The Milkweed

Dairy's best information and insights

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"Float like a butterfly, sting like a bee."
— Muhammad Ali

Trade Wars? Dairy Commodity Prices Rebounding

by Pete Hardin

Dairy commodity prices have rebounded almost entirely from the drubbing they absorbed starting around June 12. That was when dairy marketers started panicking at the threat of trade wars with our three biggest dairy export buyers – Mexico, Canada and China.

By the end of CME cash market trading on August 10, dairy commodity prices had recovered virtually everything they'd lost during the past eight weeks. On Friday, August 10 at CME, block Cheddar was at $1.6575/lb., 500-lb. barrels were at $1.6200/lb., Grade AA butter was $2.3400/lb., and Grade A nonfat dry milk was $0.8300/lb.

The trade wars are in place, starting at the beginning of July. Mexico has imposed tariffs on dairy products imported from the United States at rates up to 25%. China has hit U.S. dairy imports with a 25% tariff (except for infant formula products). Numerous reports indicate that Mexican and Canadian buyers are willing to "split" the 25% tariffs with U.S. exporters. That's a somewhat less painful, but still significant financial kick to our dairy exporters. For example: At $1.50/lb. for Cheddar, a 25% tariff would add a surcharge of $.375/lb. Even cutting that amount in half means the U.S. exporter would still be "eating" 18.75 cents per pound when selling cheese at $1.50/lb. That situation cannot continue indefinitely.

Why the price rebound, after some feared that trade wars would depress dairy commodity prices for months? July 2018 dairy export data won't be out until near the end of August, so there's no publicly available measure of last month's export pulse.

Extreme heat, drought and other adverse weather conditions have covered numerous dairy regions of the country this summer. Both milk volume and components (milk fat, protein) have been challenged by weather conditions.

Meanwhile, the domestic dairy market scene is shifting into late summer mode. Schools will be opening in the South soon. Returning to school (for students of all ages) means enhanced demand for pizza, so the cheese industry is gearing up for that event. Also, the Southeast will need more milk this late summer and fall than in prior years. Southeast milk production is down. Attrition of dairy farmers of all sizes in that region has been significant – compounded by market terminations this past spring. This spring, surprisingly little surplus milk came out of the Southeast.

Looking ahead, some of dairy's productive momentum is being sapped in certain key dairy states and regions. Movement of cull cows to slaughter is picking up, as farmers try to supplement cash flow shorted by lower milk prices for July's production.

Short-term, the ups and downs of dairy commodity prices leave rational observers puzzled about what's next. The CME cash market gyrations of 500-lb. barrel Cheddar offer a prime example of such gyrations. On July 20, CME barrel Cheddar prices were $1.27/lb. But by August 9, they'd shot up to $1.5675/lb. – a hair under a $.30/lb. spike.

At this time, dairy markets bear close watching for signs that better betoken longer-term signals. At least dairy commodity prices have bounced back, and they'll pull up farm milk prices. Goodness knows, in dairy farm country, better milk prices and dairy livestock values are critically needed.

Despite the dramatic uptrends for dairy commodity prices since late July, the Trade Wars continue without resolution. In particular, the United States is threatening to add further tariffs against Chinese imports, which, in turn, will likely spur additional tariffs imposed by the Chinese against U.S. goods.

The Trade Wars started with the United States imposing tariffs on imported steel (25%) and aluminum (10%). China countered with a tariffs against a variety of U.S. farm goods (soybeans, pork and dairy, for three). Food is a dangerous weapon when dragged into a Trade War.

Perhaps analysts who cautioned the June 2018 free-fall of dairy commodity prices were correct, at least partially. But in the analysis of *The Milkweed*,

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Weather Events Stressing Dairy Cows & Crops

by Pete Hardin

West. Southwest. The Plains. East Coast. Michigan. And in Western Europe, England and Ireland. Mother Nature is working overtime to help alleviate dairy "surplus." A few months ago, *The Milkweed* projected that 2018 would be a "Weather Year" … and that forecast seems to be coming true in spades.

Extreme heat and severe drought prevail over large areas of the western United States. National television news stories have focused primarily on widespread, out-of-control forest fires — the most dramatic aspect of those weather conditions. But farmers and ranchers are also seeing their animals stressed by heat and their crop production diminished.

Unceasingly endless days registering temperatures in the high 90s and into the 100s have become common in the West and Southwest in recent weeks. Stresses are weighing on milk supplies and component levels (butterfat, protein).

Meanwhile, widespread areas of the East Coast have been deluged with heavy rains and flooding. Much damage has resulted to transportation infrastructure – roads, bridges. In mid-summer, when crops are standing in the fields, it's difficult to assess the damage of flooding to fields. Farmers in Pennsylvania, Maryland, Virginia and the Carolinas have seen significant damage to their crops. A major problem for fields seriously flooded during the growing season is left-over debris that will snarl efforts at harvest time. In parts of eastern and central Pennsylvania, early-planted corn is standing tall. But the wet spring weather prevented normal timely planting of other corn ground. Late-planted corn ground is also suffering from a lack of sunlight.

Meanwhile, significant parts of upstate New York and New England have suffered from abnormally dry conditions. Hay yields in parts of northern New York have been less than half of normal.

Dairy producers in Michigan are facing extreme drought in the northern two-thirds or three-quarters of the state. Hay yields have been reduced, and the corn is drought-stressed. Dairy producers are worried about supplies of stored

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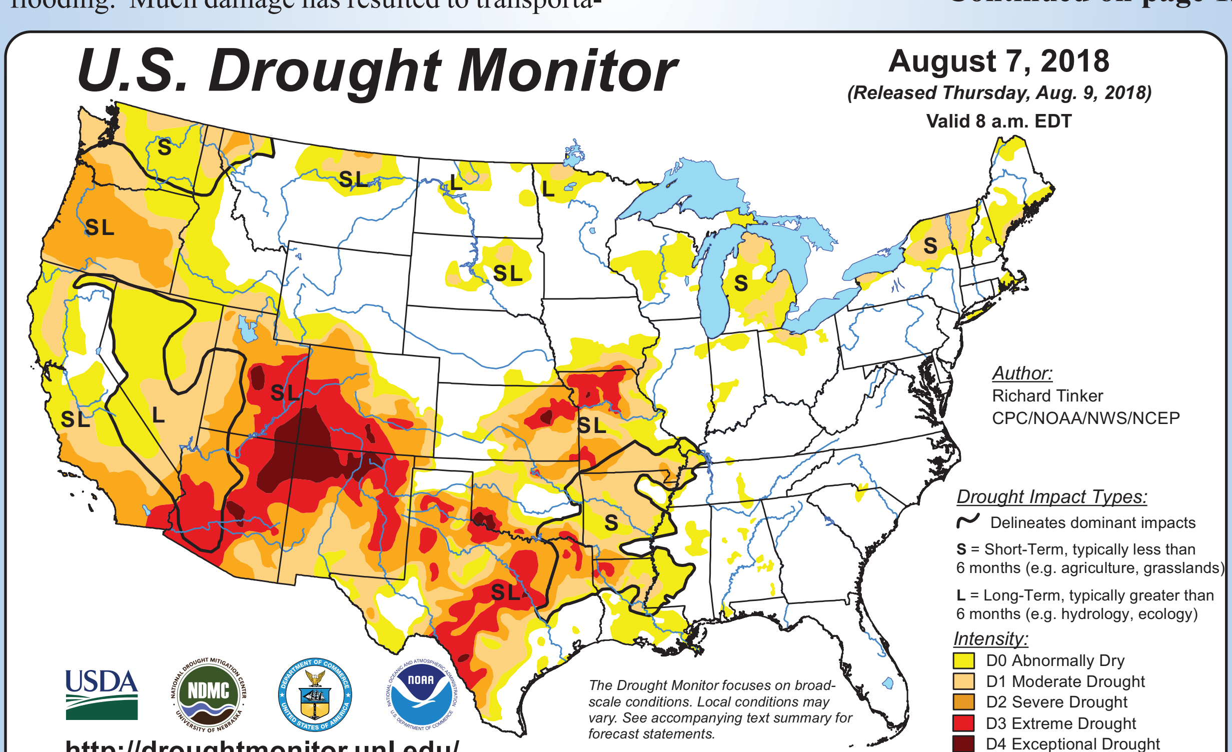

Minus $2.22/Cwt! MMPA Drains Members' June '18 PPDs

by Pete Hardin

Deducts drained from members' milk checks by Michigan Milk Producers Assn. (MMPA) are becoming even more horrid. And MMPA's president Ken Nobis' grip on reality appears trending in the same direction.

For June 2018, members report that MMPA deducted a whopping $2.22 per hundredweight below the prevailing Mid-East federal milk order Producer Price Differential (PPD). For January-May 2018, MMPA had swiped $1.87/cwt. off the PPD when issuing settlement checks. But for June 2018, MMPA's leaders siphoned an additional $.35/cwt. off that month's PPD. No solid explanation for these losses ever comes from MMPA. Obviously, the co-op's lender is not allowing operating losses to accumulate. Rather, a big portion of MMPA's monthly extractions from members' milk checks goes to cover operating losses.

What went even more wrong for MMPA in June? Local sources tell *The Milkweed* that MMPA was forced to dump farm milk into manure pits, due to operating problems at one of its manufacturing plants. Additionally, all cheese manufacturing plants for which milk was priced by the federal milk order program took a beating in June 2018. That was because of the imbalance of raw milk costs levied by the federal milk orders and prices yielded by nose-diving dairy commodity prices in cash market trading at the Chicago Mercantile Exchange during the final three weeks of June.

During June, MMPA also had to deal with a late-rising spring flush in its operating area, as well as throughout much of the Upper Midwest. Those conditions forced price-cutting to get rid of spot loads of farm milk. But MMPA's internal plant problems also had a role. The co-op continues struggling to produce satisfactory levels of quality cheese at its Middlebury, Indiana plant. And MMPA has been experiencing quality problems in the production of nonfat dry milk.

Great discontent among members reigns at MMPA. That may be why MMPA cancelled its normal schedule of summer information meetings for members. Huge questions are being raised about the competence of MMPA's long-term president Ken Nobis. Nobis shows signs that he cannot take the heat from angry, question-asking members.

At the July 9 meeting of MMPA's advisory committee, Nobis went ballistic when asked if the co-op wasn't intentionally putting small producers out of business. In another rant, sources say Nobis advised attendees to walk away when they saw the milk hauler arrive at their farm. Why? Because milk haulers have been spreading untruthful rumors about MMPA, Nobis contended. Is that the degree of respect that MMPA's president has for the co-op's contracted milk haulers? Or just another baseless rant?

Nobis' mindless blather extended to his "MMPA Matters" column in the co-op's July 2018 issue of the *Michigan Milk Messenger* magazine. He characterized the exodus of dairy producers as an "uptick" in a long-running, historic trend of declining numbers of dairy farmers. Nobis blamed "… many factors affecting milk prices that we cannot control, so we focus on what we can control." (Whatever that might be.) Nobis closed that column noting: "… members can always call me with questions and concerns, whether the questions are about the state of the industry or anything else that is on your mind. I always look forward to hearing from you." Nobis' telephone number is 989-224-6170.

Salmonella Forces AMPI Whey Recall

by Pete Hardin

Problems with Salmonella in whey processed at Associated Milk Producers, Inc.'s plant at Blair, Wisconsin have caused a massive recall of products – from bulk whey to consumer goods like Ritz Crackers and "Goldfish" snacks.

The recall has dramatically tightened whey supplies, nationwide. Whey prices have climbed, due to product scarcity, numerous sources report.

Important to note: No incidents of persons being made ill from this Salmonella contamination have been reported.

The whey recall's impact reaches far into the nation's food industry. Whey is a widely-used ingredient in a vast array of food processing and industrial uses. One industry source explained that whey powder is commonly used to "cut" materials such as dried cheese when used as a flavoring – say for Cheddar flavoring on popcorn or nacho cheese flavoring on corn chips. With dried cheese prices in the $4.00-$4.50/lb. range, and whey prices at only about ten percent of dried cheese, adding five percent (or a bit more) of whey to the dried cheese flavoring yields a significant cost advantage without any compromise in flavor or texture.

Nationwide, Mondolez has recalled massive amounts of Ritz crackers. Another high-profile product subject to the recall is Pepperidge Farm's "Goldfish" snacks.

A spokesperson for AMPI shared the following information about the recall:

- All dry whey products shipped to manufacturers and brokers tested negative for Salmonella as part of AMPI's routine testing.
- All customers that purchased whey from the Blair facility were instructed either to return the product or document its destruction.
- At Blair, Wisconsin, AMPI operates two separate facilities – a cheese plant and a whey processing plant. The cheese plant remains in full operation.
- The amount of whey powder recalled equals less than one percent of AMPI's annual whey production.
- Four manufacturers issued precautionary, voluntary product recalls.

Dairy Commodity Prices Rising, con't

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the bounce-back of dairy commodity prices since the early summer free-fall is due to a combination of domestic supply/demand conditions. Domestic demand for dairy products is relatively strong, heading into late summer when schools are re-opening. Weather events are stressing crops and milk production. And severe financial stresses are weighing on many dairy farm families.

If anything, the Trump-sparked trade wars that have snared dairy exports and commodity prices may have simply interrupted a positive trend-line for milk prices that started this past spring in response to solid domestic and international demand signals.

Griping is being heard from domestic buyers of whey products. They observe that with exporters of whey "eating" half of the import tariffs imposed by China and Mexico, that domestic buyers are paying a premium for product … compared to off-shore buyers. Domestic whey buyers fret they're paying a premuim to offset the tariffs. Time will tell …

July '18 Class III Price Drops $1.11/Cwt.

by Pete Hardin

USDA reported that the July 2018 Class III (cheese) milk price declined by $1.11 per hundredweight, to $14.10. That price is for farm milk testing 3.5% butterfat.

That decline mirrored lower commodity prices measured by USDA's weekly surveys of manufacturers' sales and volumes for Cheddar cheese, Grade A nonfat dry milk, Grade A butter, and whey. At the Chicago Mercantile Exchange, those prices started declining around June 12. But the USDA weekly surveys didn't feel most of those down-trending prices until July. The CME price declines were generally attributed to marketplace uncertainty caused by threats of higher tariffs imposed by countries that are the United States' top dairy export destinations.

Mercifully … and somewhat surprisingly … since mid-July, those commodities have regained most of the ground they lost during the last two-thirds of June and early July.

Those price improvements should boost August 2018 manufacturing milk class prices, barring some surprises in the politicized tariff battles currently ensuing.

The Class II (cultured products) price in July was $15.20/cwt. – a drop of $0.28. And the Class IV (butter-powder) price fell by $0.77, to $14.14/cwt.

The manufacturing milk Class prices are calculated by the Agricultural Marketing Service, which mandates that manufacturers of specific dairy products report weekly volumes and prices (per pound) for the above-mentioned dairy commodities.

For July 2018, USDA used the following commodity reference values in calculating the manufacturing class milk prices:

Butterfat ....$2.5357/lb.
Protein ....$1.4827/lb.
Nonfat solids ....$0.6085/lb.
Other solids ....$0.1422/lb.

In this uncertain world of dairy, *The Milkweed* projects that much of the manufacturing milk class prices' erosion should be recovered during August.

PRICES PER POUND	May '18	June '18	July '18	June-July Difference
Butter	$2.3382	$2.3756	$2.2596	-11.60¢/lb.
Nonfat Dry Milk	$0.7937	$0.8150	$0.7824	-3.26¢/lb.
Cheddar Cheese	$1.6353	$1.6150	$1.4868	-12.82¢/lb.
Dry Whey	$0.2711	$0.3086	$0.3372	+2.86¢/lb.

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