MPC Weekly Friday Report

Date: December 4, 2020
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0950	$1.5850	Weekly Change	+ $.1200	$1.4800	Week Ending 11/28/20		
Barrels	- $.0225	$1.4000	Weekly Average	+ $.1083	$1.4375	Nat'l Plants	$1.0698	17,989,227
Weekly Average Cheddar Cheese			Dry Whey			Prior Week Ending 11/14/20		
Blocks	- $.0678	$1.6055	Dairy Market News	w/e 11/28/20	$.3887	Nat'l Plants	$1.0836	16,667,503
Barrels	+ $.0030	$1.4105	National Plants	w/e 12/04/20	$.4300			

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
Dec 4 Est	$21.47 - $21.97	$14.11	$15.35	$13.57
Nov '20 Final	$19.64 - $20.14	$13.86	$23.34	$13.30

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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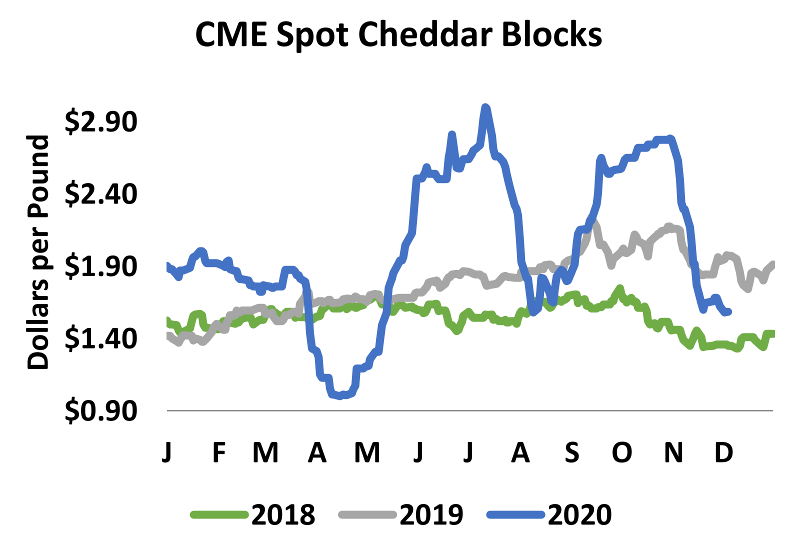
Milk & Dairy Markets

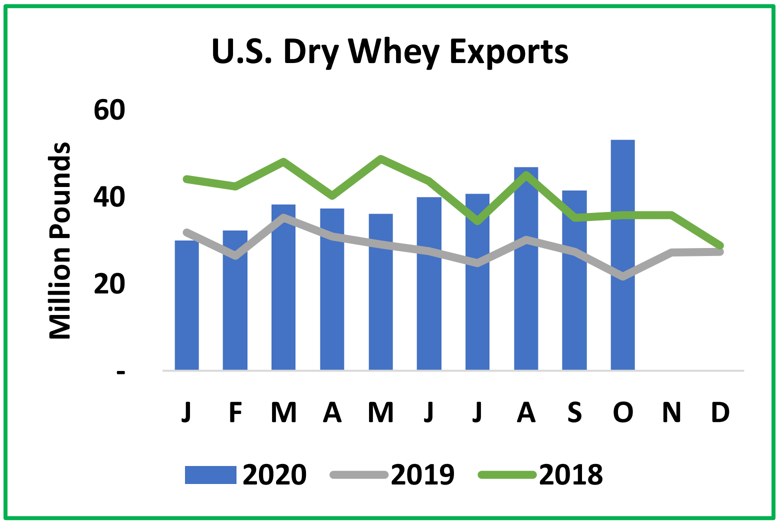
As befits the season, dairy markets gorged themselves on a smorgasbord of data over the past two weeks. The feast lifted spirits in the Class IV and whey markets, but, in characteristic fashion, the cheese market overindulged, and is now suffering a post-holiday hangover.



CME spot Cheddar blocks closed today at $1.585 per pound, just a half-cent above the August low and 6¢ lower than where they stood two weeks prior. Barrels fell 2.25¢ to $1.40, where they have hovered since mid-November. Cheesemakers pared back production in October to 1.13 billion pounds, down 0.6% from the prior year. But Cheddar output jumped 5.6% to the highest October volume on record. Some of that cheese likely made its way to

Chicago last month, prompting the collapse in the spot market. Manufacturers kept product moving, and cheese stocks remained slightly below year-ago levels as of October 31. However, amid high prices, exports have slowed. Daily average U.S. cheese exports to Mexico dropped to an eight-year low. Hopefully, today's lower values will attract new orders at home and abroad. But as the Foodbox program winds down and coronavirus cases rise, it may take quite a bargain to stimulate demand.

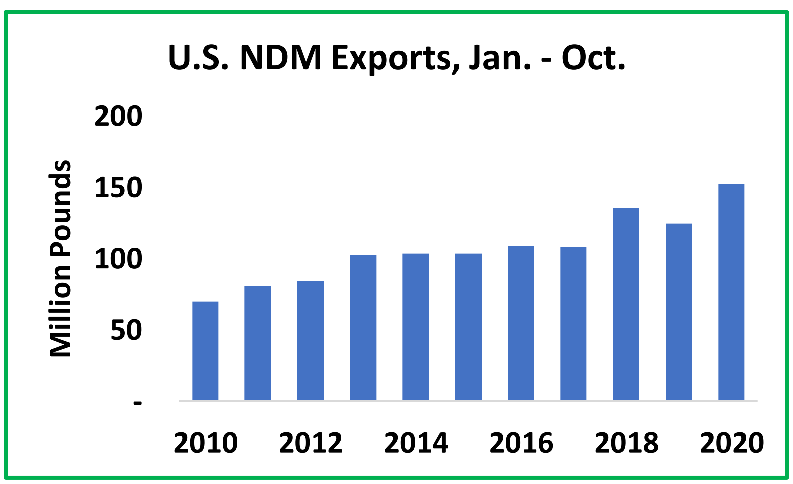
Less cheese meant less whey in October. Production of dry whey for human consumption fell 11.9% year over year to 79.1 million pounds. China's formidable demand for imported whey – mostly for piglets – pushed U.S. dry whey exports sharply higher. The U.S. also shipped sizeable volumes of whey protein concentrates and isolates abroad, pushing total whey product exports to a record high. Formidable exports helped to shrink dry whey stocks to an eight-month low. Strong demand and eroding supplies have fueled an impressive rally in the whey markets. Since early July, CME spot whey has rallied more than 60%. It closed today at 46.25¢, up 2.5¢ over the past two weeks.



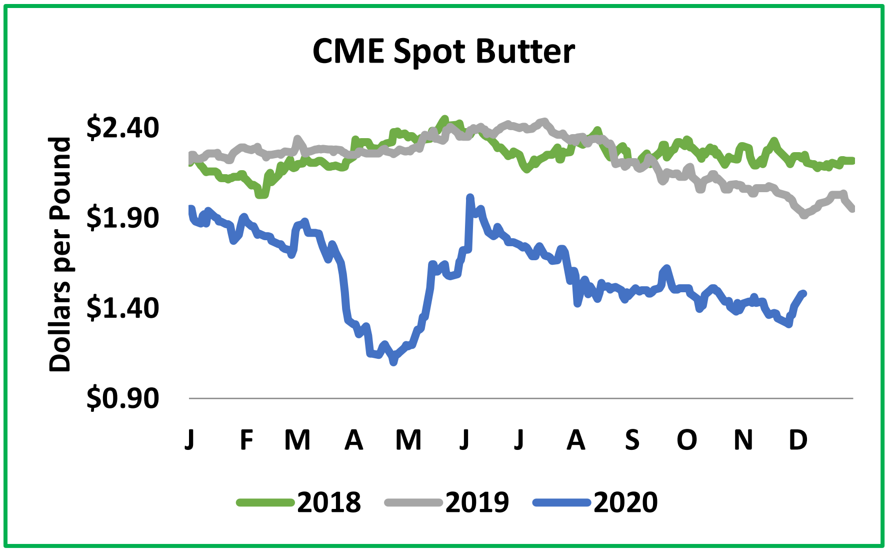
The milk powder market has followed a similar trajectory for many of the same reasons. CME spot nonfat dry milk (NDM) closed today at $1.15, up 6.5¢ since the Friday before Thanksgiving. Spot NDM has rallied 55% from the July lows, thanks in large part to booming exports. The U.S. sent 169 million pounds of NDM overseas in October, the second-largest volume on record. Exports to Mexico fell short of the prior year, but buyers in Southeast Asia once again embraced U.S. milk powder with enthusiasm. U.S. NDM exports are on pace for a record-breaking year, with shipments up 22.2% for the year to date.

Even after the sustained rally, U.S. NDM is priced to move. The U.S. dollar index has fallen to its lowest level since the spring of 2018, which boosts foreign purchasing power for products made in America. And global milk powder prices are perking up. At the Global Dairy Trade (GDT) auction on Tuesday, skim milk powder (SMP) climbed 3.6% to the equivalent of NDM at $1.40 per pound, well above the CME spot price. Whole milk powder values jumped 5%. Strong exports and competitive pricing have helped to keep U.S. NDM inventories in check even as driers run hard. Although combined production of NDM and SMP topped the prior year by 8.6% in October, manufacturers' stocks inched upward only slightly.

After spending a couple weeks in the unwelcoming climes south of $1.40, the butter market came roaring back. It closed today at $1.48, up 13.5¢ from where it stood two weeks ago. That's still a historically low price to be sure, but the rally is a welcome change after many months of decline.

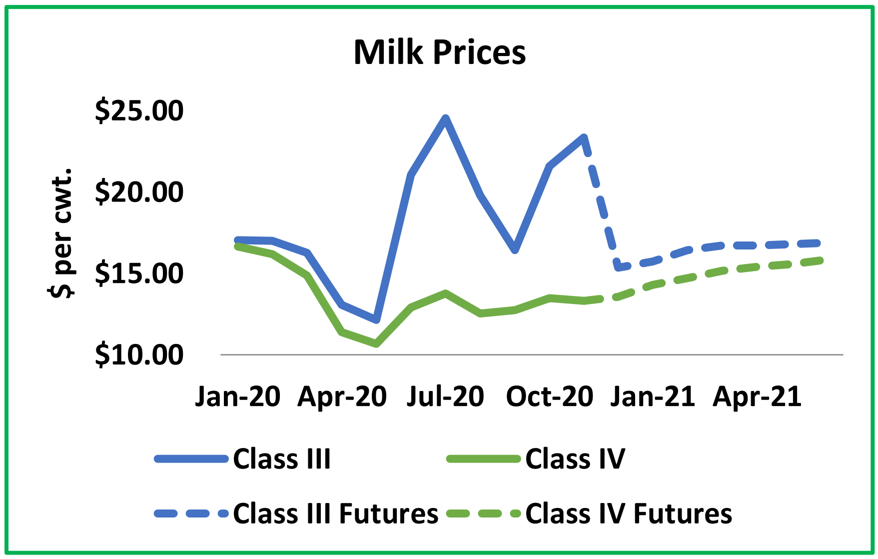


Churns were unusually active in October. They made 165 million pounds of butter, the highest October volume in more than a century of USDA records and 1.2% more than



the prior year. Demand was equal to the challenge, and butter stocks declined seasonally in October. But at just over 300 million pounds, butter inventories on October 31 were 28% greater than the prior year and the largest stockpile for the month since 1993. Although the industry is pushing huge volumes of butter through retail, butter inventories are likely to remain burdensome due to the slump in foodservice.

The cheese markets dragged nearby Class III prices down hard over the past two weeks. December Class III fell 63¢ to $15.35 per cwt., while January Class III fell 92¢. Deferred Class III futures moved a little higher, and Class IV enjoyed a sizeable rebound. December Class IV gained 34¢ and reached a still uninspiring $13.57. First-quarter Class IV contracts added an average of 78¢ in the past two weeks. That's excellent news for dairy producers whose milk checks are not derived exclusively from Class III. The narrower III-IV spread also lowers the odds of depooling and a punitive producer price differential in the year to come. Nonetheless, the futures suggest that milk revenues will be rather lean in 2021. The milk cow herd is large and dairy producers in the cheese states are flush with cash. It may be a while before the threat of lower prices translates to a slowdown in milk production.



Grain Markets

The corn and soybean markets closed out November at multi-year highs, but then fell from their lofty perches. March corn settled today at $4.205 per bushel, down nearly 8¢ from where it stood two weeks ago. At $11.63, January beans are 18¢ lower than where they were on the Friday before Thanksgiving.

There is plenty of fodder for both the bulls and the bears, creating a rather schizophrenic trading market. It's dry in the U.S. West and in northern Brazil, prompting concerns that crop supplies will tighten considerably in the coming season. The U.S. exported a record-breaking volume of soybeans in October, and corn exports are much stronger than in recent years. But rains have been better than feared in southern Brazil and Argentina, and soybean prices are starting to slip in China, prompting concerns that U.S. soybean exports will fade from their once frantic pace. Feed costs are certain to remain higher than in previous years, but the direction from here is difficult to predict. We're in a full-blown weather market, and the futures will be as fickle as the forecast.

Dairy Tidbits

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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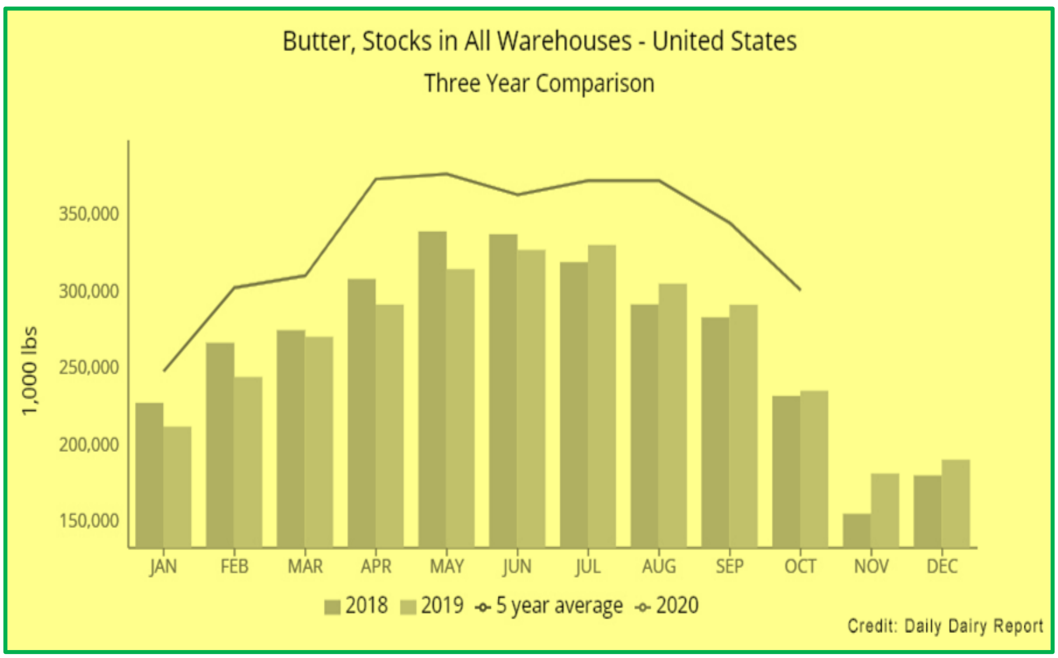
The Bulk Butter Bulge

Bulk butter inventories surged when the pandemic hit in March. The reason was obvious. Restaurants and institutional food service shut down and the butter started backing up. Butter has been a bright spot for dairy over the past number of years. From 2014 to the beginning of the pandemic in March, the bulk butter price as established at the Chicago Mercantile ranged between $2 and $2.50 per pound despite world prices for butter often ranging 30-50 cents per pound lower.

After the initial drastic drop in all dairy product prices in the Spring, there was a modest recovery in prices. Then USDA's Food Box program kicked in, and with it, a need to put consumer-sized packages of dairy products in the box. This was a phenomenal windfall for cheese prices, but for butter a practical problem revealed itself.

The pandemic greatly altered the way people accessed their food. You have basically two channels in the food distribution system – food service and grocery. The packaging and logistics requirements of each channel are vastly different. The blend between bulk butter demand and print butter demand had been a remarkably successful mix as demonstrated by how well the bulk butter price (which also sets the value for print butter) held up over the past number of years. But now the grocery stores were enforcing limits on how much print butter a customer could purchase at the same time bulk butter inventories were growing.



USDA's latest cold storage numbers tell a story. A bulge in butter inventories emerged in the early days of the pandemic, which has hung over the industry since then. It appears that there is somewhere between 40 and 60 million pounds of extra butter in cold storage. We hear that print butter sales are great, and yet butter prices are still way below the $2 price of recent years.

We now hear about another round of the Food Box program. Certainly, there are hungry people in the country who need food assistance, but something significant needs to be done to deal with the effects of this bulk butter bulge on the price of butter. Huge differences in the value of milk used for cheese versus milk used for everything else creates significant relative position challenges in the dairy community. When those differences are the result of government actions, then government does have a responsibility to assist in addressing it. Hopefully, we will soon hear of actions that will cause all boats to rise with the tide.

Federal Order Class I Formula

Another big problem revealed by the gyrations of the pandemic dairy market is what a fiasco the change to the Class I pricing formula has turned out to be. Since about the year 2000, the Class I price in the Federal Order system used the higher of either the cheese/whey product values or the butter/NFDM values as the base price to which the Class I differentials were added in the various Federal Orders. Bottlers complained that because the system was based on the "higher of" which could change from month to month, they had a difficult time hedging their price risk. On behalf of producers, National Milk Producers Federation was open to a fix and agreed to change the base price to the average of Class III and IV instead of the higher of, in exchange for an added permanent increase of $0.74 per cwt. over the base price. The $0.74 per cwt. was determined to be the long-term average benefit from the "higher of" feature. Said another way, if the spread between Class III and Class IV is less than $1.48, then this change is positive for producers. Conversely, if the spread is greater than $1.48 the result is negative.

This change took effect in May of 2019 just before 2020 happened. As a result of the massive spreads between Class III and Class IV prices in 2020, hundreds of millions of dollars in less Class I revenue has been paid to producers than what would have occurred under the old pricing formula. The fundamental principle of the classified pricing system, which is that Class I is the highest value, is now being violated with impunity, causing very destabilizing results in the Federal Order system. The situation must be corrected. If it is not, then the whole premise of the Federal Order system begins to unravel with very unpredictable results.

Dairy Revenue Protection

On the good news side, The Dairy Revenue Protection (DRP) crop insurance program made an adjustment in the Expected Yield Per Cow factor for endorsements purchased by California producers. The DRP is a revenue insurance policy. Revenue for a dairy farmer is based on two factors, the price for milk and the volume of milk sold. When an endorsement is purchased for a future quarter there is an expected production per cow number that is attached to that endorsement. When the covered quarter is over, the actual milk production per cow for each state that is announced by USDA is compared to the expected production per cow that was listed on the endorsement at the time it was purchased. Each state has its own milk production per cow number. California's expected yield per cow numbers listed on policies sold to California producers have consistently underestimated the actual production per cow announced by USDA since the program started at the beginning of 2019. Sometimes the amount has been small, but the amount was larger in Q3 of 2020. This discrepancy was brought to the attention of the operators of DRP as well as USDA and they developed a fix, which was adopted by USDA's Risk Management Agency (RMA) board a week ago and immediately implemented for coverage purchased from this point forward. Many thanks to Dr. Marin Bozic and Dr. John Newton who operate the DRP program and to the RMA for being willing to acknowledge a problem, devise a fix and implement it in record time.

Dairy Margin Coverage

Reminder, signups for the 2021 Dairy Margin Coverage program (the program you sign up for at the Farm Service agency) ends next Friday, December 11. It is hard to understand, but only 7,846 producers had enrolled as of last week representing about 32% of the dairy operations that have established production history. Signing up for the $9.50 margin costs $0.15 per cwt. There is a $100 administration fee due right away, but the remaining cost is not due until September. The DMC estimator shows a very good likelihood that this program will make payments in 2021. But if you are not signed up, you will not receive them. Also, if you signed up in 2019 for the five year deal and took advantage of the 25% discount in the cost, you still need to contact your local FSA office and pay the $100 administration fee.

California Dairy Organizations Host 900+ in Successful Virtual Summit

Courtesy of Dairy Cares

California's dairy farmers are leading change and making significant progress in reducing greenhouse gas (GHG) emissions and advancing planet-smart, sustainable farming practices. Ongoing partnerships remain critical to this progress. On November 5-6, the virtual California Dairy Sustainability Summit welcomed 900+ registrants, with more than 600 tuning in live throughout the two-day online event.

The virtual summit hosted conversations among dairy farmers, industry leaders, government officials, leading researchers, technology providers, and sustainable food, consumer, and nutrition experts. The program recognized true sustainability includes economic and social considerations, in addition to environmental—ultimately aiming to ensure the ongoing availability of affordable, nutrient-rich foods. Given the current economic challenges, this effort is paramount as more than 54 million Americans currently face food insecurity. Through panel discussions and keynotes, speakers recognized accomplishments and opportunities to further improve the sustainability of family dairy farms and the entire supply chain.

Read the full article here.

CDQAP Quality Assurance Update

Courtesy of California Dairy Quality Assurance Program

The California Dairy Quality Assurance Program (CDQAP) recently published its November 2020 Quality Assurance Update. Below are excerpts from the Update, which you can read in its entirety here.

New FARM Animal Care Standards

By Dr. Michael Payne, UC Davis, School of Veterinary Medicine and Director, CDQAP

Every three years, to reflect evolving practices and science, the National Dairy FARM Animal Care Program is updated. The program checks in with California producers (via local cooperative/processor staff), opening discussions on how to maximize comfort and continually improve on-farm animal care.

To Avoid Carcass Confusion, Don't Use An Orange "B"

As covered in our August CDQAP newsletter, veterinarians using barbiturates to euthanize livestock must mark the forehead with an orange "B."

Keep Your Eyes Open for Salt Program Letters

By J.P. Cativiela, Administrator, Central Valley Dairy Representative Monitoring Program

It's been a long five months since June. As a reminder, some 720 Central Valley dairies in Priority 1 groundwater basins received a certified letter from the Central Valley Regional Water Quality Control Board informing them of the need to comply with the Board's new Nitrate Control Program. For dairies who received the letter, it signals the need to join your local Nitrate Management Zone.