MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 4

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	+ $.0125	$1.8800
Barrels	+ $.0450	$1.7650
Weekly Average Cheddar Cheese		
Blocks	+ $.0140	$1.8800
Barrels	+ $.0360	$1.7440

Chicago AA Butter		
Weekly Change	+ $.0250	$2.3400
Weekly Average	+ $.0060	$2.3375
Dry Whey		
Dairy Market News	w/e 08/16/19	$.3400
National Plants	w/e 08/10/19	$.3673

Non-Fat Dry Milk		
Week Ending 08/10/19		
Nat'l Plants	$1.0405	15,085,557
Prior Week Ending 08/03/19		
Nat'l Plants	$1.0235	33,754,467

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
Aug 16 Est	**$19.49 - $19.99**	**$17.55**	**$17.62**	**$16.63**
Aug 9 Est	**$19.49 - $19.99**	**$17.53**	**$17.61**	**$16.60**

July 2019 CA FMMO Statistical Uniform Price Announcement

Jul '19 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price *(Blended Price)*	Net Price After Quota Assessment
Minimum Class Price	**$18.78 *(Tulare)* $19.28 *(L.A.)***	**$17.61**	**$17.55**	**$16.90**	**$17.32 *(Tulare)* $17.82 *(L.A.)***	**$16.94 *(Tulare)* $17.44 *(L.A.)***
Percent Pooled Milk	**21.9%**	**6.6%**	**16%**	**55.6%**	**100% (2 billion lbs. pooled)**	

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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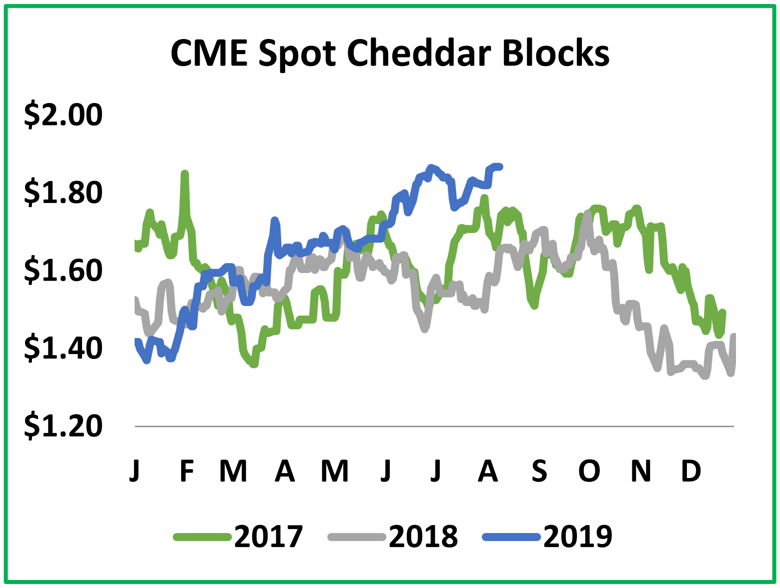
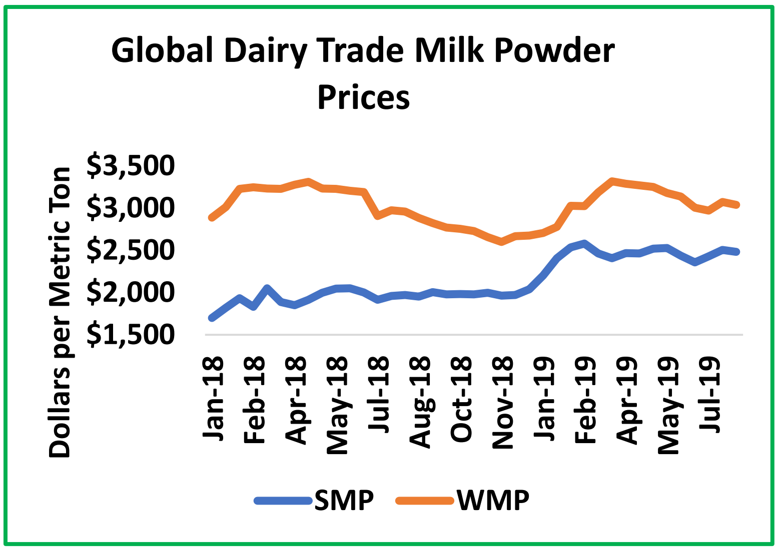
Milk & Dairy Markets

The CME spot markets stood strong once again this week. Spot Cheddar blocks rallied to a fresh 2019 high of $1.8925 per pound, a price not seen since November 2016. They closed today at $1.88, up 1.25¢ from last Friday. Blocks have traded above $1.80 some 36 times this year, including the past 19 consecutive trading sessions. In 2017 and 2018, they topped $1.80 just once.

Barrels added 4.5¢ this week and finished at $1.765, just 1.5¢ below the multi-year high established in June. Dry whey settled a penny higher at 36.5¢. Nonfat dry milk (NDM) eked out a 0.25¢ gain and closed at $1.03. Butter climbed 2.5¢ to $2.34.

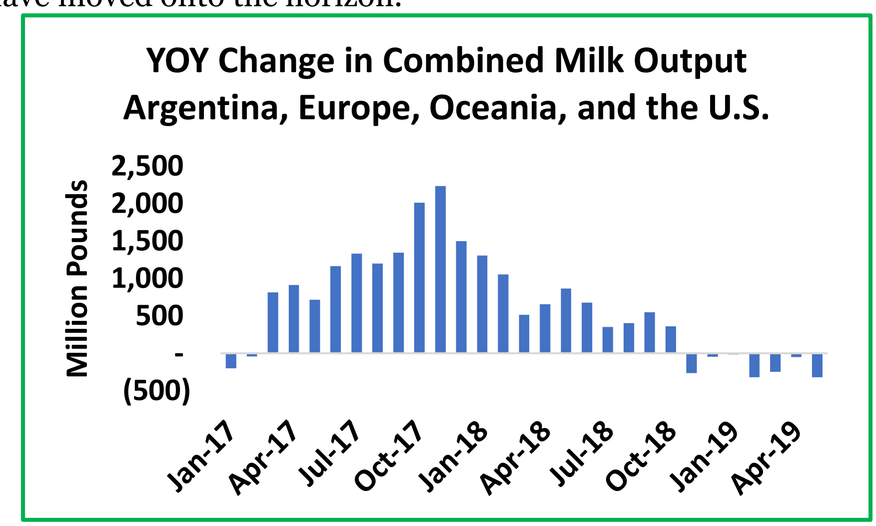


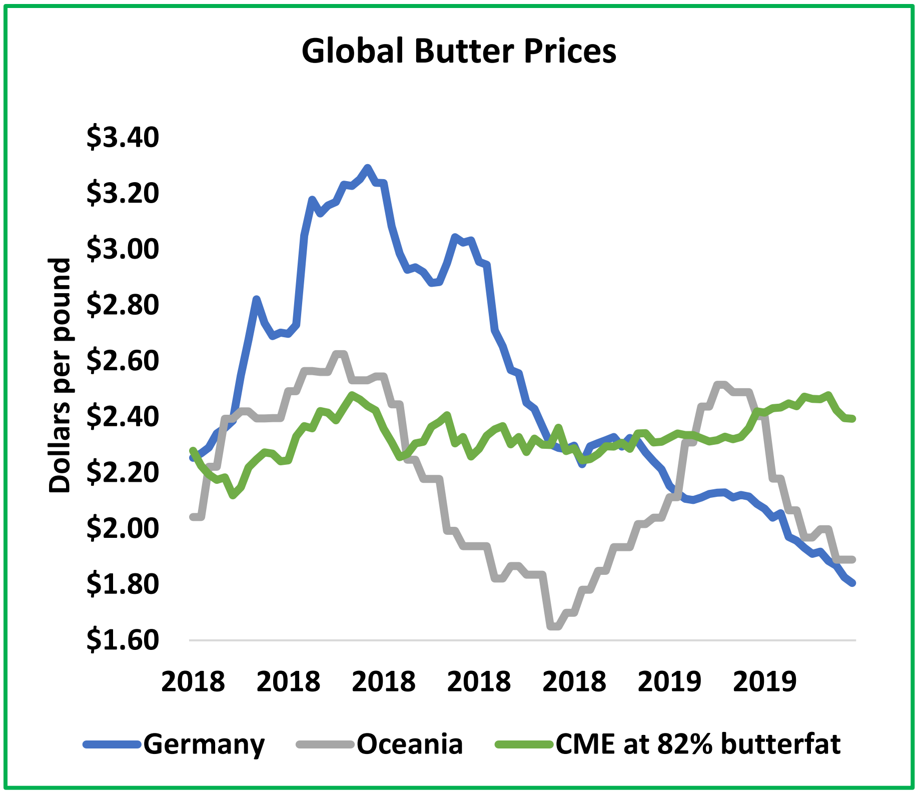
The spot markets have been buoyed by robust near-term fundamentals. Around the globe, slowing milk production and firm demand have tightened inventories. Excluding output in Spain, Cyprus, Malta, and Sweden, which have yet to report data, European milk collections in June were 0.2% lower than the prior year, a deficit of nearly 58 million pounds. After the July heat wave, output likely tightened further. In the U.S., domestic demand for cheese was up 0.5% from a year ago in the first half of the year, and production is not keeping pace. Dairy products could become noticeably tight – and pricey – as consumption ramps up further this fall. School refrigerators are stocked with milk, and families are adjusting to new routines. Football season is right around the corner. That means more pizza, nachos, and creamy dips. Before long, merchants will be moving product for the holiday baking season.



Those factors will continue to support dairy product prices and boost dairy producers' milk checks in the months to come. However, dairy futures were far from exuberant this week. While August Class III and Class IV futures moved a little higher, all other contracts settled steady or lower than they did last Friday. 2020 contracts were particularly weak. The diverging spot and futures markets reflect a tension between immediate circumstances and the longer-term outlook. Some new clouds have moved onto the horizon.

Markets of all sorts fell under the gloom of uncertainty this week. Investors fled equities and commodities after bond yields flashed a warning signal about the increasing – but still small – likelihood that the U.S. would enter a recession within the next two years. Trade negotiations between the U.S. and China are going nowhere, and the soured relationship has trimmed economic activity on every continent.





Grain Markets

Feed prices came under additional pressure this week, thanks to USDA's stunningly optimistic Crop Production report. After resurveying farmers, the agency estimates they planted corn on 90 million acres, 1% more than last year. Lower prices for competing crops, uncertainty surrounding soybean exports, and adjustments to prevented planting insurance terms incentivized farmers to plant as much corn as the weather allowed, at the expense of soybeans, wheat, and small grains. USDA reported soybean area at 76.7 million acres, down 14% from a year ago.

USDA's corn yield projection is harder to explain. The agency raised its assessment by 3.5 bushels per acre relative to its July report, putting the national average corn yield at 169.5 bushels. That is 6.9 bushels below last year, but in light of this year's unusual weather, it is shockingly high. USDA relied on crop condition ratings and satellite imagery to predict the yield. Summer weather has been relatively benign, and crop condition ratings portend sub-par but not disastrous yields. However, this method fails to account for the significant share of the crop that was planted long after the ideal corn planting window had closed. Farmers planting late corn had to switch to shorter-season varieties and sacrifice much of the genetic improvements that have boosted corn yields for full-season corn year after year. Potential yields on this share of the crop will be perhaps 10 bushels below the historic trendline. And maturity continues to lag. On August 11, just 39% of the crop was in the dough stage, compared to 71% at this point in the 2018 season, and a historic average of 61%. The crop is still short, late, and vulnerable to a killing frost.

Nonetheless, USDA's assessment assuaged the market's anxiety about production prospects. On the heels of the Crop Production report, corn futures suffered their steepest two-day decline in six years. But now that the shock has worn off, the trade is adding back some weather risk premium. September corn settled today at $3.71 per bushel, down more than 40¢ from last Friday. Anchored by the corn market, soybean futures fell 6.5¢ to $8.6725.

While some dairy producers must contend with severe crop issues and regional shortages, average feed costs have clearly moved much lower. Inexpensive feed and $17 milk are incentivizing dairy producers to keep their barns full and to lift milk yields if they can. Few likely have the credit or the facilities to expand beyond this incremental approach, but these marginal gains can add up. Eventually, U.S. milk output will stop contracting. With dairy margins improving and economic apprehension on the rise, the markets have counseled dairy product buyers to be patient. This week they did not rush to secure product at any cost, causing rallies to sputter. Dairy fundamentals remain sound, but the market's tone has shifted. In this environment, the bulls will have to work a little harder to convince the trade that higher prices may be warranted.

September 20 DMC Signup Deadline Approaching

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The sign-up opportunity for the 2019 Dairy Margin Coverage (DMC) program ends on September 20, 2019. USDA reports that as of August 11, only 44% of California's eligible producers have signed up for the DMC program.

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 and June $3,575 for a total of $25,675 in payments for the first half of 2019.

TABLE 1 Estimated monthly Dairy Margin Coverage (DMC) indemnity payments*, $ per cwt, 2019

	January	February	March	April	May
DMC margin ($ per cwt)	$7.71	$7.91	$8.66	$8.82	$9.00
DMC margin coverage level	DMC indemnity payment ($/cwt)				
$9.50	$1.79	$1.59	$0.84	$0.68	$0.50
$9.00	$1.29	$1.09	$0.34	$0.18	NA
$8.50	$0.79	$0.59	NA	NA	NA
$8.00	$0.29	$0.09	NA	NA	NA
$7.50	NA	NA	NA	NA	NA
$7.00	NA	NA	NA	NA	NA

* Actual payments subject to 6.2% sequestration deduction.
NA = Not applicable
Dairy Margin Coverage program sign-up is scheduled to close Sept. 20, 2019, at USDA Farm Service Agency offices.
Indemnity payments, retroactive to January, are scheduled to start July 8, 2019.
Source: USDA Farm Service Agency

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.