

MPC WEEKLY FRIDAY REPORT

DATE: NOVEMBER 6, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 8

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	- \$.4400	\$2.3425	WEEKLY CHANGE	+.0400	\$1.4300
Barrels	-.2125	\$2.3175	WEEKLY AVERAGE	+.0180	\$1.4280
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 10/31/20	
Blocks	-\$1775	\$2.5970	DAIRY MARKET NEWS	W/E 11/06/20	\$4.000
Barrels	-.0045	\$2.4710	NATIONAL PLANTS	W/E 10/31/20	\$3.639
				PRIOR WEEK ENDING 10/24/20	
				NAT'L PLANTS	\$1.0919 12,326,501
				NAT'L PLANTS	\$1.0946 18,705,479

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
Nov 6 EST	\$19.64 - \$20.14	\$14.14	\$23.20	\$13.56
OCT '20 FINAL	\$16.80 - \$17.30	\$13.63	\$21.61	\$13.47



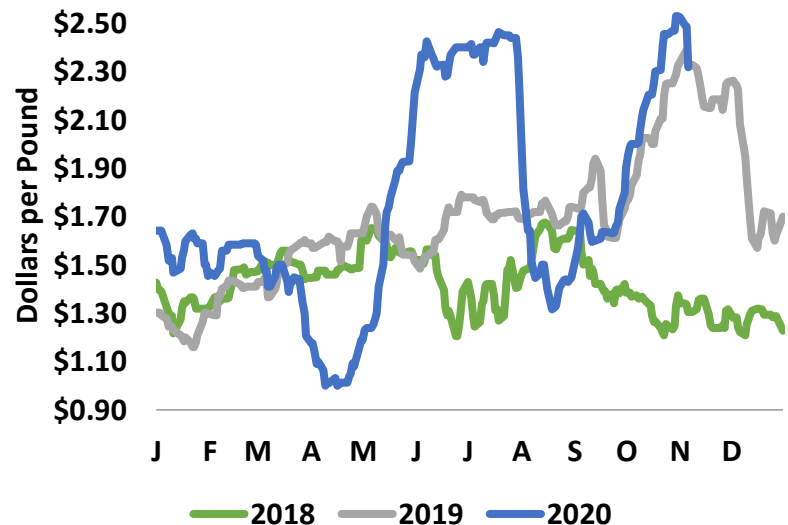
Milk, dairy and grain market commentary

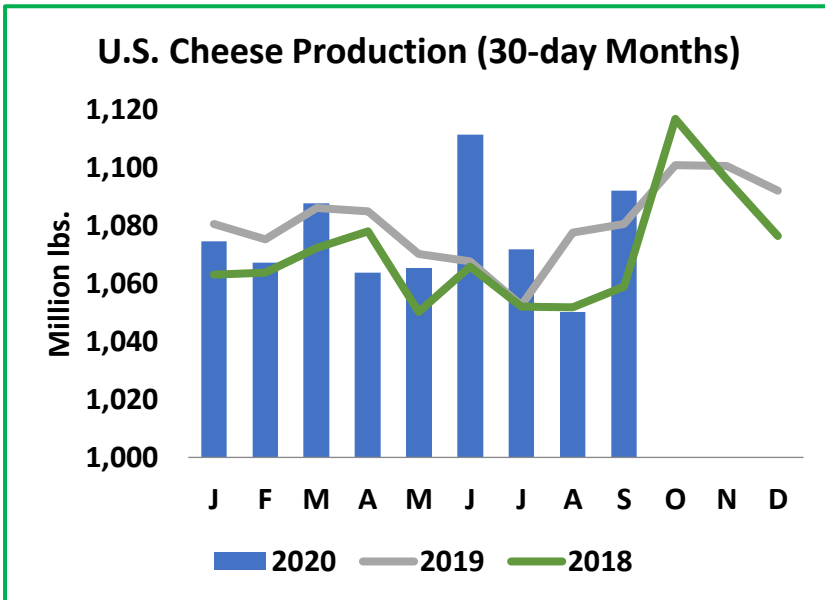
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Cheese traders are likely disoriented by violent whiplash and a dose of déjà vu. Just as they did exactly a year ago – and three months ago to boot – CME spot Cheddar barrels tumbled from a great height, undoing the final stages of a spectacular multi-month rally. Barrels climbed to an all-time high of \$2.53 last Friday and managed to cling to the precipice on Monday, but then their perch gave way. They spent the middle of the week inching lower, feeling about for a safe spot to rest. But today, they plunged over the cliff, dropping 17¢ and landing with a thud at \$2.3175 per pound. That's 21.25¢ lower than last

CME Spot Cheddar Barrels





Friday's record high. Blocks slid throughout the week and lost even more ground. They closed today at \$2.3425, down 44¢ from last Friday.

Fresh cheese is clearly not as scarce as it once was, and supplies are likely to grow. U.S. cheese output reached nearly 1.1 billion pounds in September, up 1.1% from a year ago. Cheddar output jumped 7.7% year over year to the highest September volume on record. Meanwhile, orders for cheese in USDA's food box program are winding down. Funding and product volumes for November and December are lower than in previous rounds, and there are currently no plans to expand the

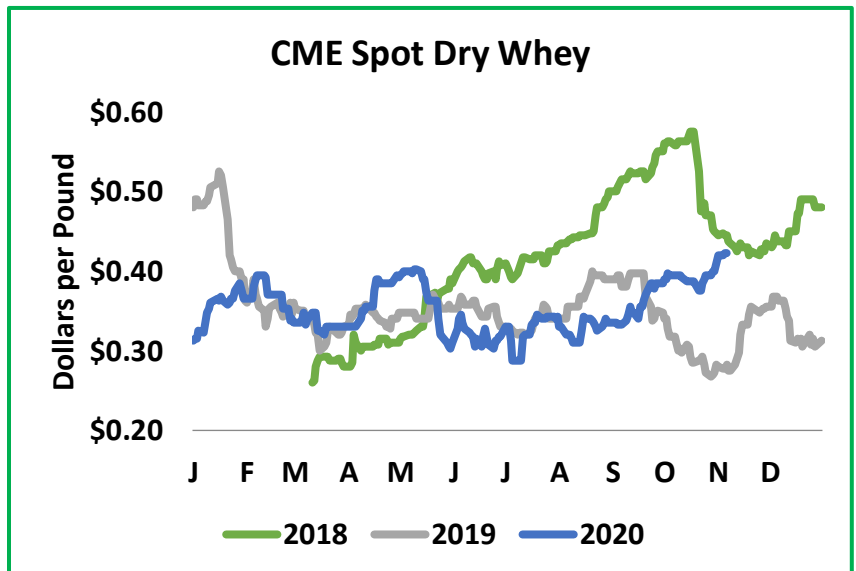
donations beyond the end of the year.

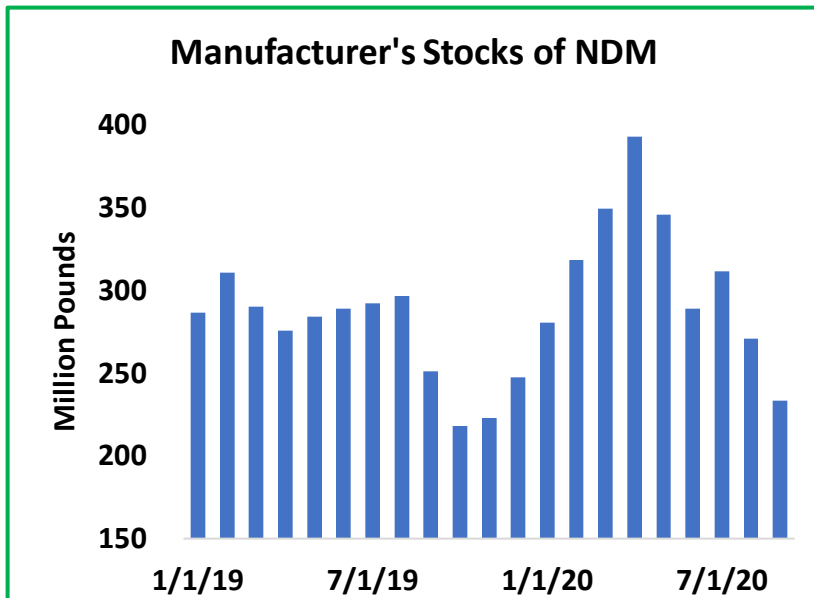
U.S. cheese exports outpaced the prior year in September by 3.7% thanks to resilient demand in Southeast Asia. For the second time this year, South Korea beat Mexico to become the largest market for U.S. cheese. Despite several bouts of sky-high prices, U.S. cheese exports in the first nine months of the year are 3% greater than the same period in 2019.

Whey product exports also impressed. The U.S. sent big volumes of dry whey and whey protein concentrates (WPC) abroad in September, helped by robust demand from China. China is buying whey to feed to piglets and WPC for infant formula. So far this year, U.S. exports of WPC with at least 80% protein to China are up 69% compared to last year. Foreign demand for WPC and whey protein isolates pulled whey away from driers in September. Production of dry whey for human consumption fell 17.9% from the prior year, and whey stocks declined accordingly. Tighter supplies have translated to higher prices. This week CME spot dry whey climbed another 2.25¢ and reached 42.25¢.

U.S. milk powder exports slipped to 136 million pounds in September. That's strong compared to most years at this point on the calendar, but it's well below the volumes that prevailed all summer and down 5.9% from the strong shipments reported in September 2019. Sales south of the border remained light, falling 33% year over year.

Strong milk output meant a lot of milk for driers in September. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) totaled nearly 200 million pounds in September, up 11.4% from a year ago. Manufacturers kept milk powder moving through both domestic and export channels. On September 30, manufacturers' stocks of NDM fell to a 10-month low 233 million pounds. Since inventories peaked five



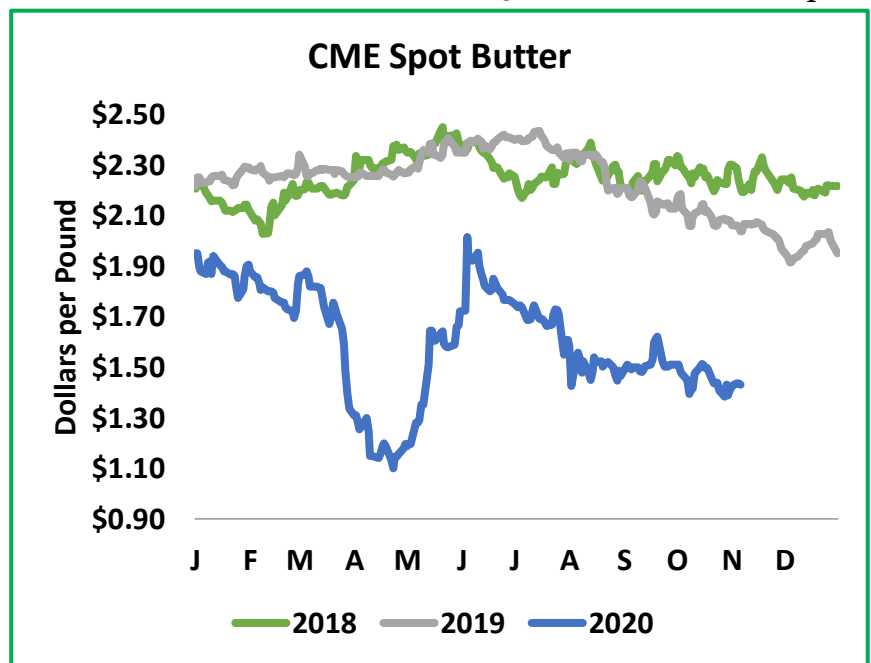


months before, manufacturers have whittled their stockpile down by an astounding 40.6%. That helped elevate NDM prices in September and much of October, but now they are in retreat. CME spot NDM fell 4.25¢ this week to \$1.065, and SMP dropped 4.4% at the Global Dairy Trade auction on Tuesday.

The U.S. churned out 152 million pounds of butter in September, the highest total ever for the month. That was 5.4% more than in September 2019. The markets had already priced in the abundance. This week CME spot butter rallied 4¢ to \$1.43, which is still historically inexpensive.

The collapse in the cheese market prompted a steep drop in nearby Class III prices. The November contract fell 70¢ to a still-high \$23.20 per cwt. December Class III dropped \$1.75 to \$18.70. January fell hard too, but the other 2021 contracts were mixed, as the markets have long known that \$2.50+ cheese was unsustainable. Most Class IV contracts lost between 10 and 30¢ this week. That puts November through February Class IV south of \$14, well below dairy producers' cost of production.

Around the world, milk output is on the rise. But there are signs of trouble in New Zealand and South America, where dry weather is slowing pasture growth and raising costs. That may help to trim global milk production at the margins. But demand is the greater concern. The pandemic is restricting economic advancement and making consumers wary. That's likely to restrict dairy consumption at home and abroad.



Grain Markets

The feed market bulls had plenty of fodder to digest. USDA reported another strong week of corn and soybean exports. The weak dollar gave commodity markets a boost and made U.S. grains even more attractive to foreign buyers. And South American is in the throes of a dry spell, leading to speculation that the U.S. will remain the best market for a bit longer.

With that, the soybean market came roaring back. January soybeans established a new life-of-contract high yesterday and closed today at \$11.015 per bushel, up more than 45¢ for the week. Soybean meal and corn logged more modest gains. December soybean meal climbed \$4.80 to \$382.40 per ton. December corn rallied 8.25¢ to \$4.0675.

Highlights from the California Dairy Sustainability Summit

By: Kevin Abernathy, MPC General Manager



As we noted in last week's edition of the Friday Report, Dairy Cares hosted the California Dairy Sustainability Summit online yesterday and today. More than 50 expert speakers lined up to present at the conference, covering topics ranging from reducing on-farm costs and improving nutrient management to developing new business opportunities and advancing environmental sustainability.

Below are just some of the highlights from the summit:



One of the first presentations of the Summit was from Dr. Ermias Kebreab, associate dean and director of the World Food Center at UC Davis, where he discussed advancing environmental performance in California and across the globe.

Dr. Kebreab noted that his study found significant reductions in California dairy's environmental footprint amid increased output due in part to the use of byproducts to feed California cows. California is producing more milk with less cows, which in turn is decreasing emission intensity. Dr. Kebreab went on to say that if all other regions in the world produced milk as efficiently as California dairy families, there would be 1.73% reduction in global greenhouse gas emissions.

Later in the day, Dr. Kebreab joined Dr. Myles Allen, professor at the University of Oxford; Richard Corey, the executive officer of the California Air Resources Board; and Dr. Frank Mitloehner, professor and air quality specialist at UC Davis for a conversation about methane, cows and climate change moderated by Michael Boccadoro, the executive director of Dairy Cares.

Dr. Allen discussed the difference between the impact of methane and carbon dioxide in the atmosphere, noting that methane doesn't have the same impact on global temperatures as carbon dioxide due to its cyclical nature. He went on to say that it's "comparing apples to oranges" because the two are different greenhouse gases and therefore behave in different ways.

Corey highlighted the 1,000% increase in dairy digester development, where just five years ago there were only 12 in operation and now there are more than 100. California is now on track to reduce methane emissions levels by 40% below 2013 levels from livestock and dairy manure management practices, with Corey saying the California dairy industry can serve as a model for others.

Dr. Mitloehner was asked by Boccadoro about the term "super pollutant," which had been used to describe methane many years ago by some in Sacramento. He said, "if there were a super pollutant, it'd be CO₂ (carbon dioxide)."

This morning, Tom Vilsack, president and CEO of the U.S. Dairy Expert Council, joined David Darry, Senior Vice President and Chief Strategy and Sustainability Office for Dairy Farmers of America; Rob Vandenheuvel, senior vice president, member and industry relations for California Dairies, Inc; and Pete Kappelman, senior vice president, member and government relations for Land O'Lakes for a discussion about advancing environmental and economic sustainability.

The panel discussed the valuable partnerships and pathways that are helping California dairy farmers implement new technologies and strategies. During the panel, Vilsack noted that North American dairy farmers are the only farmers in the world that have reduced their carbon footprint over the last 15 years.



And lastly, our very own Geoff Vanden Heuvel moderated a session on SGMA strategies for California dairy farmers with Joey Airoso, owner, Circle A Dairy; Jason Gianquinto, general manager, Semitropic Water Storage District; Taryn Ravazzini, deputy director, California Department of Water Resources; and Scott Peterson, water policy director, San Luis and Delta-Mendota Water Authority.

Each discussed how SGMA will impact dairies in the coming years and how local groundwater agencies are approaching the challenge.

This year's virtual Sustainability Summit showcased how California's dairy families are leading the way in developing sustainable, planet-smart farming. If you missed a presentation, and registered for the conference, you can login to watch recordings of the sessions at www.cadairysummit.com.

NMPF President's Update

By Jim Mulhern, President & Chief Executive Officer, National Milk Producers Federation



It's Friday. Do We Know Who Our President is Yet? – As ballot counting continued today in not-yet-called states of Pennsylvania, Georgia, North Carolina, Arizona and Nevada, neither President Trump nor former Vice President Biden had reached the Electoral College's necessary 270 vote threshold. But the final outcome is strongly trending in Biden's favor, especially in Pennsylvania, Nevada and Arizona – and even in Georgia where Biden moved ahead of Trump in overnight counting. (Because of the closeness of the race, the Georgia vote appears headed toward an automatic recount.)

With Biden looking stronger by the hour in all four states, wins in either Pennsylvania or any two-out-of-three combination of Georgia, Arizona or Nevada would put him over the top. (The Associated Press and Fox News have both already called Arizona for Biden, but other media outlets have refrained while they await the count of outstanding ballots.)

Biden has a four million vote advantage over Trump in the U.S. popular vote.

While it appears only a matter of time before Biden clears the 270-vote threshold needed to win the election, the Trump campaign has filed numerous legal challenges that may drag out the final election determination for perhaps several weeks. Despite these expected challenges it is looking like a change in residents at 1600 Pennsylvania Avenue is coming in January.

Elections Results Portend Divided Government Next Two Years – While the Presidential contest is not quite called, the clear forecast is for another two-year season of divided government – with a slimmer lead for Democrats in the House and Republicans appearing to hold the Senate. At least one – and perhaps both – of Georgia’s Senators won’t be determined until a final runoff election in early January. If the GOP holds either seat, they will have a majority in the upcoming 117th Congress. Democrats would have to pick up both seats to get to a 50-50 Senate in which they would be in the majority if Biden is the incoming President.

In the House, Speaker Nancy Pelosi will have a slimmer margin in the next Congress, as the Democratic congressional candidates underperformed against expectations Tuesday night and not a single GOP incumbent lost.

The biggest change we’ll see is that the House Agriculture Committee will have a new chairman. Rep. Collin Peterson, a strong champion of dairy producer interests, lost his heavily contested seat in Minnesota, which represents a significant loss of institutional knowledge for dairy and agriculture policy. Fortunately, he had undertaken efforts as chairman to educate his committee members on the nuances of issues like the dairy safety net, and that process, combined with NMPF’s ongoing education of members on both sides of the aisle, will position us well in 2021 despite transition in the membership and staff on the committee.

Still, it’s a shame to see Peterson, after 30 years in Congress (the last half of which he was the leading Democrat on the Agriculture Committee), leave the stage this way. The next chair of the Ag committee is likely to be one of the other veterans on the committee, with the top prospects including Reps. Jim Costa, Marcia Fudge, and David Scott.

In the Senate, the most likely outcome next year is for the GOP to maintain its slim lead, with Sen. Mitch McConnell returning as majority leader. The Senate Ag committee will also have a new chairman, given the retirement of current chair Pat Roberts. The most likely successor if the Republicans are in the majority is Sen. John Boozman of Arkansas.

McConnell Prioritizing New Stimulus Bill When Senate Returns – Even before we turn our sights to 2021, Congress will return this month for a lame-duck session to finish spending bills for the fiscal year that started October 1st – and to again debate a stimulus bill to aid in the economic recovery.

Sen. McConnell said Wednesday that a new economic stimulus bill should be completed before the end of the year and will be the focus when the Senate returns to session next week. How the White House will view such an effort in this post-election environment remains a significant unknown.

Economics

Dairy Farmers Claim \$877 Million in Latest CFAP Round Two Update – Dairy farmers have received nearly \$900 million from the Coronavirus Food Assistance Program’s second round, according to [the latest weekly report](#) from the U.S. Department of Agriculture. The USDA reported this week that it has approved payments totaling more than \$8.8 billion to 518,000 farm applicants. The deadline for applying is December 11, 2020.

Trade Policy

NMPF Builds Congressional Support for Protection of Common Food Names – More than one-quarter of the members of the House of Representatives [signed a letter](#) we had helped to circulate in recent weeks, urging stronger protections for American-made food and wine products labeled with common terms.

The House letter, signed by 111 members and sent this week to the U.S. Trade Representative’s office and the U.S. Department of Agriculture, reflects the work that our trade policy staff did to build a large, bipartisan voice in Congress in support of one of the U.S. dairy sector’s key priorities.

The letter asks the USTR and USDA to make safeguarding common food and wine terms a core policy objective in all current and future trade negotiations. The effort was led by Reps. Jim Costa (D-CA), Jodey Arrington (R-TX), Angie Craig (D-MN), Dusty Johnson (R-SD), Ron Kind (D-WI), Mike Gallagher (R-WI), Jimmy Panetta (D-CA) and Mike Kelly (R-PA).

NMPF was joined by other food and ag groups in working to attract cosigners on the letter, including the American Farm Bureau Federation, the North American Meat Institute, the National Association of State Departments of Agriculture, the Wine Institute and the U.S. Dairy Export Council. This week’s letter in the House is similar to a letter sent to the USTR and USDA in July that [was signed by 61 Senators](#).

Review of Indonesia Trade Arrangement Secures Benefits for U.S. – NMPF applauded the U.S. Trade Representative’s office this week for ensuring that Indonesia – a major and growing export market for our dairy exports – removed barriers to U.S. dairy market access.

On Monday, the USTR announced the conclusion of its favorable review of Indonesia’s eligibility to continue receiving preferential tariff access to the U.S. market under the GSP program, after determining that changes made by Indonesia now bring it into compliance with its trade obligations under the GSP.

NMPF and the U.S. Dairy Export Council were among the organizations that originally filed a complaint with USTR regarding Indonesia’s GSP compliance in 2018, citing its law mandating local partnership arrangements in order to secure import licenses. In response to dairy’s concerns raised through the GSP process, Indonesia removed that requirement.

The U.S. dairy industry exported \$238 million in dairy products to Indonesia in 2019, making it the seventh largest market for U.S. dairy exports.

Trade Barriers, Trade Barriers Everywhere – NMPF and USDEC filed [37 pages of comments](#) this week with USTR in which we detailed barriers to U.S. dairy trade around the world. The

comments were filed for the National Trade Estimate Report on Foreign Trade Barriers. The U.S. government publishes the report annually.

Our comments focus on the highest priority issues U.S. dairy suppliers face in key markets, with an emphasis on those with which the U.S. has an opportunity to pursue changes in the years to come.

Large sections highlight ongoing issues with key trading partners like China (GIs, tariffs), the EU (the bloc's intervention scheme, certifications, border measures/tariffs/import licensing, GIs, country-of-origin labeling) and Mexico (threats to limit milk powder imports, front-of-pack labeling, product standards revisions, GIs, access for U.S. raw milk for processing), as well as enforcement issues regarding the USMCA agreement.

In total, the comments outline trade issues with 29 countries or regions, as well as concerns related to Codex, the World Health Organization and the World Trade Organization.

Jonker Earns Key IDF Position – I'm pleased to report that Jamie Jonker, our Vice President of Sustainability and Scientific Affairs, was elected Chair of the International Dairy Federation's Science and Program Coordination Committee (SPCC) at the recent IDF annual meeting.

This position serves on the IDF Board and is the second-highest elected leadership position within IDF. In this role, Jamie will help lead overall management of the more than 150 scientific and technical projects that are currently being conducted by IDF experts in food safety, animal welfare, economics and sustainability, among other topics. This role will assist with alignment between U.S. dairy practices and those in other nations.

For more on IDF's mission, here is the organization's [latest annual report](#). Also as part of the recent IDF annual meeting, the organization released its annual [Animal Health Report](#). The U.S. dairy sector submitted an article for the report on the National Dairy FARM Program, which begins on page 28. This article focuses on the important relationship between veterinarians and dairy farmers as part of the FARM Program analysis of animal care version 3.0 data.

Other Noteworthy News

Second FARM Program “Quick Convo” Session Next Week – We held our first “Quick Convo” online discussion this week to answer questions about the future of our National Farmers Assuring Responsible Management (FARM) Program. On Wednesday, NMPF's Vice President of FARM Animal Care, Emily Yeiser Stepp, discussed FARM's history, role within the dairy industry and offered an overview of the four distinct program areas. Next Wednesday at 1 pm Eastern, Beverly Hampton Phifer, FARM's stakeholder relations manager, will provide a summary of the dairy producer's role in the program, as well as what evaluation preparation materials FARM has to offer. Registration, recordings of the conversations, supplementary material, and the full schedule of topics are available on the [FARM Quick Convos](#) webpage.

