MPC Weekly Friday Report

Date: September 10, 2021
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 5

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	*+ $.0550*	$1.7900
Barrels	*+ $.0850*	$1.4775
Weekly Average Cheddar Cheese		
Blocks	*+ $.0455*	$1.7625
Barrels	*+ $.0844*	$1.4669

Chicago AA Butter		
Weekly Change	*- $.0125*	$1.7850
Weekly Average	*+ $.0194*	$1.7869
Dry Whey		
Dairy Market News	w/e 09/10/21	**$.5350**
National Plants	w/e 09/04/21	**$.5386**

Non-Fat Dry Milk		
Week Ending 09/04/21		
Nat'l Plants	**$1.2621**	20,041,858
Prior Week Ending 08/28/21		
Nat'l Plants	$1.2619	17,726,265

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
Sep 10 Est	**$18.19 - $18.69**	**$16.93**	**$16.59**	**$16.40**
Last Week	**$18.19 - $18.69**	**$16.88**	**$16.64**	**$16.38**

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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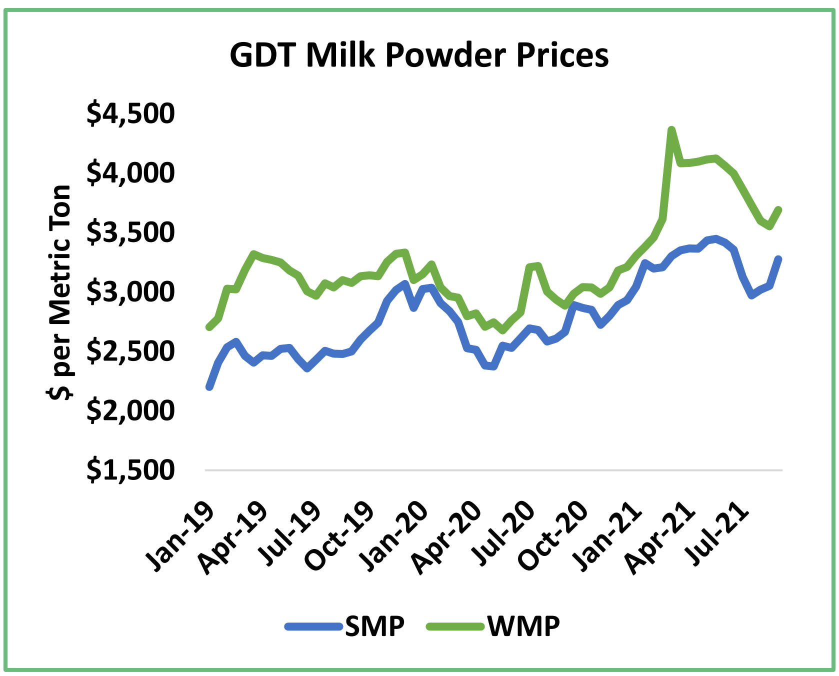
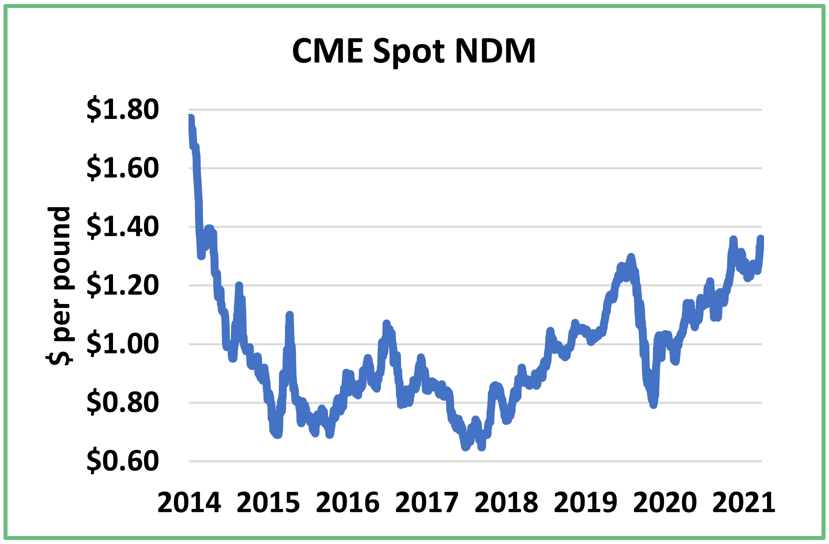
Milk & Dairy Markets

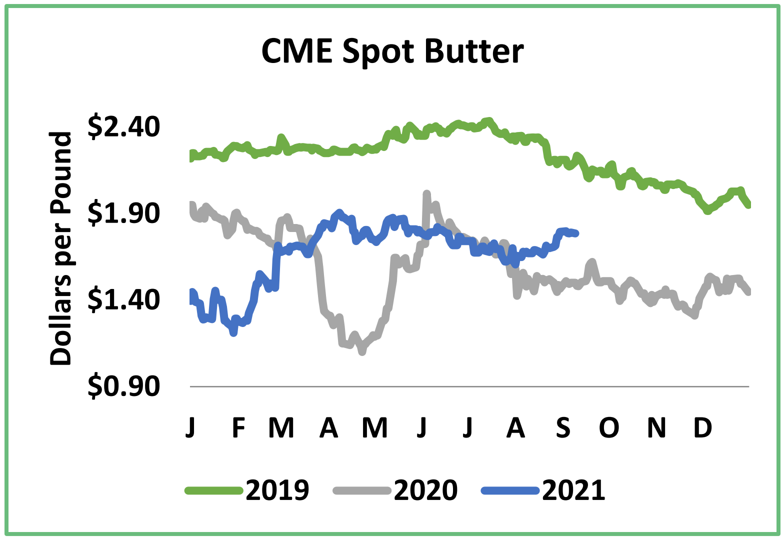
Rejuvenated after a long weekend, the dairy markets got off to a very strong start. The Global Dairy Trade (GDT) auction kicked things off with bang. All products gained significant ground, led by a 7.3% jump in skim milk powder (SMP). That propelled CME spot nonfat dry milk (NDM) to $1.36 per pound, its highest perch since 2014. After a modest setback later in the week, spot NDM finished today at $1.3575, up 1.75¢ since last Friday.



Although the heat has abated, there are fewer trucks lined up at the drier than there were a month ago. Bottlers are busy meeting school orders. Cheesemakers are

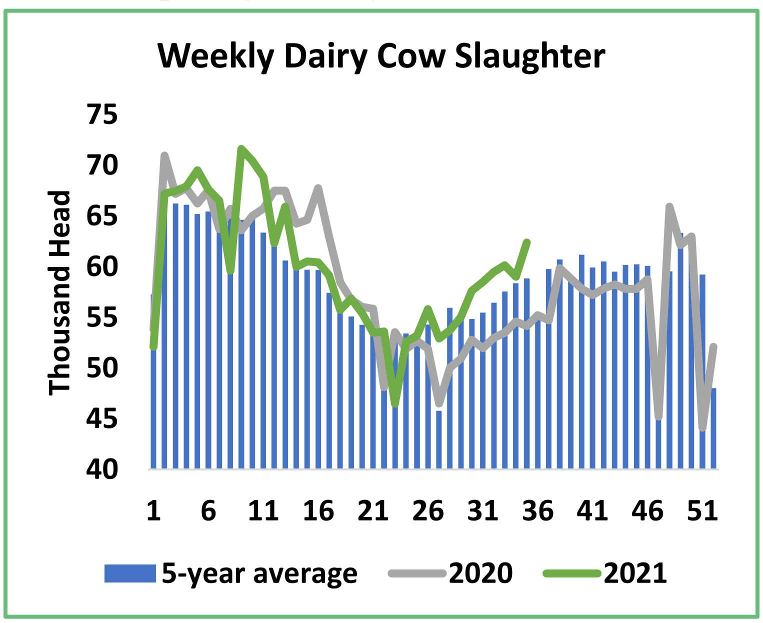


running at their usual pace, as long as they can find the staff to do so. The expansion in U.S. cheese processing capacity has prompted a shift away from Class IV manufacturers, and it's become more noticeable now that milk is less plentiful. Meanwhile, demand remains healthy. In the absence of cheap spot milk, cheesemakers are fortifying their vats with NDM. Despite the snarls in the global supply chain, exporters are moving big volumes of milk powder to Mexico and Asia. The fundamentals are friendly, but it may take something more to lift NDM prices from here. The last time that U.S. prices were this high, milk powder stocks were much lower than they are today.



Firm NDM prices buoyed the other protein powders, including dry whey. CME spot whey powder leapt 4.5¢ to 53¢, a 9.3% increase in just four trading sessions. Whey output is high, driven by formidable cheese production. But demand appears up to the challenge, for now.

Spot cheese also climbed this week. Cheddar blocks rallied 5.5¢ to $1.79. Barrels vaulted 8.5¢ higher and closed at $1.4775. With both cheese and whey on the rise, Class III futures advanced as well. Fourth-quarter contracts added 28¢ on average, thanks to a strong showing on Tuesday. But a Friday setback for barrels and Class III futures might give the bears the edge when the opening bell rings next week.



Spot butter continues to trade in a well-trod range from $1.60 to $1.80. It closed today at $1.785, down 1.25¢ since last Friday. Butter appears to be simply marking time until the holiday baking season arrives. Demand is expected to be good, but stocks are heavy.

Class IV futures continued to climb this week. Fourth-quarter contracts added 26¢, on average, extending a substantial six-week rally. Since the end of July, October, November, and December Class IV futures have gained more than a dollar, and 2022 contracts are sharply higher as well. The futures promise $17 or better from November onward.

But bigger Class IV milk checks have yet to arrive, and costs are high. Beef prices are also lofty, prompting dairy producers to take a second look at their low-production cows. In the week ending August 28, they sent 62,379 dairy cows to slaughter, the highest total since March. Over the past 10 weeks, dairy cow slaughter has averaged 10.6% greater than during the same period in 2020. The dairy herd is shrinking, which is good news for milk prices.

Grain Markets

The grain markets lost ground once again this week, as reports of good yields weighed on the market. USDA confirmed that the crops are better than feared. The agency raised its estimate of the corn yield by 1.7 bushels to an average of 176.3 bushels per acre. USDA also reported that farmers planted 93.3 million acres of corn, 600,000 more than their August estimate. With more corn in the pipeline likely to weigh on crop values, the agency raised its estimate of corn used for feed and sold for export.

USDA trimmed its estimate of soybean plantings by 400,000 acres but raised its yield estimate by 0.6 bushels per acre. All told, USDA reported larger crops and bigger inventories for both corn and soybeans than the market had anticipated. Nonetheless, the markets rallied today after the report, bouncing back from an oversold position after several weeks in decline. News that the lights were back on at export facilities in Louisiana likely leant a little support as well. But the Friday comeback was not enough to offset a big Tuesday selloff. December corn settled at $5.175 per bushel, down 6.5¢ for the week. November soybeans slipped 5.5¢ to $12.865. December soybean meal edged higher and closed at $342.50 per ton, up $1.50 from last Friday.

Update on USDA's Class I Pandemic Assistance Program

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Three weeks ago, I wrote about Agriculture Secretary Vilsack's announcement of a USDA compensation program designed to provide money to dairy producers who did not benefit from the huge rise in market cheese prices caused by USDA's Farmers to Families Food Box Program, which required each food box to include cheese, but not butter.

The details of this new program have now been released. In the article I wrote on August 20, I stated the following: "But then USDA says they will only cover up to 5 million pounds annual production per producer and since this program is for 6 months only, the effective cap is 2.5 million pounds."

I was not alone in interpreting the USDA announcement in that way. However, in a presentation USDA is giving to the handlers who will implement the program, its instructions make clear that the cap is 5 million pounds per entity for the six months, essentially doubling the maximum payout from what I thought it would be. For California producers who qualify and reach the cap, the maximum payment will be around $30,000 per entity instead of the $15,000 I estimated three weeks ago.

The Dairy Growth Management Plan: An Interesting Note From the Past

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Back when Syp Vander Dussen was MPC's Board Chairman and Rob Vandenheuvel was our General Manager, Milk Producers Council spent a considerable amount of effort designing and promoting a Growth Management Plan (GMP) for the U.S. dairy industry. The concept behind it was simple –

producers who expanded production over an allowable growth rate would pay a fee for the first year of that expansion. Those fees would then be distributed to all the other producers who did not increase production (kind of like the NBA luxury tax).

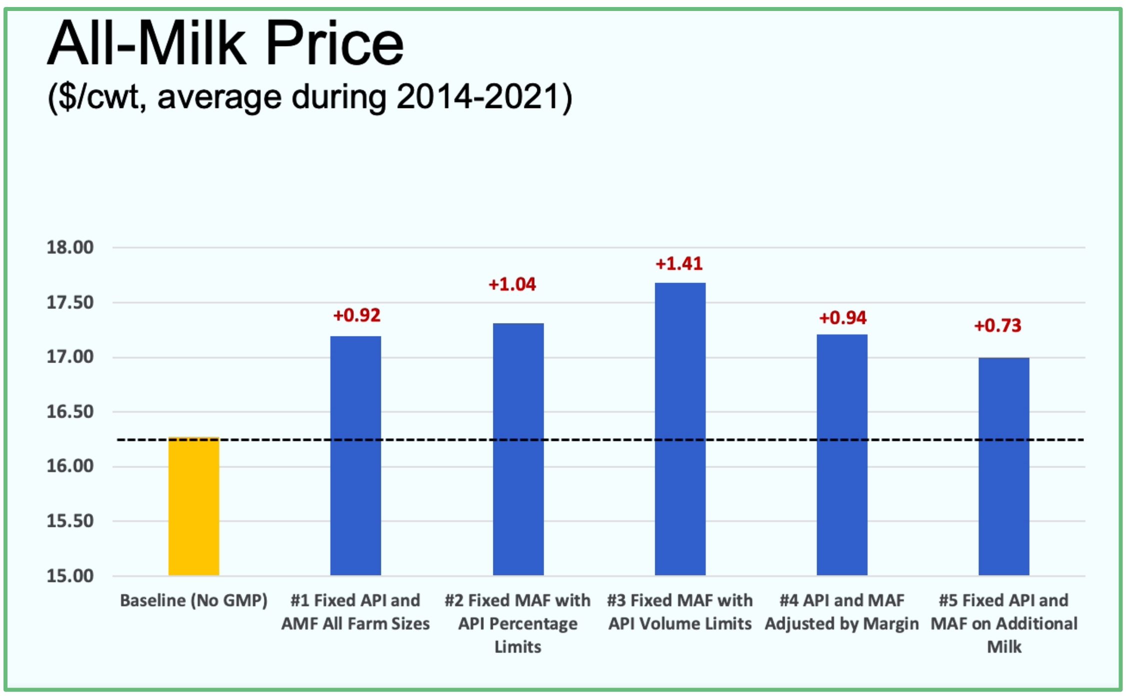
At the time, we hired Drs. Mark Stephenson and Chuck Nicholson to do an economic evaluation of this idea. Their modeling demonstrated that the presence of these fees would temper milk supply increases just enough to keep supply and demand in a more consistent balance. That smoothing out of the supply-demand relationship was projected to result in higher overall milk prices and minimize the boom-bust cycle the industry had been experiencing for more than a decade.

MPC was successful in generating significant support for this idea, including from the USA Holstein Association, chaired by the late Doug Maddox at that time. The GMP was introduced in both the U.S. House and Senate as legislation. Around the same time, National Milk Producers Federation (NMPF) came up with the Foundations for the Future plan, which included a supply management component. NMPF asked MPC to drop support for the GMP and get behind the Foundations for the Future Plan. We decided to do that believing that working with NMPF would result in Congressional adoption of a new dairy safety net that would have supply adjustment components as well as a more robust safety net to keep the industry in a better place. Much of the Foundations for the Future program was passed in the 2014 Farm Bill, but the supply management component was stripped out by Speaker of the House John Boehner and the maximum benefits of the program were targeted to smaller dairy sizes.

As time has passed, the GMP continues to generate interest from certain sectors of the U.S. producer community. Recently, Drs. Stephenson and Nicholson released an economic study to assess what would have happened if Congress had adopted the GMP in the 2014 Farm Bill.

You can see a video presentation of their findings here. You can read the full report here.

The bottom line according to the study is that the GMP would have slowed the growth in annual U.S. milk production from 2.5% to 2.1%, and that reduction in the increase of the milk supply would have increased average annual milk prices from $0.73-$1.41, depending on which parameters were used of a particular version of the GMP.



Syp, Rob and I spent many days and hours traveling around the country talking to folks about this plan. Maybe we should have pushed a little harder.

American Farm Bureau Federation to Congress: No Tax Hikes on Farmers & Ranchers

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

In a letter submitted September 7 to the U.S. House and Senate leadership, the American Farm Bureau Federation (AFBF) expressed concern regarding the $3.5 trillion reconciliation package Congress will begin considering this month. AFBF president Zippy Duvall, a third-generation farmer from Georgia, wrote, "The overall price tag, the proposed tax increases, and the limited ability for stakeholders to engage with lawmakers is troubling." Read the entire letter here.

U.S. Senate Subcommittee to Hold Hearing September 15 on Volatile Milk Pricing, Federal Order System Modernization

Press release from Office of U.S. Senator Kirsten Gillibrand

WASHINGTON, DC – Wednesday, September 15 at 9:30 AM: U.S. Senator Kirsten Gillibrand, chair of the Senate Agriculture Subcommittee on Livestock, Dairy, Poultry, Local Food Systems, and Food Safety and Security, will hold a hearing to address milk pricing improvements and reforms.

Gillibrand will convene a panel of witnesses to receive testimony on the growing need to modernize the Federal Milk Marketing Order System to bring the nation's dairy pricing into the 21st century market. Even before the pandemic, dairy farmers across the nation were struggling to make ends meet due to declining milk prices and an increasingly unstable dairy market. Unfair trade practices from foreign countries, increasing production costs, and the drop in fluid milk consumption have all led to the volatility in the market. Since 2003, the United States has lost more than half of the nation's licensed dairy operations, with nearly 40,000 licensed dairy herds exiting dairy production.

Witnesses to be released prior to the hearing.

DATE:	Wednesday, September 15
TIME:	9:30 AM
WHERE:	301 Russell Senate Office Building
WATCH:	The hearing will be live-streamed on CSPAN and online here.

Please note this will be a hybrid hearing.