MPC Weekly Friday Report

Date: January 8, 2021
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 9

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	*+ $.2675*	$1.9175	Weekly Change	*- $.0400*	$1.3800	Week Ending 01/02/21		
Barrels	*+ $.1100*	$1.6525	Weekly Average	*- $.0536*	$1.4095	Nat'l Plants	$1.1091	12,675,114
Weekly Average Cheddar Cheese			Dry Whey			Prior Week Ending 12/26/20		
Blocks	*+ $.1440*	$1.7790	Dairy Market News	w/e 01/08/21	$.4600	Nat'l Plants	$1.1089	13,782,341
Barrels	*+ $.0934*	$1.5965	National Plants	w/e 01/02/21	$.4385			

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
Jan 8 Est	$16.74 - $17.24	$14.33	$16.70	$13.85
Dec '20 Final	$21.47 - $21.97	$14.01	$15.72	$13.36

Milk, dairy and grain market commentary

By Monica Ganley, Daily Dairy Report
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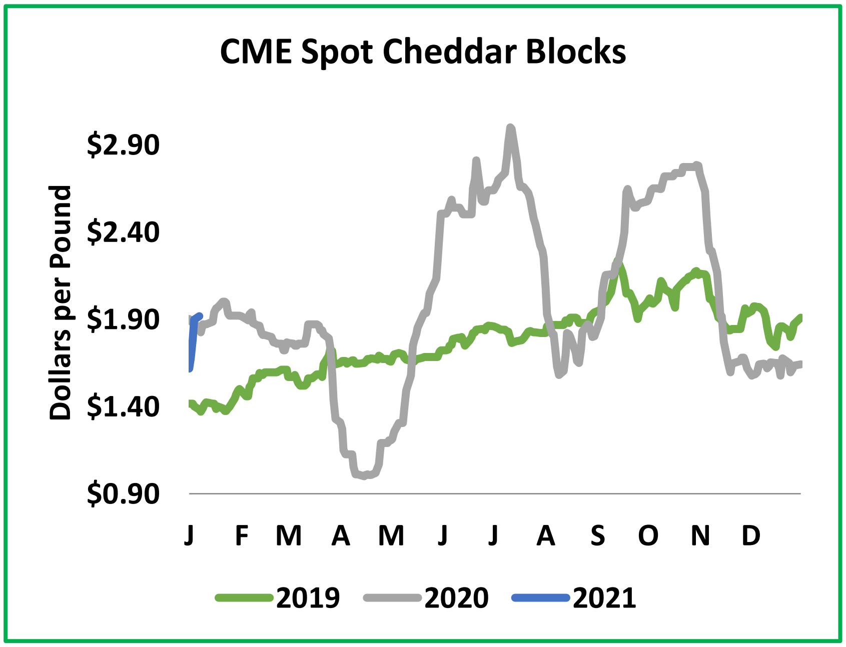
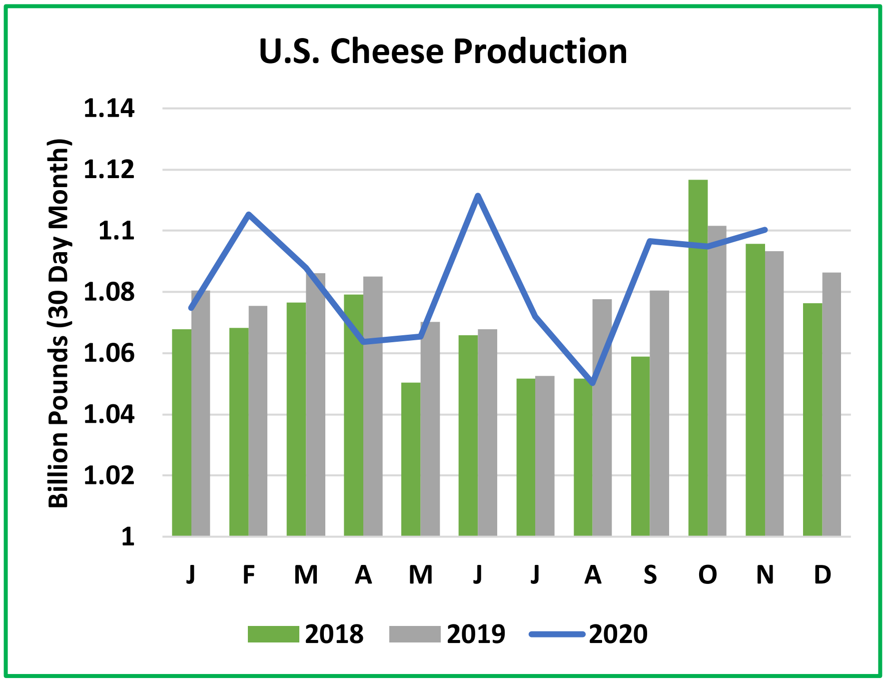
Milk & Dairy Markets

Seemingly unwilling to leave 2020's habits in the past, the dairy markets began 2021 on a volatile note. Monday's announcement that the USDA is extending its Farmers to Families Food Box Program spurred dairy commodity prices upward, with all products seeing gains during Tuesday's spot session. The International Dairy Foods Association estimates that this installment of the program will designate $300 million for dairy purchases, spread across fluid milk, cheese, butter and soft products. Once contracts are awarded at the end of this month, deliveries should commence and continue through April.

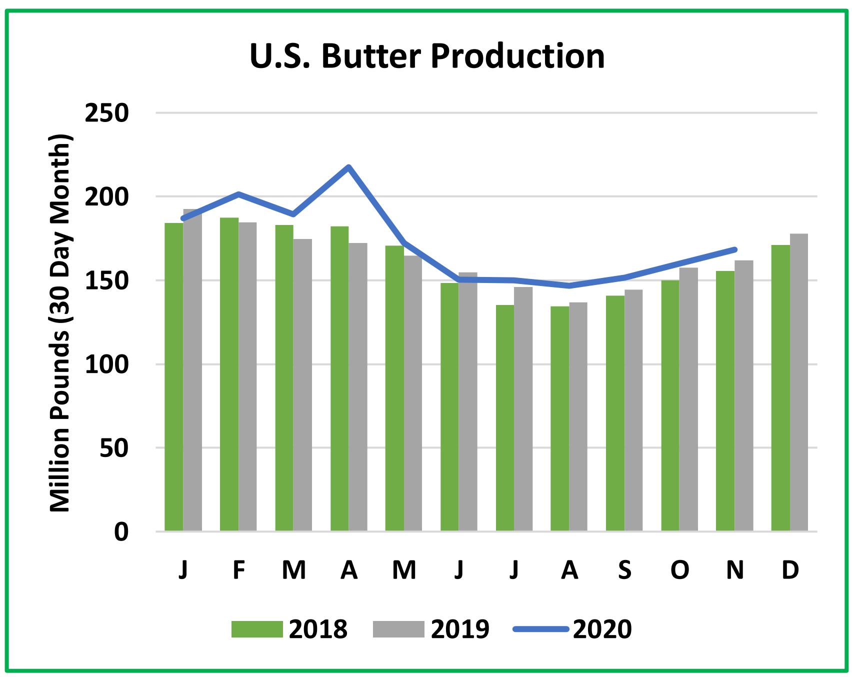




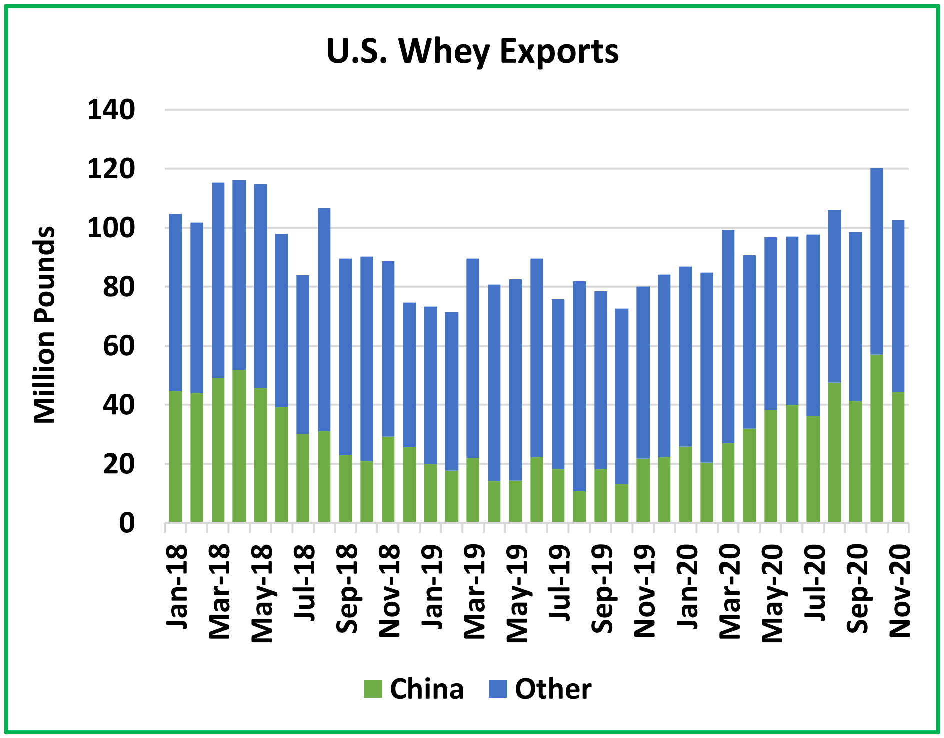
CME spot Cheddar blocks received perhaps the greatest boost from the news. Blocks added 26.75¢ over the course of the week, closing Friday's session at $1.9175/lb. Cheddar barrels also gained some ground, with prices rising by a more modest 11¢ since last Friday to finish the week at $1.6525/lb. Not only were prices on the move, but volumes were also active with 36 loads of each barrels and blocks trading hands over the course of the week. Spot market strength inspired gains in the futures market where JAN through APR Class III contracts saw increases every day of the week, except Monday.

The USDA Dairy Products report released on Wednesday showed that Cheddar production was strong in November, due in part to new manufacturing capacity coming online in the Upper Midwest. Cheddar output was up by 3.7% year over year, totaling 320.7 million pounds for the month. Even though only cheese between 4 and 30 days old may be sold at the CME, this week's spot price gains are even more impressive against the backdrop of abundant production. Plentiful American cheese production compensated for weak mozzarella output, which was down by 3.3% versus November 2019. At 1.1 billion pounds, total cheese production for the month was up 0.6% year over year.

The Dairy Products report also pointed to robust butter production, continuing the trend seen in recent months. Plentiful cream supplies were routed into churns and resulted in the manufacture of 168.3 million pounds of butter in November, an increase of 4.0% compared to the same month last year. Even as demand for dairy fats remains remarkably steady at both the foodservice and retail level, much of this butter is finding its way into storage. Heavy inventories are weighing on prices. While spot butter got a bump from the USDA announcement on Tuesday, this gain was erased by the end of the week. CME spot butter finished the week at $1.38/lb., down 4¢ since last week.



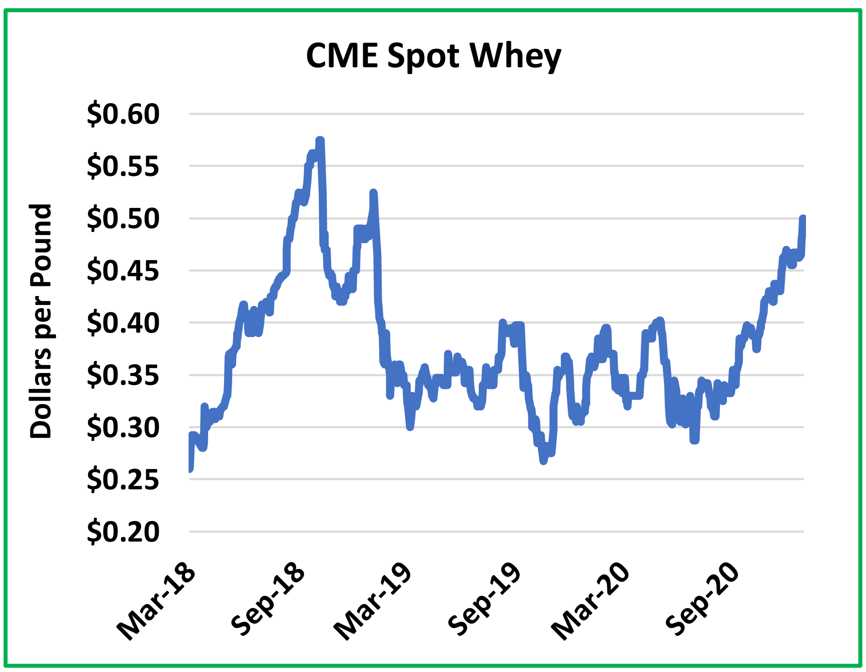
Aggressive butter manufacturing has also resulted in plentiful skim availability for dryers. However, despite copious supply, demand from both international and domestic sources has been sufficient to push prices modestly higher. During November, production of nonfat dry milk and skim milk powder rose by 8.9% year over year to 206 million pounds. For most of the year, sustained



export demand, especially from Asia, has prevented inventories from building to worrisome levels. U.S. NDM exports were slightly softer in November, falling by 7.8% year over year, due principally to reduced shipment to destinations such as the Philippines and Vietnam. However, market participants indicate that renewed export interest has once again quelled concerns and was a contributing factor to the increase in spot NDM prices seen at the CME this week. Spot NDM rose by 4.75¢ to finish the week at $1.19/lb.

Weakness in the butter market collided with strength in the nonfat dry milk market to leave Class IV futures markets largely stable over the course of the week. Most nearby contracts gained a little bit of ground in the wake of the USDA announcement, but the gains were modest.

Whey markets continue their impressive rally, with the spot whey price rising to $0.50/lb. on Thursday and holding steady on Friday. Whey prices have not breached 50¢ since early 2019. Export demand has played a key role in keeping tension on these markets. November U.S. whey exports rose by 27.9% year over year, mostly due to China's persistent appetite for U.S. product. Traders indicate that inventories are light and market fundamentals are aligning to keep upward price pressure on the whey market in the coming weeks.



Grain Markets

Rising grain prices are continuing to stress producer economics with feed prices hitting levels not seen in several years. Persistent concerns about grain availability in South America, exacerbated by Argentina's decision to suspend corn exports until March, has only intensified these worries. After rising convincingly during the first half of the week, nearly all 2021 soybean and corn futures contracts took a brief respite on Thursday before continuing their upward campaign on Friday. The market anxiously awaits USDA's World Agricultural Supply and Demand Estimates report which will be released next Tuesday and should provide additional information on the state of global grain supply and demand.

Food Box Round 5: Is USDA Again Picking Winners and Losers?

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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On January 4, in a surprise move, USDA announced another round of the Farmers to Families Food Box Program. This program, originally launched last Spring, contracts with vendors who put together millions of boxes containing fresh fruits and vegetables, dairy and meat products for distribution to people in need. Cheese is a required product to be included in every box and this fact has proved to be a windfall for cheese prices. While this an excellent result for dairy producers selling their milk to cheese plants, for the other half of dairy farmers who do not sell their milk to cheese plants, the disparity in the price of milk because of the Farmers to Families Food Box Program has created huge competitive disadvantages.

Producing milk is a difficult business. Dairy farmers compete for feed, facilities and labor. The capital required to establish and maintain a dairy farming operation is huge and the margins are small. Milk and dairy products are considered to be an essential part of the nation's food supply.

That is why the government for decades has been involved in programs designed to provide economic stability in the production of milk. Picking winners and losers among dairy farmers runs completely contrary to the goal of maintaining stability in the dairy farming community.

Let us remember what happened in 2020. To slow the spread of the Coronavirus, the government ordered everyone to shelter-in-place, and overnight, the food delivery system was massively disrupted. The price of cheese, butter and powder, which establishes the value of milk, collapsed. Soon Congress responded with funding for rescue programs.

USDA launched the Food Box program as one of those rescue vehicles and required cheese to be in the box, but not butter. This had the practical effect of tweaking the price relationship between milk used for cheese (Class III) and milk used to make butter and powder (Class IV) with dramatic results in the producer community.

Now we are back for a surprising Round 5; surprising because Food Banks and advocates for the food insecure question the effectiveness of the Food Box program to efficiently address the needs of vulnerable populations. Indications were that future food assistance programs would not include any more Food Box rounds. However, since the outgoing administration has decided to spend $1.5 billion on Food Boxes, USDA needs to change the requirements so that a pound of butter must be part of that box, in addition to a pound of cheese.

California Dairies, Inc. (CDI), the dairy farmer-owned cooperative which represents 40% of the California milk supply and is a large national butter maker, has been working with key Congressional leaders to get USDA to modify their dairy product requirements for this round. CDI prepared a background paper and a specific proposal for USDA to consider. It makes a strong case and the paper is worth reading (next article in today's Friday Report). Hopefully, it will find a receptive audience in the leadership of USDA.

In this very unstable period where government actions both caused and sought to repair massive economic damage that was done to many people – dairy farmers included – USDA should be willing to make a modest tweak in their Food Box requirements that would have a major restorative benefit to dairy farmers left out of the cheese price windfall.

Background Paper: Farmers to Families Food Box Program; Why Butter Is Not Finding Its Way into the Boxes

Courtesy of California Dairies, Inc.

According to the January 4, 2021 announcement from USDA, the fifth round of the Farmers to Families Food Box Program will be exclusively "combination boxes," which include fresh produce, dairy products, fluid milk and meat products. Seafood is also added to this fifth round of Food Boxes.

Specific to the dairy portion of the boxes, USDA is expected to have very similar requirements in terms of the dairy products to be included as the previous rounds. The only change noted in the announcement was the addition of more cheeses that will be eligible for inclusion in the boxes.

As a reminder, under the most recent round of the Food Box Program (fourth round), the dairy portion of the boxes were required to include:

- 1 gallon of milk (2 percent or whole milk); PLUS
- 3-6 pounds of at least two other dairy items
  - One of the items MUST be a cheese, from a list identified as "Group A"
  - One of the items MUST be a non-cheese, from a list identifies as "Group B"

Group A	**Group B**
Cheddar Cheese	Cottage Cheese
Swiss Cheese	Cream Cheese
Pepperjack Cheese	Yogurt
Mozzarella Cheese	Butter
Other hard, semi-firm or semi-soft cheese *(added in fifth round)*	Sour Cream

The result of this structure is that EVERY BOX includes a gallon of bottled milk and at least one pound of cheese. Further, the remaining 4-5 pounds of dairy products in the box must include one item from "Group B."

However, the products identified in Group B have very different makeups. Four of the five products have very high-moisture content:

- Cottage cheese: 79% moisture content (water)
- Cream cheese: 55% moisture content (water)
- Yogurt: 81% moisture content (water)
- Sour cream: 71% moisture content (water)

Meanwhile, the fifth product in the category – Butter – has a moisture content of 16-18% (meaning it is 82-84% milk solids, compared to 19-45% milk solids included in the other four products).

WHAT DOES THIS MEAN? Products that have higher moisture (water) are inherently less expensive products to buy than products with a lower moisture content. In short, milk solids are more valuable than water.

Read the full background paper here.

SBA and Treasury Announce PPP Re-Opening; Issue New Guidance

Courtesy of Representative Kevin McCarthy's Office

WASHINGTON – The U.S. Small Business Administration (SBA), in consultation with the Treasury Department, announced today that the Paycheck Protection Program (PPP) will re-open the week of January 11 for new borrowers and certain existing PPP borrowers. To promote access to capital, initially only community financial institutions will be able to make First Draw PPP Loans on Monday, January 11, and Second Draw PPP Loans on Wednesday, January 13. The PPP will open to all participating lenders shortly thereafter. Updated PPP guidance outlining Program changes to enhance its effectiveness and accessibility was released on January 6 in accordance with the Economic Aid to Hard-Hit Small Businesses, Non-Profits, and Venues Act.

This round of the PPP continues to prioritize millions of Americans employed by small businesses by authorizing up to $284 billion toward job retention and certain other expenses through March 31, 2021, and by allowing certain existing PPP borrowers to apply for a Second Draw PPP Loan.

"The historically successful Paycheck Protection Program served as an economic lifeline to millions of small businesses and their employees when they needed it most," said Administrator Jovita Carranza. "Today's guidance builds on the success of the program and adapts to the changing needs of small business owners by providing targeted relief and a simpler forgiveness process to ensure their path to recovery."

"The Paycheck Protection Program has successfully provided 5.2 million loans worth $525 billion to America's small businesses, supporting more than 51 million jobs," said Treasury Secretary Steven T. Mnuchin. "This updated guidance enhances the PPP's targeted relief to small businesses most impacted by COVID-19. We are committed to implementing this round of PPP quickly to continue supporting American small businesses and their workers."

Key PPP updates include:

- PPP borrowers can set their PPP loan's covered period to be any length between 8 and 24 weeks to best meet their business needs;
- PPP loans will cover additional expenses, including operations expenditures, property damage costs, supplier costs, and worker protection expenditures;
- The Program's eligibility is expanded to include 501(c)(6)s, housing cooperatives, direct marketing organizations, among other types of organizations;
- The PPP provides greater flexibility for seasonal employees;
- Certain existing PPP borrowers can request to modify their First Draw PPP Loan amount; and
- Certain existing PPP borrowers are now eligible to apply for a Second Draw PPP Loan.

A borrower is generally eligible for a Second Draw PPP Loan if the borrower:

- Previously received a First Draw PPP Loan and will or has used the full amount only for authorized uses;
- Has no more than 300 employees; and
- Can demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020.

The new guidance released includes:

- PPP Guidance from SBA Administrator Carranza on Accessing Capital for Minority, Underserved, Veteran, and Women-owned Business Concerns;
- Interim Final Rule on Paycheck Protection Program as Amended by Economic Aid Act; and
- Interim Final Rule on Second Draw PPP Loans.

For more information on SBA's assistance to small businesses, visit sba.gov/ppp or treasury.gov/cares.

Central Valley Dairies to Receive Mailed Salt Control Program Notices

Courtesy of the Central Valley Dairy Representative Monitoring Program

During the week of January 4, 2021, the Central Valley Regional Water Quality Control Board (Regional Water Board) will send letters to dairies and other bovine operations, and many other water quality permit holders. The letters will be titled as Notices to Comply.

These letters notify permit holders that they must comply with a new regulation known as the Salt Control Program. Parts of the new regulation went into effect in January of 2020 and the remaining portion went into effect in November of 2020. Its primary aim is to reduce the impacts of salt accumulation in Central Valley groundwater.

"The good news for Central Valley dairies is that they are already in compliance with the Salt Control Program, if they are members of the Central Valley Dairy Representative Monitoring Program (CVDRMP)," said CVDRMP Chairman Justin Gioletti, a Turlock area dairy farmer.

"The Regional Water Board is required to notify water quality permit holders about this regulation, which is why Central Valley dairies and other cattle operations will receive the letter in early January," said J.P. Cativiela, CVDRMP Administrator. "However, if those operations are already CVDRMP members, the notice is essentially a formality. Recipients who read the letter carefully will learn that if they are CVDRMP members, they do not need to respond to the notice. These CVDRMP members are already in compliance."

As a monitoring coalition representing about 1,250 dairies and bovine operations, CVDRMP negotiated – prior to the official notice – an agreement that enrolls all its members in an alternative compliance option, known as "Pathway B."

For dairies, cost for enrolling in the Salt Control Program will be $72 for 2021, to be collected as part of their annual CVDRMP fees. However, the Salt Control Program alone will not result in a fee increase for CVDRMP member dairies, because the dairy farmer-led CVDRMP Board of Directors reduced costs in other parts of the monitoring program to compensate.

"Through efficiencies, we have been able to reduce our monitoring costs enough to compensate for the additional costs of the Salt Control Program," said Rodney Kamper, CVDRMP Treasurer and a Riverdale dairy farmer. "That means for our dairy members, the total annual cost for both groundwater monitoring and Salt Control Program compliance will be $972, the same amount we have charged for just groundwater monitoring since the start of the program in 2011."

However, there will be a cost increase for bovine operations who are CVDRMP members and regulated under the Regional Water Board's "Bovine Order." For those, cost of the Salt Control Program will be added to their 2021 fee invoices and will range from $160 to $320 per year depending on herd size. Enrollment will be automatic for all members.

Kamper cautioned that this does not include the new costs associated with another new regulation recently adopted by the Regional Water Board, known as the Nitrate Control Program. Costs of the Nitrate Control Program are still being determined and will initially involve many CVDRMP members in so called "Priority 1" areas such as the Turlock, Modesto, Chowchilla, Kings, Kaweah, and Tule groundwater basins.

"The Salt Control Program should not be confused with the more expensive Nitrate Control Program. More information will be coming to CVDRMP members in January and February about new fee schedules related to the Nitrate Control Program," Kamper said. "For now, we want to assure our members that they do not need to worry about, or respond to, the Salt Control Program letters they receive in January."

CVDRMP members (or non-member dairies and bovine operations who want more information about how to comply) are welcome to contact CVDRMP at 916-594-9450 or CVDRMP@gmail.com with any questions they may have or to check the status of their facility's membership in the program.

Proposed Budget for 2021-22 – Highlights From CDFA

Courtesy of the California Department of Food and Agriculture (CDFA)

General Manager's note: Governor Newsom today unveiled his 2021-22 budget proposal, which totals $227.2 billion. The budget identifies five "early action" proposals:

- $2.4 billion to send $600 payments to low-income families
- $2 billion to reopen schools
- Nearly $650 million for businesses hurt by the pandemic
- $250 million for housing infrastructure
- $300 million for COVID-19 vaccine distribution

Below are some of the elements of the Governor's proposed budget related to agriculture, courtesy of CDFA.

Water Efficiency and Sustainable Groundwater

The Budget proposes $100 million General Fund to support water efficiency projects and a transition to sustainable groundwater, including $50 million from the Administration's early-action package for this issue.

Sustainable Groundwater Management Act Grants—$60 million from the General Fund to the Department of Water Resources for grants to support economic mitigation planning and groundwater implementation projects across critically over-drafted basins.

State Water Efficiency and Enhancement Program Grants (SWEEP)—$40 million from the General Fund to the Department of Food and Agriculture to provide incentives that help farmers reduce irrigation water use and reduce greenhouse gas emissions from agriculture pumping.

Climate Smart Agriculture
Building on California's leadership in reducing greenhouse gas emissions and protecting communities and the environment from climate impacts, the Budget includes investments to support the agriculture industry in its advancement of Climate Smart Agriculture.

Healthy Soils Program—$30 million from the Greenhouse Gas Reduction Fund for the Department of Food and Agriculture to provide grants for on-farm soil management practices that sequester carbon.

FARMER—$170 million from Greenhouse Gas Reduction Fund for the Air Resources Board to provide funding that supports the replacement of agricultural harvesting equipment, agricultural pump engines, tractors, and other equipment used in agricultural operations to reduce greenhouse gas emissions.

Climate Catalyst Fund—$50 million from General Fund to support Climate Smart Agriculture loans to advance projects that may include but are not limited to: methane reduction; equipment replacement; water efficiency; healthy soils; circular economies; on-farm bioenergy; energy efficiency for food processing; and renewable energy systems and energy storage for agricultural operations.

Continue reading here.