

MPC WEEKLY FRIDAY REPORT

DATE: MAY 29, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 9

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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	+\$0.2925	\$2.2300	WEEKLY CHANGE	+\$0.0675	\$1.6600
Barrels	+\$0.1325	\$2.0225	WEEKLY AVERAGE	-\$0.0141	\$1.6019
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 05/23/20	
Blocks	+\$0.2005	\$2.0925	DAIRY MARKET NEWS	W/E 05/29/20	\$0.3675
Barrels	+\$0.1164	\$1.9469	NATIONAL PLANTS	W/E 05/23/20	\$0.3839
				PRIOR WEEK ENDING 05/16/20	
				NAT'L PLANTS	\$0.8584 24,351,906
				NAT'L PLANTS	\$0.8388 24,351,906

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
MAY 29 EST	\$14.55 - \$15.05	\$12.37	\$12.18	\$10.78
LAST WEEK	\$14.55 - \$15.05	\$12.37	\$12.18	\$10.71



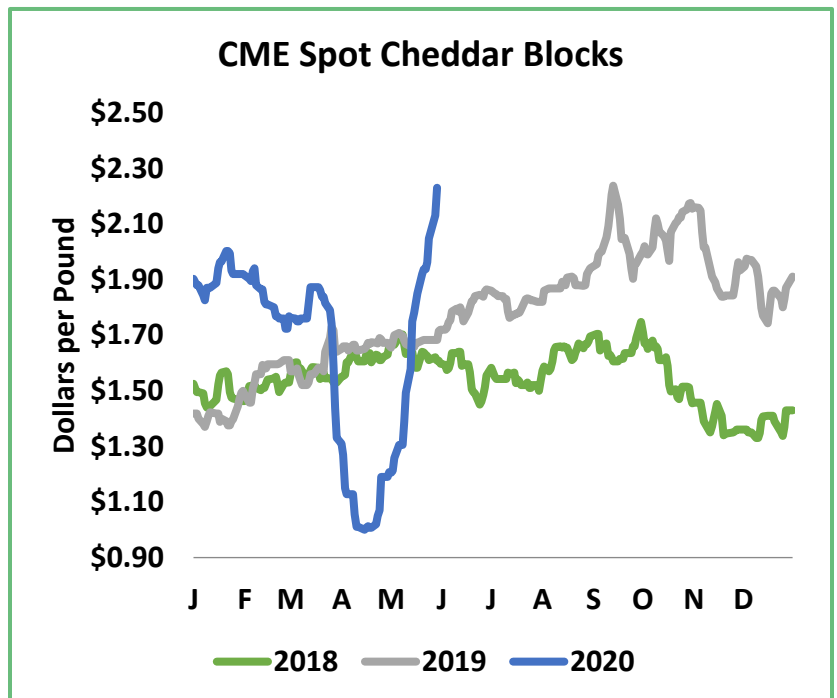
Milk, dairy and grain market commentary

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

Milk & Dairy Markets

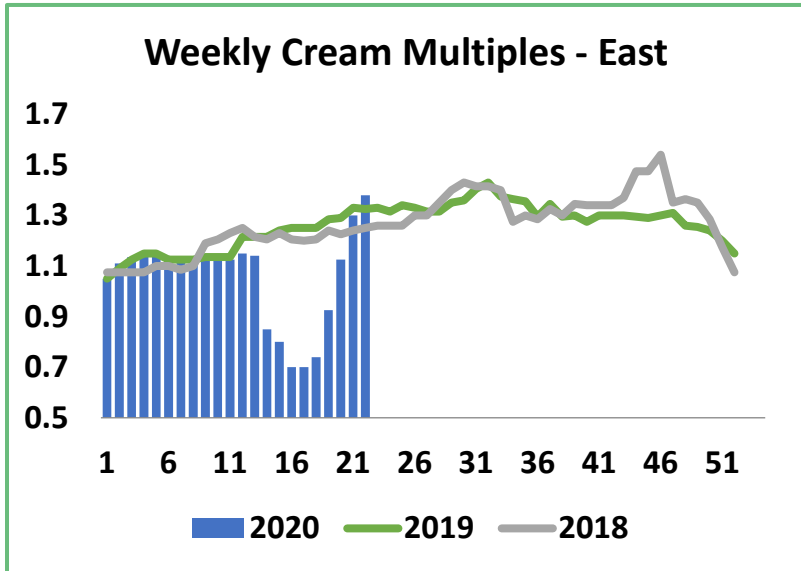
The pandemic sickened the dairy markets in April, creating immense pain on the farm. Dairy producers have cashed a paltry April milk check, and their May revenue will be even more inadequate. But there are better days ahead. The dairy markets made astounding gains this month.

Today, CME spot Cheddar blocks soared to \$2.23 per pound, within a fraction of a cent of the highs made in September 2019. Blocks rallied 29.25¢ this week and a spectacular \$1.0225 since the month began. Barrels closed today at \$2.0225, up 13.25¢ for the week. They are 83.25¢ higher than they were on April 30. Cheesemakers are running overtime and



fortifying vats with nonfat dry milk (NDM) to meet strong demand from retailers, restaurants, foodbank donors, and exporters. Nonetheless, cheese stocks remain tight and fresh blocks are especially difficult to source. Only 17 loads of blocks traded at the CME spot market in May, with just four loads changing hands in the past two weeks. European cheese is much cheaper than U.S. product, which suggests that the surge in U.S. cheese exports will be short-lived.

Spot butter climbed 46.25¢ this month to \$1.66 per pound. It gained 6.75¢ during the holiday-shortened week. On the other side of the Atlantic, European butter values are also on the rise. U.S. butter churning

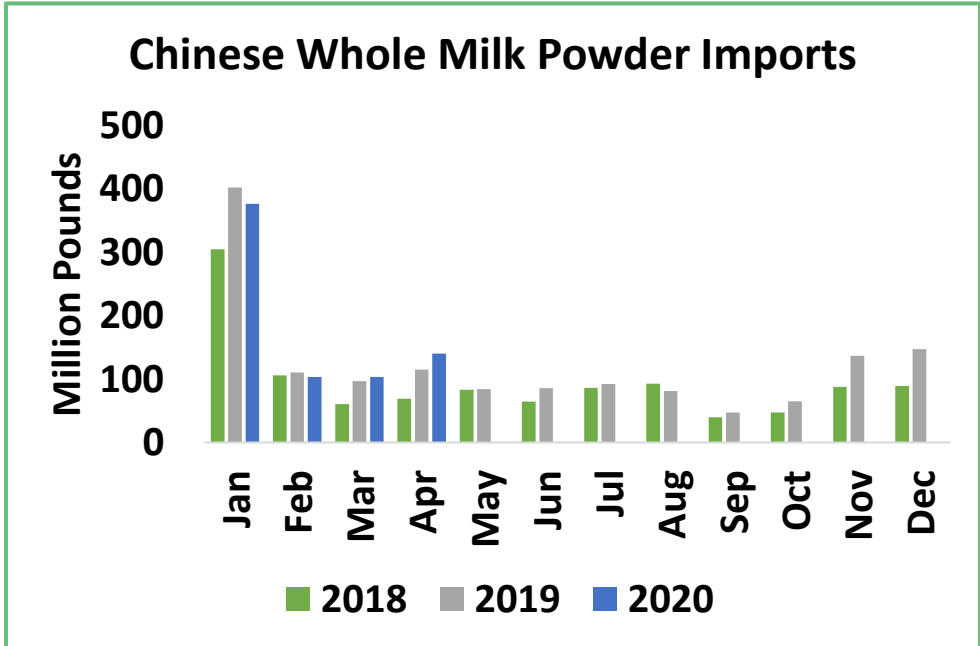


has slowed considerably as more cream goes to ice cream and other uses. Cream is particularly scarce in the East, where cream multiples have jumped from about 70% of the butter price in mid-April to more than 1.3 times the butter price today. In the West, cream multiples have bounced back but they are still below the values reported in late May in recent years.

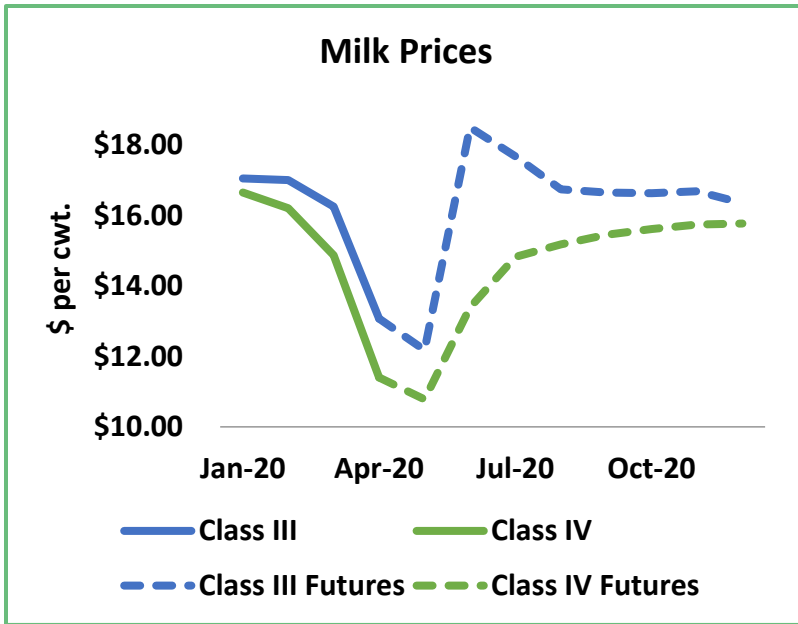
Spot NDM is slowly marching higher. It closed today at \$1.03, up 1.75¢ this week to the highest spot value since mid-March. Spot NDM regained 23¢ in May. The tighter milk market has shortened the lineup of trucks at driers, and many balancing plants

are running below capacity. Cheesemakers are chipping away at the NDM stockpile, and importers are reportedly stepping in as well, albeit with some caution.

China is helping to keep global milk powder inventories in check. China imported 140.4 million pounds of whole milk powder (WMP) in April, 21.9% more than they did a year ago. Chinese WMP imports got off to a slow start this year, but April's strong tally brought them to within 0.2% of last year. China's year-to-date skim milk powder (SMP) imports are 14.3% below the record-breaking levels set in the first four months of 2019, but they are still higher than every other year, including 2014. Given disruptions in global trade and reports of more milk moving to driers in China during the lockdown, Chinese milk powder imports were stronger than anticipated. It seems likely that China is stocking up while dairy is on sale.



Only the whey market retreated this week. CME spot whey

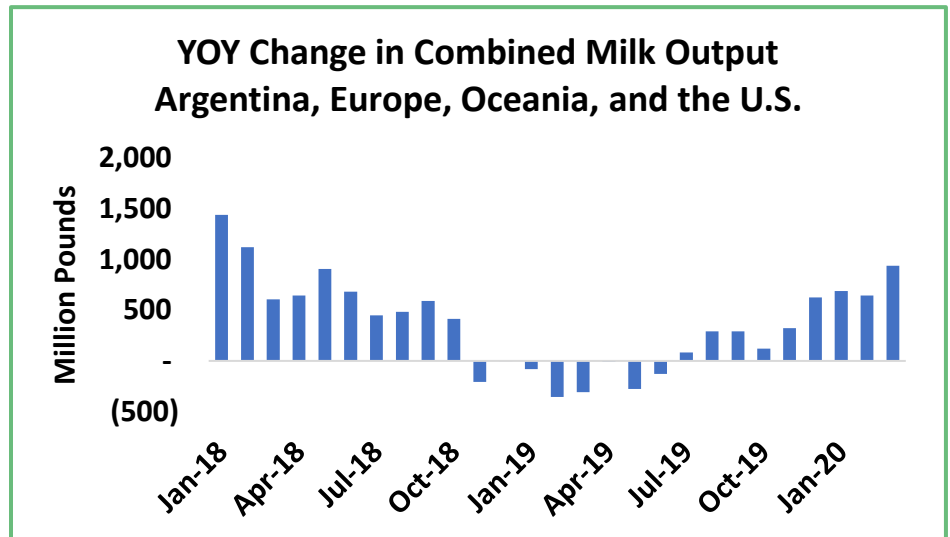


slipped 5.75¢ to 30.5¢, matching the lowest price since November. Dragged down by formidable cheese output, spot whey powder fell 8.75¢ in May, a 22% decline.

Mostly higher dairy product prices translated to a sizeable advance in the futures. June Class III surged \$1.47 this week to \$18.50 per cwt., a new life-of-contract high. July Class III added \$1.24 and the other Class III contracts posted hefty gains. Every contract on the board is at least \$16. Second-half Class IV contracts climbed 76¢ this week, on average. Still, with June Class IV at \$13.39 and July at \$14.82, values are well south of profitability, much less prosperity.

As evidenced by the awe-inspiring May rally, efforts to reduce milk output are clearly working.

Slaughter volumes remain elevated. Lower milk yields suggest dairy producers are still focused on cutting costs rather than topping up the tank. Will they reverse course once better prices arrive? Although demand has improved, there seems to be little reason to boost supplies. Even without the crippling impact of the pandemic, the industry would've likely drowned in milk this spring. Together, the U.S., Europe, Oceania, and Argentina pumped out roughly 935 million pounds more milk in March than the year before, the largest year-over-year increase since February 2018. The U.S. accounted for 57% of the gain. Growth in U.S. milk production was cut in half in April, and the U.S. dairy herd shrunk by 4,000 cows. In such a shaky global economy there doesn't seem to be a good reason to add them back. We could do with a few less.



Grain Markets

After a relatively sedate spring on LaSalle Street, the feed markets livened up this week. July corn settled at \$3.2575 per bushel, up 8.75¢ from last Friday. July soybeans rallied 7.5¢ to \$8.4075. The hot, dry forecast likely helped to heat things up. The cash market fanned the flames. Farmers are unwilling to sell at these prices, but ethanol plants have started to buy corn again. There is plenty of corn to go around, but little for sale in the cash market.

Soybean futures turned lower late in the week as tensions flared between the U.S. and China. The diplomatic relationship is deteriorating quickly, bringing the hard-fought gains of the trade war into question.



Virtual public hearing on Quota scheduled for June 9-10

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

The California Department of Food and Agriculture (CDFA) has reset the date and time and format for a public hearing to consider a petition submitted by the STOP QIP group, which seeks to Suspend Chapter 3.5 of the Food and Agriculture Code. The signatures submitted by STOP QIP on a petition were verified by CDFA earlier this year and a hearing was scheduled for April 7-8 in Visalia. The onset of the COVID pandemic and the subsequent health related orders prohibiting gatherings caused CDFA to postpone the hearing. But the hearing has now been rescheduled to June 9-10, starting both days at 9 a.m., and will be held with the use of Microsoft Team Meetings.

The call of the hearing is very narrow: “The Department seeks stakeholder and public comment on whether a producer referendum should be conducted pursuant to Chapter 3.5, specifically Food and Agriculture Code sections 62753-62755.”

This will be a hearing that is presided over by an Administrative Law Judge who will act as the hearing officer. A hearing procedures document outlines that the STOP QIP organization – the petitioners – will be the first witnesses after CDFA submits any exhibits into the hearing record. STOP QIP will have one hour to submit testimony. After they are finished, any other organized producer groups who register at least one week ahead of the hearing will be granted 30 minutes to give their testimony. After the testimony from these groups, then individuals will be able to testify for 5 minutes each. In addition to oral testimony, written testimony of any length (provided it is on topic) can be submitted before and during the hearing by any interested party. Witness testimony will be received under oath and a representative of the California Attorney General’s office may question any witness. However, there will be no cross examination of witnesses allowed by anyone else. You can read the hearing notice and hearing procedures [here](#).

This hearing is required by law because the Stop QIP group was successful in obtaining the signatures of 28% of the number of market milk producers operating in California in January of 2020 who produced in excess of 33% of the market milk on a petition requesting a referendum to suspend Chapter 3.5 of the Food and Agriculture Code. While the hearing notice does not explicitly say this, conversations with CDFA officials indicate that it is the Administrative Law Judge who will actually be developing a recommendation to the California Secretary of Agriculture based on the hearing record about whether to hold a referendum to suspend Chapter 3.5.

Here is what is at stake in this hearing: It is in Chapter 3.5 that CDFA received the authority from the Legislature in 2017 to create a stand-alone quota program that would function after California became part of the Federal Milk Marketing Order system. The vote threshold to suspend Chapter 3.5 is lower than the vote threshold contained in Chapter 3.0 of the Food and Agriculture Code which originally established the California pooling and quota program. Chapter 3.0 requires a super majority vote to adopt, change or terminate the pooling program and was the voting procedure that was used to create the QIP in the first place. Chapter 3.5 requires a 51% favorable vote to continue the Chapter. Said another way, 49.1% voting “no” suspends Chapter 3.5. If Chapter 3.5 is suspended, the authority of CDFA to collect assessments to fund the quota payments is also suspended. Interestingly, a vote to discontinue chapter 3.5 does not technically terminate the quota program, but it does eliminate the authority of CDFA to collect an assessment to fund a stand-alone quota program. Obviously, without a funding source, quota would not have any value.

The issue of quota is a very personal one. There are strong passions on all sides. This hearing is an opportunity for every producer to have their say. If you do not feel comfortable speaking at the hearing, you can write your thoughts and submit them by email to CDFA.LegalOffice@cdfa.ca.gov or by mail to CDFA Legal Office, 1220 N St. Sacramento, CA 95814.

USDA now accepting applications for Coronavirus Food Assistance Program

By Richard Fordyce, Farm Service Agency Administrator

You can now apply for USDA's [Coronavirus Food Assistance Program](#) (CFAP), which provides direct payments to farmers and ranchers to offset impacts from the coronavirus pandemic. Applications will be accepted through August 28, 2020.

We now have the application form and a payment calculator available on farmers.gov/cfap. And we have a call center (877-508-8364) set up to help you with your questions.

We know producers are facing a tough time now, and we are making every effort to provide much needed support as quickly as possible. Producers of all eligible commodities can apply through their local FSA office. FSA is available over the phone and virtually to walk you through the application process, whether it's the first time you've worked with us, or if you know us quite well.



About CFAP

Through CFAP, USDA is making available \$16 billion for vital financial assistance to producers of agricultural commodities who have suffered a five-percent-or-greater price decline due to COVID-19 and face additional significant marketing costs as a result of lower demand, surplus production, and disruptions to shipping patterns and the orderly marketing of commodities.

About Payments

CFAP is structured to ensure the availability of funding for all eligible producers who apply. In order to do this, you will receive 80 percent of your maximum total payment upon approval of your application. The remaining portion of the payment, not to exceed the payment limit, will be paid at a later date nationwide, as funds remain available.

Our payment calculator can help you identify the sales and inventory records you need to apply and calculate your potential payments. You will need Microsoft Excel to use the payment calculator.

The CFAP payment calculator can help you identify the sales and inventory records you need to apply and calculate your potential payments.



Understanding CFAP Payment Caps

By Geoff Vanden Heuvel

Director of Regulatory and Economic Affairs

There have been questions about how CFAP payment caps apply to partnerships and proprietorships. The \$250,000 cap applies to individuals. There are special provisions in this program for corporations, LLCs and LLPs that cap the number of "shareholders" at three. However, for general partnerships, there is no such language in the handbook. A good place to start with FSA is to assume that each individual who is part of the ownership of your partnership or sole proprietorship can get up to the cap, provided you have enough production. Don't assume that the number of owners in a partnership is limited to three. That rule applies specifically to corporations, LLCs and LLPs – not general partnerships or sole proprietors.

program delivery staff will continue to come into the office, they will be working with you by phone and using online tools whenever possible. All Service Center visitors wishing to conduct business with the FSA, Natural Resources Conservation Service, or any other Service Center agency are required to call their Service Center to schedule a phone appointment. More information can be found at farmers.gov/coronavirus.

Applying for CFAP

By using the payment calculator tool, you will be able to print off a pre-filled CFAP application in which you can sign and submit to your local FSA office either electronically or via hand delivery to a drop box at your local office. Contact your local office to determine the preferred method. You may also need to complete necessary eligibility forms. If you are an existing customer, this information is likely on file at your local office.

FSA may request additional documentation to support your application and certification after the application is filed. FSA has streamlined the signup process to not require an acreage report at the time of application and a USDA farm number may not be immediately needed.

Service Center Status

USDA Service Centers are open for business by phone appointment only, and field work will continue with appropriate social distancing. While

Additional Resources

- [Application form \(AD-3114\)](#)
- [Payment Calculator](#)
- [Dairy fact sheet](#)

Central Valley Water Board sending certified letters to dairies, cattle operations in nitrate 'Priority 1' areas

Courtesy of Central Valley Dairy Representative Monitoring Program

On or about May 29, the Central Valley Regional Water Quality Control Board ("Regional Board") is expected to mail certified letters to about 650 dairies and more than 200 calf and heifer ranches and beef feedlots, letting those operations know they must comply with an important new regulation dealing with nitrates in groundwater.

This article's purpose is to help owners and operators of dairies and other confined cattle operations understand what these "Notice to Comply" letters mean, what steps owners need to take, and by when. A few key facts to start with:

- The letters are not just being sent to dairies and cattle facilities, but to many other water quality permit holders in so-called "Priority One" areas of the Central Valley.
- These letters are not being sent to all dairies and cattle facilities at this time. Operations in so-called "Priority Two" areas can expect a similar letter next year or perhaps later. Cattle ranches and dairies in "non-priority" areas may not receive a

Notice to Comply in the foreseeable future. See map here: <https://www.cvsalinity.org/nitrate-control-program>

- The letter is not bad news. The letter, taken with the new regulations, offers an alternative that is more flexible, and less expensive, for complying with the strict regulations Central Valley dairies and other cattle operations are already under.

What dairies and cattle operations need to know and do

The letter's title: "Notice to Comply – Nitrate Control Program," may be a little startling. The words "failure to respond may result in enforcement action" can be daunting. But here is what dairies and other cattle operations receiving the letter need to know:

- Your operation is in one of six "Priority One" areas,
- You do not need to respond to the Regional Board immediately, but you do have to respond by early next year,
- You have up to 330 days to choose one of two future compliance pathways and notify the Regional Board about that choice, and
- Even though you have some months to get back to the Regional Board, there are some important things should consider doing, now – like participating in formation of local Management Zones.

Which pathway should you choose?

Pathway A is essentially the current compliance program that has been in place since 2007. It requires dairies and cattle operations to show they are not causing or contributing to impacts in first-encountered groundwater above the state's Maximum Contaminant Level of 10 parts per million (ppm) nitrate as nitrogen. *It is all but impossible for most permit holders, including dairies and cattle operations, to comply with this regulation, and as a result, permit holders are constantly subject to liability and enforcement.* The Central Valley Dairy Representative Monitoring Program (CVDRMP) advises its members against choosing to remain on Pathway A for a variety of reasons, including years of monitoring data that shows virtually no dairy can meet this standard, the likelihood that operations choosing Pathway A will need to conduct an expensive and extensive facility specific analysis showing the facilities impact on groundwater, could be forced to install monitoring wells, would likely need to propose an expensive alternative compliance project, and the likelihood that much tougher penalties will result from not meeting the standard in the future.

Pathway B allows dairies and other cattle operations (and other water quality permit holders) to remain in compliance even if first-encountered groundwater is above 10 ppm. But the permittees (farmers, dairies, other animal operations, food processors, city-owned waste treatment plants and others) must first form local Nitrate Management Zones. Participants in Management Zones get significantly more time – up to 35 years – to meet the 10-ppm nitrate standard. In return, Management Zones members must work together to provide safe drinking water for residents whose drinking water supply has been impacted by nitrate contamination. *This Pathway B option is considered, by far, to be the more viable option for dairies and other confined cattle operations.*

How do I join a Management Zone or learn more?

Management Zones are just beginning to form, so there is no way to join them just yet. That will change soon. Over the next 270 days, local Management Zones will form, then make decisions about who needs interim supplies of drinking water, how to provide it, who pays how much, and how additional members can join the effort. These are particularly important decisions, and they will be made locally. Make sure your voice is heard in these processes *before final decisions are made*.

You can learn more about who is forming Management Zones, and where, at cvsalts.info. A list of contacts for each management zone is provided, as well as a place to sign up for updates. In addition, you can sign up at cvdrmp.org to receive news and notices about management zones. Also watch for public notices, especially in local farming and agricultural publications, such as your Farm Bureau newsletter or your trade association newsletter.

Meanwhile, CVDRMP is exploring whether it can facilitate participation of its members in management zones as part of a group effort, to minimize costs and confusion for individual dairy and cattle ranch operators. We will keep our members apprised of these efforts.

College students earn scholarships through Dairy's Future Leaders contest

Courtesy of Dairy Cares

California's leading dairy organizations have announced the winners of the *Dairy's Future Leaders* college student writing contest. The contest asked students to share what sustainability means to them and how they envision their futures as leaders in the dairy community. Genevieve Regli, sophomore at California Polytechnic State University, San Luis Obispo, received first place honors. Second and third place awards went to Hayley Fernandes, sophomore at California Polytechnic State University, San Luis Obispo, and Andrew Skidmore, junior at Fresno State University, respectively.

MPC sponsored the scholarships awarded in the Dairy's Future Leaders writing contest

The contest was offered as part of the [California Dairy Sustainability Summit](#), a program that brings together dairy farmers, state officials, researchers, and other key stakeholders to help advance the economic and environmental sustainability of the state's family dairy farms. The Summit is hosted by Dairy Cares, California Dairy Research Foundation, California Milk Advisory Board, Dairy Council of California, and the California Dairy Quality Assurance Program. Through the writing contest, current dairy leaders learned how the next generation views challenges and opportunities.



From left to right: Genevieve Regli, Hayley Fernandes, and Andrew Skidmore earned top honors for their essays on dairy sustainability.

Continue reading [here](#).

Save the date: California Dairy Sustainability Summit – November 5-6, 2020

Courtesy of Dairy Cares

Register today for the California Dairy Sustainability Summit, now taking place November 5-6, 2020, at Cal Expo in Sacramento. This event showcases world-leading achievements in planet-smart dairy farm practices and dairy's role in advancing California's sustainability objectives. Discover new ways for dairy farms to ensure economic and environmental sustainability, develop new business opportunities, and meet challenges with new technologies and practices. The inaugural event in 2018 drew more than 600 attendees, including 200 representatives from the state's family dairy farms. The California Dairy Sustainability Summit is co-hosted Dairy Cares, California Dairy Quality Assurance Program, California Dairy Research Foundation, Dairy Council of California, and California Milk Advisory Board. Register at CADairySummit.com.



November 5–6, 2020 | Cal Expo | Sacramento, CA

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