MPC Weekly Friday Report

Date: September 25, 2020
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

Looking for COVID-19 Info & Resources?

Click here for MPC's regularly updated database of helpful links.

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	- $.0725	$2.5550	Weekly Change	- $.0950	$1.5025	Week Ending 09/19/20		
Barrels	+ $.0250	$1.6600	Weekly Average	+ $.0250	$1.5515	Nat'l Plants	$1.0090	18,446,420
Weekly Average Cheddar Cheese			**Dry Whey**			**Prior Week Ending 09/12/20**		
Blocks	+ $.2195	$2.5765	Dairy Market News	w/e 09/25/20	$.3400	Nat'l Plants	$0.9993	16,944,142
Barrels	+ $.0225	$1.6385	National Plants	w/e 09/19/20	$.3258			

California Federal Milk Marketing Order Price Projections

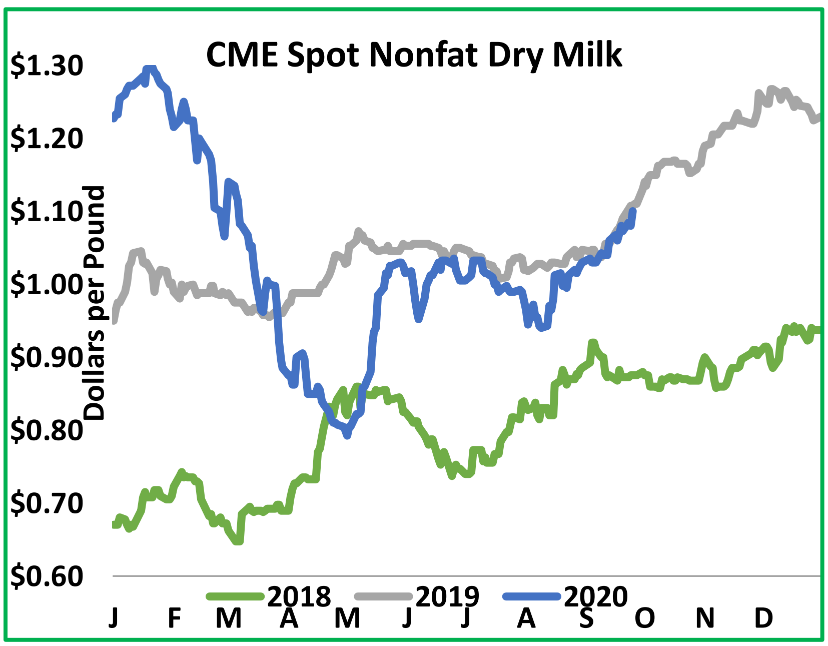
Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
Sept 25 Est	$20.04 - $20.54	$13.15	$16.35	$12.71
Last Week	$20.04 - $20.54	$13.17	$16.29	$12.72

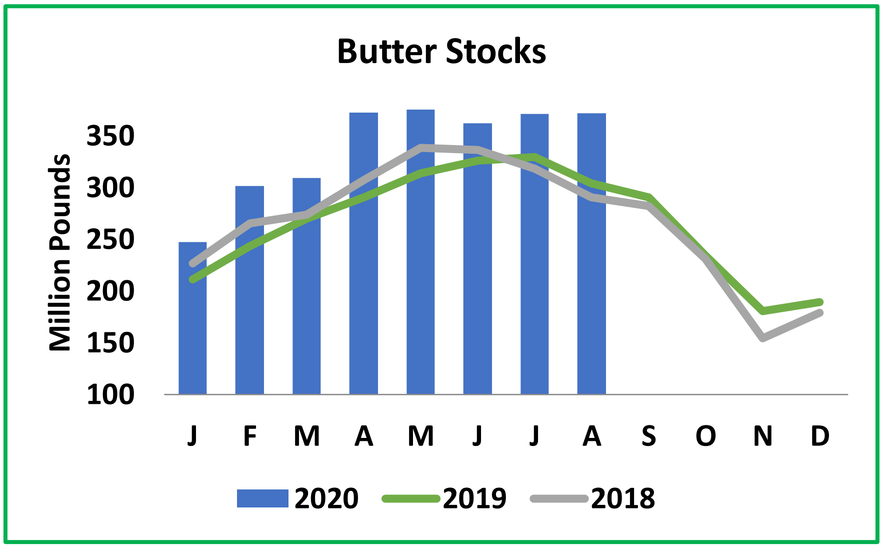
Milk, dairy and grain market commentary

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

Milk & Dairy Markets

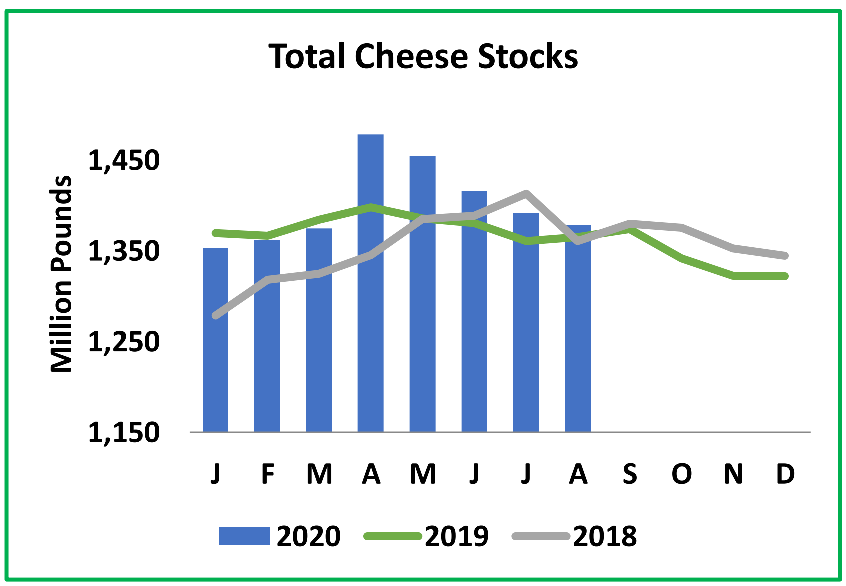
Like the proverbial tortoise, the milk powder market is moving slowly but steadily higher. CME spot nonfat dry milk (NDM) added another 3¢ this week and reached $1.10 per pound, its highest value since early March, before the pandemic sickened the dairy markets. Domestic demand is building seasonally as fall bakers break out their aprons. Mexican buyers are stepping up orders, which is the primary force behind the most recent advance. Despite the stronger dollar and the steady increase in spot pricing, U.S. milk powder remains a bargain compared to foreign product, which is likely winning some business around the world.





The other dairy markets are wavering as they try to suss out demand in these uncertain times. In general, those that gained ground last week gave some of it back this week, while last week's losers are now on the rise. After a couple days north of $1.60, CME spot butter plunged 9.5¢ to $1.5025, retreating to the high end of the recent trading range. Retail demand for butter is perking up, but grocers are understandably hesitant to over-commit for the holidays. Foodservice demand is a little better every week, but as colder weather forces more diners indoors, it may reverse course.

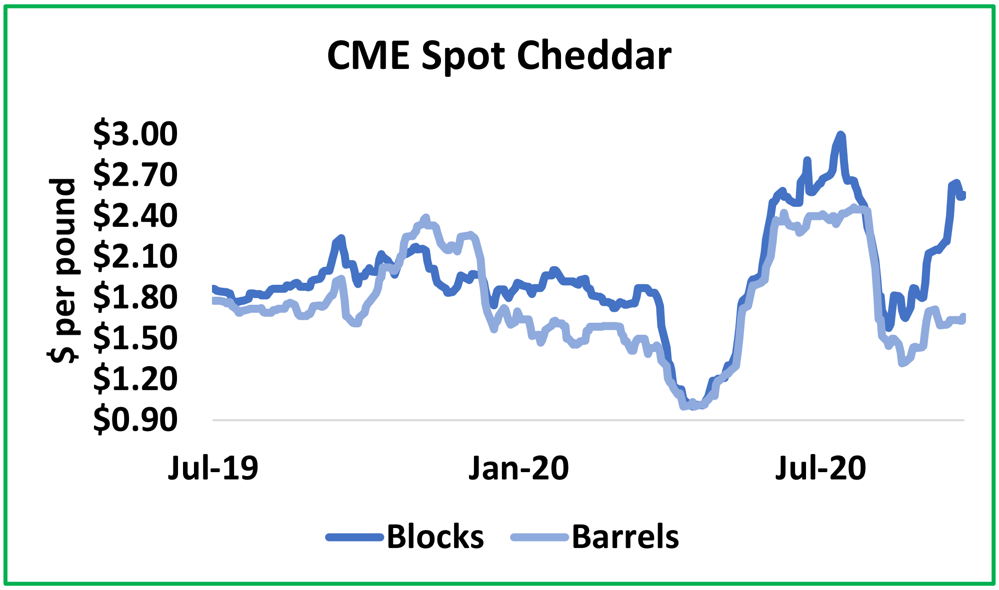
There were 371.7 million pounds of butter in cold storage on August 31, the highest August inventory since 1993. Butter stocks topped the prior year by 22%. That's more than enough butter to satisfy the holiday demand season in a normal year. With holiday travel and big corporate gatherings largely on hold this year, it is simply too much. Butter stocks typically shrink in the summer months, but this year, for the first time in three decades, they actually grew from July to August, highlighting that demand is already falling short.



There were 1.38 billion pounds of cheese in cold storage warehouses at the end of last month, a new record high for August and 1% more than last year. Cheese demand looks relatively healthy. Cheese stocks declined modestly from July to August and have fallen more than 100 million pounds since the April 30 peak.

American cheese inventories bucked the trend and moved higher last month. It's likely that cheesemakers pushed more Cheddar into aging programs in mid-August, when blocks averaged less than $1.70. That's contributed to the shortage of Cheddar that is less than 30 days old and eligible for delivery to the CME spot markets today. But the tightness will be temporary. Sharply higher cheese prices in late August and throughout September likely curtailed the aging programs, which means fresh blocks will probably hit the market soon. And the industry is on the cusp of much larger block output, with the new Michigan Cheddar plant expected to open in a little over a month. The sky-high block price and much lower deferred futures reflect the expected transition from scarcity to plenty.

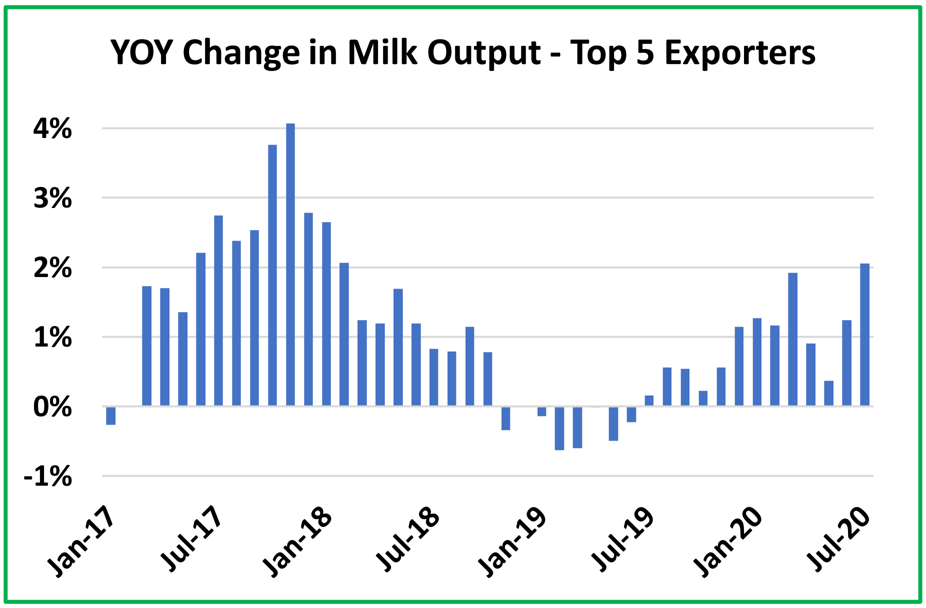
After a massive rally last week, CME spot Cheddar blocks took a step back, falling 7.25¢ from Friday to Friday. At $2.555, they remain historically high. Barrels climbed 2.5¢ to $1.66, narrowing the block-barrel spread to a still untenable 89.5¢.



CME spot whey added 2.25¢ this week and reached 37.75¢. With that, the spot whey market has moved decisively out of its months long wallow in the low-30¢ range. Amid strong cheese output, whey abounds. But Chinese demand has helped to absorb the increase.

The setback in spot Cheddar blocks weighed on October Class III futures, which fell 71¢ to $18.88 per cwt. Other Class III contracts were little changed. Class IV futures gave back a little of the ground they gained last week. Fourth-quarter Class IV contracts average an uninspiring $14.21.

Milk output is on the rise around the globe and dairy producers in the Southern Hemisphere are entering the flush. In August, milk collections topped the prior year by 5.3% in New Zealand and 5% in Argentina. In Australia, July milk production rebounded 2.9% year over year. Milk output is now consistently higher than year-ago levels among all the major dairy exporters, which is certain to stiffen competition for dairy product exports, and perhaps weigh on values, in the months to come.



Grain Markets

The feed markets slipped from last week's highs. The fundamentals are still likely to support crop values, but there wasn't enough new fodder to keep the bulls in such high spirits. December corn futures settled at $3.6525 per bushel, down 13.25¢ from last Friday. At $10.025, November soybeans finished 41¢ lower than last week's close. December soybean meal slipped to $338.60 per ton, down $3.50 from last week, but still much higher than the values that have prevailed for two years.

Combines are rolling across the Corn Belt, and we'll soon have a better picture of the impact of scant August rains on this season's crops. Farmers in South America are just starting to seed their row crops, but there are already concerns about dry soils. International weather services have recently confirmed the presence of a La Niña, which is often – but not always – associated with poor crop yields in Argentina. A disappointing South American harvest would boost demand for U.S. crops. Meanwhile, China continues to snap up U.S. soybeans and corn at a brisk pace.

Significant quota hearing next Wednesday and Thursday

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
Geoff@MilkProducers.org

A two-day virtual hearing will be held on Wednesday, September 30 and Thursday, October 1 to consider the petition by the United Dairy Families of California (UDFC) to hold a California producer referendum to change, and eventually terminate, the Quota Implementation Program (QIP).

This hearing is the next step in a process that started back in early 2019. The United Dairy Families of California effort started as a response to the formation of the STOP QIP group whose efforts were focused on getting a producer referendum to immediately terminate the QIP program. UDFC organized a process which engaged the assistance of Dr. Marin Bozic, a University of Minnesota dairy economist, and Matt Gould, a private sector dairy analyst, and sought to solicit and evaluate ideas for how to address the issue of quota, which had become a contentious issue among the California dairy producer community.

UDFC carried out a deliberate phased process where ideas and input from producers were solicited and then organized and evaluated by the experts. The first phase in the UDFC process was what they called a "Think Tank" phase where they said all ideas were welcomed. The next phase they called the "Shark Tank" phase, where the various ideas and proposals were analyzed and presented to the producer community for feedback. The feedback sessions narrowed the options down for a phase three process where producers were able to weigh in on three specific ideas:

A. Quota sunset,
B. Quota buyout through a bond or loan,
C. Keeping the program in force indefinitely by tying quota payments to Class I sales in California.

At a series of meetings held at the end of October last year, these specific ideas were submitted to producers for their evaluation. Based on the responses received from producers, Dr. Bozic and Mr. Gould identified and recommended a specific plan to deal with the QIP that they believed could earn the support from a significant majority of California producers. At a public event held in February at the Tulare Farm Show, that plan was put forward for producers to consider.

It is a relatively simple plan with two main points. It changes the Regional Quota Adjuster right away, which would have the impact of equalizing the quota differential to $1.43 per cwt. statewide and it sets a termination date for the QIP of March 1, 2025. Adjusting the RQA would reduce the QIP assessment by about 2.5 cents per cwt. After the RQA adjustment, each pound of quota solids would generate $5 per month in revenue. March 1 of 2025 is 53 months from now. 53 times $5 is $265, which is the amount of revenue each quota solids pound would generate if there is a referendum on the UDFC plan and if that referendum passes.

After presenting this proposal to the producer community, UDFC began to circulate a petition seeking signatures to request a referendum to have producers vote on this plan. Meanwhile, the STOP QIP organization was able to submit sufficient signatures on their termination plan to receive a hearing on that plan which took place in June. It took until June for UDFC to acquire sufficient signatures to submit their plan to CDFA for consideration. The STOP QIP hearing resulted in a decision by California

Secretary of Food and Agriculture Karen Ross to not hold a referendum on that petition. And a hearing on the UDFC petition will be held this next week.

Interestingly it will be the same person, Judge Timothy Aspinwall, who will preside at next week's hearing. It is expected that he will render a recommendation based on the hearing record and the law for Secretary Ross to consider. The ultimate decision does rest with the Secretary. Over the past months, various letters and reports by CDFA officials seem to specify that a petition seeking a referendum submitted according to Chapter 3 of the Food and Agriculture Code is entitled to a referendum and the referendum needs to be held on the specific proposal contained in the petition that producers signed. This seems to indicate that barring some unexpected twist, there will likely be a referendum held on the UDFC proposal. In order for a proposal to be adopted as a result of a referendum, 51% of the eligible producers will have to vote in the referendum and of those who vote, 51% of the producers producing 65% of the milk will have to vote yes, or 65% of the producers representing 51% of the voting milk will have to vote yes in order for the plan to pass. If there are insufficient voters, or there are insufficient yes votes, then the referendum fails, and the status quo continues.

Anyone can participate in the hearing. The hearing runs from 9 a.m. to 4 p.m. on both days, but as a practical matter, it may go less than that on the second day if there are no more witnesses. You can testify live, or you can submit written testimony before the hearing. All the details about how to access the hearing are in the official hearing notice which you can access here.

A big thank you to Donald Shipplehoute!

By Geoff Vanden Heuvel and Kevin Abernathy, General Manager

Don Shipplehoute, the current administrator of the Quota Administrative Program and longtime Dairy Marketing Branch employee, announced earlier this week that he is retiring from CDFA next month. Don is a class act, a wonderful human being, a competent administrator and a real friend of the dairy industry. In recent years, it was Don who had the difficult task of shepherding the transition from the State Order to the Federal Order and the design and implementation of the continuing quota program. He has done his work on all our behalf well; always being accessible and open to the extent he was allowed to in respect to how CDFA was carrying out the dairy programs. He will not be going far, however. He begins work for the Federal Milk Marketing Administrator in November. So, to Don, a big thank you from Milk Producers Council and from Kevin and Geoff personally for your great service over the decades and best wishes for your transition to a new challenge. It is wonderful to see good things happen to good people.

NMPF offers toolbox to dairy Farmers as latest CFAP round signup opens

Courtesy of the National Milk Producers Federation

Following the USDA's announcement last week of a new round of disaster assistance to agricultural producers, with signup opening this past Monday, the National Milk Producers Federation has created a resource guide to help farmers understand and apply for the program.

The toolbox, part of NMPF's ongoing service to the dairy community during the coronavirus crisis, includes a breakdown of what the latest Coronavirus Food Assistance Program (CFAP) includes for dairy, as well as a link to relevant application resources.

"Helping dairy farmers understand complex government programs to gain their full benefits is especially important during this challenging time," said Jim Mulhern, president and CEO of NMPF. "The best way to do that is to be there at the beginning, and we hope farmers will find these resources useful as they consider their options, starting today."

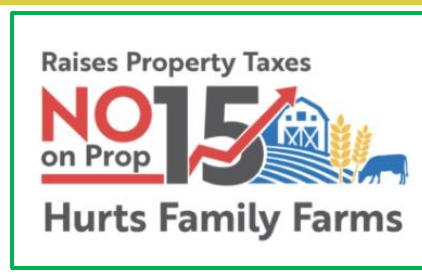
Highlights of the so-called CFAP 2.0 include:

- A dairy payment amounting to $1.20-per-hundredweight on a farm's production during the last nine months of 2020. Dairy payments will be based on actual milk production from April 1 to Aug. 31, 2020. Milk production for Sept. 1, 2020, to Dec. 31, 2020, will be estimated by FSA, using daily average production from the April-August base period of known production.
- 100% of the payment will be made once a farm's eligibility is determined, meaning there will be no 20% holdback as with earlier assistance.
- For dairy beef, producers are eligible for cattle inventory payment on bull calves and dairy steers, but not for breeding stock. The payment is $55-per-head on eligible cattle in inventory on a date between April and the end of August selected by the producer.
- Significantly, this round's payment limitation provision has been expanded to include trusts and estates for both rounds of CFAP payments, meaning those who were disadvantaged by restrictive trust-related payment interpretations in the first round will have their situation resolved for that round as well as in the latest tranche of aid. The application of direct attribution is also modified so payment limits won't be reduced based on ownership shares, providing more equitable support to dairy farmers of various ownership structures.

A full range of coronavirus-related materials to help guide dairy producers, processors and allied businesses is available at nmpf.org/coronavirus. NMPF also has set up a separate webpage dedicated to resources to help dairy farmers struggling through natural disasters. That's at nmpf.org/disaster-resources/.

Vote No on Prop. 15

Courtesy of Alliance of California's Farmers and Ranchers



Proposition 15 is the split roll tax initiative that removes property tax protections for agriculture and commercial real estate preserved by Proposition 13 (1978). While advocates try to tell us, it provides additional funding for schools, we know better. **Proposition 15 Hurts Family Farms.** We know it means an increased expense of doing business, and an increased cost of living for all Californians.

The **Alliance for California's Farmers and Ranchers** is concerned because if Prop 15 passes it will blow a hole in the economics for agriculture and commercial operations to use solar. There will be an added expense to install solar systems that protect the future of California. It will mean higher electricity prices for everyone. It will mean higher food costs at the grocery store for everyone.

Prop 15 is a devastating tax grab that threatens all of us with higher costs. It significantly raises taxes for California's Farmers and Ranchers on everything we use to make our operations more efficient and cost effective. Ultimately hurting our ability to keep food costs affordable for all Californians.

Read the full article here.