MPC Weekly Friday Report

Date: October 16, 2020
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	*+$.0725*	$2.7200	Weekly Change	*+$.0975*	$1.5100	**Week Ending 10/10/20**		
Barrels	*+$.1500*	$2.2050	Weekly Average	*+$.0405*	$1.4825	Nat'l Plants	**$1.0583**	19,621,863
Weekly Average Cheddar Cheese			**Dry Whey**			**Prior Week Ending 10/03/20**		
Blocks	*+$.0675*	$2.7140	**Dairy Market News**	w/e 10/16/20	**$.3700**	Nat'l Plants	$1.0383	21,761,963
Barrels	*+$.1630*	$2.1730	**National Plants**	w/e 10/10/20	**$.3394**			

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
Oct 16 Est	**$16.80 - $17.30**	**$13.70**	**$21.38**	**$13.67**
Last Week	**$16.80 - $17.30**	**$13.65**	**$20.91**	**$13.45**

September 2020 CA FMMO Statistical Uniform Price Announcement

Sept '20 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price *(Blended Price)*	Net Price After Quota Assessment*
Minimum Class Price	**$20.04 *(Tulare)* $20.54 *(L.A.)***	**$13.16**	**$16.43**	**$12.75**	**$13.97 *(Tulare)* $14.47 *(L.A.)***	**$13.605 *(Tulare)* $14.105 *(L.A.)***
Percent Pooled Milk	**22.8%**	**9.1%**	**1.2%**	**67.0%**	**100% (1.797 billion lbs. pooled)**	

**Quota rate of $0.365/cwt. as of June 2020 milk*

Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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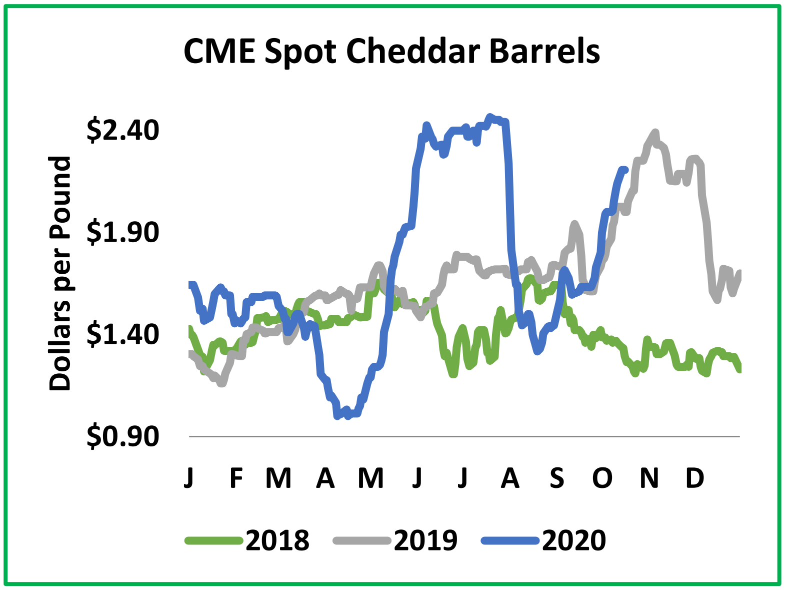
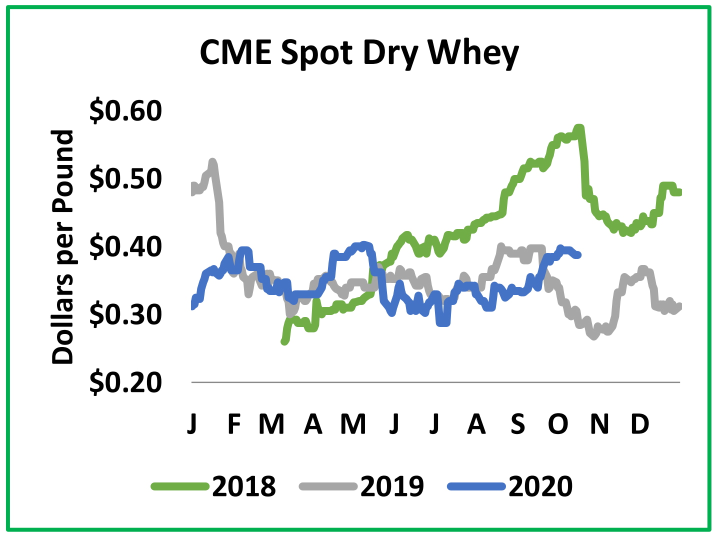
Milk & Dairy Markets

The spot Cheddar markets once again sprinted straight uphill, and barrels set the pace. They finished today at $2.205 per pound, up another 15¢. In the past five weeks, barrels have added an astonishing 61¢. Blocks settled 7.25¢ higher, at $2.72.

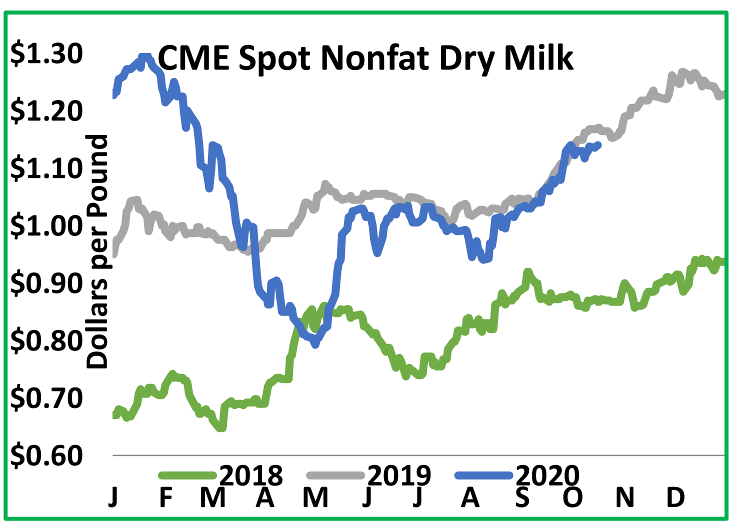


After seven months of immense volatility and roughly four months of sky-high prices, many cheese buyers have been forced to gamble, going hand-to-mouth as much as possible in the hopes of avoiding the unpalatable prices of the moment and paying less later. But when their cupboards start to look bare, they're forced to spend what it takes to restock, providing a slow, steady stream of purchases despite the cost. They're also competing with government contractors flush with taxpayer funds to fill food boxes. The bulk of the government buying is supposed to end soon but judging by the sudden rally on Thursday, the trade may expect another round of aid for dairy purchases.

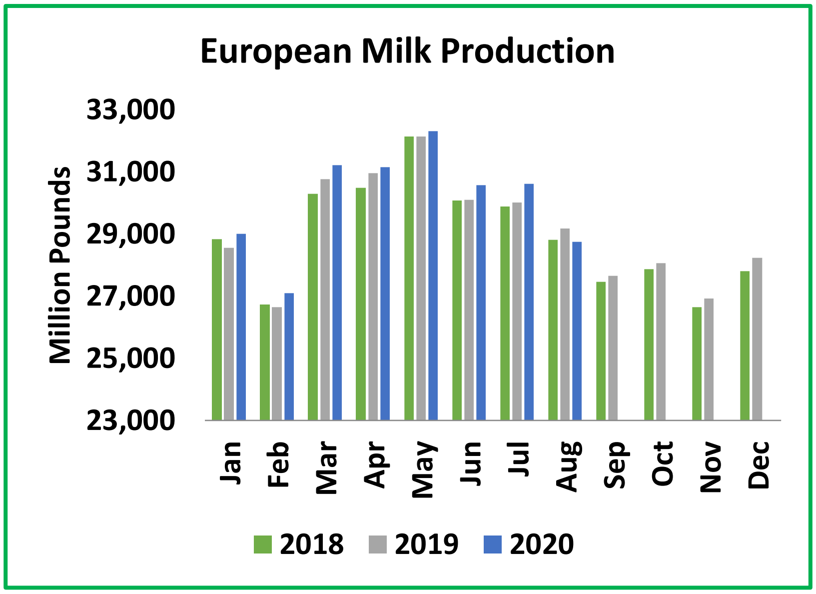
Cheese output remains strong. *Dairy Market News* reports that western cheesemakers "are running their facilities at or above design capacity" in order to meet firm demand from pizza makers, grocers and the food box program. And the new Michigan cheese plant will be up and running next week.



CME spot dry whey slipped 0.75¢ this week to 38.75¢. Despite the minor setback, the spot whey market has largely held the significant ground it has gained in the past month. Other indications of whey product pricing were quietly firmer. Chinese buyers continue to purchase robust volumes of U.S. dry whey and concentrate with at least 34% protein. Solid exports are helping to keep stocks in check, despite strong cheese and whey production. However, some merchants warn that a continued rally in the whey market could push domestic values above foreign rates, at which point exports would likely slow.



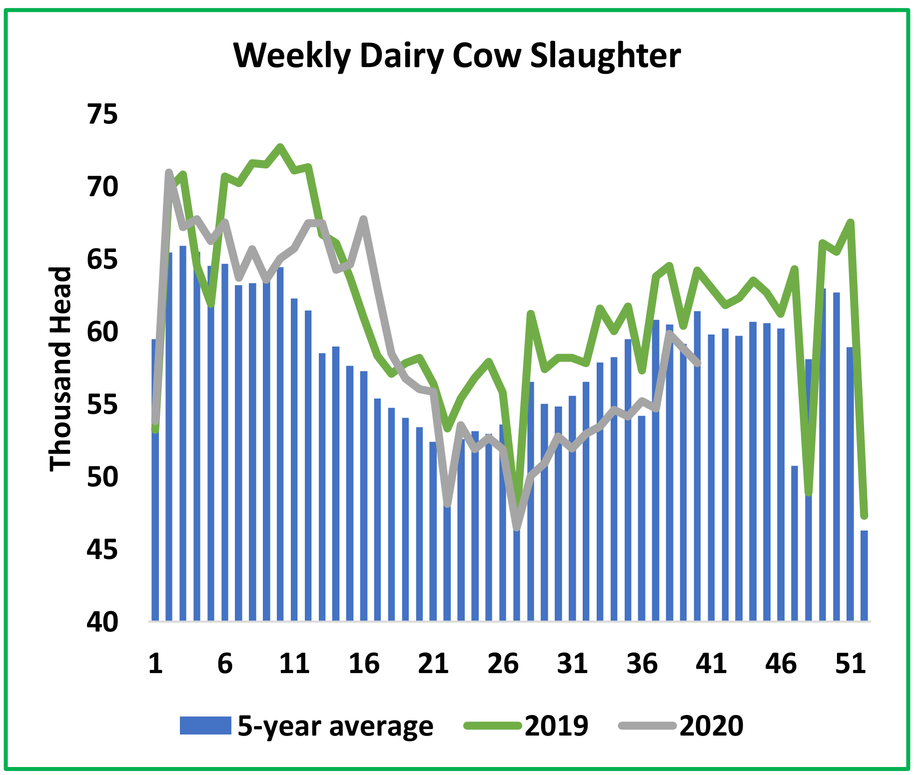
Butter bounced back this week. The spot market climbed 9.75¢ to $1.51. Butter demand is inching higher, as befits baking season. Western manufacturers tell USDA's *Dairy Market News* that "some retailers project a 20% jump in holiday sales numbers and weekly features." Those who cube, wrap and box butter in consumer-friendly sticks will be especially busy this year, as homebound bakers churn out a veritable mountain of breads, pies, cookies, cakes and tarts. However, bulk butter makers may still pile up product due to lost foodservice demand. On balance, butter inventories are likely to remain burdensome.



CME spot nonfat dry milk (NDM) added another 1.5¢ this week and reached $1.14, matching the highest value since late February. Thanks in large part to resilient international demand, the milk powder market has regained all the ground it lost in the pandemic panic. Europe marketed skim milk powder (SMP) aggressively last year as they moved the last of the Intervention stockpile and a surplus of fresh product abroad. With the help of a weaker dollar and competitively priced NDM, the U.S. has captured some of Europe's marketshare in Southeast Asia. Domestic demand for NDM is also strong as cheesemakers fortify their vats with milk powder.

With most products moving higher, milk futures advanced. November Class III was strongest. It gained $1.19 this week and reached an impressive $20.92 per cwt. The November Class I price will be much higher than October's disappointing $15.20, so the producer price differential should be less punitive. Fourth quarter Class III futures climbed to new life-of-contract highs. The strength spilled over into next year as well. First quarter futures settled at prices last seen in February and early March, before the pandemic pummeled the markets. Class IV values improved by double digits, but they remain well below the cost of milk production.

Milk output is growing in much of the world. Australian milk collections continue to rebound after several bad years, although they have a long way to go before the recover to their 2015 peak. Australia's August milk output was 3.5% greater than last year. In Europe, August milk collections were nearly 1% lower than the prior year, as heat wilted production in the continent's four largest dairy nations. But output likely recovered last month, and the European Commission expects 1.4% growth this year.



In the United States, dairy producers are likely improving milk yields and adding cows. Over the past 12 weeks, dairy cow slaughter has averaged 9.3% less than the prior year and 5.2% less than the historic average. Either heifers are very scarce, or the milk cow herd is growing. Given concerns about the global economy and demand, we likely don't need the extra milk.

Grain Markets

Another round of export sales to China prompted more gains in the grain markets. December corn futures topped $4 per bushel for the first time since January. They closed today at $4.02, up 7¢. After huge gains last week November soybeans took a step back. They dropped 15.5¢ to $10.50. Soybean meal futures continued to climb. The December contract rallied $3.80 to $367.50 per ton.

The weather pattern is shifting in South America, with rains expected for most growing areas. That could dampen the bullish enthusiasm in the near term, but it's a La Niña year. The futures will likely be as fickle as the forecast.

What to make of this irrational world?

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

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2020 has been crazy for everybody, but for dairy farmers who have the responsibility to feed, milk and care for their animals every day regardless of the economics of selling milk, it has been particularly stressful. At the early stage of the pandemic, prices for dairy commodities tanked. The population obtains its food, including dairy products, essentially through two distinct channels. The food service/institutional channel and the grocery channel. Overnight, the food service/institutional channel shut down and everyone lined up at the grocery channel.

The industry scrambled to make adjustments and chaos reigned. But amazingly and not uncharacteristically for Americans, adjustments were made. In addition, Congress voted unanimously to borrow $2.2 trillion to fund a rescue package for the American economy. This included direct payments to many, including dairy farmers, along with a myriad of other programs designed to address the impact of the pandemic. Major purchases of food, including dairy products, were initiated by USDA and these purchases have had a profound impact particularly on the price of cheese.

CME block cash cheese prices bottomed out at $1 per pound on April 15 and stayed at these levels for a couple of weeks. At that point we did not know what the future held, but things looked bleak. Then, starting about the middle of May, the cheese price began to soar upward, hitting $3 per pound on July 13 before starting back down again. It dropped all the way down to $1.58 on August 11 before starting to climb again in September. It passed $2 on September 3 and continues to climb hitting $2.72 today. All this incredible market strength for cheese is great for dairy farmers on the one hand because a rising tide lifts all boats, but unlike the tide, the strength of the cheese market does not evenly translate to higher milk prices across the board.

Butter prices, which also play a dominate role in determining milk prices, are languishing. For most of the past 6 years butter prices have been in excess of $2 per pound. But with the pandemic, butter prices bottomed out at $1.10 per pound on April 23. They briefly strengthened to $2 in June but have since fallen back down into the $1.40s, edging up to $1.51 today. Nonfat Dry Milk, which was in the high $1.20s in January, bottomed out in April at $0.80 per pound and has just recently gone back up over $1 per pound. These gyrations in the prices of the commodity dairy products that form the building blocks of the formulas that set U.S. milk prices have been difficult to understand and impossible to control. Finally, the government writing substantial checks directly to producers is unprecedented, and while welcomed and needed, is certainly not something that can be depended on in the future.

So, where are we? For dairy farmers selling their milk to predominately cheese manufacturers, 2020 may turn out to be one of the best years ever. For dairy farmers selling their milk to other uses, including

Class I, the picture is not near so rosy. Another troubling trend is that corn and soybeans, which looked to be possibly in surplus and therefore relatively inexpensive, have been moving up in price significantly over the past few weeks and are now indicating that feed costs may be higher than expected as we move into 2021.

Looking ahead there are a couple of basic things producers need to seriously consider. The Dairy Margin Coverage (DMC) program is USDA's safety net program for dairy. This program uses the monthly U.S. All Milk Price as an index and subtracts from that price a feed cost based on corn, soybeans and alfalfa hay to produce an Income over Feed Cost Margin. For $0.15 per cwt., you can buy coverage that will pay you the difference between that actual Income over Feed Cost and $9.50 per cwt. Below are the DMC prices and margins for 2020.

Month	**Corn ($/bu)**	**Blended Alfalfa Hay ($/ton)**	**Soybean Meal ($/ton)**	**All Milk ($/cwt)**	**Final Feed Costs for DMC($/cwt)**	**Milk Margin Above Feed Costs for DMC($/cwt)**
January	3.79	190.50	300.11	19.60	8.88	10.72
February	3.78	190.50	295.28	18.90	8.84	10.06
March	3.68	190.00	312.38	18.00	8.85	9.15
April	3.29	195.00	295.39	14.40	8.37	6.03
May	3.20	195.00	288.56	13.60	8.23	5.37
June	3.16	190.00	288.66	18.10	8.11	9.99
July	3.21	183.00	291.25	20.50	8.09	12.41
August	3.12	182.00	290.18	18.80	7.97	10.83

This program is worth doing, but since the opportunity to obtain margin coverage at the $9.50 level only pertains to the first 5 million pounds of annual production (about 200 cows), it is probably not the only thing you should consider when thinking about managing risk in 2021. Sign-ups for the DMC happen with your Farm Service Agency and started this week. You have until December 11 to sign-up.
The other opportunity to manage milk price risk is the Dairy Revenue Protection (DRP) crop insurance program. This program allows producers to lock-in floor prices for Class III and Class IV milk based on futures prices for those classes of milk. It is an insurance plan, where in exchange for a premium, a certain amount of revenue, based on futures prices, can be secured. The government's role in the DRP is to provide subsidies for the premiums and to finance the program so that the farmer portion of the premium is not due until <u>after</u> the insured time period has passed. This program has been around since late 2018 and did provide significant indemnities for many producers who had purchased coverage for Q2 of 2020.

Of course, the thing about insurance is that you never know when you will need it. And you cannot buy it after the fact. Another important consideration is that it matters where you sell your milk. If you are going to use the DRP as a risk management tool to protect your milk check, then you need to design your coverage levels to match what your milk is used for. This does get a little bit complicated and my experience is that everyone looks at it a bit differently. DRP is now widely available in California. In fact, according to industry sources, about one-third of the U.S. milk supply was covered by DRP in 2020 and already more than 15% of 2021 production has some coverage in place. DRP is sold through a licensed crop insurance agent. I happen to be licensed to sell it and have been able to help many producers navigate the program and put DRP coverage in place.

The bottom line is that while 2020 has been a crazy year, the picture for 2021 remains very murky as well. There is a lot of milk around. There is a very real threat of a national and worldwide recession if we are not already in one. There is an election in a few weeks and the pressure to throw billions of dollars at voters particularly in rural swing states will likely diminish. We have witnessed massive swings in dairy commodity prices occur virtually overnight. There are a couple of tools available to producers to help put a bit of a stop loss on the economics of your operation. Now is the time to seriously consider putting something in place.

Register for the virtual California Dairy Sustainability Summit

Courtesy of Dairy Cares

The California Dairy Sustainability Summit will take place virtually this November 5 and 6. The Summit is hosted by California's leading dairy organizations—Dairy Cares, California Dairy Research Foundation, California Milk Advisory Board, California Dairy Quality Assurance Program, and Dairy Council of California. The online event will virtually bring together dairy farmers, state and local officials, researchers, technology providers, and others, to promote continued advancement of planet-smart, sustainable farming practices.

Sponsor and exhibitor opportunities are now available for the virtual Summit. To learn more or to register, visit www.cadairysummit.com.