MPC WEEKLY FRIDAY REPORT

DATE: MAY 1, 2020
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		
						WEEK ENDING 04/25/20		
Blocks	+ $.1350	$1.2050	WEEKLY CHANGE	+ $.0425	$1.1875	NAT'L PLANTS	$0.8851	24,670,165
Barrels	+ $.1400	$1.1900	WEEKLY AVERAGE	+ $.0210	$1.1735			
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 04/18/20		
Blocks	+ $.1655	$1.1965	DAIRY MARKET NEWS	W/E 05/01/20	$.3700	NAT'L PLANTS	$0.9338	23,236,372
Barrels	+ $.1170	$1.1425	NATIONAL PLANTS	W/E 04/25/20	$.3721			

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
MAY 1 EST	$14.55 - $15.05	$11.76	$11.23	$10.03
APRIL '20 FINAL	$18.24 - $18.74	$13.87	$13.07	$11.40

Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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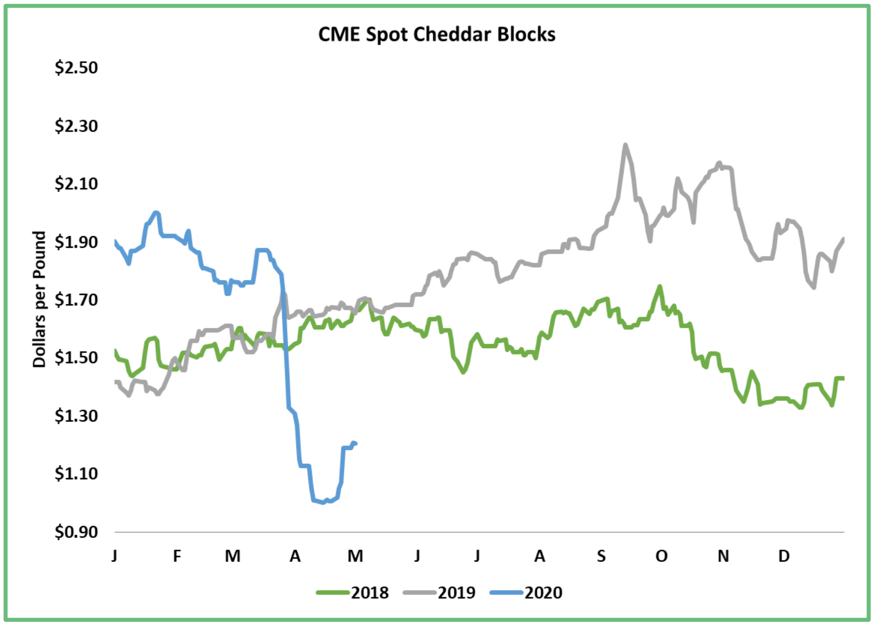
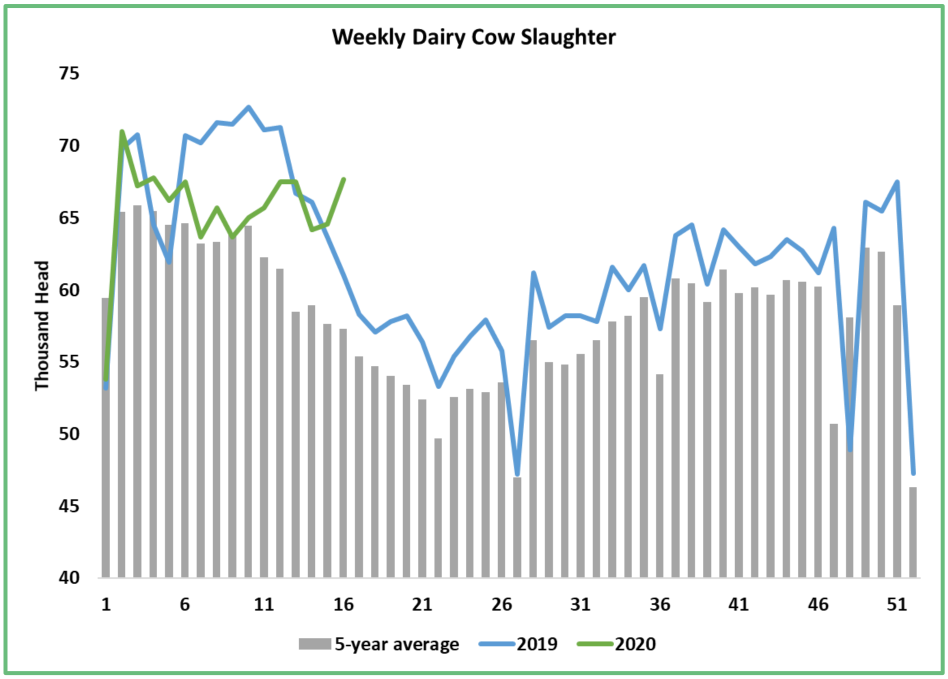
Milk & Dairy Markets

At long last, a rally! Most dairy markets bounced back this week, with enthusiastic double-digit gains in Class III and mixed results in Class IV. Cheese led the comeback. CME spot Cheddar blocks climbed 13.5¢ this week to $1.205 per pound. Barrels rose 14¢ to $1.19. Spot whey added a penny and reached a year-to-date high at 39.5¢. Spot butter rallied 4.25¢ to $1.1875. However, the nonfat dry milk (NDM) market continued to slip. Spot NDM closed at 79.25¢, down 1.75¢ to its lowest value since July 2018. That is below the European Union's

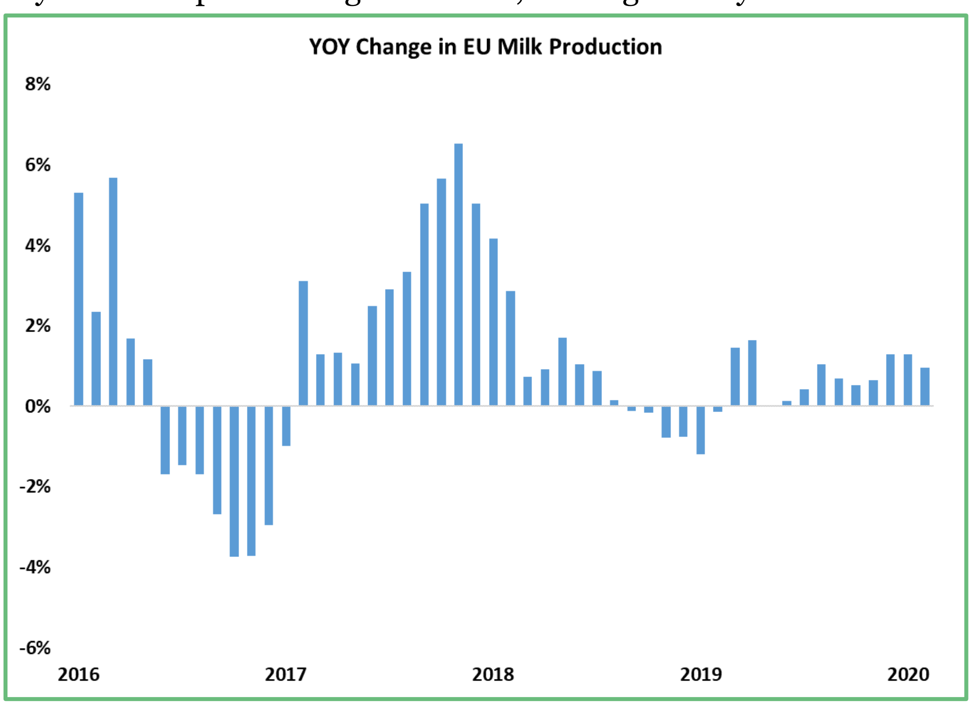


Intervention purchase price for skim milk powder (SMP), which suggests that further downside may be limited.

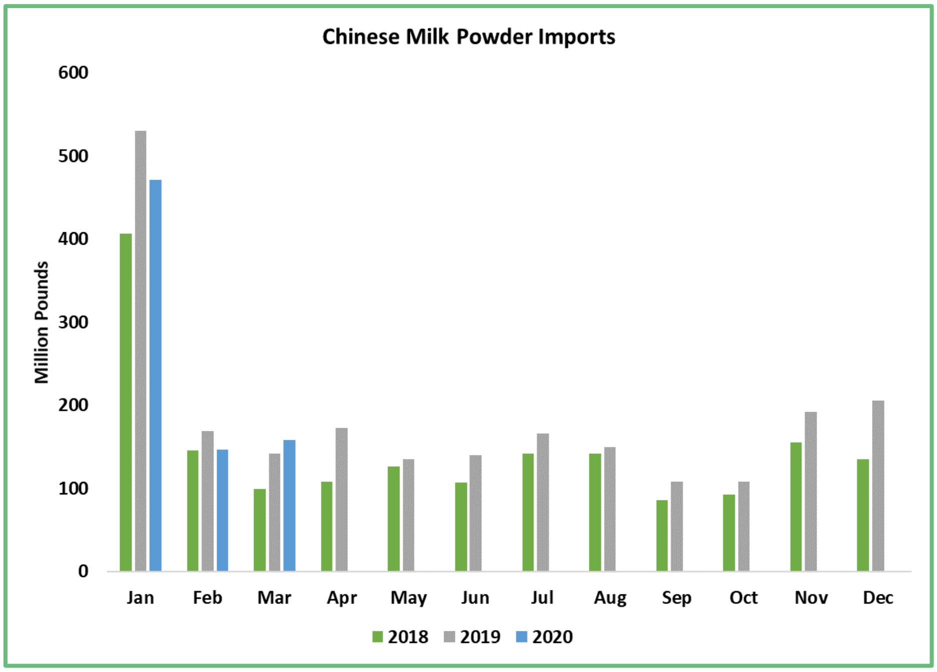
There is still more milk than the market needs. But for myriad reasons, the excess has become a little less burdensome. The markets are working. Bargain pricing has enlivened U.S. cheese exports. Inordinately cheap milk has given some dairy processors the courage to ramp up output even before would-be buyers commit, reducing the volume of dumped milk. Ice cream season has arrived, which is helping to lap up some of the glut in the cream market. Processors are adapting some supply lines to direct more product through retail channels. Grocers are restocking. As consumers grow weary of staying home, some restaurants are ordering food in anticipation of better demand. Restaurant sales are still terrible, but traffic is not quite as abysmal as it was in early April. Indeed, some fast food chains report that business is booming. However, many restaurants remain dark. Meanwhile, the temperature, the milk price, and steep over-production penalties are all working to slow milk output.



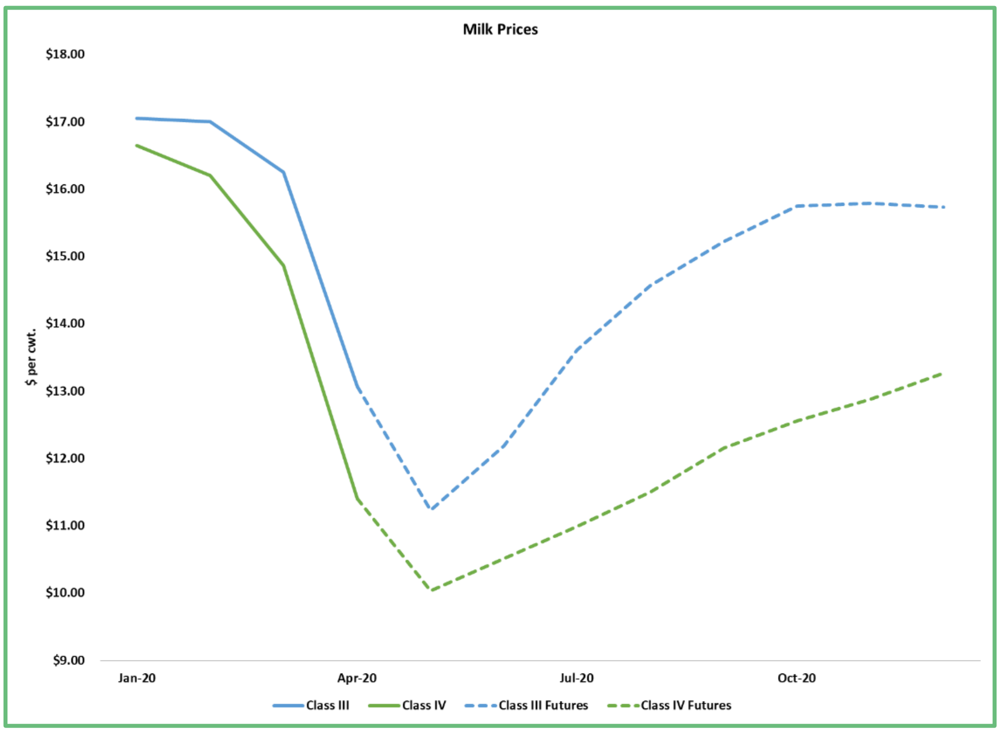
With nearby milk at $10 or $11 per cwt., dairy producers have every incentive to trim their herds. Despite crippling issues at the nation's slaughter facilities, dairy cow culling has remained high for now. Based on data through April 18, dairy cow slaughter has climbed to 34-year highs in three of the past four weeks. The tidal wave of Covid-19 infections in the meat packing industry has swamped the larger facilities, which generally focus on beef cattle. Smaller facilities that kill dairy cows are also swimming against a tide of infection, absenteeism, and slower throughput, but the current is not as strong. Some dairy producers have not been able to cull all the cows they would like, but the national herd is likely shrinking.



Around the world, milk production is growing slowly. On a milk solids basis, milk collections inched up just 0.1% in New Zealand in March. Dry weather is likely to weigh on output as the season draws to a close. Milk collections in Australia jumped 7% from a year ago, but they are still historically low. Australia's dairy industry has been crippled by years of drought. A recovery from last year's paltry milk output still doesn't add up to a lot of new milk. Daily average milk output rose 1% from a year ago in the EU-28 in February. Growth is likely to remain tepid. Europe's dairy industry is facing the same struggles as ours, and the European Commission may grant nations and co-operatives permission to implement schemes to reduce milk production.



Chinese milk powder imports got off to a slow start this year but improved in March. Combined imports of SMP and whole milk powder (WMP) climbed to 158.1 million pounds, up 11.3% from March 2019. That helped to narrow China's year-to-date import deficit from 11.7% at the end of February to 7.8% at the end of March after adjusting for leap day. Going forward, China may need less foreign milk powder. Covid-19 lockdowns severely disrupted dairy supply chains, forcing a greater share of China's milk into highly storable powder. Conversely, China may need to step up imports of relatively fresh dairy products from already high volumes. Chinese imports of butter, cheese, whey powder, and extended shelf-life milks topped year-ago levels throughout the first quarter.



Overall, the dairy markets were a little less bleak this week. The market is seeking balance, and is not wobbling as precariously as it was 10 days ago. Painfully low prices have helped to stimulate some demand and reduce supplies. Unfortunately, there is more work to be done on the supply side. Dairy consumption is not likely to recover fully until consumers are confident to socialize and spend normally. USDA announced the April Class III price at $13.07, with Class IV at $11.40, a 10-year low. May will be worse, but the futures promise better prices later this year.

Grain Markets

The soybean market was cheered by news that China is once again buying U.S. soybeans. The July contract rallied 2.75¢ this week to $8.495. Soybean meal values were basically steady. The corn market continued to lose ground. July corn settled today at $3.185 per bushel, down 7.5¢ from last week. Ethanol output has been cut in half, and projected demand for livestock feed is dropping as growers do all they can to hold animals back. Beef producers are keeping cattle on pasture, while pork and poultry growers are slowing breedings and breaking eggs. Farmers are planting corn at a rapid pace, with soybean seedings to follow. Dry weather is becoming a concern in Europe, Russia, and South America, which could trim global production from previously lofty projections. Still, there will be more than enough.

Still no detail from USDA on COVID-19 dairy relief package

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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It has been 37 days since the U.S. Senate voted 96-0 to borrow $2.2 **TRILLION** to shore-up the productive capabilities of the U.S. economy. America was deliberately shut down by the government to keep the health care delivery system from being overwhelmed by the effects of the coronavirus. Some of the billions of dollars in that relief package were sent to USDA help the dairy industry deal with the massive destruction of dairy product demand in the food service sector caused by the shutdown.

On April 18, USDA made an announcement that they were going to send money to dairy farmers. There was no detail about how much they were going to send other than the fact that payments would be capped at $125,000 per facility. Since that time, there has been an outcry of concern by the industry – and more importantly members of Congress – directed at USDA officials to point out that if help is limited to $125,000 per facility it will fail to accomplish the intended purpose of the money, which is to protect the productive capacity of the U.S. dairy industry. This is because a majority of the milk produced in this country is on farms where $125,000 worth of assistance is not sufficiently meaningful to make a difference.

There are some who claim that the $2.9 billion USDA allocated to dairy is not enough money, and therefore, a per facility cap is necessary to ensure that all dairy farmers receive support. **This is NOT factual based on the math.**

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There are about 175 million hundredweights of milk produced on U.S. dairy farms every month. A $3 per cwt payment per month for every one of those hundredweights would cost $525 million per month. $2.625 billion would cover **5 MONTHS** of help for every dairy farmer in the country without a cap. *The cap looks like a political decision, NOT an economic one.* At this point we have no idea on whether this messaging to USDA Secretary Sonny Perdue is having any effect. But we can pray that it is.

Congressman Jim Costa, Chairman of the Livestock Sub-committee of the House Agriculture Committee, is leading an effort to have Congress include in any future COVID relief legislation, what he is describing as a three-pronged effort to support dairy that includes 1) allocating funds to dairymen with higher or no caps, 2) implementing an incentive program to pay producers to temporarily reduce production, and 3) greatly ramping up USDA food purchases to provide to people in need. The three major cooperatives in California and the three California dairy farmer trade associations provided Congressman Costa with a strong support letter for his efforts this week that you can read here.

Meanwhile, there are significant production reductions being imposed on producers across the country by their cooperatives and proprietary handlers. In addition, the price that is being paid for milk being produced right now has completely collapsed. It is a crisis and Congress did provide USDA with the dollars and the discretion to make a difference. Unfortunately, USDA's slow and inadequate response is going to maximize the damage and pain dairy families will suffer as a result of this government mandated shut down of the economy. While Congressman Costa and other Congressional leaders on a bi-partisan basis have been saying and doing the right things, and the National Milk Producers Federation and the International Dairy Foods Association also rapidly stepped forward with critical guidance to USDA on what was necessary to mitigate the disaster that is unfolding before our eyes, USDA leadership has so far failed to deliver a response equal to the challenge.

> *"…USDA leadership has so far failed to deliver a response equal to the challenge."*

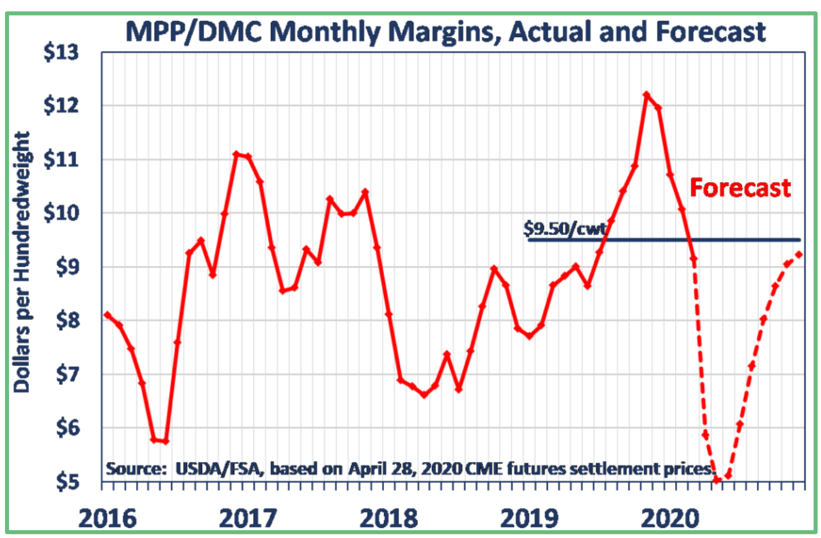
Whether there will be another opportunity for Congress to provide more explicit direction to USDA in the future remains to be seen. After passing over $2.7 trillion worth of COVID related dollars in a rapid and bi-partisan fashion, it now looks like politics as usual has resumed with political posturing and pandering reemerging on the evening news. As the pandemic eases and America comes out of its shelter, the political circus that is a Presidential election year appears on the verge of resuming. Unfortunately for us in dairy, the worst is just starting to be seen. Massive shortfalls in milk and beef income look to linger for months to come. We will hope for the best, but to describe this as difficult is a gross understatement.

DMC margins may not reflect true dairy losses, even as they plunge

Courtesy of National Milk Producers Federation

With the coronavirus crisis massively disrupting dairy demand and supply chains, margins under the Dairy Margin Coverage (DMC) program fell dramatically in March and April. Even so, they may not accurately reflect the true losses producers are facing due to the unusual effects of the crisis on milk-component prices, a public-policy concern as USDA allocates billions of dollars in emergency assistance.

The DMC margin for March was $9.15 per cwt., 35 cents below the $9.50 per cwt. maximum coverage level for the program.



The situation has deteriorated further in April: The full-year margin as of the April 28 forecast by USDA's DMC Decision Tool, shown in the chart, was forecast to be $7.69, $1.81 per cwt. below the $9.50 trigger. Farmers enrolled in the program at all coverage levels, both under and over 5 million pounds of production history, would collectively receive $515 million in government payments at that margin.

Still, even margins that low – the lowest since 2009, if current margin formulas were projected backward – may understate the full loss for dairy.

Continue read here.

CDQAP Update: Dairy security recommendations, forage sampling, Dr. Deanne Meyer recognized by North Coast Regional Water Board

Courtesy of California Dairy Quality Assurance Program

Check out the latest from the California Dairy Quality Assurance Program's monthly update.

Dairy security recommendations

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

California producers were shocked this month to learn of early-morning robberies of employees on two separate Merced County dairies. Both robberies were tragically violent, with the April 15th incident involving a knife attack and the April 20th crime resulting in a homicide. The Merced County Sheriff's Office believes the incidents are related and an arrest has been made. *Continue reading here.*

Sample forages: No pass with COVID-19

By Deanne Meyer, Ph.D., Livestock Waste Management Specialist Dept. of Animal Scient, UC Davis

Wow what a difference a month makes. For many, the last weeks have been a blur. Shelter-in-place! How do we get milk supply managed? Who counts as essential workers? Will my employees get hassled coming to or leaving work? What kind of personal protective gear is needed and how long will it take to get here? The list of questions goes on. *Continue reading here.*

Congratulations to Deanne Meyer!

Dr. Meyer was recently awarded the North Coast Regional Water Quality Control Board's 2019 Water Quality Stewardship Award for her leadership in advancing the science and practice of pasture-based dairy operations on the North Coast. *Continue reading here.*

In schools, restaurants, or at home – dairy helps sustain us

Courtesy of Dairy Cares

MPC has been a longstanding member of Dairy Cares, a statewide coalition of dairy organizations working together to ensure the long-term sustainability of California's dairy farm families. MPC General Manager Kevin Abernathy currently serves as 2nd Vice Chairman of Dairy Cares.

Dairy farmers, Ken and Sherrie DeVries of Hinkley Dairy deliver donated milk to local food bank.

In the United States and other developed countries, the concept of sustainable food is often viewed through a narrow lens, focused solely on the environment. The COVID-19 outbreak has at least temporarily changed American lifestyles—closing schools, halting large gatherings, and shuttering dine-in restaurants—causing us all to take a closer look at our food system. This drastic change helps demonstrate that what makes our food choices sustainable is also how well they serve the needs of people—health, well-being, and the livelihoods.

It's an important time to recognize that California's more than 1,200 family dairy farms provide nutrient-rich, affordable, planet-smart, enjoyable foods that contribute significantly to the economy. Milk is unique in that it is produced, processed, and delivered fresh each and every day. The California dairy industry provides about 180,000 year-round jobs and is the largest contributor to the state's agricultural economy. This includes careers at farms, processing plants, distribution centers, transportation companies, supply and support industries, and other entities. Employees throughout the entire dairy supply chain are essential, and they've continued working—ensuring a safe and nutritious food supply and providing important economic activity—throughout the stay-at-home order. It all starts at family-run farms that have taken extra precautions to ensure the health and safety of their staff and the continuity of our food supply.

Continue reading here.