MPC Weekly Friday Report

Date: April 16, 2021
To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	*- $.0500*	$1.7800
Barrels	*- $.0025*	$1.6900
Weekly Average Cheddar Cheese		
Blocks	*- $.0105*	$1.7890
Barrels	*+ $.1190*	$1.7025

Chicago AA Butter		
Weekly Change	*- $.0300*	$1.8500
Weekly Average	*+ $.0390*	$1.8810
Dry Whey		
Dairy Market News	w/e 04/16/21	**$.6300**
National Plants	w/e 04/10/21	**$.6074**

Non-Fat Dry Milk		
Week Ending 04/10/21		
Nat'l Plants	**$1.1645**	17,226,117
Prior Week Ending 04/03/21		
Nat'l Plants	$1.1353	15,913,669

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
April 16 Est	**$17.11 - $17.61**	**$15.64**	**$17.64**	**$15.47**
Last Week	**$17.11 - $17.61**	**$15.65**	**$17.68**	**$15.37**

March 2021 CA FMMO Statistical Uniform Price Announcement

Mar '21 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	**$16.80 (Tulare) $17.30 (L.A.)**	**$15.07**	**$16.15**	**$14.18**	**$14.35 (Tulare) $14.85 (L.A.)**	**$13.985 (Tulare) $14.485 (L.A.)**
Percent Pooled Milk	**21.1%**	**5.4%**	**1.4%**	**72.0%**	**100% (2.037 billion lbs. pooled)**	

**Quota rate of $0.365/cwt. as of June 2020 milk*

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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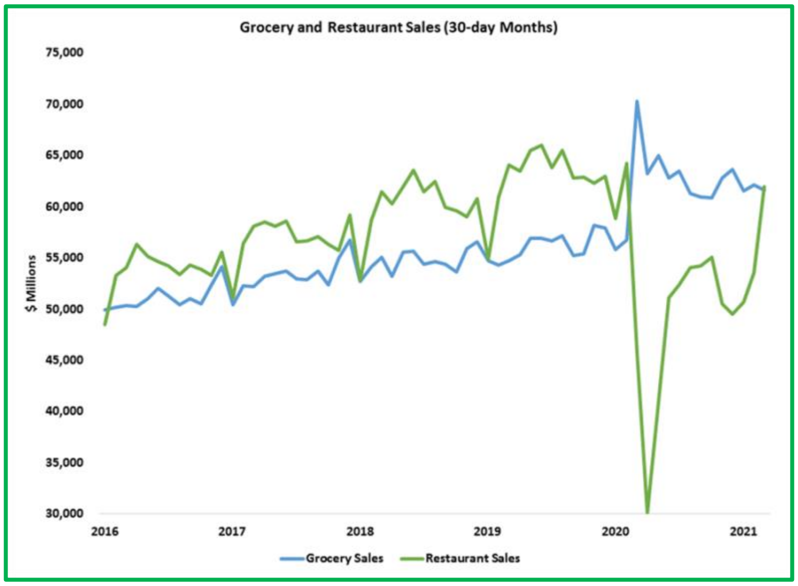
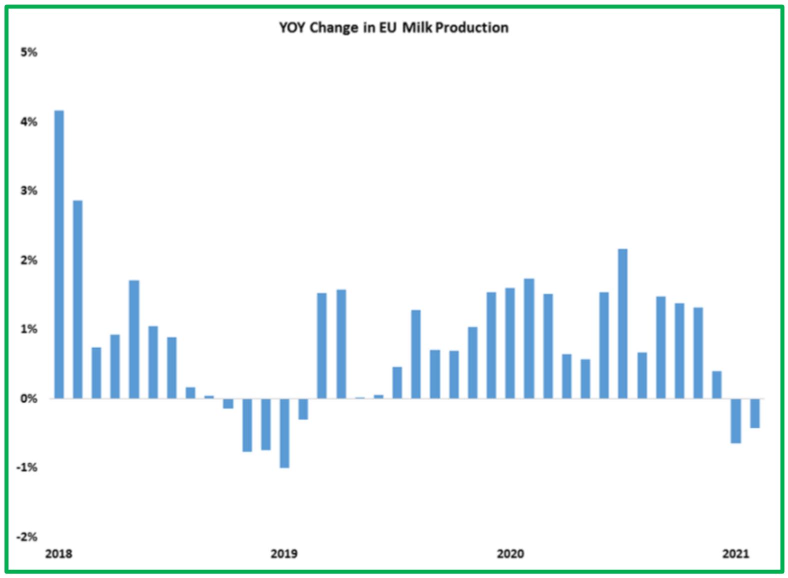
Milk & Dairy Markets

The government let a little air out of the milk markets this week. Most Class III and Class IV futures contracts lost between 10 and 30¢. For the past six weeks, cheese prices have climbed ever higher thanks to accelerating demand from restaurants and speculation that USDA would continue to buy and donate dairy at a heady clip. But on Tuesday USDA announced that

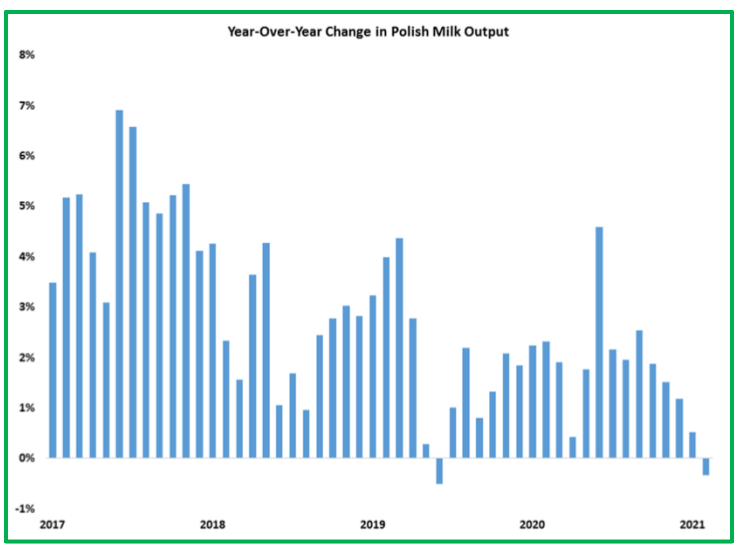


it would end the Farmers to Families Food Box program once May is over, squelching hopes – and fears – surrounding the kind of government spending that propelled the cheese and Class III markets to unsustainable heights in 2020. Although the cheese markets staged a comeback today, they finished lower than where they began the week. CME spot Cheddar blocks dropped a nickel to $1.78 per pound. Barrels ultimately fell just a quarter-cent and closed at $1.69. Butter also weakened. Spot butter slipped 3¢ to $1.85.

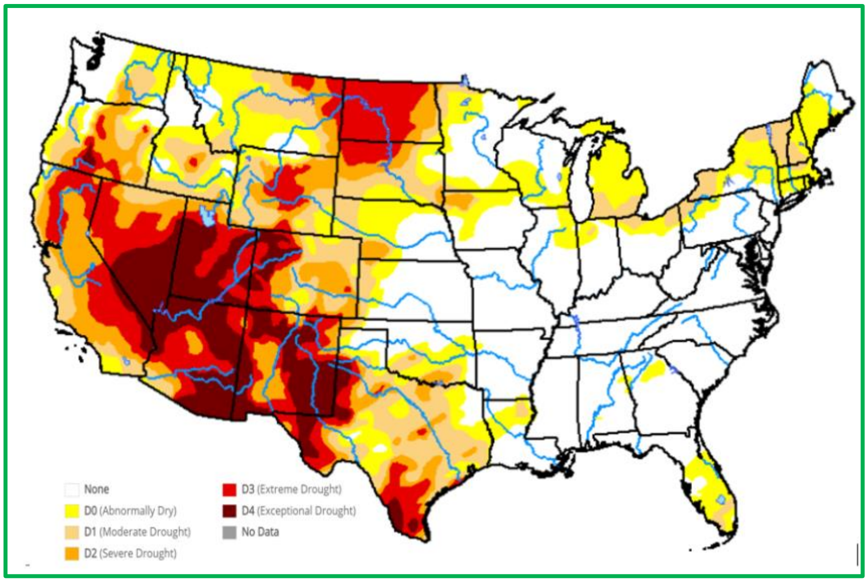
Demand for both cheese and butter remains strong, as restaurants restock and retailers have yet to pull back. Americans spent $127.7 billion at restaurants and grocery stores in March, the highest total on record. Grocers continue to ring up stellar sales, and spending at restaurants is almost back to pre-pandemic levels. At some point, consumers will pare back on grocery purchases as restaurant visits become more routine and their pantry shelves grow heavy. But for now, both food sectors are pushing product at a good clip.



The protein powders continued to climb. CME spot nonfat dry milk (NDM) added a penny and reached a fresh 14-month high at $1.215. Spot whey jumped 4.5¢ to 67.5¢, its highest price on record. Although the spring flush is in full swing, driers are running below capacity in the Great Lakes states as the new cheese plant laps up a greater share of the regional milk supply. Both domestic and export demand are strong, but logistics issues have slowed some sales. The container shortage and port backlogs add to the cost of freight and delay deliveries. Although U.S. milk powder is priced to move, the freight issues are likely trimming sales – and prices – at the margin. But tightening milk powder stocks in Oceania and low output in Europe suggest the U.S. will continue to fare well in foreign markets.

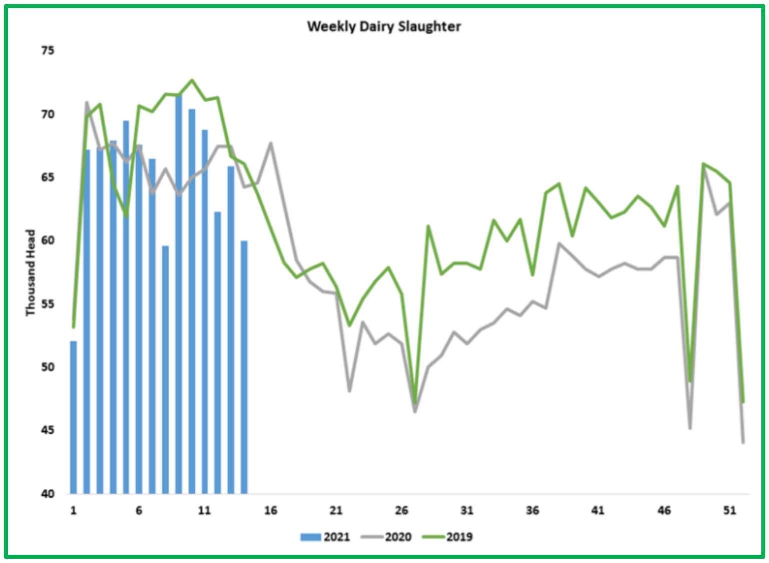


European milk collections were just shy of 27 billion pounds in February, assuming steady milk production trends in Sweden. Adjusted for leap day, that is 0.4% lower than in February 2020, following a 0.7% shortfall in January. Output fell below year ago levels in all the major dairy nations except the United Kingdom, Italy, and Ireland. Polish milk collections were 0.3% lower



than in February 2020, a rare decline for one of Europe's most consistent sources of growth. Lower European milk output helped to offset about 40% of the growth in U.S. milk production in the first two months of the year.

U.S. milk output remains strong, but expenses are on the rise. Feed costs are starting to bite, especially in the West, where dairy producers must pay unusually steep freight rates on top of already high grain and protein prices. Regional drought and scarce inventories compound the Western feed shortage and raise the cost of milk production noticeably. Pricey inputs will weigh on milk output eventually. However, given the massive milk-cow herd and relatively low slaughter rates, milk production is likely to remain formidable in the near term. Fortunately for dairy producers, strong demand has supported dairy product values.



Grain Markets

May corn futures topped $6 per bushel this week for the first time since 2013, when the industry struggled to rebuild inventories after the devastating 2012 drought. Aside from concerns that it's a bit too dry in Brazil, there are no serious crop issues to fuel this year's rally. But demand is formidable. Livestock numbers are up, and drought in the West will push cattle out of grasslands and into feedlots. Exports are booming. May corn settled at $5.855, up another 8.25¢ from last week. December corn finished at $5.1225, 14¢ higher than last Friday. May soybeans jumped more than 30¢ to $14.3325. May soybean meal finished a dollar higher, at $402.20 per ton.

USDA Ends Farmers to Families Food Box

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The USDA Farmers to Families Food Box program started in May of 2020 as an emergency COVID-19 response program to get food to people in need. The concept was simple – pay vendors to put a certain amount of food in a box and deliver it to anyone who would take it. No need for people to qualify.

USDA administered five rounds of this program, distributing 157,544,167 boxes of food. A gallon of milk and a pound of cheese was required to be in every box, as well as 5 more pounds of dairy products, which the vendor could select. When these original contracts were made, vendors, for the most part, had not secured the required items to put in the boxes. The delivery requirements were tight and the immediate demand for cheese to fill the boxes overwhelmed the market and drove cheese prices to unprecedented levels. The same demand did not apply to butter. While butter was an optional dairy product, it had to compete in price with other dairy products like yogurt and sour cream which have a much higher moisture content and are therefore less expensive on a per pound basis.

Milk pricing for American dairy farmers is very much tied to the Federal Milk Marketing Order (FMMO) classified pricing system, which has separate milk prices for milk made into cheese as opposed to milk turned into butter and nonfat dry milk. The result of dramatically different demand for cheese compared to butter and powder caused a huge gap between Class III (cheese milk) and Class IV (butter/powder milk). This higher price for Class III incentivized cheese plants to "depool" and not share those increased revenues with the whole order. Furthermore, a 2019 change to the FMMO Class I price formula that now uses the "average of Class III and Class IV" as the base price instead of the "higher of Class III or IV" meant that Class I prices for several months were lower than the Class III price, which also contributed to a shortfall in funds in the Federal Milk Marketing Order pools. This shortfall of revenues played itself out in negative Producer Price Differentials (PPDs) on producers' milk checks, which caused a lot of questions and concerns in the producer community.

For months, producers and their representatives have been asking USDA to take this imbalance in milk prices to farmers into account as they carry out their purchases of dairy products. The announcement that the food box program is ending is the first indication that change is coming. Hopefully, what follows will be better.

Secretary Vilsack testified and took questions at a hearing of the House Agriculture Appropriations Committee this week. The whole hearing ran three hours, and you can watch it here.

For your convenience, we have put together a short excerpt of the hearing related to questions and answers of the following:

- The Food Box program
- The Estate Tax
- The Stepped-up Tax Treatment
- Flavor Milk in the School Lunch Program
- Ag Export Dependance On China

You can view the edited video here.

The hearing also spent quite a bit of time talking about expanding broadband access in rural areas, beef marketing oversight, nutrition programs and social justice.

NMPF President's Update

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

NMPF Executive Committee Endorses Class I Mover Reform – National Milk's Executive Committee met earlier today to discuss continuing concerns about the Class I mover, and how the pandemic-induced price disruptions of the past 12 months have created an untenable situation in fluid milk pricing that has reduced dairy farmer revenue by more than $725 million.

The Committee endorsed proposing to USDA that the current formula to adjust Class I prices that was established in the 2018 farm bill be changed. Under NMPF's proposal, the Class I mover would be adjusted every two years to reflect the difference between the former "higher of" Class III or IV and the current "average of" III and IV plus $.74/cwt.

Our Executive Committee expressed an urgent need to restore a measure of balance between farmers and processors in how bottled milk is priced and how the revenue is shared. We had hoped to reach an agreement with IDFA on this issue, but there appears to be no consensus on the part of processors about how to proceed.

NMPF's Board of Directors will meet next week to discuss the Executive Committee action requesting an emergency, expedited national USDA Federal Order hearing on our proposal, with the hope of getting USDA's Agricultural Marketing Service to move as quickly as possible to implement our plan.