

# MPC WEEKLY FRIDAY REPORT

DATE: AUGUST 7, 2020  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 6

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## MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	<b>-\$ .5475</b>	\$1.7050	WEEKLY CHANGE	<b>-\$ .0775</b>	\$1.5300
Barrels	<b>-\$ .7175</b>	\$1.5175	WEEKLY AVERAGE	<b>-\$ .1150</b>	\$1.5265
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 08/01/20	
Blocks	<b>-\$ .4890</b>	\$1.8685	DAIRY MARKET NEWS	w/E 08/07/20	<b>\$.3450</b>
Barrels	<b>-\$ .6575</b>	\$1.7275	NATIONAL PLANTS	w/E 08/01/20	<b>\$.3489</b>
				PRIOR WEEK ENDING 07/25/20	
				NAT'L PLANTS	<b>\$0.9752</b> 12,624,646
				NAT'L PLANTS	\$0.9769 14,026,993

## 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
THIS WEEK	<b>\$21.38 - \$21.88</b>	<b>\$13.73</b>	<b>\$19.36</b>	<b>\$13.16</b>
JULY '20 FINAL	<b>\$18.16 - \$18.66</b>	<b>\$13.79</b>	<b>\$24.54</b>	<b>\$13.76</b>



### Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report  
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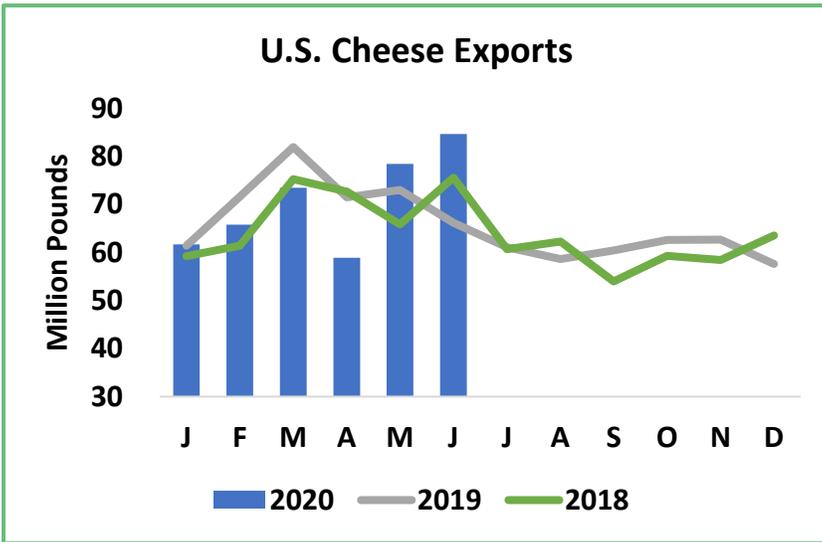
#### Milk & Dairy Markets

The cheese markets jumped off a cliff this week. CME spot Cheddar blocks stepped off the precipice and plunged a heart-stopping 54.75¢ to \$1.705 per pound, erasing nearly three months of gains. Barrels plummeted 71.75¢ straight downward, to \$1.5175. The fresh cheese shortage is clearly over, and now the market must absorb at least two months of formidable production amidst questionable demand.

Cheese production reached 1.1 billion pounds in June, an all-time high for the month and 3.5% more than the prior year. Cheesemakers rushed to satisfy consumers' hearty appetite for pizza.

#### CME Spot Cheddar Barrels





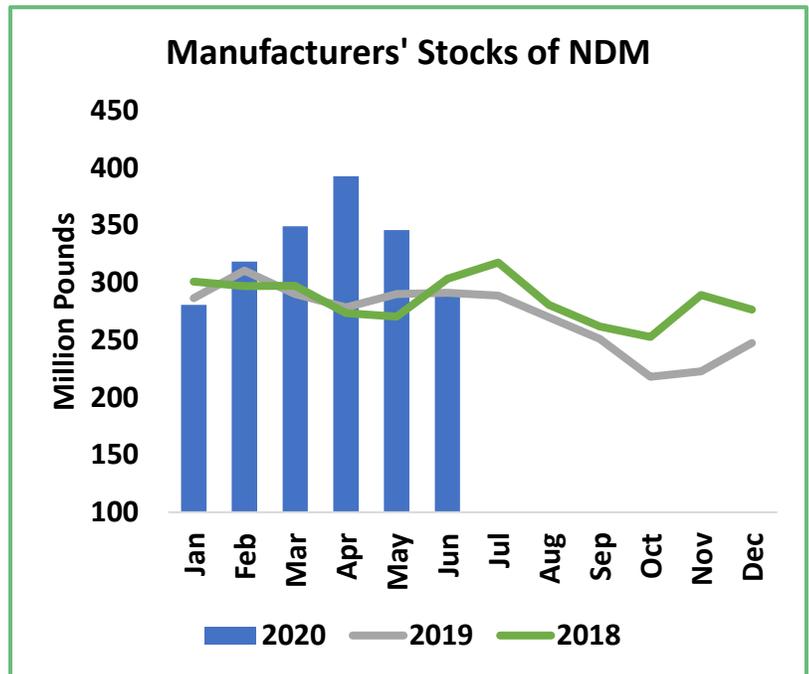
Mozzarella output jumped 3.7% year over year. Cheddar production was 1% higher than year-ago levels. Although cheese prices are much lower now than they were in June, cheese vats remain full. Spot milk is moving at steep discounts in the Upper Midwest, allowing processors an attractive margin on whatever extra milk they can squeeze into their plants.

U.S. cheese exports soared in June to a record high of 84.7 million pounds. Mexican buyers were clearly enticed by the fire sale prices earlier in the year. U.S. cheese exports south of the border

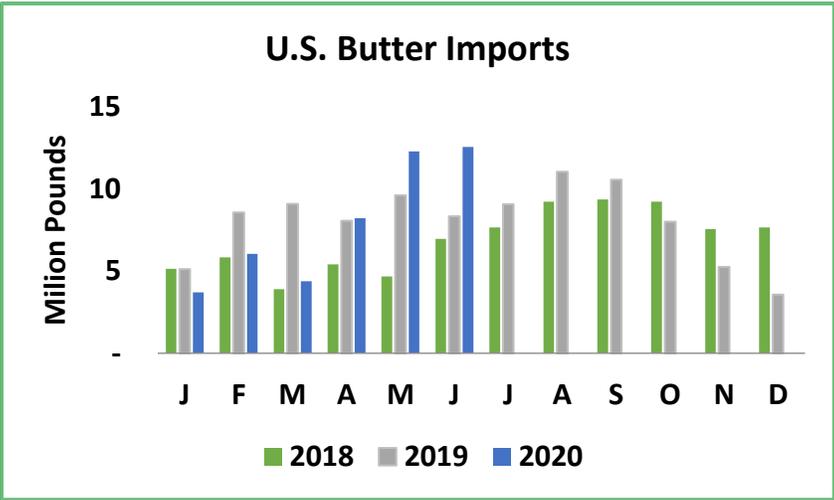
jumped to a two-year high. Exports to Southeast Asia remained strong. The average price for U.S. cheese and curd exports in June slumped to around \$1.77 per pound, the second-lowest monthly value since 2012.

Strong U.S. cheese exports will peter out as higher prices move to the fore. Despite the recent – and substantial – selloff, U.S. cheese remains expensive on the global market, and exporters likely booked very few sales this summer. The vast majority of U.S. cheese is sold domestically. June’s record-breaking exports used up just 7% of U.S. cheese production. The remainder must move through domestic channels, and demand seems to be waning.

The other dairy markets tumbled this week as well. The powders both lost 2.25¢. That put dry whey at an uninspiring 32¢ per pound. Dragged down by a disappointing Global Dairy Trade auction, nonfat dry milk (NDM) drooped to 95.5¢. Combined NDM and skim milk powder (SMP) production fell a little short of last year in June, and manufacturers kept product moving. Strong exports helped to trim stocks to a little below year-ago levels. U.S. NDM exports reached 167.2 million pounds in June. That was short of the record-breaking volume sent abroad in May but up 77.3% from June 2019. Reasonably-priced NDM and the weakening dollar should keep U.S. milk powder exports humming at a good clip. However, cheap whey protein concentrate continues to usurp some of NDM’s market share domestically.



The bulls and bears bandied back and forth in the butter market, but the bears ultimately triumphed. CME spot butter dropped 7.75¢ this week to \$1.53. Butter output slipped seasonally in June as cream became scarce. June butter production totaled 150 million pounds, down 3.1% from a year ago. Butter demand has waxed and waned along with the U.S. foodservice sector, but it is noticeably lower than it



was before the pandemic. Retail demand is weaker than it was this spring as home cooks weary of baking. Retailers continue to stock their shelves with imported butter. U.S. butter imports were record high in May and even higher in June. U.S. imports of anhydrous milkfat are lofty as well.

With dairy product prices lower on all fronts, the futures bled copious red ink. August Class III dropped \$1.67 to \$19.36 per cwt. September collapsed \$2.69 from last Friday to \$16.23. Fourth-quarter contracts also suffered steep losses, but they managed to hold above \$16, notably higher than the sub-\$15 lows posted during the pandemic panic this spring. Most Class IV futures lost between 20¢ and 50¢. Class IV contracts are wallowing in unprofitable environs, in the \$13 to \$14 range.

Dairy producers are doing all they can to capture \$19 milk while it lasts. Barns are full and slaughter volumes are unusually low. Mild temperatures in the heartland and cool nights in the mountain states are reducing heat stress. In those regions, milk yields are bouncing back from their summer swoon. There will be plenty of milk as summer fades into fall. Normally, the back-to-school boost in fluid milk sales would help to absorb a share of this new milk. This year, with millions of students learning at home, the school bump may be only a blip. The pandemic continues to sicken demand for dairy.

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**Grain Markets**

The feed markets lost ground again this week. The crops are in excellent shape, and the trade expects USDA to raise its estimates of corn and soybean yields substantially next week, when it updates the feed balance sheets next week. This will be the agency’s first take on crop yields that uses survey data. The trade anticipates that the national average corn yield will top 180 bushels per acre for the first time ever. Cheap crops are starting to attract better export prospects, but there will still be plenty of feed in the bin for the next year and perhaps longer. September corn futures settled today at \$3.07 per bushel, down 9¢ from last Friday to a life-of-contract low. September soybeans fell nearly 25¢ to \$8.6575. Soybean meal dropped \$9.80 to \$282 per ton.



## A final ruling in the quota lawsuit

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
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Judge James P. Arguelles issued a final ruling on August 3, 2020 on the STOP QIP lawsuit against the California Department of Food and Agriculture (CDFA), which challenged the Quota Implementation Plan on the grounds that CDFA did not follow proper procedure when implementing it. The Judge denied STOP QIP's petition for writ of mandate.

The oral argument for this case was held last Friday, July 31. Prior to the hearing, the Judge had issued a tentative ruling, which signaled that he disagreed with the STOP QIP argument. There was about an hour and fifteen minutes of back and forth between the lawyers and the Judge at the hearing. At the end, the Judge closed the hearing without making a ruling. His ruling came out on Monday and it did not materially change from the tentative ruling. The Judge's opinion makes for interesting reading and you can see it [here](#). In essence, the Judge rejects the claim by STOP QIP that Section 62757, the 2017 law that authorized CDFA to establish a "stand-alone" quota program, required the Department to hold a formal public hearing before putting the QIP up for a producer referendum. For now, the Judge's decision puts an end to this portion of the legal challenge to the QIP, but of course an appeal is always a possibility.

## STOP QIP submits Motion for Reconsideration of Chapter 3.5 referendum petition recommendation

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

As we reported [last week](#), Administrative Hearings Judge Timothy Aspinwall issued a recommendation to Secretary Ross based on the hearing held in June regarding STOP QIP's petition for a referendum to suspend Chapter 3.5, which contains the language authorizing the stand-alone quota program (QIP).

The recommendation from the Judge was to deny the petition and therefore not hold a referendum. His basic opinion was that the STOP QIP petition was designed to terminate Chapter 3.5 and therefore terminate the QIP assessment. The Judge did not agree that this was a proper use for the lower vote threshold in Chapter 3.5.

In the Motion for Reconsideration filed this week, the lawyers for STOP QIP argue that the fixed differentials and the Regional Quota Adjusters (RQAs) are a problem and that the Recommended Decision nullifies an important right that the California Legislature gave to dairy farmers to suspend the fixed differential and the RQAs. While this hearing was held by an Administrative Hearings Judge, it was not technically an Administrative Procedures Act (APA) hearing. The APA allows 15 days for a party to file a Motion for Reconsideration and the STOP QIP motion seeks to take advantage of this. Secretary Ross has not yet signed the recommended decision, so this issue is not settled. I have been told that she has 30 days to make that decision, which would be about August 24, so stay tuned. You can read the STOP QIP motion [here](#).

Meanwhile, a late August meeting of the Producer Review Board is being planned to discuss the petition of the United Dairy Families, which seeks a referendum on a plan to equalize the Regional Quota Adjusters to the equivalent of \$1.43 per cwt. immediately and terminate the QIP on March 1, 2025. If this petition results in a referendum, it would be conducted under the voting rules established in

Chapter 3.0 of the Food and Agriculture Code, which requires 51% of producers to vote to have a valid election. For a referendum to pass, 51% of the voters producing 65% of the voting milk or 65% of the producers producing 51% of the voting milk must vote yes.



## What's the deal with AB 2959, the byproducts bill?

By Kevin Abernathy, General Manager

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MPC has received a number of questions from our members regarding AB 2959 (Calderon), which is currently moving through the legislative process. While we have watched the bill throughout the year, unlike others in the ag industry, we currently have no position on the bill. Here's why: So long as dairymen are picking up organic material FOR FREE and are using it as feed, neither current law, nor AB 2959 prohibit that activity. MPC members should feel free to carry on.

Others in the industry are taking a different view. But as the saying in Sacramento goes, when in doubt, read the bill. And in this case, having an understanding of existing law also helps.

The bottom line is this – nothing in current law prohibits an entity (ag processor, grocery store, restaurant, etc.) from giving away their garbage. Dairymen have been taking organic waste from ag processing facilities, bakeries, breweries, wineries and others for decades. Nothing in current law, nor in AB 2959, would prohibit that. A problem only arises when dairymen are charging the ag processing facility, bakery, brewery, winery or whomever else to take that waste. If you are doing that now, stop! That is against the law right now and nothing in AB 2959 changes that.

Why is that the case? California law gives local jurisdictions (cities and counties) the option to establish franchise agreements with waste haulers for the transportation and handling of trash and other materials from commercial and residential customers. Some jurisdictions have no franchise at all and it's open season. Some have franchise agreements that cover residential services, but not commercial (the city of Los Angeles was this way until just recently). Others have franchise agreements that cover both commercial and residential customers.

As part of those agreements, the waste hauler is the only entity that can CHARGE a resident or commercial customer to pick up their trash. Again, nothing in those agreements prohibits a dairyman from picking up organic waste feedstock for free. To that end, the language currently in AB 2959, as it applies to animal feed, reflects existing law and practice. Here's the language currently in the bill that is most important to us:

*“(b) A county, city, district, or local governmental agency shall not subject the hauling of byproducts from the processing of food or beverages to an exclusive solid waste franchise, contract, license, or permit, if those byproducts meet all of the following conditions:*

- (1) The byproducts originate from agricultural or industrial sources, including, but not limited to, entities that manufacture or distill beer, wine, or spirits.*
- (2) The byproducts do not include animal, including fish, processing byproducts.*
- (3) The byproducts are source separated by the generator of the byproducts.*
- (4) The byproducts are not discarded.*
- (5) The byproducts are used as animal feed.”*

So long as dairymen are holding to the language above and not charging to pick-up this material, AB 2959 has no impact on us. Nonetheless, many in ag are fired up.

In this case, it is important that the dairy industry isn't co-opted to carry other industries' issues. Renderers want to be able to charge grocery stores and restaurants to pick up this material. Grocery stores and restaurants like that because they will charge the store less than the local waste hauler will.

Like dairymen, we don't blame the renderers' desire to make additional revenue and we don't blame grocery stores' and restaurants' desire to lower their operating costs. But, their issue is not our issue.

We will continue to track the progress of AB 2959 throughout the legislative process. Our intel says that the likelihood of this bill having a full hearing in this legislative session is very low due to the ongoing COVID-19 pandemic, but we expect to see it resurface in 2021.

If you have questions about this bill, please contact me at [Kevin@MilkProducers.org](mailto:Kevin@MilkProducers.org).

## **Congressional leaders raise concern to USDA on limitations of Coronavirus Food Assistance Program due to trust business structure**

*By Kevin Abernathy, General Manager*

[Kevin@MilkProducers.org](mailto:Kevin@MilkProducers.org)

On August 5, 2020, Senator Dianne Feinstein and Representatives Jim Costa and Devin Nunes submitted a joint letter to USDA Secretary Sonny Perdue, expressing concern that many California dairy farmers are unable to receive the support intended for them in the Coronavirus Food Assistance Program (CFAP). The heart of the issue is the business structure of many California dairies versus the rules governing USDA's assistance program.

*“Because of long-term business considerations, many dairy producers in California have intentionally structured their operations as trusts. We understand that FSA currently treats a trust as a single entity when determining CFAP payments, even if there are multiple partners in the trust. This effectually means that payments to operations held in trust are capped by a payment limitation designed for a single entity, even when the operation is a general partnership comprised of multiple producers who would otherwise qualify for individual CFAP payment limitations.” – Excerpt from Congressional letter to USDA*

You can read the entire letter [here](#).

