

# MPC WEEKLY FRIDAY REPORT

DATE: JANUARY 22, 2021  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 5

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## MPC FRIDAY MARKET UPDATE

<b>CHICAGO CHEDDAR CHEESE</b>		<b>CHICAGO AA BUTTER</b>		<b>NON-FAT DRY MILK</b>	
Blocks	<b>-\$ .2200</b>	\$1.6100	WEEKLY CHANGE	<b>+\$ .1125</b>	\$1.4025
Barrels	<b>-\$ .1800</b>	\$1.3925	WEEKLY AVERAGE	<b>+\$ .1168</b>	\$1.4163
<b>WEEKLY AVERAGE CHEDDAR CHEESE</b>		<b>DRY WHEY</b>		<b>WEEK ENDING 01/16/21</b>	
Blocks	<b>-\$ .2139</b>	\$1.6981	DAIRY MARKET NEWS	W/E 01/22/21	<b>\$ .4875</b>
Barrels	<b>-\$ .1604</b>	\$1.4456	NATIONAL PLANTS	W/E 01/16/21	<b>\$ .4571</b>
				<b>PRIOR WEEK ENDING 01/09/20</b>	
				NAT'L PLANTS	<b>\$1.1334</b> 21,296,933
				NAT'L PLANTS	\$1.1238 14,827,402

## 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 22 EST	\$16.74 - \$17.24	\$14.20	\$16.16	\$13.80
LAST WEEK	\$16.74 - \$17.24	\$14.11	\$16.23	\$13.75



### Milk, Dairy and Grain Market Commentary

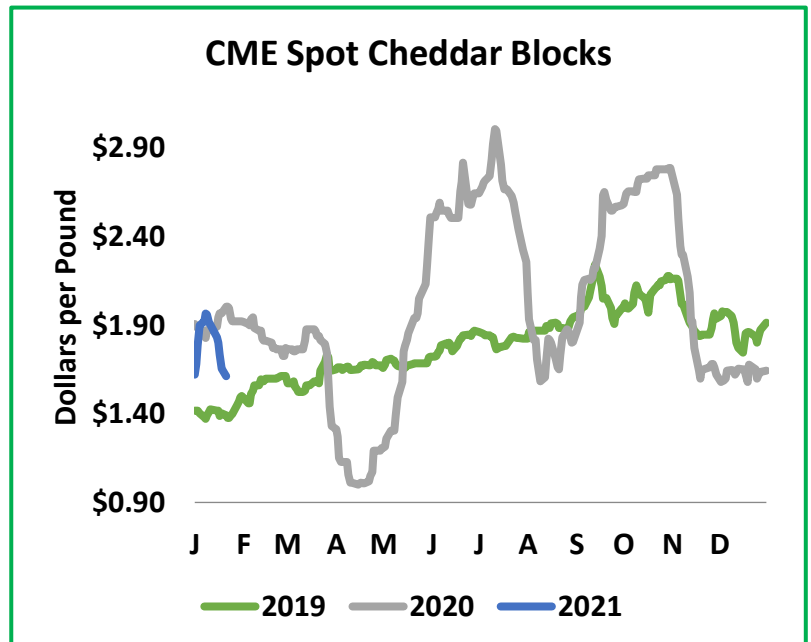
By Monica Ganley, Daily Dairy Report

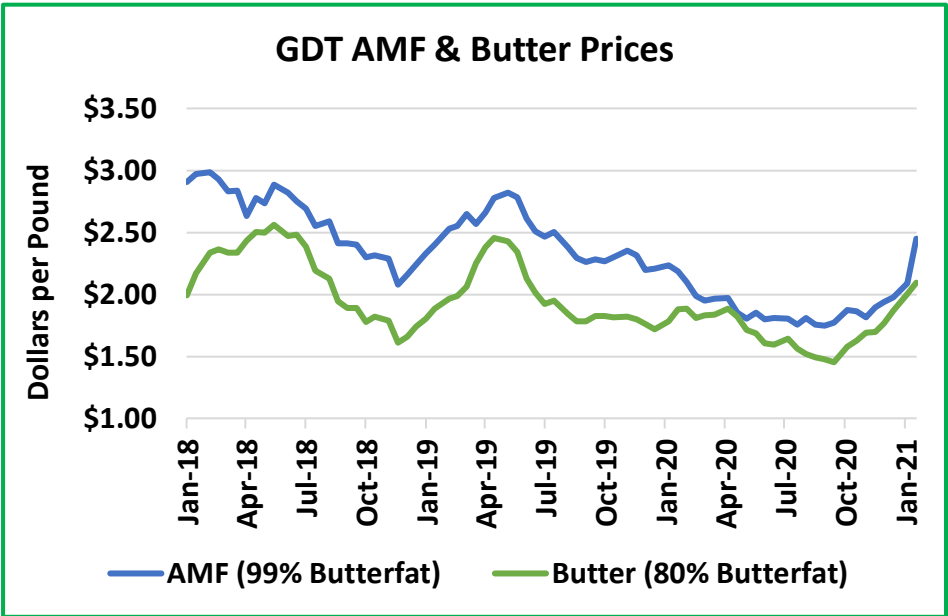
[Monica@DailyDairyReport.com](mailto:Monica@DailyDairyReport.com)

#### Milk & Dairy Markets

It may have been a short week, but that didn't mean there was a lack of action in the dairy markets. On Tuesday evening, the USDA surprised markets by announcing the awarded contracts for the fifth round of the agency's Food Box program. Of the \$1.5 billion authorized for the round, USDA elected to issue awards totaling just \$354.5 million. Stakeholders believe that USDA will make further awards in the future, once the successful vendors have proven they are up to the logistical challenge of providing the boxes. In the meantime, however, the market took the news poorly with most dairy commodities moving decisively downward.

#### CME Spot Cheddar Blocks

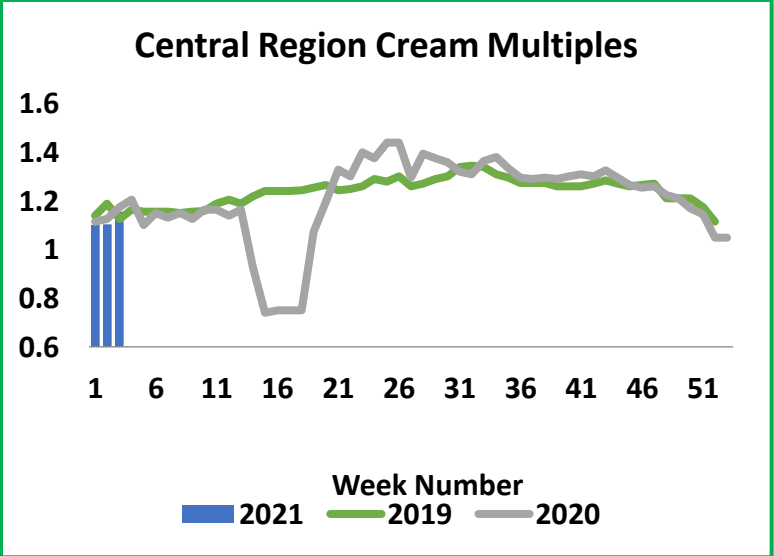




USDA’s announcement weighed heavily on the cheese market, in particular. After opening the week on an already softer note, blocks and barrels gave up 7¢ and 12¢ respectively during Wednesday’s CME spot session, the first session following the USDA announcement. Blocks continued to slide through the course of the week and ultimately finished Friday’s session at \$1.61/lb., a full 22¢ lower than the prior week. During an active week in which 28 loads traded hands, barrels gave up 18¢ as they made their way down to \$1.39/lb. on Thursday.

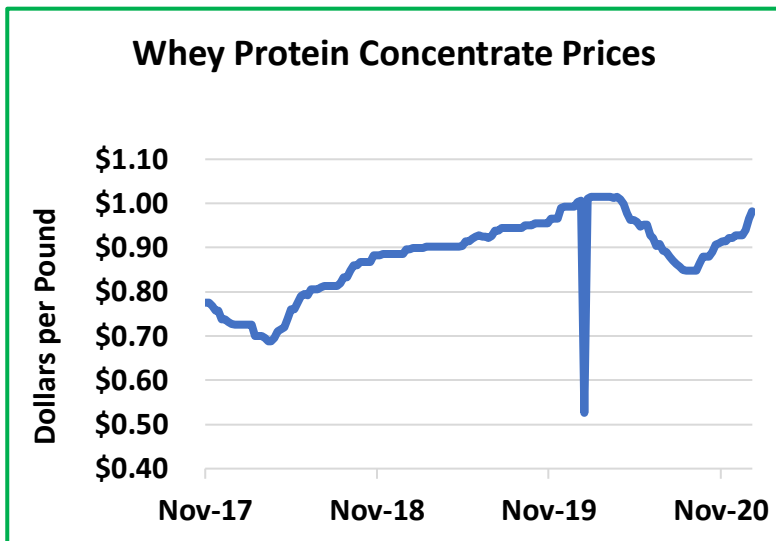
Though barrels recovered a quarter cent on Friday, they remain at levels not seen since August of last year. Lethargic demand from foodservice channels continues to press down on the cheese market, even as retail demand for cheese remains strong in most corners of the country. Hefty inventories are beginning to generate some concerns throughout the market, especially after the prospect of eliminating some of these stocks through the Food Box program has dimmed.

The butter market was on the move this week, opening Tuesday’s spot session with an unexpected 11.5¢ rise to put butter back above \$1.40/lb. After seesawing through the remainder of the week, butter closed Friday’s spot session at \$1.4025/lb. The market rally was surprising considering market commentary suggesting that churning is active and butter inventories are bordering on excessive. Market participants continue to note that cream is plentiful, though multiples have managed to find some firmness over the last few weeks, possibly emboldened by a pick-up in retail and export interest.



While fat appears to be plentiful in the United States, an important rally at this week’s Global Dairy Trade (GDT) auction suggests that the international market is quite a bit tighter. Butter and anhydrous milkfat saw increases of 4.6% and 17.2%, respectively, during Tuesday’s trading event. After adjusting for butterfat content, the GDT butter price sits at nearly a 70¢ premium to the CME spot market, suggesting that U.S. product could be quite competitive abroad. Both skim milk powder and whole milk powder also posted gains at the auction.

Condensed skim is readily available for dryers and while robust export interest has kept some tension within the nonfat dry milk (NDM) markets, the situation may be evolving. Stocks are rising with no production slowdown in sight. After gaining a penny and a half in Tuesday’s spot session, NDM prices weakened over the rest of the week, ultimately finishing Friday’s session at \$1.1725/lb., 2.75¢ weaker

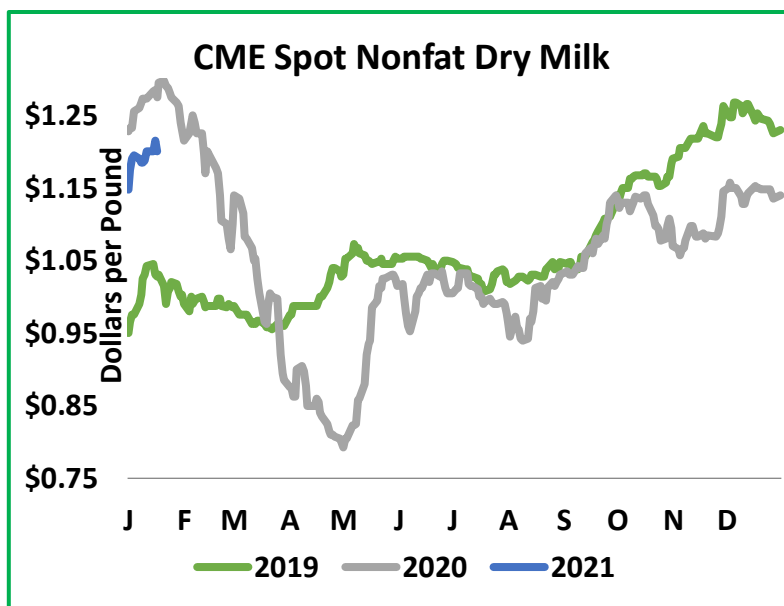


than last Friday. After beginning the week with all contracts except JAN21 moving upward, NDM futures spent the rest of the week in the red with all nearby contracts losing at least a few cents per pound by Friday. The spot trade was active with 33 loads moving during the week.

The whey market rally continues with spot whey prices steadily gaining ground. By Thursday, CME spot whey prices were up to 54¢/lb., and while they still have a few cents to go to break the prior record of 57.5¢/lb. set in late 2018, market participants indicate that the tone remains bullish. Demand from both

international and domestic sources is robust, although logistical issues related to container shortages are causing some problems for exporters in the western United States. Increased demand for higher protein whey products like whey protein concentrates and isolates is also diverting the whey stream away from dry whey production, helping to keep the market in balance, despite strong production.

Class III futures took big hits early in the week, both on the USDA announcement and as they sought parity with the spot market. The FEB21 Class III contract settled limit down on Tuesday, while MAR through MAY contracts gave up at least a quarter the same day. The slide continued until Friday when some modest gains were made. Nevertheless, the FEB21 Class III contract ended the week 14.4% lower than last Friday's settlement. Class IV futures were more mixed, influenced by the volatility in the butter and NDM markets. Nevertheless, most nearby contracts lost value over the course of the week.



Stakeholders anxiously await the publication of USDA's Milk Production report on Monday, which will indicate how U.S. milk production fared in the final month of 2020. In the meantime, producers are generally reporting strong milk output with improving yields and strong component values. A generally mild winter has helped to support production volumes across most of the country. Class I demand is stable to lower, particularly due to reduced orders from institutions such as schools.

### Grain Markets

The grains futures markets relaxed this week, easing off of the highs ignited by last week's World Agricultural Supply and Demand Estimates report. Nearby corn futures contracts lost ground for most of the week and by Friday's settlement, only the JAN21 and FEB21 contracts remained above \$5/bu. Soybeans behaved similarly, sliding downward until only JAN21 and FEB21 remained north of \$13/bu. on Friday. Despite the easing, feed costs are still expected to stay high and will be an important consideration for producers through the coming months.



## Food Box Follies

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
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Surprise, Surprise, Surprise...USDA awards less than 25% of the announced \$1.5 billion Food Box Program purchases. The dairy industry was surprised a couple of weeks ago, when late on Monday, January 4, USDA made the following announcement:

***(Washington, D.C., January 4, 2021) – U.S. Secretary of Agriculture Sonny Perdue announced the U.S. Department of Agriculture (USDA) will purchase an additional \$1.5 billion worth of food for nationwide distribution through the Farmers to Families Food Box Program.***

This was a surprise because there had been a lot of push back to the Food Box Program from the country's food banks that provide support for the food insecure. The preference of food banks is for the government to grant them money so they can directly buy food that fits their distribution demands. In addition, the recommendation was to increase the Supplemental Nutrition Assistance Program (SNAP) benefits for those who are eligible and rely on public assistance for food. Congress accomplished this by specifically increasing SNAP benefits by 15% for the first half of 2021 in the Coronavirus Relief bill passed at the end of December.

\$1.5 billion buys a lot of Food Boxes, but for the dairy industry this is a mixed blessing. The announcement of a fifth round of Food Boxes set off significant market price gyrations. It also prompted a concentrated effort by cooperatives that make a lot of butter and missed out on the economic windfall enjoyed by segments of the industry that sell cheese to convince USDA to require that butter also be in the Food Box (see more detail [here](#)).

**On Tuesday January 19, the contract awards were announced. They did not require butter to be in the box, and USDA awarded only \$354 million worth of contracts, less than 25% of the announced purchase of \$1.5 billion (see list of awards [here](#)).** As might be expected, the dairy markets again are gyrating as folks try to figure out the impact this smaller purchase will have on dairy product prices.

Meanwhile, USDA announced another \$40 million worth of Section 32 butter purchases, which is in addition to a \$50 million butter purchase program announced in December. \$90 million in butter purchases, intelligently designed and occurring sooner rather than later, could go a long way toward shrinking the [butter bulge](#) that has hung over the industry since the shutdown of the food service sector at the beginning of the pandemic.

The Coronavirus relief bill also included a \$400 million dairy product donation program that shows some promise as a vehicle to deal with managing surplus inventories. We understand that there are discussions beginning on how this type of program could be designed and implemented.

The pandemic – and the government's response to it – has certainly rocked the dairy industry along with much of the rest of the economy. Farmers have received billions of dollars in direct payments from the government, and programs like the Food Box program did some good in stimulating demand. But the effects of government interference in the markets are very distorting and the process of normalizing the dairy industry will no doubt be painful. Milk production is very strong, feed prices have dramatically increased, and government funded pandemic relief efforts are a mixed bag of help and hurt. Fasten your seatbelts.

## NMPF President's Update

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

**Progress on Immigration Legislation Early Test of New Administration** – After a week's worth of inaugural activity and celebration heralded the arrival of the 46<sup>th</sup> president, the reality of the precarious political balance in Washington is about to set in.

President Biden announced plans to include a major immigration reform bill as one of the top items of his busy legislative agenda, but the tortured history on this issue over the past 15 years is already having a chastening effect. The Administration's proposal is to grant legal status, and eventual citizenship, to the approximately 11 million undocumented immigrants currently in the U.S. Earlier this week, the former chairman of the Senate Judiciary Committee, Chuck Grassley (R-IA), [cast doubt](#) on whether such an effort will pass the Senate unless there is also a clear effort made to further secure the U.S. border with Mexico.

The proposal announced by President Biden also does not directly address the issue of a guest worker program for agriculture, and many farm and business groups, including NMPF, will need action on that front in order to support an immigration reform bill. NMPF helped shepherd the Farm Workforce Modernization Act through the House of Representatives in 2019, and will need some program along those lines to also address the ongoing labor concerns of our members.

**NMPF Endorses Vilsack Confirmation** – National Milk joined more than 130 other farm groups this week [on a letter](#) to the Senate Agriculture Committee, urging the panel to approve the nomination of former Agriculture Secretary **Tom Vilsack** to return to the top position at the Agriculture Department. Vilsack, who led USDA from 2009 to 2017, remains President and CEO of the U.S. Dairy Export Council pending his confirmation by the Senate. In our coalition letter this week to Senate Ag Committee Chair Debbie Stabenow (D-MI) and Ranking Republican John Boozman (R-AR), we expressed confidence that Vilsack's breadth and depth of experience will allow the U.S. farm sector "to meet environmental challenges, enhance diversity and inclusion, strengthen food security, and build rural prosperity through expanded trade and development of the bioeconomy, all with broad consumer benefits." **Kevin Shea is serving as acting head of USDA** while Vilsack awaits Senate confirmation. Shea has been administrator of the Animal and Plant Health Inspection Service since 2013.

