MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 5

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	+ $.2075	$2.2050	Weekly Change	+ $.0500	$2.2225	Week Ending 09/07/19		
Barrels	+ $.1775	$1.9200	Weekly Average	+ $.0189	$2.2120	Nat'l Plants	$1.0494	13,814,172
Weekly Average Cheddar Cheese			Dry Whey			Prior Week Ending 08/31/19		
Blocks	+ $.1290	$2.0990	Dairy Market News	w/e 09/13/19	$.3637	Nat'l Plants	$1.0337	33,863,101
Barrels	+ $.1105	$1.8480	National Plants	w/e 09/07/19	$.3681			

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
Sept 13 Est	$19.45 - $19.95	$16.94	$18.31	$16.33
Last Week	$19.45 - $19.95	$16.88	$17.96	$16.26

August 2019 CA FMMO Statistical Uniform Price Announcement

Aug '19 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment
Minimum Class Price	$19.49 *(Tulare)* $19.99 *(L.A.)*	$17.60	$17.60	$16.74	$17.34 *(Tulare)* $17.84 *(L.A.)*	$16.96 *(Tulare)* $17.46 *(L.A.)*
Percent Pooled Milk	23.6%	7.3%	12.3%	56.8%	100% (1.87 billion lbs. pooled)	

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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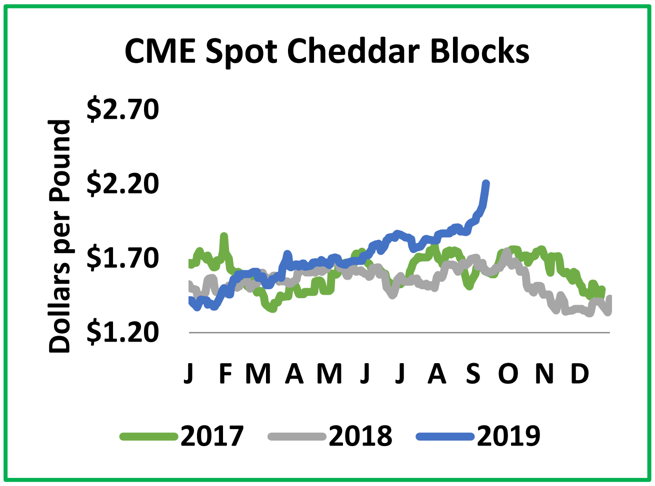
Milk & Dairy Markets

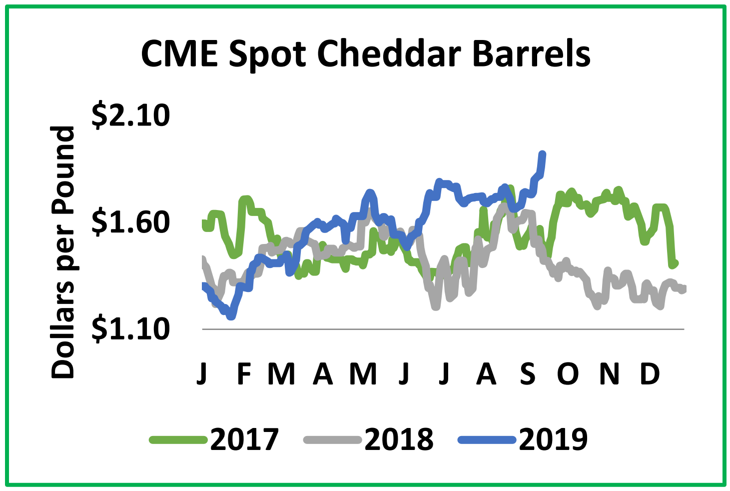
The spot cheese markets blasted into the stratosphere this week. CME spot Cheddar blocks soared to $2.205 per pound, their highest value since October 2014 and an astounding 20.75¢ above last Friday's settlement. Cheddar barrels rocketed higher as well, surging 17.75¢ to $1.92, a nearly five-year high. They traded thrice at that price today. October cheese rallied



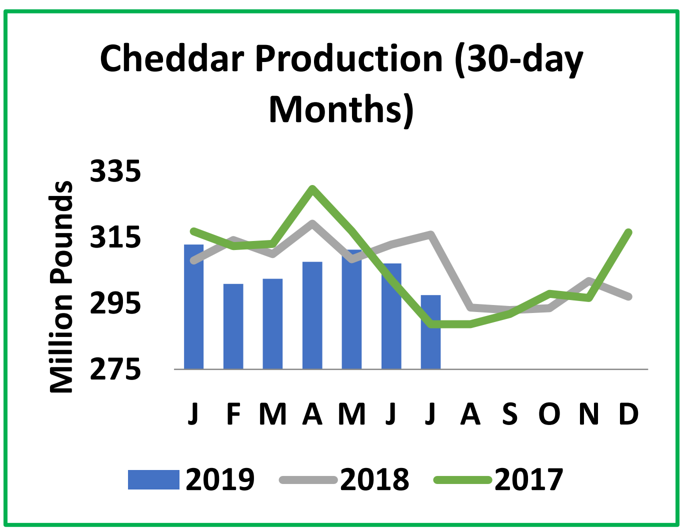
7.5¢ on Thursday and October Class III futures finished 75¢ higher. Both contracts settled at their upper daily trading limits, the first limit-up moves for these markets since 2016.

Spot Cheddar blocks have moved methodically higher all year. From January to August, they rallied an impressive 46¢, gaining an average of nearly 6¢ per month. But though the bulls made headway, their progress was laborious. Each week it seemed they needed to make their case anew, arguing that tighter milk supplies and falling cheese inventories should lift prices.

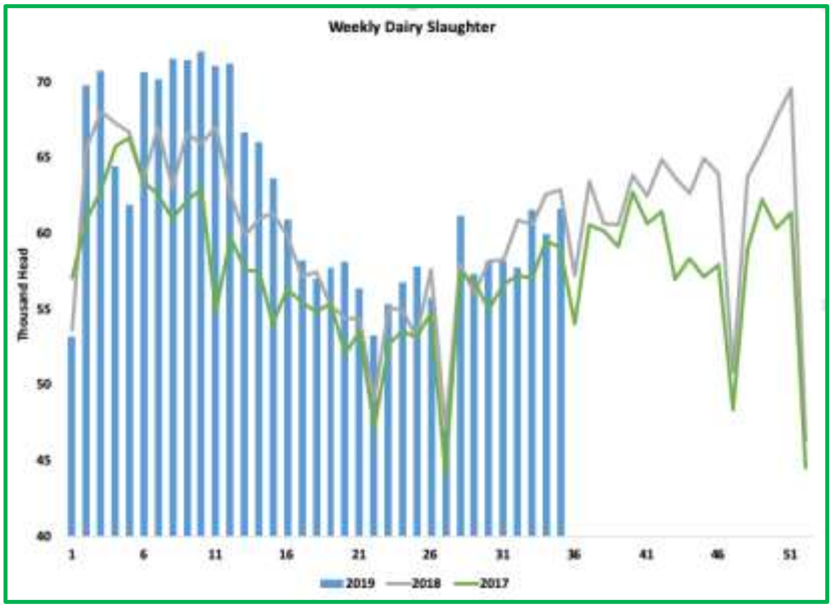
Now, the bulls are clearly in charge. Blocks have jumped 32.75¢ in the last two-and-a-half weeks. The market has long acknowledged that Cheddar blocks are in short supply, but, judging by ever high bids, at least some buyers are concerned about securing barrels as well. For much of the year, Cheddar barrels and Class III futures dragged their feet even as blocks ran higher. Now they're all racing upward together.



The cheese markets have been strengthened tighter milk supplies, which have allowed cheesemakers to direct milk into varieties that best match consumer preferences rather than those – like Cheddar barrels – that allow processors to push the most milk through their plants. Strong pizza sales have pulled more milk away from Cheddar and into mozzarella vats. Through July, U.S. Cheddar production was down 3.1% from a year ago, while mozzarella output was up 4.1%. Excellent domestic demand shrunk the U.S. cheese stockpile throughout the summer. Schools are back in session and football season is in full swing, lifting consumption further. Buyers are clearly anxious about contracting their supplies ahead of the holiday demand season.

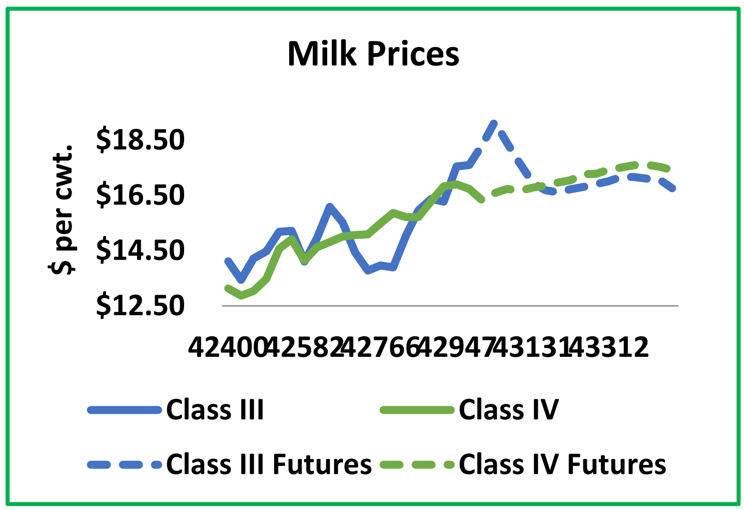


Industry insiders told USDA's Dairy Market News that the cheese market rally is likely overdone, as "stronger milk prices and cheap feed may incentivize more milk production and, subsequently more cheese production." With October Class III futures above $19 per cwt., dairy producers will certainly do what they can to add milk, keeping their barns and bulk tanks as full as possible. But it will take time for the industry to add a lot of cows and new facilities. Lenders are likely to approach the industry with caution, as dairy producers still have a lot of financial healing to do. The building and permitting process is very slow, and in the mountain states dairy producers will have difficulty securing a market for new milk. Slaughter volumes remain high, suggesting that the dairy herd continues to contract. For years dairy



producers have culled aggressively, bred milk cows with beef genetics, and sold heifers to beef feedlots. Now that some may be looking to expand, they may find heifers to be scarce and unappealingly pricey.

These factors could slow dairy producers' response to higher milk prices, but if today's prices hold, more milk is likely. Cheese contacts warned Dairy Market News, "Without the potential for new market opportunities, the U.S. may again have a lot of cheese that is hard to sell." That concern explains why nearby futures contracts rallied with exuberance while deferred contracts were more reticent. Compared to last Friday, October Class III settled $1.48 higher, and November was up 99¢. All 2019 futures established life-of-contract highs. First-half 2020 contracts finished 27¢ to 57¢ above last Friday's closing prices.



The Class III markets got a boost from whey as well. CME spot whey powder gained 0.25¢ this week and closed at 39.75¢. Whey futures moved sharply higher after China rolled back its tariff on U.S. whey permeate imports from a punitive 25% to the most-favored nation rate of just 2%. Chinese whey imports have suffered as African swine fever has decimated the world's largest hog herd. Under the new tariff rates, the U.S. is likely to regain its share of the shrinking Chinese whey market.

CME spot nonfat dry milk (NDM) climbed 0.75¢ this week to $1.055, its highest price since June. Dairy Market News characterizes export demand as "a bit livelier" while domestic sales are mixed.

The butter markets bounced back from last week's disappointingly low prices. CME spot butter jumped a nickel to $2.2225. Enthusiasm is lacking. There is plenty of butter in the world. However, European butter prices are finally starting to perk up.

Higher butter and milk powder prices helped Class IV futures to respectable gains this week. October 2019 through April 2020 Class IV contracts posted double-digit increases. Fourth-quarter contracts were particularly strong; they settled in the mid-$16 range.

Grain Markets

It was a wild week in the grain markets as well. USDA updated its crop balance sheets, trimming its corn and soybean yields as expected. USDA projects the corn crop to yield an average of 168.2 bushels per acre, 1.3 bushels less than then agency's August estimate and 8.2 bushels lower than last season.

For soybeans, USDA dropped the yield by 0.6 bushels to an average of 47.9 bushels per acre. That's down 3.7 bushels from last season to a six-year low. Many traders assume that USDA will lower yields further next month. Much depends on if the crops are allowed to fully mature before a frost arrives. But demand is lower too, and end-of-season stockpiles of both corn and soybeans are likely to be plentiful.

Corn futures moved lower initially after the crop report, but then followed soybeans upward. The oilseeds rallied after signs that the icy U.S.-China trade relationship was starting to thaw. Chinese firms purchased several cargoes of U.S. soybeans for the first time in months, and Beijing promised to exempt U.S. soybeans and pork from tariffs while the two sides negotiate. The government also promised to encourage Chinese businesses to buy "a certain amount" of U.S. agricultural products. With that, the markets turned higher. November soybeans settled at $8.9875 per bushel, up 41¢. December corn closed at $3.6875, up 13.25¢.

Act Now! Dairy Margin Coverage Sign-up Deadline is Sept 20

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Next Friday, September 20 is the deadline for signing up for the 2019 Dairy Margin Coverage (DMC) program. If you miss that date, you've missed this opportunity. After September 20, you can no longer sign-up for 2019.

You might be asking yourself whether it's worth enrolling in the program. The short answer is yes, and if you decide not to enroll, you are choosing to leave money on the table. At this point, 62% of California dairy farms have enrolled in the DMC, lagging behind the national and Wisconsin enrollment rates of 71% and 77%, respectively.

Here is the scoop on the DMC. If you sign up for the full five years of the program at the $9.50 income over feed cost margin, you get a 25% discount off the standard premium rate of $0.15 per cwt. This makes your premium $0.1125 on the 5 million pounds of coverage that is available at the $9.50 level. If you do that BEFORE September 20, it will cost you $5,625 (50,000 cwts. at 11.25 cents per cwt.) for the first year and for each of the next four years of the program. In exchange, USDA will pay you the difference between the national all milk price and a national feed cost calculation if it is less than $9.50 per cwt. The way this works is that you divide the 5 million pounds by 365 days, which equals 13,699 pounds per day and then divide by 100 to convert to cwts. That number is multiplied by the number of days in each month and then multiplied by the DMC indemnity payment for the month. USDA will make DMC payments **retroactive** to January of 2019. Here is how the math works out: January's payment will be $7,601, February $6,098, March $3,525, April $2,753, May $2,123, June $3,575 and July $976 for a total of $26,651 in payments through July 2019.

Estimated monthly Dairy Margin Coverage (DMC) indemnity payments*, $ per cwt, 2019

	Jan	Feb	Mar	Apr	May	Jun	Jul
DMC Margin ($ per cwt)	$7.71	$7.91	$8.66	$8.82	$9.00	$8.63	$9.27
DMC indemnity payment ($/cwt) at $9.50 margin coverage level	$1.79	$1.59	$0.84	$0.68	$0.50	$0.87	$0.23

***Actual payments subject to 6.2% sequestration deduction.**
Source: USDA Farm Service Agency

While the DMC does offer a range of choices, the one that makes the most sense – by far – is full coverage level at the $9.50 margin on your first 5 million pounds of production. After that, there is an option to cover the rest of your milk at $5 margin for a premium of $0.00375 per cwt. or just a little over a third of a penny. Choosing any higher level of coverage over $5 per cwt. gets very expensive, very fast.

While you are at the USDA Farm Service Agency office you can also sign up for the Market Facilitation Program trade mitigation payment. This sign up period extends to December 6, but the sooner you sign up, the sooner you will collect a payment. The payment rate is 20 cents per cwt. on **one-half** of the production base you established that is used for the Dairy Margin Coverage program. Said another way, it is 10 cents per cwt. on your annual production base. USDA has indicated that if the trade war continues for the rest of the year, there will likely be additional payments.

New Dairy Cares Video: How Can We Reduce Livestock Methane?

Courtesy of Dairy Cares

Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues.

From Dairy Cares

Dr. Frank Mitloehner (@GHGGuru) discusses the strategies California dairy farms are using to further shrink their carbon footprint via digesters and alternative manure management. The Cows and Climate series aims to explain livestock's role in the global food system and our environment, focusing on climate change, and promoting collaborative and research-based solutions that can further reduce emissions. Dr. Mitloehner's participation in the Cows and Climate video series is a part of his research and extension activities at the University of California, Division of Agriculture and Natural Resources.

See the video here.