

MPC WEEKLY FRIDAY REPORT

DATE: OCTOBER 25, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	+ \$.1550	\$2.1225	WEEKLY CHANGE	-\$.0550	\$2.0600	WEEK ENDING 10/19/19		
Barrels	+ \$.2500	\$2.2500	WEEKLY AVERAGE	-\$.0490	\$2.0775	NAT'L PLANTS	\$1.1073	17,000,101
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 10/12/19		
Blocks	+ \$.0785	\$2.1060	DAIRY MARKET NEWS	W/E 10/25/19	\$.3450	NAT'L PLANTS	\$1.0953	16,128,381
Barrels	+ \$.1285	\$2.1425	NATIONAL PLANTS	W/E 10/19/19	\$.3291			

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
OCT 25 EST	\$19.44 - \$19.94	\$16.63	\$18.67	\$16.41
LAST WEEK	\$19.44 - \$19.94	\$16.68	\$18.63	\$16.45



Milk, Dairy and Grain Market Commentary

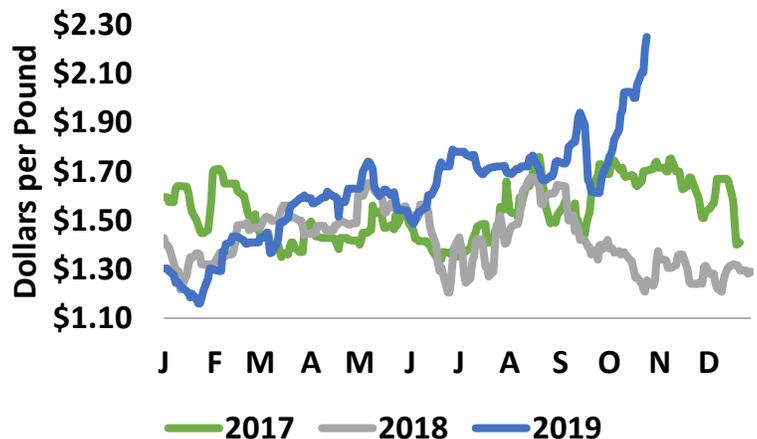
By Sarina Sharp, Daily Dairy Report
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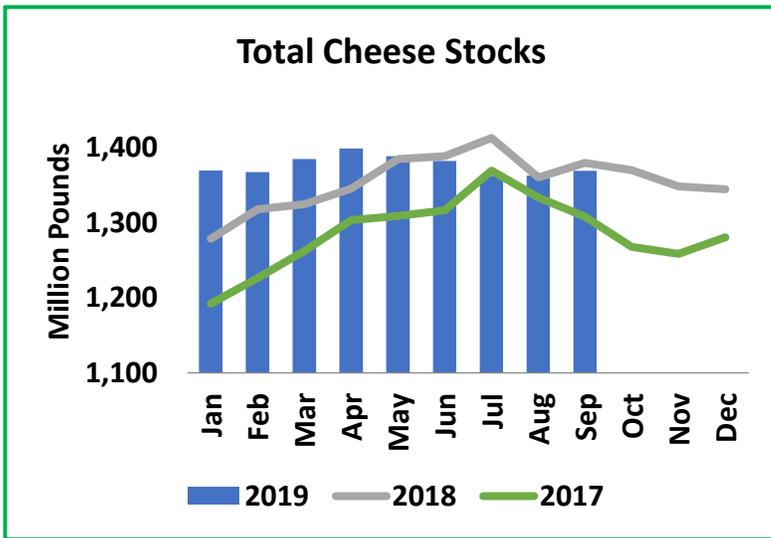
Milk & Dairy Markets

Fresh Cheddar barrels are in short supply, and would-be buyers bid them up in a big way this week. At the CME spot market, barrels reached an astoundingly lofty \$2.25 per pound, the highest value for either blocks or barrels in more than five years. Spot barrels have jumped 25¢ in the past week and surged 63.75¢ over the past month. The block market's rally was less spectacular, but still considerable. It climbed 15.5¢ this week to \$2.1225.

Strength in the cheese markets has been especially impressive in light of bearish

CME Spot Cheddar Barrels





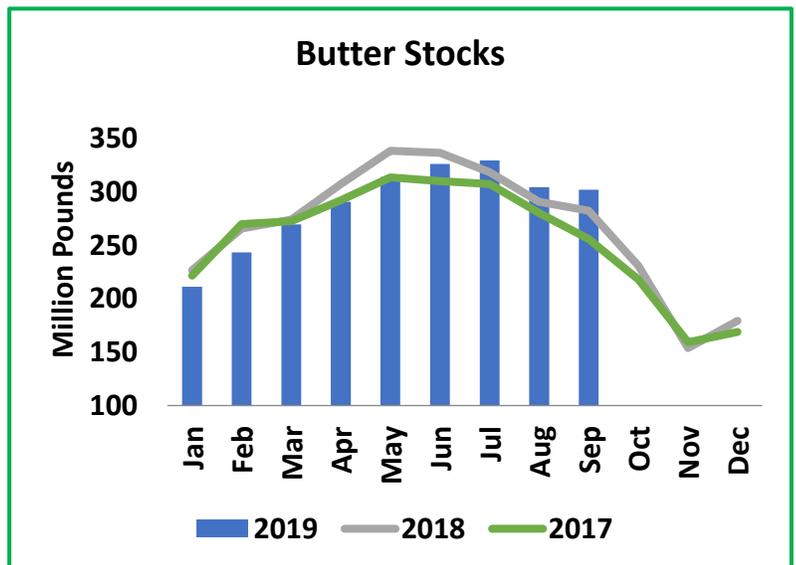
news in the monthly Milk Production and Cold Storage reports. USDA reported that there was more milk, more cheese, and more butter than expected in September. The spot cheese markets paused briefly and then kept right on climbing. USDA’s *Dairy Market News* reports that overall cheese demand is slowing seasonally, but “barrel producers continue to relay enduring demand, later in the season than expected.” Stiffer spot milk premiums in the Midwest have slowed the flow of milk to commodity cheese vats. Fresh cheese is tight, and the markets seem to have someone – or several someone’s – over a barrel, so to speak.

But there is plenty of cheese of other types. On September 30, there were 1.37 billion pounds of cheese in cold storage warehouses. Although that is 10 million pounds (or 0.8%) less than the absolute glut at the same point in 2018, it is more than enough to get through the holiday demand season. Cheese inventories typically decline from August to September, but this year they grew by 6.4 million pounds. High prices are working to trim demand at the margins, boost production and attract imports.

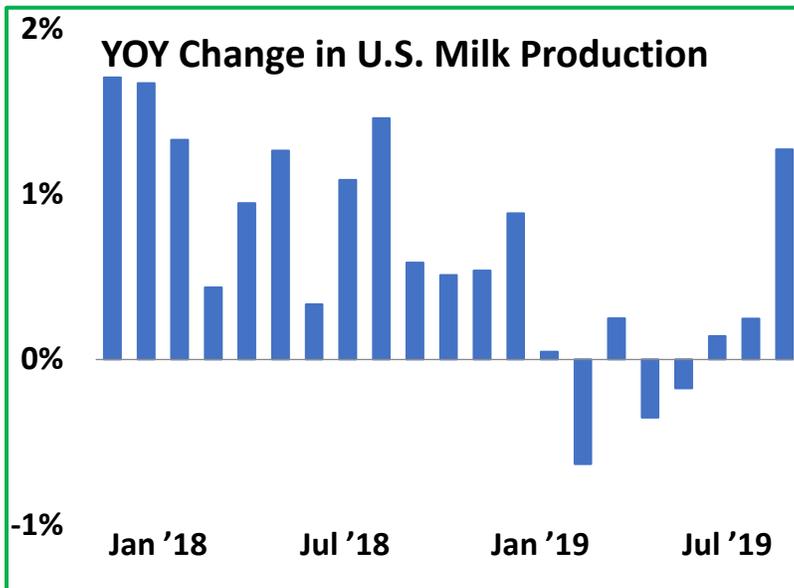
The futures highlight the disconnect between greater cheese supplies and the high-flying spot markets. Nearby Class III futures rocketed higher; the November contract settled at \$19.50 per cwt., up nearly a dollar this week. Deferred contracts were more grounded. December through February futures enjoyed double-digit gains, but later contracts finished in the red. Lower whey values also weighed on Class III pricing. CME spot whey slipped another 0.25¢ this week to 28.25¢.

Class IV values retreated further. Compared to last Friday, nearby futures were around 25¢ lower and deferred contracts also lost ground. November Class IV fell to \$16.55 per cwt. Spot nonfat dry milk (NDM) slipped 1.75¢ this week to \$1.1525. The fundamentals remain sound. *Dairy Market News* sums it up nicely, saying “supplies are tighter and demand notes are positive. Mexican buyers are active.” Europe sent massive volumes of skim milk powder (SMP) abroad in August and undercut some U.S. business. But big exports have helped to clean up European stockpiles. Europe’s SMP exports in January through August were 28.8% higher than the prior year. Milk powder stocks are tightening around the world, and prices are rising accordingly.

The butter market lost ground this week; CME spot butter dropped 5.5¢. At \$2.06, spot butter stands within a quarter-cent of its 20-month low. Cream values are just starting to climb in the Midwest, but cream remains cheap and plentiful in the rest of the country. Import volumes are running high, and butter is abundant. On September 30, there were 302 million pounds in storage, 7% more than a year ago. Stocks declined just 2.2 million



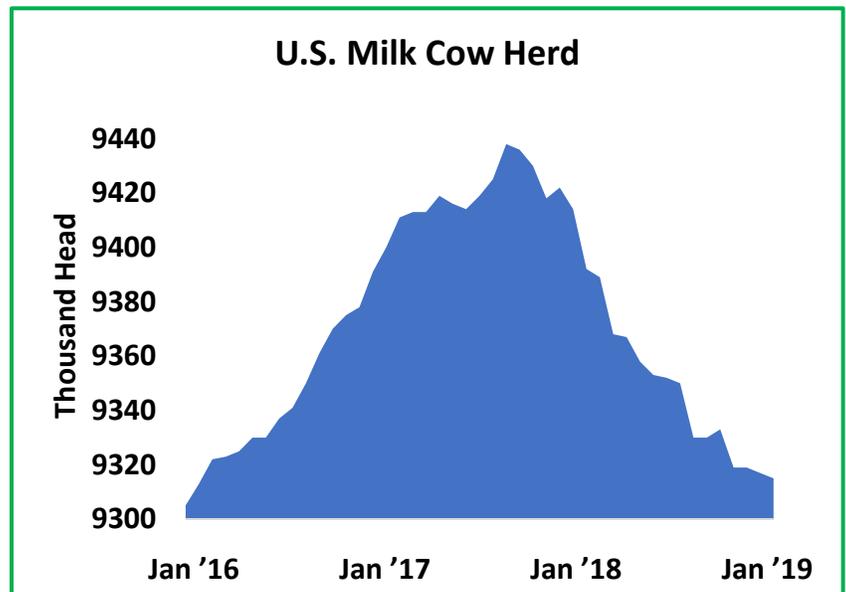
pounds from August to September, a much smaller than typical drawdown.



U.S. milk production totaled 17.6 billion pounds in September, up 1.3% from September 2018. That was the strongest year-over-year increase in 12 months. The dairy herd continued to shrink, falling 2,000 head from August to September. At 9.315 million head, the milk-cow herd is now 53,000 cows smaller than it was a year ago and down 123,000 head from the peak in January 2018. Slaughter volumes remain elevated, suggesting that dairy producers are not yet adding cows.

But they are adding milk. Production per cow jumped 1.8% last month, the strongest advance since September 2018. In nearly all the major dairy states, year-over-year gains

accelerated, and losses narrowed. Seventeen of the 24 major dairy states reported greater production than the prior year in September, up from 13 in August. Mild weather likely boosted milk yields last month. Such broad gains in milk production per cow may be difficult to sustain, especially as more wintry weather arrives and as more dairy producers add this year's questionable forage to their rations. The big gains in milk output may be hard to replicate. The smaller dairy herd will matter in the long run.



Growth in U.S. milk output coincides with advances in Europe and New Zealand. Kiwi milk solids collections grew 0.7% year-over-year in September, bringing season-to-date output up 2% on a milk solids basis. Fluid milk output fell 0.7% from the prior year, to 2.66 million metric tons. The divergence likely reflects better forage quality. New Zealand's pasture conditions have improved following a cool start to spring.

Higher dairy product values and more cooperative weather are having an impact. In late 2018 and the first half of the year, milk output fell among the world's major dairy exporters, ushering in a long-overdue opportunity to use up burdensome inventories. Now, milk production trends have shifted back into growth mode. However, demand for dairy seems to be keeping pace.

Grain Markets

It was a rather quiet week in the grain markets. December corn settled at \$3.8675 per bushel, down 4.25¢ this week. November beans closed at \$9.2025, down nearly 14¢. China has promised to buy more U.S. farm goods, and they've backed up their promises with tariff waivers for soybean buyers. The latest

concession could be more impactful than previous ones; this time Beijing granted waivers to private companies and international firms who were not granted the same favors in the past. However, China has plenty of South American soybeans in inventory, and demand is in question due to the much smaller hog herd.

Harvest is progressing slowly. By early last week, farmers had brought in just 30% of the corn crop. The crop that remains in the field has been exposed to the elements, and the weather is turning harsher. Snow is expected in much of the northern Corn Belt next week. It's cool and cloudy, and the fields are muddy. The crops are not getting any better.



Next Round of Quota Meetings Coming Up; Here is Your Reading List

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

Next week, the next round of Quota meetings take place, which you can register for [here](#). The meeting dates and locations will be:

- **Wednesday, October 30** in Chino
- **Thursday, October 31** in Tulare
- **Friday, November 1** in Turlock

There is a homework assignment connected with the next round of meetings. You can find these documents [here](#), including an introduction paper and short background papers on three topics:

1. An analysis of the tax treatment of quota.
2. An analysis of Dairy Product sale trends.
3. An analysis of the quota impact on farm level financial metrics.

Then there are 10 papers outlining proposals for change:

1. Variations of a Sunset for quota.
2. A base Sunset for quota proposal.
3. A quota stabilization proposal
4. A proposal to issue a bond to buy up the quota.
5. A proposal to tie quota differentials to class 1 sales.
6. A proposal to terminate quota through a referendum.
7. A proposal to change the Regional Quota adjusters.
8. A proposal to terminate quota through monetization.
9. A proposal to permanently opt out of the quota program.
10. A proposal to retire quota through a limited buyback.

The task given to Dr. Bozic and Matt Gould was to develop a range of options for producers to consider. In these papers, they have done that with the input from a steering committee made up of representatives of the three co-ops and United Dairy Families and STOP QIP. The desired outcome for the meetings next week is for producers to give meaningful feedback that will narrow these options down to two or three specific ideas that will then be more fully developed. If you cannot attend one of the three in person, there is a webinar scheduled for Monday, November 4 at 8 a.m. that you can participate in.



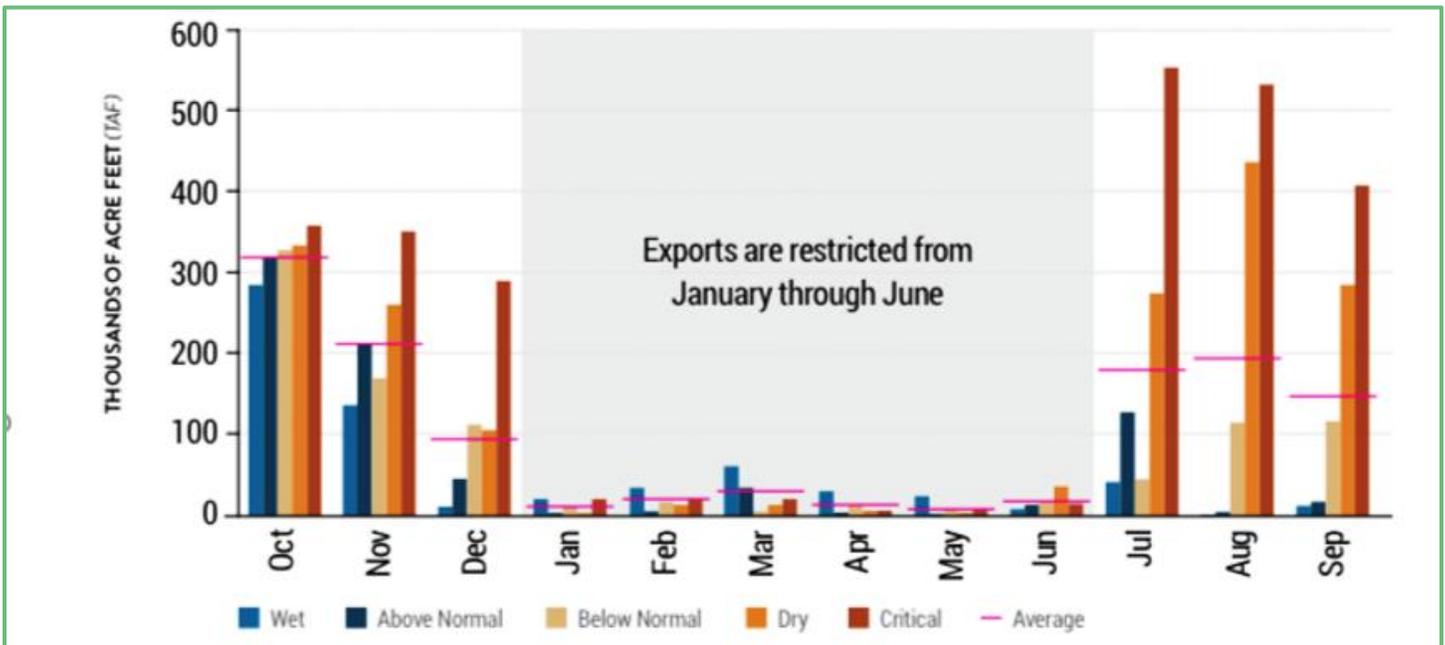
Guard Against Optimism

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Early in my career I met a man who was the Director of the California Department of Water Resources. He had spent decades working in the California water industry and had the scars to prove it. He had a line he used whenever it seemed like we were making progress on some water related issue. He would say “guard against optimism.”

There were developments this week on water supply, water quality and immigration that could be game changers for the California dairy industry.

First, let’s talk about water supply. This week both the U.S. Fish and Wildlife Service (which governs the Endangered Species protections for the Delta Smelt) and the National Marine Fisheries Service (which governs the Endangered Species protections for the winter run Chinook salmon) issued biological opinions on a new Long Term Operations plan put forth by the operators of the Central Valley Project (CVP) and the State Water Project (SWP). The current pumping rules for the CVP and SWP are based on biological opinions put in place in 2009 and are calendar based. In specific, these old rules severely restrict the ability of the CVP and SWP to move water out of the Delta between the 1st of January and the end of June each year because it was assumed that these two endangered species were active in the Delta during that part of the year (see graph below noting export restrictions from January to June).



As you can imagine, it is in the winter and spring when the rivers are carrying the biggest flows of water as the rain and snow melt combine and rush downstream. The engineers who designed the CVP and SWP were looking at these high winter and spring flows as the source that could be tapped, without damage to the environment, to provide water for the people and farms of the Central Valley and Southern California. When the January to June pumping restrictions were put in place in 2009, the ability of the CVP and SWP to meet the needs of people and farms was severely damaged. Millions of acre feet of fresh water that could have been captured has been sent out to the ocean because of these rules.

Since 2009, CVP and SWP water contractors, as well as state and federal agencies, have spent millions of dollars on scientific research to determine if there was a better way to manage this system. Much was learned from this research, so much in fact that the Obama administration started a re-consultation process back in 2016 with the goal of modifying the rules. It is a very long process to modify the Endangered Species Act rules, but the effort reached fruition this week with the delivery of an updated opinion from these fisheries agencies. The new rules will move away from a calendar-based approach to a real time monitoring approach. Under the new approach, robust observations of endangered fish populations in real time will determine whether it is safe to move water into the CVP and SWP system. If the fish are not around the pumps, then moving the water will not hurt them. If the fish are there, then pumping must be curtailed. In addition, the new plan proposes to build a delta smelt hatchery to assist in bringing back that species. It also proposes steps to preserve more cold water in Shasta Lake which would assist the salmon who need cold water as they move through the Sacramento River system. As expected, there is opposition to this plan and lawsuits are already being filed. So, it is too early to declare a win, but if the new rules can survive the assaults against it, this could provide some much-needed water supply for the Central Valley.

Secondly on the water quality front, the State Water Resources Control Board approved the [CV-SALTS program](#). This is a situation of us cheering for the bad versus worse. State and Federal law prohibits discharges of nitrates into groundwater that could be a drinking water source if that discharge exceeds the drinking water standard and the receiving water is at or worse than the drinking water standard. This is called the non-degradation rule. The practical reality for the dairy industry and other agriculture and industrial operations in many places in California is that the nitrates in the groundwater below our facilities exceeds the drinking water standard. Therefore, there is no practical way to assure that our discharge water will not further degrade water quality. This technically makes it impossible for us to operate our dairies legally from a water quality standpoint. CV-SALTS is an alternative compliance program that, while difficult and potentially expensive, will make being in compliance with the law possible. There was strong opposition from the organized and well-funded “Environmental Justice” advocates who do not favor giving agriculture this alternative compliance path and instead would prefer enforcement actions against us. The State Board toughened up the CV-SALTS plan even more at their meeting last week, but then passed it unanimously. There will be much more information about CV-SALTS coming in the months ahead.

Thirdly, a bi-partisan agriculture immigration bill will be introduced into the U.S. House of Representatives next week. This bill is the result of months of negotiations facilitated by a bi-partisan group of House members led by Congresswoman Zoe Lofgren from California who [visited the Diepersloot Dairy](#) a couple of weeks ago. The bill deals with our existing workforce that may be undocumented. It is a very good bill for those folks and it lays out a path for new workers in the future by expanding the H-2A program to accommodate year around employment needs. You can read a summary of the details [here](#). The plan is to get this bill passed by the House Judiciary Committee in early November and passed by the House before the end of the year. The bill would then go over to the Senate where hopefully it can be passed in early 2020. Again, this is a long term problem that looks like it might be heading to a positive conclusion. Remember, guard against optimism.

USDA Appoints Four MPC Members to National Dairy Board

Courtesy of Morning Ag Clips

The U.S. Department of Agriculture (USDA) announced the appointment of 12 members to serve on the National Dairy Promotion and Research Board. These appointees will serve three-year terms, November 1, 2019, through October 31, 2022.



Congratulations to MPC members Justin F. Leyendekker, Stephen D. Maddox, California, Michael Oosten and Arlene VanderEyck!

Read the full article [here](#).



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