

WEEKLY UPDATE
May 16, 2019

What's up and what's not—your weekly market update

By Annie AcMoody, Economist

Dairy commodities were more enthusiastic than kids approaching the end of the school year this week. All but one of the four playing a role in the FMMO formulas managed a positive movement, bringing optimism to May prices. The biggest gain came from the butter market (+3.48 cents), where USDA prices made it to \$2.2831/lb this week. CME butter prices fared even better, with the price settling at \$2.3850/lb today. Domestic consumption slowed down a bit in March (-1% year-over-year), but slower production and reportedly tight cream supplies seem to be propping the market up.

The second biggest price increase went to barrels. With a gain of 2.44 cents this week, the price stands at \$1.6497/lb. Blocks had a smaller gain (+0.77 cent) and remain above blocks at \$1.6976/lb. Domestic consumption of American cheese also slowed down in March (-1% year-over-year), but overall the first quarter of 2019 was even with last year. Oceania spot prices remain well above U.S. prices, with Dairy Market News (DMN)'s latest report showing an average of \$1.91/lb down under.

The nonfat dry milk price may not have won the biggest increase, but a gain of 1.75 cents is impressive for the lately slow-moving commodity. This brought the price to \$1.0088/lb—the first time it crossed the dollar threshold since February 2017. Outside our borders, the picture is a bit blurry with steady prices in Europe, hovering around U.S. pricing. Oceania spot prices continued to lead the way, with DMN reporting the average skim milk powder price at \$1.16/lb. Drying activity in the region has slowed as the milk production season fades.

Dry whey was like flat soda—an unpleasant turn of events this week. It only lost 0.08 cent, but the decrease was nonetheless a disappointing taste. This marked the lowest price since California joined the FMMO. If you recall the previous CDFA system, dry whey was priced under a scale system, where changes in value took more time to show on milk checks than in FMMOS (either up or down). The latest *Dairy Products* report shows dry whey production was down significantly in March (-14%) from the prior year. This is good as dry whey has been facing tough competition and lost sales to China in the midst of the trade wars retaliatory tariffs.

The Trade Gamble *by Anja Raudabaugh, CEO*

Last week, Annie prepared dairy families for the upcoming onslaught of a brewing trade war between the U.S. and China. The U.S. has since levied high tariffs on Chinese products and they have reciprocated with retaliatory tariffs on U.S. products. Most experts are projecting the cost of the tariff actions to cost the average American family \$2,300 per year and about 1% of GDP growth (or 2.1 million jobs disappear). To be fair however, this is like saying that when winter comes, the Whitewalkers take everybody out. Or, when Steph Curry scores 30 points in the last 2 minutes of the game, that he would be on a trajectory to do that every game, every two minutes. Hyperbolic, weird correlations that are linear usually don't happen. Needless to say, it's going to hurt and will especially hurt US agricultural commodities A LOT. So the question is—is the gamble worth the pain? *Continued on page 2...*

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The answer may lie in the deception of the gamble. This war isn't about trade. It isn't about tariffs. It's about which economic model is going to be the leading economic force for the 21st Century. In one corner, the U.S. led, liberal market based economy, and in the other corner, the state-directed Chinese model. It's a systems war.

The deception game has high stakes goals; 1) evening out trade deficits, 2) preventing China from stealing between \$3-400 Billion of intellectual property every year, and 3) forcing China to play within the rules of the World Trade Organization (WTO). Of primary concern to California dairy, these goals play a major role in preventing the U.S. from (eventually) exporting many primary products to China and then buying back those products as manufactured goods. Leveraging our manufacturing ability away potentially means sacrificing the quality of our California made products and triples the tertiary economic impact to U.S. citizens.

In attempts to force these goals, the U.S. is trying to use tariffs to fundamentally change the structural rules by which China's economy currently functions. In order to accomplish this however the Chinese ruling class will have to let go of some control and come to the middle. There are no elections in China however, so the potential for middle ground is pretty bleak. Losing face in the midst of an uncomfortable negotiation (is there any other kind?) isn't really a popular look either.

So who blinks first? The first country whose economy blinks first. Pay particularly close attention to Annie's market columns to see if our market health is blinking.

Long term success will depend on how the U.S. –and in particular how California, reinforces our investments in infrastructure and in research and development. We need to scale these things up so our industries can out-compete China when the gamble is over.

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Latest commodity prices

Average (\$/lb)	AA Butter	NFDM	40# Blocks	Barrels	Dry Whey
April	\$2.2669	\$0.9641	\$1.6468	\$1.6468	\$0.3923
May	\$2.2622	\$0.9984	\$1.6939	\$1.6675	\$0.3844
May 16	\$2.2831	\$1.0088	\$1.6976	\$1.6497	\$0.3840
From last week	+3.48 cents	+1.75 cents	+0.77 cent	+2.44 cents	-0.08 cent

Latest class prices—Order 51

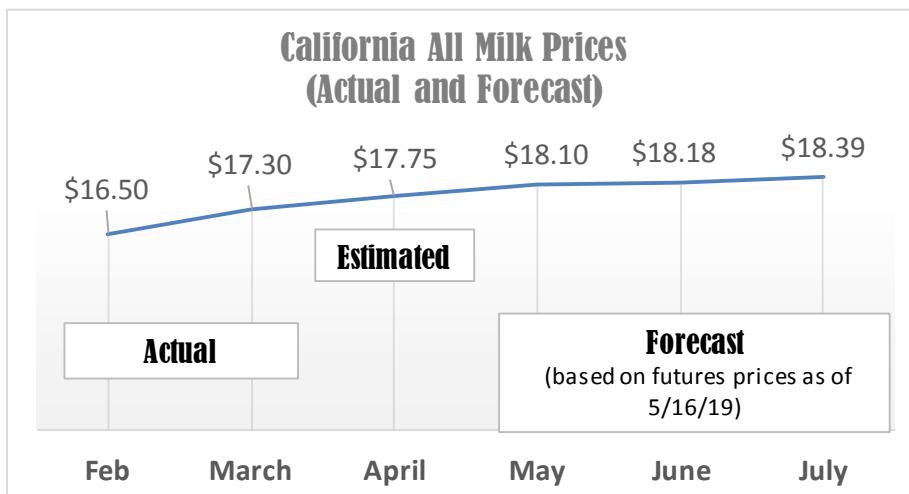
Price (\$/cwt)	Class I LA	Class II	Class III	Class IV	PPD	Statistical Uniform Price
February	\$17.40	\$16.13	\$13.89	\$15.86	\$1.23	\$14.62 (Tulare) - \$15.12 (LA)*
March	\$18.08	\$16.61	\$15.04	\$15.71	\$0.99	\$15.53 (Tulare) - \$16.03 (LA)*
April	\$17.86	\$16.38	\$15.96	\$15.72	\$0.46	\$15.92 (Tulare) - \$16.42 (LA)*

*Does not include the quota deduction. After deduction the range for April is : \$15.54—\$16.04

CA quota prices

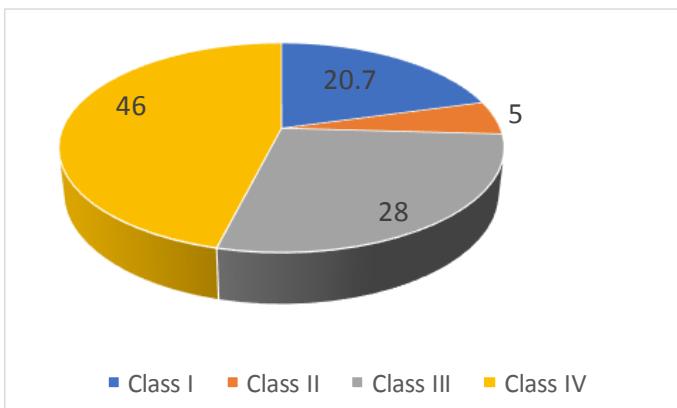
Price (\$/cwt)	# of buyers	# of sellers	# sales	Low end	Average	High end	Quota SNF transferred
March	2	2	2	\$330	\$333	\$335	3,485.6
April	4	2	3	\$325	\$325	\$325	6,895.2
May	6	7	6	\$305	\$322	\$330	6,182.05

CDFA will no longer mail out quota sales price information each month. We will include it on this page to allow our interested members to keep track.



This forecast is for informational purposes only and should not be used as a price guarantee. It is subject to change as market conditions change.

Under the California system, this chart included actual, estimated and forecasted overbase prices. Since overbase prices are no longer relevant under the FMMO, this chart will focus on the California all-milk price forecast. Since we have historical data on the all-milk price and will continue to get such data, it seems an appropriate measure to show price trends in the state as we get more months of data under the FMMO.



California FMMO pool corner—April data

Class	Pounds	Pounds (March)	Price	Price (March)
I	451,031,629	447,451,298	\$17.86	\$18.08
II	114,061,619	118,589,178	\$16.38	\$16.61
III	610,617,234	1,415,935,162	\$15.96	\$15.04
IV	1,004,427,422	276,066,498	\$15.72	\$15.71
Total	2,180,137,904	2,258,042,136		