# MPC Weekly Friday Report

**Date: August 6, 2021**
**To: Directors & Members**
**From: Kevin Abernathy, General Manager**
**Pages: 8**

*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 | | |
|---|---|---|
| Blocks | ***N.C.*** | $1.6350 |
| Barrels | ***- $.0800*** | $1.3100 |
| **Weekly Average Cheddar Cheese** | | |
| Blocks | ***+ $.0015*** | $1.6350 |
| Barrels | ***- $.0930*** | $1.3100 |

| Chicago AA Butter | | |
|---|---|---|
| Weekly Change | ***+ $.0050*** | $1.6475 |
| Weekly Average | ***+ $.0090*** | $1.6455 |
| **Dry Whey** | | |
| **Dairy Market News** | w/e 08/06/21 | **$.5587** |
| **National Plants** | w/e 07/31/21 | **$.5870** |

| Non-Fat Dry Milk | | |
|---|---|---|
| **Week Ending 07/31/21** | | |
| Nat'l Plants | **$1.2375** | 26,203,969 |
| **Prior Week Ending 07/24/21** | | |
| Nat'l Plants | $1.2672 | 29,851,666 |

## California Federal Milk Marketing Order Price Projections

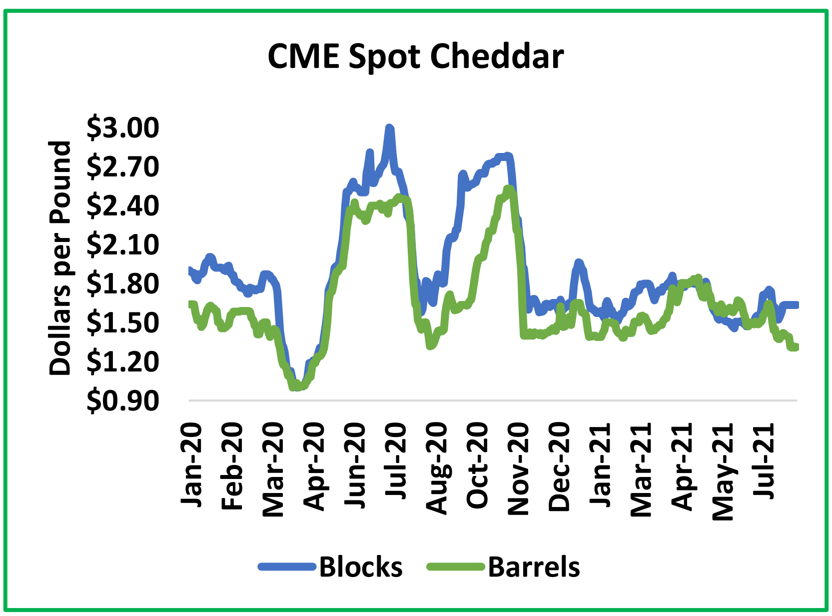
| Price Projections | Class I Actual (range based on location) | Class II Projected | Class III Projected | Class IV Projected |
|---|---|---|---|---|
| **Aug 6 Est** | **$18.50 - $19.00** | **$16.26** | **$16.01** | **$15.55** |
| **July `21 Final** | **$19.02 - $19.52** | **$16.83** | **$16.49** | **$16.00** |

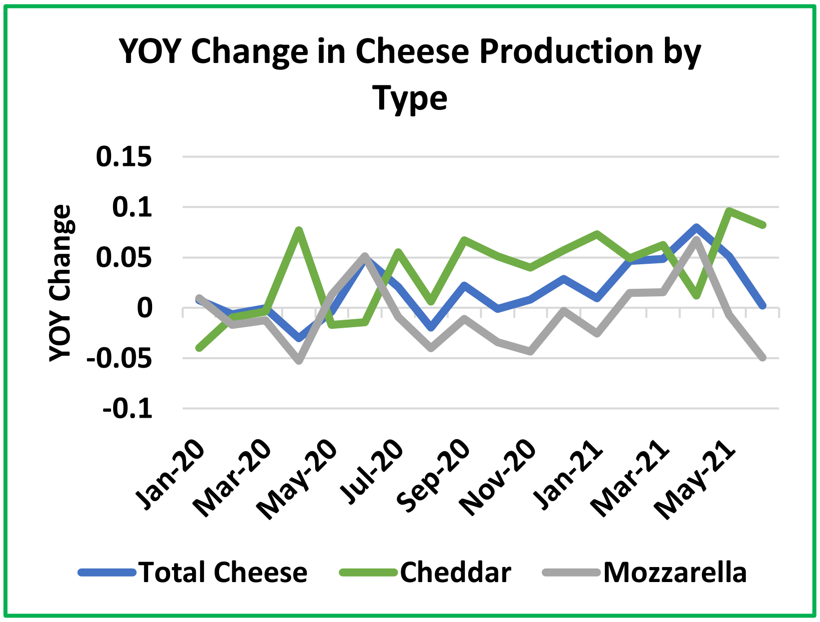
## Milk, Dairy and Grain Market Commentary

*By Monica Ganley, Daily Dairy Report*
*Monica@DailyDairyReport.com*

### *Milk & Dairy Markets*

While the world's best athletes showcase their athletic prowess in the final days of the Tokyo Olympics, the dairy markets are also experiencing their share of flips, climbs, and dives. In the cheese markets, barrels made the biggest headlines this week with the CME spot prices taking a tumble on Monday. Barrels finished the week at $1.31 per pound, down 8¢ compared to last Friday. Meanwhile, the block market was quiet, holding unchanged at $1.635 per pound with no loads trading hands over the course of the week. The block-barrel spread gaped as wide as 32.75¢ this week, the largest difference since mid-March.



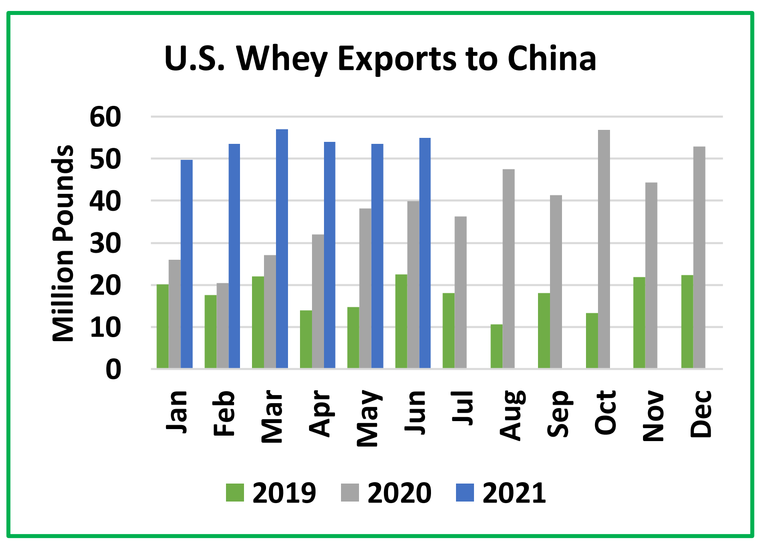


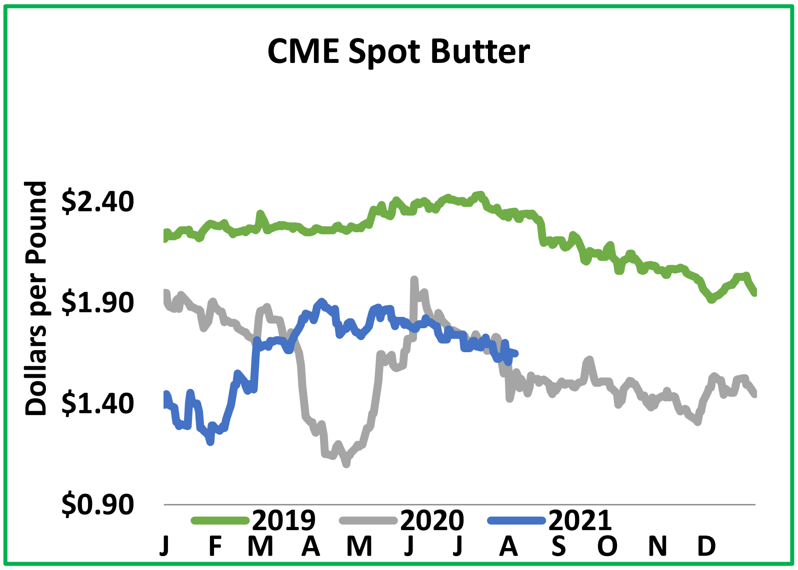

Cheese production grew year over year for the eighth consecutive month in June, according to USDA's Dairy Products report, released earlier this week. However, with total cheese output totaling 1.124 billion pounds, the increase was a mere 0.2% compared to June 2020. Augmented cheese production was driven by growth in American styles, and especially Cheddar production which was up 8.2% year over year and likely reflected the expansion of processing capacity which has occurred over the past year. Production of Italian varieties fell by 2.6% against the same month last year. Anecdotal reports indicate that cheese demand remains steady from both domestic and international sources. An announcement of Section 32 cheese purchases on Thursday breathed some air the market but stakeholders don't expect the amounts to be substantive.

The whey markets have softened considerably over the last week. At the CME, the spot market slipped, testing depths as low as 47.5¢ per pound on Wednesday, the lowest price since the early January. However, this figure was quickly rejected with the market rebounding and ultimately closing Friday's session at 54¢ per pound, an increase of 3.75¢ compared to last week. Nevertheless, comments in USDA's Dairy Market News suggests that market tones have shifted with buyers now boasting more negotiating power and demanding lower prices from suppliers.

Whey production has eased with most whey products seeing lower figures in June. Dry whey production for human consumption slipped by 0.9% year over year while output of whey protein isolates also fell by 7.0% versus June 2020. Only whey protein concentrates were able to eke out an increase, rising by 0.2% to 40.3 million pounds for the month. Whey exports stayed strong through June, with insatiable demand from China driving year over year growth of 11.7% for the month. In recent weeks, however, market participants comment that international interest has been more mixed with the commodity hit particularly hard by ongoing logistical constraints.

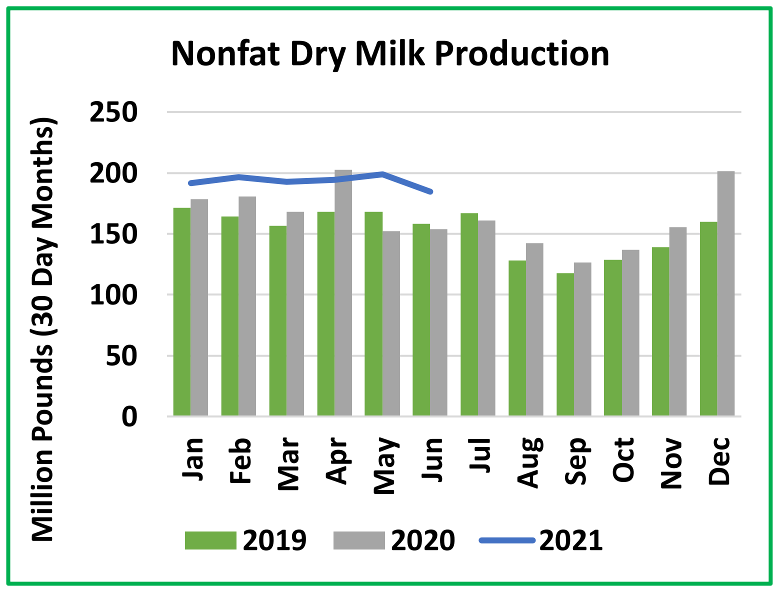
Even as cheese production has slowed, balancing operations continue to press forward at a steady clip. Cream supplies are plentiful and butter churns are working through available supplies. Butter production surged upward by 7.8% year over year in June, posting the largest volume for the month in decades. Plentiful butter supplies have weighed on prices. Spot prices slipped as low as $1.605 per pound on Wednesday before bouncing back. Today's spot session closed at $1.6475 per pound with 19 loads changing hands over the course of the week. Butter prices perked up at this week's Global Dairy Trade (GDT) auction, one positive note as the auction's index lost ground for the






eighth consecutive session. At current prices, GDT butter holds a 38¢ per pound premium to U.S. spot prices after adjusting for fat content, potentially creating some additional opportunity for butter exports.

Dryers have also continued to run solidly, absorbing available condensed skim. As a result, supplies of nonfat dry milk (NDM) are plentiful but demand from both domestic and international sources has kept tension in the market. NDM spot prices have been unsettled, starting the week by rising to $1.275 per pound before giving up two pennies and closing Friday's trade at $1.255, down 1.25¢ from last week. Dryers have shown a strong preference toward producing milk powder for use domestically and for certain Mexican buyers. While NDM production rose by 19.8% year over year in June, skim milk powder production, typically destined for customers further afield, tumbled by 46.1%. NDM exports posted another strong month in June, setting a record for the month with 179.5 million pounds moving offshore. Sustained demand from Mexico has kept U.S. NDM moving, even as interest from some Asian buyers has waned in recent weeks. After SMP appreciated modestly at this week's Global Dairy Trade auction, U.S. powder holds a discount of about 21¢ per pound after standardizing for protein content.




Milk production continues to dissipate seasonally but volumes remain plentiful overall. As schools prepare to open in the coming weeks demand from bottlers has ticked upward. Higher Class I demand and lower overall milk supplies has reduced the availability of milk for manufacturers and slashed discounts on spot milk loads. Milk futures staged mixed performance over the week with most nearby Class III contracts losing value early in the week before finding some strength on Thursday and Friday. Most of the 2021 contracts ended this week slightly higher than last week. Action in the Class IV market was even more subdued. Gains on Monday were canceled out by losses on Tuesday before most contracts remained unchanged for the balance of the week.

### *Grain Markets*

Oscillations in the grain markets persisted this week. Corn futures appreciated across the board on Monday before slipping on Tuesday and Wednesday. Nevertheless, they found traction on Thursday and Friday. DEC21 corn futures settled on Friday just 2.75¢ per bushel lower than on Monday. Meanwhile, soybean and soybean meal futures bottomed out on Tuesday before recouping some value later in the week. Volatility in the grain markets and elevated feed costs continue to cause anxiety for producers, with little indication that prices are poised to relax coming weeks.

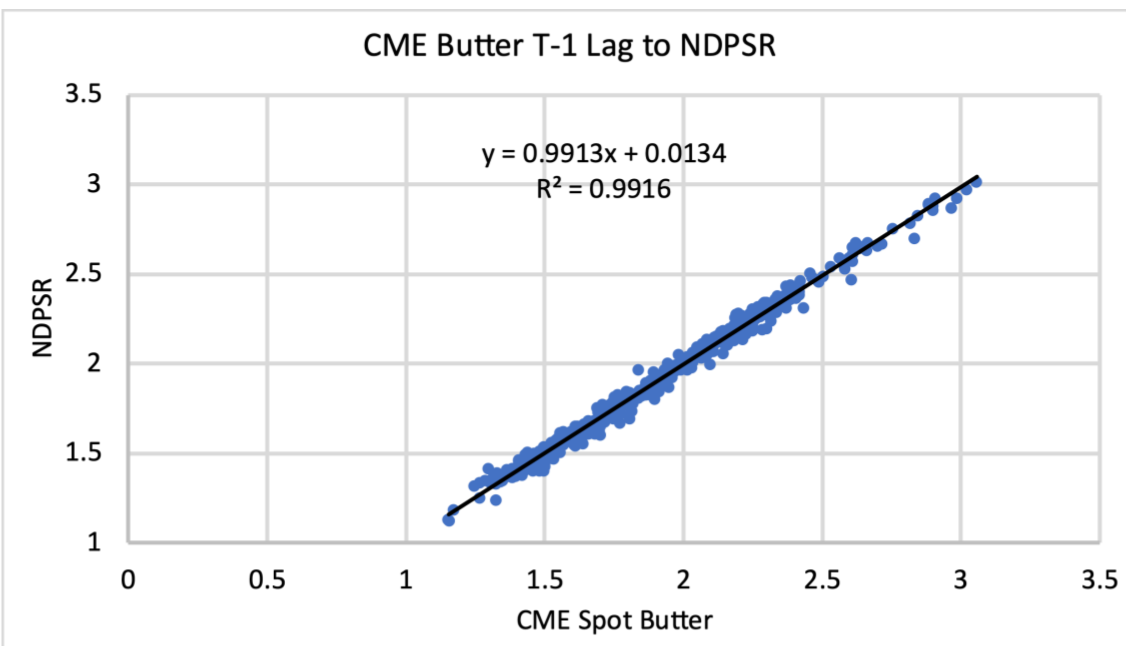
## What is the Correlation Between CME Cash Prices and Prices that Set FMMO Milk Prices?

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

USDA requires all U.S. dairy manufacturing plants who produce more than 1 million pounds per year of butter, nonfat dry milk, block cheddar cheese, barrel cheddar cheese or dry whey to report their sales quantity, moisture, and prices to USDA every week. Currently reporting are 16 entities reporting 40-pound cheddar blocks, 11 entities reporting 500-pound cheddar barrels, 19 entities reporting butter, 26 entities reporting nonfat dry milk, and 14 entities reporting dry whey. Every Wednesday USDA releases the prior week's prices and sales volumes. This is the National Dairy Product Sales Report (NDPSR) and you can see the latest one here. The Federal Milk Marketing Order (FMMO) system then uses the months' worth of NDPSR prices to establish the Class III and Class IV milk price. The FMMO Class III and IV prices are announced by the fifth of the month for the previous month.

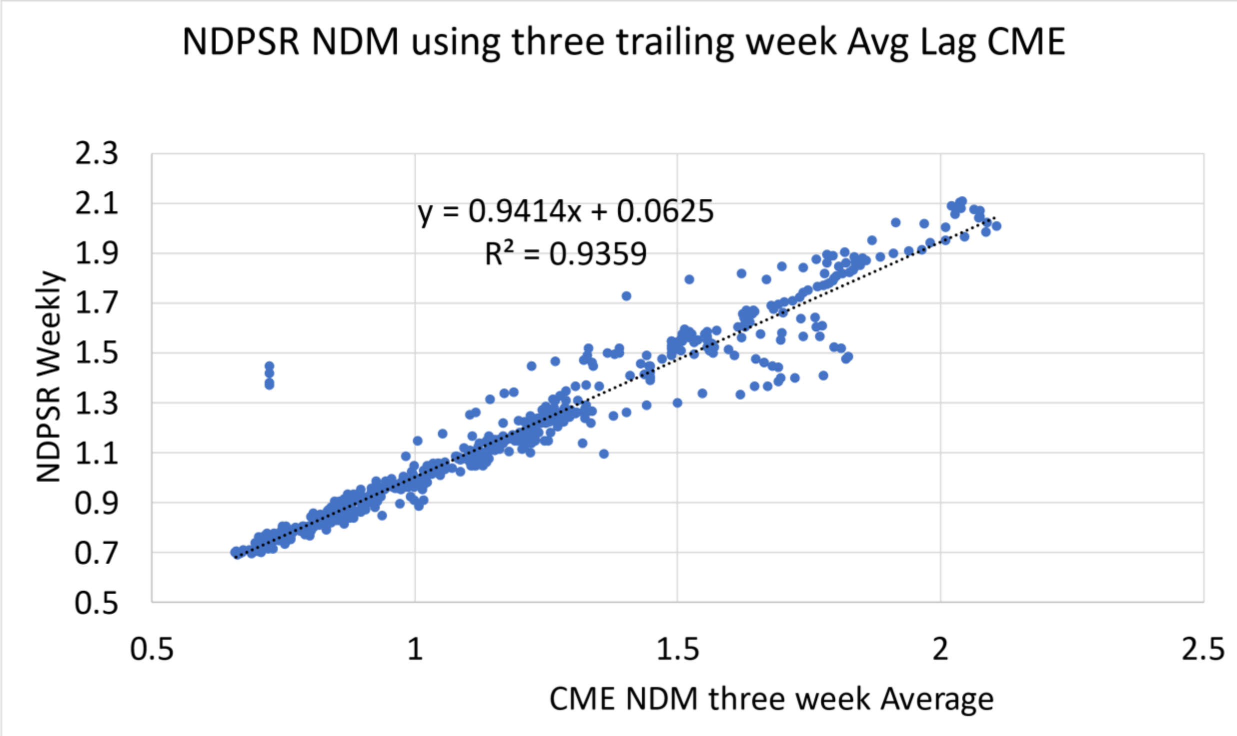
I have always heard there was a correlation between Chicago Mercantile Exchange (CME) cash prices for dairy commodities and prices used by USDA's NDPSR to set FMMO Class III and Class IV prices. This week I was able to get access to some actual correlation data charts that show those relationships. These charts were produced by Bozic, LLC and I thank them for the permission to use them here.

Butter shows the highest correlation between a simple average of a week's worth of daily CME butter prices and the weekly NDPSR butter price lagged one week.

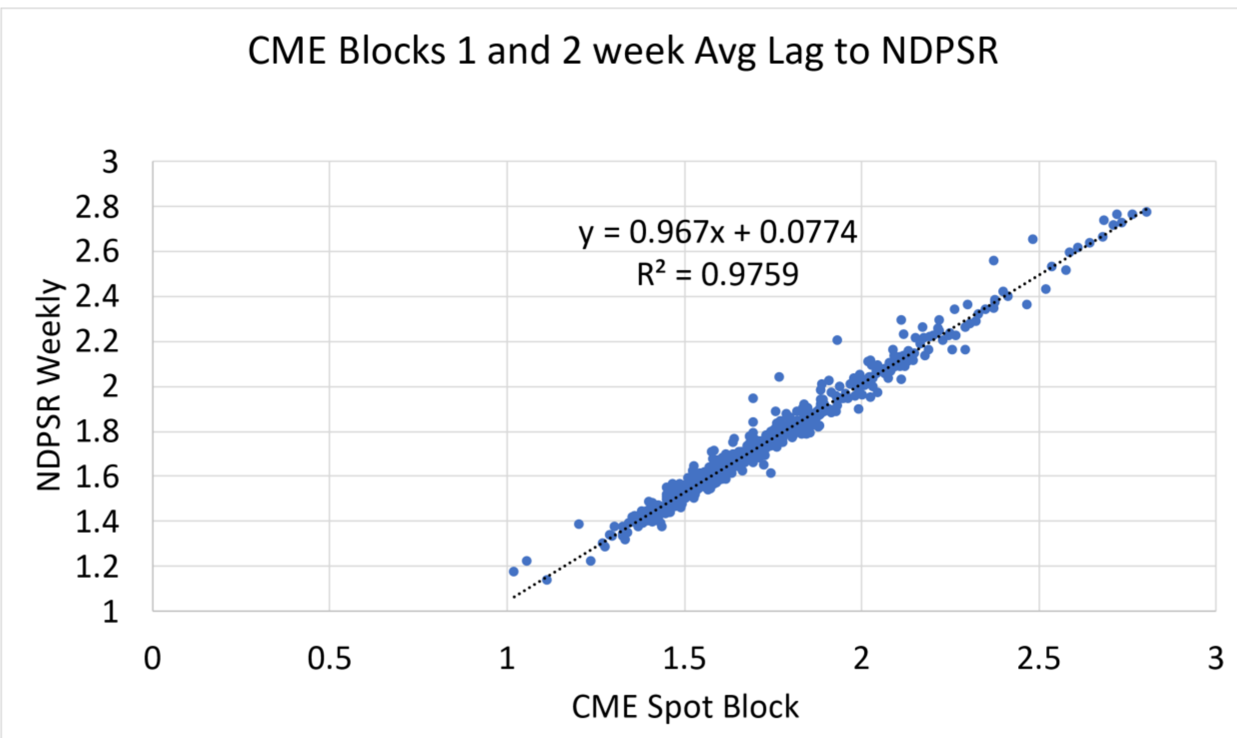



These charts represent about 10 years' worth of price data – more than 500 data points. The vertical axis is the weekly NDPSR price and the horizontal axis is the average of a week's worth of daily CME prices. In this chart, the NDPSR is compared to the previous week's average of the CME price. You can see the correlation for butter is very tight.

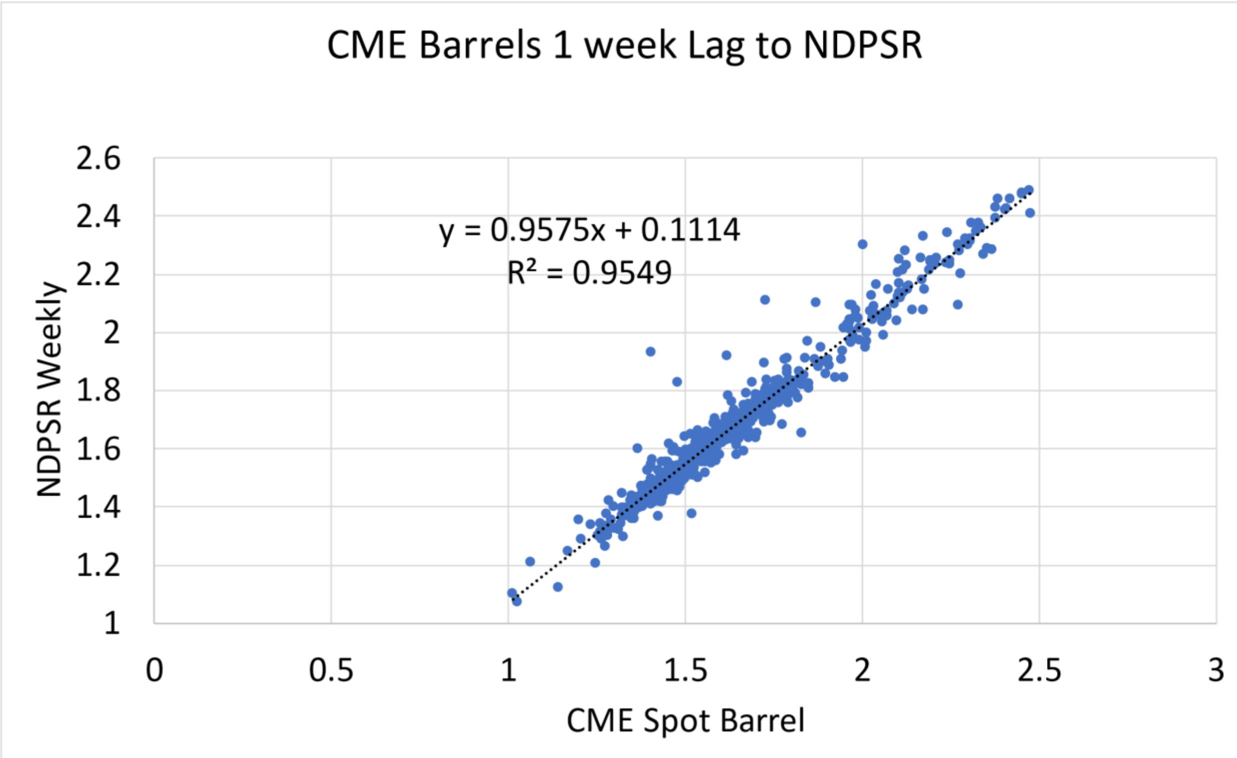
Nonfat dry milk correlation is slightly less than butter. Running the numbers, the closest correlation occurs when the NDPSR is compared to the average of the previous three trailing weeks instead of just the previous week. Even then, the correlation is .9359 which is pretty high, but you can see the times that there are outliers.



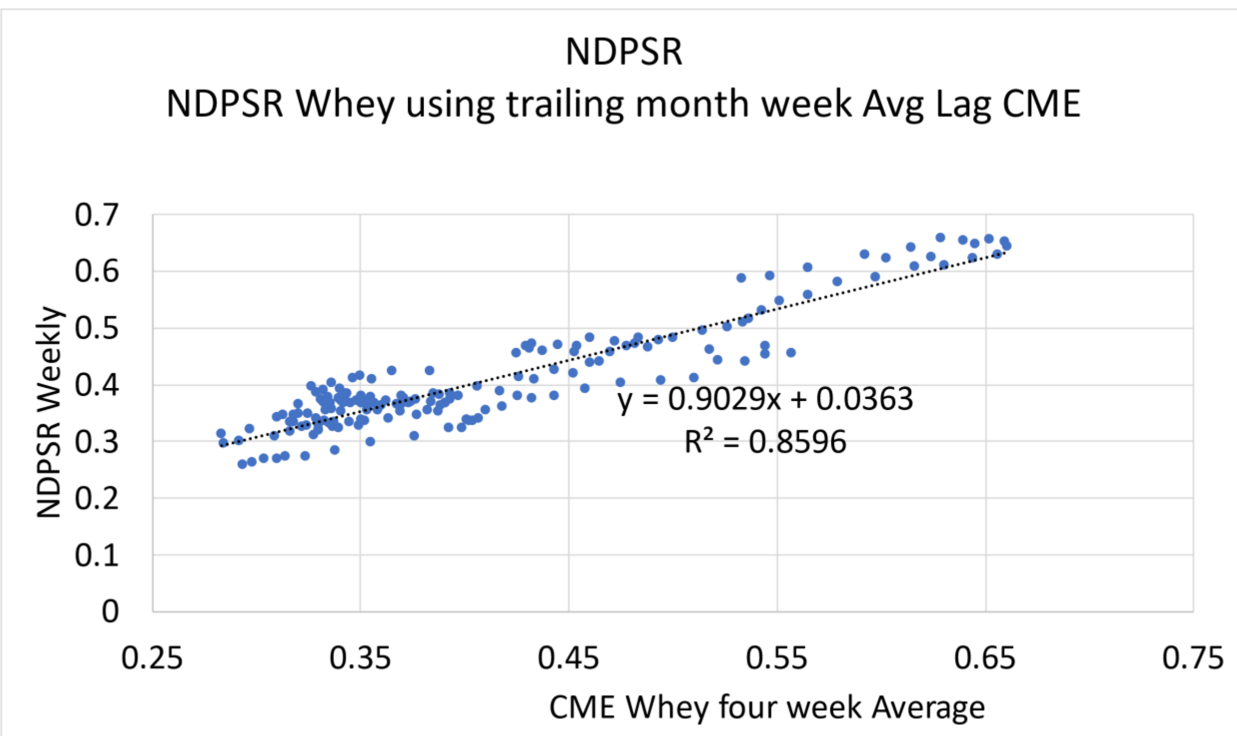

For block cheese the correlation is pretty high when you use a one-to-two-week lag in the comparison. So, a week's block cheese NDPSR price correlates best to the average weekly CME block price from 1-2 weeks prior.



For Barrel cheese the best correlation fit is for a one-week lag between the weekly average of the daily CME barrel prices and the following week's NDPSR barrel price, but here too you see outliers.




For dry whey there is a correlation, but it is the weakest of the five dairy commodities that USDA uses to establish FMMO Class III and IV prices. The closest correlation is to compare the weekly NDPSR with the previous months trailing weekly average. On the other hand, the price range for dry whey



between the lowest recorded price of about 26 cents a pound and the highest price of about 67 cents is much less than the historical price ranges for the other commodities.

So why does this matter? What the data tells us is that CME prices are a rather good predicter of Class III and IV prices in future periods, but they are not perfect, and they are not consistent for all the different commodities.

## Opinion: American Families Plan "Transfer Tax" Proposal is the Real Threat to Agriculture

*By Rep. Collin C. Peterson, D-Minn.*
*Courtesy of Agri-Pulse*

Like most everything else in Washington D.C., there is misinformation being put out either on purpose or because of a lack of understanding about what is going on with estate tax proposals. Most of the talk you hear in agriculture these days is how the "step-up in basis" will be eliminated under President Biden's American Families Plan. There are also issues facing us like treatment of capital gains, but that discussion is for another time.

"Stepped-up basis" is a tax term that applies when property is valued at the amount it is worth when a benefactor dies and leaves the asset to the beneficiary, and not on the original value or basis. Farm assets like land are often passed down through generations of families, and therefore benefit from a step-up in basis.

The reality is, under the American Families Plan, stepped-up basis is not under threat of elimination, rather, the proposal would incur a transfer tax that would have to be paid in order to use stepped-up basis in the event of a sale or a death.

When I was a CPA and sat across the desk from farmers giving advice on estate planning, we did not have to worry about the kind of issues facing us now. Things like the amount of exemption, tax rate and valuation issues were critical to the conversation, but nothing like what is being proposed with this transfer tax was ever on the table.

Over the years we fought to get the estate tax exemption raised and to keep the step up in basis system, and the law is now a culmination of policies that work well for farmers. I would argue this transfer tax, which could be as high as 43.4 percent, is the worst idea that has been proposed in terms of its impact on agriculture in my lifetime. This proposal is a direct assault on agriculture because it will prohibit the transfer of a family farm from one generation to the next which is the last thing we should want to do.

If this proposal becomes law, you could have a situation where upon the death of a farmer, his family will owe more than the equity that they have in the farm operation. Just the specter of that occurring would make it difficult for bankers to loan money, because there is no way to know what's happening with the value of the operation and its assets.

Back in 2017, we raised the estate tax exemption from $5 million to $10 million indexed for inflation (currently $11.7 million per taxpayer). After 2025, the exemption will revert back to little more than $6 million. While some people will want to make a big fight out of that, the reality is that keeping the system we have at that lower level would be significantly better than what is being proposed in the

American Families Plan. The estate tax, whether at $6 million or $11 million, will affect only a select few. This transfer tax would affect virtually every farm family and bring uncertainty that diminishes their ability to attain credit.

This transfer tax proposal doesn't likely have a chance of passing the Senate under regular order. However, there is a danger that with the partisanship going on in Washington D.C., the proposal could go into a reconciliation bill without having anybody in the room who really understands the severity of this change and get passed into law.

At the end of the day, those of us who support family farms and ranches have a big job on our hands making the case for why the tax system we fought for over the years should be maintained. We also need to educate Members of Congress who have good intentions but really don't understand how devastating these changes would be to maintaining the family farm in America.

We need to fight to keep the current estate tax system that we worked so hard to develop and convince policy makers to drop this idea of the transfer tax. If a change like this is adopted, agriculture as we know it will disappear and may never recover.

*Collin C. Peterson is former Chairman of the House Agriculture Committee and represented Minnesota's Seventh Congressional District as a Democrat from 1991-2021. He was one of the few CPAs to serve in Congress. He is President and Founder of The Peterson Group.*

*For more opinions and ag news, go to: www.agri-pulse.com.*

## National Milk Producers Federation
## Capitol Hill Update

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

**NMPF Issues Call to Action on Congressional Tax Proposal**

As Congress continues its discussions on a broad infrastructure package, several proposals have surfaced to pay for the bill's programs, including some that would impact dairy farms and farmer-owned assets. One proposed change would require capital gains taxes be paid at the time when assets are inherited, regardless of whether the heir sells or keeps the asset. This could increase the circumstances under which farmers are taxed on inherited farm assets. The other would change how farm and farm-related assets are taxed, repealing the "step-up" in basis currently used.

As the previous article indicates, NMPF is on record in support of important investments in the nation's infrastructure but opposes higher taxes on farm families to pay for such practices. **We're asking our stakeholders in the dairy community to be heard on this issue. This link allows you to customize and send a message to your members of Congress, calling on them not to alter or eliminate long-standing tax code provisions fundamental to farm businesses.** NMPF will continue to focus on this issue and closely watch any potential changes to farm-specific taxes, recognizing the significant impact the tax code has on producers and their decisions on how to run their operations

***MPC encourages our members to write letters to their local Congressional members regarding this issue. Click here to submit a letter online.***