

# MPC WEEKLY FRIDAY REPORT

DATE: JULY 3, 2020  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 5

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## MPC FRIDAY MARKET UPDATE

<b>CHICAGO CHEDDAR CHEESE</b>		<b>CHICAGO AA BUTTER</b>		<b>NON-FAT DRY MILK</b>	
Blocks	<b>+\$ .1000</b>	\$2.6750	WEEKLY CHANGE	<b>-\$ .0275</b>	\$1.7375
Barrels	<b>+\$ .0150</b>	\$2.4150	WEEKLY AVERAGE	<b>-\$ .0381</b>	\$1.7544
<b>WEEKLY AVERAGE CHEDDAR CHEESE</b>		<b>DRY WHEY</b>		<b>WEEK ENDING 06/27/20</b>	
Blocks	<b>-\$ .0047</b>	\$2.6438	DAIRY MARKET NEWS	W/E 07/02/20	<b>\$ .3500</b>
Barrels	<b>+\$ .0253</b>	\$2.4038	NATIONAL PLANTS	W/E 06/27/20	<b>\$ .3650</b>
				<b>PRIOR WEEK ENDING 06/20/20</b>	
				NAT'L PLANTS	<b>\$0.9577</b> 18,243,311
				NAT'L PLANTS	\$0.9200 17,221,431

## 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
JULY 2 EST	<b>\$18.16 - \$18.66</b>	<b>\$13.30</b>	<b>\$22.97</b>	<b>\$14.34</b>
JUNE '20 FINAL	<b>\$13.02 - \$13.52</b>	<b>\$12.99</b>	<b>\$21.04</b>	<b>\$12.90</b>



### Milk, dairy and grain market commentary

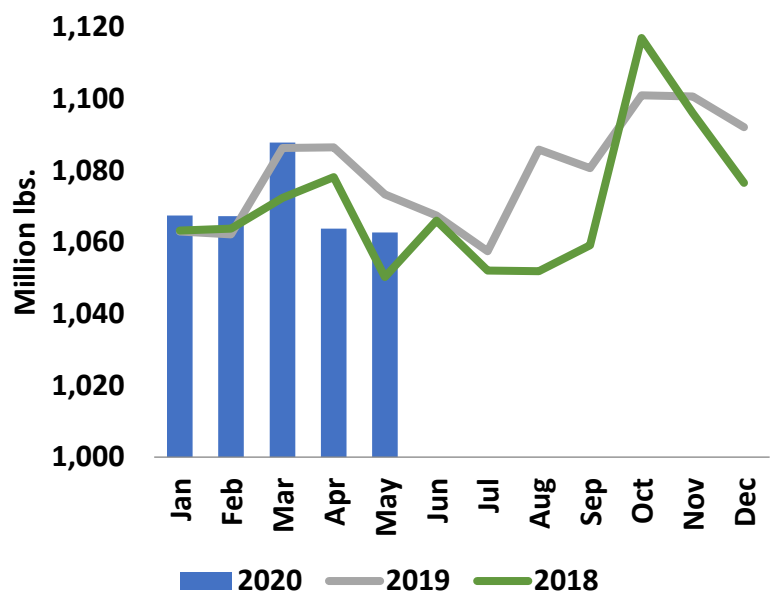
By Sarina Sharp, Daily Dairy Report  
[Sarina@DailyDairyReport.com](mailto:Sarina@DailyDairyReport.com)

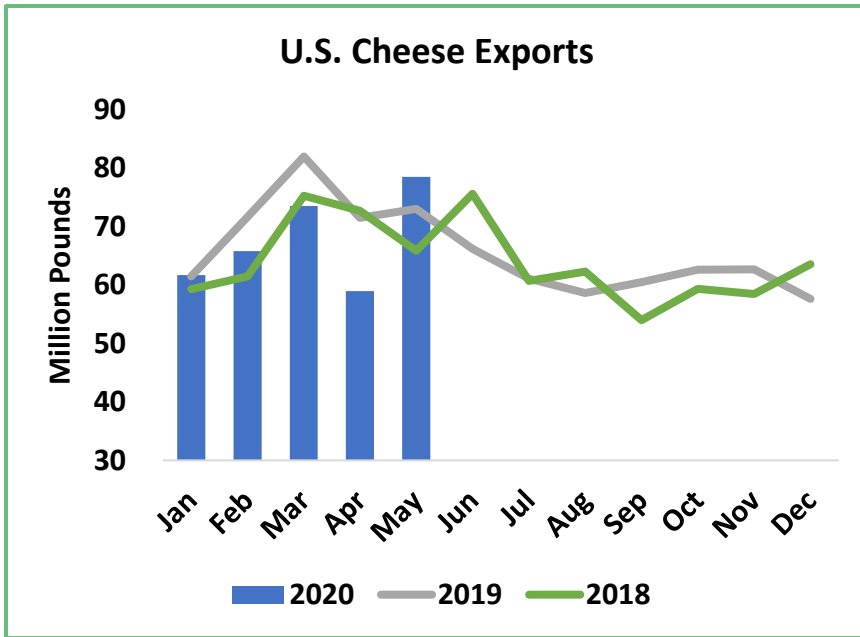
#### Milk & Dairy Markets

The cheese markets showed no sign of altitude sickness, as they clambered around with ease at lofty elevations. CME spot Cheddar barrels climbed 1.5¢ this week to \$2.415 per pound, just a penny from the all-time highs. Blocks jumped a dime to \$2.675. Although there is plenty of milk, there is a shortage of fresh cheese, and demand remains resilient despite the price.

Less milk meant less cheese in May, setting the stage for the summer rally. U.S. cheese output fell short of 1.1 billion pounds in May, down 0.7% from a year ago. Cheesemakers directed more milk to Mozzarella to satisfy consumers'

#### U.S. Cheese Production (30-day Months)

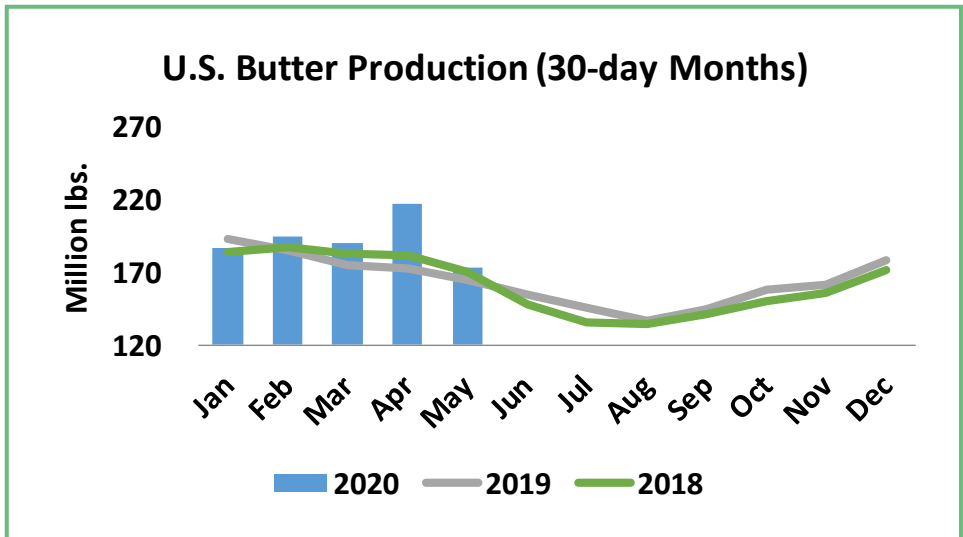




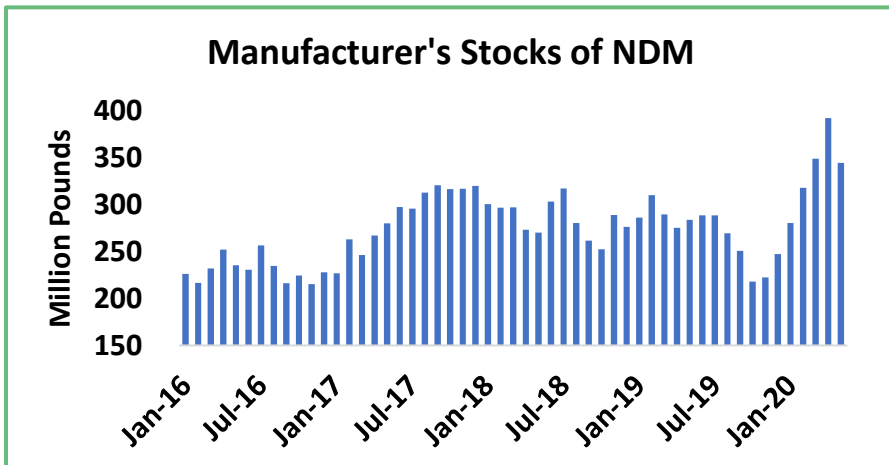
voracious appetite for pizza. Cheddar production fell 0.5% from last year, and manufacturers likely put some of that Cheddar into aging programs, making it unavailable to those seeking cheese in Chicago today.

Exports further tightened supplies. U.S. cheese was a bargain earlier this year, and foreign buyers took advantage. U.S. cheese exports climbed to 78.5 million pounds in May, up 7.5% from a year ago and the third-highest monthly volume on record. Shipments to Southeast Asia ballooned, and South Korea took Mexico's usual place as the top market for U.S. cheese.

High-protein whey products are losing value, and manufacturers are directing more of the whey stream to driers. Despite lower cheese output in May, production of dry whey for human consumption surged 9.1% year over year. Whey powder inventories piled up accordingly. Stocks of dry whey soared 29.3% above year-ago levels. Manufacturers were able to move quite a bit of whey abroad. Dry whey exports jumped 24.7% from last year in May. Still, whey abounds. CME spot whey continues to hover in the low-30¢ range. This week it rallied 1.75¢ to 33¢ per pound.

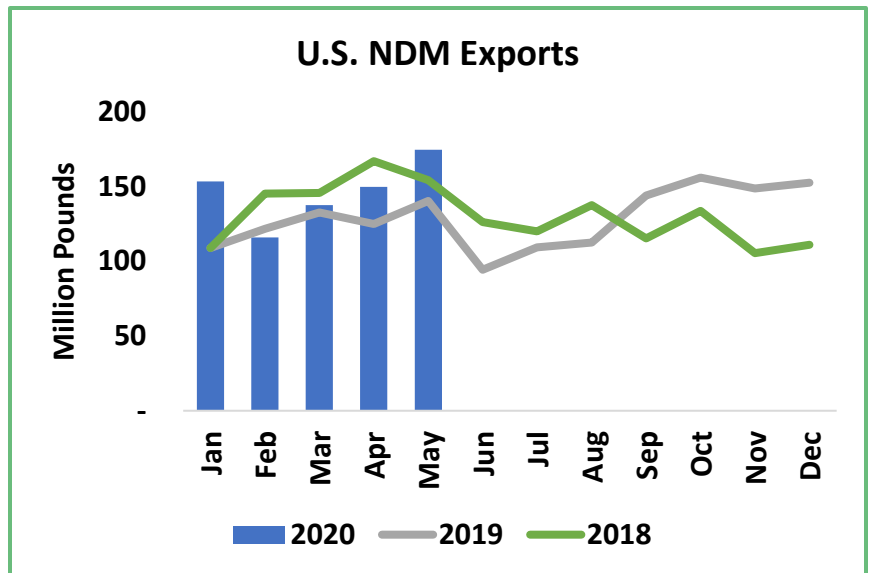


The butter market lost ground once again. CME spot butter slipped 2.75¢ this week to \$1.7375. Print butter is flying off the shelves as consumers continue to cook and bake at home. But foodservice demand is fitful, and likely to worsen as rising infection rates scare would-be restaurant patrons from dining out. Conferences, concerts, and arena sports remain on hiatus, which means a lot of foregone foodservice sales. Cream is expensive today, and churns are running very slowly, but we made enough butter in April and May to last a while. Butter output totaled 178.3 million pounds in May, up 4.9% from the prior year.



CME spot nonfat dry milk (NDM) slipped a penny this week to \$1.01.

The milk powder market seems stable. Dryers ran much slower in May than they did in March and April, in the worst days of the spring surplus. Low milk prices and co-op restrictions clearly accomplished their awful task, bringing milk supplies in line with capacity. Attractive pricing kept NDM moving to end users, and milk powder inventories declined noticeably from April to May. Still, at 344.7 million pounds, stocks remained burdensome in late May. Thankfully, product is still moving quickly. May NDM exports reached an all-time high of 174.5 million pounds, driven by strong shipments to Southeast Asia. Sky-high cheese prices are also helping to use up milk powder, as cheesemakers fortify vats. However, some end users are starting to substitute cheap whey protein concentrate in favor of NDM.



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Class IV futures finished steady to a little lower than last Friday's settlements, while the strong cheese markets propelled Class III futures straight upward. July Class III soared \$1.33 to a life-of-contract high at \$22.97 per cwt. August Class III rallied \$1.88 to \$20.95, also a new closing high. Down the board, Class III futures gained considerable ground as well. USDA announced the June Class III price at \$21.04, up \$8.90 from the paltry value posted in May. At \$12.90, the June Class IV price was still painfully inadequate, but it was \$2.23 higher than May Class IV.

These Class III values will encourage dairy producers to step up milk production, but they could struggle to do so in the middle of the summer. Dairy producers in the Midwest are likely to lose milk as cows face at least two weeks of unusually high temperatures. But low slaughter volumes and high milk values suggest the industry will do its best to make considerably more milk than was expected a couple months ago.

### Grain Markets

Traders had been leaning hard into massive large short positions, creating a pile of dry tinder for a raging short-covering rally. USDA lit the spark on Tuesday, when it reported a steep drop in corn area in the annual Acreage report. The agency estimates that farmers planted 92 million acres of corn this year, down a steep 5 million acres from the March Planting Intentions survey. Most of the acreage was lost in the Dakotas, where last year's flooding plagued farmers into this season. The 2019 harvest continued well into the spring of 2020 in North Dakota, and farmers who were still combining during the planting window were not inclined to rush to plant a late crop of \$3.00 corn. Despite the hefty decline relative to expectations, farmers still seeded more corn acres than they have in each of the past three seasons. And the crop is off to a great start. But the forecast is hot and dry, which could cap yields below potential. U.S. and global corn stocks are ample, so it will take some real crop issues to fire the market up a lot further.

USDA estimates 2020 soybean area at 83.8 million acres, up just 300,000 acres from the March planting survey. That was lower than expected, and the bean markets got a boost this week as well. August soybeans settled at \$8.9125 per bushel, up 31.25¢ from last Friday. September corn closed at \$3.435, up 15.25¢ for the week.



## Holiday weekend reading list

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
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I know...the 4th of July holiday is a time for celebrating our nation's founding and relaxing with family and friends. We certainly need that time of reflection and refreshment. But there are a few documents that were released this week that are relevant to California producers and worth reading.

The [first group of documents](#) are the post-hearing briefs filed by the three parties representing STOP QIP, SAVE QIP and the United Dairy Families. These filings lay out the arguments that Administrative Law Judge Timothy Aspenwall must consider as he contemplates his decision on what course of action to recommend to Secretary Karen Ross coming out of the Quota Hearing.

The [second document](#) is a paper written by Dr. Mark Stevenson and Dr. Andy Novakovic that explains in more detail the factors that are currently impacting milk checks during this unprecedented time. It is certainly worth a read.

### NMPF News: USMCA takes effect; May DMC margin falls to lowest since 2013; Economic analysis shows damage of EU milk intervention

Courtesy of National Milk Producers Federation's "News for Dairy Cooperatives"



#### USMCA Takes Effect, Enforcement Remains Key

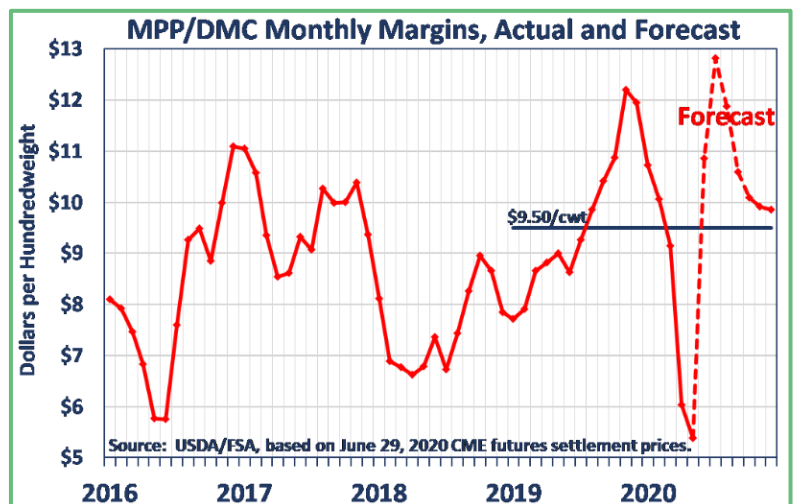
U.S. dairy farmers are concerned about possible bad-faith actions from Canada even as the United States-Mexico-Canada Agreement (USMCA) agreement entered into force July 1, with Canada's [announced Tariff-Rate Quota \(TRQ\) allocations](#) undermining the trade deal by thwarting the ability of the U.S. dairy industry to make full use of the trade agreement's market-access opportunities and violating some of the treaty's provisions on TRQs.

USMCA implementation caps years of hard-fought negotiations to break down trade barriers and institute fairer rules to improve the flow of U.S. dairy products throughout North America, and U.S. dairy farmers and cooperatives stand ready to increase deliveries of high-quality U.S. dairy products to Canada. The TRQ action undercuts the agreement by effectively limiting agreed-upon U.S. access.

"U.S. farmers will bear much of the brunt of this bad-faith approach by Canada to implementing USMCA's dairy provisions," said Jim Mulhern, president and CEO of the National Milk Producers Federation. "Canada needs to change its course and abide by its commitments." [Read more.](#)

#### May DMC Margin Falls to Lowest Since 2013; Historic Rebound Expected

The Dairy Margin Coverage (DMC) program margin for May was \$5.37 per cwt., the lowest since July 2013 and \$0.65 per cwt. lower than the margin for April. Still, projections show



that June's margin may see the highest jump since 2000, with a strong recovery in prices that should buoy margins through the rest of the year.

The April to May drop in the DMC margin was due to an \$0.80 per cwt. lower all-milk price, offset by a \$0.15 per cwt. lower calculated feed cost. The May margin will generate a payment of \$4.13 per cwt. that month for producers enrolled in the program this year at the \$9.50 per cwt. margin coverage level and smaller payments for producers enrolled all the way down to \$5.50 per cwt. [Read more.](#)

### **Economic Analysis Shows Damage of EU Milk Intervention**

A new economic analysis released June 18 has found that the European Union's government-financed intervention purchases of skim milk powder (SMP) in 2016-2019 caused serious damage to the U.S. dairy industry – an important concern given the EU's capacity to revive usage of this program while dairy markets are still recovering from the coronavirus crisis.



The earlier intervention, which the analysis found suppressed an economic recovery in milk prices and allowed the EU to seize market share, cost U.S. dairy farmers \$2.2 billion between 2018 and 2019, according to the analysis conducted by Kenneth Bailey, Ph.D. and Megan Mao, B.S., from Darigold, a wholly owned subsidiary of the Northwest Dairy Association based in Seattle.

“This report puts into hard numbers the bitter truth that U.S. dairy farmers already know: the EU's dump of intervention stocks onto the world market depressed farm-gate milk prices in the U.S. in 2018 and 2019,” NMPF President and CEO Jim Mulhern said. [Read more.](#)

