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Dairy inventories weigh down markets

By CAROL RYAN DUMAS
Capital Press

The world's dairy farmers have started to react to protracted lower milk prices by slowing production, but not before growing milk production beyond weak global demand.

The result is a glut of product inventory that is weighing down markets and stalling price recovery.

While Rabobank still forecasts a rise in prices in the first half of 2017, the high level of stocks and weak global demand due to low oil prices, trade bans and lack of affordability in emerging markets could threaten those price increases, the bank's analysts reported in their latest dairy quarterly report.

Global stocks continue to increase, with current stocks estimated at 6.4 million tons higher than the five-year average — representing about 7.5

Dairy product and milk prices

Product	(U.S. price, dollars/pound)					
	Q4 '15	Q1 '16	Q2 '16*	Q3 '16*	Q4 '16*	Q1 '17*
Non fat dry milk	0.84	0.77	0.81	0.91	0.97	0.97
AA butter	2.65	2.08	2.08	2.75	2.45	2.16
Block cheddar	1.64	1.49	1.34	1.72	1.67	1.57
Whey powder	0.23	0.24	0.26	0.30	0.31	0.32

Product	(U.S. price, dollars/hundredweight)					
	Q4 '15	Q1 '16	Q2 '16*	Q3 '16*	Q4 '16*	Q1 '17*
Class III milk	15.07	13.76	12.57	16.63	16.05	15.05
Class IV milk	16.28	13.40	13.61	17.31	16.60	15.58

NOTE: Products are world prices, milk prices are for U.S. milk. *Forecast
Sources: Rabobank; USDA Capital Press graphic

percent of annual global trade, the analysts stated.

Tom Bailey, Rabobank dairy analyst, said a couple of catalysts led to the current situation.

A 12-month period of record-breaking milk prices in 2013 and 2014 following five years of elevated prices, both fueled by demand from developing markets, communicated to farmers around the world a need for more milk. They responded with investments in

their operations over the last 24 months, he said.

In addition, farmers in the EU were positioning themselves for the removal of milk quotas, which happened last year, he said.

On the demand side, however, an embargo of imports by Russia — the world's second-largest dairy importer and a big market for the EU — took its toll. In addition, demand slowed in developing markets, he said.

"That left us in a bit of a quagmire for prices. They've been very low for the past 12 to 18 months," he said.

But that message wasn't received around the world. Here in the U.S., farmers were well prepared, having paid down debt when prices were high. In addition, U.S. milk prices were supported by strong butter and cheese demand. And farmers in the EU were buffered with profits from branded businesses.

Just recently, markets are finally seeing production fall in the big exporting countries — for the first time in 12 months, he said.

"It seems the message is finally being received at the farm gate, but we still have a ways to go," he said.

Massive product inventories have accumulated, and exports were down from the big seven countries in the first quarter of the year, he said.

A lot of those inventories are being held in the EU, where

government intervention has led to inventories in excess of 4 million tons. That's about two and a half weeks of international trade, which is manageable but puts a ceiling on prices, he said.

In addition, the U.S. has inventories of just under 1 million tons, and China and other developing markets are sitting on stocks purchased because of low prices, he said.

Global milk production did fall in April, he said.

The EU went from a 5 percent year-over-year increase January through March to only a 1.6 percent increase. Production there is expected to contract slightly now that farmers are feeling the sting, he said.

Production in the U.S. has slowed, from a 2.1 percent increase January through March to a 1.1 percent increase in April and is expected to grow modestly over the next 12 months.

Production in Argentina, Brazil and Uruguay is down,

and production in New Zealand and Australia is declining.

"So five of the seven export engines have stalled," Bailey said.

Global prices are really starting to bite and are below breakeven in most of the world. Milk production will finally be contracting, which will help markets work through inventories. But it takes time, especially with weaker demand, he said.

"The end result is farm gate prices are not going to leave them (farmers) excited. The coming 12 months look a bit rough. There is a very dim light at the end of the tunnel, but it's still a ways off," he said.

Rabobank's middle-of-the-road forecast for the next 12 months is that international product prices will remain fairly subdued, with a slight upside when inventories tighten up, he said.

"We're not out of the woods yet," he said.

Washington lawmaker promises bill to contain manure ruling

Newhouse: 'The judge made an erroneous ruling'

By DON JENKINS
Capital Press

A member of Washington's congressional delegation said he will introduce legislation to prevent the nation's law against dumping hazardous waste from being applied to manure from livestock operations, countering a landmark ruling against a Yakima Valley dairy.

U.S. Rep. Dan Newhouse's proposal likely will attract opposition from environmental groups, which hailed U.S. District Judge Thomas Rice's decision.

Rice ruled that the Cow Palace Dairy's handling of manure posed a risk to drinking water in the Yakima Valley and violated the Resource Conservation and Recovery Act. Congress passed the law in 1976 to stop the open dumping of industrial waste.

Newhouse, a Republican, said Friday the ruling stretched the law to agriculture, going beyond what Congress intended and exposing other dairies to lawsuits.

"The thought is, the judge made an erroneous ruling," he said.

The Cow Palace and four other Yakima County dairies were sued in 2013 by the Center for Food Safety and the Community Association for Restoration of



Don Jenkins/Capital Press

A cow stands and watches at a dairy in Washington state. U.S. Rep. Dan Newhouse, R-Wash., says he will introduce a bill to prevent the storing and application of manure from livestock operations from being classified as the open dumping of solid waste, blunting the impact of a federal court ruling.

the Environment.

Rice's pre-trial ruling led to an out-of-court settlement. The dairies agreed to take several actions, including lining lagoons with synthetic materials to prevent manure from seeping into groundwater.

"We saw (Rice's) ruling as a step forward toward a rational approach to living with industrial dairies," said Jean Mendoza, executive director of Friends of Toppenish Creek, a Yakima County-based environmental group.

She said the lawsuit by private groups revealed government shortcomings in protecting the environment and that she expected conservation organizations to oppose legislation to blunt the case's impact.

Newhouse's bill would not affect the settlement, but he and dairy farmers said it

might prevent Rice's ruling from being used against other producers.

"What we went through for the past four years, we'd hate to see that continue for any other dairy," Cow Palace owner Adam Dolsen said.

"It's been a huge challenge and cost," he said. "We've spent way more time with attorneys than we'd like to."

Yakima Valley dairy farmer Bill Wavrin, owner of the Sunny Dene Ranch in Mabton, said farmers are "just looking for certainty about the rules."

"I think history will show that when you give agriculture a set of rules, we have the ingenuity and reason to comply with the rules and protect the environment," Wavrin said.

A year ago, Newhouse proposed amending a spending bill to prohibit the Envi-

ronmental Protection Agency from using federal funds to write new rules for livestock operations based on Rice's ruling.

Democrats on the floor said they hadn't seen Newhouse's proposal, but after quickly calling up and reading news stories about Rice's decision, the lead Democrat on the subcommittee for Interior and environmental appropriations opposed the amendment.

By a voice vote, the Republican-controlled House attached Newhouse's amendment to the spending bill, which never passed.

Newhouse said he planned to introduce the more comprehensive bill soon but gave no exact time frame. Newhouse said he expected federal lawmakers from across the country to support the legislation.

Beef exporters hope to follow pork into China

By RICHARD SMITH
For the Capital Press

TOKYO — U.S. beef exporters hope to follow in the footsteps of pork exporters in building a profitable trade with China.

China banned U.S. beef following the discovery of a mad cow case in Washington state in 2003. After a dozen years of U.S.-China negotiations, the last issue to be resolved is the procedure for tracking U.S. cattle.

China currently suffers from an insufficient number of cattle, "bottlenecks" in its breeding programs and a lack of scale, according to a study compiled by the China Beef Cattle Association.

The U.S. beef industry is aware of what needs to be done to gain access to China and has made it a top priority, U.S. Meat Export Federation international program assistant vice president Greg Hanes told the Capital Press.

However, the relationship between the two countries is complex, and food issues sometimes get caught up in that complexity, he said.

"There are issues in bringing poultry from China into the U.S., and obviously a big issue is defense and security within the region," he said.

Once U.S. beef has direct access to China, it will probably take some time for exports to take off, Hanes said. Most likely there will be limitations on the use of beta agonists and even hormones, both of which promote efficient growth, he said.

In that case a limited amount

of U.S. beef will be available for export to China.

"However, the industry will produce more, once we have access, in order to meet that demand in China," Hanes said.

Most product going to China would likely be frozen, but there should still be demand for chilled beef as well, he said.

The main cuts demanded will likely be similar to those sold in other Asian markets, including short plate, chuck roll, rib finger, thin meats and variety meats, Hanes said.

"There should also be strong market demand for middle meats, such as ribeye rolls and strip loins," he said.

Meanwhile, China's pork imports more than doubled in March 2016 as China's environmental regulators slammed the brakes on domestic production, GlobalMeatnews.com reported.

Chinese customs data show shipments of pork into China reached a record 114,000 metric tons in March, more than double the amount for the same month last year.

More U.S. packers have plants that are approved for export to China and are looking to that market as an area for growth, Hanes told Capital Press.

U.S. pork exports January to April are up 78 percent compared to last year, a total of 176,519 metric tons worth over \$330 million.

Most product going in is frozen and includes a variety of cuts and variety meats, Hanes said.

"If we continue at this pace, exports should round out the year well over \$1 billion," he said.

Butter slipping, cheese climbing

By LEE MIELKE
For the Capital Press

USDA's May Dairy Products report had mixed reviews by the markets in the Fourth of July holiday-shortened week.

Cash block cheese fell to \$1.58 per pound Wednesday but then reversed gears and closed Friday at \$1.63 per pound, up a half-cent on the week, after jumping 11 1/4-cents the previous week, but is 9 1/2-cents below a year ago.

The barrels finished at \$1.72, up a nickel on the week and 6 cents above a year ago. Three cars of block traded hands last week at the CME and 18 of barrel, all on Friday.

Both were unchanged Monday. The blocks held Tuesday, and the barrels inched up a quarter-cent, to \$1.7225, 9 1/4-cents above the blocks and the highest spot barrel price since August 2015.

Central region cheese production picked up in the Fourth of July week, according to Dairy Market News. Components are beginning to drop as temperatures and humidity rise, but pro-



Dairy Markets
Lee Mielke

cessors have yet to see a change in yields.

Milk in the West remains plentiful, keeping cheese production stable and strong but the current cheese level in cold storage continues to be heavy. There is good domestic demand but foreign inquiries are weak as the value of the U.S. dollar grows.

Cash butter headed south last week, closing Friday at \$2.2825 per pound, down 6 3/4-cents on the week but still 36 1/4-cents above a year ago. Only one car traded hands on the week.

Spot butter backed down three-quarters Monday and dropped 2 1/2-cents Tuesday, to \$2.25, the lowest price since June 13.

Butter sales were steady last week, says DMN. Western contacts say cream is tightening, especially in the Southwest. As ice cream production continues to increase and milk components decrease, fewer loads of cream are finding their way into churns.

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