

MPC WEEKLY FRIDAY REPORT

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 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 5

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	-\$0.0475	\$1.8425	WEEKLY CHANGE	-\$0.0425	\$2.0250	WEEK ENDING 11/09/19	
Barrels	-\$0.0125	\$2.1850	WEEKLY AVERAGE	-\$0.0165	\$2.0505	NAT'L PLANTS	\$1.1549 15,216,271
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 11/02/19	
Blocks	-\$0.0855	\$1.8455	DAIRY MARKET NEWS	W/E 11/15/19	\$3.3037	NAT'L PLANTS	\$1.1420 18,465,290
Barrels	-\$0.1060	\$2.1650	NATIONAL PLANTS	W/E 11/09/19	\$2.9992		

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 15 EST	\$19.74 - \$20.24	\$16.87	\$20.36	\$16.65
LAST WEEK	\$19.74 - \$20.24	\$16.92	\$20.25	\$16.70



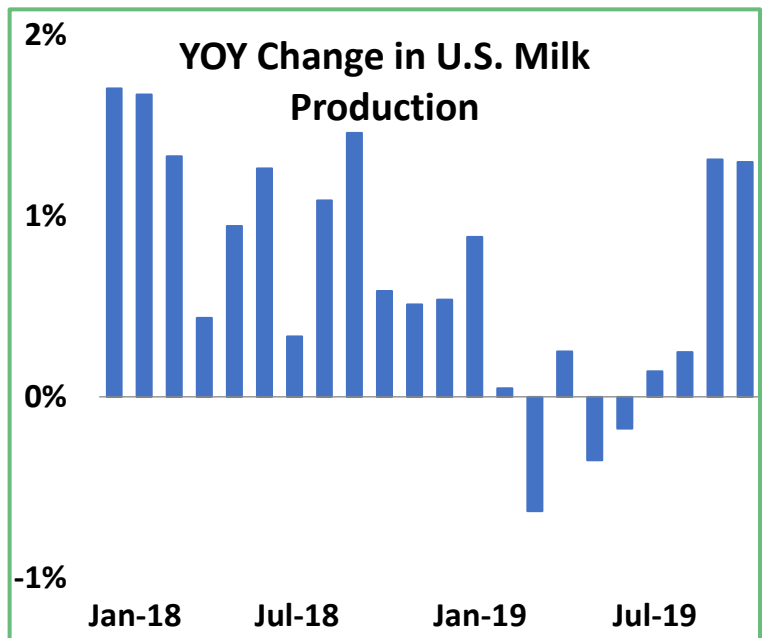
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

The dairy markets absorbed some disappointing data this week and kept right on climbing. November 2019 and first-half 2020 Class III futures traded at new life-of-contract highs today. The November contract settled at \$20.36 per cwt., up 11¢ from last week. The December through March contracts moved substantially higher, while deferred contracts were generally steady or a penny lower. Most Class IV contracts rallied at least a dime since last Friday. However, the November contract remained disappointingly low, at \$16.65.

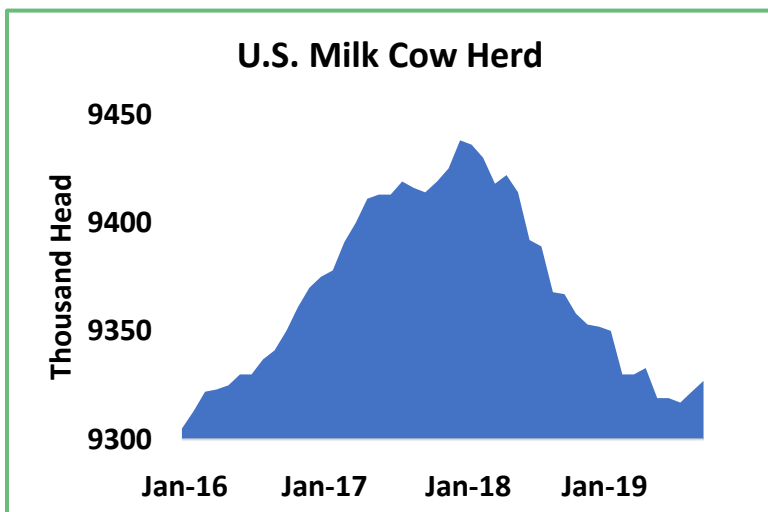
Higher prices and mild weather have boosted milk output. On Tuesday, USDA reported



October milk production at 18.1 billion pounds, up 1.3% from a year ago. That matches the year-over-year increase reported in September but was noticeably higher than the mix of small gains and losses in the rest of 2019. Milk output topped year-ago levels in the seven largest dairy states. Production was up 2.8% year over year in top-ranked California, complemented by increases in Wisconsin (+1%), Idaho (+2.3%), New York (+1.8%), Texas (+9.3%), Michigan (+3%), and Minnesota (+1.8%).

The gains were driven by impressive improvements in milk production per cow. Milk yields increased in all but five states. Dairy producers in Washington, Idaho, Colorado and Arizona could not replicate the milk per cow achieved in October 2018 under nearly ideal conditions. The yield was steady in South Dakota. All of the other major dairy states reported much higher milk production per cow than last year, and the national average milk yield jumped 1.7%. The weather in November has been less accommodating, particularly in the Midwest and Northeast, where cows shivered in an early cold snap. It is unlikely that milk yields will climb by such a wide margin this month.

The dairy herd is no longer contracting. This was the more bearish part of the report, as it indicates higher potential milk production in the months to come. USDA revised its estimate of the September



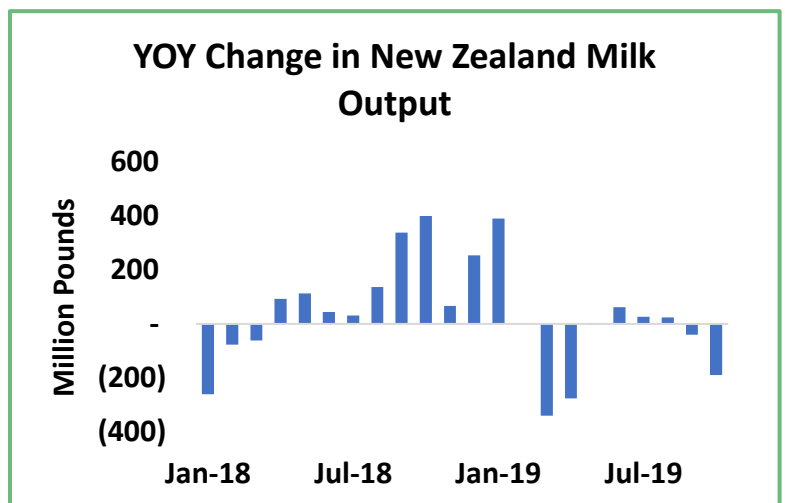
milk cow herd upward, now showing a 5,000-head increase in the size of the U.S. dairy herd from August to September. Dairy producers added another 5,000 cows last month, bringing the national total to 9.327 million head. That's 40,000 fewer than in October 2018, but the year-over-year shortfall is narrowing. Despite still-high slaughter volumes, USDA estimates that dairy producers added 10,000 cows in just two months. They must be adding heifers at a rapid clip.

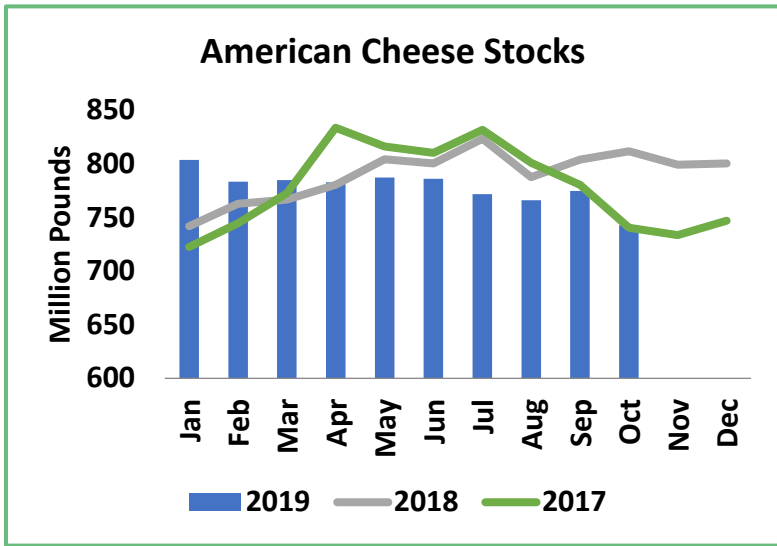
On the other side of the world, the trend is much different. Milk collections in New Zealand

totalled 3.2 million metric tons in October, 2.6% less than the record-high volumes of a year ago. The year-over-year deficit in New Zealand offset more than 80% of the U.S. increase.

Despite higher U.S. milk production in October, inventories of cheese and butter in cold storage warehouses declined noticeably, signaling robust demand. The cheese stockpile dropped 31.6 million pounds last month to 1.374 billion pounds. The larger-than-typical drawdown pushed cheese inventories down 2.4% from a year ago. Inventories of American-style cheese are now 8.5% below the prior year. The Cold Storage report was released after the closing bell today, and is likely to support the market when it opens again next week.

Tighter stocks – particularly for Cheddar barrels – propelled the cheese markets to multi-year highs this fall. After a steep selloff last week, spot Cheddar prices made a more orderly retreat this week, and values remain



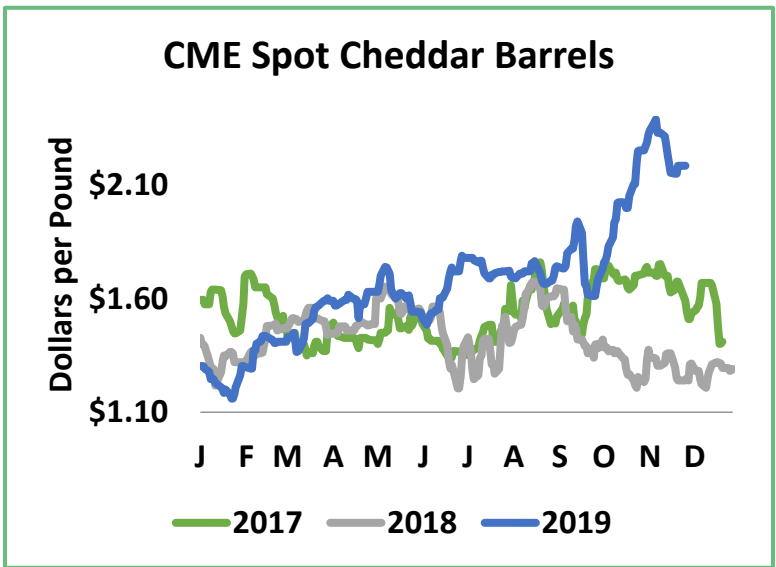


historically high. The trade was relieved to see buyers bid the markets back up on Thursday, which allowed the futures to rally. However, spot Cheddar finished lower than it was last Friday. Blocks fell 4.75¢ to \$1.8425 per pound. Barrels closed at \$2.185, down 1.25¢.

CME spot butter slipped 4.25¢ this week to \$2.025, a three-year low. Foreign butter remains inexpensive, and there seems to be plenty of butter to meet holiday demand. There were 237.7 million pounds of butter in warehouses on October 31, 2.8% more than the year before. However, the report reveals better demand than previously thought.

USDA revised its estimate of September 30 butter inventories down noticeably, easing concerns about butter consumption earlier this fall. Furthermore, the September-to-October drawdown was the largest since the early '90s, suggesting that Americans' appetite for healthy, natural dairy fats remains strong.

The protein products moved higher this week. Skim milk powder (SMP) enjoyed another strong performance at the Global Dairy Trade (GDT) auction. SMP climbed 3.3% to the equivalent of nonfat dry milk (NDM) at \$1.46 per pound, the highest GDT value since August 2014. At the CME spot market, NDM rallied to a five-year high of \$1.235 on Tuesday and finished at \$1.22, up 0.25¢ for the week. The whey market was once again a standout.



CME spot whey climbed 2.75¢ to 34.75¢, the highest value since September. Over the past two weeks, spot whey has vaulted 7¢, an increase of 26%. That's adding substantial value to the Class III section of dairy producers' milk checks.

With more cows lumbering through U.S. milk parlors than there were this summer, the market is understandably concerned that the U.S. will make more dairy products, especially milk powder. In milk surplus regions like the mountain states, that is almost certainly the case. But after many months of milk production deficits around the globe, the world can absorb the increase. Dairy product inventories have tightened, and it will take more than a few months of higher milk output to overcome all the painful pruning the industry has undertaken over the past two years. Meanwhile, demand continues to grow.

Grain Markets

It was a quiet week in the grain pits. March corn settled at \$3.785 per bushel, down 1.5¢ this week. January beans closed at \$8.97, down more than 20¢. Favorable weather in South America and concerns about the prospects of even the simplest phase of the U.S.-China trade deal weighed on the soy complex. Soybean meal futures dropped to their lowest levels since September, offering dairy producers another opportunity to purchase protein feeds at historically affordable values.



California Puts Out Their Own Environmental Rules for the Delta

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Last month, the two **federal** agencies charged with administering Endangered Species Act protections for Delta Smelt and winter run Chinook salmon issued new biological opinions that will adjust water flow regulations in the Delta, improving both the health of the fish and potentially freeing up some water supply for people. See article [here](#).

This week the State of California issued its own environmental assessment and announced it will be suing the federal agencies over the federal rules. This stuff gets complicated, and seeing yet again another lawsuit between the state and the feds is frustrating. I would urge caution at this point.

The federal agencies and the state agencies that have overlapping responsibility for regulations in the Delta have been working closely together on this process for several years. The actual regulations and requirements that the state just put out are not that much different than the federal regulations. Yes, the lawsuit is unfortunate, but someone was going to sue anyway, and by the state being a litigant, it is yet possible that a negotiated settlement can be reached that will result in a positive outcome.

Certainly, Governor Newsom is walking a political tightrope. The environmental activists were furious with him for vetoing SB1 a few months ago. If he would have simply acquiesced to the federal biological opinions, he would be facing a unified and furious environmental community. So, we are where we are. But I take comfort from this commentary piece from Wade Crowfoot and Jerod Blumenfeld, two high ranking Newsom administration officials yesterday. They said, “We must rise above these historic conflicts by finding ways to protect our environment and build water security for communities and agriculture. We need to embrace decisions that benefit our entire state. Simply put, we have to become much more innovative, collaborative and adaptive.” You can read the whole commentary [here](#).

Dealing with water issues in California is always difficult, and yes frustrating. But I do believe progress is possible. The science used by the federal agencies is sound and the rules were developed with significant input from the state agencies. The reality however is that California is dominated politically by people who do not act like they care about agriculture (or people either). Governor Newsom has said and done some things that demonstrate that he does view us in agriculture as a valuable part of the California fabric. So, we need to exercise political wisdom as this gets played out. Stay tuned.



California Federal Milk Marketing Order Staff Hosts Open House at New Folsom Headquarters

By Kevin Abernathy, MPC General Manager
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Yesterday I had the pleasure of attending a special event in Folsom hosted by USDA and California Federal Milk Marketing Order (FMMO) staff, celebrating the opening of the California office of the FMMO. To me, it symbolized years’ worth of effort and investment by many organizations and individuals to make the FMMO a reality in California. It was just one year ago this month that the first advance FMMO prices were published; it’s hard to believe it’s already been a year!

Dana Cole, deputy administrator of the Agricultural Marketing Service’s Dairy Program, provided remarks at the open house, noting the leadership of the California cooperatives in bringing an FMMO

to fruition in the state. She also recognized MPC for its support of the establishment of an FMMO and called the new California FMMO office the “producers’ house.”

There’s no doubt that it took a Herculean effort of partnerships to transition from the State Order to the FMMO. From economic analyses to research and from roadshows to producer education, many groups worked together to bring the dairy community a California FMMO. The process is a great example of what can happen when we work together for the improvement of California dairy producers – and it reminds me of a quote I once heard from producer George Mertens: “All the years of doing this, we’ve been talking about the same issues for 40 years and all that’s changed are the faces.” The transition to an FMMO was historic and represents a big change, and not just one of faces.



Dana Cole (left), Deputy Administrator of the Agricultural Marketing Service’s Dairy Program and Cary Hunter, Interim Market Administrator of the California Federal Milk Marketing Order, welcome guests to the new California Federal Milk Marketing Order headquarters located in Folsom, California.

House Judiciary Committee Approves Ag Labor Bill

Courtesy of National Milk Producers Federation

The House Judiciary Committee Thursday approved H.R. 5038, the *Farm Workforce Modernization Act*, on a party line vote of 18 to 12. The *Farm Workforce Modernization Act* enjoys wide support from the agriculture and business community, as NMPF and nearly 300 organizations wrote earlier this week to House Speaker Nancy Pelosi (D-CA) and Minority Leader Kevin McCarthy (R-CA) asking that they move the bill through the full chamber. Nevertheless, Republicans on the Judiciary panel asserted that the measure creates an amnesty program for undocumented workers, and withheld their support. NMPF and the other farm groups backing the bill agree that the measure needs further work, but that will only happen if it makes it to the House floor and eventually to the Senate, where lawmakers will certainly take a different approach to the issue.

Rep. Zoe Lofgren (D-CA), the lead Democratic sponsor on the bill, said after the markup that she expects it to be voted on by the House in December. That timing may be complicated by several other pressing, high-profile issues, including funding the government, impeachment proceedings, and hopefully a vote on the USMCA.



The next MPC Friday Report will be published on December 6, 2019