

MPC WEEKLY FRIDAY REPORT

DATE: DECEMBER 30, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 5



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MPC FRIDAY MARKET UPDATE (DECEMBER 23, 2020)

| | | | | | |
|--------------------------------------|-----------|--------------------------|-------------------|-----------------------------------|---------------------|
| CHICAGO CHEDDAR CHEESE | | CHICAGO AA BUTTER | | NON-FAT DRY MILK | |
| Blocks | + \$.0300 | \$1.6475 | WEEKLY CHANGE | + \$.0700 | \$1.5250 |
| Barrels | + \$.0750 | \$1.5500 | WEEKLY AVERAGE | + \$.0507 | \$1.5067 |
| WEEKLY AVERAGE CHEDDAR CHEESE | | DRY WHEY | | WEEK ENDING 12/19/20 | |
| Blocks | -\$.0067 | \$1.6333 | DAIRY MARKET NEWS | W/E 12/25/20 | \$.4555 |
| Barrels | + \$.0988 | \$1.5508 | NATIONAL PLANTS | W/E 12/19/20 | \$.4264 |
| | | | | PRIOR WEEK ENDING 12/12/20 | |
| | | | | NAT'L PLANTS | \$1.1047 18,843,477 |
| | | | | NAT'L PLANTS | \$1.1011 19,726,186 |

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 |
|-------------------|---|--------------------|---------------------|--------------------|
| DEC '20 FINAL | \$21.47 - \$21.97 | \$14.01 | \$15.72 | \$13.36 |
| LAST WEEK | \$21.47 - \$21.97 | \$14.08 | \$15.71 | \$13.42 |



Milk, Dairy and Grain Market Commentary

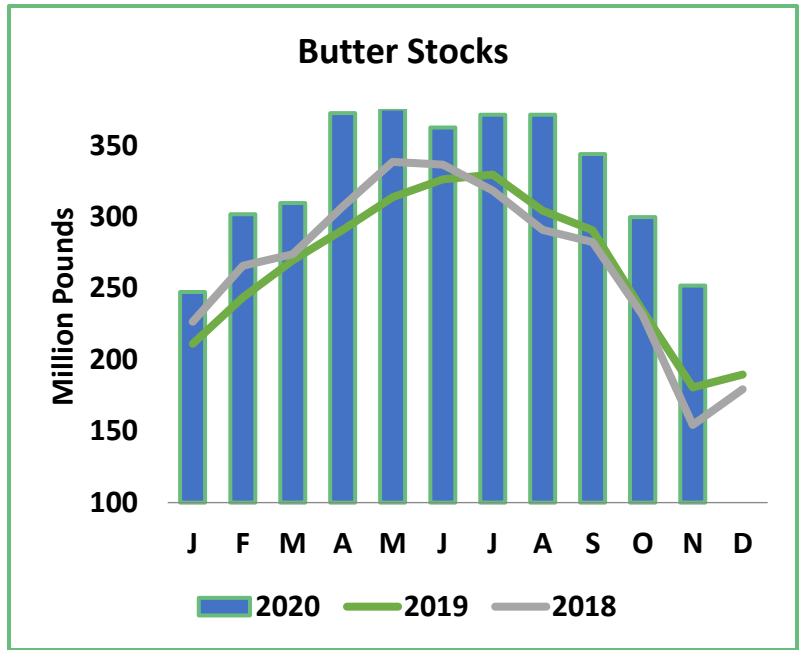
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

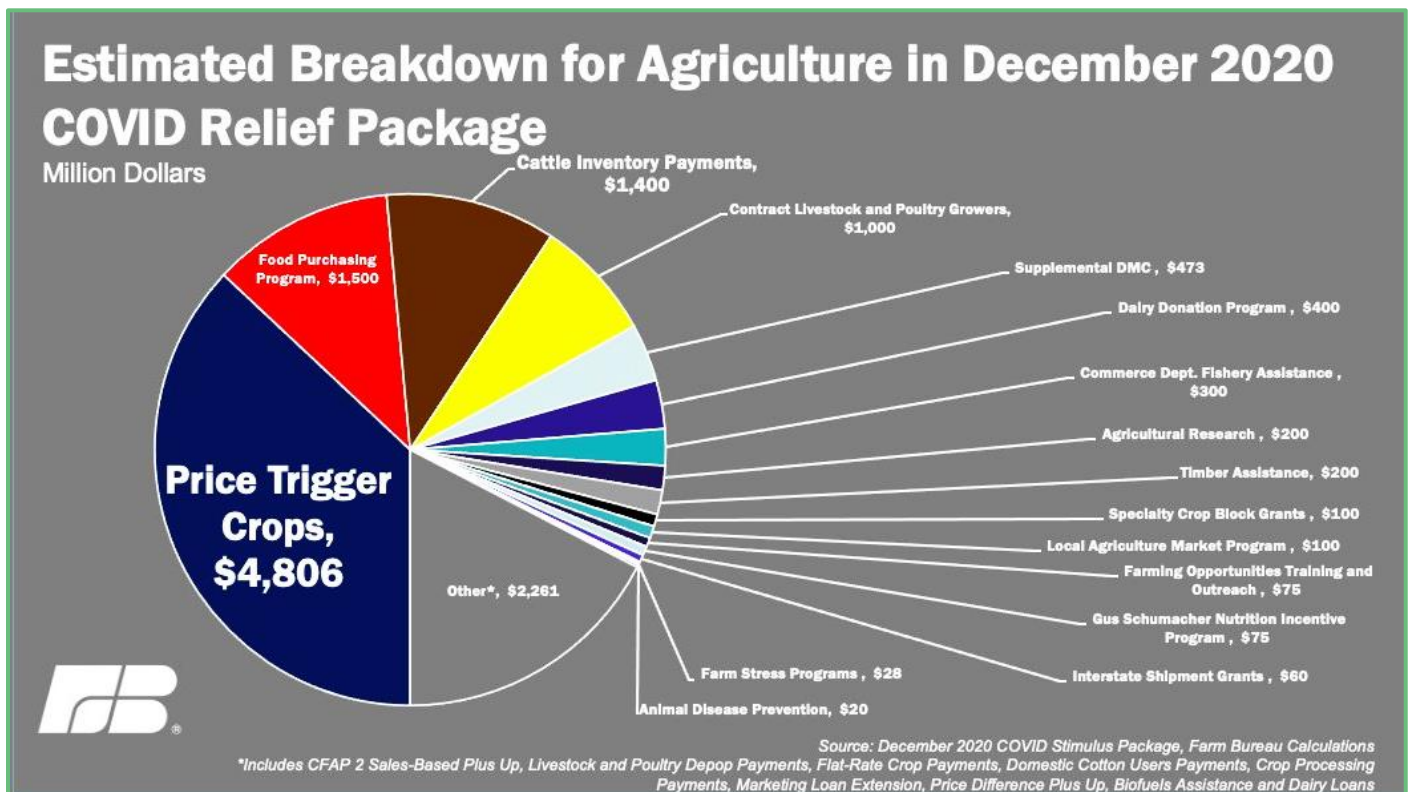
Uncle Sam donned a Santa cap this year, and promised gifts for all. News that Congress passed a \$900 billion stimulus package invigorated the dairy markets during the two holiday-shortened trading weeks. Congress allocated more money for the Supplemental Nutrition Assistance Program (SNAP) and other food aid programs, which will presumably allow those who are struggling financially to put a bit more dairy in their grocery carts. The bill provided \$400 million for The Emergency Food Assistance Program (TEFAP), a small, unspecified portion of which USDA will spend procuring American-style cheeses and low-fat ultra-high temperature milk. USDA also received \$400 million for the Dairy Donation Program to reimburse dairy processors for donations to food banks and \$1.5 billion to buy commodities – including seafood, fresh produce, dairy, and meat products – and donate them to food banks. The total for dairy is likely to be noticeably less than the massive government expenditures this year, but it is still significant.

There is no word yet on when USDA will begin to spend this money, which makes it difficult to assess the repercussions for the dairy markets. The dairy funding could make a big splash if it is spent in a short time, or slowly ripple through the markets if the agency spends in a steady stream throughout the next year.

Aside from the TEFAP, the legislation does not specify which dairy products USDA should buy. Based on its experiences in 2020, the dairy trade seems to assume that government purchases will have the greatest impact in the cheese markets. However, the text of the bill suggests USDA may focus its spending power elsewhere. The legislation directs the Secretary of Agriculture to facilitate orderly milk marketing, reduce “volatility relating to significant market disruptions,” and maintain “traditional price relationships between classes of milk.” The bill also directs the Secretary to buy “surplus eligible dairy products,” which surely argues for more butter donations. Last week’s Cold Storage report showed November 30 butter stocks at nearly 252 million pounds, the highest November inventory since 1993. Butter stocks were 39.4% greater than they were a year ago.

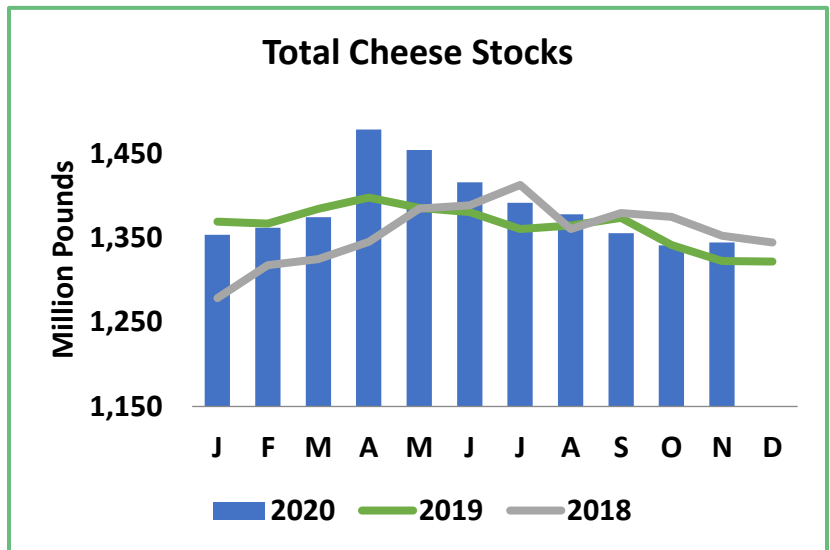


Current USDA Secretary Sonny Perdue and former Secretary Tom Vilsack, who will take Perdue’s place at the helm pending Senate approval, are both well aware of the impact that government interference had on the cheese markets. After several years leading the U.S. Dairy Export Council, Vilsack has expressed concerns about government purchases lifting U.S. dairy product prices too high to compete internationally, which is a major problem for an industry that is growing much more quickly than domestic demand. If USDA spends more on butter and fluid milk and less on cheese than it did this year, its well-intentioned aid could be spread more equitably among dairy producers, some of whom cashed very small milk checks this year even in months with sky-high cheese prices.

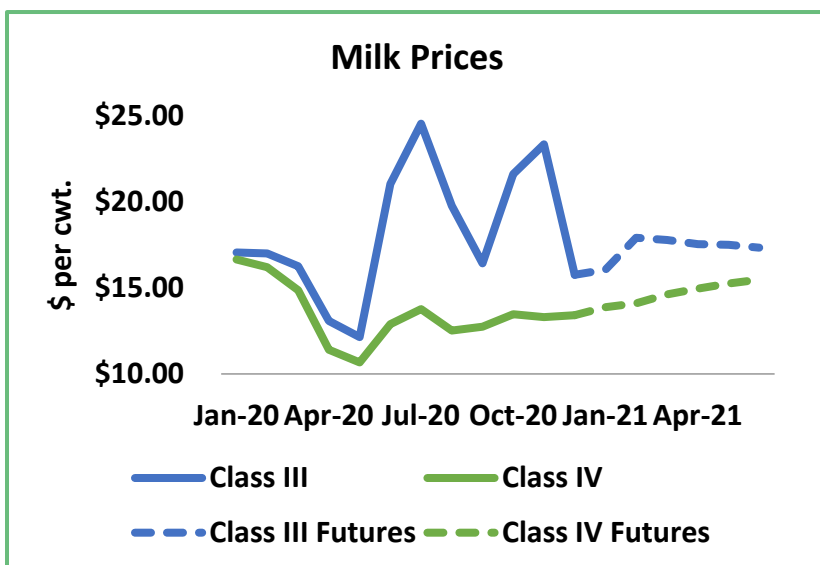


The coronavirus aid bill also includes direct payments for dairy producers. Congress set aside \$473 million to help small dairy producers – those who sell less than 5 million pounds of milk annually – top up their Dairy Margin Coverage to reflect recent growth in milk output. The bill also directs the Secretary to make additional payments to medium and large dairy producers whose losses were far larger than the \$250,000 payment caps under the Coronavirus Food Assistance Program (CFAP). CFAP was meant to compensate dairy producers for 80% of their pandemic-related losses, and USDA estimated potential payments of \$5.39 billion. However, due primarily to the caps, the agency has distributed less than \$3 billion so far. Along with some money left in last year’s budget, the new funding will likely allow USDA to send medium and large producers sizeable checks. However, it’s possible the agency will still lack the funding to put these producers on equal footing with their peers whose calculated losses fell below the payment caps. Farm Bureau estimates the agency will have \$2.26 billion in discretionary funds to spread among several agricultural assistance programs this year, including these supplemental CFAP payments for dairy producers.

The dairy aid will be especially helpful for producers who suffered from low Class IV values, a punitive producer price differential, or supply management restrictions this year. Hopefully, it can be structured in a way that does not muddle market signals. The industry is awash in milk and demand is fitful at best. Millions of Americans are out of work and struggling to make ends meet. Vaccinations are underway, but it will be several months before consumer habits and foodservice traffic return to their pre-pandemic norms.



Cheese demand continues to fall short of last year during a crucial season for sales. Cheese stocks climbed marginally from October to November, a time when they typically decline. At 1.34 billion pounds, stocks are now 1.7% greater than they were a year ago. Nonetheless, spot Cheddar and Class III values bounced back from recent lows, likely fueled by hopes that government spending would offer a boost. CME spot Cheddar blocks reached \$1.64 per pound today, up 2.25¢ since the Friday before Christmas. Over the same period, barrels rallied 3.25¢ to \$1.5075. Spot whey powder also added 1.25¢ and climbed to 46.75¢, just shy of the recent high. Those gains helped lift nearby Class III values. The January contract added 50¢ over the holidays, and February jumped \$1.47 to \$17.91 per cwt.



The Class IV products slipped. CME spot butter dropped 0.75¢ to \$1.4475. Spot milk powder settled a penny lower than where it stood the week before Christmas, at \$1.14. Class IV futures finished modestly in the red at prices that are well below the cost of milk production.

Grain Markets

The feed markets are poised to ring in the new year at new highs. Booming exports and concerns about South American weather continue to lift crop values. The weak dollar and tight stocks around the world suggest exports will stay strong, further tightening U.S. inventories. Argentina highlighted just how scarce South American feedstuffs have become today when it announced a ban on corn exports until at least March. That gave the bulls another burst of momentum. March corn settled today at \$4.745 per bushel, up nearly 40¢ in the past two weeks. March soybean meal jumped \$22.50 to \$427.80 per ton. March soybeans climbed 76.5¢ to \$13.005, and cries of “beans in the teens” rang out on LaSalle Street.



Other Stuff in the COVID Bill

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Sarina did a good job of outlining what we know about the dairy-specific provisions of the recently passed and signed COVID Relief Bill. No doubt with 5,593 pages, which you can read [here](#), new tidbits of interesting information will come out as analysis continues over the next days and weeks. But for today, we notice that Section 276 of the bill clarifies that forgiven Paycheck Protection Program (PPP) loans will not be included as taxable income and it clarifies that deductions for expenses paid with the proceeds of the PPP loans will be allowed, so that is a pretty big deal. This provision will also apply to any subsequent PPP loan that might occur as a result of passage of this bill. There is a second round of PPP that small business can access. You can find more detail about it [here](#).

The bill also provides that 1% flavored milk can be offered in the school lunch program as long as it is consistent with the recommendations of the Dietary Guidelines Advisory Committee. Hard to believe this takes an act of Congress, but a court had thrown a monkey wrench into this issue some time ago and this bill was an opportunity to clear that up. (Makes you wonder what else is in this bill?)

Another big deal for the Central Valley is that the bill includes \$206 million of federal funds for the repair of the Friant-Kern Canal. This very important surface water delivery facility gravity flows water 152 miles down the East side of the San Joaquin Valley from Millerton Lake above Fresno down to Bakersfield. There is a 30 mile stretch of the canal near Porterville that sunk creating a pinch point that has reduced the carrying capacity of the canal by about 50%. The effort to engineer a fix for this is complete and the nearly \$500 million project is ready to go to construction, but funding is an issue. The \$206 million will be combined with at least \$175 million of local money that has been committed to get the project started. It will take several years to complete, but with this money in hand it is projected that construction will begin in a few months.

Central Valley Dairies to Receive Mailed Salt Control Program Notices

Courtesy of the Central Valley Dairy Representative Monitoring Program
CVDRMP.org

During the week of January 4, 2021, the Central Valley Regional Water Quality Control Board will send certified letters to dairies and bovine operations, and many other water quality permit holders.

These letters notify permit holders that they must comply with a new regulation known as the Salt Control Program. The new regulation went into effect in January of 2020 and is aimed at reducing the impacts of salt accumulation in Central Valley groundwater.

“The good news for Central Valley dairies is that they are already in compliance with the Salt Control Program, if they are members of the Central Valley Dairy Representative Monitoring Program (CVDRMP),” said Justin Gioletti, a Turlock area dairy farmer and chairman of CVDRMP.

Dairies and bovine operations that receive the letter do not need to respond to it directly. Instead, CVDRMP will respond on behalf of all its members as a group, also paying costs related to compliance with the Salt Control Program as a group. Costs will be passed on to members as needed through their annual fees. However, for dairies, the Salt Control Program alone will not result in a fee increase, because the dairy farmer-led CVDRMP Board of Directors reduced costs in other parts of the monitoring program to compensate. For more details, go [here](#).

The Next Edition of the MPC Friday Report Will Be Published January 8, 2021

2021

HAPPY NEW YEAR

