

# MPC WEEKLY FRIDAY REPORT

DATE: DECEMBER 18, 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	<b>N.C.</b>	\$1.6175	WEEKLY CHANGE	<b>-\$0.0250</b>	\$1.4550	WEEK ENDING 12/12/20		
Barrels	<b>+\$0.0325</b>	\$1.4750	WEEKLY AVERAGE	<b>-\$0.0580</b>	\$1.4560	NAT'L PLANTS	<b>\$1.1011</b>	19,726,186
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 12/05/20		
Blocks	<b>+\$0.0115</b>	\$1.6400	DAIRY MARKET NEWS	W/E 12/18/20	<b>\$4.550</b>	NAT'L PLANTS	\$1.0770	26,390,983
Barrels	<b>+\$0.0295</b>	\$1.4520	NATIONAL PLANTS	W/E 12/12/20	<b>\$4.089</b>			

## 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
DEC 18 EST	<b>\$21.47 - \$21.97</b>	<b>\$14.08</b>	<b>\$15.64</b>	<b>\$13.42</b>
LAST WEEK	<b>\$21.47 - \$21.97</b>	<b>\$14.11</b>	<b>\$15.79</b>	<b>\$13.48</b>

## November 2020 CA FMMO Statistical Uniform Price Announcement

Nov '20 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	<b>\$19.64 (Tulare)</b> <b>\$20.14 (L.A.)</b>	<b>\$13.86</b>	<b>\$23.34</b>	<b>\$13.30</b>	<b>\$13.29 (Tulare)</b> <b>\$13.79 (L.A.)</b>	<b>\$12.925 (Tulare)</b> <b>\$13.425 (L.A.)</b>
Percent Pooled Milk	<b>23.1%</b>	<b>6.6%</b>	<b>0.8%</b>	<b>69.6%</b>	<b>100% (1.843 billion lbs. pooled)</b>	

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



## Milk, Dairy and Grain Market Commentary

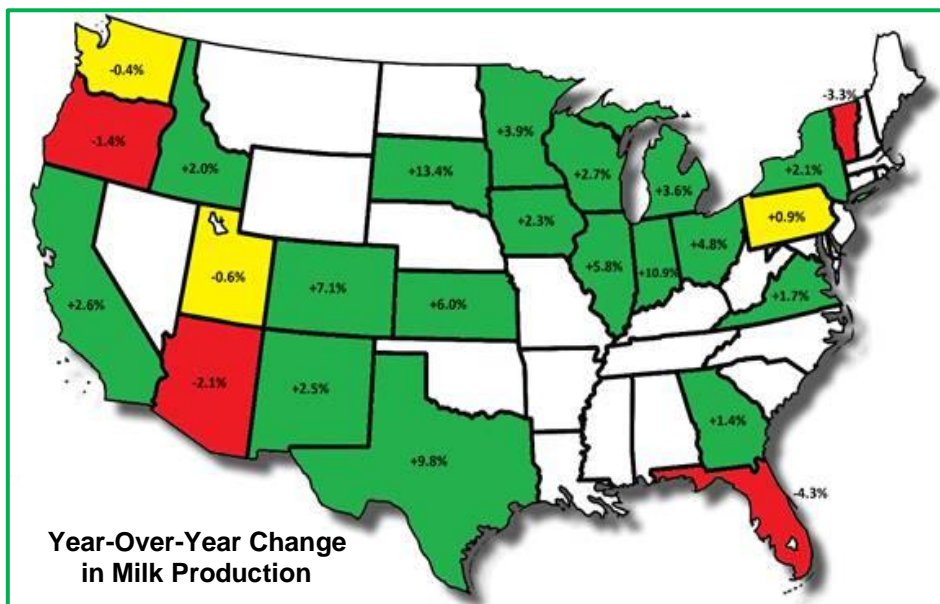
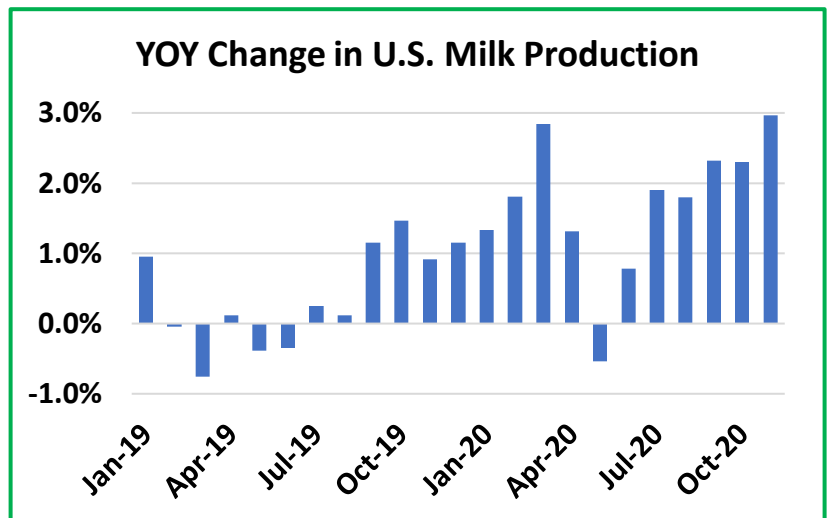
By Sarina Sharp, Daily Dairy Report  
[Sarina@DailyDairyReport.com](mailto:Sarina@DailyDairyReport.com)

### Milk & Dairy Markets

Milk abounds. U.S. milk output topped 18 billion pounds in November, up 3% from a year ago. That's the strongest year-over-year increase since December 2014. Output climbed nearly everywhere, and especially in the Midwest and Southern Plains, where the weather has been ideal. Milk production per cow jumped 2.3% from November 2019, the strongest increase in six years. Investments

in facilities, breeding technologies and other methods to improve milk production and cow care are clearly having an impact. Component data are not yet available for November, but both butterfat and milk solids levels have been trending higher since this summer, which suggests that the already impressive 3% growth understates the volume of milkfat and milk solids available for processors.

Dairy producers continue to add cows. USDA revised upward its estimate of the October milk-cow herd by 5,000 head and reported a further 12,000-head increase from October to November. At 9.407 million milk cows, the dairy herd is larger than it has been in any month since June 2018. There are 62,000 more cows in U.S. milk parlors than there were a year ago.

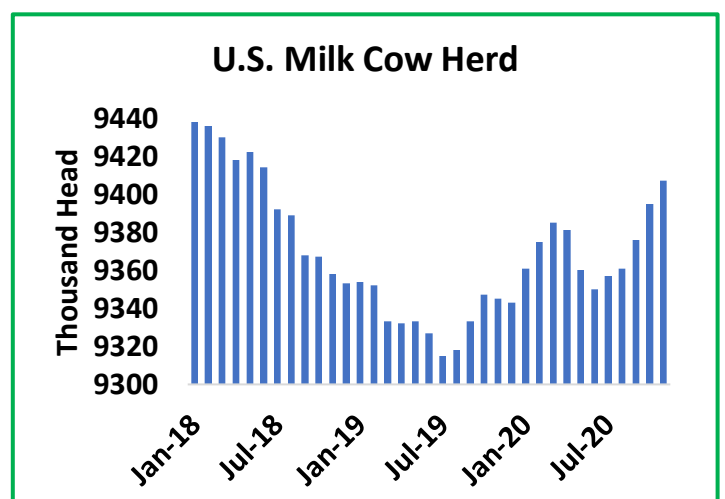


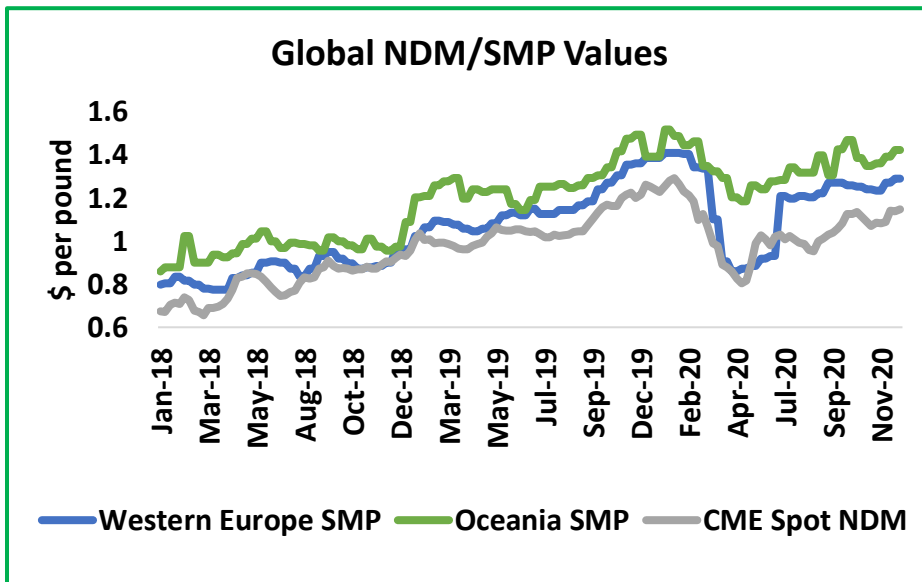
Dairy producers culled 65,924 cows in the week ending December 5. At first glance, that's a big slaughter number. However, it is not historically high for the week after Thanksgiving, and it fell slightly short of dairy cow slaughter in the same week in 2019. For the year to date, dairy slaughter is 5.4% behind last year's pace. There is no sign that cull rates are on the rise, or that dairy producers have any plans to shrink the herd. But, given all the milk we're making today, they may be forced to step up cull rates this spring. In many regions,

supply management programs may be necessary once again to keep milk volumes in line with processing capacity throughout the flush.

Theoretically, the milk surplus should weigh most heavily on Class IV values, as excess milk heads to driers and surplus cream keeps churns running. However, the Class IV markets have already priced in some rather dreary fundamentals. Class IV futures were little changed this week. The February contract was weakest. It fell 17¢ to \$14.14 per cwt.

CME spot butter fell 2.5¢ from last Friday. At \$1.455 per pound, butter sits comfortably within the trading range that has prevailed since August. The price reflects heavy stocks and slow demand.





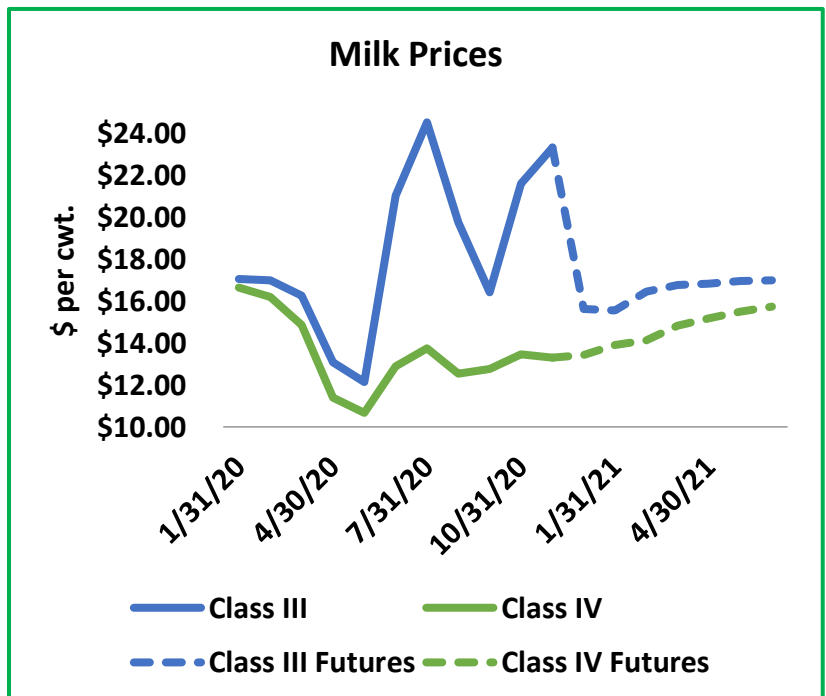
Nonfat dry milk (NDM) followed the foreign skim milk powder (SMP) markets higher. SMP rallied 1.2% at the Global Dairy Trade auction on Tuesday, to the equivalent of NDM at \$1.42 per pound, its highest value since January. U.S. milk powder remains the least expensive in the world, and the weak dollar is making American dairy products even more affordable for overseas buyers. USDA's *Dairy Market News* characterizes export demand as "stable." CME spot NDM finished today at \$1.15 per pound,

up 2.25¢ from last Friday and within a penny of the pandemic-era high.

CME spot whey powder slipped 1.25¢ to 45.5¢. Whey values are much higher than those that prevailed for most of 2019 and all of 2020, reflecting strong demand, particularly from China.

Despite lackluster holiday orders and plentiful stocks, the spot cheese markets held firm. CME spot Cheddar blocks rallied early in the week, likely spurred on by chatter about the possibility of more government purchases. But that optimism faded, and prices did too. Blocks finished this week right where they started, at \$1.6175. Barrels climbed 3.25¢ to \$1.475, a surprising increase amid reports of ample supplies.

The forward-looking futures market shrugged off the spot market strength and turned decisively lower. Most Class III contracts posted double-digit losses. January fell 66¢ to \$15.56. February dropped 83¢ to \$16.44. Given strong U.S. milk output, steady increases in milk production around the world, and a multitude of concerns about demand, further declines are possible. Bah! Humbug.



### Grain Markets

The feed markets jumped to new highs today. March corn closed at \$4.375 per bushel, up 14¢ from last Friday. Soybeans soared to their highest values in more than six years. The January contract settled at \$12.20, up nearly 60¢ this week. Since August, January soybeans have rallied an astounding \$3.50, an increase of 40%. January soybean meal jumped more than \$25 to \$405.50 per ton.

Investors are flush with cash as central banks around the world try to pump funds into their respective economies. Easy money and a weak dollar are helping to prop up commodity values. Strength begets strength as multi-year highs prompt headlines and alerts, ensuring that the soy complex is on the radar for traders looking for the next winning play.

Crops are moving from grain bins in the Midwest to Mississippi barges to cargo ships at a strong clip, tightening domestic supplies. The weather in South America has been far from perfect, but the forecast looks much better for northern Brazil. These fundamentals are supportive of much higher feed prices than those that prevailed this summer, but they are not an unqualified endorsement of the bullish euphoria that swept over LaSalle Street this week. A setback is possible, but it's impossible to predict the timing or magnitude of a retreat from the highs. As seasoned traders warn, "Don't fight the trend."



## The Bulk Butter Bulge Continues to Depress Milk Prices

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

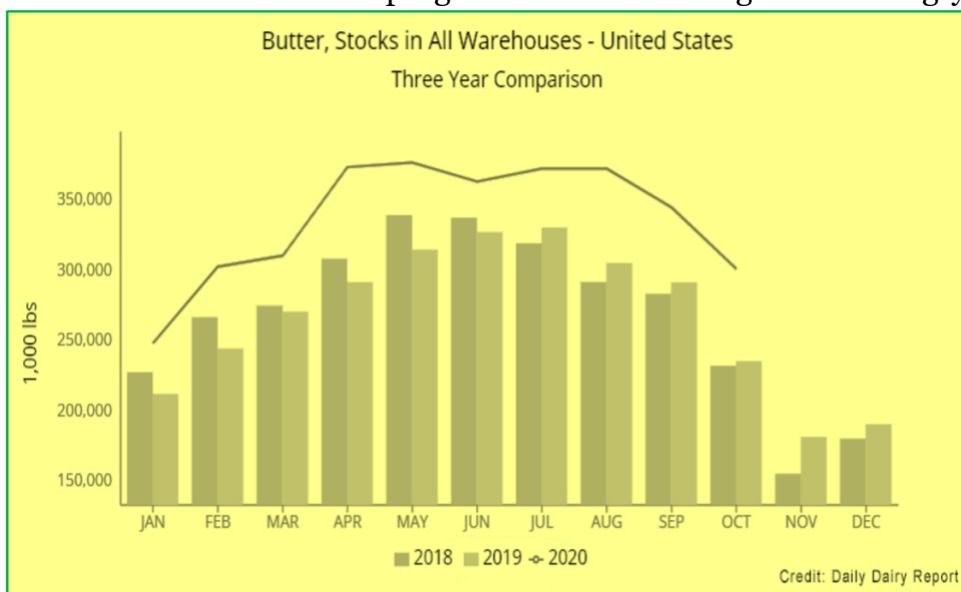
[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

Is there a correlation between butter inventories and butter prices? It would seem obvious that there is.

We know that our government ordered everyone to shelter-in-place last Spring to stop the spread of the virus. This order – done with the best of intentions to save the health care delivery system – had profound effects on the economy across the board. Suddenly the grocery store channel was overwhelmed (with consumer-sized packaged butter in high demand) as the institutional food delivery infrastructure, with its heavy dependence on bulk butter supplies, essentially shut down. Then Congress, in an unprecedented show of unity, unanimously passed the CARES Act, providing **TRILLIONS** of dollars to government agencies to use to address the economic impacts of the pandemic.

USDA was allocated billions of dollars, and to their credit, put together some highly creative and effective programs to get relief to producers and people who needed food. BUT, the impact of those programs was not evenly distributed. This is not surprising, and no one should be overly critical of USDA for what they did under extremely difficult circumstances. Nevertheless, for the dairy sector, massive government purchases of cheese for the Food Box program did do a lot of good for hungry people and for some producers, but now as we look forward there are some realities that linger that have a significant negative impact on the ability of the market to normalize the relationship between the various class utilizations of milk.

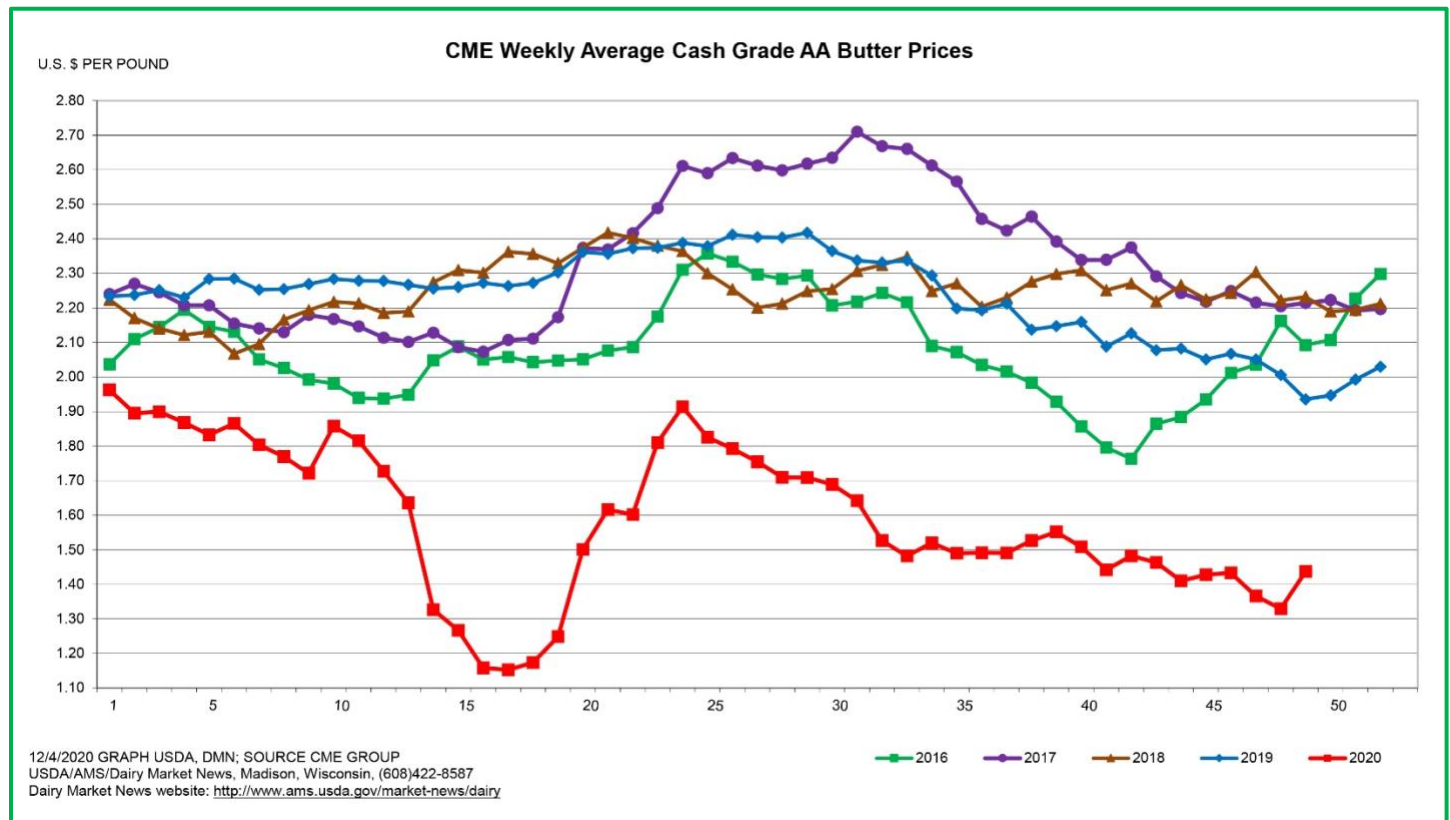
The Bulk Butter Bulge is one of those circumstances. Looking at the data indicate that butter inventories increased in the Spring, coinciding with the pandemic shutdown. The butter





inventory continues to run about 50 million pounds ahead of normal. 50 million pounds is not that much, but when it is an extra 50 million pounds, clearly its price impact is significant.

Current butter prices in the \$1.40s is likely to continue, and is at least \$0.50 per pound lower than it otherwise would have been. That 50 cents per pound represents over \$2.00 per cwt. that would be reflected directly in the Class IV and Class II prices, and partially in the Class I and even Class III prices. It is a big deal.



USDA did announce a Section 32 butter purchase recently. While this is positive, early indications are that the purchase is not of bulk butter, but of consumer sized packages of butter, which have never been in surplus. And the purchases are spread out over all of 2021. This is not near enough to address the butter bulge problem the government caused by shutting down the economy.

There are apparently conversations and even specific proposals that are being made to USDA and other government officials now about how to address this very real dairy problem. So far, this has not resulted in any action that will address it. Hopefully, there will be some positive response soon.

**The Friday Report continues on the next page**

## Thank You to Our MPC Associate Members

By Kevin Abernathy, General Manager

[Kevin@MilkProducers.org](mailto:Kevin@MilkProducers.org)

From all of us at MPC, we extend our appreciation to the following Associate Members for their support over the past year. Your contribution strengthens MPC's ability to effectively represent and promote the interests of our California dairy families, and helps bring timely dairy-related news and analysis to readers of our weekly *MPC Friday Report*. Thank you for your investment in our dairy families and we wish you and yours a Merry Christmas and happy New Year.



## 2020 Milk Producers Council Associate Members

<b><i>AL Gilbert - Farmers Warehouse</i></b>	<b><i>Genske, Mulder &amp; Co, LLP</i></b>
<b><i>American Ag Credit, FLCA</i></b>	<b><i>Innovative Ag Services</i></b>
<b><i>California Bioenergy, LLC</i></b>	<b><i>Jack &amp; Bea Moons</i></b>
<b><i>CALM MGT</i></b>	<b><i>Kellogg Supply Inc</i></b>
<b><i>Citizens Business Bank</i></b>	<b><i>Laird Manufacturing</i></b>
<b><i>Corona Cattle Inc</i></b>	<b><i>Mass Energy Works</i></b>
<b><i>Dairy Gross Margin, LLC</i></b>	<b><i>Rico Trucking</i></b>
<b><i>Darling International</i></b>	<b><i>O K Cattle Co.</i></b>
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<b><i>Farm Credit - West</i></b>	<b><i>Stiles Animal Removal, Inc</i></b>

## Interested in Becoming an MPC Associate Member?

Contact MPC General Manager Kevin Abernathy  
at [Kevin@MilkProducers.org](mailto:Kevin@MilkProducers.org) to learn more and sign up.

## CDQAP Quality Assurance Update

*Courtesy of California Dairy Quality Assurance Program*

The California Dairy Quality Assurance Program (CDQAP) recently published its December 2020 Quality Assurance Update. Below are excerpts from the Update, which you can read in its entirety [here](#).



### CDQAP 2020: Year in Review

*By Dr. Michael Payne, UC Davis, School of Veterinary Medicine and Director, CDQAP*

This year, CDQAP, like the entire California dairy industry, had to adapt quickly to the COVID-19 pandemic. In spite of lockdown orders and new urgent priorities, our partnership saw a lot of activity.

### Quick Convos Webinars: National FARM Program

Most of California's producers participate in the National Dairy FARM Program, most often through second party evaluations provided by their processors. To further explain how it works, this year, the program has been holding 30-minute webinars introducing producers to its various components. Previous webinars have addressed animal care and environmental stewardship, with January's presentations focusing on antibiotic stewardships and workforce development.

### Don't Forget! Recordings Now Available if you missed the Virtual California Dairy Sustainability Summit

*By Denise Mullinax, Assistant Director, CDQAP*

The second California Dairy Sustainability Summit took place online this past November 5-6. 600+ tuned in live throughout the two-day event. Attendees included government officials, dairy farmers and industry representatives, students and university faculty, dairy processors and customers, and others stakeholders at the local, state, national, and international level. You can now watch the session recordings [here](#).

## NMPF President's Update

*By Jim Mulhern, President & CEO of National Milk Producers Federation*



**Congressional Stimulus Talks Continue as Shutdown Looms Tonight** – The threat of a government shutdown at midnight continues to loom over talks in Congress on both a coronavirus relief package as well as the annual appropriations bills that will fund the government until next October. Right now, although both parties on both sides of Capitol Hill are acknowledging the progress made this week, there remain a handful of sticking points preventing a final compromise on a \$900 billion coronavirus package.

The points of contention include the size of stimulus checks for individual Americans; the amount to spend on additional SNAP benefits and unemployment compensation; and the best way to replenish funding for the Paycheck Protection Program. The final package is expected to offer \$13 billion in agricultural assistance, but is not expected to include legal protections sought by Republicans to shield companies from coronavirus-related lawsuits, or financial aid to state and local governments that had been sought by Democrats.

House and Senate leaders were hoping to resolve these differences and pass a package through both chambers by tonight, tying together the stimulus bill with the fiscal year 2021 government funding measure. Given tonight's deadline, lawmakers may pass yet another short-term extension to avoid the shutdown to finish negotiations over the weekend.

**Retiring Senate Ag Committee Chair Shares Perspectives on NMPF Podcast** – After a distinguished 40-year career on Capitol Hill, outgoing Senate Agriculture Committee Chairman Pat Roberts (R-KS) is in his final weeks in office. But before he leaves for Kansas, he visited this week with NMPF for our latest [Dairy Defined](#) podcast to reflect on his service on both sides of Capitol Hill. Roberts is the only person to chair both the House and Senate agriculture committees, and he has amassed a wealth of wisdom in agriculture policy. He remains confident that formulating agriculture policy will remain a bipartisan process. To listen to the full discussion, click [here](#).

**Milk Producers Council Wishes You a Merry Christmas! The Next Regular Edition of the MPC Friday Report Will Be Published on January 8, 2021.**

