

MPC WEEKLY FRIDAY REPORT

DATE: MARCH 6, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 6

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	+\$0.0275	\$1.7500	WEEKLY CHANGE	+\$0.1300	\$1.8550	WEEK ENDING 02/29	
Barrels	-\$0.1125	\$1.4775	WEEKLY AVERAGE	+\$0.1365	\$1.8580	NAT'L PLANTS	\$1.2236 14,727,215
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 02/22	
Blocks	+\$0.0115	\$1.7580	DAIRY MARKET NEWS	W/E 03/06/20	\$0.3700	NAT'L PLANTS \$1.2411 17,543,824	
Barrels	-\$0.0710	\$1.5190	NATIONAL PLANTS	W/E 02/29/20	\$0.3743		

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
MARCH 6 EST	\$19.06 - \$19.56	\$17.09	\$16.37	\$15.55
FEB '20 FINAL	\$19.15 - \$19.65	\$16.84	\$17.00	\$16.20

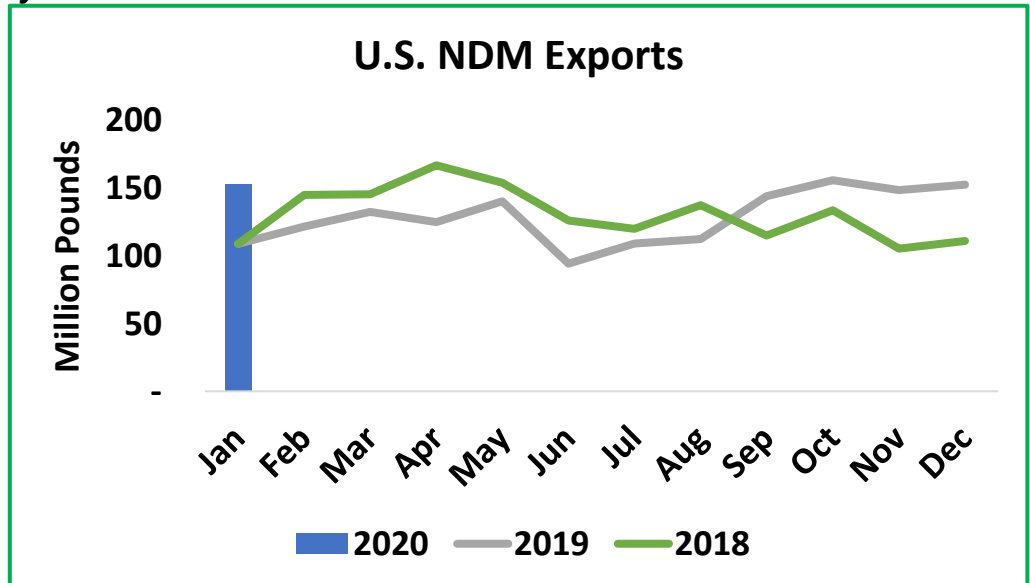


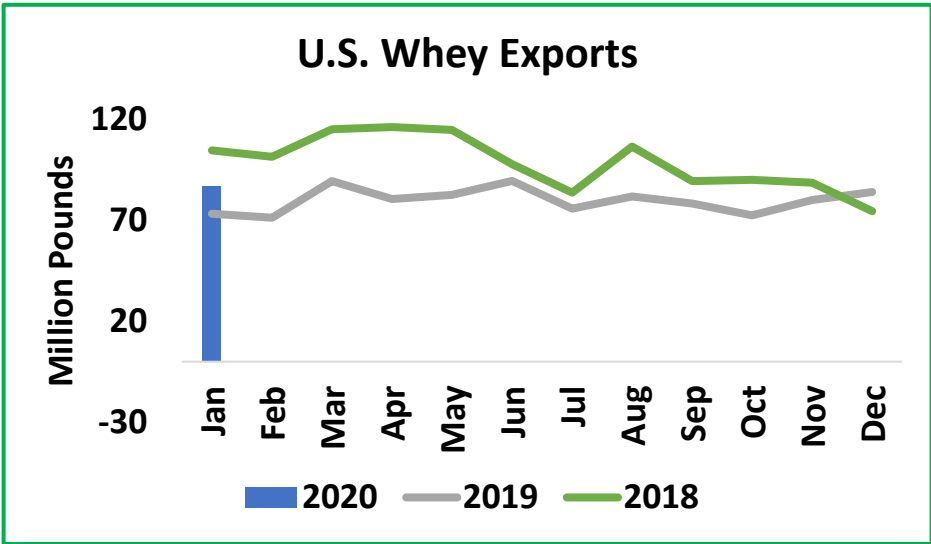
Milk, dairy and grain market commentary

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

Milk & Dairy Markets

The dairy markets sprinted out of the gate on Monday, but they couldn't sustain such an energetic pace. They managed to cross the finish line today in a slightly better position than last Friday, but they looked quite fatigued. Class III futures were little changed from last week, with nearby contracts in the low \$16s. Class IV futures improved. Most first-half contracts added roughly a nickel, while





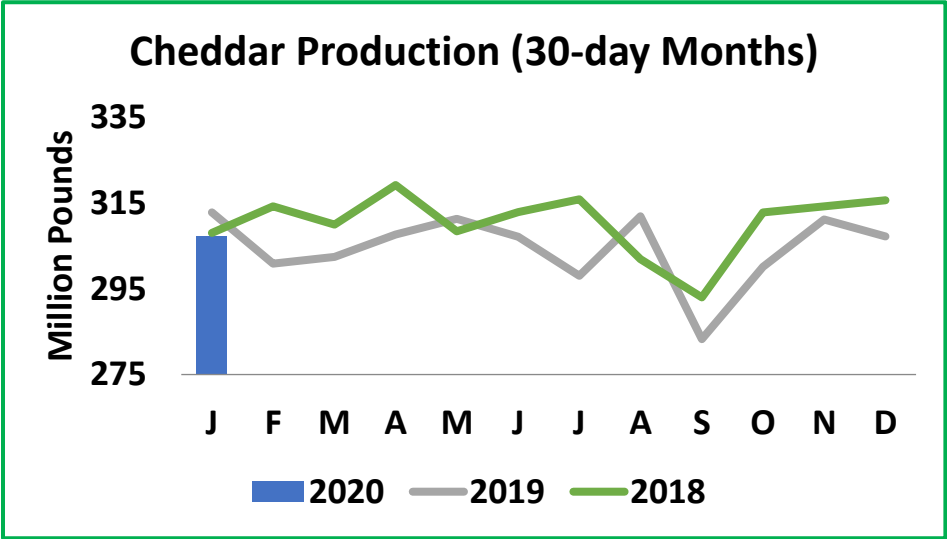
second half futures climbed 20¢. Still, at prices ranging from \$15.40 to \$16.73 per cwt., Class IV values are uninspiring, to put it kindly.

The dairy markets – and markets of all stripes – are fixated on the spread of the novel coronavirus (COVID-19) and its potential impact on the economy and consumer behavior. This week, for the first time since the financial crisis, the Federal Reserve called an emergency meeting and cut interest points by 50 basis points.

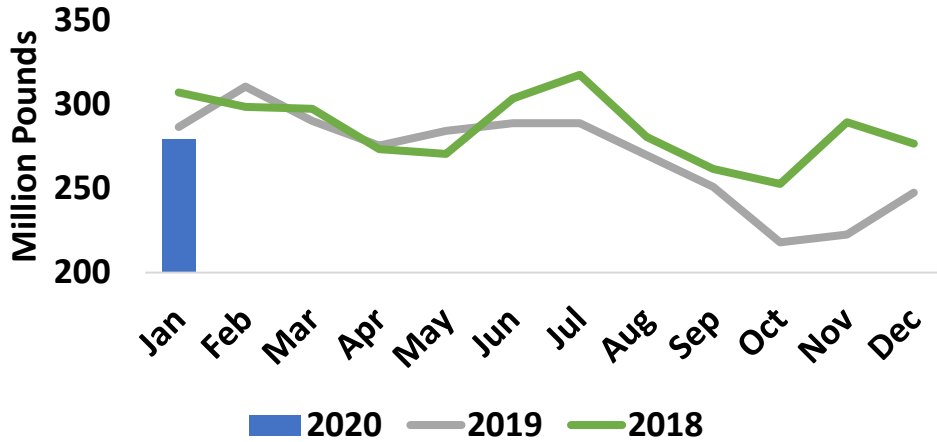
If the disease continues to unsettle the markets, they may make further cuts in the hopes of stimulating economic activity. The dollar weakened considerably in response, making U.S. exports more competitive.

U.S. dairy product exports made a strong showing in January, with \$546.2 million in sales. That’s only the second time ever that January sales topped \$500 million. Milk powder exports were particularly strong. At 153 million pounds, they were up 40.8% from January 2019. U.S. cheese exports were up slightly from last year, while butterfat exports continued to lag. Whey product exports grew noticeably from the depressed levels of last year, when the trade war was in full swing. Chinese orders for U.S. whey products improved as the U.S. regained market share there. However, the severely diminished pig herd and COVID-19 suggest that further upside may be limited.

U.S. exporters likely kept dairy products moving abroad for much of February, but Southeast Asian orders evaporated when the virus began to wreak havoc around the Lunar New Year. It seems that life is beginning to return to normal in much of China, outside Hubei province, but trade logistics are still a snarl. China is working through a backlog at its ports, and ships and containers are often not where international traders need them to be. Meanwhile, COVID-19 is spreading quickly around the world, including in the United States. Countless corporations are canceling conferences and discouraging employee travel. Many people are opting to chat on a screen rather than face to face, reducing personal and business travel and all the consumption that goes with it. There are a lot of would-be steak dinners that won’t hit the company’s credit card this month, along with numerous baskets of bread with butter, creamy soups, sauces, and dressings and cheesy appetizers. In many places, the grocery checkout lines are long, and the shelves are starting to look bare, so it’s possible that gains in retail sales are offsetting slower restaurant traffic. But overall, dairy demand is likely losing ground.



Manufacturers' Stocks of NDM



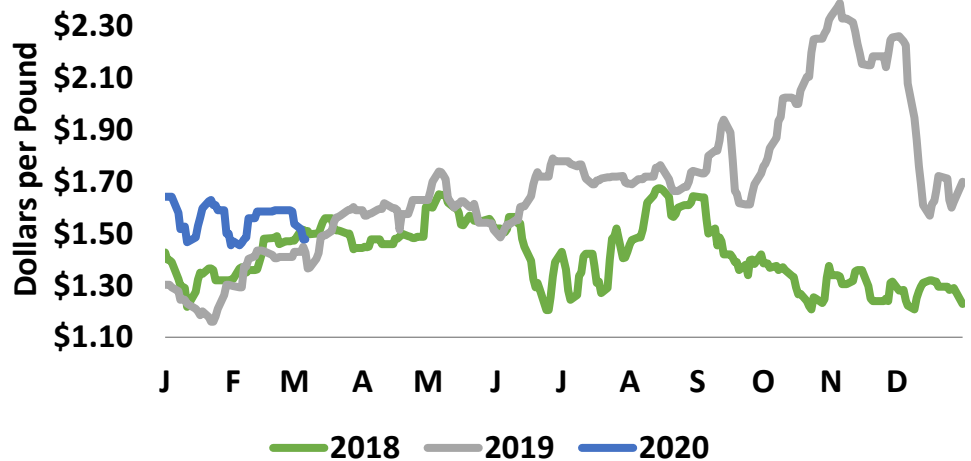
There was plenty of milk for driers, vats, and churns in January. While cheese and butter output increased only modestly from 2019, the 0.4% and 0.6% respective gains were enough to establish new production records for the month of January. Thanks to strong mozzarella output, Cheddar production continues to lag prior-year levels, which may help the spot cheese market to find its footing. Nonfat dry milk (NDM) output was just

0.3% higher than in January 2019, but skim milk powder (SMP) production jumped 29.5%. Manufacturers were clearly making product for export, but foreign demand has since dried up. Despite strong milk powder exports in January, manufacturers piled up NDM. Stocks reached 279 million pounds, up 32 million pounds from December 31. That's the largest December-to-January increase since 1999. Stocks are still below year-ago levels, but the deficit is shrinking.

Dairy product prices moved mostly lower at the Global Dairy Trade (GDT) auction on Tuesday, but the decline was not as steep as feared. The average price for SMP at the GDT slipped 3.2% to the equivalent of \$1.33 per pound, after adjusting for protein. At the CME spot market, NDM bounced back from last Friday's five-month low. It climbed a nickel to \$1.115. Whey powder rallied too. It added 0.75¢ and closed at 34.75¢.

Now that traders March has arrived and brokers can no longer dump "old crop" butter in Chicago, pressure has abated. CME spot butter bounced back to \$1.855, up 13¢ from last Friday. The cheese markets were mixed. Spot Cheddar blocks climbed 2.75¢ to \$1.75. Barrels plummeted 11.25¢ to \$1.4775. For the first time since June, barrels are cheaper than they were a year ago.

CME Spot Cheddar Barrels



There are a lot of good things to be said about dairy market fundamentals, and the most positive is that global milk output is growing very slowly. But demand seems to be moving backward for the moment, and until that changes, conditions are likely to be rather gloomy on LaSalle Street and on the farm.

Grain Markets

Just like dairy, corn prices gained ground this week despite a lot of red ink on Thursday and Friday. May corn settled at \$3.76 per bushel, up 7.75¢ from last Friday. Soybean futures retreated 1.5¢ to \$8.9125. U.S. exports simply cannot compete with Brazilian soybeans. The Brazilian real stands at an all-time low against the U.S. dollar, and Brazilian farmers are enjoying their best soybean prices in a decade. As they bring in their bumper crop, they are selling immediately. Brazilian soybean exports are expected to be record large this month. The Argentine crop also seems to be in good shape, although it's been a bit dry. The forecast promises that rains will return in a few days. But Argentina's exports may not impress, because the government raised taxes on both soybeans and soy products.



Spotlight on collaboration: MPC works with agencies, counties to address issues caused by recent rendering shutdowns

By Kevin Abernathy, General Manager

Kevin@MilkProducers.org

Any Central Valley dairy producer reading this is keenly aware of the unfortunate perfect storm that hit our industry last week regarding mortality disposal. On Monday, February 24, Baker Commodities announced that livestock mortality pick-up would be suspended for one to weeks due to equipment issues at its Kerman facility. This left producers in the south valley with limited options for dealing with carcass disposal. A few days later, Darling Ingredients announced that its Turlock plant would also halt pick-ups due to equipment issues at its plant, leaving few options for north valley producers. This unfortunate perfect storm shed light on the vulnerability of our rendering infrastructure here in the heart of dairy country.

The good news is that multiple groups sprang into action to help producers, trying to make the situation as painless -- and least disruptive -- as possible, and I want to take a moment to say thank you to these folks.

The first order of business was working with various county agencies from San Joaquin in the north to Kern in the south. Whether it was their office of environmental protection or office of emergency management, these counties stepped up to declare states of emergencies so that producers had more options available to them during this unique situation. MPC staff thanks the many county supervisors and staff that made sure proper administrative and legal actions were taken to lessen the severity of this emergency. I personally appreciate the conversations I had with supervisors and staff across several counties, their willingness to strategize on solutions, and their swiftness to act.

I also want to thank California Department of Food and Agriculture staff and the California Dairy Quality Assurance Program (CDQAP), particularly Dr. Mike Payne, CDQAP Director. Dr. Payne pulled together invaluable resources, information and contacts for producers, drawing on more than 20 years of experience working on issues related to California dairy crisis preparedness. Well done, Dr. Payne! Another big thanks goes to the hauling companies who helped producers move animals using the information provided by CDQAP.

No doubt, the last two weeks have been stressful for producers, haulers, dairy trade representatives and county officials. Fortunately, we were able to work together efficiently and effectively to make the best of a very difficult situation. For producers that may still be dealing with this situation or have questions about the proper steps to take in the event of a similar situation in the future, please do not hesitate to contact me at Kevin@MilkProducers.org.

Join California dairy farmers in their world-leading, planet-smart efforts

Courtesy of Charles “Chuck” Ahlem, Chairman of Dairy Cares



On behalf of the California dairy community, we invite you to join us for the second [California Dairy Sustainability Summit](#), taking place March 25-26 at Cal Expo in Sacramento. In 2018, we came together for a first-of-its-kind event, to recognize the achievements of dairy farm families and support them as they continue their sustainability efforts. Since then, much progress has been made through tremendous partnerships and investments, and ongoing research. While our work is not done, our accomplishments to date are astounding.

As we gather again soon, we continue to strive to do even more to protect our shared land, water, air, and climate. Collaboration remains critical as we work to improve the economic and environmental sustainability of our family farms. It is also essential that we work together to share our story and recognize how our efforts to develop planet-smart farming practices are helping create a truly sustainable global food system.

For many of us dairy farmers, our stories began with just a few cows and a dream. With great passion, our ancestors cared for those cows, producing milk to nourish other families, as well as our own. Through many changing and challenging times, we've done what we can to keep the farm afloat, taking leaps of faith, using the latest research as a guide, and investing in new strategies and tools. Our farms do not look the same as they did 50 years ago. We have designed and updated them so we can provide top-quality animal care and comfort, while making the most out of natural resources—recycling water, producing solar energy, managing manure nutrients, and overall, producing more with less.

Through the Summit's many educational and inspiring presentations, we will learn just how much California dairy farmers have reduced their environmental footprint and what that means for the planet and the global dairy supply chain. We will also learn about trends in the ever-changing retail market and consumers' expectations for animal care and environmental stewardship.



We know those expectations are high, and come during a challenging time for us California dairy farmers. We are striving to reduce greenhouse gas emissions and improve air quality, while meeting new regulatory requirements for water protection and conservation. An open dialogue is essential as governments, companies, and organizations across the globe discuss aspirational environmental goals. Together, we can develop pathways to achieving these goals while sustaining family farms.

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Featured Speakers – 2020 California Dairy Sustainability Summit

The agenda features dairy farmers, state officials, technology providers, researchers, industry leaders, and other experts, to discuss the continued advancement of dairy sustainability—in California and across the globe.

California dairy farmers:

- Frank Fernandes, Partner, Legacy Ranches
- Erin Natcher, Dairy Farmer, Hidden Valley Dairy
- Joey Airoso, Dairy Farmer, Circle A Dairy

State and local officials:

- Kate Gordon, Senior Policy Advisor to Governor Newsom on Climate
- Lenny Mendonca, Chief Economic and Business Advisor to Governor Newsom
- Patrick Pulupa, Executive Officer, Central Valley Regional Water Quality Control Board

University researchers/ environmental and nutrition science experts:

- Ermias Kebreab, PhD, Sesnon Endowed Chair in Sustainable Animal Agriculture, University of California, Davis
- Ruihong Zhang, PhD, Professor, University of California, Davis
- Greg Miller, PhD, Global Science Officer for National Dairy Council

Technology providers and key partners:

- Neil Black, President, California Bioenergy
- Daryl Maas, Chief Executive Officer, Maas Energy Works
- Vijay Srivatsan, Head of Product Management, Bloom Energy

Representatives from environmental incentive programs:

- California Department of Food and Agriculture
- USDA Natural Resource Conservation Service
- San Joaquin Valley Air Pollution Control District

Limited number of free registration spots available for MPC members for California Dairy Sustainability Summit

All spots are first come, first served. If you are interested, contact MPC General Manager Kevin Abernathy at Kevin@MilkProducers.org

