

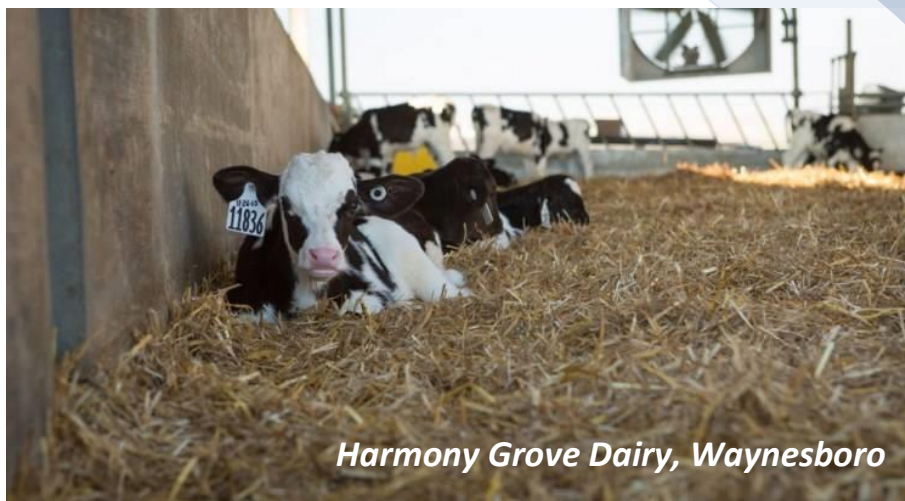
CONGRESS PASSES BUDGET, INCLUDES MPP CHANGES IN LEGISLATION



This month, Congress passed the Bipartisan Budget Act of 2018 making significant changes to the Margin Protection Program for dairy producers. The changes apply to the beginning of the 2018 calendar year and substantially decrease premiums for Tier I coverage. The specific changes are as follows:

- Dairy-MPP now operates on a monthly basis. Feed costs, milk prices, the margin, and payments are all calculated or paid monthly. There are no additional changes to any of the formulas to compute these costs, prices, margins, and payments.
- USDA will re-open enrollment for calendar year 2018 for a period of 90 days. (starting February 9, 2018).
- Limited resource, beginning, veteran, and socially disadvantaged farmers are exempt from the administrative fee associated with Dairy-MPP
- The base production history is maintained
- Tier I premiums now apply to the first 5,000,000 pounds of production instead of the previous 4,000,000. Tier II covers production in excess of 5,000,000 pounds.

For more information and to view changes in coverage, visit National Milk Producers Federation's website at www.futurefordairy.org.



Harmony Grove Dairy, Waynesboro

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Top 2017 Cream of the Crop Award Winners (left to right): Mark Rodgers, Dearing; Danny Bill, Madison; Dave Clark, Madison; and Daniel Williams, Madison. Photo credit: Julie Walker, AgriVoice

The University of Georgia and Southeast DHIA presented their 2017 Cream of the Crop Awards during the evening banquet of the Georgia Dairy Conference last month.

Sixteen Georgia dairy farms were recognized for their production achievements and 14 dairies were recognized for their outstanding milk quality.

The Rodgers Family of Hillcrest Farms in Dearing received the "Top High Holstein Herd" award for 2017. Hillcrest Farms milks 438 cows, with a rolling milk

production average of 31,510 lbs. and 1,133 lbs. of butterfat. Dave Clark's Godfrey Dairy in Madison received 2nd place and B & B Dairy, owned by Danny and Ginny Bell, received 3rd place for the Holstein category. All dairies milk their cows three times a day.

The Williams Family of WDairy, LLC in Madison, received the "Top High Crossbred Herd" award for 2017. They milk 1986 cows three times a day and achieved a milk production average of 28,335 lbs.

To be eligible for the 2017 GA Cream of the Crop Awards, herds must have a minimum herd size of 20 cows and conduct a minimum of 9 tests per year.

Fourteen Georgia dairy farms were also recognized for exceeding milk quality standards in 2017. Congratulations to Addis Dairy, located in Rocky Face, for receiving the "Top High Herd Quality" Award with an amazing SCC average for the year at 110,000 cells/ml.

Brenneman Farms in Montezuma received the 2nd place quality award with a SCC average of 170,000 cells/ml. Berry College received 3rd place with an SCC average of 180,000 cells/ml for 2017.

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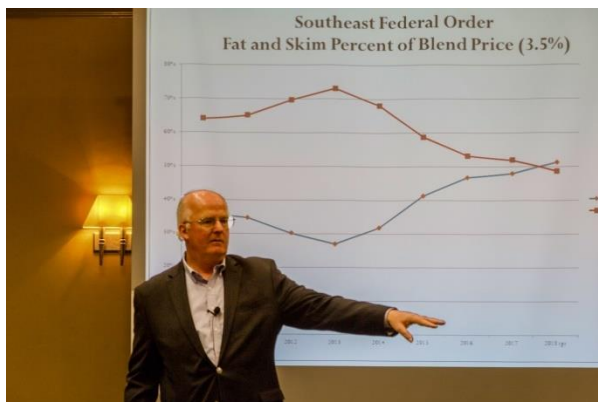
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Covington speaks at 2018 GDC

2018 Southeast blend to fall \$1.50 - First time fat exceeds skim in blend price

By Sherry Bunting, reprinted from Farmshine, February 23, 2018



With fat driving demand while skim value is plunging, dairy producers in southern skim-fat priced milk markets will see more than half of their milk checks coming from the fat side this year for the first time, according to Calvin Covington, well-known market observer, former co-op manager and author of the Dixie Dairy Report.

Covington spoke at the recent Georgia Dairy Conference, attended by 540 people in Savannah, where he gave his blend price projections for the Southeast to be \$17.70 for 2018 -- \$1.45 lower than the \$19.15 blend price average he calculated for 2017.

He says he is a little more optimistic than others when looking ahead at the market, but he's sticking with his numbers, and is quick to point out that the first six to nine months of 2018 will come in well below that blend price average for the year with recovery projected for the fourth quarter.

How that milk price is derived will look different, giving a significant advantage to milk with fat test above 3.5%. Covington explained that demand on the fat side, based on commercial disappearance, was up 2.5% for 2017, when the previous year was up 3.5%. Meanwhile demand for products on a skim solids basis was up by just 0.6% in 2017, after being up 1.5% in 2016.

The price picture is even more stark. Fat value (per pound) is moving higher while skim value (per cwt) is falling lower. This brought values near 50/50 for 2017, whereas the 2016 Southeast Federal Order blend prices averaged about 55% skim based and 45% fat compared with 75% skim and 25% fat in 2013.

The good news, says Covington, is that, "Butterfat prices should hold, if they had fallen like skim, I would wonder how many would be here today."

He noted that, "Butterfat was priced at about \$1.50/lb. in the spring of 2013, and it's looking like the 2017 value of \$2.50/lb. will hold through spring," said Covington. "The spread between farm milk checks will get even wider in 2018, when the difference in fat content is considered."

The breakdown in product sales in the U.S. and abroad is changing the composition of farm milk checks, but that's not to say a lot of milk powder isn't being sold. "It is," says Covington. "There's just a lot of it available because even though sales are up quite a bit, the U.S. share of those sales is not growing" for a variety of reasons.

Covington noted that while total U.S. exports were up by 1.2% in 2017, total sales did not crest the 14% of production mark, where they were at nearly 15% in 2013-14.

One thing affecting the U.S. market share of milk powder

exports is that Canada has recently entered the market with its new "export" milk pricing class allowing milk for export products to be purchased at a lower price -- positioning Canadian milk powder to be priced below the global market with their system absorbing that loss across all dairy farmers.

FEDERAL ORDER BLEND @ test minus MAILBOX PRICE			
Year	Appalachian (\$cwt.)	Florida (\$/cwt.)	Southeast (\$/cwt.)
2010	-\$0.22	-\$0.89	-\$0.04
2011	-\$0.43	-\$0.97	-\$0.33
2012	-\$0.61	-\$1.09	-\$0.55
2013	-\$0.51	-\$0.79	-\$0.59
2014	-\$0.51	-\$0.99	-\$0.72
2015	-\$1.01	-\$1.96	-\$1.56
2016	-\$1.02	-\$2.27	-\$1.78
2017 (January-September)	-\$1.53	-\$2.34	-\$2.15

"We don't have a system like that," said Covington, explaining that if powder producing cooperatives like California Dairies, for example, would cut their powder cost below global markets to move it, the loss would be shared disproportionately by the members of that cooperative because an export price would not be included in Federal Order pooling.

"What's happened is that Canada has looked after its dairy farmers and dairy industry... but whose market share is that displacing?" Covington pointed out. "We're right next door. No one ever thought Canada (with its quota system) would compete."

In fact, Covington indicated that Mexico, a big importer of U.S. milk powder, is buying some of its powder now from Canada. Meanwhile, the powder market is flooded with product from countries that have a much longer history of exports – New Zealand and the European Union (EU) – with transportation advantages to Pacific nations that are importing.

Contrary to some analysts out there, Covington remains bullish on butter. "It is holding its own with no inventory issues," he said, adding that, for the most part, American Cheese inventories are also not a big problem due to the fact that more inventory is needed to supply the increased usage.

But nonfat dry milk and whey powder inventories continue to climb past previous record levels and demand, though higher, is not keeping up.

The losses in Class I utilization and packaged milk sales are a leading reason for the buildup in powder inventories. Milk in the largely fluid markets of the East needs to find other uses, much of it ending up in butter/powder plants.

For the Southeast, Covington said that a 72% Class I utilization is the average for the three Federal Orders – Appalachian, Southeast and Florida -- while the rest of the country averages 25% Class I.

While commodity prices have held up fairly well considering the inventories and production, Covington said that every penny change in the NFDM price reduces the Class IV milk price by 9 cents. With NFDM falling from \$1.00/lb. at the start of the year to 70 cents at the end, that's close to a \$3 drop in the Class IV price.

Whey powder is also dropping, with each penny drop equating to 6 cents on the Class III price, which has come down \$1.40/cwt since the beginning of 2017.

"Commodities set the price, but our market is a fluid milk," said Covington. "That market has some good news, and some not so good news."

The good news is that the decline in packaged fluid milk sales is leveling off over the past four years after steep declines in prior years. But as milk production and other product sectors increase, the Class I utilization is declining at a faster rate than the packaged milk sales alone would indicate, and those other products are simply not made in quantity in the Southeast.

From 2013 to 2017, the difference in Class I utilization leaves 12 tanker loads of milk per day displaced in the Appalachian Order, 22 loads in the Southeast Order and 14 loads in Florida, Covington figures.

"More milk has to move north to find plant capacity, and producers have seen four of the past seven years with a price average below the 7-year average," Covington observes.

These milk movements, as Class I utilization declines, are part of the reason the mailbox milk price in the Southeast has fallen faster from being 4 pennies below the Federal Order blend price in 2010 to being \$2.15/cwt below the FO blend price in 2016. "And that mailbox price is still falling faster than the Federal Order blend price," says Covington. "That's the price you are interested in -- the price after deductions, premiums and costs."

While this mailbox milk price erosion is happening across the markets of the eastern U.S., it is particularly noticeable in the Southeast.

In short, Covington sees the 2018 markets being challenged by inventories of nonfat dry milk and whey powder, and that the overall dairy demand, while growing, is not growing fast enough to keep up with production. However, he is encouraged that the demand erosion in fluid milk for the Southeast seems to be leveling off.

On the production side, he said, "The cows are out there, 9.4 million of them, the most since 1995, so production has continued to show year-over-year increases. You have to go back to November 2013 to find a month where year-over-year production did not go up."

But the good news may be that the U.S. milk production increases are leveling from around 2% to 1.5%, according to Covington. "U.S. milk production for the last three months of 2017 was up only 1% over year ago, so we are starting to close the gap a little," he says, observing that common sense tells us we need to get that in line with demand growth of 1.2%.



Certified Nutrient Planner/ Waste Operator Training in March

The Georgia Department of Agriculture and the University of Georgia will hold their annual planner/operator certification training in Athens at the UGA Livestock Arena classroom on March 20-21, 2018. Anyone interested in becoming a Certified Nutrient Management Planner or Certified Waste Operator in Georgia must attend this training. This training is only available once a year. Also, those seeking continuing education credit hours are welcome to attend. For more information and to register for the training visit the AWARE website at: <http://aware.uga.edu/downloads/Operator-plannerFlyer2018.pdf>

Dixie Dairy Report –February 2018

Calvin Covington

Another record year for milk production, production steady in the southeast. 2017 marks the eighth consecutive year milk production has increased. U.S. milk production in 2017 was 215.43 billion lbs. which is 1.4% higher than 2016, and up almost 30% since 2000. (Adjusting for Leap Year, 2017 production was up 1.7%) Most of the increased production was due to more cows. The nation's dairy herd grew by 65,000 head in 2017. Milk produced per cow increased 0.72% in 2017 versus 2016, below the historical average of around 1.5%. Production increased 1.6% in the nation's largest milk producing region, but was down 1.6% in California. The largest production increase was in the Southwest.

Southeast milk production down slightly. Actual 2017 production, in the Southeast, was down 0.2% compared to 2016. (Adjusting for Leap Year, production was a fraction higher than 2016). Since 2000, southeast milk production has gradually trended upward. Since 2000, the ten (10) Southeast states have added almost 400 million lbs. of production. As shown below, 2017 production was only up in two states, Georgia and Virginia, and down in the other eight (8) Southeast states. Southeast production continues to concentrate in Florida and Georgia. At the end of 2017, over 46% of the Southeast's production was in Florida and Georgia. In 2010 it was less than 40%.

SOUTHEAST MILK PRODUCTION RANKED by STATE 2010-2017

State	2010	2016	2017	2017 vs. 2016	Percent of Total
	(million lbs.)			(%)	(%)
Florida	2,115	2,503	2,496	-0.3	26.6
Georgia	1,395	1,830	1,846	0.9	19.6
Virginia	1,719	1,723	1,737	0.8	18.5
Kentucky	1,157	1,048	1,041	-0.7	11.1
North Carolina	862	965	951	-1.5	10.1
Tennessee	850	696	693	-0.4	7.4
South Carolina	286	250	247	-1.2	2.6
Louisiana	235	169	160	-5.3	1.7
Mississippi	223	144	137	-4.9	1.5
Alabama	159	92	89	-3.3	0.9
TOTAL	9,013	9,420	9,397	-0.2	

Growth in milk production slowing, but record powder inventory. According to USDA, milk production during the fourth quarter of 2017 was up 1.1% compared to the same quarter a year earlier. This compares to production increases of 1.8% in the second quarter of 2017 and 1.7% in the third quarter. If growth in milk production continues to slow, this will provide some positive news for future milk prices. On the other hand, USDA reports manufacturers' nonfat dry milk powder inventory at the end of 2017 was 330 million lbs., a record high. (Powder inventories were higher in the past if include government holdings). This record high inventory is not good news for future milk prices. The year-end butter inventory of 169 million lbs. is similar to the year earlier inventory of 166 million lbs. The American cheese inventory is up slightly from 733 to 747 million lbs. The high powder inventory and stable butter inventory indicate two things: 1) Milk production continues to exceed demand. Generally, excess milk production ends up in nonfat dry milk powder. 2) Butterfat demand is greater than skim, nonfat solids, or protein demand. Milk is separated into cream and skim milk, to generate the cream needed for butter and other high fat products. The remaining skim goes to the powder plant.

Commodity prices. At the CME, January 2018 prices are lower, compared to January 2017. Butter remains the shining star with the January average price of \$2.1587/lb. which is only \$0.08/lb. below a year ago. Prices are much lower for cheese and powder. January block cheddar is \$1.4938/lb. down \$0.20 from last January. Barrel cheddar averaged \$1.3345/lb. in January which is \$0.22 lower than last year. The January nonfat dry milk powder averaged \$0.6926/lb., which is over \$0.40/lb. lower than last January. Some good news, indicators point to the powder price starting to turn around.

Blend prices. Projected blend prices for the three southeastern federal orders are lower for the first half of 2018 compared to last month's projections. For all of 2018, we continue to project blend prices to average about \$1.50/cwt. lower than 2017.

PROJECTED BLEND PRICES –BASE ZONES – SOUTHEASTERN FEDERAL ORDERS

Quarter	Appalachian	Florida	Southeast
	(dollars /cwt.) – 3.5% butterfat		
January 2018	\$17.62	\$19.84	\$17.83
February	\$16.52	\$18.55	\$16.70
March	\$15.96	\$17.93	\$16.10
April	\$15.90	\$17.92	\$16.08
May	\$16.23	\$18.18	\$16.38
June	\$16.54	\$18.66	\$16.95