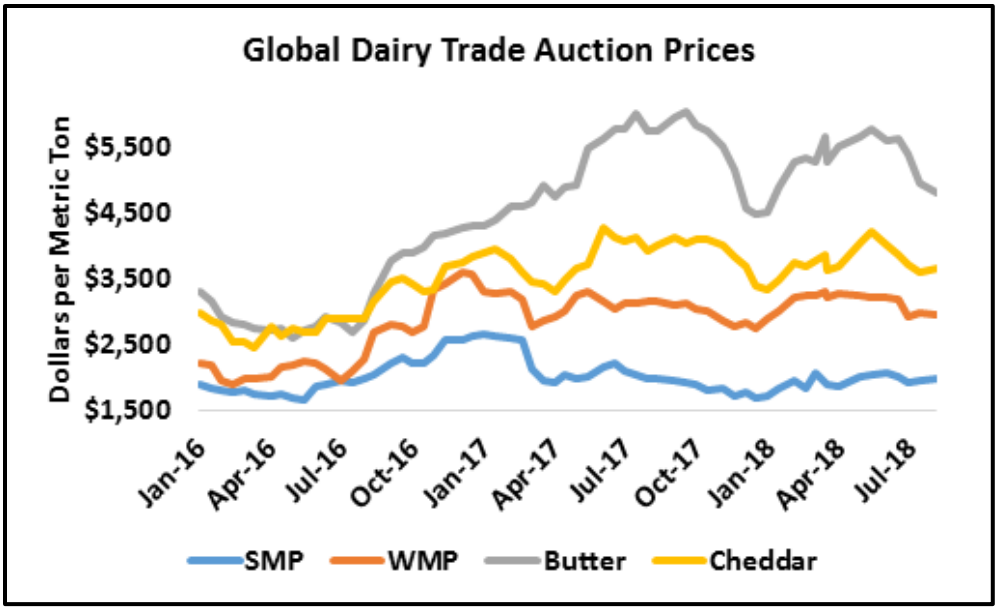
Milk & Dairy Markets



As befits the weather, the dairy markets are heating up. CME spot Cheddar blocks and barrels both jumped to three-month highs today, putting them back above where they stood before Mexico announced tariffs on U.S. cheese exports in late May. Blocks climbed 7¢ this week to $1.6575 per pound. Barrels surged 14.5¢ to $1.62.

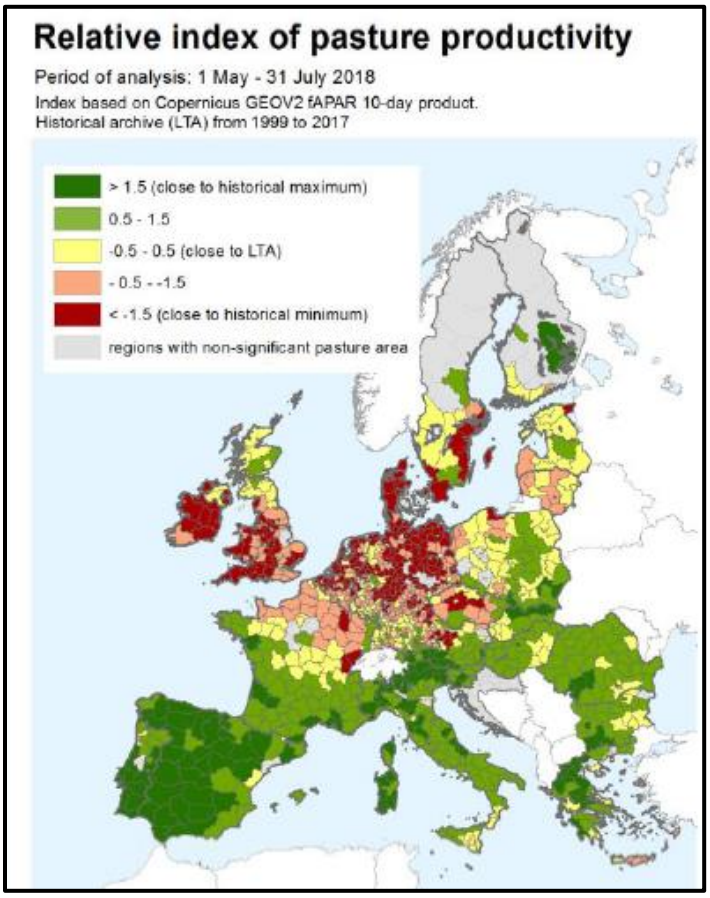
The whey market continues to inch higher. This week CME spot whey powder closed at a new high of 44.25¢, up 0.75¢ from last Friday. September 2018 through August 2019 whey futures settled at new contract highs. That helped Class III futures contracts to their best finish since mid-June. Most contracts added 15 or 20¢ this week, and September Class III rallied 45¢ to $16.13 per cwt.

The butter and milk powder markets also moved upward, albeit with less velocity. CME spot butter gained 2¢ this week and reached $2.34. Spot nonfat dry milk (NDM) added a quarter-cent, closing at 83¢. Nonetheless, Class IV futures were steady at best, with some contracts slipping a few cents from last Friday's settlement.



Dairy products put in a mixed performance at Tuesday's Global Dairy Trade (GDT) auction, and the GDT Index was steady with the previous event. Given the rally in NZX dairy product futures ahead of the auction, the results underwhelmed. The average winning price for skim milk powder (SMP) slipped 0.3% from the previous auction, to the equivalent of NDM at 95¢ per pound. Whole milk powder (WMP) gained a paltry 0.1%.

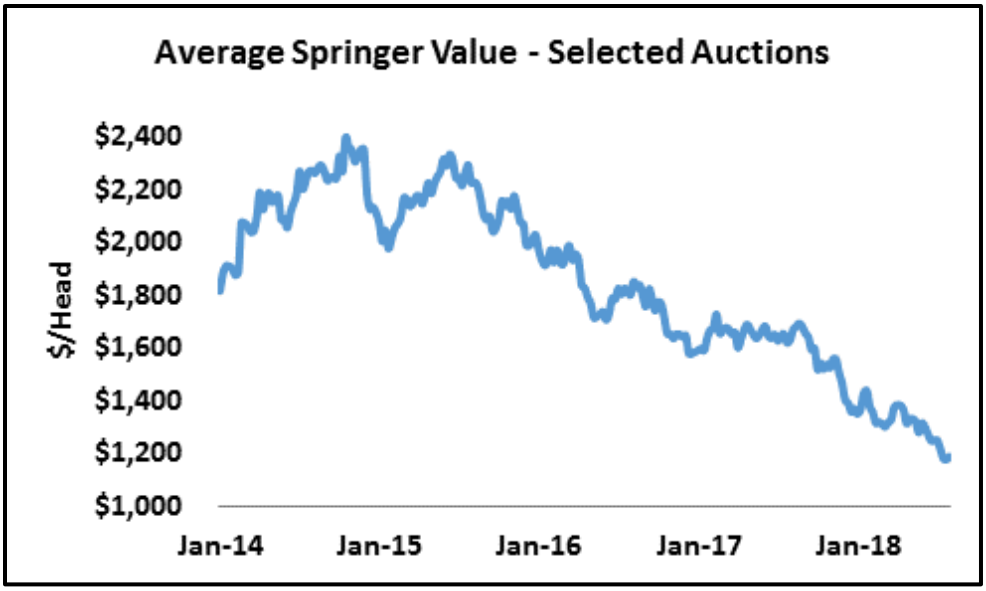
The heat is the big story in the dairy markets. Last month was the hottest July on record in California, with the highest-ever average nighttime lows in the Golden State, Nevada, and Utah. The Central Valley enjoyed a brief respite from its string of days with highs in the triple digits, but the forecast continues to call for maximum temperatures in the upper 90s and low 100s. It's unusually hot in the Pacific Northwest, and seasonally hot and humid in the Southeast. Milk yields and components are down, and ice cream demand is up. Cream multiples are elevated, which is reducing the flow of cream to butter churns. There is no shortage of butter, but supplies could start to feel tight later this year. Meanwhile, fluid milk processors are ramping up production as students head back to school. As parents adjust to school routines and football season returns, pizza consumption is expected to climb.



It's also hot in northern Europe, which is surely weighing on milk production there. The European Commission reports that in northwestern Germany, Denmark, Belgium, the Netherlands, and Luxemburg, pasture growth has not been this poor since the Commission began keeping records for the European Union in 1999. Pasture conditions in the United Kingdom, Ireland, France, and the Baltic countries are the worst in more than a decade. Recent rains have helped, but in some areas farmers will have to scour for feedstocks sufficient to last until next spring.

With the prospect for slower growth in European milk production, dairy product prices are starting to perk up across the pond. But from the U.S. perspective, some of these gains been offset by the strong dollar, which reached a one-year high against the euro and a basket of other currencies today. U.S. dairy product exports remain competitive, but the currency is eroding that advantage.

The U.S. is also losing ground in trade prospects with China. The two sides continue to go tit for tat, levying tariffs on an increasing array of products. China's latest list includes several categories of dairy products that were missed in the last go-round, including whey protein



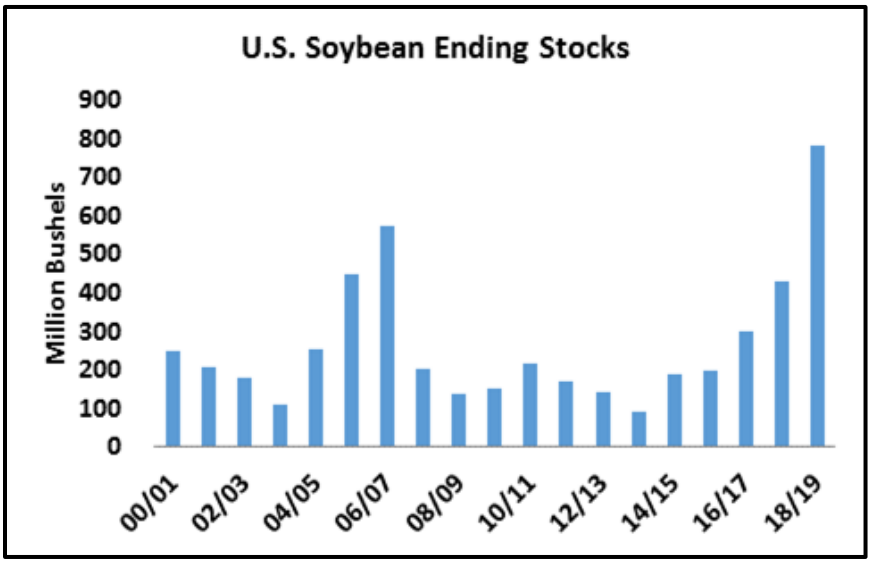
isolate, lactose, infant formula, and chocolate milk. If trade relations do not thaw, those tariffs are likely to take effect later this year.

On the other hand, the U.S. and Mexico appear to be making progress to reform NAFTA. Successful trade negotiations with our southern neighbors are likely to include an exemption for the punitive steel and aluminum tariffs, which would allow Mexico to rescind the new, higher tariffs on U.S. cheese imports. Although China typically garners more headlines, Mexico is a vastly more important trading partner for the U.S. dairy industry.

On balance, the futures markets were kind to dairy producers this week. But the strain of the past few months and the thin margins that have dragged on for years cannot be erased so quickly. Dairy producers will be cashing pitifully small milk checks for at least another month. The futures offer better prospects, but no bonanza. Dairy slaughter volumes remain high, and cow values languish near the beef price. Auction houses offer a steady onslaught of sellouts. Today's pruning will set the stage for better times ahead, but the process is not pleasant.

Grain Markets

USDA surprised the market today, calling for much larger corn and soybean crops than the trade had anticipated. In its first assessment of crops using survey data rather than trendline yields, the agency pegged the corn yield at a record-breaking 178.4 bushels per acre, up 4.4 bushels from their July estimate. Farmers are expected to harvest 14.59 billion bushels of corn this year, some 356 million more than USDA estimated last month. USDA boosted its estmates of feed and export demand as well, but the increase was more than offset by the larger crop. USDA expects corn stocks to total 1.68 billion bushels when the 2018-19 season officially ends next August 31. That's 132 million bushels larger than USDA projected last month, but it's still 343 million bushels smaller than stocks for the 2017-18 season, a decline of 17%.



USDA expects the soybean crop to average 51.6 bushels per acre, an increase of 3.1 bushels from the July forecast. That's still shy of the record yield of 52 bushels set in 2016, but, with record-high acreage, farmers are expected to grow a record-shattering crop of 4.59 billion bushels. Here too, USDA raised its estimates of domestic and export demand. The trade has been relieved to see U.S. soybean exports hold up this summer despite the glaring absence of Chinese demand. However, China is typically a much bigger buyer at harvest, and in the coming months the soybean trade will surely feel the lack. The U.S. cannot fully make up for the dearth of sales to

China by increasing sales elsewhere. In this light, USDA's assertion that the U.S. will export 2.06 billion bushels of soybeans in the coming crop year seems ambitious. Even with that strong demand projection, U.S. soybean stocks are set to reach burdensome levels. USDA calls for end-of-season inventories at 785 million bushels, up from 430 million bushels this season. If the U.S. and China can't come to terms, the U.S. soybean surplus is likely to be far greater.

Grain and oilseed prices got off to a strong start this week amidst concerns about grain crops in Europe, Russia, and Australia. But today's Crop Production report erased all those gains and then some. September corn finished at $3.5775 per bushel, down 12¢ from last Friday. September soybeans settled at $8.5075, down more than 40¢.

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MPC, coalition of western dairy trade groups submit comments to USDA regarding tariffs and support for dairy farmers

By Geoff Vanden Heuvel, MPC Director of Regulatory and Economic Affairs

Milk Producers Council, as part of the Western States Dairy Producers Association (WSDPA), sent a letter to USDA Secretary Sonny Perdue this week outlining our estimate of the impact of the trade dispute on milk prices. The letter also proposed a method for sending cash payments directly to producers from the $12 billion USDA has set aside to assist American farmers impacted by the trade war.

In the letter we point out that, "The Western States market a disproportionate percentage of our milk and dairy products to foreign buyers who are now engaged in this trade dispute with the United States. What this means is that Western dairy farmers are on the front lines in this trade war."

The letter goes on to say, "Dairies in the West are significantly larger than the national average. But the erosion of milk prices as a result of the trade war impacts all dairy farmers on all of their milk production. Our members implore that any direct payments to dairy farmers be distributed on all milk produced, without production caps. Any other outcome would disproportionally saddle our member dairies with the consequences of market losses."

MPC General Manager Kevin Abernathy also submitted an introductory letter with the WSDPA letter to the leadership of President Trump's Agricultural and Rural Advisory Committee. Kevin holds a seat on this committee, which he was appointed to earlier this year, and actively participates in advocating for California dairy families. This group of agricultural leaders from across the country advises the President on issues and policies important to the long-term health of farm families and rural America. Kevin personally submitted these letters to his chairman, Charles Herbster, and fellow committee member, Dr. Sam Clovis, so we have a high degree of confidence that these issues will be discussed directly with the President.

You can read the Western States letter and the introductory letter MPC sent to the President's Agricultural & Rural Advisory Committee leadership here.

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Dairy Revenue Protection Insurance Plan available beginning October 9, 2018

By Geoff Vanden Heuvel, MPC Director of Regulatory and Economic Affairs

The USDA-Risk Management Agency this week announced the creation of a new crop insurance style plan for dairy farmers called the Dairy Revenue Protection Insurance Plan. This is a plan producers can purchase to insure against unexpected declines in milk prices. It follows the crop insurance model and qualifies for government subsidies of the premiums. It will be available for sale starting on October 9, 2018 through qualified crop insurance agents.

This program was developed by the American Farm Bureau (AFB), and Milk Producers Council has worked closely with Dr. John Newton, the senior economist for AFB, as this program has gone through the USDA approval process. It looks like it has great potential to be of value for producers, in particular because it is not size limited. However, until the details of what exactly you are buying and particularly what it will cost in premiums are known, it remains a potential benefit as opposed to a real benefit for producers.

For more information about the plan, watch AFB's introductory video here.

As more information becomes available we will share it with you.

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