# MPC Weekly Friday Report

**Date: May 28, 2021**
**To: Directors & Members**
**From: Kevin Abernathy, General Manager**
**Pages: 5**

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## MPC Friday Market Update

| Chicago Cheddar Cheese | | | Chicago AA Butter | | | Non-Fat Dry Milk | | |
|---|---|---|---|---|---|---|---|---|
| Blocks | - $.0400 | $1.5300 | Weekly Change | - $.0600 | $1.8100 | Week Ending 05/22/21 | | |
| Barrels | - $.0375 | $1.5700 | Weekly Average | - $.0445 | $1.8090 | Nat'l Plants | $1.2439 | 12,439,000 |
| Weekly Average Cheddar Cheese | | | Dry Whey | | | Prior Week Ending 05/15/21 | | |
| Blocks | - $.0705 | $1.5430 | Dairy Market News | w/e 05/28/21 | $.6412 | Nat'l Plants | $1.2322 | 16,723,274 |
| Barrels | - $.0320 | $1.6055 | National Plants | w/e 05/22/21 | $.6556 | | | |

## California Federal Milk Marketing Order Price Projections

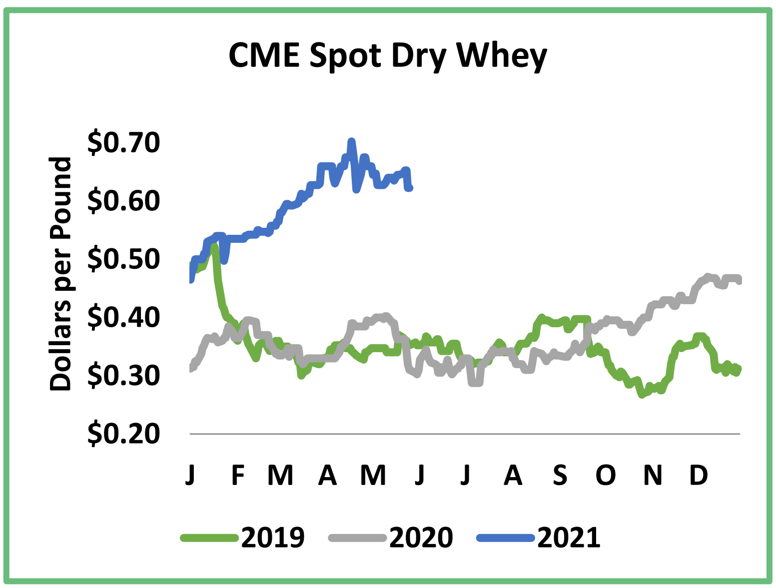
| Price Projections | Class I Actual (range based on location) | Class II Projected | Class III Projected | Class IV Projected |
|---|---|---|---|---|
| May 28 Est | $18.70 - $19.20 | $16.18 | $18.97 | $16.24 |
| Last Week | $18.70 - $19.20 | $16.34 | $18.95 | $16.33 |

## Milk, Dairy and Grain Market Commentary

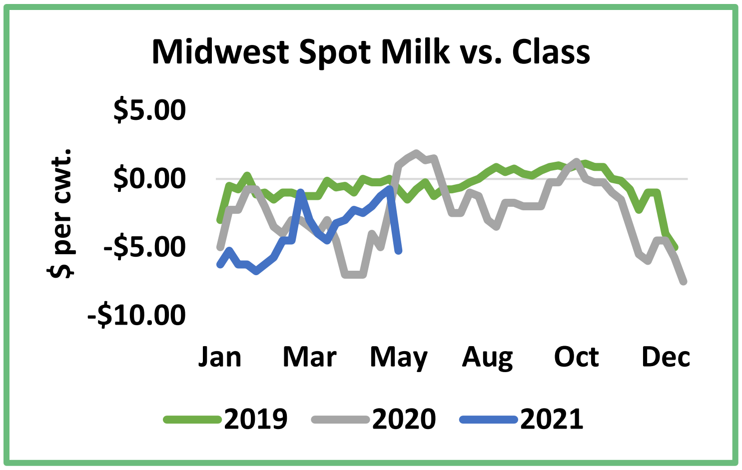
*By Sarina Sharp, Daily Dairy Report*
*Sarina@DailyDairyReport.com*

### *Milk & Dairy Markets*

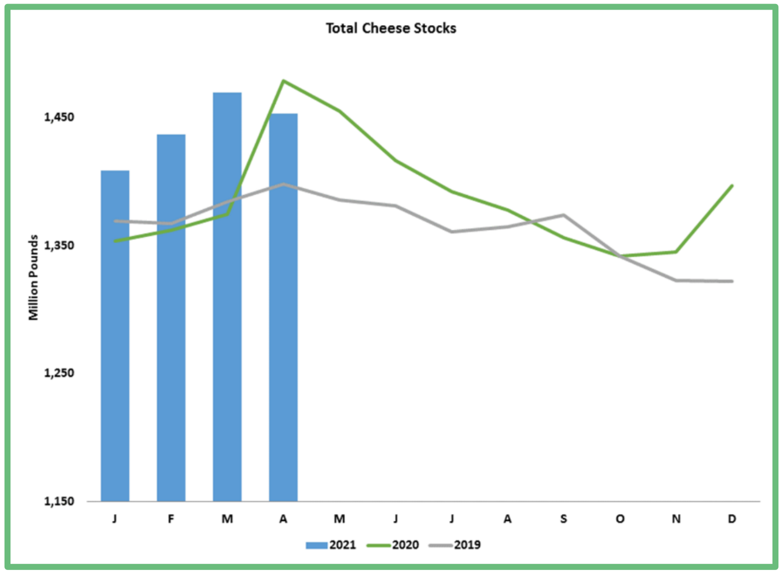
The Class III markets weakened as they headed into the long weekend. Spot whey, the unsung hero in the Class III complex this year, took a sizeable step back. It closed today at a five-week low of 62.25¢ per pound, down 2.25¢ since last Friday. Whey values had climbed high enough to deter some domestic buyers, so a setback was likely warranted. But exports are still moving, and stocks remain relatively tight, so further downside may be limited.




Spot milk values in the Upper Midwest fell hard this week, making clear that milk is abundant. Steep discounts on spot milk incentivize cheese producers to squeeze in extra loads. Given these discounts and expansions in cheese processing capacity this

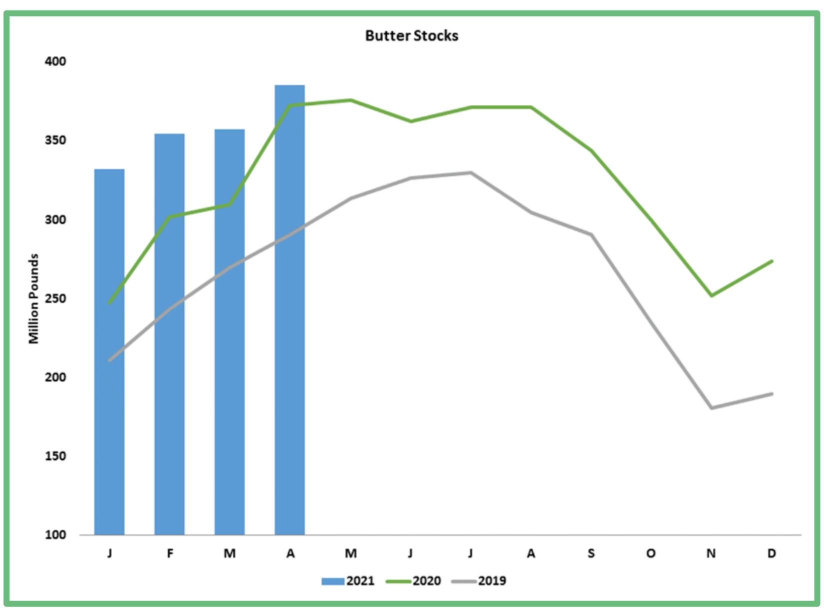



year, we've been making massive volumes of cheese. Even so, cheese stocks declined last month, falling nearly 16 million pounds to 1.45 billion pounds. This marks the first time since 1993 that cheese inventories retreated in April, confirming reports of very strong sales to foodservice. It's likely that restaurants were restocking their larders, and that some of this cheese simply moved from a warehouse to a refrigerator, with no change in net cheese consumption. The spot market suggests that this is the case. Spot cheese values held firm in March and April, as many restaurants opened their doors for the first time. But more recently, cheese values have tumbled. CME spot Cheddar blocks fell 4¢ this week to $1.53, just a couple cents above the calendar-year lows. Barrels dropped 3.75¢ to $1.57.




Dragged down by both cheese and whey, Class III futures finished deep in the red. June Class III fell 89¢ to $17.24 per cwt. Second-half futures fell by an average of 38¢. All second-half contracts stand well above $18. Class IV futures rallied today, but they still finished the week lower than where they began. June Class IV settled at $16.70, down 30¢ from last Friday. Second-half futures fell by an average of 26¢. They range from $17.03 to $17.85.

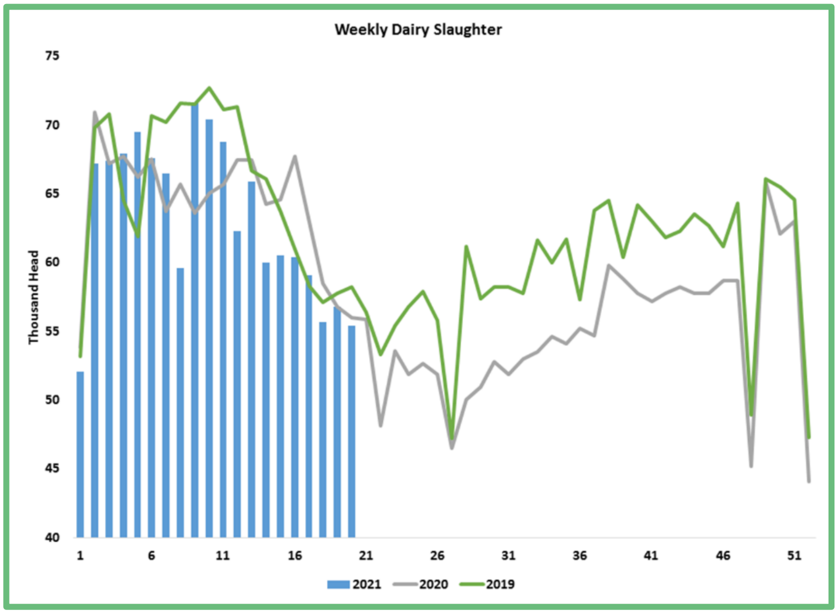
CME spot butter fell 6¢ to $1.81. Butter inventories grew by a smaller than typical margin in April. Still, at 385 million pounds, stocks are up 3.4% from April 2020, when inventories were already elevated due to the advent of Covid-19 lockdowns. Butter stocks have not been this large in April since 1993.




Between the flush and the holiday, dryers are running hard. Domestic demand for milk powders has softened, but exports are still going strong, particularly to Mexico. CME spot nonfat dry milk (NDM) fell a half-cent this week to $1.2925.

Dairy slaughter remains light, which suggests that the herd continues to expand. For the year to date, dairy producers have culled 1.4% fewer milk cows than they did in 2020. Eventually, high feed costs might slow growth in U.S. milk output. But there is no sign that it's happening yet.

### *Grain Markets*




The corn market collapsed on Tuesday amid rumors that Chinese importers had cancelled orders for U.S. corn. As the market crashed through important points on the chart, the selling accelerated, and investment funds dumped their positions in a hurry. But later in the week, once the trade had a chance to better understand the relatively small scope of the Chinese cancellations, corn futures came roaring back. For the next few months, exporters, feed vendors, and ethanol processors will compete for the same scarce supplies, which is likely to keep a floor under July and September corn futures. After an extremely volatile week, July corn settled at $6.5675, just a few cents below last Friday's close. The fate of December corn futures depends on the size of the corn crop. Farmers likely planted more acres than they planned to in March, so the trade will spend the next few months assessing just how much ground corn has gained. Rains this week favored the young crop, but there is a lot of growing season – and weather risk – ahead. December corn settled at $5.455, a penny lower than last Friday.

The bean market also swung wildly back and forth this week. It ultimately closed about four cents higher than last Friday, at $15.305.

## Western States Dairy Producer Trade Association Meets in Person

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

It is a sign of the times that an in-person meeting is noteworthy. On Tuesday, in Dallas, Texas, MPC Board member Daryl Koops, Kevin Abernathy and I met with our colleagues from Idaho, New Mexico, Texas, Arizona, Oregon, Washington, Utah and Nebraska to share information and discuss a wide variety of topics and issues.

We were also joined virtually by the folks leading the Net Zero Initiative for the U.S. Dairy industry. This effort to reduce the carbon footprint of the dairy industry to zero by 2050 is a lofty goal, bringing with it some unique challenges for Western dairies. It was reported that over the past year there has been a significant improvement in the communication between the Western States and the national Net Zero effort, with progress being made. Newtrient, LLC, a company jointly owned by several dairy cooperatives, was also part of the meeting. They describe what they do as "innovative solutions in resource recovery" and we were able to learn and interact with them about how their activities complement the national Net Zero Initiative.

California has been a leader in the area of greenhouse gas reductions. The political leadership in our state is driven by a philosophy that sees climate change as an existential threat to humanity and has imposed aggressive targets and goals to curb, and eventually eliminate, the release of carbon dioxide and other greenhouse gasses, such as methane and nitrous oxide. What we have proven in California is that the use of incentive-based policies is the best way to achieve progress toward those goals. And for now, California policies are designed to use carrots instead of sticks to make that progress. It was interesting to learn of the evolution of the digester program in California. When it started here, dairy biogas was used to power motors that generated electricity. But it turned out that the motors themselves created unwanted emissions, particularly oxides of nitrogen (NOx), which can be detrimental to local air quality. Now the push is to use that gas for transportation fuel as renewable compressed natural gas, replacing diesel. In fact, digestors in other states are being built to take advantage of California's Low Carbon Fuel Standard (LCFS) subsidies. From a California perspective it would be better if there was a Federal LCFS subsidy so as to not oversupply the California market.

*As we approached the Fresno airport on our way home, I snapped this picture capturing the wonderment and beauty of California agriculture. It caused me to reflect about the significant water challenges we face these coming months with reduced surface supplies. In the longer term, SGMA may limit the pumping of groundwater that greens these very fields with food and fiber. –* ***Geoff***

This issue is not going away. There is a growing likelihood that the next Farm Bill will have a climate title, with the Biden Administration actively discussing how agriculture needs to be part of the climate agenda. Regardless of what you think of the underlying threat of climate change, having the government use incentive-based policies, as opposed to command-and-control regulations, is absolutely critical to creating opportunities to add revenue to the dairy farmer's bottom line instead of adding another layer of cost to the production of milk. I was again incredibly impressed by the knowledge and talent of MPC General Manager Kevin Abernathy. He is truly a national leader in this space, and it was fun to get together with the Western States and soak up the knowledge that was being freely passed around.

Our meeting covered some other topics as well. We received a federal policy update from Charlie Garrison, the lobbyist who works for the Idaho Dairymen's Association in Washington, D.C. One of the hot topics there is a real opportunity to get agriculture immigration reform passed (read about the legislation here). Getting Republican support in the U.S. Senate is key to success in this arena. There are some Western States that have Republican Senators and folks were encouraged to reach out to them.

International trade is also on the federal agenda as is nutrition assistance. However, there's not much news on federal dairy policy. It seems additional direct payments to dairy farmers are not likely and there's no clear direction yet on further government purchases of dairy products. The Food Box program expires this month and there's no word on what is next. There is discussion on tax policy, and in that discussion, agriculture is sensitive to changes in the "step up" provisions and the inheritance tax levels.

In regional updates, we received information about coming extreme animal rights citizen initiatives in Colorado and Oregon. Agriculture is taking these threats very seriously and working to defend against them.

There was also a discussion about labor shortages and a brainstorming session about what ideas folks had for finding additional labor. Folks shared about their experience using inmates with some success. There were also some interesting prospects of working with the Veterans Administration to find work for veterans who may benefit from working with animals in an outdoor setting.

Milk Producers Council was a founding member of the Western States group and is the only California member. It is a very worthwhile organization and the information and relationships fostered by our participation in this group pay dividends for the industry.

## USTR Takes Action Against Canada Following NMPF Request

*By Jim Mulhern, President & CEO*
*National Milk Producers Federation*

After months of entreaties from NMPF and the U.S. Dairy Export Council, U.S. Trade Representative Katherine Tai announced Tuesday that her office has initiated a request for a dispute settlement panel to review Canadian dairy industry practices that harm our domestic industry. The action is one of the first taken by any of the three nations in the United States-Mexico-Canada Agreement (USMCA) that took effect last summer.

The USTR's complaint reflects concerns we have raised during the past year that Canada's allocation of dairy tariff-rate quotas (TRQs) exclusively for domestic processors denies the ability of U.S. dairy farmers, workers, and exporters to utilize the TRQs and realize the full benefit of the USMCA. In response, we thanked the USTR for taking this necessary next step to not only counter the specific Canadian market access barrier, but also signal that the U.S. is serious about challenging a range of potentially problematic practices by our trading partners.

The concerns raised by USDEC and NMPF have been echoed by a broad bipartisan coalition of members of Congress. Most recently, several leading members of the House Ways and Means and Agriculture Committees joined together on a bipartisan message to USTR urging further enforcement action and multiple members of Congress shared a similar message during Ambassador Tai's trade oversight hearings in May.

As cleared government advisors, Jaime Castaneda and Shawna Morris of my staff, and I were briefed last Friday night by USTR on the pending action prior to Tuesday's announcement. We took the opportunity to express our appreciation to the Administration for this action and pledged our ongoing willingness to work with the U.S. government to resolved this matter favorably.

The two governments now have 30 days to appoint a panel to review the case. Upon formation, the panel has 120 days to decide the matter, with a possible 30-day extension. The panel must offer the opportunity for a hearing, and Mexico also has the opportunity to contribute to the process.

**Don’t Forget! The Deadline for Returning Quota Referendum Ballots to CDFA is June 1, 2021.**