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	*- $.0950*	$1.0550	Weekly Change	*- $.0325*	$1.2475	Week Ending 04/04		
Barrels	*- $.1375*	$1.0000	Weekly Average	*- $.0596*	$1.2669	Nat'l Plants	$1.0773	13,572,232
Weekly Average Cheddar Cheese			Dry Whey			Prior Week Ending 03/28		
Blocks	*- $.1901*	$1.1094	Dairy Market News	w/e 04/09/20	$.3555	Nat'l Plants	$1.0220	19,298,189
Barrels	*- $.1347*	$1.0638	National Plants	w/e 04/04/20	$.3767			

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
April 9 Est	$18.24 - $18.74	$14.46	$13.56	$11.57
Last Week	$18.24 - $18.74	$14.43	$14.07	$11.36

Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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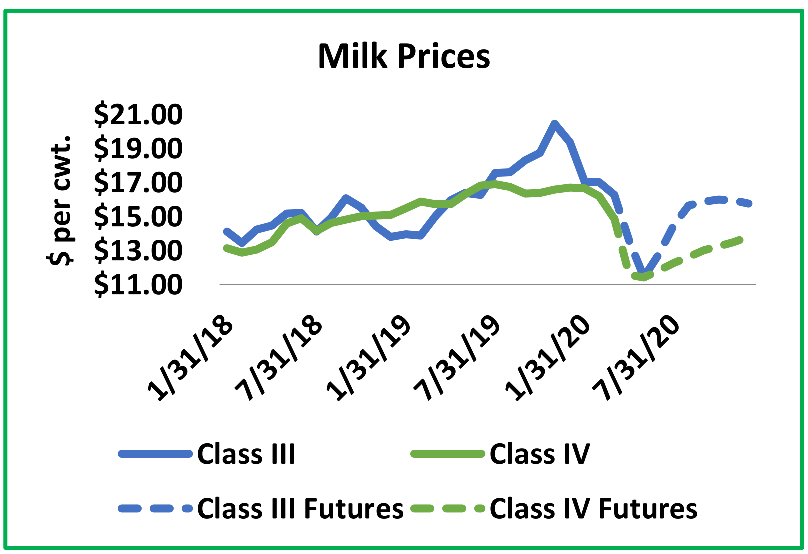
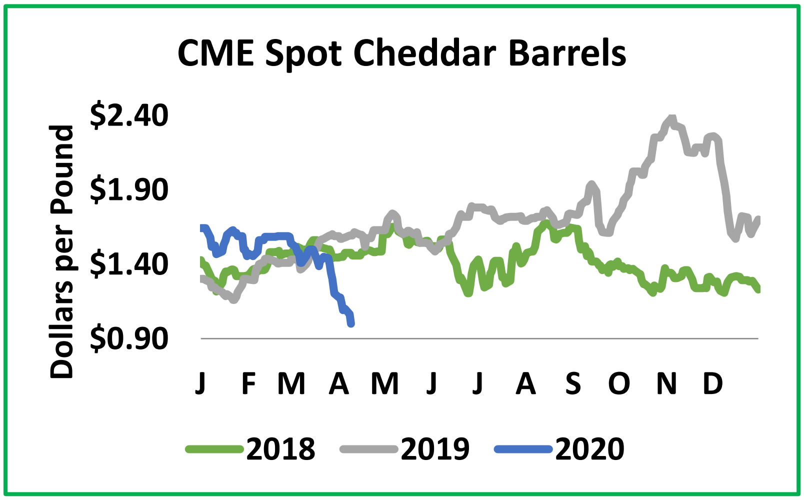
Milk & Dairy Markets

Volatility reigned in the markets once again this week. After much back and forth, nearby Class III futures finished even lower than last Friday. The May contract took the brunt of the selling. It fell 75¢ to just $11.43 per cwt. Deferred Class III futures fared much better. Most contracts regained a dollar or so. Class IV futures also bounced back. Nearby contracts added about 20¢, while second-half futures climbed roughly 50¢. Still, values are heartbreakingly low, with second-quarter Class IV well south of $12.

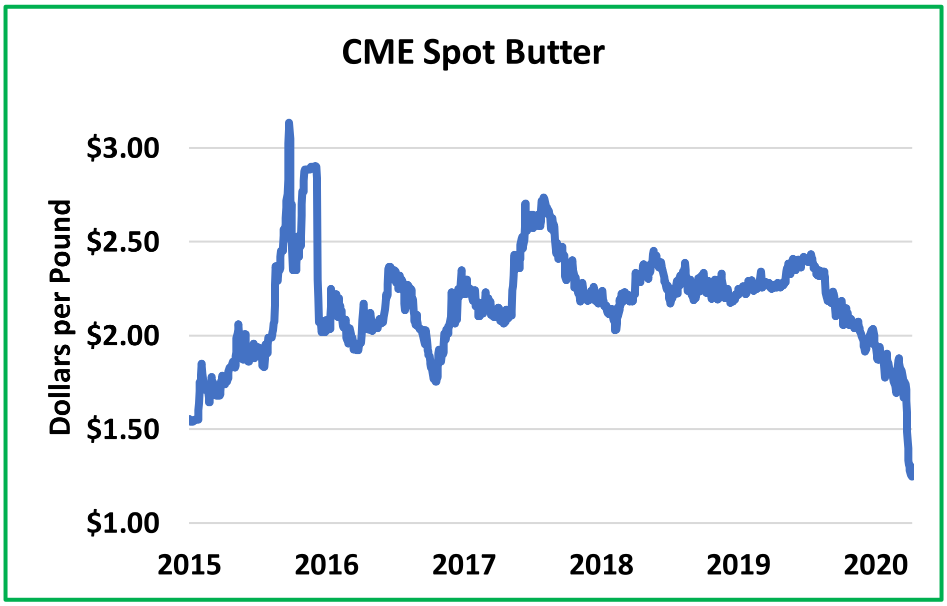


The novel coronavirus has strangled foodservice and export channels, and the industry simply has more milk than it can handle. Countless loads are pouring into lagoons around the country. Spot milk is



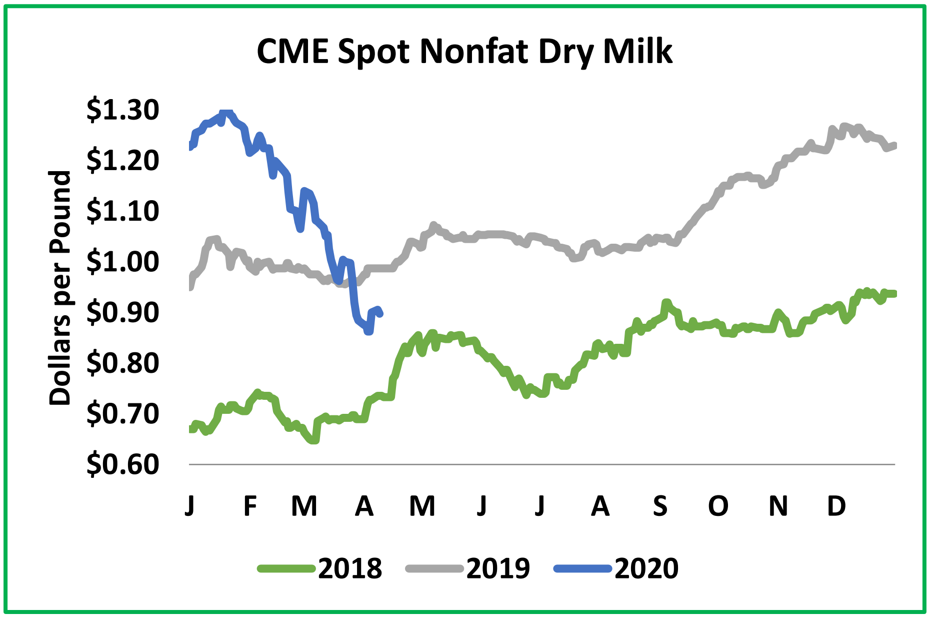
moving at as much as $8 under class in the Midwest and at a $9 discount in Idaho. Cheesemakers are pushing as much milk through their plants as possible and filling their warehouses with product. Fresh cheese is abundant, and the surplus is weighing heavily on the market. This week, CME spot Cheddar blocks dropped 9.5¢ to $1.055 per pound. Barrels plummeted 13.75¢ to $1. One load changed hands at 99.75¢, the first trade below a dollar in the spot barrel market since October 2000. American cheese is a bargain, trading much below comparable product in Europe or Oceania even after adjusting for the strong dollar. Based purely on price, U.S. cheese export prospects are excellent. But these are trying times for trade.

The cream market is terribly oversupplied. Butter churns are running hard, but they cannot fully compensate for lost Class II demand, and storage is filling up fast. Cream is historically cheap and getting cheaper. CME spot butter dropped 3.25¢ this week to $1.2475, the lowest value since 2009.



Ever the contrarian, CME spot whey powder managed to gain ground this week. It climbed 2¢ to 35¢, a six-week high. Milk powder values also ticked upward, with a boost from a surprisingly resilient performance at the Global Dairy Trade (GDT) auction. Skim milk powder (SMP) slipped only 0.8%, which is impressive considering all the bad news that market has had to absorb in the three weeks since the last GDT event. After adjusting for protein, GDT SMP is equivalent to nonfat dry milk (NDM) at $1.22 per pound. Whole milk powder fared even better, climbing 2.1%. China bought large volumes. In Chicago, spot NDM rallied 3.5¢ to 89.75¢. *Dairy Market News* reports that prices have fallen low enough to attract a few more buyers this week, but product is still piling up. In some cases, manufacturer's are running out of onsite storage and looking for new homes for milk powder.

With so much lost demand, the dairy industry must cut production. The market is laboring ruthlessly to make that happen. Processors and cooperatives are doing all they can to absorb the flood of spring milk, but in some areas, they are drowning. In the most oversupplied regions, cooperatives are forcing dairy producers to either cut output or face stiff financial penalties in addition to the already inadequate milk price. The industry broadly agrees that something must be done to prevent a tidal wave of sellouts.



The markets cheered early this week when the National Milk Producers Federation (NMPF) and the International Dairy Foods Association (IDFA) agreed to a sweeping proposal meant to reduce milk dumping, stabilize the dairy markets, and provide more dairy products through federal food aid programs. Both Class III and IV futures traded limit up nearly across the board on Tuesday, but they retreated later in the week, likely because at this point the proposal is no more than a request. NMPF and IDFA asked USDA to fill U.S. food banks with dairy products, and to allow school nutrition programs and Supplemental Nutrition Assistance Program (SNAP) beneficiaries the flexibility to buy dairy products in a wider variety of fat, flavor and packaging options. These provisions are likely the most politically palatable part of the proposal, and Congress has already allocated funding to USDA for commodity purchases. NMPF and IDFA also asked that USDA offer two types of loans for processors. In theory, the working capital loans would allow processors to carry larger inventories, while forgivable loans would help those processors who have lost sales to retain staff and keep taking on milk.

The producer initiatives in the Milk Crisis Plan would likely have the largest impact. NMPF and IDFA asked USDA to reopen the signup period for the Dairy Margin Coverage (DMC) program, which would allow those who had not enrolled to receive payments in months when dairy margins are poor. If the futures do not improve, the DMC would generate a payout for producers every month for the rest of the year. USDA Secretary Perdue has signaled his willingness to consider reopening DMC in the recent past. NMPF and IDFA also requested that USDA compensate dairy producers for milk dumped in April through June at the lowest class price.

Finally, and most ambitiously, the Milk Crisis Plan calls for USDA to pay dairy producers an extra $3 per cwt. if they cut milk production by 10% relative to their March 2020 output. As proposed, the program would run from April to September and would be suspended in months in which the average of Class III and IV prices exceeds $16 per cwt. If USDA endorsed the proposal, most dairy producers would likely take immediate steps to cut milk production, if they haven't already done so under the impetus of the market and their cooperatives. The proposal would likely reduce milk output more significantly and more broadly than the industry would on its own, which would slow the flow of dairy commodities into storage and could reduce the volume of product hanging over the market when the economy reemerges from its COVID-19 lockdown. USDA is expected to weigh in on the industry's requests next week. Whatever policies are enacted to shore up dairy producer finances, the industry must still reckon with a weak economy and full warehouses even after the crisis has passed.

Grain Markets

It was a much quieter week in the feed markets. May corn settled at $3.3175 per bushel a penny higher than last Friday's three-year low. At $8.635, May soybeans were up 9.25¢ this week. USDA updated its supply and demand balance sheets, but the report held few surprises. Ethanol production continues to slow dramatically, but corn exports are picking up speed.

Unprecedented times bring unprecedented action

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The massive shock that hit the dairy industry about four weeks ago continues to reverberate around the country. As a matter of necessity, milk is being dumped, although exactly how much milk is being dumped relative to the supply is not known at this point. Certain dairy products are backing up in inventory and prices for bulk butter, cheese and powder are crashing in the CME cash market. There are two immediate needs for the dairy industry – ***milk production needs to be cut back and producers need cash.***

Amazingly producers and processors agree on these points. In an unprecedented move, the National Milk Producers Federation (NMPF) and the International Dairy Foods Association (IDFA) representing processors, put together a specific joint request of the United States Department of Agriculture (USDA) in the space of about 48 hours last weekend. The proposal is designed to meet the two biggest, immediate needs of the dairy industry. You can read their proposal here. MPC along, with the two other California producer trade associations, sent a letter to USDA yesterday supporting the NMPF/IDFA proposals. You can read the joint letter here.

As you would expect, it did not take long for numerous objections and suggestions for improvement to emerge from various quarters in the dairy community. In and of themselves, these objections all have some merit depending on your perspective. But the reality is we need quick action by USDA, who has been given the money and the authority by Congress to react quickly and decisively to address the immediate needs of the dairy industry. USDA Secretary Sonny Perdue has many ag groups making their case to him for help. He has to prioritize. The more unified the dairy industry is, the better the prospect is of getting a meaningful outcome.

As many have said, including MPC Board Chairman Cornell Kasbergen, "Don't let perfection get in the way of progress." We need USDA to act quickly and decisively and great effort is being put forth by all of us to press that point home.

NMPF CEO Jim Mulhern was interviewed by Mike Adams on the plan. You can listen to the podcast here.

Paycheck Protection Program information for farmers and ranchers

Courtesy of the United States Department of Agriculture

On March 27th, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This package appropriated $349 billion for the Paycheck Protection Program (PPP). The PPP is a guaranteed loan program administered by the Small Business Administration (SBA). The purpose of the program is to support small businesses and help support their payroll during the coronavirus situation.

Q: Are agricultural producers, farmers, and ranchers eligible for the Small Business

Administration's Paycheck Protection Program (PPP)?

A: Agricultural producers, farmers, and ranchers with 500 or fewer employees whose principal place of residence is in the United States are eligible.

Farms are eligible if: (i) the farm has 500 or less employees, **OR** (ii) it fits within the revenue-based sized standard, which is on average annual receipts of $1M.

Additionally, farms can qualify for PPP if it meets SBA's "alternative size standard." The "alternative size standard" is currently: (1) a maximum net worth of the business not more than $15 million, **AND** (2) the average net income Federal income taxes of the business for the two full fiscal years before the date of the application be not more than $5 million.

Q: Are agricultural and other forms of cooperatives eligible for PPP?

A: As long as other eligibility requirements are met, small agricultural cooperatives may receive PPP loans. Other forms of cooperatives may be eligible provided they comply with all other Loan Program Requirements (as defined in 13 CFR 120.10).

Q: Do H-2A or H-2B workers on my payroll count towards my eligibility and total possible loan amount?

A: Only employees with a principal place of residence in the U.S. count toward eligibility and calculation of the PPP loan amount.

Q: How do sole proprietor farmers provide accurate documentation regarding payroll, when they may not take a traditional salary?

A: SBA requires sole proprietors, independent contractors, and other eligible self-employed individuals to provide documentation to its lender that the business was in operation as of February 15, 2020. This documentation may include payroll processor records, payroll tax filings, or Form 1099-MISC, or income and expenses from a sole proprietorship. For borrowers that do not have any such documentation, the borrower must provide other supporting documentation to its lender, such as bank records, sufficient to demonstrate the qualifying payroll amount.

Documentation options for payroll tax filings include the following:

IRS Form 941 (quarterly wages); IRS Form 944 (calendar year wages); State income, payroll and unemployment insurance filings; QuickBooks; bank repository accounts; and/or internally generated profit and loss statements. However:

- Nonprofit organizations must include IRS Form 990;
- Sole proprietors must include IRS Form 1040 Schedule C;
- Any entity that filed IRS Form 1099-MISC must include this form;
- Seasonal employers must document the period beginning February 15, 2019 through June 30, 2019

More extensive FAQs can be found at the Treasury Department's CARES Act website (PDF, 50 KB).

Visit MPC website for COVID-19 information

By Kevin Abernathy, General Manager
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As our readers know, we've been sharing a lot of information over the past month related to COVID-19 impacts on the dairy industry. We've also compiled a list of helpful links related to economic assistance programs, statewide orders and employer resources over on our website at MilkProducersCouncil.org.

We will update our COVID-19 page daily with links, news and information relevant for dairy farmers. Bookmark MilkProducersCouncil.org/COVID in your browser to stay up-to-date.

Dairy farms help preserve California's tricolored blackbirds

Courtesy of Dairy Cares

In 2019 alone, 153,000 adult tricolored blackbirds were protected on 14 dairy farms throughout Kern, Tulare, and Merced counties. That represents a large portion of all the known tricolored blackbirds in California, which numbered 178,000 in 2017. A new statewide survey, expected to be conducted in 2021, will hopefully show that the population is increasing, due in no small part to the strong collaboration between dairy farmers and conservationists

Read the full article here.