MPC Weekly Friday Report

Date: April 3, 2020
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 9

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	- $.4400	$1.1500
Barrels	- $.2025	$1.1375
Weekly Average Cheddar Cheese		
Blocks	- $.4550	$1.2995
Barrels	- $.2140	$1.1985

Chicago AA Butter			
Weekly Change		- $.2075	$1.2800
Weekly Average		- $.3095	$1.3265
Dry Whey			
Dairy Market News	w/e 04/03/20		$.3600
National Plants	w/e 03/28/20		$.3738

Non-Fat Dry Milk		
Week Ending 03/28		
Nat'l Plants	$1.0220	19,298,189
Prior Week Ending 03/21		
Nat'l Plants	$1.1160	22,729,400

California Federal Milk Marketing Order Price Projections

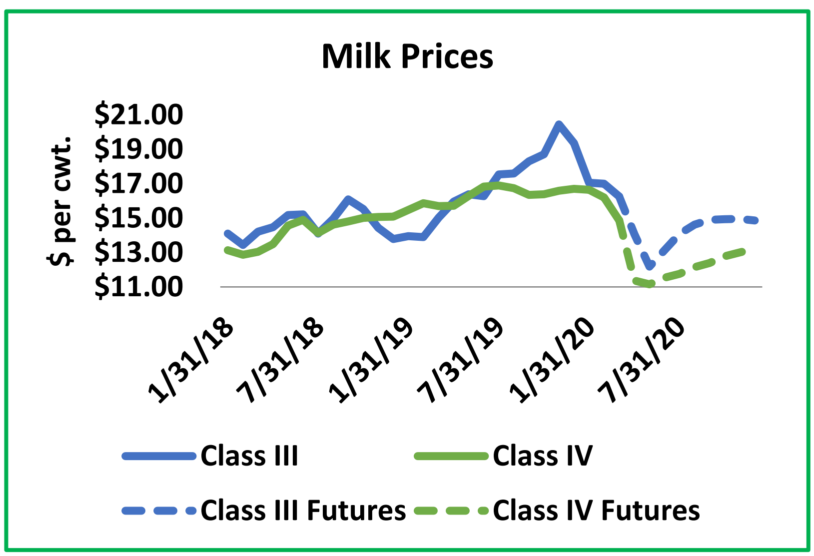
Price Projections	Class I Actual *(range based on location)*	Class II Projected	Class III Projected	Class IV Projected
April 3 Est	$18.24 - $18.74	$14.43	$14.07	$11.36
March '20 Final	$19.06 - $19.56	$16.75	$16.25	$14.87

Milk, dairy and grain market commentary

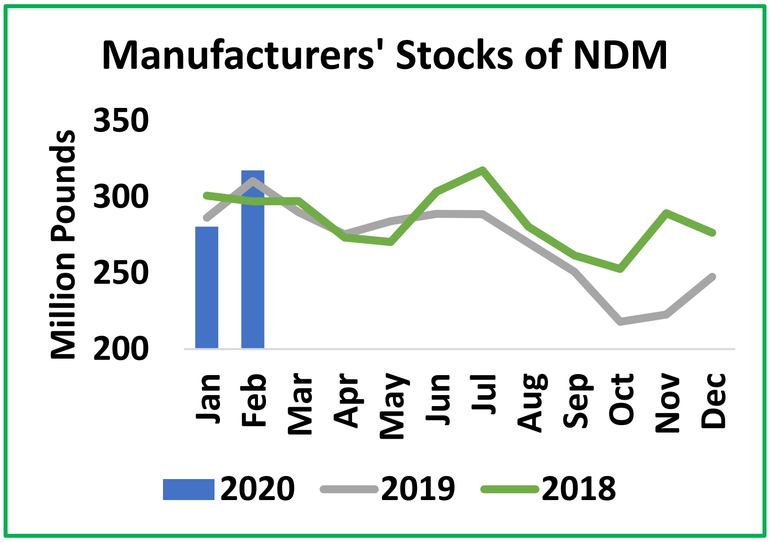
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

It was another very rough week on the farm and in the markets. The retail surge has petered out, as most Americans have now filled their freezer and their pantry. Consumers are still standing in the grocery checkout line with more dairy in their cart than in the past, but the industry cannot make up for lost foodservice demand and throttled exports by selling each grocery customer an extra gallon of milk, a little more butter for their home-baked goods, and a small package or two of cheese.



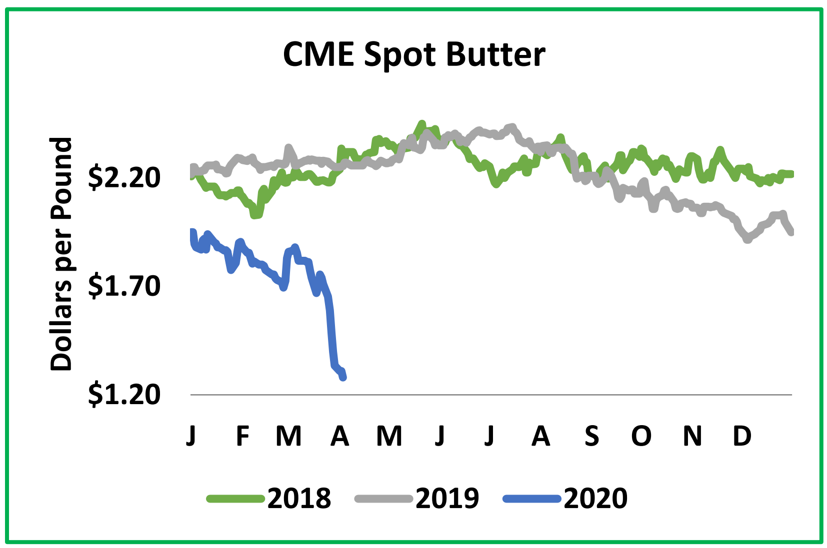
The dairy industry supply chain is in shambles. No one issue is entirely to blame, but the combination of lost sales to food service, logistical snarls and full warehouses has forced some processors to take on

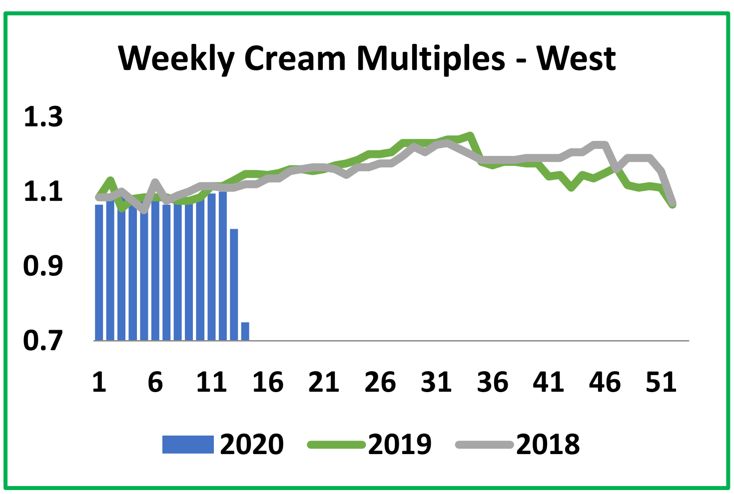


less milk or to idle completely. On the East Coast, where the pandemic is most severe, some processors cannot run at full speed because their employees are staying home for fear of contagion. While many balancing plants are running as hard as they can, there is simply too much milk and too much cream. As the spring flush accelerates, the industry is buckling under the strain, and hundreds of loads of milk are going down the drain or into a lagoon every day.

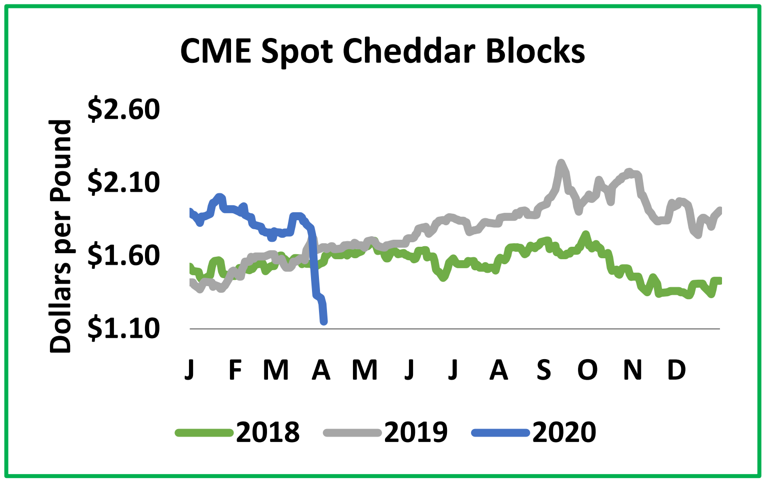
Dumped milk means many producers will suffer steep discounts on already inadequate milk checks. The impact of the novel coronavirus has been heartbreaking for the dairy industry, which must quickly move fresh products to market. Since January 31, Class III futures have lost between 15 and 30%. May Class III futures are more than $5 per cwt. lower than they were two months ago. Class IV contracts have lost one third of their value, with May through July contracts down more than $6.

Among agricultural commodities, Class IV futures have sustained some of the steepest losses. Both nonfat dry milk (NDM) and butter are weighed down by oversupply. This week, CME spot NDM fell 5.75¢ to 86.25¢ per pound. Milk powder depends on foreign demand, and the strong dollar and logistical woes already slowed exports in February. After adjusting for Leap Day, U.S. NDM exports slumped 4.7% below year-ago levels. With product piled up in warehouses, manufacturers' inventories reached 317.5 million pounds on February 29, their highest level since December 2017. Exports have slowed considerably since February, and output has not.





Butter has been abundant for some time, but recently the situation has worsened. February butter output was 5.2% greater than the prior year, after adjusting for Leap Day. Since then, butter production has likely climbed even higher. The sharp increase in fluid milk bottling has spun off more cream. Meanwhile, steep declines in restaurant traffic have nearly halted the flow of processed cheese, butter, cream, sour cream, ice cream and other products laden with milkfat through foodservice channels. Cream is now historically cheap. In mid-March, cream traded in the West from 1 to 1.2 times the butter price. This week, multiples ranged from 0.5 to 1. Butter makers are likely topping up their churns, but there is still cream pouring down the drain. This week, CME spot butter fell to its lowest price in a decade, at $1.28, down 20.75¢ from last Friday.

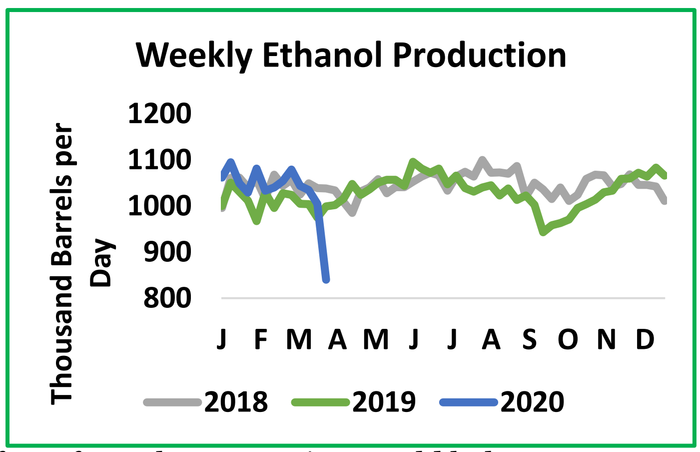


The cheese markets also revisited their 2009 lows. CME spot Cheddar blocks plunged 44¢ to $1.15. Barrels dropped 20.25¢ to $1.1375. U.S. cheese production reached 1.03 billion pounds in February, up just 0.1% from a year ago after adjusting for Leap Day. However, Cheddar production was 3.7% greater than the prior year, implying there is a lot of cheese that may wind up in Chicago if it cannot find a retail outlet. U.S. cheese exports to Mexico reached the highest-ever total for the month of February, but sales to South Korea and Japan dropped by nearly one-third year over year. COVID-19 took hold in Southeast Asia before it did in Mexico, so this trade pattern does not bode well for U.S. cheese exports in the months to come.

The red ink and dumped milk make it clear that without a thriving foodservice sector and little outlet for exports, U.S. milk output is far higher than demand. Unfortunately, severe contraction will be necessary to bring milk production in line with consumption. The markets are clearly telling dairy producers to cut output, and many cooperatives echo that message with programs to penalize overproduction. Ideally, dairy producers would send more cows to slaughter and at least recoup a beef check. But the packing industry is running into its own processing capacity issues. Slaughterhouse employees must often work in close quarters. The meat industry is finding it difficult to accommodate social distancing and kill volumes could slow due to staffing shortages. If this issue worsens, it's possible that dairy producers may not be able to cull as quickly as the market demands.

Grain Markets

Ethanol plants are slowing output or closing their doors altogether, disrupting the feed markets throughout the Corn Belt. The corn basis had been sky-high since the rains became problematic last spring, but now the basis is close to zero in much of the Corn Belt. Cash corn values are down hard. Dairy producers and other livestock growers who fed distillers grains will have to adjust their rations, which likely means more soybean meal purchases. Unfortunately, soybean meal is one of the few commodities that has been rising in value.



The soy complex got some further support this week from fears that Argentina would halt exports. Port workers are demanding closures so that they can stay home until the virus recedes. But Argentina depends on export taxes and is likely to try to keep product moving, albeit at a slower pace.

May soybeans closed at $8.815, nearly 20¢ higher than last Friday. At $323.10, soybean meal fell back $2.10 per ton after a big rally last week. The corn market inched upward from last week's multi-year lows. May corn settled at $3.46 per bushel, up 2.25¢.

Lots of activity by dairy leadership to address industry's COVID-19 induced challenges

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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In our understandable rush to address the impact of the dramatic drop in milk prices, it is important that we do not do things that will damage our ability to recover from the pandemic in the years to come. We need to support government purchases of dairy products that can be distributed in the near term to food banks. A specific effort to get those food banks to make requests to the government for dairy product items in packages that were manufactured for the now non-existent food service customers would be a very helpful way to generate some much-needed demand and serve a real need for the population.

But while government purchases of dairy products for near-term distribution is necessary, there is a real concern about the accumulation of massive stocks of powder, and to some extent, butter and cheese. We witnessed a few years ago when the European Union intervened in the market and bought millions of tons of surplus powder. That stockpile of surplus powder hung over the industry and depressed prices for several years after the crisis was over. We should be careful not to repeat that mistake.

In order to avoid accumulating large volumes of surplus dairy commodities, there needs to be an immediate reduction in milk production. How large does that reduction need to be? Real time analysis by some very credible dairy industry economists this week estimated that the near-term imbalance between milk supply and demand will range from 10-15% over the next few months. A surplus this large will no doubt be converted into powder and cheese inventories that will hang over the industry for many months, if not years, depressing prices. To prevent this from happening, there needs to be bold steps taken immediately to reduce production. In order to provide an incentive to producers to cut milk production immediately, direct payments to producers from the funds allocated to USDA in the COVID-19 Relief Bill should be conditioned on producers reducing milk production by at least 10% compared to the same month last year in order to get a payment. The payment to producers needs to be large enough to make this painful production cut financially feasible.

As a temporary, short term measure, this seems like a rational idea to consider. We have suggested it to our dairy leadership colleagues and it is being discussed actively right now.

Dairy processors reassure California Grocers Association of dairy industry's capability to meet consumer demand

By Kevin Abernathy, General Manager
Kevin@MilkProducers.org

In last week's MPC Friday Report, we shared MPC's collaborative work with the Dairy Institute of California and Dairy Council of California to ease milk purchasing limits at retail grocery stores. This effort culminated in a March 31 letter sent by Dairy Institute to the California Grocers Association, a trade association representing more than 300 retailers that operate more than 6,000 brick-and-mortar stores, and approximately 150 grocery supply companies.

Below is an excerpt from that letter, conveying the message that the dairy supply chain can meet increased consumer demand during this unprecedented time. Read the full letter here.

"Over the past two weeks, the distribution channels within the dairy supply chain have adjusted in response to increased demand. We have noticed that many grocery stores have removed their quantity limit policies, although over this past weekend, we noted several stores where such limits were still in place. We wanted to let you and your member companies know that with the cooperation of our producer and supply chain partners, we are confident that the industry is now fully capable of meeting consumer milk and dairy demand. We ask that you circulate this communication to your members."

Paycheck Protection Program fact sheet

Courtesy of the United States Treasury

The Paycheck Protection Program ("PPP") authorizes up to $349 billion in forgivable loans to small businesses to pay their employees during the COVID-19 crisis. ***All loan terms will be the same for everyone.***
The loan amounts will be forgiven as long as:

- The loan proceeds are used to cover payroll costs, and most mortgage interest, rent, and utility costs over the 8 week period after the loan is made; and
- Employee and compensation levels are maintained.

Payroll costs are capped at $100,000 on an annualized basis for each employee. Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.

Loan payments will be deferred for 6 months.

When can I apply?

- Starting April 3, 2020, small businesses and sole proprietorships can apply for and receive loans to cover their payroll and other certain expenses through existing SBA lenders.
- Starting April 10, 2020, independent contractors and self-employed individuals can apply for and receive loans to cover their payroll and other certain expenses through existing SBA lenders.
- Other regulated lenders will be available to make these loans as soon as they are approved and enrolled in the program.

Where can I apply? You can apply through any existing SBA lender or through any federally insured depository institution, federally insured credit union, and Farm Credit System institution that is participating. Other regulated lenders will be available to make these loans once they are approved and enrolled in the program. You should consult with your local lender as to whether it is participating. Visit www.sba.gov for a list of SBA lenders.

Who can apply? All businesses – including nonprofits, veterans organizations, Tribal business concerns, sole proprietorships, self-employed individuals, and independent contractors – with 500 or fewer employees can apply. Businesses in certain industries can have more than 500 employees if they meet applicable SBA employee-based size standards for those industries (click HERE for additional detail).

For this program, the SBA's affiliation standards are waived for small businesses (1) in the hotel and food services industries (click HERE for NAICS code 72 to confirm); or (2) that are franchises in the SBA's Franchise Directory (click HERE to check); or (3) that receive financial assistance from small business investment companies licensed by the SBA. Additional guidance may be released as appropriate.

What do I need to apply? You will need to complete the Paycheck Protection Program loan application and submit the application with the required documentation to an approved lender that is available to process your application by June 30, 2020. Click HERE for the application.

What other documents will I need to include in my application? You will need to provide your lender with payroll documentation.

Do I need to first look for other funds before applying to this program? No. We are waiving the usual SBA requirement that you try to obtain some or all of the loan funds from other sources (i.e., we are waiving the Credit Elsewhere requirement).

How long will this program last? Although the program is open until June 30, 2020, we encourage you to apply as quickly as you can because there is a funding cap and lenders need time to process your loan.

How many loans can I take out under this program? Only one.

What can I use these loans for? You should use the proceeds from these loans on your:

- Payroll costs, including benefits;
- Interest on mortgage obligations, incurred before February 15, 2020;
- Rent, under lease agreements in force before February 15, 2020; and
- Utilities, for which service began before February 15, 2020.

What counts as payroll costs? Payroll costs include:

- Salary, wages, commissions, or tips (capped at $100,000 on an annualized basis for each employee);
- Employee benefits including costs for vacation, parental, family, medical, or sick leave; allowance for separation or dismissal; payments required for the provisions of group health care benefits including insurance premiums; and payment of any retirement benefit;
- State and local taxes assessed on compensation; and
- For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at $100,000 on an annualized basis for each employee.

Does the PPP cover paid sick leave?

Yes, the PPP covers payroll costs, which include employee benefits such as costs for parental, family, medical, or sick leave. However, it is worth noting that the CARES Act expressly excludes qualified sick and family leave wages for which a credit is allowed under sections 7001 and 7003 of the Families First Coronavirus Response Act (FFCRA) (Public Law 116–127).

Learn more about the FFCRA's Paid Sick Leave Refundable Credit online.

How large can my loan be? Loans can be for up to two months of your average monthly payroll costs from the last year plus an additional 25% of that amount. That amount is subject to a $10 million cap. If you are a seasonal or new business, you will use different applicable time periods for your calculation. Payroll costs will be capped at $100,000 annualized for each employee.

How much of my loan will be forgiven? You will owe money when your loan is due if you use the loan amount for anything other than payroll costs, mortgage interest, rent, and utilities payments over the 8 weeks after getting the loan. Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.

You will also owe money if you do not maintain your staff and payroll.

Continue reading here.

Economic Injury Disaster Loan information

Courtesy of Small Business Administration

The U.S. Small Business Administration (SBA) is offering designated states and territories low-interest federal disaster loans for working capital to small businesses suffering substantial economic injury as a result of the Coronavirus (COVID-19).

- The SBA's Economic Injury Disaster Loans offer up to $2 million in assistance and can provide vital economic support to small businesses to help overcome the temporary loss of revenue they are experiencing.

- These loans may be used to pay fixed debts, payroll, accounts payable and other bills that can't be paid because of the disaster's impact. The interest rate is 3.75% for small businesses. The interest rate for non-profits is 2.75%.

- The SBA offers loans with long-term repayments in order to keep payments affordable, up to a maximum of 30 years. Terms are determined on a case-by-case basis, based upon each borrower's ability to repay.

- Visit Covid19relief.sba.gov to apply for an Economic Injury Disaster Loan, including a $10,000 advance that will be available within 3 days of a successful application and will not have to be repaid.

Executive Order allows for 90-day extension for tax returns, payments for certain businesses

By Kevin Abernathy, MPC General Manager
John Moffatt, MPC State Government Affairs Counsel

For years, MPC has relied on the expertise and effectiveness of Mr. John Moffatt, partner at Nielsen Merksamer law firm, to provide our dairy members a voice in the State Capitol. John and his team have been diligently tracking statewide actions related to the COVID-19 situation, and we are sharing a selection of those actions here:

- **Executive Order N-40-20: Government Functions & Small Business Relief (March 30)** This order allows the California Department of Tax and Fee Administration (CDTFA) to offer a 90-day extension for tax returns and tax payments for all businesses filing a return for less than $1 million in taxes. Additionally, the order extends the statute of limitations to file a claim for refund by 60 days to accommodate tax and fee payers. The EO also includes extensions that impact state government workers, as well as consumers. For instance, the Department of Motor Vehicles will limit in-person transactions for the next 60 days, allowing instead for mail-in renewals. Additionally, DCA will waive continuing education requirements for several professions, also for the next 60 days. Further, the order extends the Office of Administrative Law's (OAL) deadlines to review regular department proposed regulations and extends by 60 days the time period to complete investigation of public safety officers based on allegations of misconduct. Finally, deadlines for trainings, investigations and adverse actions for state workers will also be extended. **Pursuant to this order, the state created a link to the COVID-19 website that details the assistance available to small businesses and employers impacted by the pandemic.**

- **Executive Order N-39-20: Healthcare Workforce Expansion (March 30)** This order temporarily expands the health care workforce and allow health care facilities to staff at least an additional 50,000 hospital beds the state needs to treat COVID-19 patients. The order allows the Department of Consumer Affairs (DCA) to waive specific health professional licensure requirements and license maintenance requirements until June 30th.

- **Executive Order N-37-20: Evictions (March 27)**
This order bans the enforcement of eviction orders for renters affected by COVID-19 through May 31, 2020. The order prohibits landlords from evicting tenants for nonpayment of rent and prohibits enforcement of evictions by law enforcement or courts. It also requires tenants to declare in writing, no more than seven days after the rent comes due, that the tenant cannot pay all or part of their rent due to COVID-19.

- **Executive Order N-33-20: Stay at Home Order (March 19)** This order institutes a statewide stay at home order and includes a link defining critical infrastructure and essential workers.

Coronavirus package aids dairy, more measures needed as marathon NMPF efforts begin

Courtesy of the National Milk Producers Federation

As Congress attempted to navigate the national response to COVID-19 by passing three coronavirus response packages in March, all of which became law, NMPF's government affairs team worked to ensure dairy-farmer needs were top of mind in agriculture-related provisions of the new laws, gaining success on several fronts.

A crucial advance came with the March 27 passage of a massive, $2 trillion stimulus bill approved on March 27 that creates a $9.5 billion coronavirus agricultural disaster fund that specifically includes dairy among the producers targeted for aid. The bill also provides $14 billion in additional funding for the Commodity Credit Corporation that USDA can use to assist producers in various ways. Finally, the measure aids small businesses, a key link in the entire dairy supply chain.

"We are very grateful that Congress understands the significant economic challenges our farmers face and is rising to that challenge on a bipartisan basis," Jim Mulhern, president and CEO of NMPF, said of the package, the third – but not the last – congressional coronavirus bill. "Dairy farmers have worked 24/7 to produce safe, affordable, and nutritious products for families throughout the coronavirus crisis, even as their own economic outlook grows darker."

The specific attention to dairy – thanks in large part to the bipartisan attention from lawmakers ranging from Senate Minority Leader Chuck Schumer, to Senate Agriculture Committee Ranking Member Debbie Stabenow, to House Agriculture Committee Chairman Collin Peterson and Representative Glenn "GT" Thompson – was encouraged and aided by the work of NMPF government relations staffers Paul Bleiberg and Claudia Larson, who coordinated with other NMPF staff and across the dairy community to work with lawmakers on dairy's behalf. Read more.

COVID-19 impacts and the 2020 food and agribusiness economy outlook with Dr. Michael Swanson

Courtesy of Wells Fargo Bank

Please join this regional conference call with Wells Fargo's Chief Food & Agriculture Economist Dr. Swanson, who will give an overview of the impacts of COVID-19 and an economic outlook for the Food & Agribusiness industry. This overview will be immediately followed by a Q&A for you to ask questions on any issues you'd like to discuss further.

Date: Wednesday April 8th, 2020
Time: 12:00 p.m. PST
Conference Line: (866) 220-1548
Conference ID: 7546855