MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	+ $.0075	$1.9075	Weekly Change	+ $.2550	$2.7550	Week Ending 02/05/22		
Barrels	+ $.0150	$1.9100	Weekly Average	+ $.0925	$2.5780	Nat'l Plants	$1.6944	27,329,790
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	+ $.0320	$1.9015	Dairy Market News	w/e 02/11/22	$.8100	Last Week Ending 01/29/22		
Barrels	+ $.0525	$1.8850	National Plants	w/e 02/05/22	$.7504	Nat'l Plants	$1.6813	21,380,288

California Federal Milk Marketing Order Price Projections

Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
Feb 11 Est	$23.24 - $23.74	$23.37	$20.80	$23.80
Last Week	$23.24 - $23.74	$23.04	$20.70	$23.45

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Daily Dairy Report
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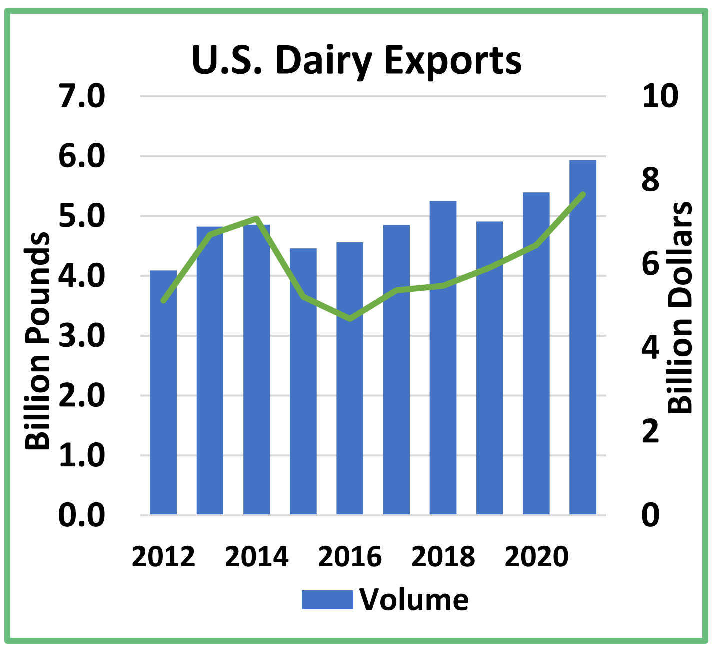
Milk & Dairy Markets

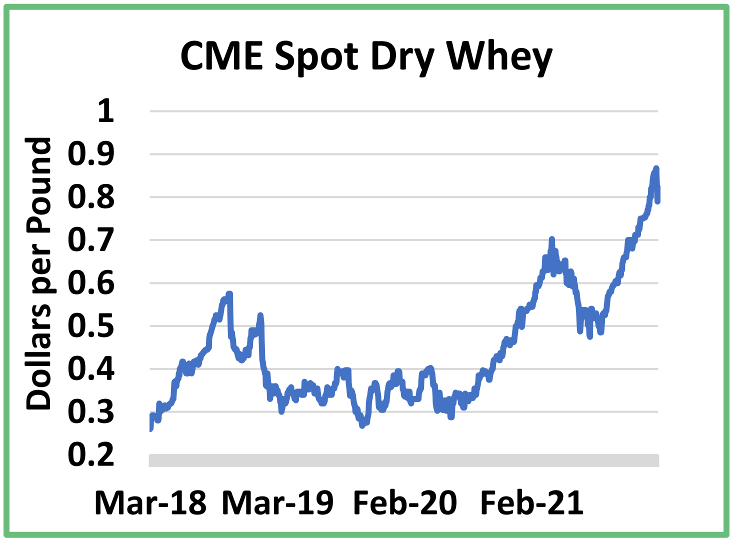
The dairy markets remained in flux this week as buyers and sellers jockeyed to exert their influence on the trade. Following a few weeks of big swings, the action in the cheese markets was relatively subdued. However, important movements in the nonfat dry milk, whey, and especially butter markets, kept observers on their toes.



Against a backdrop of struggling global milk production, sustained interest from international buyers is one of the key factors that worked to keep markets tight in recent months. U.S. exporters rose to the challenge of meeting global demand in 2021, setting records in the process. Last year, U.S. exporters shipped 5.936 billion pounds of dairy products valued at $7.7 billion abroad. This represented a record in both volume and value terms, and bested prior year levels by 10.4% and 19.1%, respectively. Exports to China totaled 966.7 million pounds during the year, an increase of 28.6% versus 2020. At 1.286 billion pounds, shipments to Mexico, the largest trading partner of the U.S., were up 16% versus prior year but failed to beat the record 1.349 billion pounds set in 2018.

Despite the annual performance, however, December's exports were lighter than prior year, suggesting that port congestion and supply chain complications limited exporters' ability to move product during the month. At 416.3 million pounds, December dairy exports were down 2.6% versus December 2020, representing the first year over year decline since January.

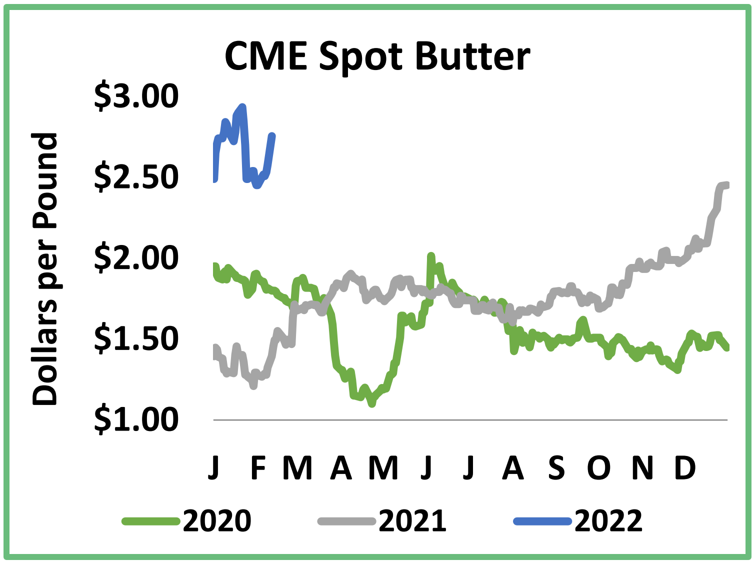
Seemingly tuckered out by swings in prior weeks, the CME Cheddar block market remained unchanged between Monday and Thursday before adding a modest .75¢ during Friday's trade to end the week at $1.9075 per pound. Barrels demonstrated a bit more zest, losing just over a nickel during the first half of the week before bouncing back. Friday's trade closed at $1.91 per pound, up 1.5¢ compared to last Friday and inverting the block barrel spread. Demand is reportedly chipper, particularly from retail channels as consumers gear up for this weekend's Super Bowl. In addition, the pull from international customers remains robust. Cheese exports were formidable in December, due to particularly strong demand from Mexico. At 68.4 million pounds, total cheese exports were up 20.1% year over year, and lifted cheese exports for the year to 892.1 million pounds, over 80 million pounds more than the prior record set in 2014.



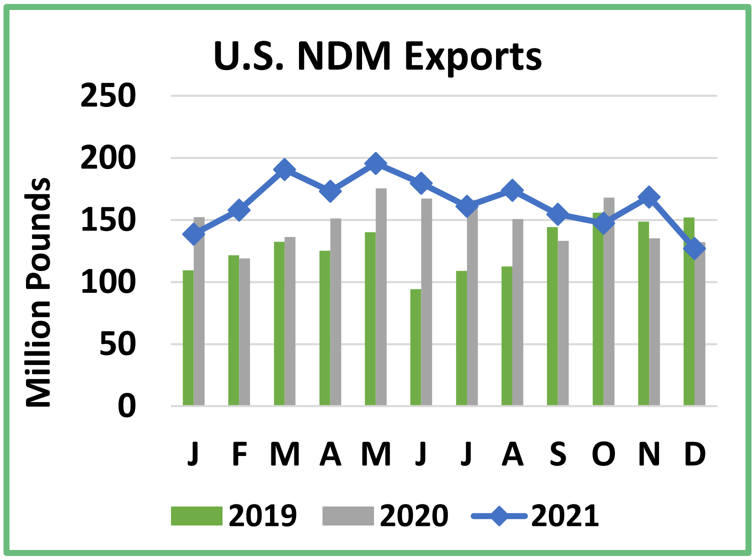
There was more excitement on the other side of the Class III complex. Following weeks of unfettered upward movements, the CME dry whey price notched a new high of 86.75¢ per pound on Tuesday before dropping 4¢ on Wednesday and another 3.75¢ on Thursday. Following these declines, the first seen this year, the whey price was down to 79¢ per pound. Tempted by the lower prices, buyers moved back into the market on Friday, pushing the price up 3.25¢ as 6 loads traded hands. Ultimately dry whey ended the week at 82.25¢ per pound, down 3.5¢ compared to last Friday with 15 loads trading hands. Higher prices are reportedly eating away at international demand. December's exports of all whey products were down 22.8%, due to waning appetite from China. Exports of whey protein concentrates (WPC) dropped considerably during the month. At 18.2 million pounds, WPC exports were the weakest they have been in any month since January 2019.

Yet the movement in dry whey was no match for the action in the butter markets. Following the sharp descent seen in late January, the CME spot butter price had seemed to find balance, trading within a 12.5¢ range between January 26 until Thursday. However, butter buyers found their way to LaSalle today, pushing the butter price up by 17.75¢ in a single session with 3 loads trading hands and 10 bids remaining on the board when the session closed. When the dust settled, the butter price closed the week at $2.755 per pound, up 25.5¢ versus a week ago. The spot result is somewhat surprising considering that cream is ever more available while demand is mixed. Churns however, continue to cite labor and logistical challenges that are constraining production.

Similar complications are plaguing dryers. In particular, a scarcity of truckers is preventing the smooth movement of condensed skim from one region to another. International demand persists but little progress has been made resolving port congestion that is slowing exports. December exports of nonfat dry milk (NDM) totaled 127 million pounds, down 3.9% year over year and the lowest monthly result since February 2020. Despite December weakness however, U.S exporters shipped 1.968 million pounds of NDM during 2021, an increase of 10.4% over last year's record volume. Strength persisted in the spot market as well with the price moving upward in four of the week's trading days. Spot NDM finished the week at $1.8975 per pound, up 6.5¢ with 16 loads trading hands.

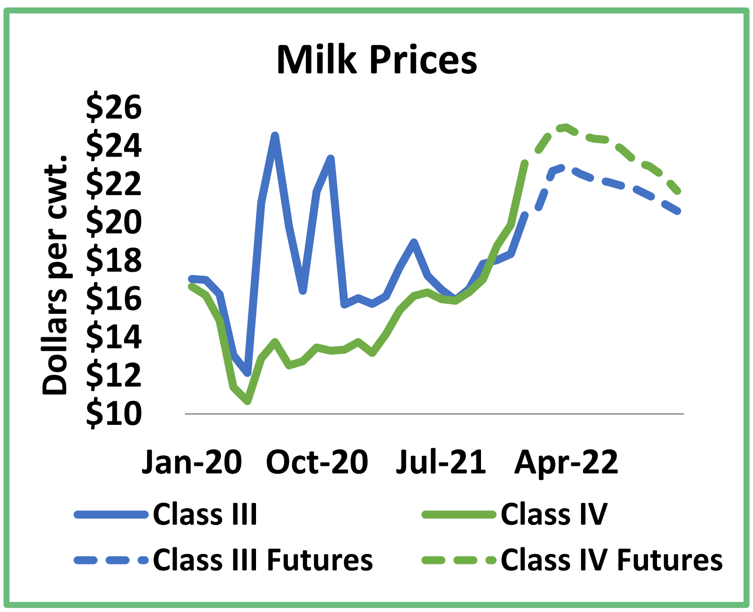


While winter weather persists across the country, conditions have generally been milder over the past week with snow and ice no longer causing major disruptions. Reports on milk availability have been mixed but continue to be clouded by a lack of truckers and hauling capacity that is preventing loads from being easily moved across the system. Bottling demand has been robust as schools are back in session which has tightened up milk supplies for manufacturing uses. Class III milk futures markets generally moved upward over the course of the week and by Friday the MAR22 contract through the JLY22 contract all settled above $22 per cwt. Class IV futures also saw green over most of the week and especially on Friday, emboldened by butter's big move. MAR22 through MAY22 Class IV contracts settled on Friday above $24.50 per cwt.



Grain Markets

USDA's World Agricultural Supply and Demand Estimates report, released Wednesday, left the U.S. corn balance sheet unchanged while only increasing the crushing forecast slightly on the soybean balance sheet. However, USDA did cut its expectations for South American production to reflect the impact of dry weather. USDA reduced its soybean production estimate for Argentina from 46.5 million metric tons (MMT) to 45 MMT. Meanwhile it slashed its expectation for Brazilian soybean production by 3.6% from 139 MMT to 134 MMT. While significant, these cuts were less than what was expected by the trade. Nevertheless, futures prices continued to move upward.



Who Wants to Think About Risk Management, Now?

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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It's always a bit tricky as a dairyman trying to figure out how to manage risk – particularly on the milk income side. The current market situation is unique. We have seen a rapid rise in feed costs and operating costs. Milk prices have finally responded and risen to levels unseen in the past. How long will these milk prices stay high? The futures prices are projecting a decline in prices later in the year. Our experience tells us that eventually they will come down, unless of course the dairy paradigm has permanently shifted.

USDA extended the signup period for the Dairy Margin Coverage (DMC) program by one week and I **strongly recommend** that every dairy sign up for the full 5 million pounds of $9.50 coverage at your local FSA office. The DMC mechanism has been continually sweetened in producers' favor by USDA over the past couple of years. It is now, by far, the most generous dairy safety net program ever created for producers. The problem is 5 million pounds is the limit and that covers the production from about 250 cows. So, the question is what to do about the rest of your milk?

The market situation is full of factors to consider. Typically, once milk production becomes profitable, milk production increases to meet demand. To increase production, we need feed and animals. Feed is very expensive and the growth of beef from dairy animals may have a significant impact on how many dairy heifers might be available. Labor is an issue in most major dairy areas of the country. Many milk handlers have activated production limits on their producers. Long-term environmental challenges and costs create a significant risk profile to new or expanded dairy construction. Meanwhile, milk production in Europe is flat as is production in New Zealand and Australia. Maybe this milk price runup will last longer than we expect. But maybe not.

I sell Dairy Revenue Protection (DRP) crop insurance and get to talk to producers about their thinking on a regular basis. What DRP does is provide a revenue guarantee based on a floor price that is directly tied to daily closing prices for milk futures. Right now, a producer can purchase revenue coverage for Quarter 2 of 2022 (April, May and June) and Quarter 3 (July, August and September) and Quarter 4 (October, November and December). Coverage for Quarter 1 of 2023 and Quarter 2 of 2023 are also available.

The floor prices are historically high for these future quarters, but so are the premiums. The way this program works is a producer purchases coverage for a fix volume of milk that will be produced in a future quarter of time. The floor price establishes the minimum revenue that will be obtained for this volume of milk. If the actual price of milk in that future quarter generates less revenue than the revenue guaranteed by the policy, the insurance company pays the difference.

The DRP program has a lot of flexibility. The highest floor prices that can be obtained are based on a floor price that is 95% of the closing futures price in force for each day. For example, a $20 Class III futures price would dictate an available floor price for purchase of $19 per cwt. ($20 x 95%=$19). 95% is the level at which most DRP purchases have been made until recently. The DRP program also offers revenue guarantees at the 90% level and the 85% level for much lower premiums.

Some producers I am talking to are looking at these options as a lower cost way to put in a revenue floor. Another idea that is being considered by some folks is to buy DRP coverage and then sell calls in the futures market to earn money to help offset the cost of the DRP premiums. This type of move puts a floor under your price, but also a ceiling. Selling calls must be done through a licensed broker and does require money up front and an exposure to margin calls if futures prices move higher. There are some cooperatives who offer the opportunity to sell calls and the program takes the risk of the margin calls. If you are interested in this approach you can check with your cooperative to see if they have a program.

The bottom line is the dairy industry is in uncharted waters. There are many different options and opinions about what might happen and what can be done to prepare. In the three years I have been talking to producers about DRP I have discovered that there are as many opinions as there are dairymen. Everyone has a different perspective, and no one is right all the time. Other than signing up for the full 5 million pounds of coverage in the DMC, the path each individual producer takes will be different. It has been a wild ride for a while now and it seems that uncertainty and risk will be the reality for some time to come.

Deadline Extended to Enroll in 2022 Dairy Margin Coverage

Courtesy of USDA

USDA has extended the deadline to enroll in Dairy Margin Coverage (DMC) and Supplemental Dairy Margin Coverage (SDMC) for program year 2022. **The deadline to apply for 2022 coverage is now March 25, 2022.**

Enrollment for 2022 DMC is currently at 48% of the 2021 program year enrollment. Producers who enrolled in DMC for 2021 received margin payments each month, January through November for a total of $1.2 billion, with an average payment of $60,275 per operation.

The DMC program, created by the 2018 Farm Bill, offers reasonably priced protection to dairy producers when the difference between the all-milk price and the average feed cost (the margin) falls below a certain dollar amount selected by the producer. Supplemental DMC will provide $580 million to better help small- and mid-sized dairy operations that have increased production over the years but were not able to enroll the additional production. Now, they will be able to retroactively receive payments for that supplemental production. Additionally, FSA updated how feed costs are calculated, which will make the program more reflective of dairy producers' actual expenses.

Central Valley Dairy Representative Monitoring Program Annual Meeting: 3 p.m. Wednesday, February 16 via Zoom video conference

Courtesy of the Central Valley Dairy Representative Monitoring Program

The Central Valley Dairy Representative Monitoring Program (CVDRMP) will host its Annual Member Meeting at 3 p.m. Wednesday, February 16 via Zoom. CVDRMP Directors and staff will provide an update on the organization's activities related to its groundwater monitoring program and the new Nitrate and Salt Control Programs recently adopted by the Central Valley Water Board. Membership fees for 2022 will also be discussed.

CVDRMP members were recently mailed a newsletter, which includes an agenda and link to the Annual Member Meeting. For more information about CVDRMP or to check the status of your dairy or bovine facility in the program, please contact CVDRMP@gmail.com or 916-594-9450. Visit the CVDRMP website at CVDRMP.org.

NMPF Update: USDA Outlines Climate Smart Farming Pilot Program

Courtesy of National Milk Producers Federation

During a stop in Missouri on Monday, Agriculture Secretary Tom Vilsack unveiled a new program to promote “climate-smart commodities,” under which USDA will spend $1 billion on a series of partnerships to incentivize agricultural products produced through practices that reduce greenhouse gas emissions.

As we noted in our statement, this new program will be important to helping U.S. dairy farmers fulfill the Net Zero goal of becoming greenhouse gas neutral by 2050.

The pilot projects funded by the $1 billion will run from one to five years. USDA is now accepting applications through a competitive process to implement pilot projects that incentivize farmers to adopt production and marketing practices to ensure that the commodity has climate smart properties.

Eligible projects must include plans to measure, monitor, and verify the carbon and greenhouse gas benefits associated with the relevant practices and technologies. Applicants must also address how they plan to market the climate smart commodity generated because of said practices. A broad range of entities will be eligible, including farmers of all sizes, methods, and production types, as well as early adopters.

The first round of applications will be due on April 8 to fund larger projects, those seeking grant funding ranging from $5 million to $100 million. The second round of applications will be due on May 27 for smaller projects, defined as those seeking funding from $250,000 to $4,999,999. USDA indicated that this $1 billion in funding will not interfere with the Commodity Credit Corporation’s obligations to fund farm bill and other programs.

The new program has drawn criticism from some GOP lawmakers who believe the initiative is not an appropriate use of the Commodity Credit Corporation, but the Food and Agriculture Climate Alliance (FACA), a coalition of more than 80 agricultural and conservation groups, including NMPF, is backing the program.