MPC Weekly Friday Report

Date: March 26, 2021
To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	**- $.0700**	$1.7200	Weekly Change	**+ $.1100**	$1.7750	**Week Ending 03/20/21**		
Barrels	**+ $.0100**	$1.4625	Weekly Average	**+ $.0180**	$1.7200	Nat'l Plants	**$1.1321**	18,081,861
Weekly Average Cheddar Cheese			**Dry Whey**			**Prior Week Ending 03/14/21**		
Blocks	**- $.0850**	$1.7130	**Dairy Market News**	w/e 03/26/21	**$.5950**	Nat'l Plants	$1.1014	20,485,474
Barrels	**- $.0600**	$1.4480	**National Plants**	w/e 03/20/21	**$.5568**			

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 26 Est	**$16.80 - $17.30**	**$15.17**	**$16.18**	**$14.30**
Last Week	**$16.80 - $17.30**	**$15.24**	**$16.25**	**$14.30**

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Daily Dairy Report
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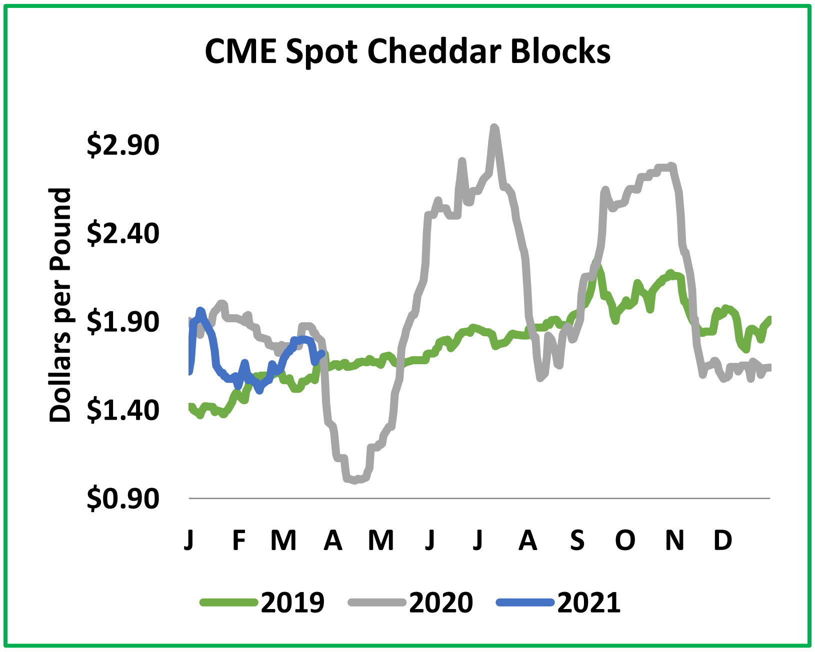
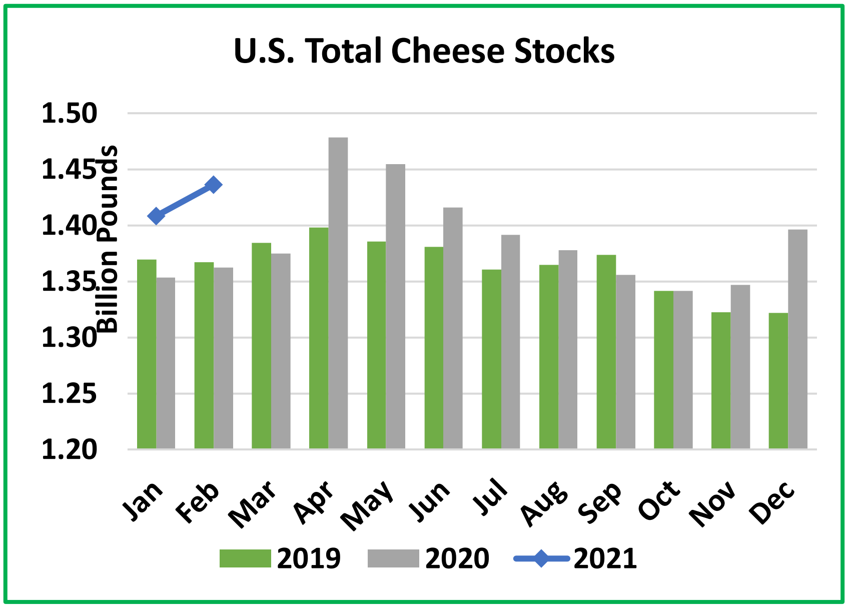
Milk & Dairy Markets

Spot cheese market observers are recovering from whiplash this week after watching the price dip then rally. Cheddar blocks lost 3¢ on Monday, 4.5¢ on Tuesday, and another 4.5¢ on Wednesday, before the winds changed course. Gains of 3¢ and 2¢ on Thursday and Friday helped to erase some of the loss, but at $1.72/lb. spot Cheddar blocks still finished the week 7¢ lower than last Friday. In the case of barrels, despite giving up 1.5¢ on Monday, modest gains on Tuesday, Thursday, and Friday pushed the price up to $1.4625/lb., a penny higher than last week. As a result, the block barrel spread narrowed to 25.75¢ on Friday.

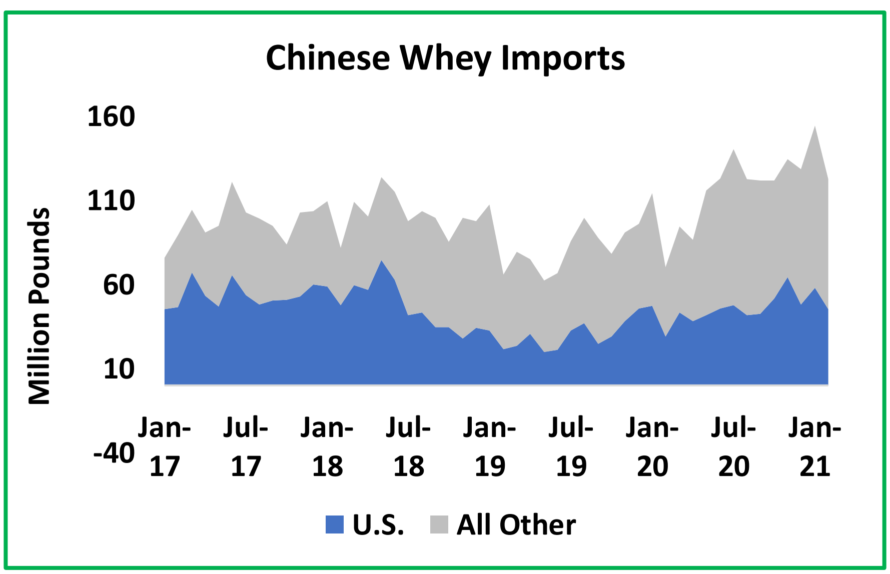




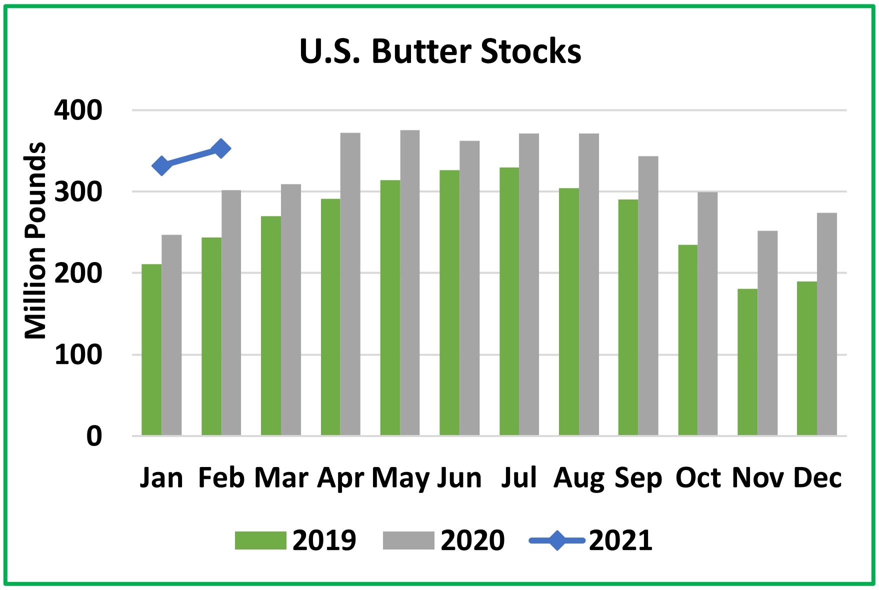
Cheese manufacturers report that demand has improved from both domestic and international sources. As COVID-19 dining restrictions are rolled back unevenly across the country, foodservice demand is firming, a trend that is likely to be particularly supportive for Italian style cheeses. Even with improved demand, however, supply remains more than ample, and inventories are growing. Total cheese stocks at the end of February reached 1.436 billion pounds, an increase of 27.8 million pounds compared to January. Though this increase exceeds the five-year average over the same period, it remains lower than the gains seen in 2017 and 2018. Other cheese stocks built somewhat faster than American cheese stocks, indicating that manufacturers have had more luck moving Cheddar and other American style cheeses into the market, likely through retail channels.

On the other side of the Class III complex, whey prices showed no relenting this week, continuing their upward charge to hit yet a new record. Spot whey added 1.5¢ on Wednesday as two loads traded to move up to 62.75¢/lb., a new record for the three-year-old market. Demand is robust from both domestic and global users; even as logistical complications persist. Insatiable demand from China continues to underpin the global whey market. Chinese imports of whey hit a record high 277.1 million pounds during January and February, a 52.7% increase versus the same period last year after accounting for the leap day. Hefty Chinese dairy imports in January and February set records across many categories including milk powders and fluid milk.

Moving over to Class IV products, the butter market was able to make up some ground this week. After seeing increases Tuesday through Friday, the spot butter price ended the week a full 11¢ higher than last Friday at $1.775/lb. Even as cream remains plentiful, foodservice activity has picked up and retail demand is robust as Easter and other spring holidays approach. Butter inventories totaled 352.7 million pounds at the end of February, an increase of 6.3% or 20.8 million pounds compared to January. This increase is less than half of the five-year average build of 43.5 million pounds between these two months, indicating that product is indeed moving into commercial channels. Nevertheless, butter stocks remain historically heavy, and the market will have to work through these inventories before returning to balance.

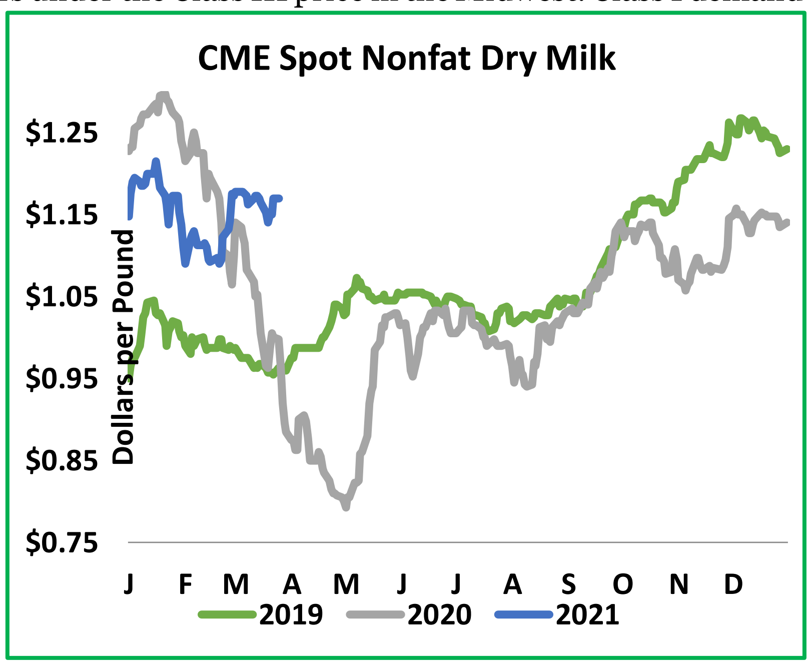


After dropping 1.25¢ on Monday, the spot nonfat dry milk (NDM) market



was also able to do an about-face. Moving upward on Tuesday and especially Thursday, when 12 loads traded hands, the market ended the week at $1.17/lb., up 1.75¢ compared to prior week. Plentiful condensed skim continues to stifle more dramatic price increases but demand has at least remained sufficient to keep some tension in the market. International demand from both Mexico and overseas markets has remained substantial though manufacturers report that higher prices are causing some global buyers to balk. At 192.6 million pounds Chinese imports of skim milk powder during January and February set a new record, though the vast majority of this product was supplied by New Zealand.

Even though the overarching demand picture appears to be brightening, there is still a risk that the gains will be outpaced by supply. Milk is plentiful, particularly in the West where the spring flush has arrived convincingly. Dairy Market News reports that milk production is heavy in California, with output rising in nearby states. Spot loads of milk are generally available across the country and can be procured for processing needs at several dollars under the Class III price in the Midwest. Class I demand has slipped modestly over the last week as educational institutions have been on spring break but pull from the bottlers is expected to improve following the holiday.



The milk futures markets followed the trends set by the spot market. Most nearby Class III contracts lost value on Monday, Tuesday, and Wednesday before staging a bit of a recovery on Thursday and Friday, ultimately gaining some value over the course of the week. In the Class IV market, after bobbling earlier in the week, gains on Wednesday, Thursday, and especially Friday, pulled contract values up. Every Class IV contract between APR21 and SEP21 settled at least a quarter higher on Friday than on Monday.

Grain Markets

The markets generally moved sideways as the trade waits for USDA's Prospective Plantings report scheduled for release next week. High prices are expected to drive additional plantings of both corn and soybeans though the scale of the increase remains to be determined. Most nearby corn futures contracts settled no more than a couple cents different on Friday than on Monday. Soybean futures were a bit more active, moving up on Tuesday and Wednesday before descending again on Thursday and Friday. Though the moves weren't enormous, most nearby contracts settled lower on Friday than on Monday.

Action Needed to Close the USDA-stimulated Gap Between Class III & IV Milk Prices

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Whether intentional – or more likely unintentional – USDA's operation of the pandemic-inspired Farmers to Families Food Box program had a profound impact on milk prices in the United States. This massive program spent nearly $4 billion contracting with vendors to put together boxes of food to be distributed throughout the country to anyone who wanted it. USDA required that each box include a pound of cheese and a gallon of milk and then 4-5 additional pounds of dairy products in addition to other fresh food items. Butter was not a required item.

When the program went into place in late May, cash cheese prices at the Chicago Mercantile Exchange took off because of the strong demand for cheddar cheese created by the Food Box requirement. This dramatic increase in cheddar cheese prices had a profound impact on dairy producer milk checks. Because of the rules of the Federal Milk Marketing Order (FMMO) program, cheese plants can drop out of the regulated system and not share cheese sales revenue with the market-wide pool. In normal times, when prices for milk used for cheese/dry whey (Class III) and milk used for butter/powder (Class IV) operate within a narrower range, even if cheese or butter/powder plants do drop out of the pool, the effects are not that significant. But these were not normal times.

To add additional injury to producers not selling to cheese plants, the FMMO Class I price formula was changed in 2018 from using the "higher of" either the cheese/dry whey complex or the butter/powder complex as the base price from which Class I price differentials are added in the various regions, to the "average of" cheese/dry whey prices and butter/powder prices. While there may have been good reasons to do this, and every effort was made to make this change revenue neutral for producers, the Food Box generated disparity between cheese prices and all other dairy product prices created huge differences between what individual producers were paid for their milk. The whole point of a milk order program is to have order in the operation of the market for dairy producers. The FMMO program, which has operated successfully for over 80 years, does walk a fine line between government requirements and free market principles. Class I is required to be part of the order, but Classes III and IV are not. That allows for market competition and incentivizes dairy processors to move up the value chain to enable them to compete for milk which is ultimately good for producers. But as we have witnessed in 2020, when the government uses its purchasing power to favor one part of the industry over another, it can have a profound negative impact on the unfavored part of the community.

USDA seems to understand that there are problems with the Farmers to Families Food Box program. They conducted a "listening session" this week to take input from the public on the topic. Over 240 people signed up to speak for a maximum of 3 minutes each. It took 10 hours to get through them all. USDA is also accepting written comments that they will consider as they plan out how to use the additional multiple billions of dollars Congress has told them to spend on food assistance programs. The deadline for submitting comments is March 31. More information on commenting is available here. National Milk Producers Federation has submitted comments urging USDA to use "balance" in their dairy purchases. Cooperatives who make a lot of butter and powder are more explicit. They are requesting that any continued Food Box program require equal amounts of butter and cheese be in the box. You can read comments made by California Dairies, Inc. here.

While in the near-term U.S. futures prices are forecasting a Class III price about $2 per cwt. higher than Class IV prices, when you look at international prices for cheese and butter/powder and run those through the FMMO Class III and IV formulas you see the opposite. Spot prices for cheese, butter and powder from the March 20 Global Dairy Trade (GDT) auction would translate to a $19.68 Class III and a $21.85 Class IV. This is down slightly from the March 6 GDT auction spot price equivalent of $19.81 for Class III and $22.04 for Class IV. There is a big gap right now between U.S. domestic prices and world prices.

The good news is the U.S. industry can and does trade in the world market. There are big challenges, but over time these markets do converge. Right now, the imperative is for USDA to do no further harm and hopefully do some good to bring some balance back into the U.S. dairy market.

After Identifying Gaps in Previous Aid, USDA Announces 'Pandemic Assistance for Producers' to Distribute Resources More Equitably

Courtesy of the U.S. Department of Agriculture

Agriculture Secretary Tom Vilsack announced Wednesday that USDA is establishing new programs and efforts to bring financial assistance to farmers, ranchers and producers who felt the impact of COVID-19 market disruptions. The new initiative—**USDA Pandemic Assistance for Producers**—will reach a broader set of producers than in previous COVID-19 aid programs. USDA is dedicating at least $6 billion toward the new programs. The Department will also develop rules for new programs that will put a greater emphasis on outreach to small and socially disadvantaged producers, specialty crop and organic producers, timber harvesters, as well as provide support for the food supply chain and producers of renewable fuel, among others. Existing programs like the Coronavirus Food Assistance Program (CFAP) will fall within the new initiative and, where statutory authority allows, will be refined to better address the needs of producers.

Part 3 of USDA's announcement carries out formula payments under CFAP 1, CFAP 2, CFAP AA. The Consolidated Appropriations Act, 2021, enacted December 2020 requires FSA to make certain payments to producers according to a mandated formula. USDA is now expediting these provisions because there is no discretion involved in interpreting such directives, they are self-enacting.

- An increase in CFAP 1 payment rates for cattle. Cattle producers with approved CFAP 1 applications will automatically receive these payments beginning in April. Information on the additional payment rates for cattle can be found on farmers.gov/cfap. Eligible producers do not need to submit new applications, since payments are based on previously approved CFAP 1 applications. USDA estimates additional payments of more than $1.1 billion to more than 410,000 producers, according to the mandated formula.

- Additional CFAP assistance of $20 per acre for producers of eligible crops identified as CFAP 2 flat-rate or price-trigger crops beginning in April. This includes alfalfa, corn, cotton, hemp, peanuts, rice, sorghum, soybeans, sugar beets and wheat, among other crops. FSA will automatically issue payments to eligible price trigger and flat-rate crop producers based on the eligible acres included on their CFAP 2 applications. Eligible producers do not need to submit a new CFAP 2 application. For a list of all eligible row-crops, visit farmers.gov/cfap. USDA estimates additional payments of more than $4.5 billion to more than 560,000 producers, according to the mandated formula.

Read the entire USDA announcement here

California Dairy Farmers Help Lead the Way for Clean Energy

Courtesy of Dairy Cares

California is leading the nation toward a 100 percent clean energy future. Multiple state policies are working to achieve a cleaner, more efficient energy grid and transportation sector. The state's dairy farmers are also world leaders in energy-smart practices. They're reducing usage, electrifying equipment, generating renewable energy, and producing carbon-negative transportation fuel.

California has already made great strides in its clean energy and energy conservation goals:

- California is the nation's top producer of electricity from solar, geothermal, and biomass energy.
- The state is the nation' second-largest hydroelectricity producer and the fifth-largest of wind energy.
- An estimated 60% of California's electricity comes from carbon-free sources.
- California accounts for almost half of the nation's electric vehicle sales and 30% of all public electric charging stations.
- California has the second-lowest per capita energy use in both the residential and commercial sectors.

The state's family dairy farms play an important role in these milestones, part of their commitment to planet-smart practices. Their clean energy investments also help improve economic sustainability. Offsetting costs is important, with electricity rates already high and predicted to rise more than 40% over the next ten years.

Read the full article here.