

MPC WEEKLY FRIDAY REPORT

DATE: JULY 12, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 9



P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
 2328 Jonathon Court, Escalon, CA 95320 • (209) 691-8139
Office@MilkProducers.org • www.MilkProducers.org • Fax (909) 591-7328

MPC FRIDAY MARKET UPDATE

| CHICAGO CHEDDAR CHEESE | | | CHICAGO AA BUTTER | | | NON-FAT DRY MILK | | |
|-------------------------------|------------------|----------|-------------------|------------------|----------------|----------------------------------|-----------------|------------|
| Blocks | - \$.0625 | \$1.7850 | WEEKLY CHANGE | + \$.0075 | \$2.4125 | WEEK ENDING 07/12/19 | | |
| Barrels | - \$.0400 | \$1.7400 | WEEKLY AVERAGE | - \$.0015 | \$2.4035 | NAT'L PLANTS | \$1.0529 | 11,735,123 |
| WEEKLY AVERAGE CHEDDAR CHEESE | | | DRY WHEY | | | PRIOR WEEK ENDING 06/29/19 | | |
| Blocks | - \$.0306 | \$1.8250 | DAIRY MARKET NEWS | W/E 07/12/19 | \$.3500 | NAT'L PLANTS \$1.0442 25,912,993 | | |
| Barrels | - \$.0190 | \$1.7610 | NATIONAL PLANTS | W/E 07/06/19 | \$.3526 | | | |

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 |
|-------------------|---|--------------------|---------------------|--------------------|
| JUL 12 EST | \$18.78 - \$19.28 | \$17.57 | \$17.35 | \$16.91 |
| JUL 5 EST | \$18.78 - \$19.28 | \$17.61 | \$17.38 | \$16.91 |

JUNE 2019 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

| JUN '19 FINAL | CLASS I | CLASS II | CLASS III | CLASS IV | STATISTICAL UNIFORM PRICE (BLENDED PRICE) | NET PRICE AFTER QUOTA ASSESSMENT |
|---------------------|------------------------------------|----------|-----------|----------|--|------------------------------------|
| MINIMUM CLASS PRICE | \$18.67 (TULARE) \$19.17 (L.A.) | \$17.30 | \$16.27 | \$16.83 | \$16.73 (TULARE) \$17.23 (L.A.) | \$16.35 (TULARE) \$16.85 (L.A.) |
| PERCENT POOLED MILK | 16.3% | 5.2% | 58% | 20.5% | 100% (2.37 BILLION LBS. POOLED) | |



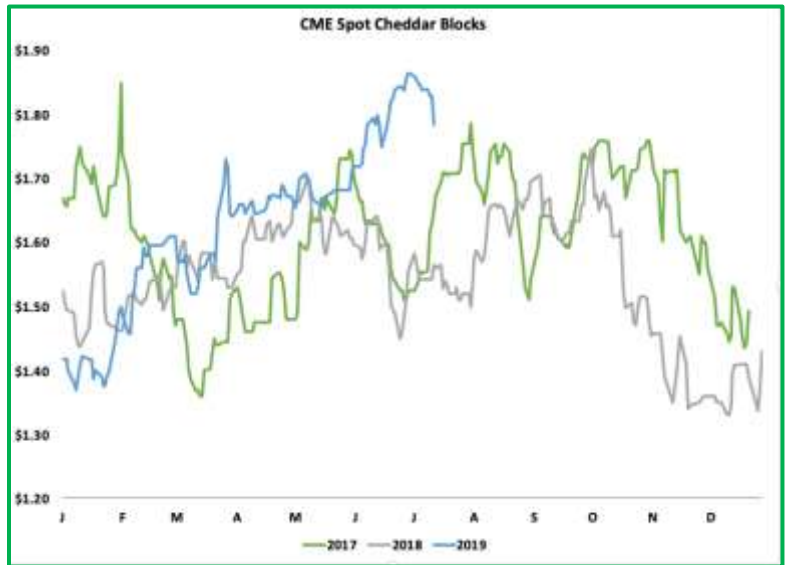
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

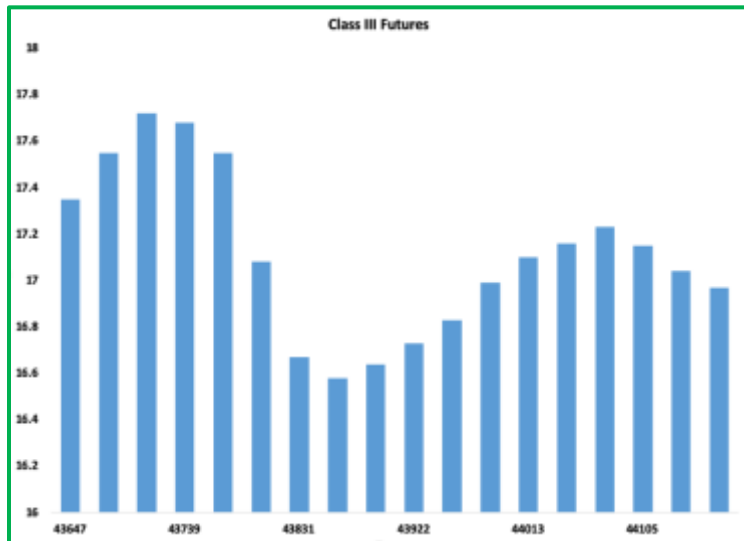
Milk & Dairy Markets

After some late-June fireworks, the dairy markets fizzled in the first two weeks of July. The bulls have run out of fresh feed and lost their spark. CME spot Cheddar blocks were particularly burned out. They closed today at \$1.7825 per pound, down 7.25¢ so far in July.

Barrels dropped a nickel from the early-month highs to \$1.74. Whey prices continue to flounder. CME spot whey has fallen 1.25¢ since the month began. At 32.25¢, spot whey stands at its lowest value since March. Class III futures settled deep in the red today. But after a strong start to the month, most 2019 contracts are only a nickel or so lower than where they settled two weeks ago, averaging nearly \$17.50 per cwt.



Class IV futures took a much bigger step back. Most contracts lost between 30¢ and 40¢ over the past two weeks. Still, August 2019 through December 2020 Class IV futures sit comfortably atop \$17. CME spot nonfat dry milk (NDM) lost 2.25¢ in the past two weeks. Today’s close at \$1.0225 is the lowest value for spot NDM since May 1. CME spot butter remains unshakeable. It stands at \$2.4125, up a quarter-cent so far this month. But the futures have fallen.



As the *Daily Dairy Report* explains, “there are reasons the heady bullishness of late June is fading. The European heat wave has abated for now. India’s monsoon remains a disappointment to farmers, cattle, and a very thirsty populace, but last week’s rains exceeded the historical average. Rising dairy product prices could discourage demand. Mailbox milk prices are noticeably higher in the United States, Europe, and South America. Dairy producers will certainly make some effort to produce more milk with Class III approaching \$18/cwt. than they did at this time last year, when the price was well below \$15.”

The futures curve shows Class III milk peaking at \$17.72 in September, with sub-\$17 milk in 2020. The market seems to expect higher prices to encourage enough increased production and lost consumption to push dairy product values back down before year-end. But dairy producers’ inclinations to add milk will be checked by a number of factors: the sorry state of their finances, the wariness of their lenders, their limited access to affordable, quality feeds, and the industry’s shift away from dairy heifers in favor of beef genetics. Slaughter volumes, auction dockets, and heifer values all suggest that the U.S. dairy herd continues to contract. Furthermore, while \$17.50 milk may put some money in the bank, it doesn’t argue for



frenzied expansion now that corn is at \$4.50 per bushel.

The story is much the same around the globe. Higher farmgate prices may stimulate an appetite for expansion in Europe, but last year's drought has limited feed stocks, and this summer is off to a sweltering start. Growth in milk output is expected to remain modest. In New Zealand, environmental

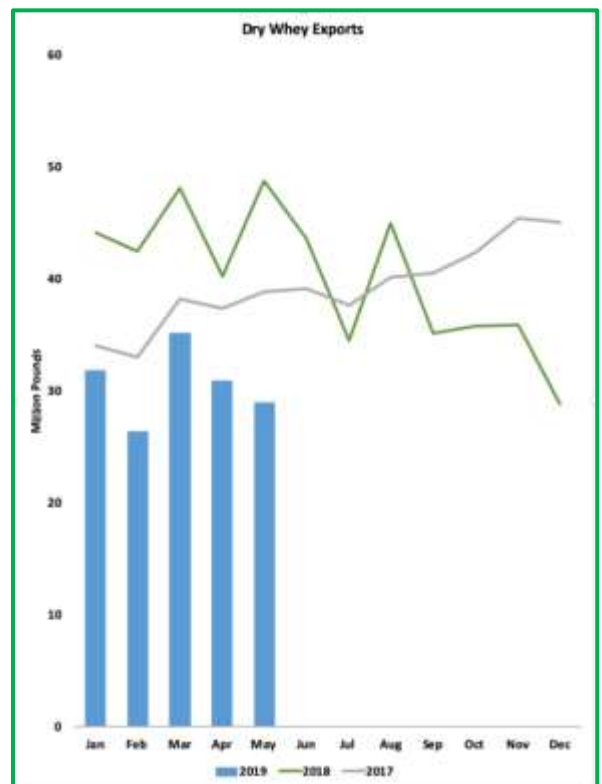
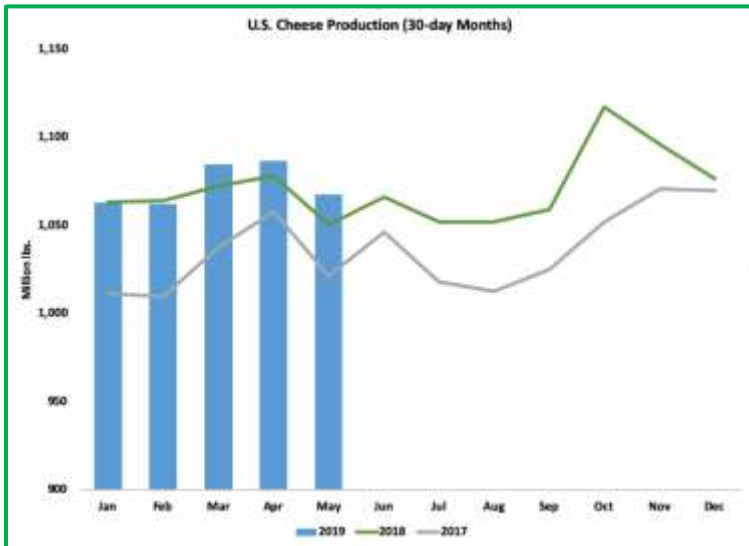
regulations and heavy debt loads will discourage much change in cow numbers, and gains will have to come more slowly through improved production per cow. As always, New Zealand's milk yields will be subject to the whims of the weather. Australia's dairy industry has been crippled by drought. South American milk output may rebound after years in decline, but the volumes are unlikely to overwhelm. Indian and Chinese milk production are likely waning, creating opportunities for export.

Perhaps the combination of higher dairy product prices and slower global economic growth will severely damage demand for dairy.

Maybe the weather will foster above-average milk yields simultaneously in Europe, Oceania, South America, Southeast Asia, and across the United States. It's possible the trade war could flare up on a new front and further damage U.S. dairy exports. There are always unknowns that could send dairy product prices south. But the market seems to be pricing in a lot of risk and precious little reward on the premise that several months of \$17.50 milk could elicit oversupply. After a four-year dairy downturn, this dairy market analyst has more confidence in the staying power of the dairy market recovery than the futures market currently projects.

Even with less milk, U.S. cheese output remains robust. Production reached 1.1 billion pounds in May, up 1.6% from a year ago. Rising output and waning stocks suggest demand is formidable. USDA's *Dairy Market News* reports that cheesemakers continue to keep vats full, even though there is not a lot of discounted milk to be found. That's leaving less milk for churns and driers. Butter makers churned out just 163 million pounds of product in May, down 4.2% from the prior year. Combined production of NDM and skim milk powder (SMP) slipped to 204 million pounds in May, down 5.6% from the prior year. Nonetheless, manufacturers stocks of NDM climbed as processors moved milk out of SMP and into NDM. Inventories on May 31 were 4.2% higher than at the same point in 2018.

U.S. dairy exports were mixed in May. Thanks to rising prices and strong cheese sales, the value of U.S. dairy product exports reached a four-year high. However, aggregate volumes were down 13% from a year ago. Cheese exports have been particularly strong, despite lower



shipments to Mexico in the first five months of the year, when retaliatory tariffs were still in place. On the other hand, U.S. whey exports continue to struggle, battered by lower Chinese demand due to higher tariffs and falling consumption due to China's quickly shrinking swine herd. The U.S. continues to import large volumes of butterfat, as the U.S. butter market stands at a steep premium to global pricing.

Grain Markets

The mercury has climbed, the storms have abated, and the grain markets have climbed. Farmers were initially relieved to have a break from the spring deluge, but now – with the exception of those in parts of Nebraska – they are praying for rain. Next week looks hot and dry, and the shallow-rooted crop is starting to wither. It's too early for USDA to significantly trim its corn yield, but it's not too early for traders to do so. While USDA's July crop balance sheets show plenty of corn in the bin and in the field, the market assumes supplies will be much tighter. The crop is likely to pollinate in the heat, which would further reduce yields. Meteorologists warn that farmers should not expect a warm fall to extend the growing season, and this year's immature crop will be particularly vulnerable to damage from an early frost. Farmers who have grain in the bin anticipate a big payout, and they are charging steep premiums. Many dairy producers in the Corn Belt are used to buying corn at the Chicago price or a discount. This year is different. Feed costs are high and rising, and the futures don't reflect the full impact of the rally in dairy producers' grain and forage expense. September corn futures settled today at \$4.5425 per bushel, up nearly 30¢ over the past two weeks. August soybeans closed at \$9.1325, up 8.75¢.



Congratulations to CDI and DFA on the Creation of a Marketing Agency in Common

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
Geoff@MilkProducers.org

This week California Dairies, Inc. and Dairy Farmers of America announced the creation of a Marketing Agency in Common (MAC). What this means is these two cooperatives are formally taking advantage of the [Capper Volstead Act](#), a law passed in 1922 that authorized producers of agriculture products to form voluntary cooperative associations for the purposes of marketing farm products. It essentially exempted cooperatives from anti-trust prohibitions.

The new MAC is great news for producers and is really an outgrowth of the fundamental changes in the marketplace that emerged with the implementation of the Federal Milk Marketing Order. One of the challenges that exist in any milk market is the question of who bears the cost of transporting milk from where it is produced to where it is processed and consumed.

In California's case, the vast majority of the people live in the coastal urban areas which are located many difficult miles from where most of the milk is produced. Under the California State Order there was a transportation subsidy program funded by producers, that helped pay for those higher transportation costs. The cost of that program was about \$3,000,000 per month which was deducted from the producer pool before the producer milk prices were calculated. The California FMMO has NO transportation subsidy component. It does establish a higher Class 1 price in Los Angeles as an incentive to sell Class 1 milk there, but the 50 cent per cwt. higher price in parts of Southern California (in San Bernardino County its only 30 cents and in Riverside County it is 40 cents) is insufficient to cover the cost of transporting milk from the major production center in the Central Valley over the hill to Southern California. So the question is, who pays the difference?

From the producer's perspective, that extra transportation cost should be paid by the buyers of milk. The only way to get those costs covered is through negotiation with the buyers, hence the necessity for a Marketing Agency in Common. The law allows producers to work together to negotiate those marketing arrangements with the buyers. Having a MAC gives producers a better chance of recovering these higher transportation costs out of the market. The MAC also allows these cooperatives to fully integrate their milk supply to obtain real efficiencies that will save everyone money in the long term.

I know some may ask why this has not happen before now. 20 years ago, there was a MAC in Southern California, but because of many circumstances, which we will not go into now, it ultimately failed. I believe the circumstances today in light of the FMMO make the success of the new MAC much more likely. Congratulations to CDI and DFA!

Call Your Member of Congress Now; Ask for Their Support for USMCA

By Kevin Abernathy, General Manager

Kevin@MilkProducers.org

Agricultural organizations across California, including MPC, are urging their members to contact their Congressional representative, asking for their support for the United States-Mexico-Canada Trade Agreement (USMCA). The proposed agreement would continue to expand our exports into both Mexico and Canada, providing an opportunity for more economic growth and jobs in our state. It is important for California Congressional members to stand with our industry and encourage Congress to vote before summer recess to pass the USMCA. Not sure which Congressional district you live in? Look it up [here](#) and find contact for your representative. Below is a letter MPC, along with other trade groups, delivered to Vice President Mike Pence earlier this week.



AFRICAN-AMERICAN FARMERS of CALIFORNIA



July 9, 2019

The Vice President of the United States
Old Executive Office Building
Washington, D.C. 20501

Dear Mr. Vice President,

Agricultural leaders around the Central Valley announced their support for the United States-Mexico-Canada Trade Agreement, referred to as the USMCA and call upon Congress to act quickly and to vote on the agreement.

The USMCA would replace the 1994 North American Free Trade Agreement (NAFTA) and offers Agricultural more opportunities.

The Agricultural Industry plays a vital role in California's economy. California produces and grows the safest food in the world. In 2017 – 2018, 77,100 farms and ranches in the state, received a total of \$50.13 billion for their commodities.

Agricultural exports in 2017 were \$16.8 billion to Canada and \$26.8 billion to Mexico for a total of \$43.6 billion.

The ability to export, assures California will continue to remain the leading state in our nation for agricultural commodities.

The USMCA would continue to expand our exports into both Mexico and Canada, which would ensure more economic growth in California, providing more jobs and resources to our state.

We believe that the USMCA would better serve the interests of American workers, businesses, farmers, ranchers and would help us continue our long-term good relationships with both Canada and Mexico.

It is important for our California Congressional members to stand with our industry and encourage Congress to vote before summer recess and pass the USMCA.

June 2019 CDQAP Newsletter

Courtesy of California Dairy Quality Assurance Program



From Kevin Abernathy, MPC General Manager

Last week, CDQAP released its June 2019 e-newsletter. Please follow [this link](#) to view the update. Topics included the dairy industry's continued commitment to maintaining food supply security, the important of heat stress prevention and tips for writing your annual report.

Legislature Voted 63-8 to Pass Utility Wildfire Response Bill

Courtesy of Agricultural Energy Consumers Association

Yesterday, the California Assembly provided the final legislative approval of a complicated bill responding to recent utility caused catastrophic wildfires, with a vote of 63-8. After several months of legislative hearings and debate, the Governor's office and a handful of legislators revealed the lengthy bill last Friday. Legislators acted quickly to comply with the Governor's self-imposed July 12th deadline



in hopes that the legislation would prevent another credit downgrading for the state's two major Investor Owned Utilities that are not currently in bankruptcy.

The lively debate on the Assembly floor recognized the cost implications to ratepayers. Several members, including the authors of the bill, committed to work with the Governor on follow up measures that would help to mitigate the impacts of rising electricity rates on agricultural and industrial ratepayers.

The bill now awaits signature by the Governor. Almost immediately after the bill's passage by the Assembly, the [Governor issued a statement](#) thanking and congratulating the legislature on their work on the issue.

AB 1054 (Holden, Burke, Mayes)

Summary:

AB 1054 includes numerous provisions related to addressing wildfires caused by utility infrastructure:

- Bolster safety oversight
- Recover costs from damages to third parties
- Establish a shareholder/ratepayer jointly funded wildfire fund to address future damages
- Provide utility employee protection
- Limit ratepayer exposure to PG&E liability during bankruptcy

Safety Oversight:

AB 1054 requires the state's three main investor owned utilities (IOUs), PG&E, SCE AND SDG&E to make \$5 billion in aggregate safety investments (system hardening) without return on equity that would otherwise borne by ratepayers.

The measure also establishes the California Wildfire Safety Advisory Board (CWSAB), consisting of seven members to advise and make recommendations related to wildfire safety for both IOUs and public owned utilities (POUs).

Recovery of Costs:

AB 1054 seeks to clarify the current "prudent manager" standard used to determine whether a utility can recover costs arising from a covered wildfire. The measure allows cost recovery if the costs and expenses are determined just and reasonable based on reasonable conduct by the electrical corporation. It considers factors both within and beyond the utility's control, including humidity, temperature, and winds.

Wildfire Fund:

AB 1054 establishes a Wildfire Fund to pay eligible claims arising from a covered wildfire. The fund will be jointly funded by utility shareholders and utility ratepayer's utility shareholders will contribute \$7.5 billion initially and an additional \$3 billion over 10 years (\$300 million per year) to the wildfire fund. Ratepayer contributions will include a non-bypassable energy usage charge of \$0.005 (half cent/kWh) for 15 years to securitize \$10.5 billion for the wildfire fund. The total charge equates to \$13.5 billion (or roughly 900 million a year). Farming and food

processing's share of the \$13.5 billion is expected to total roughly \$1 billion over the 15-year period.

The measure requires utilities (shareholders) to repay monies to the fund when they are found imprudent with limits. Ratepayers will have **no** obligation to repay monies in the fund.

The measure limits insurance subrogation of liability to the fund, to not exceed 40% in utility caused fires where the utility acted prudently.

Utility Employee Protection:

AB 1054 expands employee protection measures to include the sale of all or a material portion of the assets of the electrical corporation, including the voluntary or involuntary change in ownership of assets to a public entity (municipalization). The successor employer is required to maintain all wages, hours, and other benefits for three years for all employees.

PG&E Bankruptcy:

AB 1054 requires PG&E to resolve all pre-bankruptcy claims and achieve a CPUC approved reorganization plan that is both consistent with the state's climate goals and renewable portfolio standards and determined to be neutral to the ratepayers of the IOU. In other words, PG&E shareholders are responsible for all liability claims from 2017 and 2018 wildfires, a liability estimated at approaching \$30 billion.

Analysis:

While the measure is far from perfect and costly from a ratepayer perspective, it appears to be a vast improvement over SB 901 enacted last year that left ratepayers exposed to significant liability costs. Under the current situation ratepayers are exposed to significant costs associated with California's strict liability standard for utility caused wildfires. Ratepayers are also currently exposed to significant costs relating to IOU credit rating downgrades due to wildfire risk that significantly increase utility borrowing costs. Finally, PG&E ratepayers are currently exposed to liability costs resulting from the PG&E bankruptcy, which under AB 1054, become the sole responsibility of PG&E shareholders. AB 1054 limits ratepayer exposure to \$13.5 billion and ensures utility shareholders are picking up a portion of liability moving forward.

Fiscal Impact:

\$0.005/kWh (half cent) for each kilowatt used for the next 15 years. This money will be refunded to the ratepayers if not used for wildfire liability.

Indirect Fiscal Impacts:

Ratepayers, including farming and food and fiber processing operations, will also face ongoing rate impacts associated with system hardening and wildfire mitigation efforts moving forward. However, at least \$5 billion of these costs will not include the normal IOU ROE, which results in significant net savings of approximately \$2.5 billion. Ratepayer exposure to increased costs of borrowing are also reduced. Finally, ratepayer exposure under strict liability is limited to \$13.5 billion statewide.

Dairy Cares Recognizes Stanislaus County Sheriff Jeff Dirkse for Outstanding Service

By Kevin Abernathy, General Manager

Kevin@MilkProducers.org

Yesterday, Dairy Cares recognized Stanislaus County Sheriff Jeff Dirkse and the Stanislaus County Sheriff's Office for their outstanding service in protecting the county's dairy farmers. Last year, a well-organized contingent of animal rights activists convened in Stanislaus County with the intent to trespass on local dairy farmers and steal dairy animals. Sheriff Dirkse and his deputies were well organized to see that dairy farmers and their families as well as animals and private property were not in harm's way. On behalf of Dairy Cares and Milk Producers Council, we thank Sheriff Dirkse and his team for their commitment to serve and protect.



From left to right: Justin Oldfield, California Cattlemen's Association; Kevin Abernathy, Milk Producers Council; Sheriff Jeff Dirkse, Stanislaus County; Chuck Ahlem, Dairy Cares, Jim Houston, California Farm Bureau Federation

