MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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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			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0325	$2.5200	Weekly Change	- $.0550	$1.8700	**Week Ending 06/06/20**		
Barrels	- $.0275	$2.3325	Weekly Average	+ $.1040	$1.9140	Nat'l Plants	$0.8815	31,654,746
Weekly Average Cheddar Cheese			**Dry Whey**			**Prior Week Ending 05/30/20**		
Blocks	+ $.0475	$2.5450	Dairy Market News	w/e 06/12/20	$.3525	Nat'l Plants	$0.8455	36,844,021
Barrels	+ $.0980	$2.3685	National Plants	w/e 06/06/20	$.3661			

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
June 12 Est	$13.02 - $13.52	$13.27	$20.42	$13.35
Last Week	$13.02 - $13.52	$13.62	$19.88	$13.91

May 2020 CA FMMO Statistical Uniform Price Announcement

May '20 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	$14.55 (*Tulare*) $15.05 (*L.A.*)	$12.30	$12.14	$10.67	$11.45 (*Tulare*) $11.95 (*L.A.*)	$11.125 (*Tulare*) $11.625 (*L.A.*)
Percent Pooled Milk	22.4%	5%	2.8%	69.8%	100% (1.9 billion lbs. pooled)	

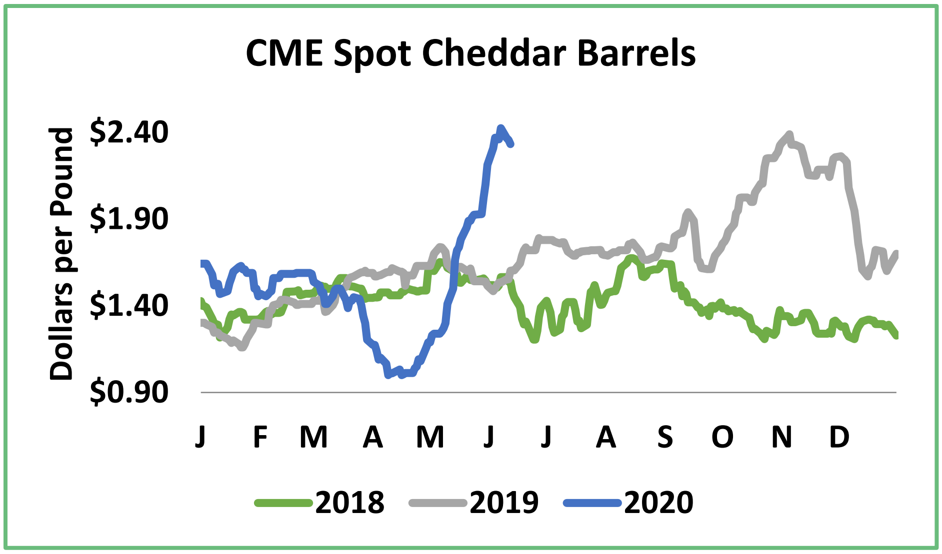
**Quota rate of $0.325/cwt. as of September 2019 milk*

Milk, dairy and grain market commentary

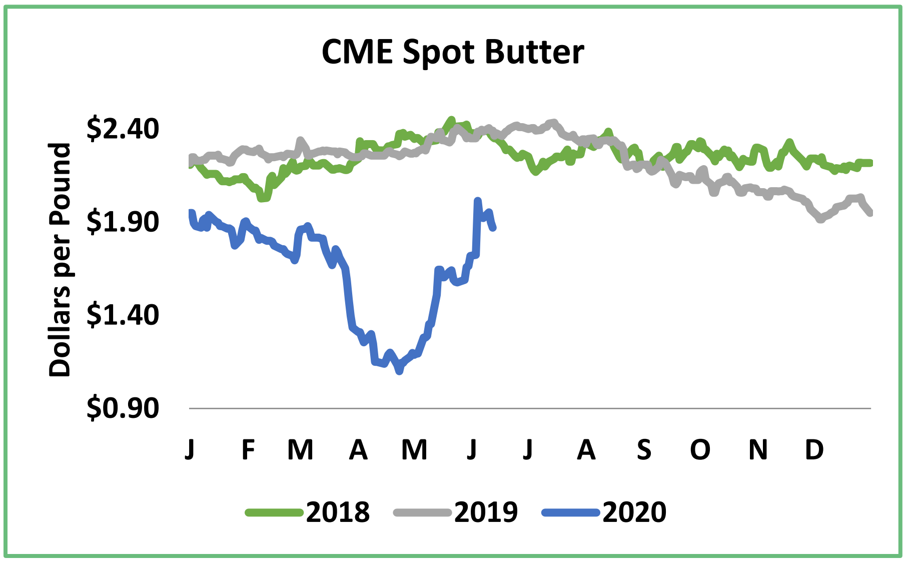
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

The bulls came charging out of the gate once again this week. But after a few days romping around LaSalle Street, they left abruptly, presumably in search of greener pastures. Bulls must be fed daily, and by Thursday the market had run out of positive fundamental news with which to fill their troughs.

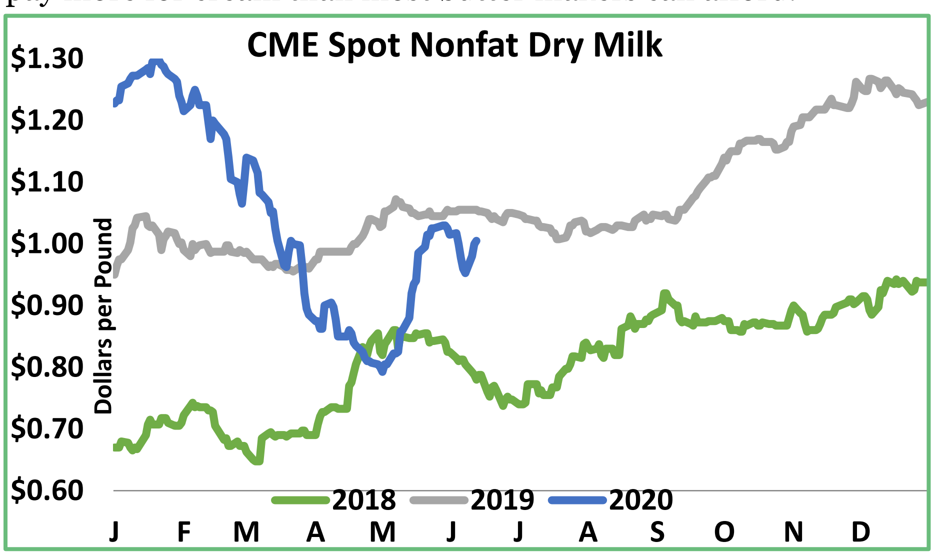


The cheese market has likely climbed high enough, for now. Both blocks and barrels rallied to all-time highs early in the week, but they finished lower. CME spot Cheddar blocks closed today at $2.52 per pound, down 3.25¢ from last Friday. Barrels reached $2.425 on Tuesday, but they settled at $2.3325, down 2.75¢. The invisible hand of the markets and the passage of time are starting to ease the physical shortage that propelled the cheese markets to such unprecedented heights. USDA's *Dairy Market News* reports that some end users who were rushing to restock after Covid-19 closures have filled their refrigerators, and buyers are more hesitant at these values. Cheesemakers are still running hard. A high price is the best fertilizer. The markets may have to contend with a bumper crop of cheese later this year.



With more cheese comes more whey. While whey output climbs, demand appears steady at best. CME spot dry whey dropped 2.75¢ this week to 31.75¢.

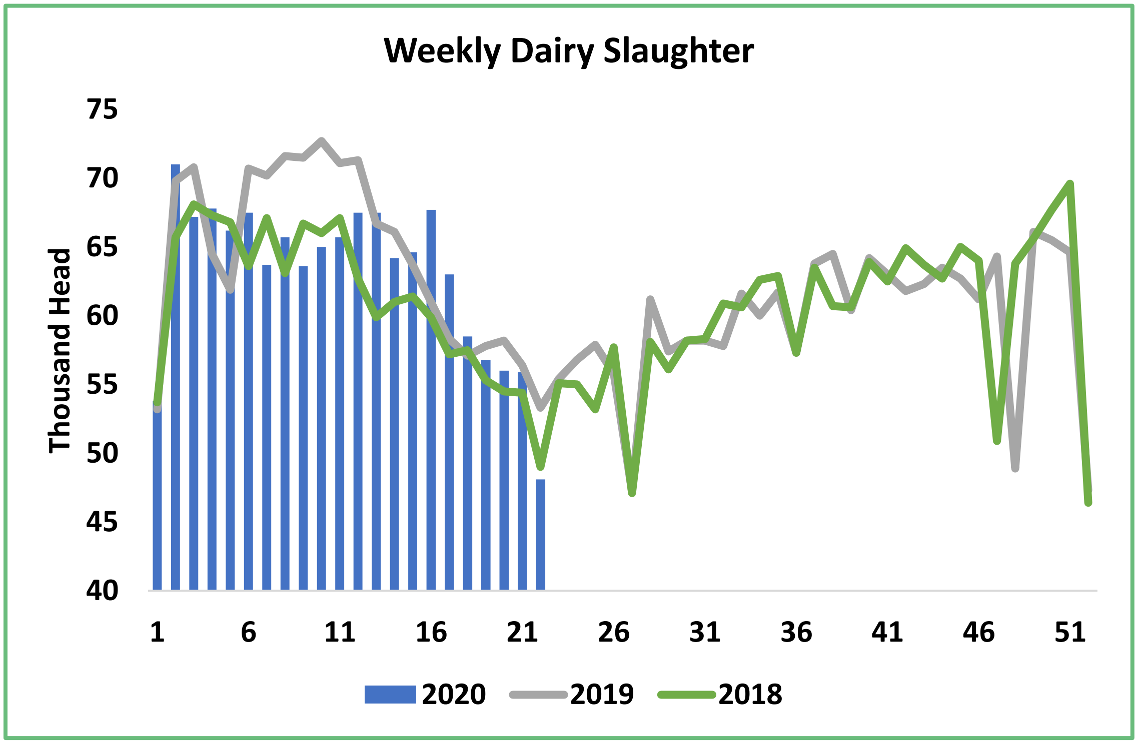
Butter backed off as well. CME spot butter slipped 5.5¢ this week to $1.87. Although slow demand from foodservice remains a drag, butter is still moving rapidly through retail. Output has slowed as ice cream – and to a lesser extent cream cheese – manufacturers are willing to pay more for cream than most butter makers can afford.



The milk powder market bucked the trend once again and bounced back from last week's losses. CME spot nonfat dry milk (NDM) advanced 2.75¢ to $1.005, and most NDM futures finished higher than last Friday, thanks to a strong showing in the middle of the week. Milk production is slowing in some regions, and cheese plants are taking on all the milk they can, leaving less for dryers. Still, there is plenty of milk powder to go around, as manufacturers hold ample stocks.

Milk futures put in a mixed performance this week. June Class III jumped another 54¢ to $20.42 per cwt. But the other Class III contracts finished lower. Most lost around 30¢ this week. Most Class IV futures settled a little higher than they did last Friday, but the June contract plummeted 56¢ to a paltry $13.35.

Higher Class III prices are calling for dairy producers to make more milk, a dramatically different message than the one the markets delivered in April and early May. The industry is listening. Milk yields are declining seasonally, but dairy producers are likely undoing all the measures they took to slow output in the spring. They are keeping their barns full, slowing cull rates, and adding high-energy feeds back into the ration. In the week ending May 30, which included Memorial Day, dairy cow slaughter was just 48,120 head. That was down 9.8% from the holiday week in 2019. After exceptionally high volumes in April, dairy slaughter fell short of the prior year four out of five weeks in May. More cows will mean more milk, but do we need it? Once restaurants have restocked and food bank donations fade, the industry may find itself awash in dairy products.



Grain Markets

The corn market bounced back and forth this week and ultimately settled a little lower. July corn futures closed at $3.30 per bushel, down 1.25¢. After resurveying farms in North Dakota, USDA cut its estimate of last year's corn harvest by 46 million bushels. Still, there is plenty of corn in the world, and U.S. corn stocks are expected to balloon after this year's harvest. Barring a weather issue, corn is likely to remain cheap. It's getting uncomfortably dry in the Southern Plains, but in the Corn Belt, the crops are in great shape.

USDA's monthly supply and demand update showed a surprisingly strong increase in soybean meal demand. The market has also been cheered to see Chinese buyers return to U.S. ports, despite reports that state-owned buyers were told to pause purchases. July soybean futures rallied to 3.5¢ this week to $8.7125. July soybean meal held steady at $289 per ton.

CDFA holds Quota hearing

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

In a truly unprecedented fashion, a "virtual" hearing took place this week to consider the petition by Stop QIP to suspend Chapter 3.5 of the Food and Agriculture Code. This petition was submitted last January and contained the required number of valid producer signatures, which necessitated this hearing. The hearing was originally scheduled for March, then April, and then as a result of the pandemic, was postponed indefinitely, and then rescheduled as a "virtual hearing" for June 9 and 10.

The virtual part was only one of the unusual aspects of this hearing; the other was the usage of an Administrative Law Judge who is not part of the California Department of Food and Agriculture (CDFA). Judge Timothy Aspinwall is an Administrative Law Judge with the state Office of Administrative Hearings, a separate branch of the California state government. In his opening remarks, Judge Aspinwall said that he would be the person who would be writing up the recommendation – based on the hearing record – to California Agriculture Secretary Karen Ross for how to respond to this petition, which requested a producer referendum to suspend Chapter 3.5 of the Food and Agriculture Code. What makes this arrangement unusual is that in every other milk hearing I have witnessed, it was economists from CDFA who acted as the hearing panel, considering testimony and then providing recommendations to the Secretary. This time it is an independent judge who admitted at the end of the hearing that until he had been assigned this case, he had never heard of milk quota. So, a truly independent and unbiased judge.

The other unique feature of this hearing is that for the first time ever, no oral testimony from any cooperative or producer trade association was presented. *[Due to a state regulation, most of the information submitted for this hearing is not on the CDFA website. We have obtained some of the hearing documents and have posted them on the MPC website here.]* This hearing was truly a producer hearing. Other than lawyers representing three different groups of producers, of the nearly 75 witnesses who gave oral testimony, only two or three were folks who did not have an ownership stake in a California dairy farm.

The issue in this hearing is a bit complicated. While most of the producer testimony focused on each producer's perspective on whether they supported the Quota program and why, *the real question for the judge is whether to recommend holding a referendum on Chapter 3.5 of the Food and Agriculture Code*. When the original California pooling plan was adopted back in the 1960s, it was contained in **Chapter 3.0** of the Food and Agriculture Code. The voting procedure in Chapter 3.0 for changing or terminating a pooling plan requires a super majority (see description). **Chapter 3.5** came later in 1994, and was the legislative vehicle to implement the fixed $1.70 differential in the Quota program. The fixed differential was implemented without a referendum of producers by the Legislature, but the Legislature included in Chapter 3.5 a different voting procedure that enabled producers to petition for a referendum to suspend Chapter 3.5, and with it, the fixed differential. The procedure outlined in Chapter 3.5 requires a simple majority vote to continue with the Chapter 3.5 (see

Chapter 3.0 Super Majority Voting Threshold

At least 51% of eligible producers must vote to have a valid referendum, and then of those who vote in order for the change or termination to take effect, 65% of the voters producing 51% of the milk, or 51% of the voters representing 65% of the milk, must vote in favor in order to pass the termination or change being proposed.

description). If a simple majority does not vote yes to continue with Chapter 3.5, then the Secretary shall continue operating the pooling plan that was in effect on December 31, 1993.

Chapter 3.5 Simple Majority Voting Threshold

25% of producers submitting a petition requires that the Secretary hold a hearing on that petition, and if the Secretary agreed following the hearing to hold a referendum, then 51% of the producers need to vote in the referendum and 51% of the voters would need to vote yes to continue with Chapter 3.5.

Here is where things get dicey. The stand-alone Quota program, now known as QIP, was authorized by the Legislature in 2017 and put in Chapter 3.5 as Section 62757. This new section authorized the Secretary to establish a stand-alone Quota program if California became part of an FMMO. It authorized an assessment on milk production to pay for the stand alone Quota program and it required that the program be developed pursuant to a recommendation of the Producer Review Board and approved by a statewide referendum of producers conducted in accordance with the super majority voting procedure outlined in Chapter 3.0 . What the new section did not do is speak to the other voting procedures in Chapter 3.5 that enables producers to vote with a lower threshold to suspend the entire Chapter 3.5.

Stop QIP has done two things: One, is it has challenged in court the procedures that CDFA followed to adopt the QIP in the first place – mostly the fact that CDFA did not hold a formal public hearing prior to the referendum that adopted the QIP. And secondly, Stop QIP submitted sufficient signatures to force the hearing held this week seeking a referendum to suspend Chapter 3.5, and with it, Section 62757, which contains the authority of CDFA to collect an assessment to fund the stand-alone Quota program.

At the hearing, Stop QIP, as the petitioner, was given the first hour to make its case. In addition to the arguments laid out by their attorney, Chip English, they put on a presentation by an economist who outlined his conclusions about Quota, which basically said that Quota no longer serves an economic purpose in the market.

Save QIP, the name adopted by 17 California producers who hired a lawyer named Niall McCarthy to represent them, laid out their case that the 3.5 petition was procedurally and legally invalid and should be set aside. They also had an economist who testified about the important role quota plays in the economics of individual dairy farm operations in California.

The third organized group that testified was the United Dairy Families of California. Their attorney Megan Oliver Thompson and leader Dino Giacomazzi testified about the process they sponsored, which included the hiring of outside experts to engage with producers from throughout California seeking to discover a consensus Quota solution that would garner support from a significant majority of California dairy farmers. They announced that on Monday, June 7 that 315 producer signatures were submitted on a petition under Chapter 3.0 that seeks to modify the effective fixed differential to $1.43 per cwt. in the interim, and terminate the Quota program effective March 1, 2025. This is significant because Chapter 3.0, Section 62717 says that if a plan for termination is submitted by a petition signed by not less than 25% of the producers producing not less than 25% of the production, then a referendum must be held on that plan. It will require the Chapter 3.0 super majority for that referendum to pass.

At this point in the hearing the Judge reminded everyone that the hearing was about was the Stop QIP petition asking for a referendum to suspend Chapter 3.5.

What followed for the rest of the hearing was individual producer testimony. It was well done from all sides. I was incredibly impressed with our industry. Everyone who participated was prepared and clearly genuine in giving their perspective.

The amount of material that was submitted into the hearing record is huge, but it seems to me that the Judge's decision will really come down to how he interprets the law. All three lawyers were top notch. The economists who participated are both well respected in their profession. The producers from all sides communicated clearly what was at stake for them individually and for their families and for the industry. It is impossible at this point to predict the outcome. No doubt it will take the Judge a couple of months to digest all the material in the record and make his recommendation. From there, the issue goes to the Secretary for her decision.

National Milk Producers Federation President's Update

Courtesy of Jim Mulhern, National Milk Producers Federation

One-Quarter of U.S. Dairy Farms Have Received Assistance from CFAP – The most recent official report from USDA shows that nearly one-fourth of the nation's 32,000 dairy operations have gotten assistance from the new CFAP program. USDA's latest weekly report on the Coronavirus Food Assistance Program reports that overall, farmers have now received $1.4 billion of the $16 billion in payments the department eventually expects to distribute.

Approximately 7,700 dairy producers applied for and have received $337 million of that sum, with other livestock producers receiving another $676 million, while most of the remainder has been claimed by producers of corn, soybeans, cotton and other row crops.

USDA's Farm Service Agency held a dairy farmer-focused webinar yesterday on the CFAP program. A recording of that hour-long Q&A session is not yet available, but the slides can be found here. They offer a basic, nuts and bolts walk-through of what dairy producers need to know about applying for CFAP assistance.

New FAPRI Report Shows Major Hit to U.S. Farm Income – Even with the $16 billion infusion from Congress and USDA to help offset economic damage from the coronavirus pandemic, farm earnings will take a big hit this year, according to the University of Missouri's Food and Agricultural Policy Research Institute. FAPRI's report, released Monday, calculated that 2020 net cash farm income will drop by 15% to $102.2 billion, down from $120.4 billion in 2019, even after accounting for CFAP payments. A broader measure of the farm economy — net farm income — is projected to drop from $93.6 billion in 2019 to $90.6 billion this year and then plunge to $79.4 billion in 2021.

Even with government payments to farmers making up 36% of their income this year – the highest level since 2001 – farm income is still going to drop by 3% this year, according to FAPRI. After hitting highs in the $130 billion range during 2012-14, net cash income has trended lower in recent years. FAPRI's projection of $95 billion in net cash income for next year would be more than $40 billion lower than 2013's high mark of $136 billion.

NMPF Helps Shape New Bill Expanding Paycheck Protection Program Coverage - We made significant progress this week in our continuing effort to make the Paycheck Protection Program (PPP) work more equitably for our sole proprietors, independent contractors, and self-employed dairy farmers. Currently, producers who file a Schedule F tax form, as most of these three types of farmers do, must use their net farm income as their owner compensation payroll amount when applying for a PPP loan, according to guidance issued by the Small Business Administration (SBA) and Treasury

Department in April. This is problematic for farmers who report a zero or negative net farm income on their taxes. NMPF recognized this as a potential problem for our dairy farmers when the guidance was issued in April and since has been working for a solution.

On Tuesday, Sens. John Thune (R-SD) and Tammy Baldwin (D-WI) introduced S. 3918, the bipartisan *Paycheck Protection for Producers Act*, and Reps. Ron Kind (D-WI), Glenn 'GT' Thompson (R-PA), Anthony Brindisi (D-NY) and John Joyce (R-PA) introduced a companion measure, H.R. 7175, on Thursday.

The legislation would allow sole proprietors, independent contractors, or self-employed farmers and ranchers to use their 2019 gross farm income (capped at $100,000) to determine their PPP loan amount, as opposed to the net farm income figure. We will work with the bill's sponsors in both chambers to advance this measure.

PPP Continues to Evolve in Wake of Newly-Passed Bill – In a related development concerning the Paycheck Protection Program, the Small Business Administration (SBA) issued an interim final rule on Thursday to update its previous guidance on the PPP.

You'll recall that last week, President Trump signed the new *Paycheck Protection Program Flexibility Act* to revise the loan forgiveness provisions of the PPP. In addition to adjusting its rules on loan covered periods, payment deferral timelines, maturity dates, and forgiveness spending timeframes to reflect last week's new law, SBA has also addressed how PPP loan funds must be spent and proposed a slightly new approach to loan forgiveness calculations.

For all borrowers, at least 60% of total loan funds must be spent on payroll costs, regardless of whether funds will be forgiven. When it comes to loan forgiveness calculations, at least 60% of the forgiven amount must be spent on payroll.

This is a different approach to forgiveness than SBA previously has taken. The prior forgiveness guidance was interpreted to require at least 60% of spending during the forgiveness spending period to go toward payroll costs, in order for any amount to qualify for forgiveness.

The amended rule, however, allows for reduced forgiveness for those borrowers who cannot devote 60% of their spending during the 24-week forgiveness timeframe to payroll. If borrowers cannot meet the 60% spending rule during the forgiveness spending period, whatever amount they do spend on payroll becomes 60% of the total forgiveness amount they are allowed.

Thus, more borrowers may be eligible for forgiveness under the new SBA rule, although their forgiveness will be reduced in proportion to their percentage of spending on payroll below 60%. For more information on this issue, contact our Director of Government Relations, Claudia Larson.

Finally, in our most recent NMPF podcast, Cricket Jacquier, a member of the NMPF's executive committee and chairman of the board for Agri-Mark, discusses how the pandemic crisis has proven to be an opportunity for us to talk about how important dairy products are to providing essential nutrition to consumers. To listen to the full discussion, click here.

Thanks for reading and enjoy your weekend.