MPC Weekly Friday Report

Date: October 2, 2020
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	*+ $.0550*	$2.6100
Barrels	*+ $.2950*	$1.9550
Weekly Average Cheddar Cheese		
Blocks	*+ $.0010*	$2.5775
Barrels	*+ $.1735*	$1.8120

Chicago AA Butter		
Weekly Change	*+ $.0075*	$1.5100
Weekly Average	*- $.0430*	$1.5085
Dry Whey		
Dairy Market News w/e 10/02/20		$.3450
National Plants w/e 09/26/20		$.3243

Non-Fat Dry Milk		
Week Ending 09/26/20		
Nat'l Plants	$1.0227	22,843,430
Prior Week Ending 09/19/20		
Nat'l Plants	$1.0090	18,446,420

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
Oct 2 Est	**$16.80 - $17.30**	**$13.69**	**$20.18**	**$13.74**
Sept '20 Final	**$20.04 - $20.54**	**$13.16**	**$16.43**	**$12.75**

Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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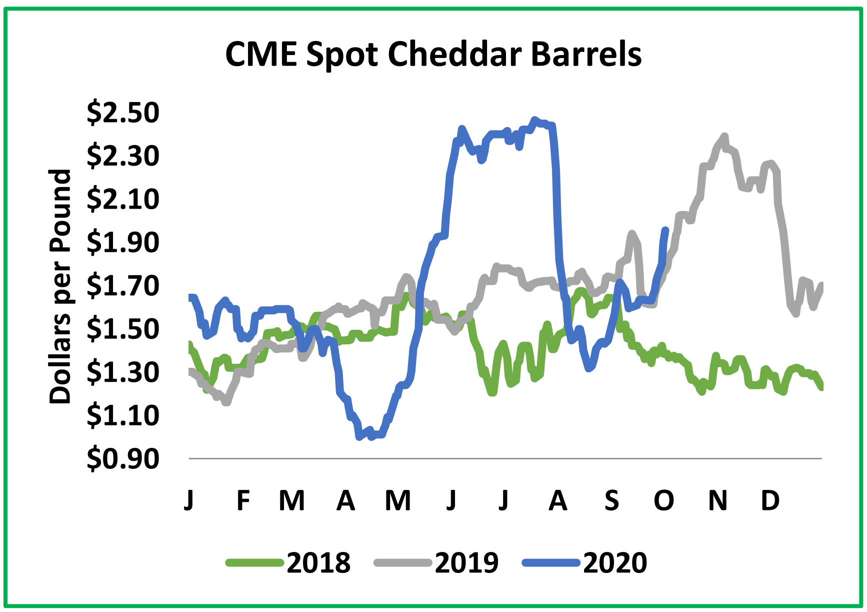
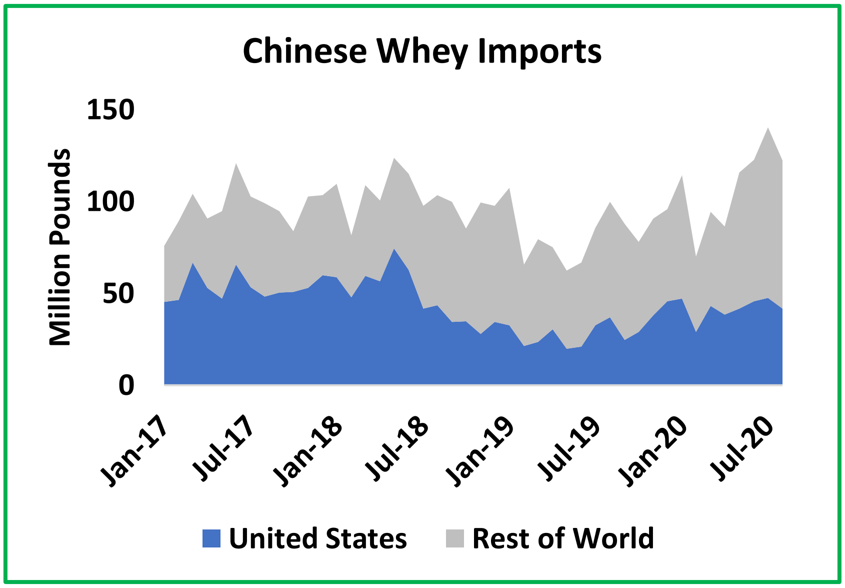
Milk & Dairy Markets

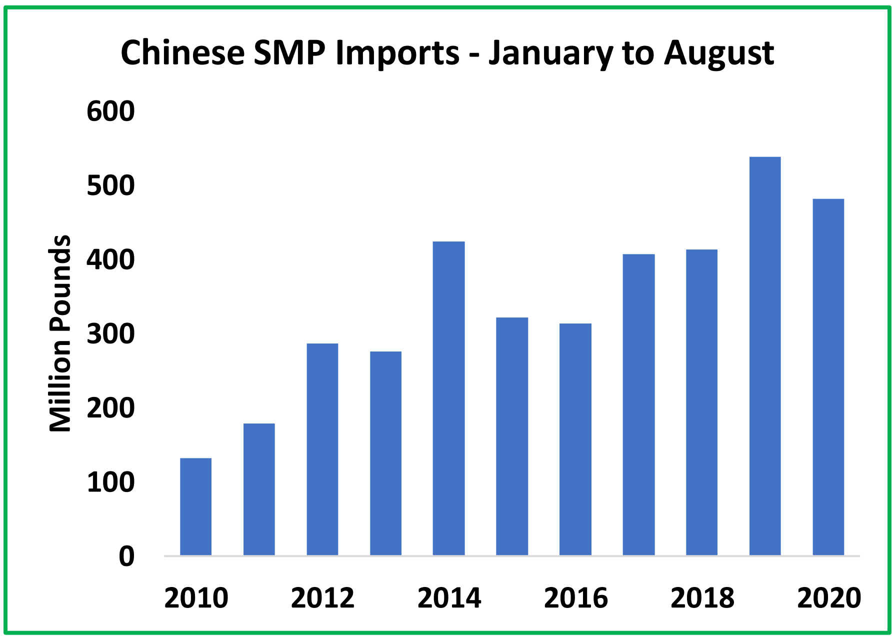


The leaves are turning, pumpkin spice is brewing, and football players are lacing up their cleats. Fall is here. Though it's too soon for hibernation, the bears looked a bit lethargic this week. They gave the bulls free rein of LaSalle Street. All of the CME spot markets moved higher, and cheese did so with particular verve. Once the laggard, barrels are now the leader. They gained another 29.5¢ this week and reached $1.955 per pound, echoing the shocking rally of a year ago. Blocks climbed 5.5¢ to $2.61. The block-barrel spread remains historically wide, at 65.5¢, but barrels have cut the gap by a third in the past two weeks. Barrels are available, for a price. However, blocks remain scarce.



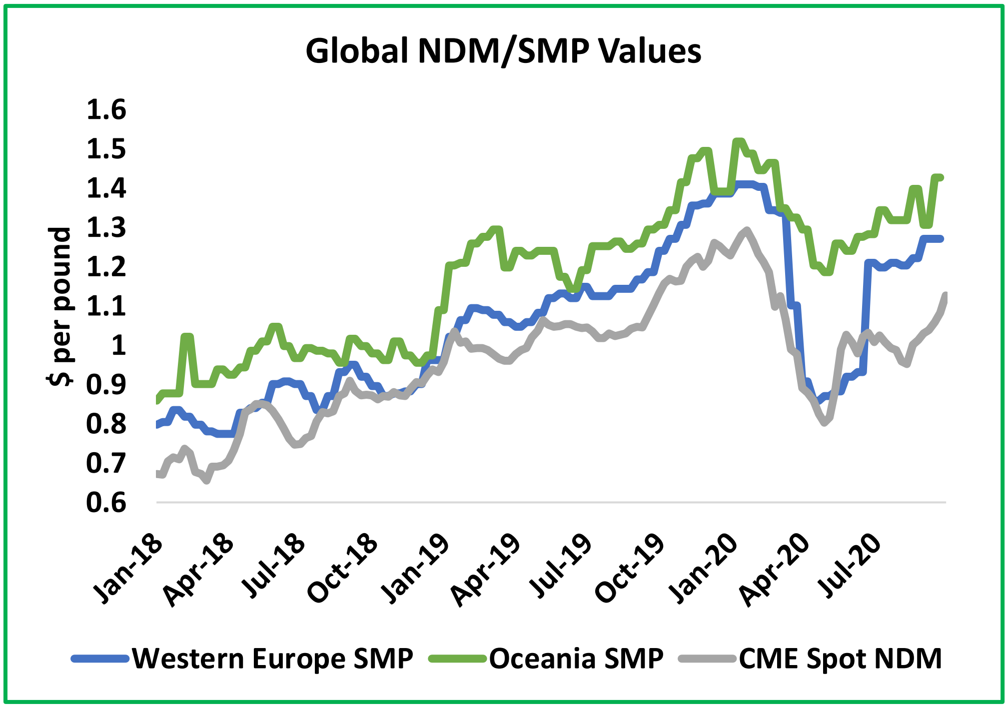
The market does not expect such sky-high pricing to last, but the futures do not call for a collapse. The October and November cheese contracts are holding above $2, while 2021 futures are trading around $1.75. Cheese output remains robust, although spot milk is no longer selling at a discount in the Upper Midwest. Government purchases are helping to tighten the supply of commodity cheese, but those purchases are expected to wind down soon. Restaurants continue to move Italian-style cheeses through takeout channels, as Americans considering takeout or delivery almost immediately think of pizza. Other foodservice demand is still hit or miss, and the industry is bracing for a disappointing holiday season with fewer cheese trays making the rounds at corporate events.

Despite strong cheese production, whey values climbed once again. CME spot whey advanced 1.25¢ this week to 39¢, the highest price since mid-May. Rising milk powder values have put a firm floor under the whey powder market, and both domestic and international users are looking to buy. Chinese demand continues to impress. China imported 112.4 million pounds of whey in August. Although that is shy of the record-breaking total from July, it is 23% higher than Chinese whey purchases in August 2019. The U.S. accounted for one-third of the total. China is likely to remain hungry for foreign whey as it tries valiantly to rebuild and modernize its swine herd.



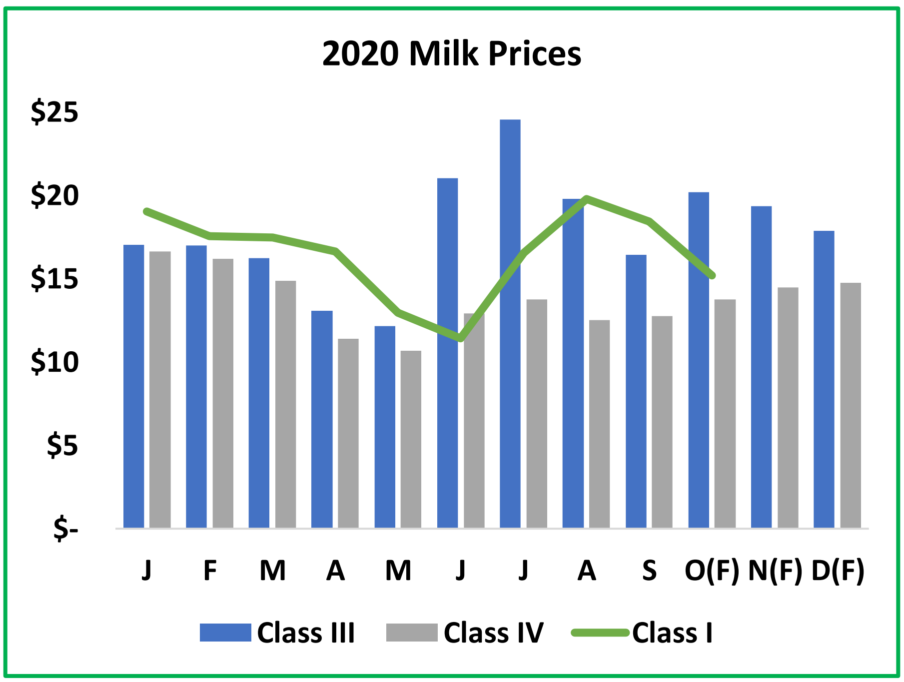
China imported 66 million pounds of whole milk powder (WMP) and 60.7 million pounds of skim milk powder (SMP) in August. Chinese WMP imports were 18.6% lower than the prior year in August and are now 2% lower than 2019 for the year to date. China's year-to-date SMP imports are 10.6% shy of the record-breaking pace set in 2019, but they are still higher than every other year, including 2014. China has reportedly whittled down some of the SMP stockpile it accrued last year, which suggests that the world's most closely watched dairy importer can continue to onshore sizable volumes of SMP.

U.S. milk powder remains an attractive bargain for foreign buyers. The U.S. accounted for more than 10% of China's SMP imports in August, its third straight month with a relatively strong showing in a market that is often dominated by Oceania and Europe. Mexican buyers are stepping up purchases too. That helped CME spot nonfat dry milk (NDM) to $1.1225, up 2.25¢ from last Friday.



Spot butter inched up 0.75¢ this week to $1.51. Ice cream season is over, leaving more cream for churns. And there is plenty of butter in freezers of all sizes, from commercial warehouses to restaurant coolers to home kitchens. The industry is hoping that bakers will be especially enthusiastic this year, which could make up for the ailing foodservice sector.

For the most part, Class IV futures moved cautiously higher this week. Fourth-quarter futures averaged a paltry $14.43 per cwt., but 2021 contracts are all $15 or better. With both cheese and whey on the rise, nearby Class III futures moved sharply higher. The October contract rallied $1.30 to $20.18 per cwt. November added 83¢ and December gained 31¢. First-quarter 2021 contracts settled a little higher than last Friday.



USDA announced the October Class I mover at $15.20, which means that Class III manufacturers will have every incentive to depool milk once again. Dairy producers in many regions will deposit disappointing milk checks derived primarily from the much lower Class I and Class IV prices. The producer price differential is not likely to be as punitive as it was in June and July, when Class III futures outpaced the Class I mover by $9.62 and $7.98, respectively, but it will take a sizable bite out of many producers' October milk checks nonetheless.

Grain Markets

USDA reported smaller September 1 crop inventories than the trade had expected, implying that either demand has accelerated or that last year's crop was smaller than previous estimates. The news gave the feed markets a considerable boost. Strong exports – particularly for soy products – and a dry start to the South American season kept the rally going. December corn settled today at $3.7975 per bushel, up 14.5¢ from last Friday. November soybeans climbed 18.5¢ to $10.2075. December soybean meal rallied $13.30 to $351.90 per ton, a new life-of-contract high

Short but significant Quota hearing held this week

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The United Dairy Families of California's (UDFC) petition for a referendum on their Quota Implementation Plan proposal was the subject of a hearing held this past Wednesday. The hearing was conducted by Judge Timothy Aspinwall, the same Administrative Hearings Judge who did the STOP QIP hearing in June. This hearing lasted only two hours and there was no opposition to the request for a **referendum** on the UDFC QIP proposal. It seemed clear that the Judge is only being asked to make a recommendation on whether there ought to be a referendum. He is not being asked to give an opinion about whether the QIP still meets the purpose of the pooling law. Representatives from SAVE QIP, the high quota holder group, specifically stated that they were not opposed to a referendum. Representatives from STOP QIP also testified that they were not opposed to a referendum. In fact, A.J. Bos, one of the leaders of STOP QIP, testified and complimented the efforts of UDFC as being done in good faith and honestly. He acknowledged that the UDFC proposal appears to be what the majority of the industry is willing to support. He stated that he was ok with it and would be voting yes. Finally, he said it was important for the industry get past this issue and be unified as we face the challenges of the future. This was a very significant statement by a leader in the STOP QIP movement.

There were five other producers who testified - Rod Kamper, Travis Kamper, John Moons, Dante Migliazzo and Craig Gordon. All supported having a referendum, although each had their own perspective on the issue. The producer testimony came after UDFC representatives Dino Giacomazzi, Megan Oliver Thompson and Dr. Marin Bozic spent their time giving the history and process that UDFC followed to get to a proposal for how to address the QIP. They shared the substance of the feedback from producers they received regarding various proposals they reviewed and how they settled on the specific proposal that they are submitting to producers for a referendum. All of this information was received by the Judge as well as written communications submitted before the close of the hearing. The Judge will make a recommendation to California Department of Food and Agriculture Secretary Karen Ross soon and then it will be up to her to schedule a referendum.

CEO's Corner: A crisis should bring opportunity – not opportunism

By Jim Mulhern, President & Chief Executive Officer, National Milk Producers Federation

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There's an adage applied often in politics that "in the midst of every crisis lies great opportunity." And while no one would ever wish for what's happened in dairy markets over the past several months, this crisis does provide opportunities – to reaffirm the importance of cooperatives in marketing producers' milk; to appreciate robust risk management protection initiatives like the Dairy Margin Coverage program, for which 2021 signup starts Oct. 12; and to remember the power that dairy has when it works together, both to stabilize markets and reassure consumers who turn to it in troubled times.

But it's also important to distinguish between opportunities — which come from the lessons of a crisis — and opportunism, which exploits a crisis to push policies that may not lead to real improvements or prevent a similar crisis in the future. That contrast is important to remember when discussing what's been a hot topic in dairy the past few months: the negative Producer Price Differentials that have resulted from the wild gyrations in markets, understandably frustrating farmers who don't feel they've captured the full benefits of the market rebound we've seen.

Negative PPDs – which happen when milk-price swings among component classes fall out of sync — create an ugly accounting deduct line on a milk check. They're frustrating, but they're rare – in fact, negative PPDs have occurred during only 16 months out of the past 10 years. The ones we've seen recently have been based on extremely unusual circumstances, specifically the unprecedented price collapse that accompanied the COVID-19 pandemic and the impact of other factors, including the federal government's response, which combined to whipsaw dairy markets.

When the pandemic hit this past spring, the nation's foodservice industry ground to a halt, kneecapping a market that traditionally absorbs well over a third of total U.S. dairy sales and sending commodity markets into a tailspin. NMPF efforts weren't limited to helping farmers with direct payments; NMPF and allied organizations also pursued federal government support to step in to purchase displaced dairy products and provide them for donation to those in need. Those efforts were hugely successful; they will result in hundreds of millions of dollars in federal government dairy-product purchases provided to food banks and other outlets, feeding families and buoying markets.

It's important to keep in mind that while the federal government's purchases of dairy products for donation contributed to bringing about the negative PPDs this summer, that outcome was vastly superior to the alternative of no government and industry action. The intervention sharply raised farm milk prices from catastrophic lows. Without this intervention, we were facing a sustained collapse of the U.S. dairy market, with ongoing massive losses within both the farm and processor communities.

While the government has purchased a variety of dairy products, the largest purchases have been for cheese. Those purchases, along with strong export sales, quickly and forcefully lifted commodity cheese markets from $1 a pound to nearly $3 a pound. That undoubtedly kept cheese plants open and saved family dairy farms – it also, in turn, dramatically boosted Class III milk prices. Meanwhile, the government to date has purchased limited amounts of butter and very little nonfat dry milk. That has resulted in much smaller increases in Class IV prices and created a large gap between Class III and IV. That gap, along with the Federal Milk Marketing Order program's standard advance pricing announcement of Class I fluid milk, led to high levels of Class III milk being de-pooled from federal orders rather than pay into the pool to share the revenue across the market. For co-op cheese plants that de-pooled, the revenue stayed within their farmer-owned operations and benefitted their members. Proprietary cheese plants may or may not have shared those monies with their farm suppliers.

The large amount of temporary de-pooling that occurred has certainly raised concerns in some markets. Those concerns could be addressed by looking at whether stronger pooling requirements are needed, something that is available and could be looked at on an order-by-order basis within the FMMO system. Other, related issues could be examined as well — the FMMO system is always an area worthy of careful thought and consideration. But changes to a system that's managed milk pricing for generations shouldn't be the result of a knee-jerk reaction prompted by extremely rare, black swan events. Any suggestion otherwise isn't one that's seeking a genuine opportunity – it's opportunism in a crisis, and it's an approach of which dairy farmers should be wary.

We all know that making long-term policy changes in response to short-term disruptions and unprecedented conditions, even if challenging, rarely results in good policy. Instead, it can lead to longer-term unintended consequences that could permanently reduce farmer income without remedying any fundamental market shortcomings. Preventing negative PPDs can sound like a good idea – but how might a "fix" affect milk checks in more-normal times? Those are the questions that need to be explored. Concern with negative PPDs is understandable. But negative PPDs will largely go away once markets return to normal function, which ought to be our underlying goal.

At NMPF we are engaged in an ongoing review of the federal order system to identify areas for potential improvement, and for discussion with our members as we examine ways to create consensus among the nation's dairy farmers and their cooperatives. We welcome input and ideas, and especially appreciate the thoughts expressed by our member cooperatives that so effectively represent their members' collective judgment. This is what ensures that real opportunity is pursued.

This industry has been through a lot these past few months. Let's use the time ahead wisely, gaining the most from the lessons we have learned as we seek together to benefit most from the opportunities that are certain to arise. These decisions should be made in a deliberate and organized manner, with dairy farmers and their cooperatives leading the effort.

For more information on NMPF, visit their website.

Dairy electric feed mixers bring a breath of fresh air

Courtesy of Dairy Cares

Electric feed mixers are helping California dairy farmers reduce diesel use and improve air quality.

Michael Vander Dussen, Merced County Dairyman and MPC member, is featured in this week's Dairy Cares newsletter about the benefits of electric feed mixers. Read on below.

Brightly colored stand mixers are increasingly popular kitchen tools. But did you know that stationary, electric mixers are also becoming culinary staples on California's family dairy farms? Dairy farmers are partnering with the San Joaquin Valley Air Pollution Control District (District) to invest in electric mixers—reducing diesel use and providing tremendous environmental benefits.

In 2019, the Vander Dussen family's Double Diamond Dairy in Merced County was one of the first to install an electric feed mixer through the Electrified Dairy Feed Mixing Program. Third-generation dairy farmers Michael and Wendy Vander Dussen have four children, ages 17 to 22. Their family has been dairy farming in California since the late 1940s, when their ancestors immigrated from the Netherlands. Michael says the District's incentive program was a terrific opportunity for their farm, making it financially feasible to modernize equipment and help improve air quality.

Read the full article here.

CDQAP Quality Assurance Update – September 2020

Courtesy of California Dairy Quality Assurance Program

The California Dairy Quality Assurance Program (CDQAP) recently published its September 2020 Quality Assurance Update. Below are excerpts from the Update, which you can read in its entirety here.

Wildfires Bring Smoke, Power Loss & Other Challenges

By Dr. Michael Payne, UC Davis, School of Veterinary Medicine and Director, CDQAP

With the worst of California's wildfire season just beginning, 25 major blazes have already destroyed 4,200 structures and consumed more than 4 million acres, more than any year on record. At least one northern California dairy cut an emergency fire break in front of an advancing fire front. Even for dairies not directly threatened by flames, the sheer magnitude of the fires can bring challenges, including wildfire smoke and the potential loss of electrical service.

Mental Health is Important

By Deanne Meyer, Ph.D., Livestock Waste Management Specialist Dept. of Animal Science, UC Davis and UC ANR

Dairy markets have seen some highs and lows this year. From international markets to domestic supply chain issues 2020 has been surreal. Labor issues and COVID-19 concerns add to the stressors. Combined, these incur incredible stress on an already fragile industry.

California Dairy Sustainability Summit Goes Virtual!

The second California Dairy Sustainability Summit will take place virtually this November 5th and 6th. The online event will connect dairy farmers, state and local officials, researchers, technology providers, and others, to promote the economic and environmental sustainability of dairy farms. The program will showcase how California's dairy farmers are leading the way in the development of planet-smart, sustainable farming practices. A wide variety of educational sessions will run from 10:00 a.m. to 2:00 p.m. on both days, promoting successful programs and partnerships, highlighting opportunities for dairy producers, and encouraging the development of new solutions where needed.