



Milk Producers Council

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DATE: October 23, 2015
 TO: Directors & Members

PAGES: 4
 FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0525 \$1.6125
 Barrels - \$.0900 \$1.5500

Weekly Average, Cheddar Cheese

Blocks - \$.0655 \$1.6215
 Barrels - \$.0650 \$1.5830

CHICAGO AA BUTTER

Weekly Change +\$.0200 \$2.4700
 Weekly Average +\$.0765 \$2.4660

DRY WHEY

Dairy Market News w/e 10/23/15 \$2.100
 National Plants w/e 10/17/15 \$2.269

NON-FAT DRY MILK

Week Ending 10/16 & 10/17

Calif. Plants \$0.9174 9,288,178
 Nat'l Plants \$0.9488 13,392,258

Prior Week Ending 10/9 & 10/10

Calif. Plants \$0.8708 16,224,081
 Nat'l Plants \$0.8917 21,472,345

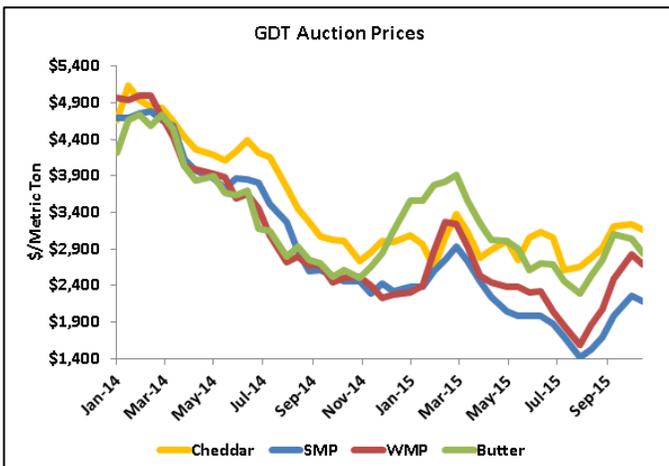
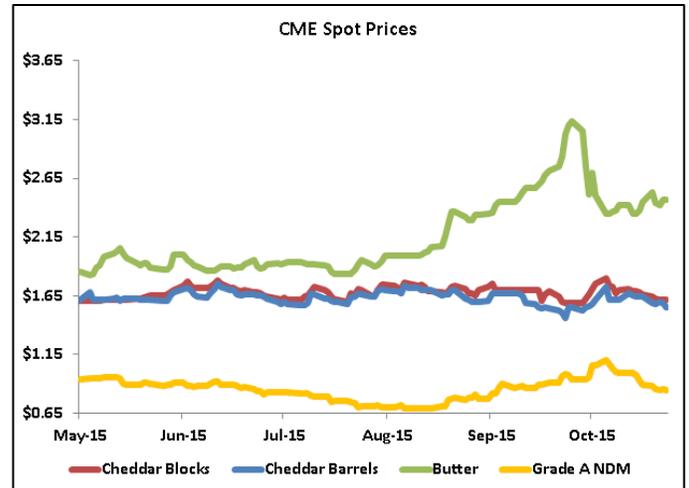
FRED DOUMA'S PRICE PROJECTIONS...

Oct 23 Est: Quota cwt. \$16.64 Overbase cwt. \$14.95 Cls. 4a cwt. \$15.74 Cls. 4b cwt. \$14.76
 Last Week: Quota cwt. \$16.65 Overbase cwt. \$14.95 Cls. 4a cwt. \$15.56 Cls. 4b cwt. \$14.86

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

Milk & Dairy Markets

The butter market collapsed in late September, and the CME spot market seemed poised to repeat last October's sustained slump, sloughing off a dollar and then some. But this time around, the October follow-through has been tepid. The spot butter market managed to claw back 2¢ this week, closing Friday at \$2.47/lb. Has the butter market found a long-term plateau or is this just a brief rest on its descent into territory well south of \$2? History speaks to the latter, but it also warns that the U.S. butter market can remain perplexingly buoyant – for a time – come hell or high imports.



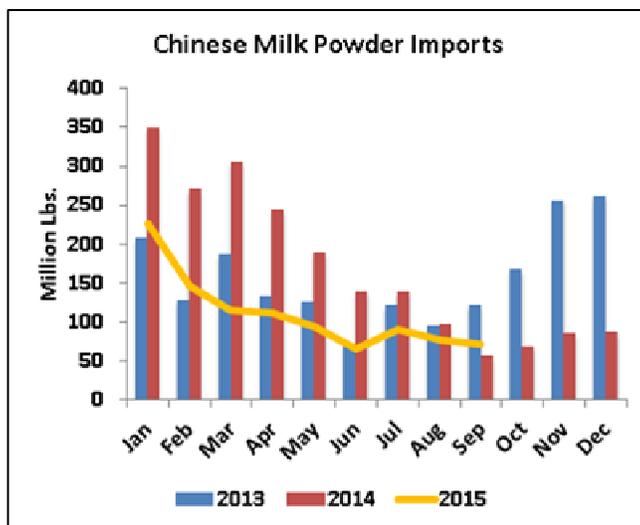
The other markets weakened. Cheddar blocks dropped 5.25¢ to \$1.6125. At \$1.55, barrels were 9¢ lower than last week. Spot nonfat dry milk (NDM) slipped 4.5¢ to 84.5¢. Nearby Class III futures retreated this week, but 2016 contracts moved a little higher. Class IV futures were decidedly mixed.

Most dairy products traded lower at Tuesday's Global Dairy Trade (GDT) auction. The GDT index fell 3.1%, its first downturn since mid-August. The average winning price for skim milk powder (SMP) fell 4.5% from the previous auction, and whole milk powder (WMP) dropped 4.6%. On a pound of protein basis, GDT SMP is equal to

NDM at \$1.05/lb., well above the CME spot market. However, manufacturers in the U.S. are flush with powder, and they greet every rally with offers to sell, particularly as the market nears the \$1 mark.

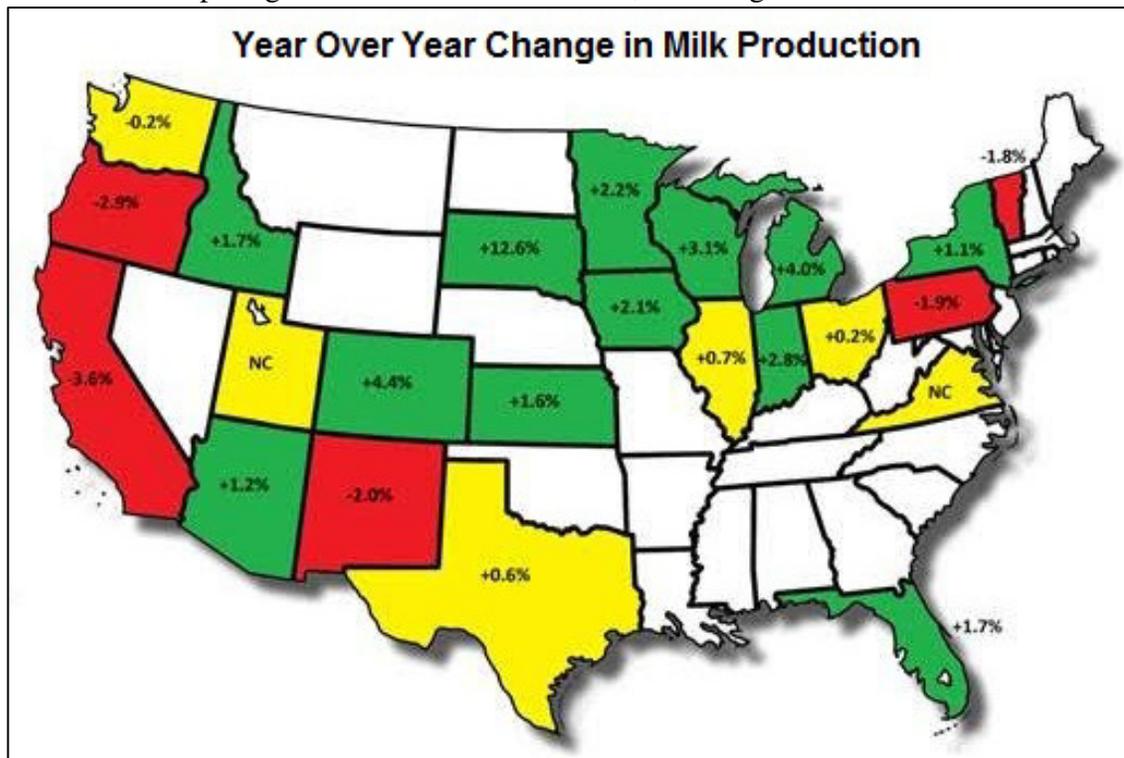
Global demand for milk powder remains lackluster, with China still largely on the sidelines. Last month China imported 70.4 million pounds, combined, of WMP and SMP. Although this is 25.1% higher than the very low volumes of last September, it is still 5.4% lower than August and far shy of typical volumes over the past two years.

After back-to-back years of robust expansion in global milk output, things are starting to slow just a little. New Zealand milk collections fell 0.8% from a year ago in August and Fonterra reported an 8.7% drop in September. However, this is more than overcome by continued growth in Europe, where August milk production rose 3% year-over-year.



Dairy producers in the U.S. are tapping the brakes. September output totaled 16.6 billion pounds, a mere 0.4% higher than a year ago. This marks the smallest year-over-year growth since the deficits recorded in late 2013. Production remains depressed in the West; California output fell 3.6%. Milk production in the heart of the country was again strong, but while the Midwest remains the engine for national growth, in some states it is no longer running at full steam.

USDA took a paring knife to its herd estimates, lowering its assessment of the milking herd in May, July and August and reporting a further 5,000 head decline in September.



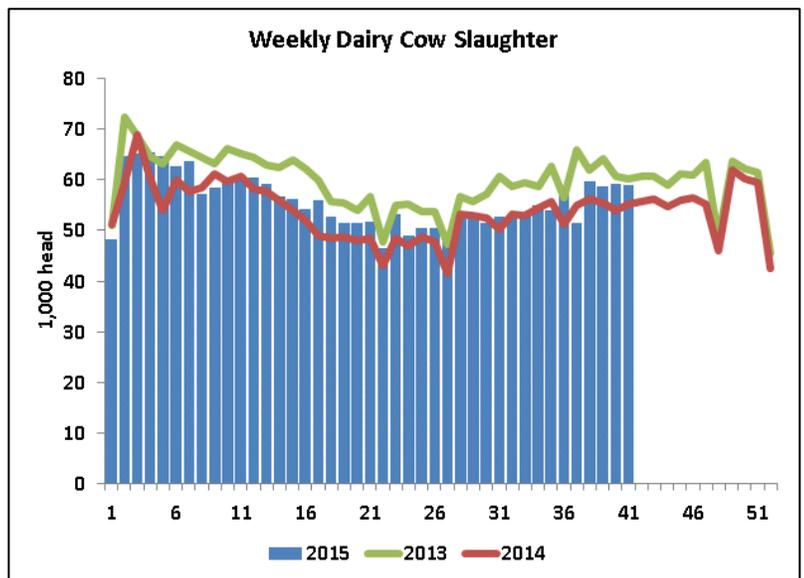
This put the herd at a six month low of 9.31 million head. Still, this is 36,000 head larger than a year ago. Judging by the big declines in production per cow and roughly stable cow numbers in California, there may be room for USDA to keep trimming in the Golden State.

Domestic demand for cheese and butter remains strong. Inventories of cheese in

cold storage on September 30th totaled 1.146 billion pounds, down 1.6% from late August levels. This drawdown was notably larger than the historic average, signaling a hearty appetite for cheese. However, cheese stocks remain 13.4% greater than year ago levels and inventories of American cheese stand at all-time highs for the month. Dairy Market News reports, "There is generally confidence that holiday orders will be easily filled." The real question is how the cheese market will fare after the calendar turns and the holiday cheer fades.

Much like cheese, butter is well supplied and in demand. Butter inventories totaled 187.5 million pounds, up 23.1% from the scant volumes of last year. Stocks slipped by a larger-than-average 24.7 million pounds from August, a decline of 10.4%.

For the week ending October 10, dairy cow slaughter totaled 58,912 head, up 6.5% from the same week a year ago. So far this year, dairy cow slaughter is 4% ahead of the 2014 pace. Once again, slaughter in Region 5 (Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin) was much higher than it has been for most of the year.



Grain Markets

The grain and oilseed markets moved back and forth but went nowhere this week. December corn futures settled at \$3.7975 per bushel, up 3¢ from last Friday. November soybeans dropped 2.75¢ to \$8.955. Harvest weather has been excellent, and the crop is large.

Corn exports are off to an uninspiring start for the crop year which began September 1. Soybean exports, on the other hand, have been impressive. This has helped the soybean market to hold near \$9 despite reports that South American soybean acreage is likely to expand again.

Looking further ahead, there is reason to believe that corn will remain abundant in the year to come, which is likely to keep prices under pressure. Corn acreage has dropped consistently in each of the past three seasons, as farmers have shifted more than seven million acres to soybeans. Farmers are not excited about \$4 corn, but \$9 beans are not enticing either. Crop rotation practices and a dry fall have created the impetus to commit more acres to grain next spring. It is called the Corn Belt for a reason.

AN UPDATE ON THIS WEEK’S CA-FMMO HEARING PROCEEDINGS: *(By Rob Vandenheuvel)* This week marked the fifth week of the U.S. Department of Agriculture’s (USDA) hearing on a California-Federal Milk Marketing Order (CA-FMMO). On Monday, USDA heard the final testimony from Elvin Hollon (DFA Economist) in support of the proposal submitted by California Dairies, Inc., Dairy Farmers of America and Land O’Lakes, and supported by California Dairy Campaign, MPC and Western United Dairymen. ***While that ended the testimony scheduled by the cooperatives, producers are welcomed and encouraged to testify at any time during the remainder of the hearing, regardless of what proposal is being discussed at that particular time.*** One correction I need to make is that in my article summarizing the testimony given last week, I inadvertently left out Simon Vander Woude, a Merced County dairyman who testified in support of the cooperatives’ proposal. We of course extend a heartfelt thank you to Simon and the other dairy farmers who have taken time away from their dairy over the past several weeks to come share their perspective on the issue of a Federal Order in California. I know there are a couple more producers planning to testify on Monday, and hopefully more throughout the remainder of the hearing.

On Monday afternoon, testimony began in support of the second proposal – submitted by the Dairy Institute of California on behalf of their milk processor members. There are, of course, some critical differences in key areas between the producer/cooperative-supported proposal and the Dairy Institute’s proposal. We’ve included a couple articles on those differences in previous issues of this newsletter (<http://www.milkproducerscouncil.org/cafmmo.htm>).

The Dairy Institute has split their testimony into different topics, with the first topic (which we are still in, as of the end of the week) including testimony attempting to demonstrate that California's dairy industry is already operating in an orderly fashion and that no Federal Order is needed in the State. This is certainly not an unexpected position for the buyers of California's milk to take (*if you have a fantastic deal buying some of the lowest cost milk in the country, you definitely want to protect it!*). The testimony given on this issue so far has included:

- **James De Jong**, *Hilmar Cheese Company*
- **Greg Dryer**, *Saputo Cheese*
- **Mike Newell**, *HP Hood*
- **Dr. Bill Schiek**, *Dairy Institute of California*
- **Michael Suever**, *HP Hood*

In the middle of the week, the Dairy Institute took a brief break in their regular scheduled witnesses to allow some testimony on a very specific issue of how "shrinkage" is accounted for in plants that make "Extended Shelf Life" (ESL) fluid milk products. Without getting too much into the details (*which consumed hours of testimony this week*), in calculating a manufacturer's price obligation to the pool, Federal Order regulations account for some "shrinkage" that occurs during the process of making fluid milk products, but it is limited. Manufacturers of these ESL products and their consultants testified that the limit needed to be increased, as their plants tend to experience higher levels of shrinkage. What was largely left out of this testimony is that these ESL products can carry a premium price in the marketplace, which those manufacturers do not have to pass along to the producers and cooperatives selling them the milk. Fortunately in the case of a Federal Order hearing, anyone is able to cross-examine the witnesses and clear up those types of omissions. The witnesses testifying on the issue of "shrinkage" included:

- **Carl Herbein**, *Herbein and Company, a CPA firm*
- **Chuck Meek**, *an engineer with experience designing ESL production lines*
- **Michael Suever**, *HP Hood*
- **Alan Zolin**, *Consultant representing Hilmar Cheese Company*

In addition, there were some other witnesses that provided general testimony – not as part of either the cooperatives or the Dairy Institute. These witnesses included:

- **Calvin Covington**, *on behalf of Southeast Milk, Inc.* – Testified on what he believed was a potential impact a California FMMO could have on producers he represents in the Southeastern U.S.
- **Erick Metzger**, *National All Jersey* – Testified on the value of protein-pricing in the Federal Milk Marketing Orders, including the proposals being considered in California.
- **Charles Turner**, *Desert Hills Dairy, a 4,000-cow dairy in Yerington, NV* – Testified on the negative impact he believes his dairy would experience if he could no longer sell milk into California and receive an unregulated "plant blend" price.

The hearing will continue Monday at 9 am at the Clovis Veterans Memorial District Building located at 808 4th Street in Clovis, CA. Those folks who cannot attend but are interested in listening to the hearing live can tune into the audio feed at: <https://www.ams.usda.gov/live>. USDA also continues to post the available transcripts to their website at: <http://www.ams.usda.gov/rules-regulations/moa/dairy/ca/transcripts>. Remember that there is a two-week lag in getting these transcripts finalized and posted.