

MPC WEEKLY FRIDAY REPORT

DATE: DECEMBER 13, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	- \$.1725	\$1.7975	WEEKLY CHANGE	+\$.0450	\$1.9600	WEEK ENDING 12/07	
Barrels	-.5325	\$1.6950	WEEKLY AVERAGE	+.0115	\$1.9470	NAT'L PLANTS	\$1.2062 16,616,544
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 11/30	
Blocks	-.0630	\$1.8965	DAIRY MARKET NEWS	W/E 12/13/19	\$.3487	NAT'L PLANTS	\$1.1775 16,616,544
Barrels	-.3795	\$1.8690	NATIONAL PLANTS	W/E 12/07/19	\$.3199		

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
DEC 13 EST	\$20.93 - \$21.43	\$16.91	\$19.40	\$16.73
LAST WEEK	\$20.93 - \$21.43	\$16.99	\$19.55	\$16.74

NOVEMBER 2019 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

NOV '19 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT*
MINIMUM CLASS PRICE	\$19.74 (TULARE) \$20.24 (L.A.)	\$16.85	\$20.45	\$16.60	\$16.56 (TULARE) \$17.06 (L.A.)	\$16.235 (TULARE) \$16.735 (L.A.)
PERCENT POOLED MILK	23.3%	7.5%	1.9%	67.3%	100% (1.65 BILLION LBS. POOLED)	

*QUOTA RATE OF \$0.325/CWT. AS OF SEPTEMBER 2019 MILK



Milk, Dairy and Grain Market Commentary

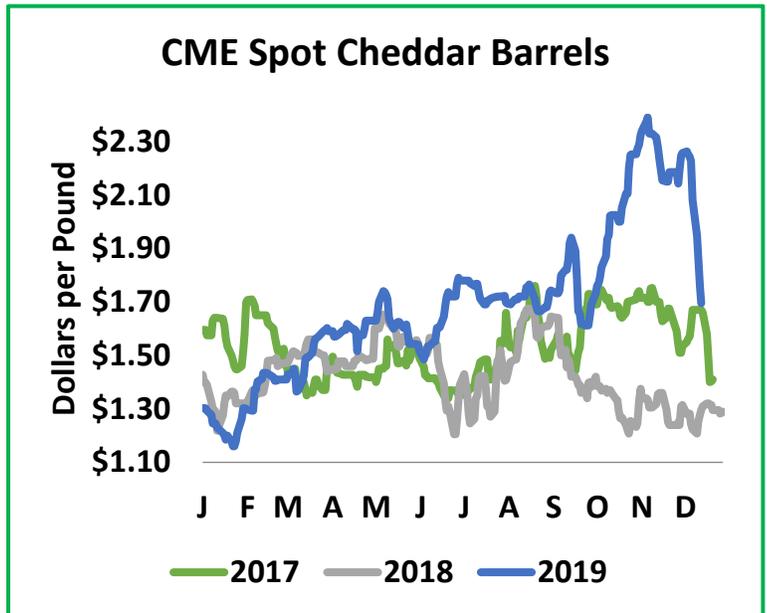
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

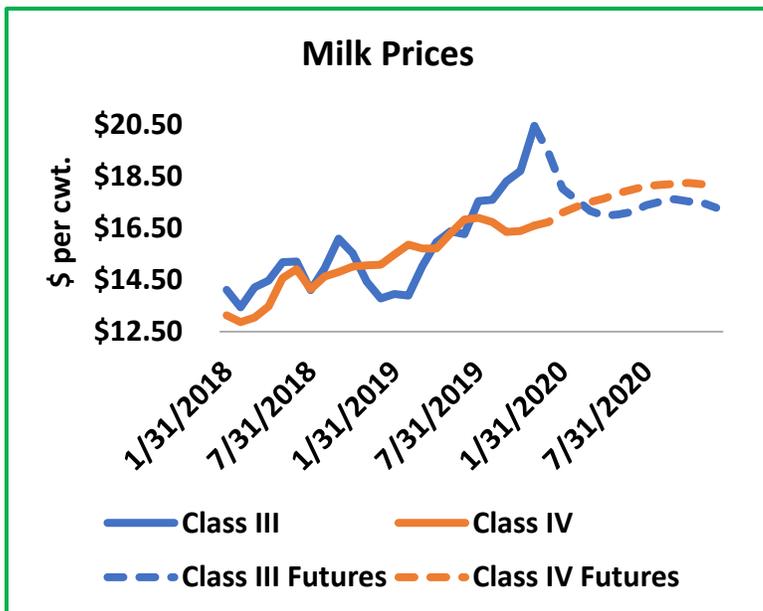
Splat! Thus ends my daughter's favorite Sunday school song. "The foolish man built his house upon the sand, and the house on the sand went 'Splat!'" The Cheddar barrel market also went splat this week. It closed today at \$1.695 per pound, down 53.25¢ from last

Friday, a 24% drop. Barrels suffered their worst weekly decline on record along with their worst ever two-day, three-day and four-day losing streaks. Blocks finished 17.25¢ in the red, at \$1.7975.

Barrels have now given up all of the October and November rally, which was not built to last. But the market is a bit wiser than the builder in the song. The fall rally was warranted in the short term, and barrels managed to trade above \$2 for nearly two months, which is an impressive feat. The market did its job, encouraging production, discouraging sales, and returning to equilibrium at more sustainable values. USDA's *Dairy Market News* reports, "Demand [for cheese], in some cases, is falling behind stronger production and growing supplies." But cheaper cheese "may be some enticement for buyers, who have been reluctant with the \$2+ market price."



The barrel rally provided dairy producers with a decent October milk check and excellent revenue for November and December. It also boosted 2020 contracts to new highs and offered opportunities for dairy producers to put in price floors at values above their cost of production. It lifted the market's assessment of just how high Class III values might climb, which will likely encourage buyers to step in more quickly for fear of being caught short again. For cash-strapped dairy producers, sky-high cheese prices were nice while they lasted, and they lasted for a surprisingly long time. But in the long run, it's healthier to have cheese at prices that pay the bills but don't kill demand. Steady profits are better for the industry than another boom and bust cycle.



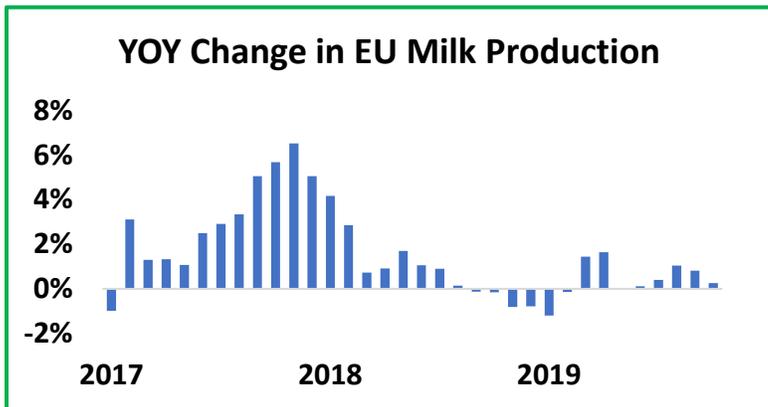
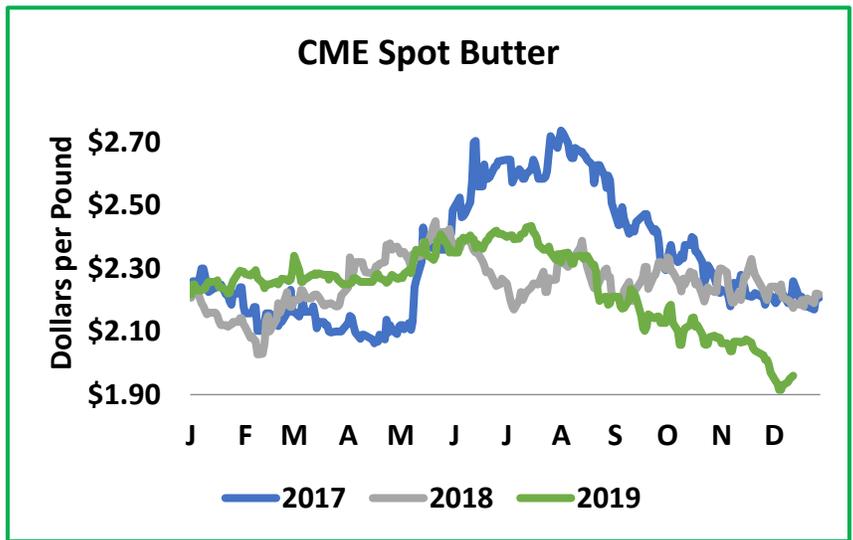
Class III futures had anticipated the inevitable decline in barrels. They fell back from last week's life-of-contract highs, but they did not follow spot cheese off a cliff. Compared to last Friday, most Class III futures finished 15¢ to 30¢ lower than last Friday. The January contract slumped 65¢, to \$18.03 per cwt. In light of the absolute collapse in spot cheese, the futures have been surprisingly resilient.

The whey market also dragged Class III lower. CME spot dry whey fell 3¢ this week to 33.75¢. Whey futures lost a lot of ground as well. This is a bit of a surprise, as *Dairy Market News* reports slightly higher prices across the country, and increased interest from Mexico and China. News that the U.S. and China have agreed to the outline of a phase one trade deal, should also be a boon for whey demand, especially if China seeks to buy a set dollar amount of U.S. agricultural goods. The Chinese have so far

been mum on the details of agricultural purchases. The U.S. has lost a considerable share of China's whey imports since the first tariffs were levied in April 2018. We have much to regain.

The Class IV markets were quiet this week. Nearby Class IV futures were within a penny or two of last Friday's settlement. The May contract was hardest hit; it fell 15¢. All 2020 contracts are at least \$17 per cwt., and second-half contracts are north of \$18.

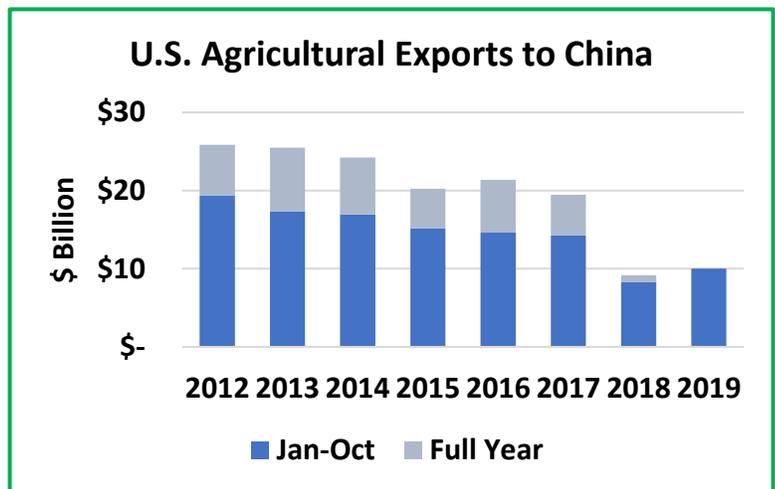
CME spot butter bounced back from a three-year low and climbed 4.5¢ to \$1.96. There is plenty of butter and plenty of cream, so the upside in the butter market may be limited. Spot nonfat dry milk (NDM) slipped a quarter cent this week to \$1.265. The milk powder market remains firm as global inventories wane.



Milk output continues to exceed last year in much of the U.S., but growth in the rest of the world is quite modest. Assuming steady milk production trends in Austria, Sweden, and Greece, milk collections in Europe were just 0.3% greater than last year in October. Among the major players, output was lower than last year in Germany, the United Kingdom, Italy, and Ireland, and higher in France, the Netherlands, and Poland. Production is down hard in Australia and it was short of the prior year during the seasonal peak in New Zealand.

Slow growth in aggregate global milk output suggests that the milk powder market is likely to remain firm and that the other dairy products may face limited pressure from overseas pricing.

The U.S. and China have not yet announced the details of the phase one trade deal. During negotiations, President Trump promised that China would buy \$40 to \$50 billion in U.S. farm goods in a single year. Such a sum was unlikely. U.S. agricultural exports to China reached a record high in 2012, when crop values were much higher, at \$25.9 billion. Unofficial comments from those close to negotiations suggest that China will attempt to purchase \$40 to \$50 billion in U.S. goods, but the total will include energy and manufactured goods along with farm products. Although this falls well short of President Trump's promises to farmers, it is certainly better than the status quo of punitive tariffs and piecemeal waivers. Since China first levied retaliatory taxes in April 2018, U.S. farm exports have withered on the vine. U.S.



agricultural exports to China in April through December 2018 fell 68% from 2017. Through October, exports to China in 2019 are 30% lower than during the first 10 months of 2017.

Grain Markets

U.S. corn and soybean exports have lagged painfully and there is much room for improvement. The trade war has allowed South America to clean out its bins, creating a vacuum which the U.S. is poised to fill. The new U.S.-China trade accord could foster much larger U.S. crop exports. The feed markets cheered the news but remain cautious about the details. March corn settled at \$3.81 per bushel, up 4.5¢ from last Friday. January soybeans closed at \$9.075, up 18.5¢.

Deal With China Announced, Details Not Yet Confirmed

Courtesy of National Milk Producers Federation

Milk Producers Council has long been an affiliate member of the National Milk Producers Federation (NMPF), which develops and carries out policies that advance dairy producers and the cooperatives they own. The next 9 articles are updates written by NMPF President and CEO Jim Mulhern about the busy week of legislation and news in Washington and in the United Kingdom. MPC thanks Mr. Mulhern for sharing this news with the dairy industry. – Kevin Abernathy, MPC General Manager



Today the Trump administration announced a “Phase One” trade deal with China that addresses a wide range of issues, including agriculture, and promises to lower trade barriers between the two nations. The Dow Jones Industrial Average set new highs on news of the agreement, which President Trump said would include major new purchases of agricultural products, though those gains were curbed later in the day as the lack of public details about the agreement became clear.

That lack of details means we can’t yet describe how this will impact dairy. But we do expect that several issues on which NMPF has worked closely on with the U.S. Dairy Export Council to address with the White House -- such as infant-formula imports and facilitating plant registrations, and as well as issues related to defending common cheese names – will be included in the agreement. We hope that other key issues, such as China’s current retaliatory tariffs on dairy products, are also addressed in the deal, so that U.S. dairy producers can re-enter the Chinese market in a significant way and boost exports.

We are watching closely and digging for any additional details on this agreement and appreciate that progress appears to have been made toward resolving what continues to be a lost opportunity for increased U.S. dairy exports to this crucial trading partner.

Senate Confirms Hahn as FDA Commissioner

Courtesy of National Milk Producers Federation

The Senate Thursday voted to confirm Dr. Stephen Hahn as the next Food and Drug Administration Commissioner. We are looking forward to working with him and his senior staff to address the public health implications of the misuse of dairy terms on improperly-marketed, fake dairy foods. Hahn was chairman of the radiation oncology department at the University of Pennsylvania medical school for

nine years until 2015, when he joined MD Anderson Cancer Center in Houston, where he was chosen chief medical executive last year.

During his Senate confirmation hearing last month, Hahn [voiced his support](#) for “clear, transparent, and understandable labeling for the American people,” and National Milk will be working in the coming months to ensure that under his leadership, the FDA finally acts on this issue. **I addressed this topic in my current [CEO’s Corner column](#), published earlier this week.**

Congress Reaches Deal in Principle to Fund Government

Courtesy of National Milk Producers Federation

Congressional negotiators have reached a broad agreement on a plan to fund the government for the remainder of the 2020 fiscal year. A previous agreement had determined overall spending levels, but details still needed to be hashed out. While final text has not yet been released, our understanding is that the package will encompass the entire federal government including operations and programs at USDA, FDA, EPA, and other agencies of interest to NMPF.

The major sticking point in the negotiations related to border security funding and enforcement issues, but we understand that those issues have been resolved as well. The House is tentatively expected to act on the plan this coming Tuesday, with Senate action to follow. Government funding is currently slated to expire next Friday, December 20, so action next week is critical. We will provide an update next week on specific provisions within the agreement.

Final Defense Bill Includes Helpful PFAS Provisions for Dairy

Courtesy of National Milk Producers Federation

Congress has also reached an agreement on the Fiscal Year 2020 National Defense Authorization Act, a measure enacted annually to determine policies and authorize funding levels for the Pentagon. This year’s bill became the vehicle for numerous provisions to address the broad issue of PFAS chemicals contaminating the water supply. Dairy has been in the spotlight to a degree because of high levels of PFAS found in the water supply on farms in close proximity to the Cannon Air Force Base in New Mexico, where PFAS is used in firefighting foam.

The final defense measure includes an important provision to authorize the Department of Defense to provide clean water to farms whose supplies have been contaminated by PFAS. The Department has previously asserted that it lacks the authority to take this action, so this legislative fix was needed. The bill also phases out the use of PFAS in firefighting foam over a period of time. The House passed the bill this week with overwhelming bipartisan backing and the Senate is expected to follow suit next week. President Trump is expected to sign the measure into law.

USMCA Nears House Passage After Breakthrough

Courtesy of National Milk Producers Federation

The White House and Democrats in Congress reached agreement this week on labor enforcement terms in the U.S.-Mexico-Canada trade agreement, paving the way for passage of the landmark deal, possibly before Christmas. After months of back and forth discussions involving the U.S. Trade Representative’s office, Mexican officials and a task force of House Democrats, the pieces finally fell into place earlier

this week. House Speaker Pelosi announced the agreement, and indicated the House is likely to vote on the measure at some point next week.

As I indicated [in a statement heralding the deal](#), the USMCA will secure trade relationships with Mexico, while helping ensure that Canada cannot flout its dairy obligations under the agreement. The revamped NAFTA will add an estimated \$548 million to dairy farm revenues in its first six years after implementation. As was the case with the House adoption of the Farm Workforce Modernization Act, the dairy farmer community did yeoman's work in touting the need to pass USMCA, and we should all feel proud that the pact will improve the terms of dairy trade for U.S. dairy producers once it is implemented. The Senate is expected to vote on the deal once that chamber returns to Capitol Hill after New Year's.

U.K. Vote Has Implications for U.S. Trade Deal

Courtesy of National Milk Producers Federation

The other major trade policy development this week is the possible consequence of the reelection of Boris Johnson as U.K. Prime Minister. With Johnson's Conservative Party winning Britain's parliamentary election by its biggest majority since the 1980s, Britain is expected to move more decisively toward a break with the European Union – opening the door for a potential free trade pact with the U.S. in the coming year.

USDA Extends DMC Signup Window to Next Week

Courtesy of National Milk Producers Federation

The USDA announced this week that it is extending by one week the deadline for signing up for [Dairy Margin Coverage](#) in 2020. The new enrollment window closes next Friday, Dec. 20th. Producers who earlier this year elected coverage just for calendar year 2019 must complete the forms with their county FSA office by December 20th in order to be in the program in 2020. It is important to remember that producers who don't sign up for 2020 will not have the ability to secure inexpensive, \$5 coverage – essentially catastrophic coverage – on up to 5 million pounds of annual production. Dairy farmers participating in DMC on an annual basis are not required to purchase buy-up coverage, but should not lose the advantage of inexpensive catastrophic coverage, or the opportunity to purchase higher level coverage at favorable rates.

The [USDA also announced](#) that it will continue to accept applications for the Market Facilitation Program through December 20. That's also a one-week extension in the signup period for that program which will provide payments to dairy farmers to offset some of the trade-related damage to farm milk prices.

FARM Program Workforce Development Releases Evaluation Tool

Courtesy of National Milk Producers Federation

The National Dairy Farmers Assuring Responsible Management (FARM) Program [this week released a proposed Workforce Development evaluation tool](#) for input from industry stakeholders. [FARM Workforce Development \(WFD\)](#) is developing an on-farm evaluation tool that FARM participants can choose to implement with their dairy producers. The tool is meant to help farms learn about HR and safety management best practices; identify which best practices will be most useful to implement on

their farm; and track improvement over time. Also, by performing on-farm evaluations, FARM Participants can provide important assurances to supply chain customers.

New REAL Seal Website Debuting Next Week

Courtesy of National Milk Producers Federation

To help consumers find real dairy foods in an increasingly confusing retail marketplace, NMPF next will formally announce a completely redesigned website for the REAL® Seal, complete with a buyer's guide that helps steer shoppers to those brands that feature the REAL Seal and use only real American-produced milk.

This is the first significant change in the online presence for the REAL Seal since NMPF first assumed management of the Seal in 2012. The new website will contain more content to educate consumers about why they should look for the REAL® Seal on the foods they buy, while also continuing to help those companies using the Seal to enhance their product marketing. A special thanks goes to United Dairy Industry of Michigan, which has provided support for the REAL Seal program allowing us to complete this new website.

Early Bird Registration for the California Dairy Sustainability Summit

EXTENDED to January 8!

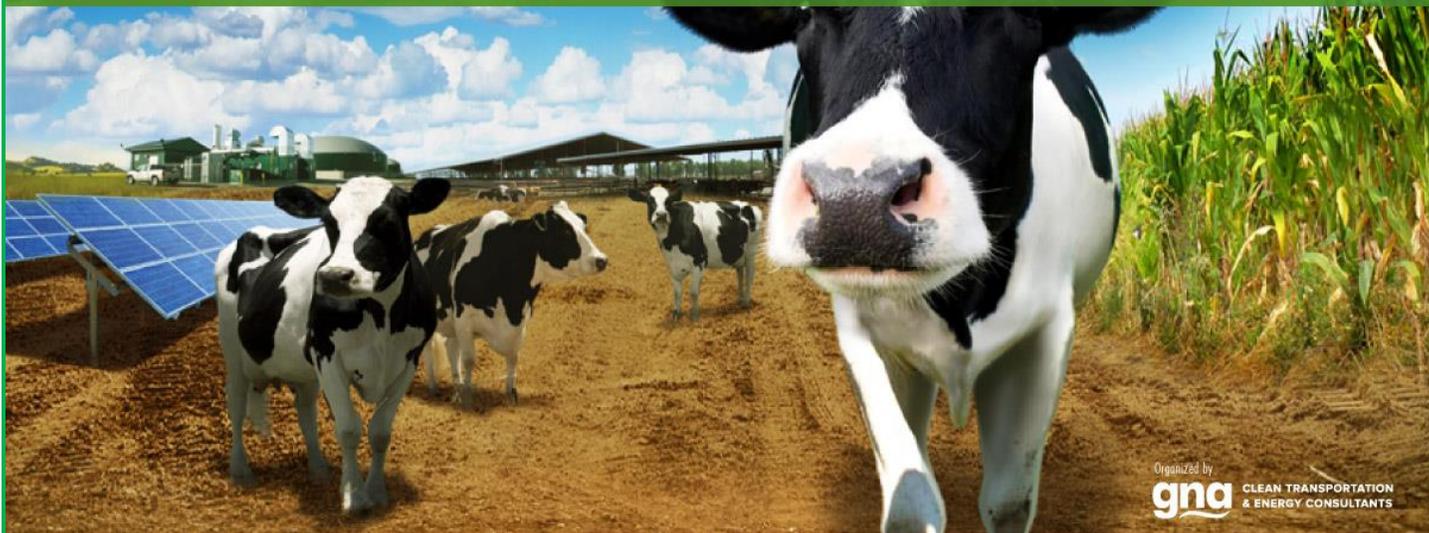
Courtesy of Dairy Cares

The dairy community has united to host the second California Dairy Sustainability Summit on March 25-26, 2020, at Cal Expo in Sacramento. If you're planning to attend the Summit, now is this time to register. Early bird registration has been extended to January 8, after which prices for registration will increase. For more information, visit the Summit website [here](#).



March 25–26, 2020 | Cal Expo | Sacramento, CA

EARLY BIRD REGISTRATION IS NOW OPEN



Organized by
gna CLEAN TRANSPORTATION
& ENERGY CONSULTANTS