

MPC WEEKLY FRIDAY REPORT

DATE: FEBRUARY 28, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 4

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	-\$0.0450	\$1.7225	WEEKLY CHANGE	-\$0.0300	\$1.7250	WEEK ENDING 02/22	
Barrels	N.C.	\$1.5900	WEEKLY AVERAGE	-\$0.0485	\$1.7215	NAT'L PLANTS	\$1.2411 17,543,824
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 02/15	
Blocks	-\$0.0504	\$1.7465	DAIRY MARKET NEWS	W/E 02/28/20	\$0.3700	NAT'L PLANTS \$1.2540 20,320,159	
Barrels	+\$0.0037	\$1.5900	NATIONAL PLANTS	W/E 02/22/20	\$0.3694		

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
FEB 28 EST	\$19.15 - \$19.65	\$16.84	\$16.98	\$16.21
LAST WEEK	\$19.15 - \$19.65	\$16.89	\$17.01	\$16.17



Milk, dairy and grain market commentary

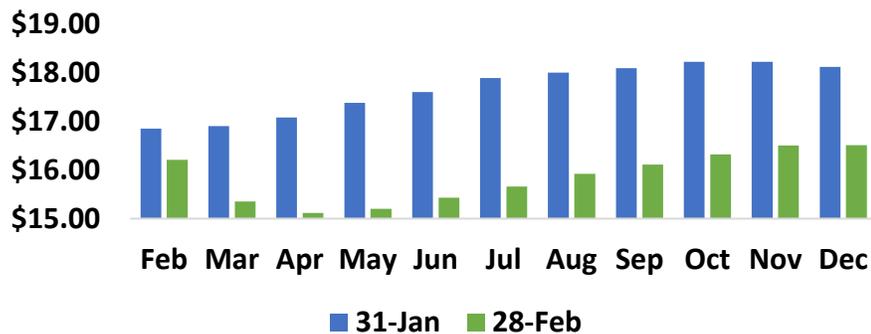
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

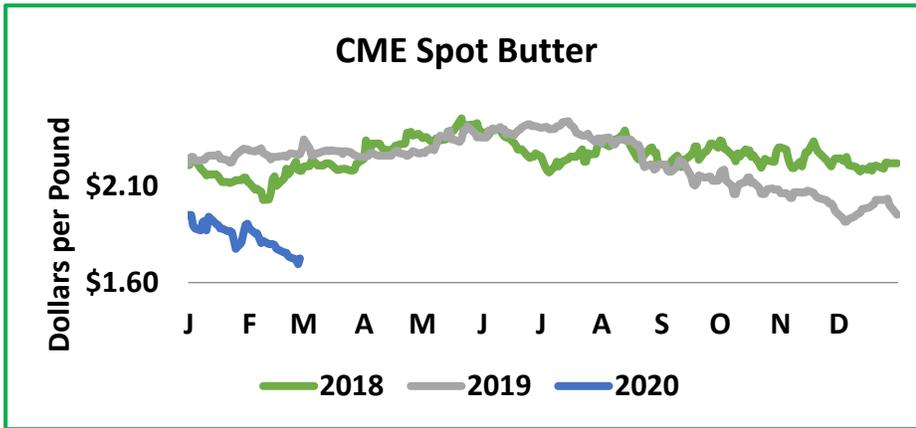
Milk & Dairy Markets

The bulls nearly drowned in a flood of red ink this week. The markets were swamped in wave after wave of selling due to fears that the coronavirus would continue to spread, and consumers would hunker down, throttling economic activity around the world. The stock market suffered its worst week since the financial crisis, and commodity values were battered. The dairy bulls finally came up for air on Friday, even as the broader market continued to sink.

Today's recovery brought some much-needed calm to the dairy complex. But though the rebound was reassuring, it was still much smaller than the initial retreat. Most Class III futures contracts

Class IV Futures

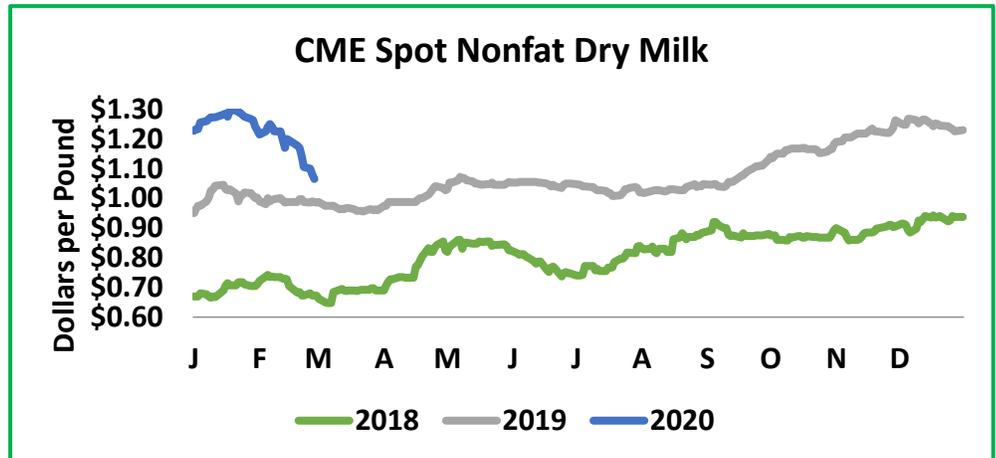




settled 30¢ to 60¢ lower than last Friday. Class IV losses were even steeper. Over the past month, February through December Class III futures have given up 92¢ per cwt. on average, while Class IV futures plummeted \$1.70. While Class III contracts sit comfortably above \$16, March through July Class IV are still trading in the \$15s.

Prices moved decidedly lower at the CME spot market. Spot butter dropped all the way down to \$1.695 per pound, the lowest price since March 2015. But today it came back in convincing fashion. Traders exchanged 39 loads and spot butter closed at \$1.725, much better than the Thursday low but still down 6¢ for the week. The milk powder market continued to fade. Spot nonfat dry milk fell 10.5¢ to a five-month low of \$1.065. Spot whey powder slipped 3¢ to 34¢. Spot Cheddar blocks dropped 4.5¢ to \$1.7225. Barrels fell so far in January that even a global market panic couldn't shake them. They held steady at \$1.59.

Outside market factors were the main culprit for this week's selloff, but the markets had some dairy-specific data to digest as well, and it provided little fodder for the bulls. USDA's Cold Storage report showed January 31 butter inventories at 242.7 million pounds. That's 14.9% greater than last year and the largest January reserve since 1994. Butter makers usually pile up product in January and this year was no exception. Cream is cheap, so stocks have likely continued to swell. The good news is that this abundance of butter has already been factored into pricing. In fact, U.S. butterfat is now the cheapest in the world, which is likely to shift the trade balance in favor of new export demand and smaller imports.



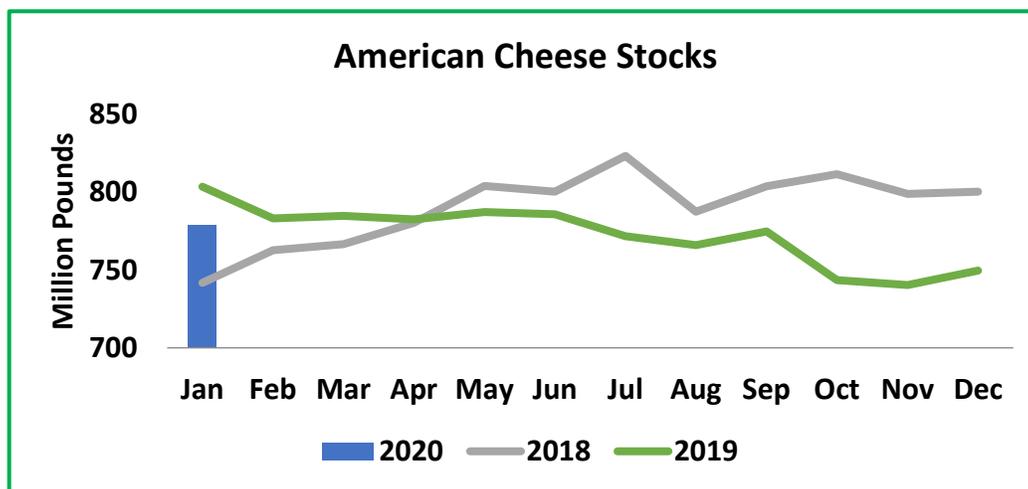
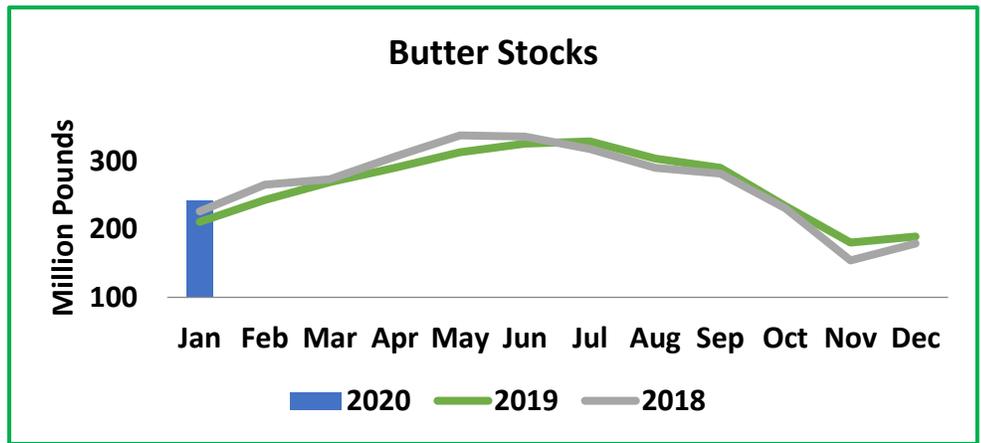
There were 1.35 billion pounds of cheese in cold storage warehouses at the end of last month. Although cheese stocks were 1.2% lower than the prior year, they were still the second largest January 31 total on record. The December-to-January increase was the largest in 20 years. American cheese stocks grow roughly 3 million pounds from December to January in a typical year, but this year they surged 29.1 million pounds. Cheap spot milk and a sharp decline in mozzarella output have likely boosted Cheddar production and fresh cheese stocks at the expense of spot Cheddar values. But, as evidenced by the steady trade in barrels this week, cheese prices may have fallen far enough for now.

The milk powder market is the most dependent on exports and the most vulnerable to contagion from the coronavirus. Buyers can smell the fear and they are waiting patiently, purchasing largely on a hand-to-mouth basis. Milk powder prices are slipping around the world. But global inventories are well balanced. European skim milk powder (SMP) output in 2019 was 0.3% smaller than the prior year.

Manufacturers on both sides of the Atlantic have trimmed their stockpiles noticeably. And milk output in Oceania has sputtered, likely reducing SMP output there.

In the near term, market direction could depend on whether or not the world is able to contain the coronavirus without significantly

disrupting economies and destroying consumer demand for goods of all sorts. Assuming the disease is contained, it's pretty easy to be bullish from way down here. But the market is not ready to assume anything at this point.



Dairy producers simply can't make \$15 milk work, especially given their tenuous relationship with their creditors. Spring discounts make these prices even less palatable. USDA's *Dairy Market News* notes that spot milk is trading at \$1 to \$5 under Class III in the Midwest. And in the mountain states, "there are reports of milk being shipped out of

the region at prices slightly above freight costs" or to feeder calf lots for "as low as \$4 per cwt. plus freight." The flush is not yet in full swing, but discounts like these are already watering down pay prices. If the markets do not recover further, sellouts will likely accelerate, and the dairy herd will once again contract. That's a recipe for much higher prices down the road, but it's still a tough pill to swallow today.

Grain Markets

Soybean futures lost a little ground this week, but soybean meal held firm. May meal closed at \$305.60 per ton, up more than \$10 from last Friday. Argentina's Ministry of Agriculture suspended registrations for agricultural exports until further notice. Most traders expect this means the government is preparing to raise Argentina's soybean export tax from its current 30%. That favors U.S. soybean exports, which had floundered amidst the trade war and the very strong dollar. Soybean meal got a further boost from news that a major crusher in Argentina filed for bankruptcy, leading to speculation that even more of the company's crushing facilities might be idled. If so, there will be more room for U.S. soybean meal exports.

Grain prices moved lower in tandem with the outside markets. Corn values came under added pressure as estimates of the South American corn crop continue to creep higher. May corn settled at \$3.6825 per bushel, down 12.5¢ from last Friday.



Public hearing on quota scheduled for April 7 & 8

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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A Notice of a Public Hearing to Consider a Petition to Suspend Chapter 3.5 of the Food and Agriculture Code was posted this week by the California Department of Food and Agriculture. The hearing is scheduled for two days, April 7 and 8, and will be held at the Visalia Convention Center, 303 E. Acequia Avenue in Visalia.

The hearing will be presided over by an Administrative Law Judge who will act as the hearing officer. The hearing notice indicates that interested parties can submit written statements to the department prior to the hearing and/or present live testimony at the hearing. Witness testimony will be received under oath and a representative of the California Attorney General's office may question any witness. However, there will be no cross examination of witnesses allowed by anyone else. You can read the hearing notice [here](#).

This hearing is required by law because the Stop QIP group was successful in obtaining the signatures on their petition of 28% of the number of market milk producers operating in California in January of 2020 who produced in excess of 33% of the market milk. While the hearing notice does not explicitly say this, conversations with CDFA officials indicate that it is the Administrative Law Judge who will be developing a recommendation to the California Secretary of Agriculture based on the hearing record about whether to hold a referendum to suspend Chapter 3.5.

This does get a bit technical, and I have attempted to explain this in previous articles. It is in Chapter 3.5 that CDFA received the authority from the Legislature in 2017 to create a stand-alone quota program that would function after California became part of the Federal Milk Marketing Order system. The vote threshold to suspend Chapter 3.5 is lower than the vote threshold contained in Chapter 3.0 of the Food and Agriculture Code which originally established the California pooling and quota program, which requires a super majority vote to adopt, change or terminate. Chapter 3.5 requires a 51% favorable vote to continue the Chapter. Said another way, 49.1% voting no suspends the Chapter 3.5. If Chapter 3.5 is suspended, the authority of CDFA to collect assessments to fund the quota payments is also suspended.

Meanwhile, the United Dairy Families group is circulating a petition containing their compromise quota termination program which would see the QIP continue until 2025. The process that would consider the UDFC petition when/if it gets enough signatures would start with a meeting of the Producer Review Board. Given the fact that there is now a definite hearing scheduled on the STOP QIP petition, it is not clear how the UDFC compromise plan moves forward. Stop QIP on their website makes it clear that they are opposed to a five-year sunset. The hearing is on their petition. Is there any flexibility? By anyone? Almost no one active in the dairy industry today has been down this road before. I suspect that circumstances like these did exist back in the 1960s before pooling. My guess is there was plenty of conflict and controversy then too. In the end, they came to a resolution. So will we. How is just not real clear yet.

CDQAP: New FARM standards for dehorning & pain management; Forage irrigation & nutrient management

Courtesy of California Dairy Quality Assurance Program

Read the February 2020 edition of the California Dairy Quality Assurance Program e-newsletter [here](#).