

# MPC WEEKLY FRIDAY REPORT

DATE: JULY 31, 2020  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 5

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## MPC FRIDAY MARKET UPDATE

<b>CHICAGO CHEDDAR CHEESE</b>		<b>CHICAGO AA BUTTER</b>		<b>NON-FAT DRY MILK</b>	
Blocks	<b>-\$ .2875</b>	\$2.2525	WEEKLY CHANGE	<b>- \$ .1225</b>	\$1.6075
Barrels	<b>-\$ .2150</b>	\$2.2350	WEEKLY AVERAGE	<b>- \$ .0480</b>	\$1.6415
<b>WEEKLY AVERAGE CHEDDAR CHEESE</b>		<b>DRY WHEY</b>		<b>WEEK ENDING 07/25/20</b>	
Blocks	<b>-\$ .2565</b>	\$2.3575	DAIRY MARKET NEWS	W/E 07/31/20	<b>\$ .3555</b>
Barrels	<b>-\$ .0680</b>	\$2.3850	NATIONAL PLANTS	W/E 07/25/20	<b>\$ .3596</b>
				<b>PRIOR WEEK ENDING 07/18/20</b>	
				NAT'L PLANTS	<b>\$0.9769</b> 14,026,993
				NAT'L PLANTS	\$0.9647 18,409,871

## 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
FINAL JULY '20	\$18.16 - \$18.66	\$13.68	\$24.55	\$13.66
LAST WEEK	\$18.16 - \$18.66	\$13.62	\$24.41	\$13.65



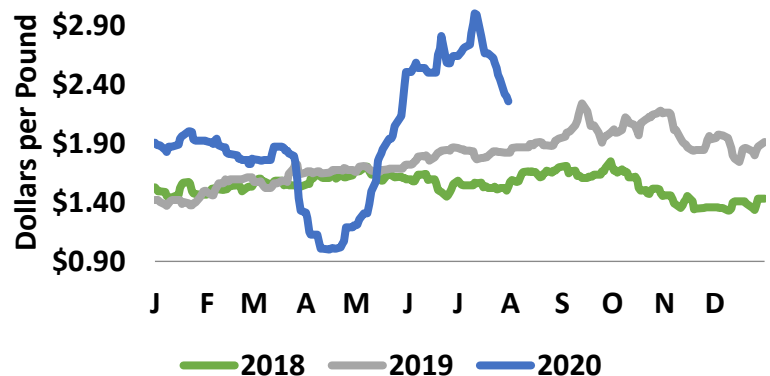
### Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report  
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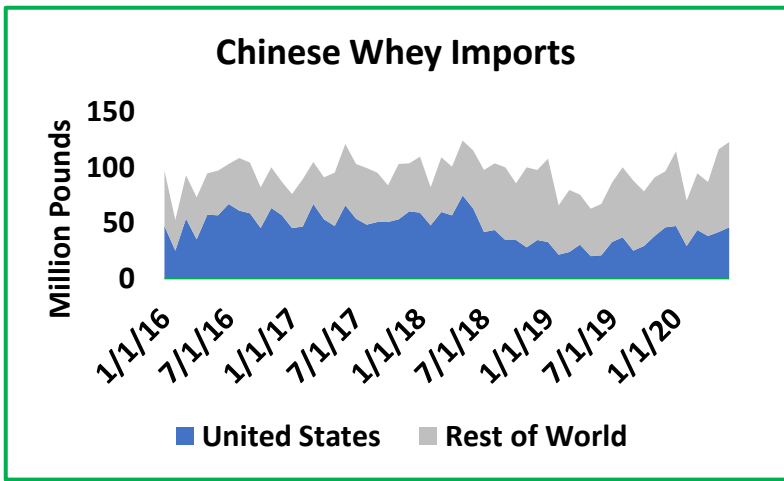
#### Milk & Dairy Markets

The cheese markets tumbled once again this week. Blocks dropped 28.75¢ to \$2.2525 per pound. Spot Cheddar barrels scrambled to catch up, dropping hard on Thursday and Friday. They closed at \$2.235, down 21.5¢ since last Friday. Despite the setback, cheese prices are still historically high. Blocks are holding above the highest price posted last year, albeit by a scant 1.5¢ margin. Prices are lofty enough to support July Class III at \$24.55 per cwt. and August at \$21.03.

#### CME Spot Cheddar Blocks



Midwestern cheesemakers are filling hearty orders, and USDA's Dairy Market News reports that supplies of blocks and barrels in the Central region are "tight to nonexistent." Mozzarella and provolone are moving quickly from the vat to pizza chains, who are still doing a brisk business. But in other

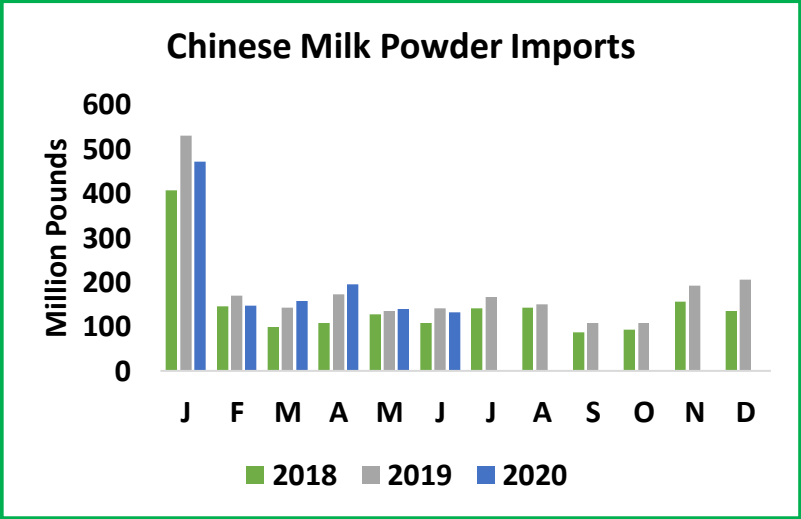


regions, orders are slowing. Foodservice demand is waning, and consumers are wary after this month's spike in coronavirus infections.

USDA announced another round of spending for the Farmers to Families Food Box program in September and October. Between the food boxes, CARES Act, Section 32, and Trade Mitigation programs, USDA is expected to spend more than \$1 billion on dairy product purchases this year. The government is sopping up a lot of cheese, which likely sparked the recent shortage and

drove the spot market to all-time highs. But recent prices signal that fresh commodity cheese is more readily available. Milk is plentiful and output is formidable. Waning spot milk prices in the Central region are incentivizing cheesemakers to top up their vats.

More cheese means more whey. The *Dairy Market News* roundup of whey values around the country shows prices slipping once again. Whey protein concentrates (WPCs) are under considerable pressure, which is pushing more of the whey stream into powder. Nevertheless, CME spot whey rallied 0.25¢ this week to 34.25¢.

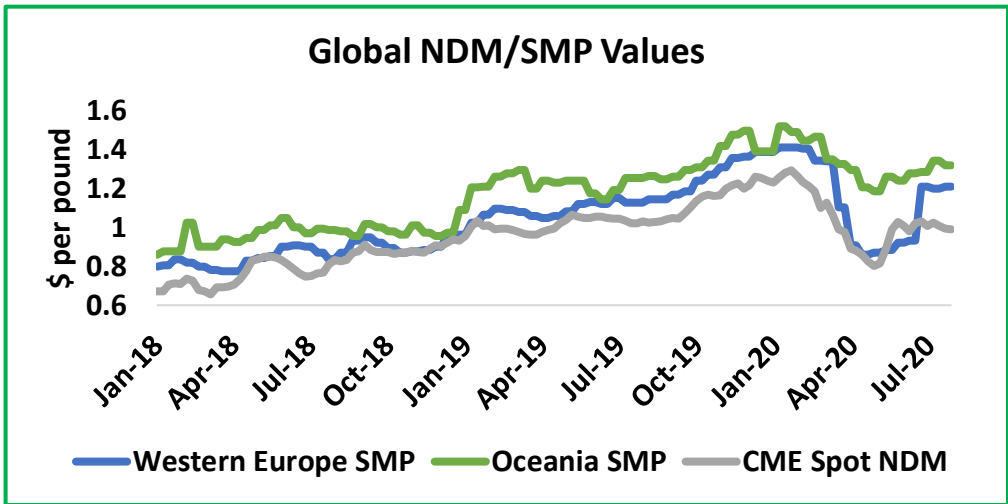


China's appetite for foreign whey seems to be growing. China imported nearly 123 million pounds of dry whey last month, up 84.2% from June 2019. That's China's highest monthly volume since May 2018, before African swine fever devastated the country's swine herd. China has strived mightily to rebuild its pig herd, but progress has been slow. However, by modernizing the industry, China has likely boosted the amount of whey consumed per head. There

are now fewer backyard pigs eating scraps and more in large, modern facilities eating a sophisticated ration, which often includes whey for piglets. The U.S. has benefitted from the shift. U.S. whey exports to China reached a two-year high in June. However, the trade war continues to bite. The U.S. share of China's whey imports is much lower than it was a few years ago, before the trade war flared.

Chinese milk powder imports fell short of last year's substantial volumes, but they are still higher than most years. New Zealand accounts for the lion's share of China's imports, but last month they ceded a noticeable share of the skim milk powder (SMP) market to the U.S. and several European nations. U.S. SMP is the cheapest in the world, and it is becoming even more competitive as the dollar weakens. But domestic demand is worsening. Both spot milk and WPC 34% are cheap, and they are edging out nonfat dry milk (NDM) at the margins. This week CME spot NDM slipped 1.25¢ to 97.75¢.

The butter market dropped hard this week, as more plentiful cream supplies and flailing foodservice demand weighed on prices. CME spot butter fell 12.25¢ to \$1.6075, a two-month low.

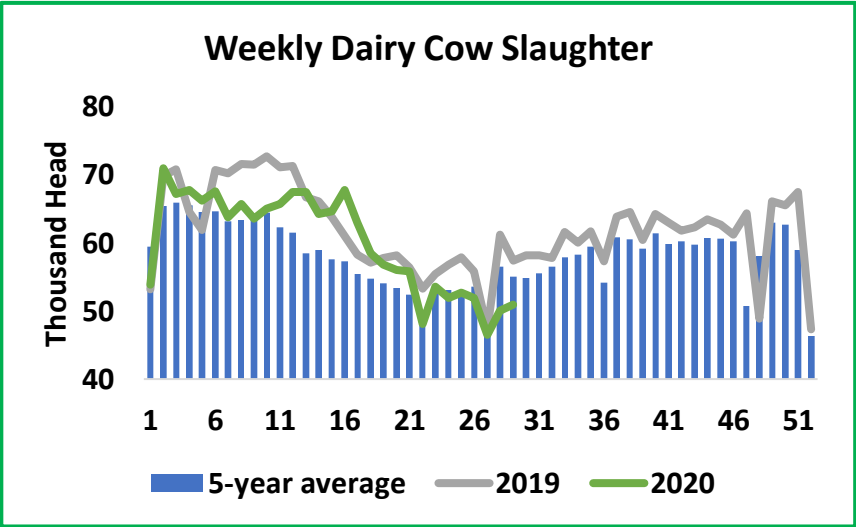


There was a lot of red ink at the CME this week. Losses in Class III futures ranged from 15¢ in December to \$1.23 in September. Most Class IV contracts shed between 40 and 50¢. They remain dishearteningly low, around \$13 or \$14. Low Class IV prices are anchoring the Class I market, which means dairy producers will suffer more depooling and a punishing producer price

differential for the next few months.

Milk is likely to remain abundant as summer fades into fall. August will be balmy, as usual, but the forecast does not call for any extreme heat. Dairy slaughter has dropped hard, signaling that producers are likely trying to fill their barns and the bulk tank. In the week ending July 18, dairy cow slaughter slumped to 50,295, the lowest total for this time of year since 2011. For the year-to-date dairy cow slaughter is 3.6% behind the 2019 pace.

While potential milk production is on the rise, demand remains in question. The school year will be unconventional at best, with many students learning from home at least part of the time. The back-to-school bump in fluid milk consumption will lack its usual oomph. That will leave more milk for manufacturers even as they struggle to move dairy products through foodservice channels. This week the government confirmed the economic devastation we all witnessed in the second quarter, reporting a record-breaking 32.9% decline in economic output compared to last year. Plummeting consumer spending accounted for the bulk of the decline. Although things had started to bounce back in June, the fledgling economy recovery seems to have stalled in July as the virus rages on. The initial panic has calmed, but the pandemic will continue to disrupt the dairy industry in myriad ways



**Grain Markets**

The feed markets retreated. September corn futures settled at \$3.16 per bushel, more than a dime lower than last Friday. September soybeans dropped 8.5¢ to \$8.9025. Soybean meal fell \$2.30 to \$291.20 per ton. Early this week, USDA rated 72% of the corn and soybean crops in good or excellent condition, an unusually high rating for this time of year, when the simultaneous stress of summer heat and pollination typically drags ratings downward. These ratings, coupled with spotty but mostly favorable rains and mild summer temperatures project that crop yields could average above the historic trend. There’s already a lot of corn in the bin, so a bumper crop doesn’t leave a lot of room for a rally.



## Quota News This Week

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
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This past Tuesday Judge Timothy Aspinwall, the judge from the Office of Administrative Hearings who conducted the hearing on the STOP QIP petition, which sought a referendum to suspend Chapter 3.5, submitted his recommendation to Secretary Ross. You can read his Recommended Decision [here](#). For Judge Aspinwall it came down to the phrase in Section 62757 (c) “shall be pursuant to”.

The Judge says: *“For this, it is essential to understand the meaning of the verb “be”. The definition of the substantive verb “be” includes means “to exist,” “to happen or occur,” and “to remain or continue.” (Webster’s New World Dict. (2d College ed. 1976) p. 121.) Based on this definition, section 62757, subdivision (c), is best understood to proscribe the two-step process by which the QIP was brought into existence, and by which it will be permitted to remain or continue. Thus, any effort to suspend, amend, or terminate the QIP must adhere to the two-step process outlined in Sections 62719, 62716 and 62717, as incorporated by section 62757, subdivision (c).”*

The STOP QIP petition was based on its belief that a referendum to suspend Chapter 3.5 would also suspend section 62757, which is in Chapter 3.5, and authorizes CDFA to collect an assessment to fund the quota payments. Chapter 3.5 has its own lower vote threshold. The Judge obviously read the law a different way. As for all the testimony by producers and experts on all sides about the costs and benefits of the quota program, the Judge wrote that *“This evidence, though important and compelling, did not factor into this decision which is based primarily on statutory requirements for a referendum.”* His order is brief. *“Petitioner’s request for a referendum pursuant to Chapter 3.5 is DENIED.”*

What Judge Aspinwall was tasked to do was conduct a hearing to develop a recommendation for Secretary Karen Ross who must make the final decision. She has not announced what she will do and has 30 days to make that decision.

On Friday, July 31 there was a virtual hearing in Department 17 of the Sacramento Superior Court. This hearing was to listen to oral arguments in the case that STOP QIP brought challenging the process that CDFA used to create the QIP in the first place. This case also involves the interpretation of the words contained in Section 62757 of the Food and Agriculture Code. The Legislature passed this language in 2017 for the purpose of authorizing the establishment of a stand-alone quota program if California became a FMMO. Superior Court Judge James P. Arguelles had released a Partial Tentative Ruling on Thursday in which he signaled that he disagreed with the Petitioner’s [STOP QIP] position. The Judge wrote out two questions for the lawyers for all the various parties to address at the hearing. In addition to the STOP QIP lawyers, there were lawyers for CDFA, for SAVE QIP (large quota holders) and for the United Dairy Families as well as Farmdale Creamery which had a related case up for decision participating in the video hearing. The lawyers and the Judge went back and forth only really agreeing that Section 62757 (a) as written by the Legislature was “not the model of clarity” but disagreeing as to the implications of that on what CDFA actually did to carry out the intent of the law which was to establish a stand-alone quota program in the event that California became a FMMO. The Judge gave everyone ample opportunity to make their points and closed the hearing without rendering a decision.

He said he would put something out within the next few weeks. You can read the Partial Tentative Rulings [here](#) and [here](#).

Meanwhile, on Friday July 24, CDFA informed the United Dairy Families (UDFC) that they had verified sufficient signatures on the UDFC petition which requests a referendum on the UDFC proposal. As you may recall, that proposal is to change the Regional Quota Adjusters to equalize the quota differential at \$1.43 per cwt. statewide immediately and then run the QIP until March 1, 2025 at which time the QIP would terminate. [CDEA's letter](#) said they anticipated scheduling an August Producer Review Board meeting followed by a public hearing to consider the petition.

## CDQAP Quality Assurance Update – July 2020

*Courtesy of California Dairy Quality Assurance Program*

California Dairy Quality Assurance Program (CDQAP) recently published its July 2020 Quality Assurance Update. Below are excerpts from the Update, which you can read in its entirety [here](#).



### **Thinking About CDQAP Certification? Needing a re-evaluation?**

*By Denise Mullinax, Executive Director, California Dairy Research Foundation*

Nearly 800 dairy facilities throughout the state are CDQAP Environmentally Certified. There are many benefits for producers who take this step to demonstrate their environmental commitment to their neighbors, their processor, and beyond. Benefits include an improved understanding of regulatory requirements and scientifically proven, cost-effective practices, “peace of mind” of compliance via a dairy-friendly on-farm evaluation without risk of regulatory enforcement, and a 50% reduction in annual water quality permit fees (currently valued at \$250- \$6,500 per year depending on size).

### **COVID-19 and Dairy Worker Safety**

*By Dr. Michael Payne, UC Davis, School of Veterinary Medicine and Director, CDQAP*

Some dairies received an unusual visit over the July Fourth weekend, one from the Division of Occupational Safety and Health, better known as Cal/OSHA. Rather than checking on familiar areas like heat stress and toilets, however, these visits focused on COVID-19 prevention.

### **Meyer Receives Agricultural Sustainability Leadership Award**

Dr. Deanne Meyer is this year’s recipient of the Eric Bradford & Charlie Rominger Agricultural Sustainability Leadership Award. She is being honored for her leadership in substantially improving the sustainability of California’s dairy industry through her research and outreach. A fixture in the state’s dairy community, Deanne has directed CDQAP’s environmental training and outreach programs for more than 20 years.

