MPC Weekly Friday Report

Date: May 7, 2021
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0525	$1.7475	Weekly Change	+ $.0175	$1.7700	Week Ending 05/01/21		
Barrels	- $.1075	$1.7275	Weekly Average	- $.0360	$1.7500	Nat'l Plants	$1.1816	22,714,923
Weekly Average Cheddar Cheese			Dry Whey			Prior Week Ending 04/24/21		
Blocks	- $.0190	$1.7820	Dairy Market News	w/e 05/07/21	$.6500	Nat'l Plants	$1.1761	18,181,710
Barrels	- $.0150	$1.7960	National Plants	w/e 05/01/21	$.6284			

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
May 7 Est	$18.70 - $19.20	$16.04	$18.82	$16.07
April '21 Final	$17.11 - $17.61	$15.56	$17.67	$15.42

Milk, Dairy and Grain Market Commentary
By Sarina Sharp, Daily Dairy Report
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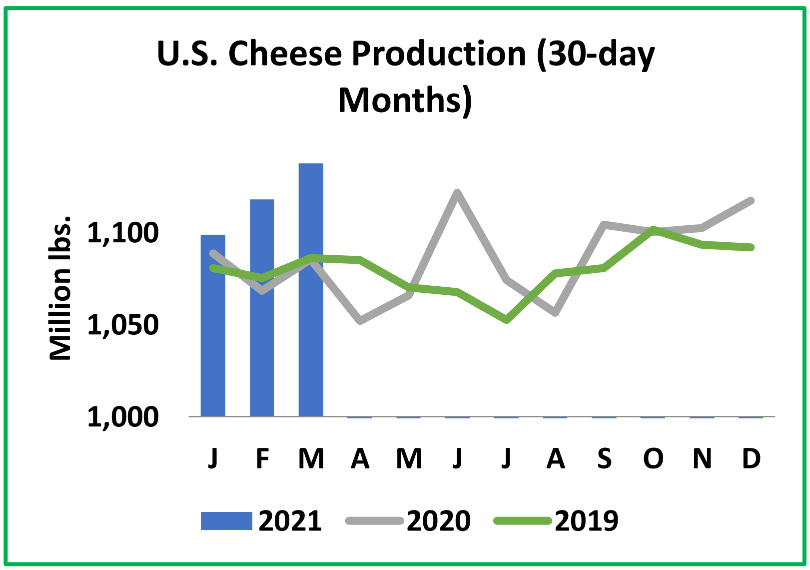
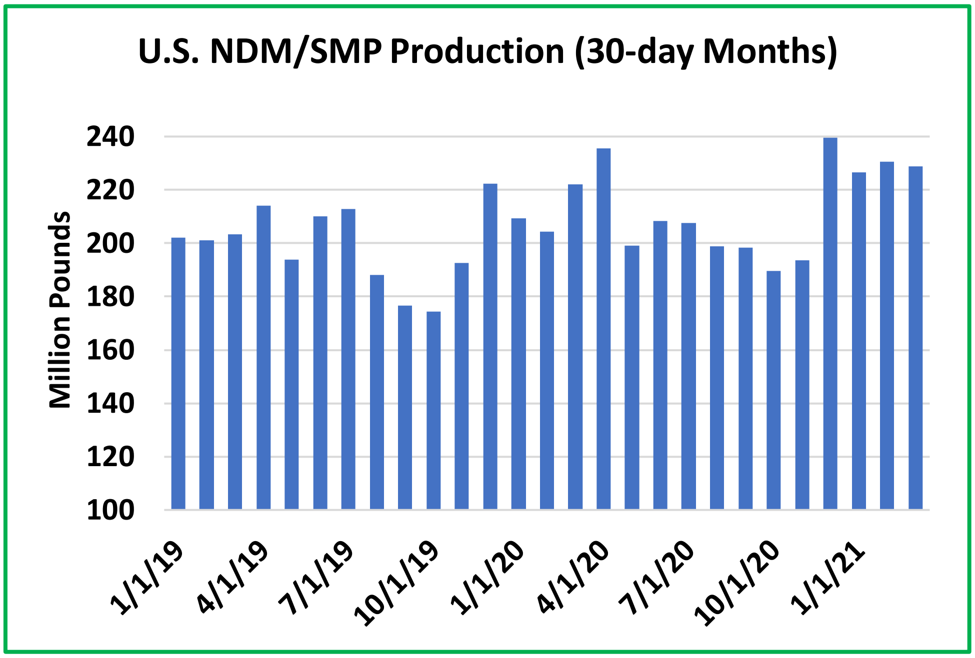
Milk & Dairy Markets

The U.S. dairy industry has expanded cheese processing capacity noticeably, and it shows. Cheese output soared to an all-time high of 1.18 billion pounds in March, up 4.8% from the prior year. Cheddar production jumped 7.8%. After several months in decline, Mozzarella output also exceeded that of last year, confirming reports of better demand from foodservice. The flush has accelerated since then, and, according to USDA's *Dairy Market News*, cheese makers are "busy."



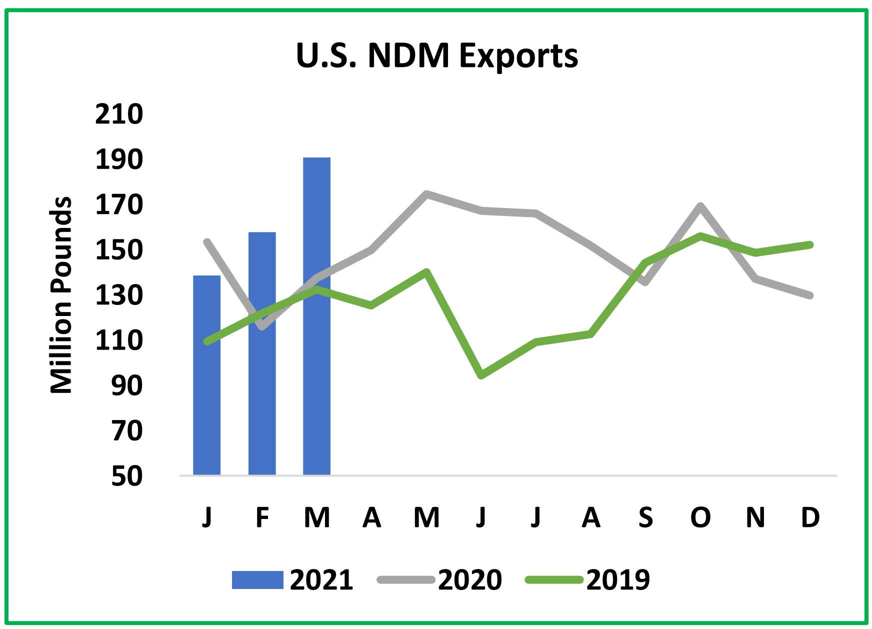
Consumers are hungry for high protein products, and manufacturers are happy to oblige. They are directing much of the whey stream into whey



protein concentrates and isolates, leaving less for the drier. Despite formidable cheese output, dry whey production was only 1% greater than the prior year. Whey powder stocks declined significantly in March and fell 13.7% below year-ago levels.

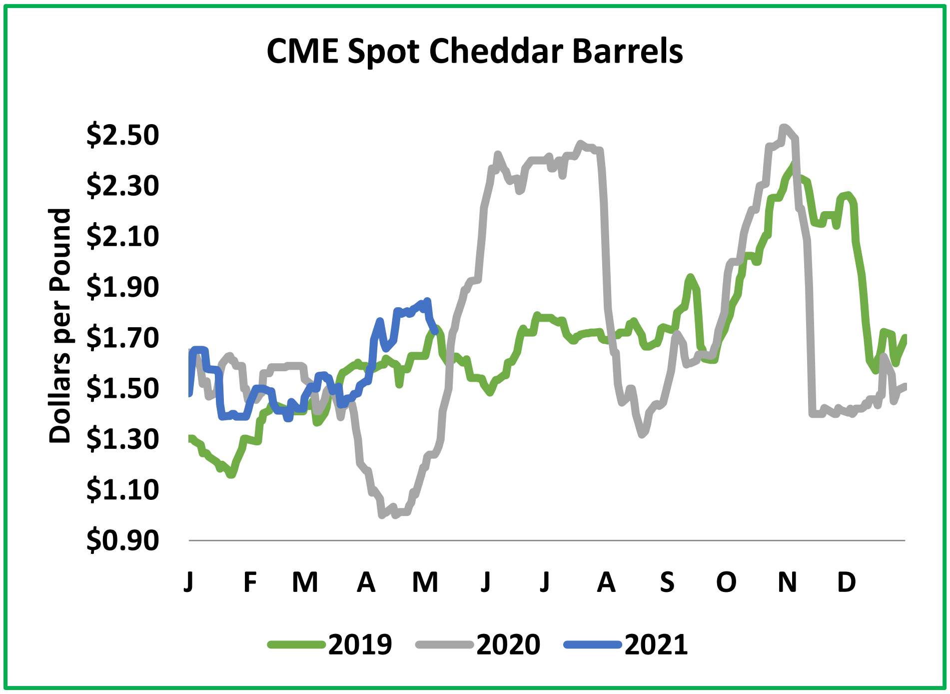
Sky-high milk production and lofty components added up to a flood of cream. U.S. cream output reached nearly 792 million pounds in March, an all-time high. But a growing share went to ice cream and cheese, leaving less for butter churns. Butter output slipped to 198.9 million pounds, down 0.6% from March 2020. Churns were also a little less active than usual in the past few weeks. *Dairy Market News* reports that as ice cream makers ramp up, "Cream is tightening, but not tight."

Driers ran hard. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) reached 236.5 million pounds, the highest March tally on record and 3.1% more than the prior year. But, thanks to massive exports, manufacturers stocks of NDM declined nearly 27 million pounds from February to March, the largest March drawdown since 1952.



Amid rapid growth in milk production, exports are vital to keeping U.S. dairy product inventories from piling up. Thankfully, with stocks in Europe and New Zealand largely committed, the world is hungry for American goods. Despite the container shortage, a lack of truck drivers, and lineups at the ports, U.S. NDM exports reached an all-time high of 190.8 million pounds, up 38.8% from March 2020. After several slow months, Mexico was back in the game, and shipments to Asia are still going strong. Algeria and Egypt stepped up imports of American milk powder. The fact that we're sending product to North Africa, practically in Europe's backyard, is a testament to the affordability of U.S. product. Global milk powder values continue to rise and the dollar is weakening, offering support to U.S. prices. At the Global Dairy Trade auction on Tuesday, SMP rallied 2% to the equivalent of NDM at $1.66 per pound.

Whey powder exports also impressed. They climbed to 52.7 million pounds, up almost 38% year over year. Cheese exports improved to 81 million pounds in March, up 11% from a year ago and the highest monthly volume since June. More recently, *Dairy Market News* relayed increased interest from Chinese buyers for U.S. cheese. Butterfat exports climbed in March, but so did imports.



Butter bounced back at the CME spot market, but the other products faded. Spot butter rallied 1.75¢ this week to $1.77 per pound. Powder slipped a quarter-cent from last Friday's six-year high and closed today at $1.3225. Although demand for protein and powders is robust, whey prices faltered. CME spot whey fell 3.25¢ to 62.75¢. Cheddar barrels scored a fresh 2021 high on Wednesday but then dropped precipitously. They closed today at $1.7275, down 10.75¢ this week. Blocks lost 5.25¢ and finished at $1.7475.

The spot market setbacks weighed heavily on nearby Class III futures. The June contract fell 97¢ to a still lofty $18.89 per cwt. and July Class III settled 66¢ in the red. Most Class IV contracts sustained modest losses. June was hardest hit. It fell 27¢ to $16.75.

Grain Markets

The grain markets just keep climbing. July corn settled today at $7.3225 per bushel, up another 59¢. July corn futures are up 52% for the year to date, an astounding increase in a relatively short time. Corn export sales remain strong, and shipments have accelerated in the past few weeks. It's still dry in Brazil, and the corn crop is withering. USDA will update its global crop estimates next week, and the trade is penciling in Brazilian corn production at around 103 million metric tons, down from 109 million metric tons less than a month ago.

Beans continue to follow corn higher. July soybeans jumped 54.5¢ to $15.8975 per bushel. After barely budging last week, soybean meal futures made a decisive move this week. July soybean meal closed at $441.80 per ton, up $15.70.

Class I Controversy Update

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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When USDA last performed a major overhaul of the FMMO classified milk pricing formula in the year 2000, it created separate formulas for Class III (milk used for cheese and whey) and Class IV (milk used for butter and powder) based on the market values for those products. It established a Class II price based on a differential that is added to the Class IV value and it established a Class I price based on the "higher of" either the Class III value or the Class IV value. In its justification for why it picked the "higher of," USDA said:

> *"Because handlers compete for the same milk for different uses, Class I prices should exceed Class III and Class IV prices to assure an adequate supply of milk for fluid use. Federal milk orders traditionally have viewed fluid use as having a higher value than manufacturing use. The replacement Class I price mover reflects this philosophy by using the higher of the Class III or Class IV price for computing the Class I price."*

Setting Class I prices using the "higher of" continued until 2019 when Congress instructed USDA to change the Class I mover to use an "average of" Class III and Class IV values, and add an additional $0.74 per cwt. to the price. This Congressionally mandated change was done at the request of the National Milk Producers Federation (NMPF) and the International Dairy Foods Association (IDFA). These are the two main national dairy industry groups representing producers and processors, respectively. IDFA had approached NMPF and asked for the change because it asserted that the "higher of" made risk management difficult for Class I handlers. NMPF agreed to the change in exchange for the $0.74 per cwt. bump in the Class I price. The $0.74 approximated what the "higher of" factor generated over what the price would have been if the "average of" had been in place since 2000. The idea was to make the change from "higher of" to "average of" revenue neutral to producers.

Then the pandemic hit. Class III prices soared and Class IV prices languished. Suddenly using the "average of" instead of the "higher of" began costing producers real money. It also increased the incentive for Class III handlers to de-pool their milk, thereby increasing negative Producer Price Differentials (PPDs) for those remaining in the Federal Order pool. While the spread between Class III and Class IV is narrowing, the "average of" is still yielding a lower Class I price than the "higher of" would have generated.

Producers want change, but IDFA is saying no. Some view this response by IDFA as bad faith. When processors had a problem with risk management, they asked the producers for help and producers did help with the understanding that they would be essentially held harmless by the change. The producers have now been harmed, not only by losing out on Class I revenue, but also because large negative PPDs undermine producer risk management tools and IDFA is not willing to cooperate in addressing the producers' problem.

So where does this leave us? The NMPF board voted to petition USDA for a hearing to consider changing the Class I formula. Its proposal would continue with the "average of" either the Class III or Class IV price and increase the adjuster from the current addition of $0.74 per cwt. to whatever the average of the last two years would have been. Since the last two years includes 2020 the adjuster under this proposal would go up to about $1.60 for the next two years. NMPF proposes to floor the adjuster at $0.74 per cwt. and recalculate the number every two years.

Additionally, four Midwest dairy producer groups put out a press release proposing a slightly different approach. The groups want to change the Class I adjuster from the "average of" Class III and IV to be **exclusively based off the Class III price**. However, this proposal does not completely ignore the Class IV price. It calls for an annual adjustment based on the trailing three years of spreads between Class III and Class IV. So, when Class IV is higher than Class III, that information is captured in the adjuster for the next year. This proposal also does away with advanced Class I prices.

There is another group led by the American Dairy Coalition that is leaning toward supporting simply going back to the "higher of." There is also talk of asking USDA to allocate some of the remaining pandemic relief funds directly through the Federal Milk Marketing Orders to more specifically compensate producers who stayed in the pool.

Meanwhile, Secretary Vilsack was quoted during a recent presentation to the North American Agricultural Journalists saying, "I know that within the dairy industry there are conversations, and I think those conversations need to mature a bit more before anybody makes a decision that there's going to be a significant change."

The current status of the issue: IDFA is opposed to a change and dairy producers are not in agreement.

In other news, Hilmar Cheese Company announced earlier this week that it will build a new cutting-edge cheese and whey production facility in Dodge City, Kansas. Read more here.

Biden Tax-Hike Exemption for Farms Pushed by Rural Democrats

Courtesy of Bloomberg.com

By Mike Dorning and Laura Davison

Note from Geoff Vanden Heuvel

In a letter submitted yesterday to House Democratic leadership, Representative Jim Costa (CA-16) and 12 other farm district Democrats urged that family farms be exempt from any changes to the "stepped-up basis" for capital gains in tax law. Read the letter here, which was also signed by Representatives Josh Harder (CA-10) and John Garamendi (CA-3). This addresses one of the two major estate tax-related issues facing family farmers, including our MPC members. Next generation farmers face the prospect they may have to pay significantly higher estate taxes when the family farm is inherited. The current estate tax exemption – the amount that can be transferred free of tax – is $11.7 million. The Biden Administration proposes reducing the exemption to $3.5 million, which was the exemption in 2009. Without any Congressional action, the estate tax is set to fall back after 2025 to around $5.5 million.

From Bloomberg.com

House Democrats representing key rural swing districts laid down a marker on President Joe Biden's proposed tax increases, urging that any final legislation maintain a promised exemption for farms from a crucial change in estate tax rules.

Thirteen Democratic lawmakers sent a letter Thursday to House Speaker Nancy Pelosi and other party leaders that underscores the sensitivity in agricultural regions to Biden's push to end a long-standing inheritance tax benefit known as the step-up in cost basis. That currently wipes out the capital gains tax bills on assets when they are passed to an heir. The Biden plan would tax appreciation in the value of assets for estates worth $1 million or more.

Biden's proposal includes an exemption for family farms and other small businesses. That would defer any tax bill for the capital gains on those farms as long as they remain family owned and operated.

But progressive lawmakers are pushing for even greater spending than called for in Biden's $4 trillion worth of twin longer-term economic plans. And others are demanding a costly repeal of a cap on state and local tax deductions. As Congress takes up work on the legislation, the rural Democrats are now voicing their own demands.

"Farms, ranches and some family businesses require strong protections from this tax change to ensure they are not forced to be liquidated or sold off for parts, and that need is even stronger for those farms that have been held for generations," the lawmakers wrote in the letter. "Many of our constituents started working on their family's farm when they were children, or built their farm with the intention of passing it on to their relatives."

Continue reading [here](#).

California Water Institute Hosting Water Bootcamp

Courtesy of the Fresno State California Water Institute

Join the California Water Institute on **May 14, 21, 28, 2021** to learn about various topics on California water. We have partnered with the World Ag Expo to bring this free virtual educational series to the public.

The topics that will be covered within the three days are the following:

- Day 1
  - Hydrology
  - California Watershed
  - Groundwater Overview
- Day 2
  - Surface Water Rights
  - Surface Water Distribution
  - Sacramento-San Joaquin Delta
  - Groundwater Regulations
- Day 3
  - Private Wells
  - Groundwater Recharge
  - CV-SALTS / Irrigated Lands Regulatory Program (ILRP)
  - The San Joaquin Water Collaborative Action Program

Register through World Ag Expo's website: https://bit.ly/WAEregister For information contact cwi@mail.fresnostate.edu or by calling 559.278.7001.

California Dairy Feed: at the Cutting Edge of Water Conservation

Courtesy of Dairy Cares

California dairy farmers use a soil probe to check moisture.

With the looming drought and increased water scarcity, water could not be a more precious resource. Dairy farmers have been making every drop go farther. **Over the past 50-plus years, the amount of water needed to produce each gallon of California milk has decreased more than 88 percent.** Water reuse is standard practice on California dairies—using water about four times before applying it to irrigate crops. How California dairy farmers feed their cows today is a tremendous story of water conservation, and more progress is still being achieved.

Read the full article [here](#).