

# MPC WEEKLY FRIDAY REPORT

DATE: JANUARY 10, 2020  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 8

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## MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	- \$.0200	\$1.8700	WEEKLY CHANGE	- \$.0300	\$1.9200	WEEK ENDING 01/04		
Barrels	-\$ .1200	\$1.5225	WEEKLY AVERAGE	- \$.0670	\$1.8955	NAT'L PLANTS	\$1.2355	10,730,305
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 12/28		
Blocks	-\$ .0336	\$1.8595	DAIRY MARKET NEWS	W/E 01/10/20	\$ .3487	NAT'L PLANTS	\$1.2359	10,161,142
Barrels	-\$ .0709	\$1.5810	NATIONAL PLANTS	W/E 01/04/19	\$ .3333			

## 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
JAN 10 EST	\$20.31 - \$21.11	\$17.26	\$17.03	\$16.77
DEC '19 FINAL	\$20.93 - \$21.43	\$16.81	\$19.37	\$16.70



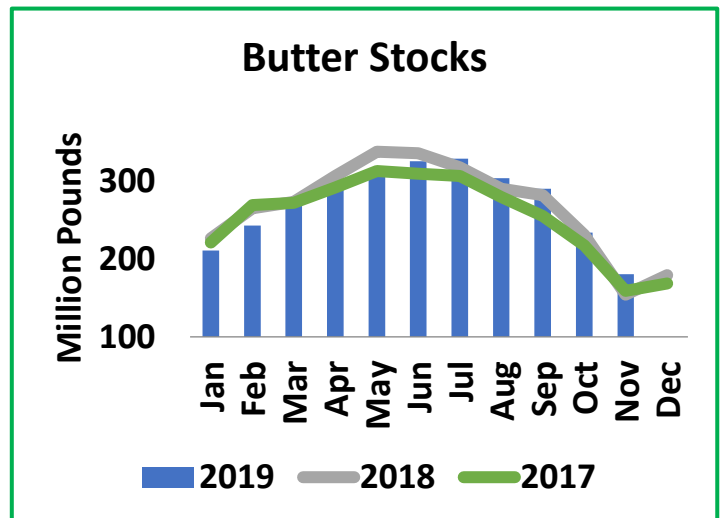
## Milk, Dairy and Grain Market Commentary

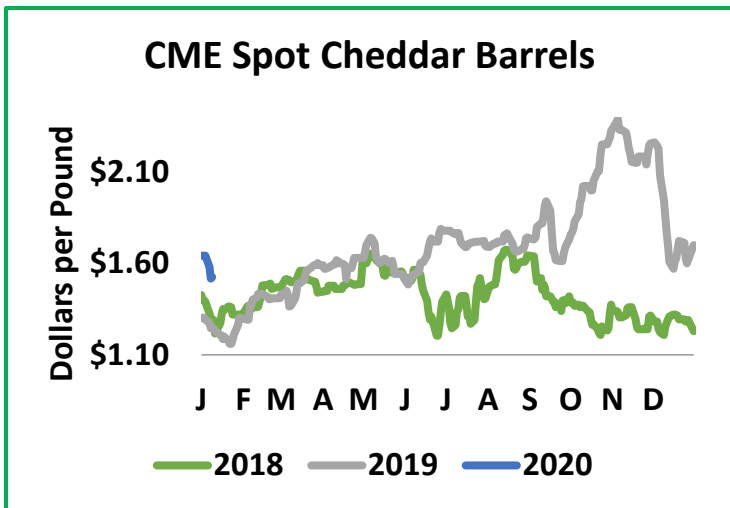
By Sarina Sharp, Daily Dairy Report  
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### Milk & Dairy Markets

The winter is off to a mild start, and the cows are loving it. Milk yields and components remain high, and milk is sloshing around as processors work to catch up after the holidays. USDA's *Dairy Market News* reports that production is "well above projections" in the Pacific Northwest, and Idaho milk output continues to outpace processing capacity. Cooperatives are balancing supplies by hauling excess milk over great distances, to California, Arizona, and the Midwest.

High components mean lots of butterfat, and demand is not keeping pace. Cottage cheese, ice cream, and yogurt production lag the prior year by significant margins. Formidable mozzarella output is using up skim milk but leaving a lot of butterfat looking for a home. At home and abroad, cream is

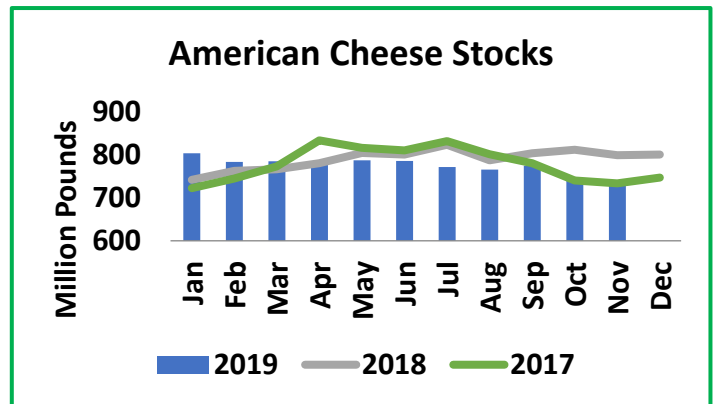




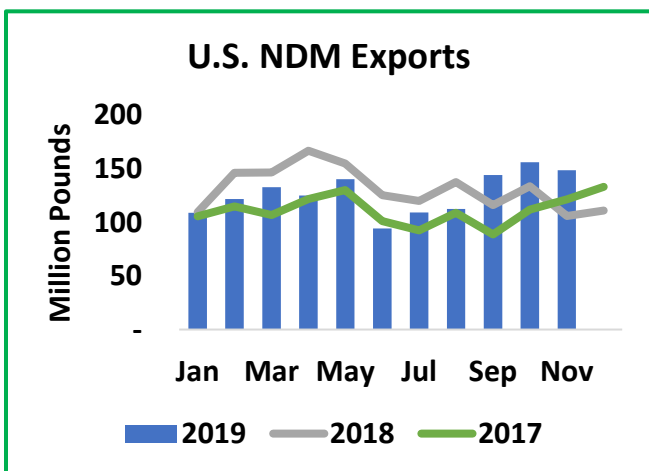
cheap and churns are running hard, piling up product on top of an already burdensome stockpile. There were 180.7 million pounds of butter in cold storage warehouses on November 30, 17% more than the prior year. Manufacturers churned out nearly 156 million pounds of butter in November, 4.4% more than the prior year. Exports continue to languish, but imports slumped as new tariffs on European dairy products slowed the flow of Kerrygold to U.S. grocers. The U.S. is still home to some of the most expensive butter in the world, but the global benchmarks have nearly converged. Foreign butter values may not be able to drag the U.S.

market much lower. However, inventories will continue to weigh. CME spot butter closed today at \$1.92 per pound, down 8.5¢ over the past three weeks.

CME spot Cheddar barrels staged an end-of-year comeback, only to suffer a January swoon. Barrels finished at \$1.525, the lowest price since June. Over the past three weeks, barrels shed 14¢. Blocks fared much better. They climbed a penny to \$1.87. Cheese output reached 1.1 billion pounds in November, up 0.5% from the prior year. Cheddar production was 1.2% lower than in November 2018, a deficit, to be sure, but a much narrower one than those of September (-3.3%) or October (-4.1%) which allowed the barrel market to climb into the stratosphere in the fall. With only a modest decline in output, barrel values have come crashing down to Earth.



There were 1.3 billion pounds of cheese in cold storage on November 30, 2.1% less than the prior year. Inventories of American-style cheeses, which include commodity Cheddar, were 7.4% lower than at the end of November 2018. But they are not scarce enough to justify cheese north of \$2.00. Discounted milk is pushing a lot of tankers toward cheese vats, but domestic demand remains strong and exports impressed in November.



U.S. nonfat dry milk (NDM) exports were also vigorous. They jumped 40.4% from the prior year, to 148.6 million pounds, the highest November total on record. Shipments to Mexico slumped 24.3% from the prior year. For the first time since mid-2016, the United States sent more milk powder to Southeast Asia than to Mexico. China has been taking in huge volumes of whole milk powder (WMP) from Australia and New Zealand, which has used up much of the available milk in Oceania. That leaves room for both Europe and the United States to export record-breaking volumes of NDM/SMP to other markets. Global milk powder supplies are tightening, and prices are climbing

accordingly. At the Global Dairy Trade (GDT) auction on Tuesday, SMP jumped 5.4% to the equivalent of NDM at \$1.46 per pound. CME spot NDM rallied to a fresh five-year high. It closed today at \$1.2725, up 2.25¢ over the past three weeks. Even higher prices are possible.

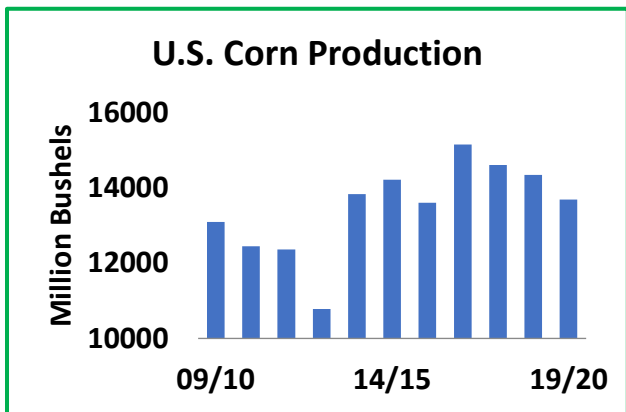
Whey is cheap enough to attract some demand, and the trade is hopeful that the Phase One trade deal will mean more sales to China. In November, China imported 90.6 million pounds of dry whey products, including 38 million pounds from the U.S. Although Chinese whey imports were 8.8% lower than the prior year, imports from the U.S. were up 36.6%. Tariff relief has already helped the U.S. to regain some market share in China, and the new trade deal promises more. But African swine fever remains a major issue throughout Southeast Asia, which does not bode well for global whey demand in the near term. Despite a strong showing in China, U.S. whey exports to all destinations fell 8.1% short of the prior year in November. Whey output and whey inventories continue to exceed last year. Whey is historically inexpensive, but it has made a bit of a comeback. Over the past three weeks, CME spot whey climbed 3.25¢, to 34.25¢.

The selloff in CME spot Cheddar barrels dragged nearby Class III futures downward. The January and February contracts finished near \$17 per cwt. These two contracts have lost about 40¢ in the past few weeks. But most other Class III futures settled a little higher than where they stood heading into the holidays. Similarly, nearby Class IV futures lost some ground, but deferred contracts rallied, and Class IV futures project milk above \$18 in the second half of the year.

The market is unsettled as it tries to digest all the holiday excess. But demand is good, and growth in U.S. milk production is likely to remain modest for a time, particularly if Class III can do no better than \$17. Similarly, modest growth is expected in Europe. Wildfires and record-breaking heat will continue to depress milk output Down Under, and collections are expected to remain below last season in New Zealand. The dairy markets seem resolved to improve their health in 2020. Prices seem likely to land in the sweet spot that allows a margin for producers without climbing high enough to encourage rapid expansion and destroy demand.

### Grain Markets

USDA released a slew of highly anticipated crop reports today, and the markets greeted the new data with a yawn. The agency surprised the trade by raising its estimate of the corn and soybean crops relative to the December report. But both yields and production are noticeably lower than recent years, and traders likely discounted the official total due to widespread quality issues this year. Much of the crop remains in the field, and USDA will have to re-survey farmers in Michigan, Minnesota, the Dakotas, and Wisconsin to refine their crop assessments when they finally have a chance to finish up harvest. The strong basis throughout the Corn Belt also reflects the scarcity of commodity-grade corn, despite what appears to be a healthy harvest on paper.



USDA's quarterly Grain Stocks estimates revealed stronger-than-expected demand, which, coupled with skepticism about the size and quality of this year's crop, allowed the grain markets to rally today. Expectations for better exports in the wake of the Phase One trade deal also heartened the bulls. March corn settled today at \$3.8575, 2¢ lower than its pre-holiday trade. March soybeans finished at \$9.46, up nearly 8¢ in the past two weeks.



## Phase III Quota Meetings: Narrowing the Options.

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

At meetings this past week in Chino, Tulare, Turlock and Petaluma, Dr. Marin Bozic and Matt Gould – the two economists (the TEAM) hired by the industry to guide the search for a consensus way forward on quota – presented their findings from the producer feedback surveys collected late last year at the Phase II meetings.

As we reported in the [October 25](#) and [November 1](#) editions of the MPC Friday Report, eleven different options for dealing with quota were presented for consideration. What we learned this week is that 137 producer surveys were submitted and analyzed by the TEAM. Those surveys represented nearly 20% of the milk produced in California and the quota holdings of the respondents closely tracked the quota holdings of the California producer population, with a slightly higher response rate from high quota holders. From this feedback, three specific approaches emerged as viable proposals for dealing with this issue.

The first proposal would continue the quota program indefinitely, but it would “re-legitimize” it by directly tying the differential to the amount of Class I dollars collected in California. The Class I differentials in California generated \$101,317,545 in the 12 months ending in November of 2019. There are 2,215,500 pounds of daily quota SNF. If you do the math:  $\$101,317,545 / 365 \text{ days} = \$277,582$  daily divided by the 2,215,500 pounds of quota SNF =  $\$0.12529$  per pound of quota SNF x 8.7 pounds of SNF in a cwt. =  $\$1.09$  per cwt., which is what this proposal would initially set as the quota differential.

The proposal would start with the quota differential at  $\$1.09$  per cwt. and then adjust it every year based on the Class I revenue from the previous year. Currently, Class I sales are dropping at a rate of about 2% per year. If that trend continues, the quota differential would also drop about 2% per year. The QIP assessment to fund this proposal would start out at about  $\$0.26$  per cwt. You might wonder why the differential is  $\$1.09$  when the Class I differential in California is between  $\$1.60$ - $\$2.10$  per cwt. The reason for this is that there are significantly more pounds of quota SNF that exist than there are pounds of Class I sales. The idea behind this proposal is that if producers want to continue a quota program, then equating it to the Class I income is a way to do that that would have what the TEAM calls “legitimacy.” For more detail on this proposal you can read the memo written by the TEAM [here](#).

The second proposal is a sunset for the quota program. This proposal would set a date in the future at which the QIP would cease to exist. The quota payments between now and that termination date would represent the “compensation” quota holders would receive for their quota. Based on the producer survey, the team suggested that a termination time frame somewhere between 3 and 7 years would possibly garner supermajority support from California producers. You can see from the table below how many dollars per pound of quota would be collected under this proposal. It ranges from  $\$180$  for three years in Tulare to  $\$420$  for seven years in Tulare. For Chino the range is  $\$213$  for three years to  $\$497$  for seven years. If the RQA’s were equalized at the Tulare level, then the Tulare amounts would apply statewide.

If the current RQA’s stay in place, then the QIP assessment would continue at the current rates for the duration of the sunset period. If the RQA’s change and if they are equalized statewide at the lowest current level of  $\$1.43$  differential, then the QIP assessment would drop about 3 cents per cwt.

For more detail on this proposal you can read the TEAM’s memo [here](#).



Basic Sunset (No changes to QIP)					
Effective Quota Payout Region	3 Years Mar 1, 2023	4 Years Mar 1, 2024	5 Years Mar 1, 2025	6 Years Mar 1, 2026	7 Years Mar 1, 2027
Zone 1 (e.g. Chino)	213	284	355	426	497
Zone 2 (e.g. Petaluma)	207	276	345	414	483
Zone 3 (e.g. Los Banos)	201	268	335	402	469
Zone 4 (e.g. Bakersfield)	189	252	315	378	441
Zone 5 (e.g. Tulare)	180	240	300	360	420
Assessment per CWT	0.37	0.37	0.37	0.37	0.37

Sunset with Equalized RQA					
Effective Quota Payout Region	3 Years	4 Years	5 Years	6 Years	7 Years
Zone 1 (e.g. Chino)	180	240	300	360	420
Zone 2 (e.g. Petaluma)	180	240	300	360	420
Zone 3 (e.g. Los Banos)	180	240	300	360	420
Zone 4 (e.g. Bakersfield)	180	240	300	360	420
Zone 5 (e.g. Tulare)	180	240	300	360	420
Assessment per CWT	0.34	0.34	0.34	0.34	0.34

The third proposal is to buyout the quota with a bond or loan. In both the sunset proposal and the buyout proposal, the TEAM suggests that March 1, 2020 is the start date from which the payoff clock starts. By this they mean that QIP payments received after March 1, 2020 count as compensation toward whatever value the quota holders agree to accept in exchange for terminating the program. The scenario outlined envisions monthly payments for the quota during 2020 and a final balloon type payment in January of 2021. After the final payoff, all quota would be extinguished. What would remain are the assessments to pay back the loan or bond. All grade A milk in California would pay the assessment. The assessment level under the buyout option would be no more than the assessments for a comparable sunset option and could be less if the payment schedule was stretched out a few more years. The buyout price will determine the length of the payment schedule.

The TEAM has consulted with banks and Wall Street financiers and believes there is strong interest in providing the financing for a quota buyout provided there is adequate security to assure repayment. Legislation would be required to facilitate this option. For more detail on this proposal you can read the TEAM's memo [here](#).

There is another memo written by the TEAM that is worth reading. It is titled "Choosing the Path Forward for California Dairy Quota." You can read it [here](#).

Dr. Bozic made a major commitment at the meetings this week. He promised that in early February, the TEAM would be finalizing their report and will include a specific proposal that they believe has the highest probability of garnering super majority support from the California producer community. Hopefully this recommendation will come with a detailed roadmap on the steps necessary to bring it to completion. The mood at the meetings was sober as everyone contemplates the impact of this issue on their operation and on the industry at large. Dr. Bozic and Mr. Gould have done an incredible job learning and listening to our industry, as well as applying solid economics, wisdom, and frankly courage to their work on all of our behalf.

## Air Quality Workshop Series Focused on Conservation Management Practice (CMP) Plans

Courtesy of Nisei Farmers League

*MPC and other agricultural groups worked with the San Joaquin Valley Air Pollution Control District to bring this outreach effort to producers. We encourage our producers to attend a workshop in your area. – Kevin Abernathy, MPC General Manager*



The San Joaquin Valley Air Pollution Control District (District) invites you to attend a workshop on the District's Conservation Management Practices (CMP) program. These workshops will cover both general

farming and dairy-specific requirements under the CMP program with the goal of assisting growers and dairy families in understanding and complying with District Rule 4550 (*Conservation Management Practices*). District staff will be on site to provide hands-on assistance to growers and dairy families in modifying their existing CMP Plans and obtaining new CMP Plans as well as to answer any other questions regarding District permitting and emission reduction incentive grant programs.

### Background

In 2004, the District adopted Rule 4550 (Conservation Management Practices) to limit fugitive dust emissions from on-field agricultural sources, including unpaved roads and equipment yards, land preparation and harvest activities, and other cultural practices. The rule offers a menu-based approach of potential mitigation measures from which growers can choose.

### Does Rule 4550 apply to me?

A CMP Plan is required if your agricultural operation meets one or more of the following:

- 100 or more contiguous acres of land
- Dairy with 500 or more mature cows
- Cattle feedlot with 190 or more cows
- Turkey Ranch with 55,000 or more turkeys
- Chicken Ranch with 125,000 or more chickens
- Chicken egg ranch with 82,000 or more laying hens

### Please bring the following information about your operation to complete the CMP Plan

- A list of crops grown and how many acres are devoted to each
- Plot plan/map that contains the location of each agricultural parcel on the agricultural operation site
- Total number of animals at the animal feeding operation
- Internal combustion engines: make, model, horsepower, fuel and annual hours used for all engines over 50 horsepower
- **For existing CMP Plans, please bring the CMP Plan ID (Example: C-1234)**

# ***Workshop Schedule***

## **Fresno County**

*Morning Session*

January 23, 2020

9:00am – 12:00pm

Fresno County Farm Bureau, 1274 W. Hedges Ave., Fresno

*Afternoon Session*

January 23, 2020

1:30pm – 4:30pm

Location: Fresno County Farm Bureau, 1274 W. Hedges Ave., Fresno,

## **Tulare County**

February 25, 2020

9:00am – 12:00pm

Tulare County Ag Commissioner's Hall, 4437 S. Laspina Street, Tulare

## **Kings County**

February 25, 2020

1:30pm – 4:30pm

Kings County Fair Grounds 801 S. 10th Ave, Hanford, Ca 93230

## **San Joaquin County**

To be determined.

## **Stanislaus County**

To be determined.

## **Madera County**

March 5, 2020

9:00am – 12:00pm

Madera County Farm Bureau, 1102 S. Pine Street, Madera

## **Merced County**

To be determined.

## **Kern County**

February 7, 2020

9:00am – 12:00pm

UCCE Kern County, 1031 South Mount Vernon Ave, Bakersfield



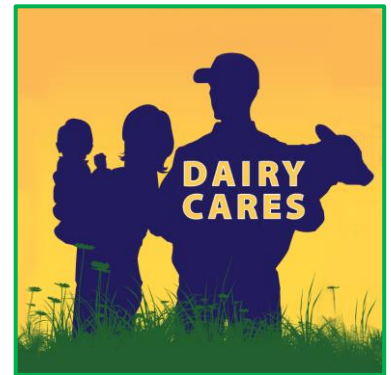
## Kevin Abernathy elected chairman of the San Joaquin Valley Air Pollution Control District's Citizen's Advisory Committee

This week, MPC General Manager Kevin Abernathy was elected chairman of the Citizens Advisory Committee, a committee formed by the San Joaquin Valley Unified Air Pollution Control District to facilitate public input relating to the actions and decisions of the District. The committee serves multiple roles in helping shape Central Valley air quality policy by serving in an advisory role to the District Governing Board and District Executive Director. The committee also provides input in the updating and monitoring of the District's Rule Development Procedures as well as proactive review and input on current and new rules. A key role for the committee is to question the effectiveness of District rules and whether they are working. Abernathy's term as chairman is for two years.

## Dairy Farmers Continue Collaborative Efforts to Address Community Drinking Water

*Courtesy of Dairy Cares*

The California dairy community has long been dedicated to improving groundwater protection, and this commitment will only grow in the new year. By participating in the Central Valley Salinity Coalition, and working closely with regional and state officials, dairy farmers have been part of an incredible 13-year stakeholder effort, which recently resulted in the adoption of a new long-term plan. Dairy farmers remain engaged as implementation begins, starting with the most important goal, ensuring safe drinking water for all.



Continue reading [here](#).

## CDQAP Quality Assurance Update – December 2019

*Courtesy of CDQAP*



Last month, CDQAP released their December 2019 Quality Assurance Update. Please follow [this link](#) to view the update. Topics included dealing with public safety power shutoffs, Regional Water Boards winter inspections and how to review your 2019 activities.

