

MPC WEEKLY FRIDAY REPORT

DATE: APRIL 2, 2021
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 6

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	+ \$.0550	\$1.7750	WEEKLY CHANGE	+ \$.0700	\$1.8450
Barrels	+ \$.0500	\$1.5125	WEEKLY AVERAGE	+ \$.0994	\$1.8194
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY		WEEK ENDING 03/27/21
Blocks	+ \$.0389	\$1.7519	DAIRY MARKET NEWS	W/E 04/02/21	\$.6037
Barrels	+ \$.0408	\$1.4888	NATIONAL PLANTS	W/E 03/27/21	\$.5806
					PRIOR WEEK ENDING 03/20/21
					NAT'L PLANTS \$1.1353 15,913,669
					NAT'L PLANTS \$1.1321 18,081,861

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 2 EST	\$17.11 - \$17.61	\$15.60	\$17.50	\$15.46
MARCH '21 FINAL	\$16.80 - \$17.30	\$15.07	\$16.15	\$14.18



Milk, Dairy and Grain Market Commentary

By Monica Ganley, Daily Dairy Report

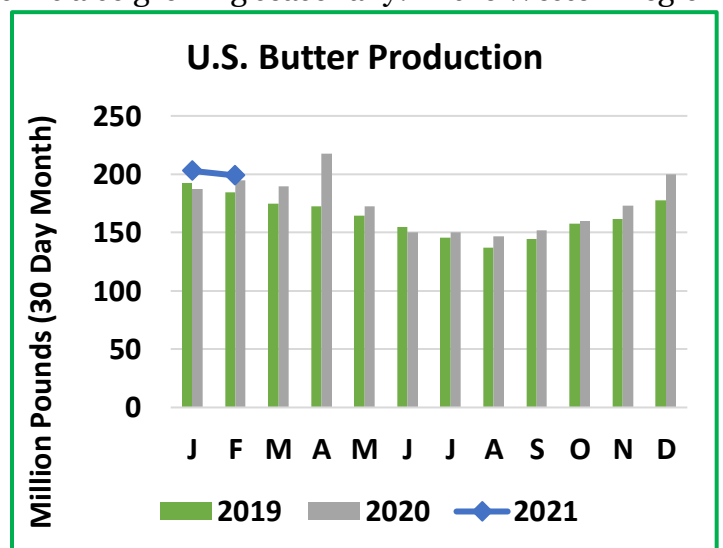
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Milk & Dairy Markets

Spring has sprung across the United States. As the days lengthen and the temperatures rise, milk production is also growing seasonally. In the Western region

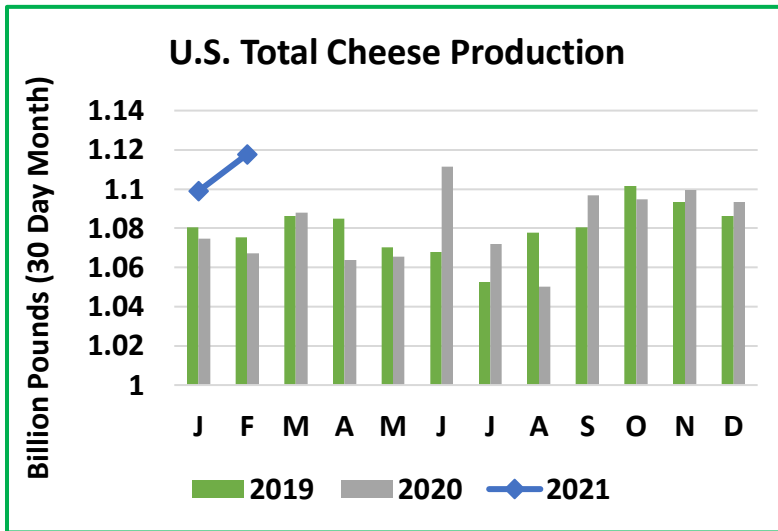
of the country, market participants indicate that peak production levels are on the horizon, perhaps just weeks away. Meanwhile, in the Upper Midwest, while seasonally high volumes are a bit further off, market participants continue to report very strong figures relative to prior year. Bottling demand has perked up as students return from spring break, but milk remains readily available for manufacturing needs.

Abundant raw milk has translated into record setting production of dairy products. In USDA's Dairy Products report released on Thursday, production of butter, cheese, and nonfat dry milk in February was the highest ever seen for that



month, at least on an average daily basis. With milk production expected to stay strong, dairy product production will continue to be robust. This aggressive production threatens to overhang the market unless demand can demonstrate a meaningful and sustained expansion.

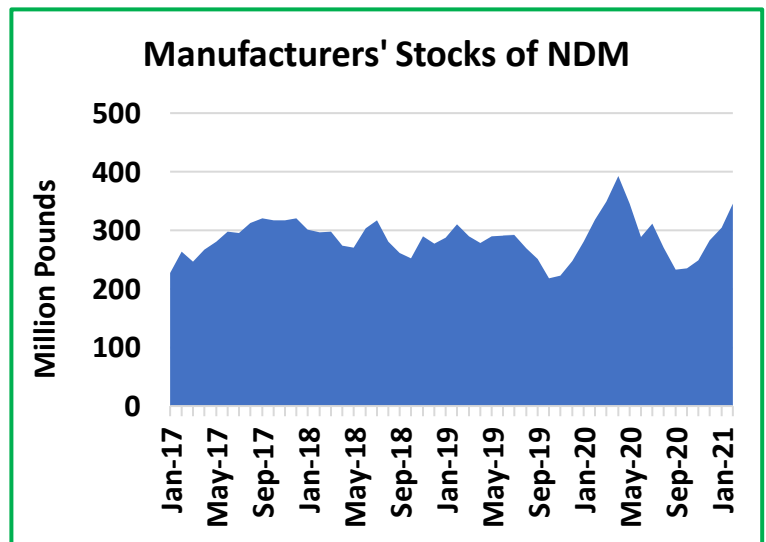
Yet despite supply concerns, the CME spot dairy markets all saw gains over the course of the week. Butter had the biggest weekly rise, adding 7¢ during the short week with 19 loads trading hands. After closing Thursday's spot session at \$1.845/lb., spot butter prices are now the highest they have been since June of last year. Butter demand has improved as spring holiday baking has supported retail purchases while the reopening of restaurants increased the pull from foodservice. New crop butter rules are also likely helping to support some of the spot price increase, since there is no denying that product is readily available. February butter production set a new record for the month. At 185.6 million pounds, butter production was up 2.2% year over year, after accounting for the leap day.



Cheese markets also got a boost this week. Market participants indicate that food service demand for cheese has improved markedly, which is helping to keep some tension in the market. Nevertheless, cheesemakers have been busy, manufacturing a total of 1.043 billion pounds of cheese in February. Representing an increase of 4.7% versus February 2020, cheese production set a record for the month. Production data shows that manufacturers favored the production of American style cheeses during February, though Cheddar output in particular has slipped compared to earlier months.

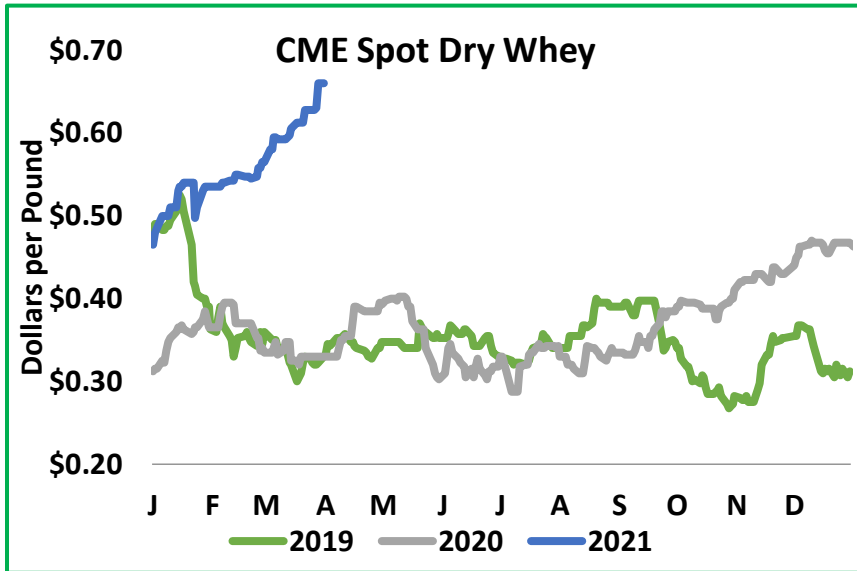
Meanwhile, the production of Italian style cheeses also increased versus prior year, albeit by a slower margin than American style cheeses. Improving restaurant activity should disproportionately benefit Italian cheese demand in the coming months.

Cheddar blocks were able to capitalize on the increase in demand, though the spot market was fickle. Price increases on Monday and Thursday counteracted a penny drop on Wednesday, ultimately pushing the spot price up by 5.5¢ to \$1.775/lb. Barrels were more consistent, with prices marching upward in three out of the four daily spot sessions, finishing the week at \$1.5125/lb., up a nickel from last week.



February production data illustrates that during the month dryers held a strong bias for producing nonfat dry milk (NDM) for use in the domestic market or to be shipped to nearby Mexico, versus skim milk powder which would likely be sent farther afield. Totalling 186.3 million pounds for the month, NDM production was up by 13.0% year over year. Meanwhile, SMP production slipped by 20.3% to 29.6 million pounds. This preference is likely a reflection of the nagging logistical issues that are preventing U.S. produced SMP from being easily exported. Strong NDM production also translated to a buildup in stocks as manufacturers' stocks

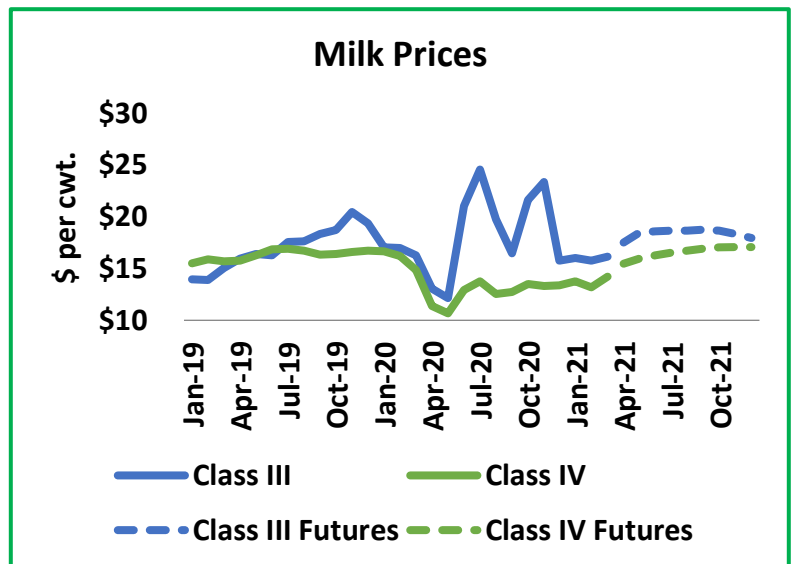
of NDM grew to 345.6 million pounds at the end of February, the highest amount ever recorded at the end of that month. In the spot NDM market, the price rose by a half cent in each of the four trading days of the week, bringing the price on Thursday to \$1.19, up two cents from last Friday's close.



The whey markets continue to move upward, with the spot dry whey price boasting a new record this week. After opening the week unchanged and adding just a quarter cent on Tuesday, the price moved up by 3¢ on Wednesday as three loads traded hands. The market remained unchanged at 66¢/lb. on Thursday. Dry whey production rose by 4.3% year over year in February, as strong cheese production threw off a plentiful whey stream. Yet, dry whey production paled in comparison to the

manufacture of higher protein products. Production of whey protein concentrates and whey protein isolates rose by 8.8% and 28.3%, respectively. This preference for higher protein products continues to keep tension on the dry whey market, contributing to the spot price increase.

Activity in the spot dairy sessions combined with noise in the grain markets had a significant influence on milk futures over the course of the week. After posting some mixed performance on Monday and Tuesday, Wednesday's Prospective Plantings report suggesting impending feed price increases contributed to significant gains in the Class III futures market. Several nearby contracts traded as high as limit up before settling off these highs. Some further gains during Thursday's session pushed prices higher still. The MAY21 Class III contract settled on Thursday a full 95¢ higher than on Monday. Most nearby Class IV milk futures contracts also saw gains over the course of the week, bolstered by increases in the spot butter market.



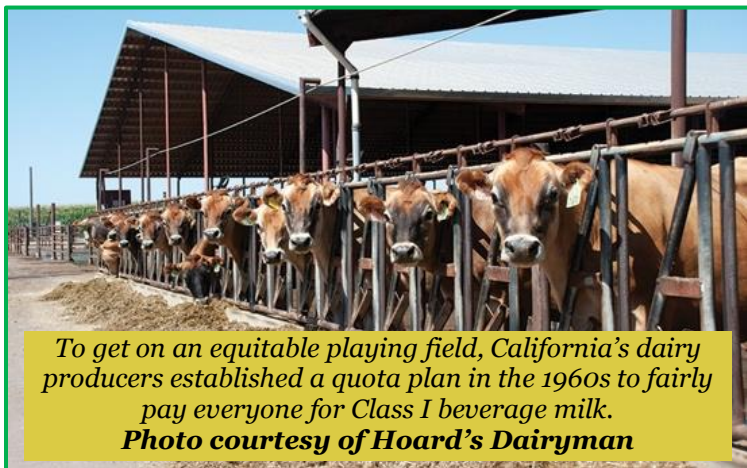
Grain Markets

A surprising Prospective Plantings report released on Wednesday sent corn and soybean prices skyward. Despite already high prices which were expected to inspire additional plantings, the initial survey data included in the report underwhelmed. Corn plantings for the upcoming market year are estimated at 91.1 million acres. Though up from last year, this figure is a couple million acres shy of most trade estimates. Soybean planting expectations also underwhelmed at 87.6 million acres. The lower-than-expected planted acreage combined with meager carryover stocks sent grain futures limit up on Wednesday and are expected to result in higher feed costs for dairy producers.

California's Quota Has Been 60-plus Years of Compromise

By Geoff Vanden Heuvel

Courtesy of Hoard's Dairyman, Originally Published in its March 2021 Edition



To get on an equitable playing field, California's dairy producers established a quota plan in the 1960s to fairly pay everyone for Class I beverage milk.

Photo courtesy of Hoard's Dairyman

In the 1960s – at the urging of producers – a statewide milk income pooling plan was adopted in California. It established regulated minimum prices for all Grade A milk and required the pooling of income from Class I (fluid milk) and some Class II (soft dairy products), while also allowing the pooling of income from the other classes of milk. At that time, California was not eligible to be part of the Federal Milk Marketing Order (FMMO) program since geographic isolation meant there was little interstate shipment of milk.

Prior to the adoption of the California Marketing Order, a contract system between producers and milk buyers existed, where producers were paid based on the use of their milk at an individual plant. Obviously, contracts with Class I bottlers were sought because of the higher prices those buyers could pay. This led to abuse, and often illegal activity, as some bottlers used this leverage to extract concessions from producers who competed for those Class I contracts. The new California Order was designed to take away this power from the processors and equalize revenue to producers across the Golden State.

The birth of a \$1 billion asset

In the political deal struck to implement the California Order, “quota” was created and allocated to producers based on the percentage of their milk sold as Class I in the period just prior to the start of the California Order. This compensated those who had high Class I contracts but were giving up those higher milk checks to establish a market-wide pooling of milk revenue. The plan also included mechanisms to allocate new quota as the Class I market expanded to those who were short of quota at the beginning.

As milk production in California grew above Class I usage, more and more milk not covered with quota came into existence. From the beginning, quota was transferable, and producers bought and sold it to each other as they structured their businesses to fit their individual circumstances. Eventually, quota was an asset worth more than \$1 billion.

Enter California's federal order

As California grew to become the nation's largest dairy state, the inability of its state order to regulate interstate commerce became an issue. Milk supplies were developed just out of state and shipped into California to take advantage of the state's inability to protect its own market. But of more significance was the fact that California's nearly 50-year-old order enforced minimum prices on all buyers of Grade A milk, regardless of usage.

For decades, the California Order generally aligned to FMMO prices across the country. However, when policymakers at the California Department of Food and Agriculture (CDFA) established minimum prices for milk that were substantially below FMMO prices – particularly for cheese (known as Class

4b milk in California or Class III in the FMMO) — California producers suddenly faced a significant competitive disadvantage and lower milk checks compared to their fellow producers across the nation.

Repeated efforts by California producers to get CDFA officials to narrow the gap between California Class 4b and FMMO Class III prices were unsuccessful, leading producers to look at the possibility of joining the federal order system. By this time (the mid-2010s), Class I utilization in California was under 20%, and quota covered less than 40% of California’s production. However, the asset value of quota still represented more than \$1 billion, and a significant majority of producers owned at least some quota.

For many producers, a prerequisite to joining an FMMO was protecting the value of quota. So, Congress was approached and legislation was passed allowing USDA to establish a California FMMO that recognized the quota’s value. With a viable path forward for quota, the major California cooperatives petitioned USDA for the establishment of a FMMO.

California officials worked with producers to design a Quota Implementation Plan (QIP) that would operate after California entered an FMMO. Under the QIP, the \$12 million per month needed to fund quota payments would be collected as an assessment on all Grade A milk produced in California rather than out of market-wide milk pool revenues.

The California-based co-ops had made it clear they would only support a FMMO if a referendum establishing QIP passed by a vote of the producers. That hurdle was cleared, with producers overwhelmingly approving the QIP in 2017.

When the FMMO began in November of 2018, producers began to see the actual cost of quota since it now appeared as an assessment on their milk statements. There was no difference between the quota costs prior to the FMMO . . . the costs were just more transparent, showing up on a milk statement rather than being paid out by the former California pool.

Continue reading [here](#).

Natural Resources Conservation Service California Extends 2021 Conservation Stewardship Deadline

*Courtesy of the California Department of Agriculture
Office of Environmental Farming and Innovation*

California farmers, ranchers and private forestland owners now have until April 7 to apply for the Conservation Stewardship Program (CSP) and be considered for 2021 funding.

CSP offers payments and technical assistance to help producers maintain existing conservation systems and adopt additional conservation activities, or enhancements. Existing stewardship payments will reflect current conservation activities--the higher the performance, the higher the payment. Enhancement payments may address resource concerns such as soil health, pollinators, changing weather patterns, western forest structure, efficient irrigation, rangeland health and much more.

“We are pleased to be able to increase the timeline for accepting applications in 2021,” says Carlos Suarez, state conservationist for NRCS California. “We know many sectors of our diverse agricultural economy are learning more about CSP and are excited about the opportunities.”

RaeAnn Dubay, assistant state conservationist for Farm Bill Programs, adds that the many stewardship programs offered by California’s progressive agricultural industries may help participants of those programs qualify for CSP. “NRCS and many of our agricultural partners share stewardship goals,” says Dubay. “CSP is one tool to help us achieve these mutual objectives.”

While conservation applications are accepted throughout the year, interested producers should submit CSP applications to their local NRCS office by April 7, 2021, to ensure their applications are considered for 2021 funding. Selections will be announced in late April and contracts will be obligated by July 30, 2021.

For additional information about CSP, please schedule an appointment with your [local USDA Service Center](#). More information can be found at [farmers.gov](#).

