MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	*+ $.0300*	$1.7825
Barrels	*+ $.0700*	$1.6050
Weekly Average Cheddar Cheese		
Blocks	*+ $.0565*	$1.7895
Barrels	*+ $.0585*	$1.5695

Chicago AA Butter		
Weekly Change	*- $.0325*	$2.3650
Weekly Average	*+ $.0140*	$2.3885
Dry Whey		
Dairy Market News	w/e 06/14/19	$.3550
National Plants	w/e 06/08/19	$.3667

Non-Fat Dry Milk		
Week Ending 06/08/19		
Nat'l Plants	$1.0377	22,151,038
Prior Week Ending 06/01/19		
Nat'l Plants	$1.0328	21,907,993

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
June 14 Est	**$18.67 - $19.17**	**$17.31**	**$16.31**	**$16.80**
June 7 Est	**$18.67 - $19.17**	**$17.31**	**$16.26**	**$16.80**

May 2019 CA FMMO Statistical Uniform Price Announcement

May '19 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (*Blended Price*)	Net Price After Quota Assessment
Minimum Class Price	**$18.01 *(Tulare)* $18.52 *(L.A.)***	**$16.48**	**$16.38**	**$16.29**	**$16.43 *(Tulare)* $16.93 *(L.A.)***	**$16.05 *(Tulare)* $16.55 *(L.A.)***
Percent Pooled Milk	**18.2%**	**5.6%**	**30.8%**	**45.5%**	**100% (2.58 billion lbs. pooled)**	

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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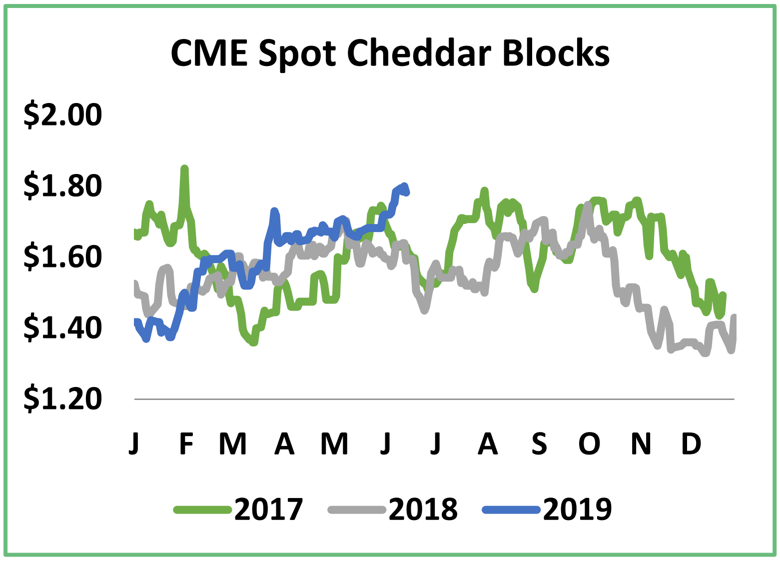
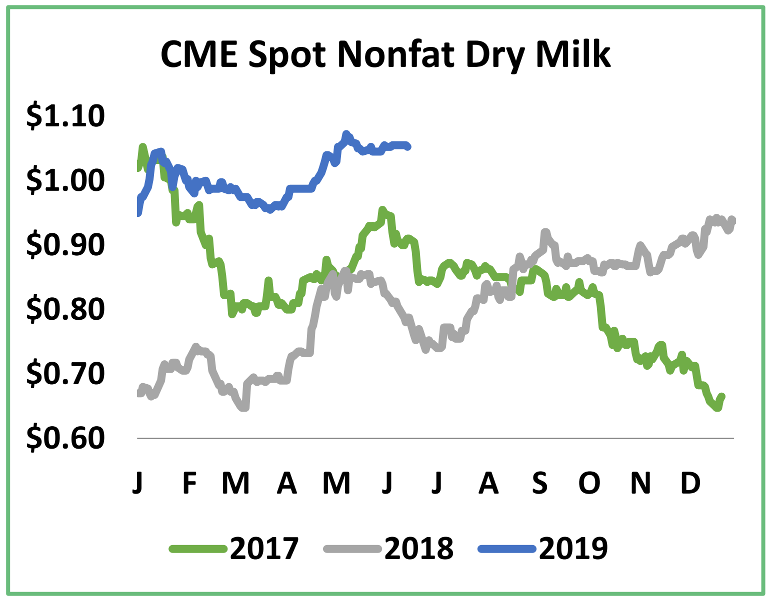
Milk & Dairy Markets

Pfssst. That's the sound of a summer sizzle in the cheese market. For the first time since February 2017, CME spot Cheddar blocks traded above $1.80 per pound. They closed today at $1.7825, up 3¢ this week. Buyers doused a little lighter fluid on the barrel market, helping to narrow



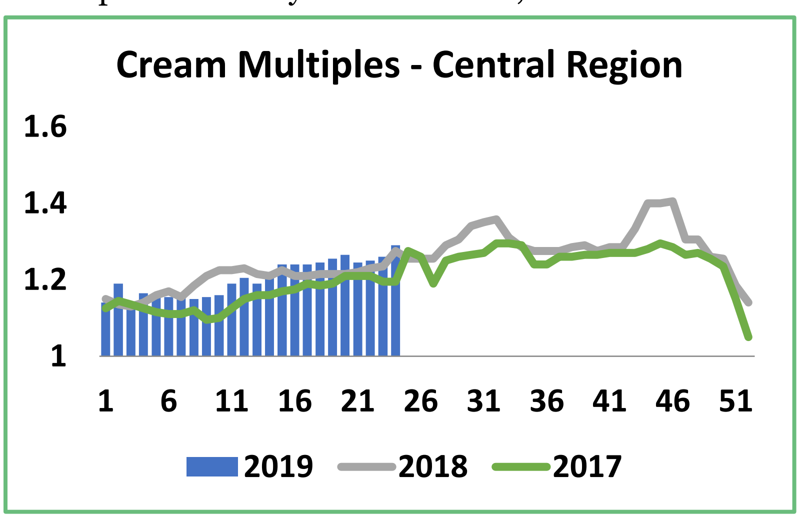
the still-wide deficit to block prices. Barrels closed at $1.605, 7¢ higher than last Friday. They still have a lot of ground to make up. Strong volume at these higher prices suggests cheese demand is firm. Cheddar supplies are substantial but "not overwhelming," according to USDA's *Dairy Market News*. Spot milk is considerably pricier than in years past, and that is slowing commodity cheese production. Cheesemakers tell *Dairy Market News* they have noticed the lost milk "as a bevy of dairy farmers have shuttered in the Midwest and elsewhere in the nation."

The other spot products sputtered. CME spot dry whey and nonfat dry milk (NDM) each slipped a quarter-cent. At 36.25¢, whey powder is holding near the high end of its very narrow trading range. Ample stocks and slow exports have been fully factored into the whey market, and prices are simply plodding along. Spot NDM has been similarly stolid, but there is the potential for summer fireworks as output slows and buyers become resigned to higher prices. Spot NDM finished today at $1.0525.



CME spot butter climbed to within a tick of the calendar year high, then quickly retreated. Butter closed at $2.365, down 3.25¢ from last Friday. Nonetheless, Class IV futures moved higher this week. Most contracts settled about 15¢ higher, with all second-half contracts well above $17.00. Class III futures were generally 20¢ higher than last week.

The mercury is climbing throughout the West and Southeast, but cooler nights are helping to mitigate the impact on milk yields. However, heat stress is cumulative and there is a lot of summer left. This week's heat wave could set the stage for a bigger setback in production per cow if torrid temperatures return. Robust milk yields in the West have driven the modest growth in milk production in recent months. If yields in the region suffer, U.S. milk output is more likely to fall short of year-ago levels.

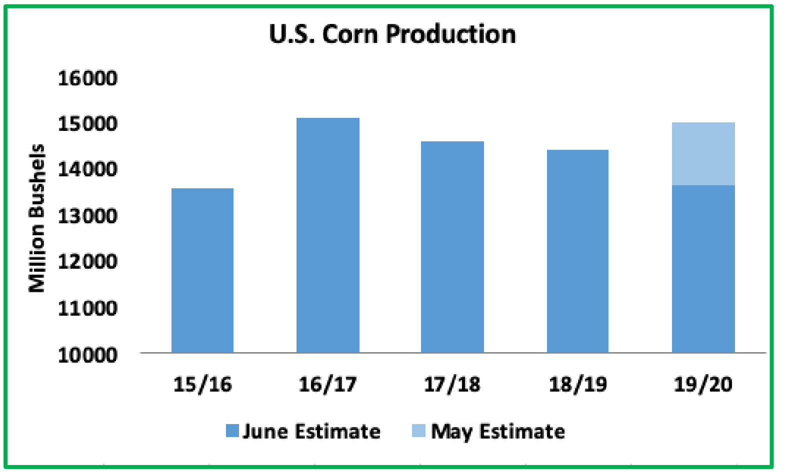


The heat is also boosting ice cream demand and tightening cream supplies. Rising cream multiples are likely reducing butter churning, which should concern those who will need to purchase butter this fall. Butter inventories on April 30 were down 5.4%

from the prior year and at the lowest level for the month since 2015. *Dairy Market News* reports, "Butter makers say brokers keep calling, looking for available deals on bulk butter loads, but low-priced deals are scarce." On the other hand, foreign butter values retreated further. German butter prices have fallen to more than two-year lows. Imports will fill at least some of the gap created by a slowdown at U.S. butter churns.

Grain Markets

In the Midwest, dairy producers are struggling with weather of a very different sort. Relentless rain has slowed fieldwork of all types, including manure spreading, corn planting, and hay cutting. In the year to come, dairy producers in much of the region, and especially in the water-logged, dairy-heavy areas of northern Wisconsin, Michigan, Ohio, and New York, will struggle with the quantity and quality of their forage. Poor forage could hammer milk yields for some producers. Other dairy producers are likely having difficult conversations with their lenders about thin finances and limited prospects to put up adequate corn silage this fall.



USDA acknowledged these issues in this week's Crop Production and World Agricultural Supply and Demand Estimates reports. The agency lowered its estimate of corn area by 3 million acres to 89.8 million acres. It's likely the final tally will be far lower. USDA slashed its estimate of the corn yield by 10 bushels per acre, dropping it to 166 bushels. The late-planted crop will have shallow roots and will likely pollinate in the hottest part of the summer. It will be more vulnerable than usual to hot, dry weather or an early frost. A cool, cloudy summer would also hamper yields, as the crop needs greenhouse-like conditions to catch up after a very late start. In short, unless the weather is perfect from here forward, corn yields could be well short of their full potential. Prices are climbing accordingly. July corn futures settled at \$4.53 per bushel, a four-year high. Nearby corn futures jumped 37.25¢ this week, a 9% increase.

USDA made no changes to its projection for soybean acreage and yields. Heading into the week, many analysts assumed that some of the ground that could not be planted to corn would boost acreage for soybeans, which are typically planted in late May and early June. However, the weather has not cooperated. It was another wet week, and the forecast promises even more rain. Soybean futures moved sharply higher. The July contract settled at \$8.9675, up 40.5¢ since last Friday.

The futures don't capture the full increase in feed prices because in most areas the basis – the difference between the local cash market and CME futures – is also climbing. In the wettest spots, dairy producers and other end users looking to secure feeds for the fall have been told that they'll have to wait. Feed vendors can't be sure how much will be available or how much of a premium dairy producers will have to pay to ensure that corn ends up in their feed bay rather than in an ethanol plant or on an export barge. The national average cost of milk production has jumped substantially in the past month.

Rising feed costs are cutting deeper into revenue just as dairy producers are finally cashing adequate checks. This suggests that there will be no sudden resurgence in dairy producers' appetite for expansion. Slaughter volumes remain high, and the milk cow herd is likely still shrinking. The dairy market recovery could continue for a while.

USDA is Finally Ready to Take Sign-ups for New Dairy Margin Coverage Program

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The Farm Bill was passed last December, which included a change to the dairy safety net program formerly named the Margin Protection Program (MPP). The revised program is now called the Dairy Margin Coverage program or DMC for short. It is still focused on the margin between the monthly "all milk" price and a national representative feed cost calculation based on corn, soybean meal and alfalfa prices. Every month this national margin is calculated and producers who participate in the program can obtain heavily subsidized coverage that will make direct cash payments when the actual margin is smaller than the margin the producer chose to buy coverage for. The catch is that the really smoking good deal is for coverage on the first 5 million pounds of annual production (5,000,000/365 days is 13,700 per day, about 200 cows).

On this first 5 million pounds of annual production, you can buy coverage for a margin as high as $9.50 per cwt. Analysis of historical prices shows that coverage at the $9.50 level will trigger payments over half of the time. You can obtain this coverage for a premium of $0.15 per cwt. But there is more. If you commit up front to buy this elevated level of coverage for all five years of the Farm Bill, there is a 25% discount in the premium, taking the cost down to $0.1125 per cwt. But there is still more. If you bought MPP coverage in the years 2014-2017, and you paid more in premiums than you received in indemnity payments, you can get a refund of part of your premium. You can choose to apply 75% of that refund to premiums that will be due if you decide to participate in the DMC, or you can get a 50% refund in cash, even if you are no longer in operation.

So, what is the deal for producers who ship more than 5 million pounds per year? The rules have changed so that large dairies can buy the 5 million pounds of tier 1 coverage for the very low price and if they buy the higher coverage levels ($8.50, $9.00 or $9.50) for the first 5 million pounds of annual production, then they can access tier 2 coverage for the rest of their production up to a total of 95% of the volume. The $5 margin coverage cost in tier 2 has been reduced to $0.005 which also qualifies for the 25% discount ($0.00375 per cwt.) if committed to for the full 5 years of the Farm Bill up front. In addition, all restrictions on participating in the two government-subsidized dairy crop insurance programs, LGM Dairy and the new Dairy Revenue Protection program, while simultaneously participating in the DMC program have been lifted. And by the way, the refund of any net premiums paid for MPP coverage for the years 2014-2017 can also be applied to premiums that might be due for participation in the new DMC program.

The DMC rate chart looks like this:

Coverage Level	Tier 1 (first 5 million pounds)		Tier 2 (over 5 million pounds)	
	Premium	*w/ Discount*	*Premium*	*w/ Discount*
$9.50	$0.1500	$0.1125	n/a	n/a
$9.00	$0.1100	$0.0825	n/a	n/a
$8.50	$0.1050	$0.0787	n/a	n/a
$8.00	$0.1000	$0.0750	$1.8130	$1.3600
$7.50	$0.0900	$0.0680	$1.4130	$1.0600
$7.00	$0.0800	$0.0600	$1.1070	$0.8300
$6.50	$0.0700	$0.0525	$0.6500	$0.4880
$6.00	$0.0500	$0.0375	$0.3100	$0.2330
$5.50	$0.0300	$0.0225	$0.1000	$0.0750
$5.00	$0.0050	$0.0038	$0.0050	$0.0038
$4.50	$0.0025	$0.0019	$0.0025	$0.0019
$4.00	$0.0000	$-	$-	

Additionally, Congress instructed USDA to review the data used in the calculation of the feed cost in the DMC to see if it actually represents the average dairy feed costs dairy farmers pay. They also instructed USDA to do a study that evaluates the difference in the cost between the use of corn silage and the cost of corn. And they ordered USDA to revise monthly price survey reports to include prices for high-quality alfalfa hay in the top five milk producing states as measured by volume of milk produced during the previous month. This week, USDA announced it is incorporating 50% of the increased value from high quality hay into the feed calculation. The net effect of this change increases the feed cost and therefore decreases the income over feed cost in the new DMC calculation. This will result in larger DMC payments.

Another DMC program detail you will have to live with is the production base that was established for the original MPP program. That was based on the highest production from your facility for calendar year 2011, 2012 or 2013 adjusted every year by the annual increase in national milk production. There will be no further upward adjustments during the life of this Farm Bill.

USDA Farm Service Agency offices will begin accepting applications for the DMC program starting Monday June 17, 2019. While USDA has developed a web based DMC decision tool, available here, **you really do not need a tool to figure out what the right decision is to make on the DMC**. You should sign up for the $9.50 margin coverage on your first 5 million pounds of annual production for the whole 5-year term of the Farm Bill. The premium for that will cost you $5,725 per year. You will have already earned payments for the first four months of 2019 totaling about $20,060. If history is any guide you will get payments over half of the time during the next five years.

There are some who question if this is good national dairy policy, but I saw a statistic this week that 81% of America's dairy farmers were of a size where the 5 million pounds, low cost DMC coverage, would cover their annual production. So, while it might not be good policy, it was likely good politics. For larger producers, Congress did provide full access to the subsidized milk crop insurance products. On balance, Congress has done as much as they can for dairy farmers given the constraints of the budget and political realities.

If you are interested in a refresher of the specifics of the dairy portion of the Farm Bill, I did a webinar last December that is still relevant. You can access it here.

Upcoming Producer Review Board Meeting: June 20 in Sacramento

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

The Producer Review Board (PRB) is holding a meeting on Thursday, June 20, 2019 in Sacramento. Included on the agenda is the Quota Implementation Plan (QIP), where an enforcement update, operations update and the quota premium assessment level will be discussed. See the full agenda here.

PRB meetings are open to the public, so I encourage you to attend if you're interested in QIP. The meeting is at 10 a.m. June 20 at the California Department of Food and Agriculture, 1220 N. Street, Sacramento.

May 2019 Dairy Cares Member Update

Courtesy of Dairy Cares

Milk Producers Council has been a longstanding member of Dairy Cares, a coalition of dairy trade groups, cooperatives, processors, and allied industry members working together on industry sustainability issues. This month's Dairy Cares Member Update focuses on dairy biogas, tricolored blackbirds and the viability of seaweed as a methane reducer.

From Dairy Cares
Maintaining and expanding options for dairy biogas
Dairy biogas is a tremendous source of renewable energy that can be used in many ways. The existence and stability of credits will ensure the success of digester projects in California's evolving energy economy. Dairy Cares continues to advocate for keeping all options open and economically viable.

On-Site Electricity Generation, Sold to the Grid – The BioMAT program currently provides long-term (10-20-year) above-market contracts for dairy-biogas-to-electricity projects. A five-year extension of the program is currently being considered by the California Public Utilities Commission (CPUC). Dairy Cares continues to participate in the process, working to ensure these incentives continue and providing suggested minor modifications to improve the program's effectiveness.

Renewable Natural Gas for Transportation Fuel – Dairy-biogas-to-transportation-fuel projects are eligible for Low Carbon Fuel Standard (LCFS) credits. Efforts are underway to create a floor price and long-term (10+ year) contracts to reduce the inherent uncertainty in LCFS credits. Additionally, an ongoing proceeding at the CPUC just created utility standards for biomethane quality. Dairy Cares continues to support the extension and expansion of the Pipeline Biomethane Incentive Program, which provides matching incentive funds for pipeline interconnection.

Emerging Pathways – Emerging pathways are also being considered in the most-recent round of digester grant applications (awards announcement expected in August). One of the most exciting is the use of fuel cells to produce electricity for charging electric vehicles in California.

Read the full update here.

Animal Agriculture Alliance: Vigilance in Your Hiring Process

Courtesy of Animal Agriculture Alliance

From Kevin Abernathy, MPC General Manager

The Animal Agriculture Alliance is an industry-united, nonprofit organization that helps bridge the communication gap between farm and fork. They're a valuable resource when dealing with questions related to animal welfare issues that could occur on dairies. For more information about hiring practices or if you have concerns on your farm, contact me at Kevin@MilkProducers.org.

From Animal Agriculture Alliance

Are the employees working on your farm there to help care for your animals? Do their goals align with your business? Unfortunately, it's a common strategy for some animal rights activist organizations to have individuals go "undercover" on farms to record videos that can be taken out of context, stage scenes of animal mistreatment or encourage abuse to record it without doing anything to stop it.

The Animal Ag Alliance, a non-profit dedicated to bridging the communication gap between farm and fork for more than thirty years, monitors animal rights activists and offers these tips regarding hiring:

- It is vital to thoroughly screen applicants, verify information and check all references.
- Be cautious of individuals who try to use a college ID, have out of state license plates or are looking for short-term work.
- During the interview, look for answers that seem overly rehearsed or include incorrect use of farm terminology.
- Search for all applicants online to see if they have public social media profiles or websites/blogs. Look for any questionable content or connections to activist organizations.
- Require all employees to sign your animal care policy. Provide training and updates on proper animal handling training.
- Require employees to report any mishandling to management immediately.
- Watch out for red flags, such as coming to work unusually early or staying late and going into areas of the farm not required for their job.

Always trust your gut – if something doesn't seem right, explore it further. Be vigilant and never cut corners on your hiring process, even if you need to hire someone quickly. Doing your homework on every job applicant may be time-consuming, but it can ultimately save your business' reputation. As always, it is important to work with local legal counsel to ensure compliance with federal and state laws for your hiring process.

You can find farm security resources and background information on animal rights activist organizations at AnimalAgAlliance.org or reach out to the Alliance at Info@AnimalAgAlliance.org or 703-562-5160.