

# 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			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	- \$.1100	\$1.8200	WEEKLY CHANGE	-.0325	\$1.8000	WEEK ENDING 02/01		
Barrels	+.1075	\$1.5850	WEEKLY AVERAGE	-.0615	\$1.8040	NAT'L PLANTS	\$1.2542	23,111,277
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 01/25		
Blocks	-.0385	\$1.8740	DAIRY MARKET NEWS	W/E 02/14/20	\$3.787	NAT'L PLANTS	\$1.2578	22,120,688
Barrels	+.0905	\$1.5550	NATIONAL PLANTS	W/E 02/08/20	\$3.634			

## 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
FEB 14 EST	\$19.15 - \$19.65	\$16.99	\$16.99	\$16.28
LAST WEEK	\$19.15 - \$19.65	\$17.18	\$17.06	\$16.57

## JANUARY 2020 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

JAN '20 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT*
MINIMUM CLASS PRICE	\$20.61 (TULARE) \$21.11 (L.A.)	\$17.05	\$17.05	\$16.65	\$17.06 (TULARE) \$17.56 (L.A.)	\$16.735 (TULARE) \$17.235 (L.A.)
PERCENT POOLED MILK	19.4%	6.7%	17.8%	56.1%	100% (2.33 BILLION LBS. POOLED)	

\*QUOTA RATE OF \$0.325/CWT. AS OF SEPTEMBER 2019 MILK

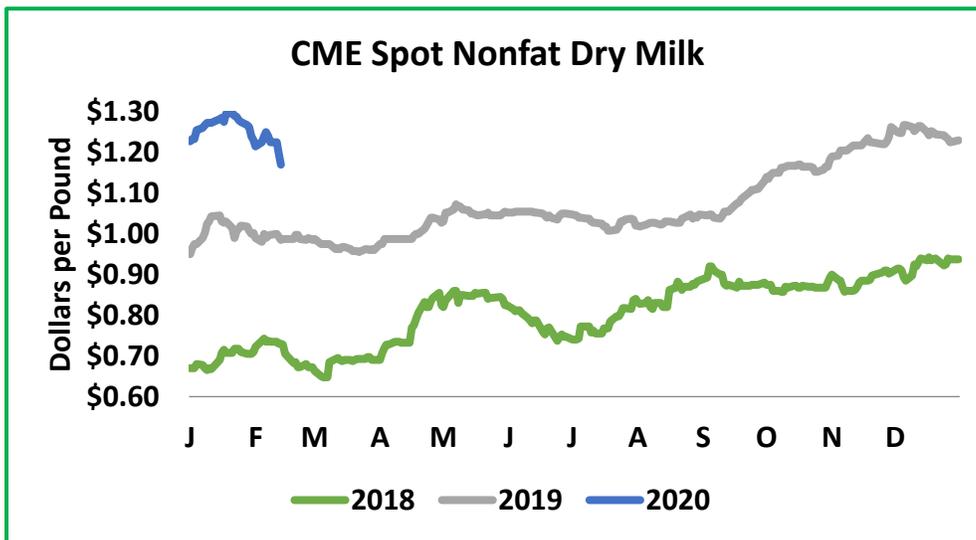


### Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report  
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#### Milk & Dairy Markets

There was a lot of red on LaSalle Street this Valentine's Day. The powders were particularly weak, as fears of coronavirus sickened the markets most sensitive to Chinese consumption. CME spot dry whey spent much of the week strengthening but succumbed today.

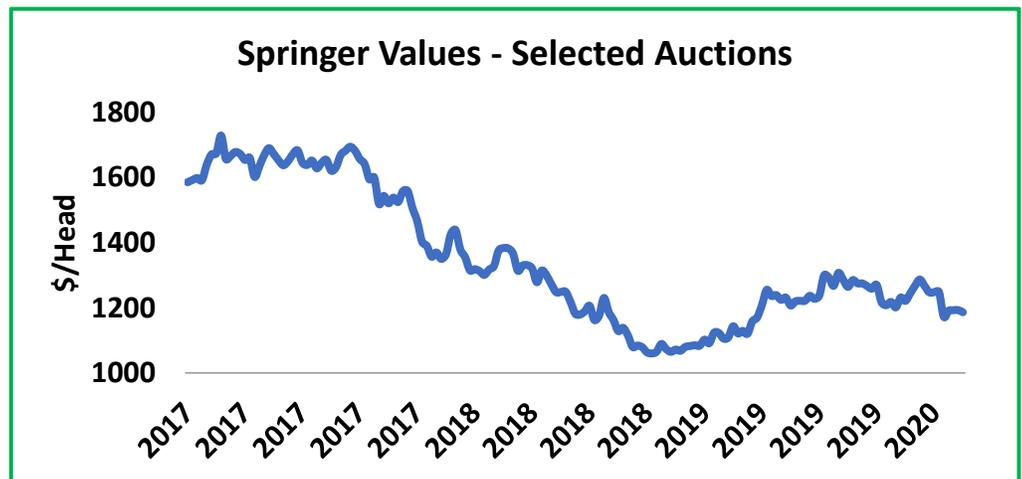


It closed 2¢ lower than last Friday, at 37¢ per pound. Spot nonfat dry milk (NDM) dropped 8¢ to \$1.17, its lowest price since October. Butter slipped another 3.25¢ to \$1.80. The cheese markets converged. Spot Cheddar blocks plummeted 11¢ to a new 2020 low of \$1.82. Barrels climbed 10.75¢ to \$1.585.

Both Class III and Class IV futures suffered steep losses.

February and March Class III contracts settled within a penny of \$17 per cwt., and first-half Class IV contracts finished well below that mark. Further down the board, the promise of \$18 Class IV milk has vanished. February through December Class III futures settled at an average of \$17.39, while Class IV averaged \$16.91.

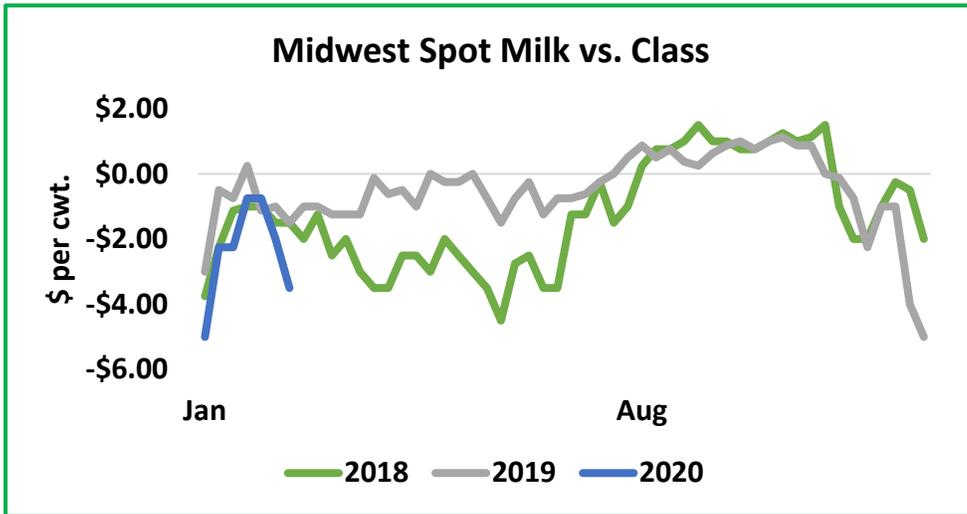
Dairy producers can live with those prices, but they are certainly uninspiring, especially after several years of hardship. Cull rates, auction docket, and springer values continue to reflect pain on the farm. In the first five weeks of this year, dairy slaughter volumes are 1.4% ahead of the 2018 pace and 1.8% higher than the same period in 2019. If dairy producers



are culling at this rate, either the national herd is shrinking, or there are a lot of new heifers in the barn. The price of high-quality springers is hovering around \$1,200 per head. That’s about \$200 better than at this point last year, but it does not signal much appetite for expansion.

Nonetheless, there is plenty of milk around. It’s cold in the Midwest at the moment, but the cows are well housed, and conditions are benign in comparison to the violent storms that rocked the region a year ago. *Dairy Market News* reports that “milk and cream are widely available regardless of feed quality and regardless of the mass exodus of dairy farmers in the Upper Midwest.” Those factors have obviously reduced output relative to what might have been, but milk is by no means short. In the rest of the country, milk yields are rising as the spring flush nears. Processors in Idaho have more than they can handle, and dairy producers will have to absorb some steep discounts due to the excess.

Cheap spot milk is surely boosting barrel output. *Dairy Market News* explains the still-vast block-barrel spread: “Heavy milk flows are resulting in manufacturers running as much milk through the vats as they can... Offers for barrels and [640 lb. blocks] are common. However, processors relay that retail



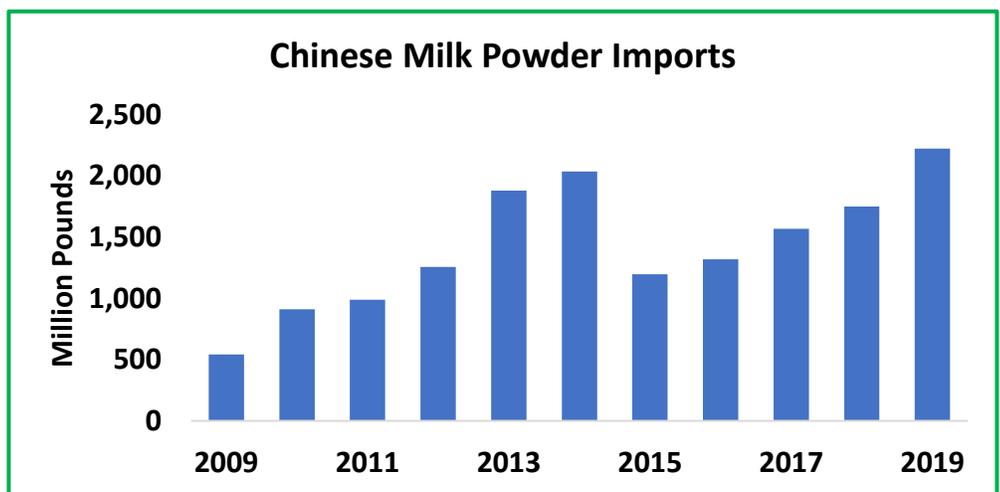
demand has been solid enough so that stocks of some block cheese brands are highly committed for the next few months. Prices for blocks are supported by this demand, while prices are weaker for barrel cheese.”

Cream remains cheap, and butter churns are running hard. Butter makers are boosting supplies in anticipation of Easter and Passover demand, but they are doing so with

caution rather than enthusiasm until sales are confirmed. Butter values have fallen far enough to make imports less attractive, which could slow the spring inventory build at the margins. However, the strong dollar undermines the limited support this might offer. The dollar climbed to a nearly three-year high against the euro. While German and Dutch butter prices held steady this week, they dropped nearly 2¢ per pound after converting from euros to dollars.

The currency impact surely weighed on the milk powder market as well. NDM futures struggled all week. But the heaviest losses came Thursday and Friday, after the Chinese government dramatically boosted its coronavirus infection counts. The much higher totals reflect a change in the method to officially recognize an infection, not a sudden increase in the ranks of the sick. But the headlines added to justifiable fears that efforts to contain the epidemic will reduce Chinese demand for goods of all sorts. With much of the workforce staying home until the panic abates, China’s ports are clogged with ships waiting to unload, and domestic freight has been throttled by a lack of drivers and a web of quarantines and checkpoints. That is surely slowing the flow of goods to consumers and reducing demand.

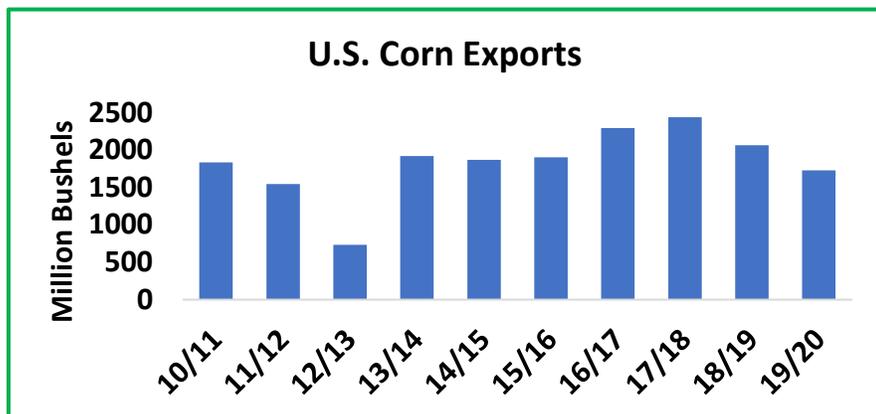
But while tens of thousands of people in China are sick, billions are healthy, and everyone has to eat. China is acutely short of protein after African swine fever devastated its swine herd, but, judging by the massive volume of imports last year, they likely have plenty of milk powder. As issues up and down the supply chain make fresh, perishable food more difficult to attain, it’s reasonable to expect that milk powder will satisfy a larger share of consumers’ appetites. However, for the same reasons a greater share of China’s domestic milk supply is likely to be dried, displacing some demand for imported milk powder.



Chinese milk powder imports are likely to slow due to the virus, but it’s possible that much of the demand will be pent up rather than lost altogether. However, markets abhor uncertainty. Traders are selling now and will assess the damage later.

## Grain Markets

The corn markets retreated this week. The dollar is strong while the peso and the real are exceptionally weak. Importers are sure to favor crops from South America, and by all reports there will be a big harvest in the Southern Hemisphere.



U.S. corn exports are disappointingly slow, and on Tuesday USDA once again lowered its projection for corn shipments this season. The agency raised its soybean export estimate, acknowledging that the U.S.-China trade pact is likely to boost sales. March corn settled at \$3.7775 per bushel, down 5.75¢ from last Friday. March soybeans climbed 11.75¢ to \$8.9375.



**Quota sunset proposal submitted to California Department of Food and Agriculture**  
*By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs*  
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The United Dairy Families of California (UDFC), a group of California producers that formed to create a process for California dairy farmers to discover a path forward on quota, capped off their process this week by submitting a letter to California Secretary of Agriculture Karen Ross. The letter formally proposes to change the effective quota differential to \$1.43 statewide and terminate the Quota program five years from now on March 1, 2025.

At an event held this past Tuesday, February 11 at the World Ag Expo, Dr. Marin Bozic and economist Matt Gould laid out the process that led them to the discovery that this proposal was the middle ground between the various opposing views on quota within the California producer community.

The process for finding this middle ground was necessitated by the emergence in late 2018 of an organized effort by California producers who own little or no quota to push for a referendum to immediately terminate the quota program. The STOP QIP group submitted a petition with apparently enough signatures to force a termination referendum back in April of 2019, but CDFA invalidated a number of signatures and determined that the petition did not meet the threshold to force a referendum. STOP QIP immediately indicated that they would be circulating another petition.

The United Dairy Families formed for the purpose of developing a process where all California producers could participate in an inclusive and transparent way to offer up their thoughts and ideas on quota in a structured manner. This effort was supported by the three major cooperatives and the three producer trade associations as well as STOP QIP. Dr. Marin Bozic, a dairy economist from the University of Minnesota and Matt Gould, a dairy industry economist, were hired to analyze and evaluate those ideas, and based on that process, ultimately provide a recommendation on a way forward to address the quota issue.

As we have reported in the past, there were four specific phases to this process. The first phase was a “think tank” phase where all ideas were solicited and compiled. The second phase organized those ideas

into 11 different proposals, which the industry then had the ability to react to by way of detailed feedback surveys. Phase three narrowed the list of eleven ideas down to three approaches which were presented to producers in January. Detailed producer surveys reacting to the three proposals were received and tabulated. And from the 173 producer written responses which covered nearly 30% of California's milk production and matched the known composition of the California producer community, a single, specific proposal emerged as the way forward with the highest probability of success.

In addition to presenting the process and rationale for the specific proposal at the World Ag Expo meeting this week, Dr. Bozic also addressed the legitimacy of the current situation. He identified the original legal justification for why there was a quota program in the first place. The original Gonsalves Milk Pooling Act said in part, *"The production and distribution of fluid milk and fluid cream is hereby declared to be a business affected with a public interest. The provisions of this chapter are enacted in the exercise of the police powers of this state for the purpose of protecting the health and welfare of the people of this state. Sec. 62700"*

Dr. Bozic gave his opinion that "Federal Milk Marketing Orders exist to ensure orderly marketing of fluid milk, and to provide adequate supply of fluid milk. Therefore, CA quota no longer contributes to the original purpose of the Gonsalves Milk Pooling Act."

On the issue of Regional quota adjusters, given that the FMMO now uses location differentials explicitly in its pricing mechanism, the rationale for having different quota prices in different areas of California no longer exists.

On the other hand, Dr. Bozic reminded everyone that the "Transition to the California Federal Milk Marketing Order would not have been possible without provisions that provided continuity to the California quota program. We believe the QIP was the promise to quota holders that if quota were to be terminated, it would happen through an orderly, consensus-based process."

So where are we in this process? On January 29, 2020 STOP QIP submitted a petition to suspend chapter 3.5 of the Food and Ag Code to CDFA. This petition, if it has the required number of valid signatures, requires that CDFA hold a hearing to consider the petition. It is likely that there are sufficient signatures on that petition to force a hearing. Now, with UDFC submitting a specific proposal, but not a formal petition for changes to the QIP which includes an ultimate termination of the quota program, CDFA will have to decide how to react to this proposal. The QIP rules do speak about a role for the Producer Review Board in a process that seeks change, but it is not exactly clear how this process will play out. It seems likely to me that there will be a hearing on the quota issue in the near future to consider the STOP QIP petition as well as consider the UDFC proposal and possibly any other proposal someone might want to bring forward. Depending on what evidence and testimony is presented at that hearing there will likely be a referendum. At that point, producers will have to decide about how to move forward. Dr. Bozic made some strong arguments for supporting a compromise based on the principles he laid out in his presentation. But since the nature of a compromise is no one is really happy with the results, time will tell if a referendum for change can garner the 65% vote threshold necessary for passage.

Meanwhile there is still a lawsuit pending where STOP QIP is alleging that CDFA did not follow proper procedure in adopting the QIP in the first place. The State Attorney General has rejected that claim and a court hearing on the merits of the suit is now calendared for May 15.

Information developed by UDFC can be found [here](#). Information developed by STOP QIP can be found [here](#).

## Dairy farms fuel a cleaner San Joaquin Valley: Sustaining jobs, fighting climate change, and more

*Courtesy of Dairy Cares*

There's a new wave of renewable fuel, and it's coming from California's family dairy farms. As the state works toward ambitious climate and clean energy goals, renewable natural gas (RNG) is the leading alternative to diesel in heavy-duty trucks—significantly reducing greenhouse gases and improving air quality. Until recently, most of the RNG consumed by California vehicles came from out-of-state sources, mainly from landfills. However, California's dairy farmers are partnering with the state and

private investors to build valuable infrastructure and provide a new fuel source that benefits the local environment, the state's economy, and Earth's climate.

As a growing number of the state's family-owned dairy farms install digesters that capture methane, millions of metric tons of



**CA Dairy RNG to support more than 6,200 low-emission trucks**

greenhouse gas emissions are being reduced. Additionally, the biogas is being collected, cleaned and conditioned, and then injected into the state's natural gas pipeline. In 2019, Calgren, a biogas company in Pixley, became the first project in California to inject dairy biogas into the natural gas system. Calgren currently collects biogas from ten neighboring dairy farms, with more to be added. The project represents only the first surge of dairy biomethane that is expected to come online in the next three to four years.

Click [here](#) to read more.

## New research shows dramatic reduction in carbon, water footprints of California dairies

*Courtesy of the California Dairy Research Foundation*

New research published in the [Journal of Dairy Science](#) finds the climate footprint of milk production in California has been significantly reduced over the past 50 years (1964 to 2014). The amount of greenhouse gas emissions produced per unit of milk was reduced by more than 45 percent. Scientists at the University of California, Davis conducted a life cycle environmental assessment (cradle to farm gate) of California dairy farm production, using the latest scientific models and international research standards



"The study documents the productivity, efficiency, and overall sustainability of milk production in California and the critical role dairy cows play in regenerative agricultural practices and sustainable food systems," said Dr. Ermias Kebreab, Professor at UC Davis and Sesnon Endowed Chair, who led graduate student Anna Naranjo in completing the research project.

The study's key findings are as follows:

- The amount of greenhouse gas emissions per each unit of milk (e.g. glass or gallon) produced has decreased more than 45 percent, due to increased milk production efficiency, including improved reproductive efficiency, nutrition, comfort, and overall management.
- The amount of water used per unit of milk produced has decreased more than 88 percent, primarily due to improved feed crop production and water use efficiency.
- Dramatically improved feed crop production and utilization of agricultural byproducts have led to significant reductions in the amount of natural resources used to produce each unit of milk, including, land, water, fossil fuels, and energy.

"The study shows we are producing milk more efficiently and sustainably, minimizing our climate footprint in the process," said Richard Wagner, a San Joaquin Valley dairy farmer and chairman of the California Dairy Research Foundation (CDRF). "While there is always more work to be done, the findings show a significant overall improvement in environmental performance, producing more wholesome, nutritious milk and dairy products with fewer natural resources, less water, less energy, and fewer fossil fuels."

Over the past 50 years, California dairy production has undergone significant advancements, from animal feeding and housing practices to overall animal and crop production efficiency. The researchers expect that as milk production per cow continues to increase through improved feed formulations, reproductive efficiency, and management techniques, it will lead to further improvements in dairy farming's environmental footprint.

As the study documents, more than 40 percent of dairy feed ingredients in California are byproducts of other agricultural and food production processes, such as almond hulls, citrus and tomato pulp, culled carrots and other similar products that are not suited for human consumption but make healthy, nutritious feed for cattle. As a result, nearly half of the feed needed to produce California milk—which represents about 20 percent of all U.S. milk—is being provided without a single drop of additional water. Dairy cows are efficient recyclers, making use of food and agricultural byproducts that are either indigestible or undesirable for humans and avoiding the need to landfill or otherwise dispose of these materials.

"Cows are natural bioprocessors and upcyclers of nutrients," said Dr. Kevin Comerford, Chief Science Officer for CDRF. "As a result, cows will continue to play essential roles in healthy and sustainable food systems all over the world. This study demonstrates the environmental benefits in California, where dairy farmers have been especially successful in recycling and repurposing resources."

While the analysis demonstrates significant reductions in greenhouse gas emissions intensity (more than 45 percent), these estimates can be considered conservative, and more progress toward climate-smart practices continues to be made. The research does not factor in the implementation of large solar panel arrays, which has occurred on more than 150 dairy farms in California and represents a significant shift toward renewable energy. The California Department of Food and Agriculture has also reported that through the implementation of dairy methane reduction projects, California's dairy farms will soon be more than halfway to achieving the state's world-leading target (a 40 percent reduction in manure methane emissions), equating to millions of metric tons of greenhouse gas reductions each year.

"California dairy farms have made major improvements in environmental performance over the past 50 years," said Denise Mullinax, Executive Director of CDRF. "We know our farms are continually

increasing their overall efficiency. This study advances our understanding of the environmental benefits and verifies that farmers are on a path toward continued improvement."

This research was supported by California Dairy Research Foundation and the Sesnon Endowment fund of University of California, Davis.

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