MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages:

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	+ $.0325	$2.1550	Weekly Change	+ $.0200	$2.0800	Week Ending 10/26/19		
Barrels	+ $.0750	$2.3250	Weekly Average	+ $.0050	$2.0825	Nat'l Plants	$1.1213	20,208,896
Weekly Average Cheddar Cheese			Dry Whey			Prior Week Ending 10/19/19		
Blocks	+ $.0535	$2.1595	Dairy Market News	w/e 11/01/19	$.3350	Nat'l Plants	$1.1073	17,000,101
Barrels	+ $.1355	$2.2780	National Plants	w/e 10/26/19	$.3255			

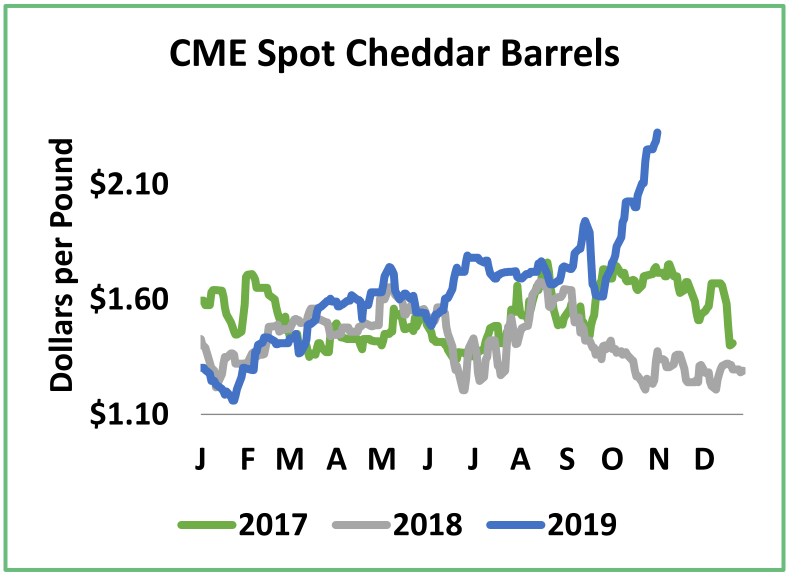
California Federal Milk Marketing Order Price Projections

Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
Nov 1 Est	$19.74 - $20.24	$17.03	$20.19	$16.78
Final Oct '19	$19.44 - $19.94	$16.68	$18.72	$16.39

Milk, Dairy and Grain Market Commentary
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

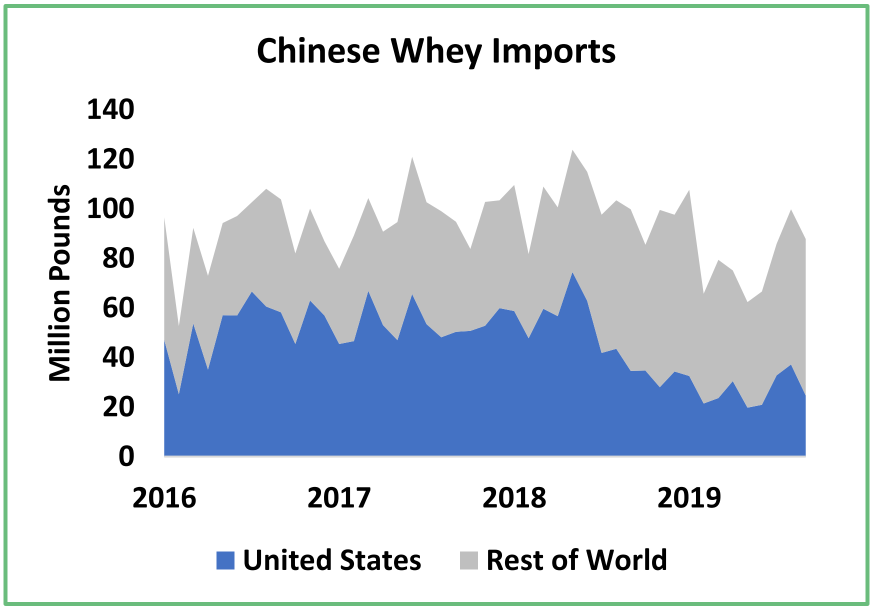
Milk & Dairy Markets

Call the fire department! The barrel market is ablaze. The fire has been raging on LaSalle Street for more than a month. Buyers are in a panic, wondering when the inferno will run out of fuel. Sellers have evacuated. They will do nothing to douse the flames and did not offer any loads at any price. For the first time since August 2016, no barrels changed hands this week. The Cheddar market was already red hot, but barrels pushed the mercury even higher this week. They climbed 7.5¢ to $2.325 per pound, a new five-year high. Blocks cooled down from mid-week highs but still added 3.25¢ this week. They closed at $2.155.

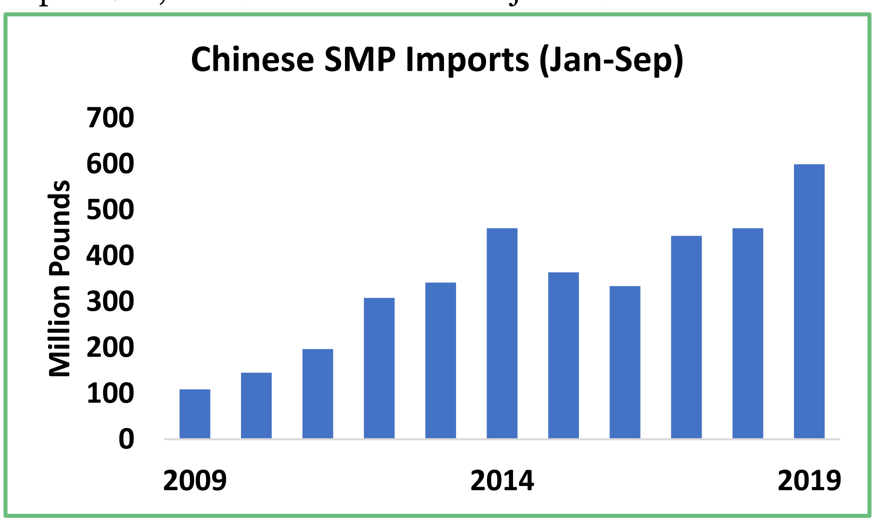


October was the biggest month for barrels in more than 15 years; they vaulted from $1.69 to $2.2875, a nearly 60¢ increase. Although these higher prices have surely encouraged production and trimmed demand, tighter milk supplies are slowing cheesemakers' response to sky-high prices. Cheese is generally available on the coasts, but *Dairy Market News* reports that in the Central region, "Cheese production is still slightly slower than this time in recent years." However, producers are shifting their product mixes and making more Cheddar. Barrel makers tell *Dairy Market News* that "nothing has changed." The tone is still bullish and some processed cheese manufacturers are oversold, which is likely why they are bidding so desperately in the spot market.

When cheese markets burn this hot in the fall, they often flame out in November as holiday orders fade. It's going to be difficult to sustain barrels above $2.30 for long. But buyers have been wary of purchasing cheese beyond their immediate needs; they may be quick to bid on a setback. And, now that end users have been spooked by $2.30 cheese, there is room for prices to drop to levels that look like a bargain and still provide profits for dairy producers. Both blocks and barrels could give back more than half of the October gains and remain above the $2 mark. Meanwhile, the rally has been baked into October and November cheese pricing formulas and provided the opportunity for dairy producers to sell December through April futures at new life-of-contract highs. Even the embers of the autumn rally are likely to offer plenty of warmth and good cheer.

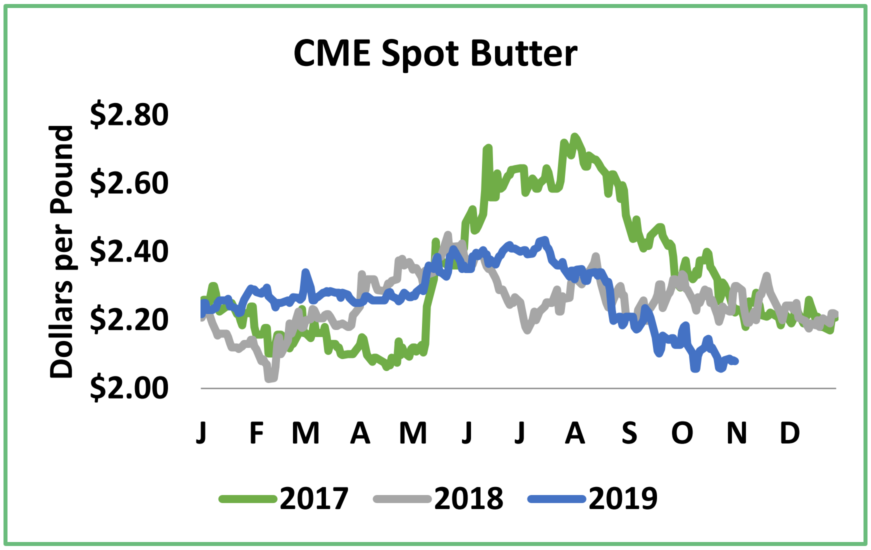


The spot whey market remains in the doldrums. It slipped to a 2019 low of 26.75¢ on Thursday but then recovered to 28.25¢, steady with last Friday. Whey output has slipped in the Central region along with cheese production, but there's plenty of product in the rest of the nation. The lack of Chinese transactions looms large in the whey market. Due to African swine fever, Chinese whey imports were down 12% from a year ago in September. They are down 22.3% for the year to date. Due to tariffs, U.S. whey shipments to China suffered even steeper declines. They fell 28.6% from a year ago in September and are down 49.3% for the year to date. In September, the U.S. accounted for just 28.1% of Chinese whey powder imports, matching its lowest share in 12 years.

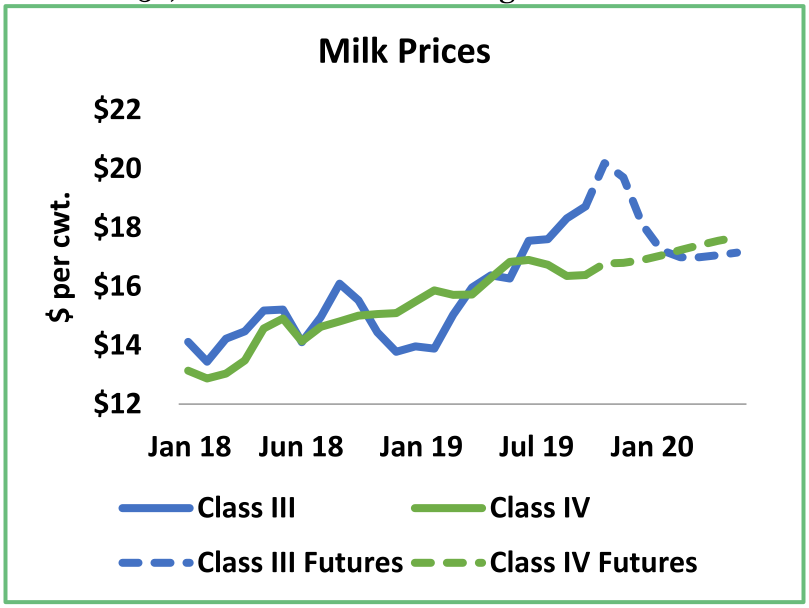


The Class IV products climbed. Spot butter rallied 2¢ to a still uninspiring $2.08. Cream remains plentiful, but churning is starting to slow as production of holiday dips and spreads ramps up. Global butter continues to trade at a steep discount to U.S. product.

Spot nonfat dry milk (NDM) gained 3¢ this week and reached a new 2019 high at $1.1825. Higher spot milk prices are restraining drying activity in the Midwest, but there is plenty of milk for driers in the West. Still, demand is more than keeping pace with output, and supplies seem to be tightening. Mexico continues to buy U.S. milk powder in large volumes. China's appetite for skim milk powder (SMP) remains prodigious. In September, Chinese imports of SMP were up 30% from a year ago, and they're up 30% for the year to date. China has never before imported SMP at these volumes. Chinese whole milk powder imports were up 18.8% from a year ago and exceed January through September 2018 by 23%.



Better butter and milk powder pricing lifted Class IV futures considerably. Nearby contracts gained around 25¢, and deferred futures gained a dime or so. Fueled by the fiery cheese market, Class III futures soared to new highs. The November contract added 63¢ and closed at $20.19 per cwt., the first reading above $20 since 2014. December Class III jumped $1.14 this week to $19.70. 2020 contracts logged double-digit gains, and January topped $18. At these values, dairy producers should be solidly in the black.



USDA announced the October Class III price at $18.72/cwt., up 41¢ from September and up $3.19 from a year ago. That's the highest announced Class III price since November 2014. At $16.39, October Class IV was up 4¢ from September and up $1.38 from a year ago.

Grain Markets

The grain markets finished a little higher this week. December corn settled at $3.8925 per bushel, up 2.5¢ from last Friday. November soybeans closed at $9.2425, up 4¢. Farmers remain frustrated. The harvest has been painfully slow, with snow flurries and frigid temperatures. Many fields remain too wet to harvest. As of last Sunday, just 41% of the corn crop had been harvested, compared to 61% in a typical year. Harvest progress is woefully behind in North Dakota (6%) and several key dairy states including Wisconsin (13%), South Dakota (14%), Michigan (21%), and Minnesota (22%). Feed quality is likely to be an issue, which could weigh on milk yields in the months to come.

Corn and soybean planting is underway in South America, but conditions are less than ideal. Farmers are hoping for more rains in much of Brazil and Argentina. The forecast features below-normal rainfall for much of the region next week, but the following week looks better. In contrast, fields have been drenched in Rio Grade do Sul, in southern Brazil and nearby Paraguay and northeastern Argentina.

Phase 2 Quota Meetings Stimulate Serious Contemplation

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

This past week, three Phase 2 Quota meetings were held in Chino, Tulare and Turlock respectively. At those meetings there was some significant clarification of what the rules are with regards to any effort to terminate the Quota Implementation Plan (QIP). What we learned is that there are TWO different ways for those who wish to change the QIP to proceed. Donald Shippelhoute, the CDFA official who manages the QIP, presented at the Phase II meetings this week and outlined the two paths.

The first path is the one, that up until recently, was understood to be the only path to make a change. In that path, according to Shippelhoute, if a valid petition (one that has the required number of signatures) is submitted asking for a termination of the plan, then according to the law, a referendum on that termination petition **shall** take place (Chapter 3; Section 62717). The threshold for passage of that referendum is that 51% of the eligible producers must vote for the referendum to be valid and of those who vote, **65%** of the producers producing **51%** of the voting milk must vote yes, or **51%** of the producers producing **65%** of the voting milk must vote yes for the referendum to pass.

The second path (Chapter 3.5; Section 62755(a)) which until very recently was not realized by anyone I know of, is nonetheless very definitely in the law. The legal authority for CDFA to establish the QIP comes from a piece of legislation that was passed by the legislature in 2017 and placed in the Food and Agriculture Code, Division 21, Part 3, Chapter 3.5 titled Milk Pooling as Section 62757. Chapter 3.5 was put into law in 1993 to implement the fixed $1.70 differential. At that time, the Legislature passed this law (which was supported by the producer community) that instructed CDFA to begin to implement the $1.70 fixed differential on January 1, 1994 without a producer referendum. Because the fixed differential came into being without a producer referendum, the Legislature established a different suspension mechanism, with a different vote threshold for any referendum held on Chapter 3.5. The producer petition threshold to force consideration of a petition to suspend Chapter 3.5 is the same, 25 percent of producers producing 25 percent of California's grade A milk submitting a petition asking for suspension of Chapter 3.5 forces a public hearing. The Secretary then must make a decision after the hearing about whether or not to put the question of suspension of Chapter 3.5 to the producers for a referendum. If a referendum on suspending Chapter 3.5 is held, the law stipulates that 51% of the producers must vote for a valid referendum and of those voting, **51%** of the producers producing **51%** of voting milk must vote in favor of continuing Chapter 3.5 or the entire chapter is suspended. This is relevant to the QIP because the legal authority for the QIP resides in Chapter 3.5. If a referendum took place and Chapter 3.5 was suspended, then the law says that we go back to the pooling plan that was in effect on December 31, 1993. Since we are now operating under a Federal Milk Marketing Order, the State no longer operates a pool and therefore has no funds to distribute money to quota holders. And since the authority to assess California milk to generate money to fund quota payments will have been suspended if Chapter 3.5 is suspended, the practical impact of suspending Chapter 3.5 is that the quota would be essentially terminated.

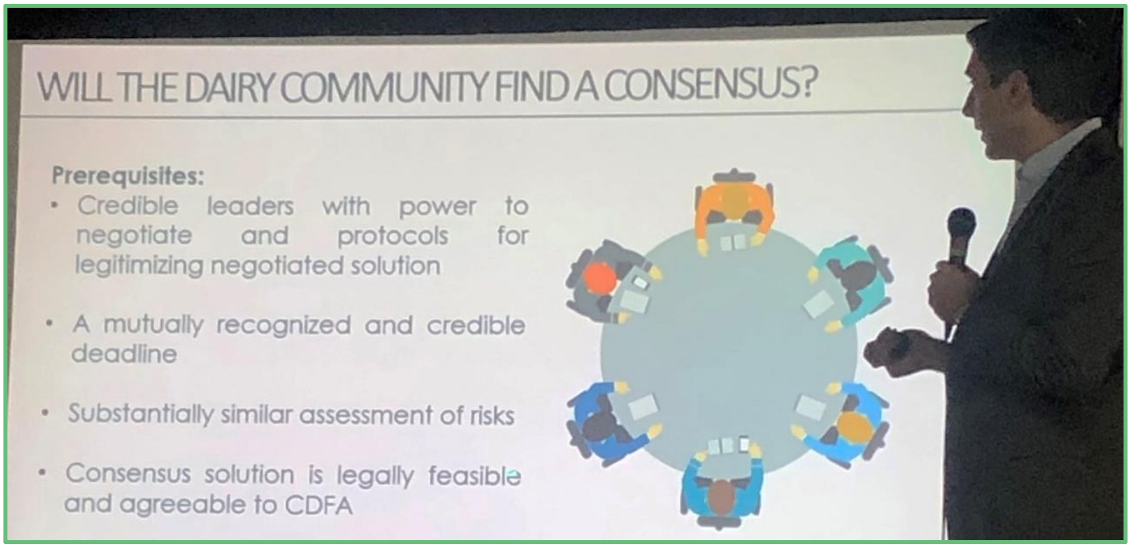
In summary:

- Path A – 25% petition to amend or terminate – referendum **shall** be held with a 65% majority vote for passage.
- Path B- 25% petition creates a requirement to hold a public hearing - Secretary **may** hold a referendum to suspend Chapter 3.5. A 51% positive vote is needed to continue Chapter 3.5 and the QIP.

After Don Shippelhoute made his presentation, the remainder of the meeting focused on the various option memos that were developed by Dr. Marin Bozic and Matt Gould as a result of the input they received at the Phase 1 meetings. Producers were handed a feedback booklet that they were asked to fill out as we went through the various options. The options were grouped into three categories: proposals that would preserve or amend the QIP; proposals that would buy-out the quota and proposals that would sunset the QIP. Each one of the options was explained and there was an opportunity for questions. Producers were asked to write their thoughts and opinions in the feedback booklets which they handed in after the meeting.

The meeting went almost 3.5 hours because there was a lot of information to cover. But there were very few folks who left early. Clearly producers were seriously contemplating the situation and the potential pathways forward. I applaud the five groups that have sponsored this process. There seems to be a genuine desire to find a compromise way forward. Representatives of the STOP QIP group reported that they believed they have enough signatures to force a referendum through pathway A which would require a 65% vote but indicated that they were not submitting them at this time. They also announced that they have initiated another petition based on pathway B. But they were very clear that their preference was to work out a compromise agreement.

The United Dairy Families representative made it clear that UDF was not authorized to negotiate for anyone. But they were committed to this process which is designed to receive input from every California producer and based on that input produce a consensus plan for how to resolve this issue. There is a lot to think about. There are risks for either side of this issue.



Dr. Bozic shared a slide (see picture) that captures where we need to go to be successful.

The Prerequisites to obtaining a consensus are:

- Credible leaders with power to negotiate and protocols for legitimizing a negotiated solution;
- A mutual recognized and credible deadline; and
- Substantially similar assessment of the risk of inaction.

All this is necessary to get to a consensus solution that is legally feasible and agreeable to CDFA.

The meetings were recorded and will be available here.

Also, there is a webinar with Dr. Bozic that will take place on Monday, November 4 at 8 a.m. which you can participate in. You can still send comments and reactions to the various proposals by emailing dairyfamilies@gmail.com. UDF also announced that they are planning regional meetings around the state during the next two weeks.

The goal of Phase 2 is to narrow down the options to two or three specific proposals. It is anticipated that the next round of meetings will take place in early January.