

MPC WEEKLY FRIDAY REPORT

DATE: JANUARY 31, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7

P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
 2328 Jonathon Court, Escalon, CA 95320 • (209) 691-8139
Office@MilkProducers.org • www.MilkProducers.org • Fax (909) 591-7328



MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	-\$0.0750	\$1.9200	WEEKLY CHANGE	+\$0.0400	\$1.9000	WEEK ENDING 01/25		
Barrels	-\$1.1100	\$1.5000	WEEKLY AVERAGE	-\$0.0356	\$1.8325	NAT'L PLANTS	\$1.2474	21,481,197
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 01/18		
Blocks	-\$0.0688	\$1.9225	DAIRY MARKET NEWS	W/E 01/31/20	\$0.3562	NAT'L PLANTS	\$1.2427	25,038,765
Barrels	-\$0.0576	\$1.5580	NATIONAL PLANTS	W/E 01/25/19	\$0.3409			

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
JAN 31 EST	\$20.61 - \$21.11	\$17.11	\$17.04	\$16.71
LAST WEEK	\$20.61 - \$21.11	\$17.13	\$17.04	\$16.71



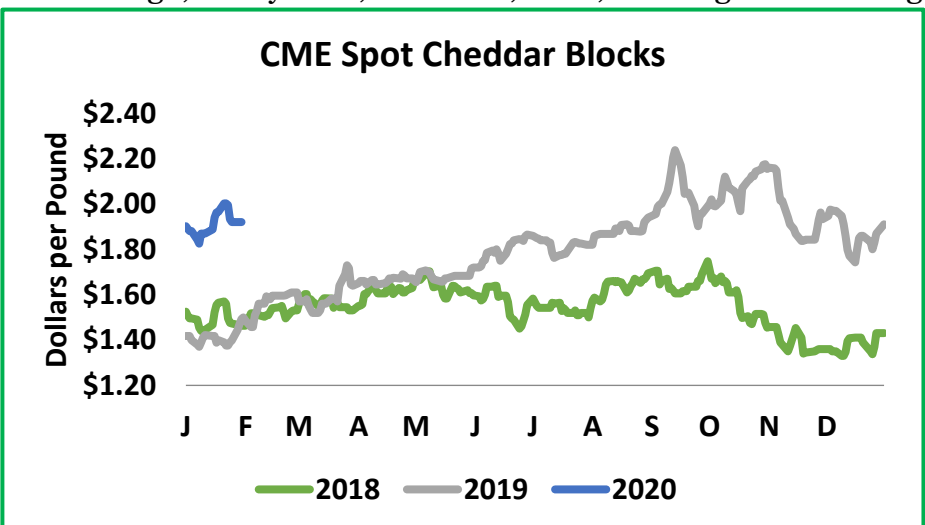
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

The CDC reports that the symptoms of coronavirus typically only last for a short time and may include a cough, runny nose, headache, fever, and “a general feeling of being unwell.” That’s also an apt description of the markets this week, which succumbed to fear and uncertainty. The new strain of the virus seems to be less fatal than many other respiratory illnesses and not exceptionally contagious. But as it spread more rapidly in central China and cropped up here and there around the world, anxiety festered.

The dairy markets were not immune. After a healthy rally last



week, they suffered a sizeable setback. CME spot Cheddar barrels were weakest. They fell 11¢ to \$1.50 per pound. Blocks lost 7.5¢ but are still looking hale, at \$1.92. Cheese demand is excellent, as befits the final flourish to football season. Two questions will determine the direction of the cheese markets from here: Will end users who spent much of the winter on the sidelines return to the playing field? How much milk will enter Midwest cheese vats during the spring flush? The calendar suggests that cheese prices will begin to fade, but the widespread between blocks and barrels leaves plenty of room for barrels to gain ground.

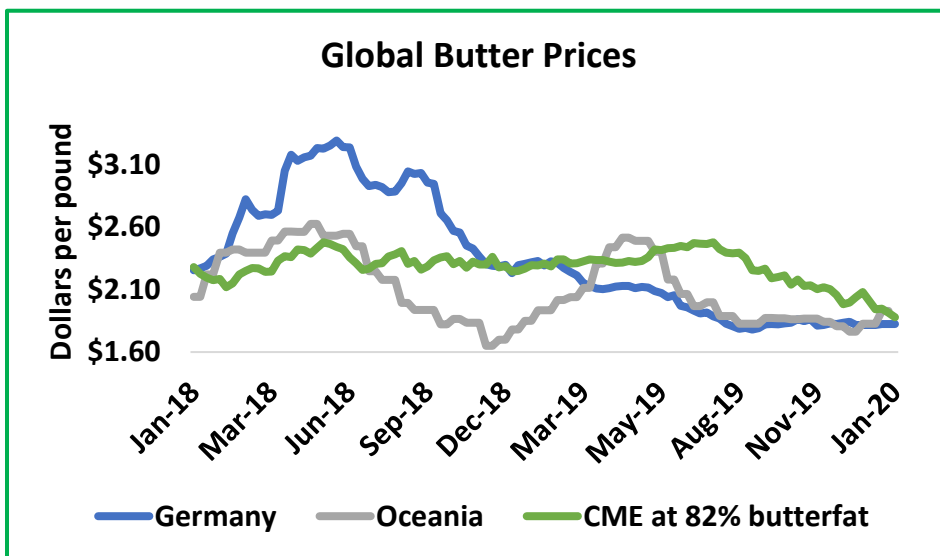
CME spot whey climbed to its highest value since September, but then dropped back to where it began the week, at 36.5¢. Class III futures finished deep in the red, at prices ranging from \$17.04 per cwt. in January to \$17.88 in October. The February contract plunged 86¢ this week, and most second-half contracts lost roughly 20¢.

Class IV futures were similarly sickly. The March through June contracts lost at least 40¢ and all first quarter contracts are now south of \$17. While deferred Class IV contracts slumped, most are still above \$18.

After climbing to fresh five-year highs last week, CME spot nonfat dry milk (NDM) dropped 4.75¢ to \$1.24. The fundamentals of the milk powder market remain sound, with strong demand and waning stocks on both sides of the Atlantic. Manufacturers are keeping product moving. Some tell *Dairy Market News* that “their inventories are less than a month old.” Exports are robust.

But the trade is understandably concerned about Chinese dairy demand. This week China celebrated its Lunar New Year. Instead of the typical festival atmosphere, Chinese consumers are hunkered down at home or behind face masks. In Wuhan – a city larger than the Big Apple – Dairy Queen, Starbucks, McDonald’s, and Pizza Hut are closed. Would-be buyers of blizzards, lattes, cheeseburgers, and pizza are likely subsisting from their cupboards. Milk powder is a pantry item and is less likely than restaurant foods to lose sales that it can’t get back. But if the Chinese economy grows more slowly due to

coronavirus – just as it did for a time during the severe acute respiratory syndrome (SARS) outbreak in 2003 – then demand for all sorts of goods is likely to slip. In China, milk powder dominates the dairy space. The NDM market is pricing in the risk that Chinese dairy imports will be less vigorous going forward.

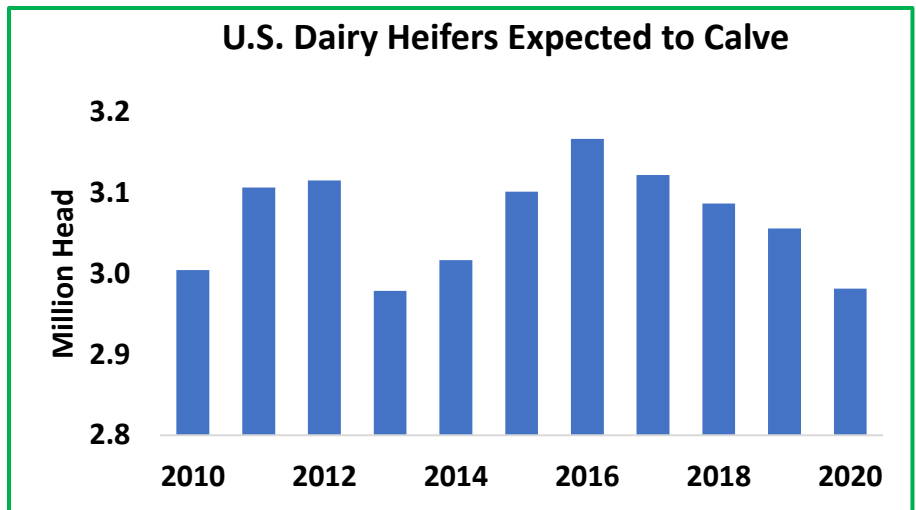


On Tuesday, CME spot butter floundered to \$1.775, its lowest price since October 2016. That was low enough, for now. Butter bounced right back and finished

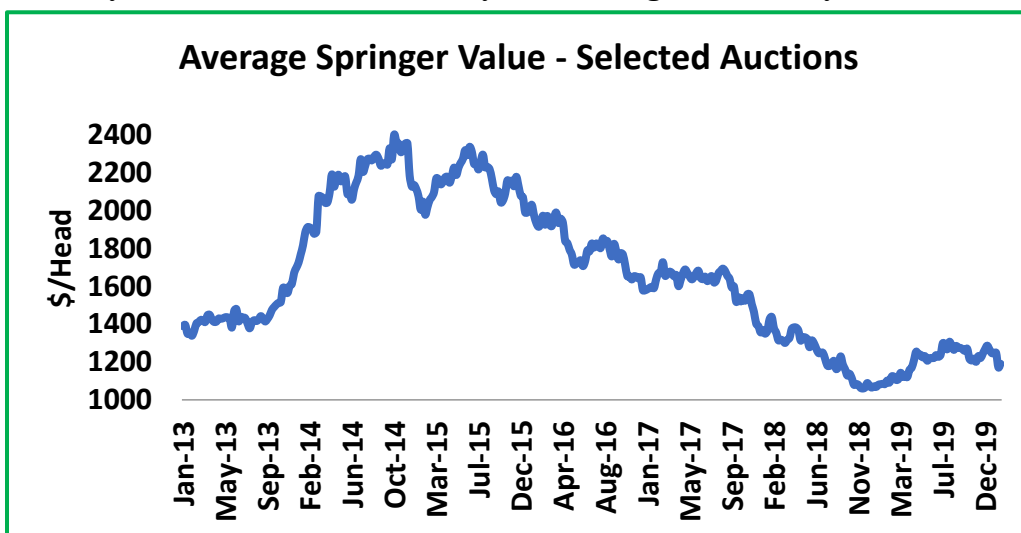
at \$1.90, up 4¢ this week. The early-week lows put U.S. butter on par with global product for the first time in nearly a year, which suggests firm support at these values. But further upside may be limited. Cream is cheap and churns are running hard.

The U.S. dairy heifer herd peaked at a 54-year high of 4.82 million head in 2016. Those heifers fueled the rapid growth in the milk-cow herd from mid-2016 through January 2018. They also deflated the springer market.

At the same time, Holstein bull calves became practically worthless. Dairy producers didn't want to make a surplus of cheap heifers, but they also had no need for Holstein bull calves. Seeking better cash flow, a growing share of the industry introduced beef genetics into their breeding program. For years, the dairy industry has been simultaneously conceiving fewer dairy heifer calves and slaughtering cows at a liquidation pace. That has taken a toll on heifer inventories.

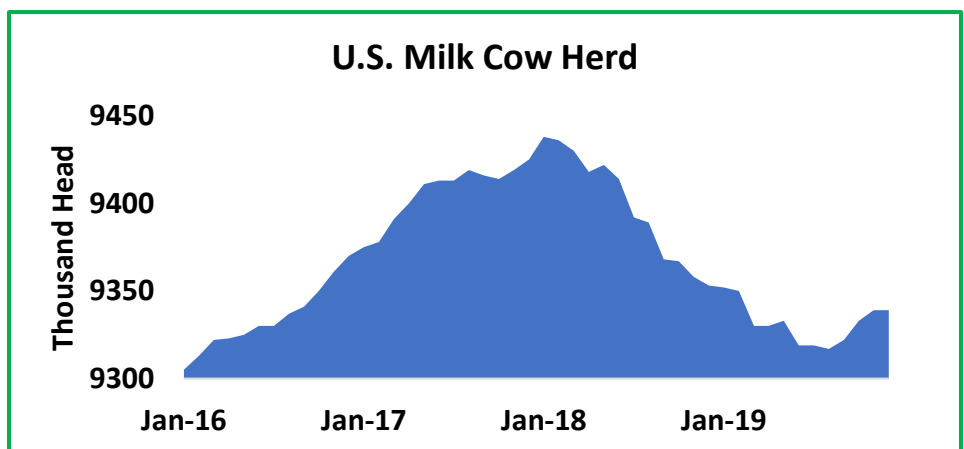


USDA estimates the January 1 dairy heifer supply at 4.64 million head. That's 131,300 fewer than at the start of 2018 and down 187,000 from 2016, a decline of 3.9%. The number of dairy heifers expected to calve in the calendar year has fallen for four consecutive years and now stands at its lowest level since 2013.



Since 2016, the number of heifers ready to calve and enter the milk parlor has fallen a substantial 5.9%.

Tighter heifer inventories are likely to boost calf, springer, and milk cow values, especially if milk prices improve as the futures project. Perhaps more importantly, they will make it harder for the industry to expand to excess. That bodes well for dairy product values in the long run.



Grain Markets

Fears that coronavirus will skewer Chinese grain and oilseed demand sickened the feed markets. March corn fell 6¢ to \$3.8125 per bushel. March soybean futures lost nearly 30¢ and settled at an eight-month low of \$8.72 1/2.



MPC General Manager Kevin Abernathy meets with Congressional leaders to discuss dairy-related issues, policies

By Kevin Abernathy, MPC General Manager

Kevin@MilkProducers.org

Greetings from our nation's capital! I'm pleased to share this update following a successful week of meetings with Congressional Representatives and staff members, where we discussed issues important to our California dairy families.

A central part of MPC's mission is to provide a voice in Washington, D.C. on behalf of our members, and key to accomplishing that mission is building good working relationships with U.S. Representatives and their staff members. We want the offices that represent California "dairy country" to know that MPC is a trusted resource for any and all dairy-related information, and of course, we want to work collaboratively with these offices as they craft dairy policy that's good for our family farms, our employees, our communities and the marketplace. Therefore, I routinely make trips to D.C. every year to visit these offices to meet with Representatives and staff members who we have worked with for years, as well as to introduce new Representatives and staff members to MPC and issues important to our members.

There was no shortage of issues to discuss this week with elected Representatives and staff of the 116th United States Congress. First and foremost was thanking Representatives for moving a critical bill for the dairy community through the House and onto the Senate. The passage of the H.R.5038: The Farm Workforce Modernization Act of 2019 is an immigration bill that addresses issues with the current workforce as well as the labor needs agriculture will face in the future. MPC strongly supported the passage of H.R.5038 and expressed our thanks in person to the offices that voted for it.



MPC also expressed its thanks to those offices that supported the United States-Mexico-Canada Agreement (USMCA) and other work being done by the Trump Administration to improve trade relations with China and Japan. I also had an opportunity to discuss specific challenges we face here at home, such as unlocking incentive funding for air quality improvement projects and infrastructure, water issues and other regulatory challenges our dairy families face.

So, which offices did MPC visit this week? I'm pleased to say it was a good number from both sides of the political aisle, which included:

- **Congressman John Garamendi** (D-31)
- **Congressman Kevin McCarthy** (R-23)
- **Congressman Ken Calvert** (R-42)
- **Congressman Josh Harder** (D-10)
- **Congressman Doug LaMalfa** (R-1)
- **Congressman Jim Costa** (D-16)
- **Congresswoman Norma Torres** (D-35)
- **Congresswoman Zoe Lofgren** (D-19)
- **Senator Dianne Feinstein** (D-CA)

I also met with a handful of other representatives' offices from across the country that are actively working on national dairy policy. In addition to engaging on California-specific issues, MPC continues to work with the Western States Dairy Producers Association (WSDPA) and National Milk Producers Federation (NMPF) to build a strong national dairy coalition. We let Congressional offices know that this is a coalition that they can work with for the betterment of American agriculture and the dairy community.

I do want to recognize Senator Feinstein's leadership in the Senate and for her work on several agricultural issues of importance to California farmers over the years. Now that H.R.5038 is in the Senate, we'll need her leadership and support to get this approved and onto the President's desk for signing into law. MPC, in coordination with WSDPA and NMPF, will remain engaged in this process as the bill makes its way through the Senate.

I will say this week was a success for dairy families in our nation's capital. I was able to have an audience with most Congressional offices that represent the bulk of California dairy families – that is with one notable exception. Unfortunately for dairy families in the 21st Congressional District (Fresno, Kern, Kings and Tulare counties), your issues were not heard or discussed because that meeting didn't happen despite attempts to get one scheduled. Readers of this newsletter might want to remember that come November.



Experts make final recommendation on Quota issue

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

After months of study, meetings, proposals, surveys and analysis, Dr. Marin Bozic and Matt Gould, the economists hired by the industry to evaluate the quota program, have made a specific recommendation on a path forward on the quota issue. Here is what they are recommending:

- That the Quota Implementation Plan (QIP) terminates on March 1, 2025.
- That the Regional Quota Adjuster (RQA) be modified to result in an equalized quota differential of \$1.43 per cwt., which is the current effective differential in Tulare.

That's it. That's the deal. The QIP continues for five more years at a slightly lower cost because of the RQA adjustment. This deal will give existing quota holders a cumulative payment of \$300 per pound of solids quota distributed over the five years and then the program will terminate.

Dr. Bozic and Mr. Gould lay out their rationale for this proposal in their final report, excerpted below:

**Excerpt from Dr. Marin Bozic, Matt Gould
Phase IV – California Dairy Quota Research, Document A, Page 2**

“In the Gonsalves Milk Pooling Act, regulating milk supplies is motivated by the need to provide ‘assurance to the people of the State of California of the maintenance of an adequate supply of this necessary commodity.’ In our opinion, following the separation of the California dairy quota program from milk pooling in the federal order, the quota program no longer contributes to the original purpose as set out in the Gonsalves Milk Pooling Act. In addition, RQAs were originally developed in the 1980s to address equity issues resulting from the elimination of location differentials in the state. They were designed, alongside a system of transportation credits, to reflect the location value of fluid milk based on the distance to cities. Location differentials were reinstated in 2018 as part of the California Federal Milk Marketing Order and the system of transportation credits was eliminated. As such, geographically varying RQAs currently in place no longer serve their original purpose.

Equally as important, a five-year sunset provides time for producers to prepare their businesses for a new milk pricing regime without quota and is therefore a socially sensitive way to terminate the program.

Finally, the only path to gain support to pass the California Federal Milk Marketing Order was to introduce a stand-alone quota regulation. 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. For all these reasons, a gradual phase-out of the program, in our opinion, meets the standards to be a reasonable and just path forward for the California dairy community.” – Dr. Marin Bozic and Matt Gould

I would urge everyone to download the full report and read it. There are two reports, one is the proposal and the other is a full report of the survey results. You can access both of them in one document [here](#).

What Dr. Bozic and Matt Gould have proposed is a way forward that they believe balances the competing perspectives and legitimate concerns of the California producer community. You can decide for yourself if it is compelling, but in the back of your mind ask yourself, if not this path, then what is the way forward?

All of this will be discussed by the industry at an open meeting to be held on Tuesday, February 11, 2020 in Tulare at the Farm Show starting at 11 a.m. You can sign-up to attend [here](#). The meeting is open to all.

Stop QIP files a petition

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

At almost the same time the economists were making their recommendation, the STOP QIP group this week submitted a petition to CDFA Secretary Karen Ross asking to immediately suspend Chapter 3.5 of the Food and Ag Code. Chapter 3.5 provides the authority for CDFA to collect the quota assessment to fund the QIP. As we have discussed in the past, Chapter 3.5 is the law that took effect in 1994 for the purpose of implementing the \$1.70 fixed differential for quota. Because back then, the Legislature, with

the support of California producers, passed a law that put in place a \$1.70 per cwt. fixed differential without a producer referendum, the law itself recognized that at some point producers might decide that they wanted to go back to the old floating differential. So, Chapter 3.5 established a lower vote threshold for producers to decide if they wanted to continue with the fixed differential or go back to the floating differential. The vote threshold for a Chapter 3.5 referendum is 51% affirmative vote to continue with the Chapter, therefore a 49.1% no vote would end Chapter 3.5.

Roll forward to 2017 when CDFA was responding to the California producer desire to become part of the Federal Milk Marketing Order while simultaneously maintaining the quota program. The Secretary asked for and the Legislature passed a new provision that was added to Chapter 3.5, that allowed CDFA to assess producers to operate a stand-alone quota program in conjunction with a FMMO. What the STOP QIP petition seeks to do is make the entire Chapter 3.5 inoperable and therefore remove CDFA's authority to assess producers to fund the QIP. Suspending Chapter 3.5 takes us back to Chapter 3.0 which used to contain the California state pooling plan which did include a quota program which has now been replaced by the FMMO. Quota may continue in theory, but there would not be authority for CDFA to collect an assessment to make the quota payments, so in effect the quota system would be defunct.

Here is where things get complicated. Chapter 3.5 requires the Secretary to hold a hearing if a petition signed by not less than 25 percent of the producers is submitted. It says that if the Secretary decides to hold a referendum on suspending Chapter 3.5, a 60-day period shall be established to conduct that referendum. What is subject to interpretation is whether the Secretary is required to hold a referendum on a Chapter 3.5 petition or has discretion based on what evidence may be received at the mandatory hearing as to whether to hold a referendum. We have never been through this process before, so there is not a historical precedent to follow.

Stop QIP lawsuit update

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

Finally, the lawsuit filed by Stop QIP in December asking the court to invalidate the QIP was responded to by the Attorney General's office on behalf of CDFA. In the response, which you can read [here](#), the Attorney General denies all the allegations by the Stop QIP lawsuit. While there has been some chatter in the industry about this lawsuit, as of today all we know for sure is that there has been a complaint by Stop QIP and a response by the government denying the allegations in the complaint. Anything other than that is speculation.

