

MPC WEEKLY FRIDAY REPORT

DATE: JUNE 19, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 9

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	+\$.1300	\$2.6500	WEEKLY CHANGE	-\$.0200	\$1.8500
Barrels	-\$.0475	\$2.2850	WEEKLY AVERAGE	-\$.0885	\$1.8255
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 06/13/20	
Blocks	-\$.0150	\$2.5300	DAIRY MARKET NEWS	W/E 06/19/20	\$.3525
Barrels	-\$.0605	\$2.3080	NATIONAL PLANTS	W/E 06/13/20	\$.3685
				PRIOR WEEK ENDING 06/06/20	
				NAT'L PLANTS	\$0.9047 26,385,681
				NAT'L PLANTS	\$0.8815 31,654,746

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
JUNE 19 EST	\$13.02 - \$13.52	\$13.19	\$20.99	\$13.34
LAST WEEK	\$13.02 - \$13.52	\$13.27	\$20.42	\$13.35



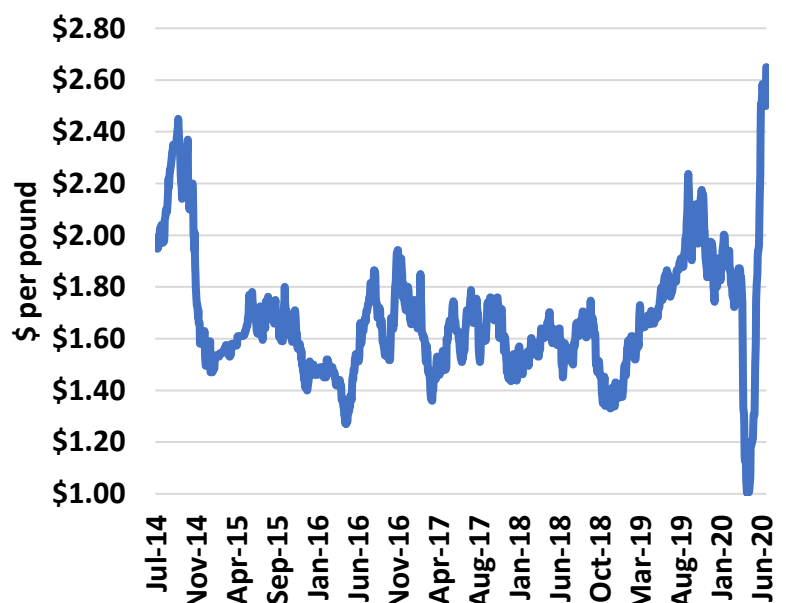
Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

The dairy markets staged a rip-roaring rally this week. CME spot Cheddar blocks led the way. They jumped 13¢ this week to \$2.65 per pound, an all-time high. A steep decline in milk output in May likely slowed cheese production and tightened the supply of fresh cheese for sale in Chicago today, prompting the remarkable run in the spot market. Meanwhile, grocery stores continue to move product, restaurants are restocking, and government purchases plod on. This week USDA announced funding for another round of food box donations in July and August, along with a planned purchase of mozzarella cheese shreds. Clearly, the

CME Spot Cheddar Blocks

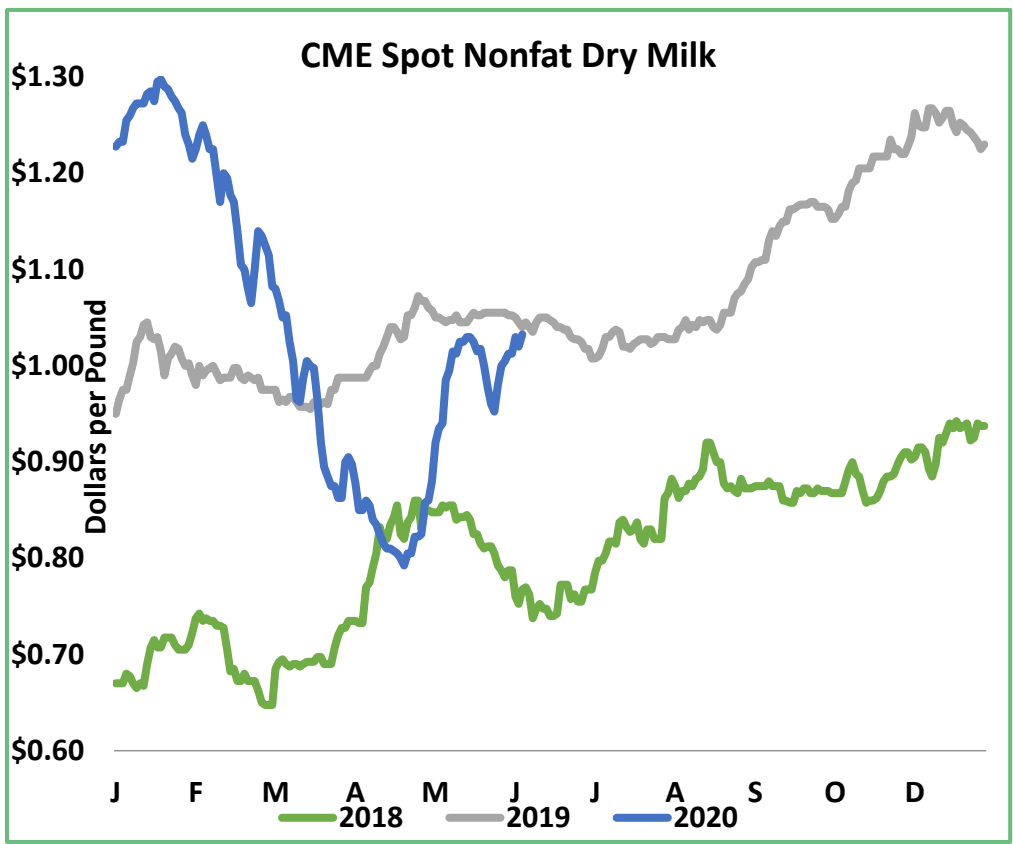


government intends to keep propping up the cheese market despite the fact that it is at record highs and climbing.

Barrels are less scarce. They slipped 4.75¢ this week to \$2.285. High prices are clearly stimulating cheese production and are starting to cap demand. USDA's *Dairy Market News* reports that lofty values are pushing some buyers to the sidelines.

CME spot whey climbed as well. It finished today at 32.75¢, a penny higher than last Friday. With both cheese and whey on the rise, nearby Class III futures moved sharply higher. The July contract surged \$2.64 to \$21.18 per cwt. August leapt \$2.25 to \$19.28. The other 2020 contracts gained 80¢ on average.

The Class IV markets were mixed. July futures dropped 45¢ to \$14.82. Deferred contracts moved mostly higher. CME spot butter slipped 2¢ this week to \$1.85. Cream supplies are still tight, but churning activity may top year-ago levels later this summer as ice cream production fades.



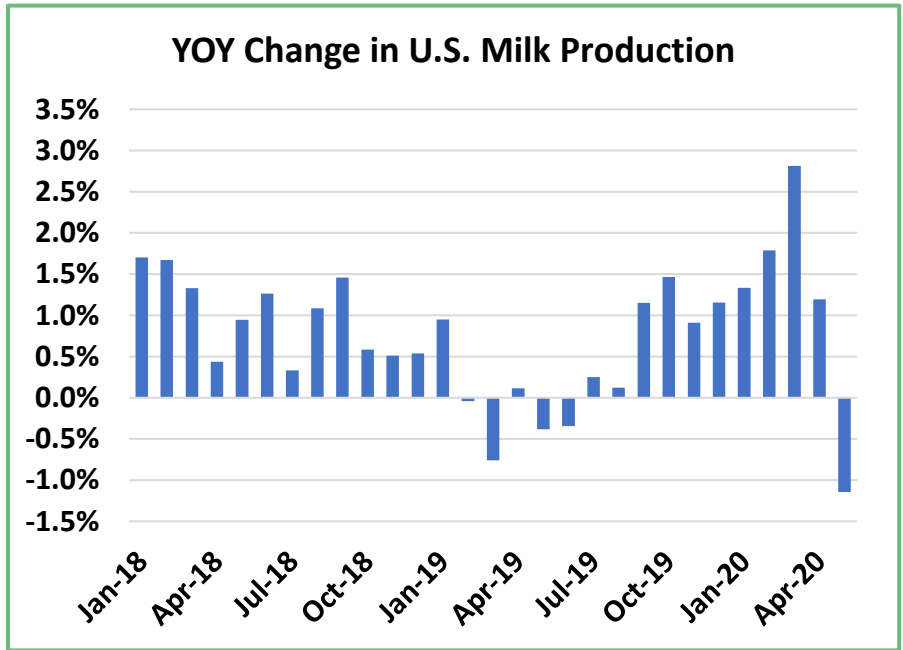
According to *Dairy Market News*, “a growing number of butter market actors suggest they are concerned about inventories coming into the fall,” because food service is still well below normal.

Powder markets moved higher this week. At the Global Dairy Trade (GDT) auction on Tuesday, whole milk powder rallied 2.2% and skim milk powder jumped 3.1% to the equivalent of nonfat dry milk (NDM) at \$1.26 per pound. CME spot NDM rallied 2.75¢ this week to \$1.0325, the highest spot value since mid-March. Cheese producers are buying

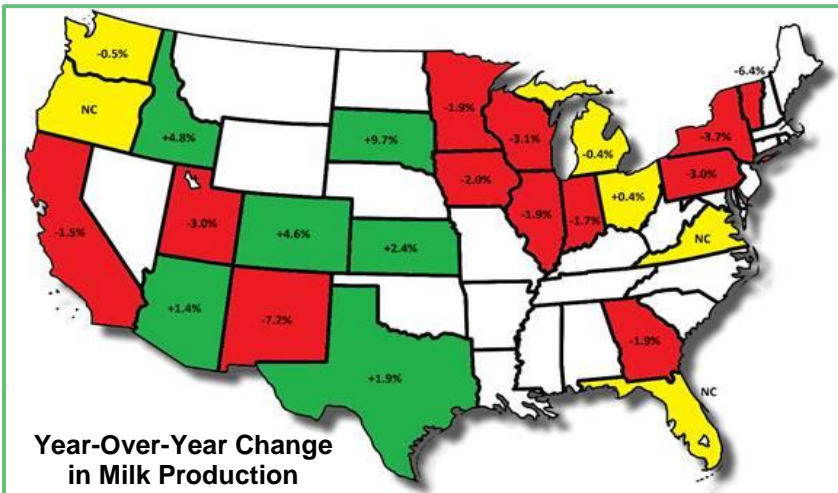
NDM to fortify their vats, and Mexican buyers are stepping up purchases with the help of a stronger peso.

Amidst painfully low milk prices and punitive over-production schemes, U.S. milk production dropped hard in May. Output totaled 18.84 billion pounds, down 1.1% from the prior year, the steepest year-over-year decline since October 2014. Dairy producers did much to slow milk production last month. They culled hard, fed cheaper rations, dried cows early, and milked less frequently. Milk yields fell accordingly. Production per cow averaged 2,010 pounds, down 31 pounds or 1.5% from May 2019. Milk output fell hardest in the Northeast, Pacific Northwest, and Midwest. Although milk output topped May 2019 volumes in much of the Southwest, production plunged 7.2% year-over-year in New Mexico.

The dairy herd contracted 11,000 head in May, building on the 4,000-head decline in April. Still, at 9.37 million head, the herd is 37,000 head larger than it was a year ago. Dairy producers are no longer culling hard. They slammed on the brakes in late May, and made a U-turn. After two months of contraction, the milk-cow head count is likely headed in the opposite direction. Twenty dollar milk will surely motivate dairy producers to fill their tanks, but the actions they took to slow production in May could drag on milk yields this summer, and the heat won't help.



European milk output was muted in April. Collections totaled 31 billion pounds, up 0.2% from the prior year. That's the slowest growth in EU-28 milk output in 11 months, which helped to prevent dairy products from piling up during widespread lockdowns. European dairy product prices are bouncing back from the depths they plumbed this spring.

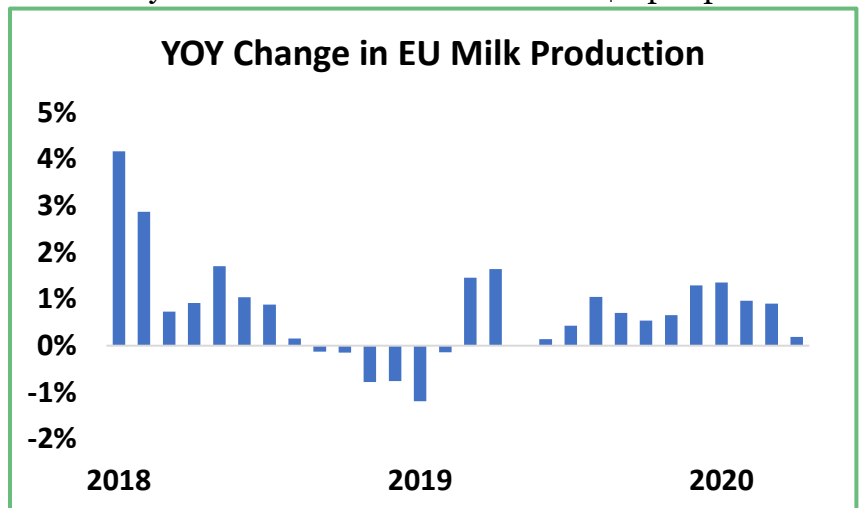


The pandemic walloped dairy demand in March and April, but thanks to slight growth in Europe and a big step back in U.S. milk production in May, the global dairy markets were able to endure the blow. However, that does not mean there's room for a lot of new milk. Rabobank estimates foodservice demand will not return to pre-Covid-19 levels for at least two years. That means the U.S.

and European dairy industries will depend on exports as an outlet for any advances in milk production. This may require much lower milk prices later this year. With cheese well north of \$2 per pound and butter futures around \$1.90, the U.S. is likely not winning a lot of export business today.

Grain Markets

The feed markets climbed this week. July corn futures closed at \$3.325 per bushel, up 2.5¢ from last Friday. July soybean futures rallied to 5.25¢ to \$8.765. July soybean meal slipped \$2 to \$287 per ton. Chinese purchases have helped to boost the soybean market to two-month highs, and there is talk that



China may step up orders for U.S. corn and ethanol as well. Row crops are safely in the ground and the weather is largely benign. The dry spell has lasted a bit longer than is ideal, but most of the Corn Belt will see showers this weekend. Given massive global grain stocks, the corn market isn't likely to rally much farther in the absence of a weather issue.

Quality Assurance Update: Central Valley annual report tips, online water short course, activist trespassing, nitrate program participation

Courtesy of California Dairy Quality Assurance Program

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



Central Valley Annual Report Tips

By Deanne Meyer, Ph.D., Livestock Waste Management Specialist Dept. of Animal Science, UC Davis and UC ANR

The summer solstice is nearly here. In the Central Valley that means Annual Reports are due shortly (July 1) to the Regional Water Quality Control Board. This year we're seeing more Cease and Desist Orders than previous years. It's important that your Annual Report reflect management at the dairy and that manure applications are in line with Nutrient Budgets.

Be sure you've included results for: solid and liquid manure, groundwater, plant tissue, soil (20% of fields) analyses and manifests for any manure transported offsite. If your current report does not have extra mineral analyses for one set of solid and liquid manure samples, be sure to get that analyzed this year. It's an every other year analyses and easily forgotten.

Carefully read through your crop yields and your nitrogen applied to nitrogen removed ratios. Any applied to removed ration less than .6 or greater than 1.4 should have an explanation in the notes section of your Report. Remember to include comments in your Report's notes section to explain anything that is unusual, abnormal or might been seen as very odd. Lastly, meticulously review your report before you sign it.

Online CDQAP Short Course (water) Classes Available

By Denise Mullinax, Executive Director, California Dairy Research Foundation

Completing education classes is the first step in CDQAP Certification. Classes are available online to make them more accessible. The online water course is in segments which can be completed at once or taken individually as time permits. Producers looking for a reminder on specific aspects of manure management or regulations can also review an individual segment. For more information or to be set up to access the CDQAP Short Course contact Denise Mullinax at (209)585-6744 or mullinax@cdrf.org.

Example Short Course segments include:

- Water Quality Regulations
- Backflow Prevention
- Manure Management-source generation
- Manure Collection, Transportation & Utilization

- Advanced Treatment Technologies
- Liquid Manure Storage Requirements - the Waste Management Plan and the impacts of nutrient requirements on liquid storage capacity and design
- The Sampling and Analysis Plan and protocols for collecting a representative sample
- Reporting Requirements of the WDR General Order

Engage Locally for Nitrate Program

By Deanne Meyer

Some 650 Central Valley dairy producers in Priority 1 groundwater basins received a certified letter in early June. Last month [we highlighted the process](#). There is no economically viable quick fix to remediate groundwater nitrate concentrations. *Continue reading [here](#).*

As California Opens Up, Activist Trespass Expected to Increase

By Dr. Michael Payne, Director California Dairy Quality Assurance Program

With relaxation of travel restrictions have come new reports of animal activist trespass. Last month activist “scouts” entered feedlots in Imperial County. A new strategy appears to involve trespass on processing facilities in order to install recording devices. Employees finding such devices should leave them undisturbed and inform management so they can be collected as evidence by local law enforcement. *Continue reading [here](#).*

California Department of Public Health mandates face coverings be worn state-wide

Courtesy of Nielsen Merksamer

Yesterday, CDPH released updated guidance requiring Californians to wear a face covering in high-risk settings. The guidance mandates the use of cloth face coverings by the public statewide when outside the home, with limited exceptions.

Californians must wear face coverings when they are in the situations listed below:

- Inside of, or in line to enter, any indoor public space.
- Obtaining services from the healthcare sector in settings including, but not limited to, a hospital, pharmacy, medical clinic, laboratory, physician or dental office, veterinary clinic, or blood bank.
- Waiting for or riding on public transportation or paratransit or while in a taxi, private car service, or ride-sharing vehicle.
- Engaged in work, whether at the workplace or performing work off-site, when:
 - Interacting in-person with any member of the public.
 - Working in any space visited by members of the public, regardless of whether anyone from the public is present at the time.
 - Working in any space where food is prepared or packaged for sale or distribution to others.
 - Working in or walking through common areas, such as hallways, stairways, elevators, and parking facilities.

- In any room or enclosed area where other people (except for members of the person's own household or residence) are present when unable to physically distance.
- Driving or operating any public transportation or paratransit vehicle, taxi, or private car service or ride-sharing vehicle when passengers are present. When no passengers are present, face coverings are strongly recommended.
- While outdoors in public spaces when maintaining a physical distance of six feet from persons who are not members of the same household or residence is not feasible.

The following individuals are exempt from wearing a face covering:

- Children aged two and under.
- Persons with a medical, mental health, or developmental disability that prevents wearing a face covering.
- Persons who are hearing impaired, or communicating with a person who is hearing impaired, where the ability to see the mouth is essential for communication.
- Persons for whom wearing a face covering would create a risk to the person related to their work, as determined by local, state, or federal regulators or workplace safety guidelines.
- Persons who are obtaining a service involving the nose or face for which temporary removal of the face covering is necessary to perform the service.
- Persons who are seated at a restaurant or other establishment that offers food or beverage service, while they are eating or drinking, provided that they are able to maintain a distance of at least six feet away from persons who are not members of the same household or residence.
- Persons who are engaged in outdoor work or recreation such as swimming, walking, hiking, bicycling, or running, when alone or with household members, and when they are able to maintain a distance of at least six feet from others.
- Persons who are incarcerated. Prisons and jails, as part of their mitigation plans, will have specific guidance on the wearing of face coverings or masks for both inmates and staff.

More information about the state's COVID-19 guidance is on the California Department of Public Health's Guidance [web page](#).

National Milk Producers Federation President's Update

Courtesy of Jim Mulhern, National Milk Producers Federation

Normally I wouldn't begin this weekly update with a USDA statistical report, but **Thursday's [May milk report](#) is certainly some of the best news of the week.** Overall U.S. milk output declined by 1.1%, or 218 million pounds, from last May.

This is confirmation that the tough decision made by many of our co-op members to implement base-excess plans to cut supply this spring in light of the pandemic-induced demand disappearance was successful – as also evidenced by the rebound in cash markets and future prices.

The report also shed light on the fact that the production drop was achieved both through more aggressive culling – cow numbers dropped 11,000, or 0.1% from April – as well as through herd management practices, as May milk production per cow was 2,011 pounds, a decrease of 31 pounds, or 1.5%, from the prior year. Let's hope that the bitter pill to correct the problem is all that we need this year.

The **USDA's [most recent update on the \\$16 billion CFAP program](#)** indicated that 12,000 dairy producers have now applied for direct payments totaling \$667 million. Overall, the agency has approved \$2.9 billion in direct payments to 220,000 producers. Remember that the initial payment being sent out is 80% of the total that each farm is eligible to receive.

USDA to Open DMC Enrollment for 2021 in October – The [USDA announced this week](#) that enrollment for in the Dairy Margin Coverage (DMC) program will begin October 12th and run until December 11th. More than 13,000 operations enrolled in the program for the 2020 calendar year, and as of June 15, the Farm Service Agency has issued more than \$100 million in program benefits. The [USDA's calculator](#) is forecasting significant payments in April and May, and then no payments are triggered in the latter half of this year – if current forecasts hold. DMC payments are projected to total \$.66/cwt. on the year's milk production at the \$9.50/cwt. coverage level.

SBA Provides New PPP Loan Application – In a further effort to make the new Paycheck Protection Program (PPP) accessible for borrowers, the Small Business Administration (SBA) this week released a new application intended to make applying for loan forgiveness easier. The new EZ application, [at two pages](#), requires fewer calculations and less documentation than the revised full forgiveness application. The EZ application applies to borrowers that:

1. Did not reduce the salaries or wages of their employees by more than 25%, and did not reduce the number or hours of their employees; Or
2. Experienced reductions in business activity as a result of health directives related to COVID-19 and did not reduce the salaries or wages of their employees by more than 25%; Or
3. Are self-employed or have no employees.

As I reported last week, under recent PPP rule changes, only 60% of the funds must be used on payroll expenses for the loan to be forgiven, as opposed to the 75% minimum that was included in the original legislation.

Dietary Guidelines Report Positive for Dairy – Both fans and foes of dairy foods were eagerly anticipating this week's release of a draft report of the committee looking at whether to make changes in government dietary advice that is updated twice a decade.

The Dietary Guidelines Advisory Committee met via webinar on Wednesday to discuss possible changes to its draft conclusions, prior to release of the final advisory report. The committee is set to release the final report in mid-July, followed by a written comment period with one final opportunity to provide oral comments to USDA and HHS in August.

Despite heavy pressure from vegan groups to have the U.S. adopt an approach more like [Canada's](#)

[recent changes](#) that diminish the role of dairy foods, we were able to carry the day thanks to a full-court press from dairy and allied organizations.

The key takeaway is that the committee supports keeping dairy foods as an essential component of America’s daily diet. The report continues to recommend dairy consumption across all three eating patterns and recommends three servings of dairy per day for two of the three.

The committee also noted that a diet containing low-fat and fat-free dairy, legumes, whole grains, fruits and vegetables is associated with beneficial outcomes. For the first time in dietary guidelines history, the committee created guidelines for children from birth to 24 months. Both yogurt and cheese were recognized as complementary feeding options for infants 6-12 months and dairy foods were included in the healthy eating patterns designed for toddlers 12-24 months.

Unfortunately, the committee didn’t change the recommendation around saturated fat, keeping it at no more than 10% of daily energy intake. Earlier this week, [we issued an admonition](#) to the committee members, urging them to examine recent, evolving scientific evidence that dairy fats are not associated with adverse health outcomes and thus the guidelines should be more flexible on the types of milk in its recommendations.

The letter, co-signed by IDFA, was a continuation of our ongoing efforts with the DGAC process. National Milk submitted detailed comments last fall during the comment period and will continue to engage during the upcoming comment period when the final report is made public. We have communicated with key Capitol Hill allies on this issue, who are interested in supporting the dairy sector as the final guidelines are composed, and we will continue pressing on the dairy fats issue for as long as we have the opportunity to weigh in with the committee and the agencies that will ultimately implement the final guidance.

NMPF Criticizes Canada’s USMCA Dairy Access – NMPF [raised a caution flag](#) this week about the degree to which Canada will comply with both the letter and spirit of the new U.S.-Mexico-Canada free trade agreement. As we approach the July 1st official implementation date, USDEC President and CEO Tom Vilsack and I expressed our concern that the additional access Canada intends to give U.S. exporters will discourage our high-value exports and limit the upside of what the agreement offers to our farmers. Most of the Tariff Rate Quotas that Canada announced this week are earmarked for competitors who have no incentive to import U.S. products.

NMPF and USDEC have repeatedly warned that the full benefits of the USMCA will not materialize without careful monitoring and stringent enforcement of Canada’s commitments. We urged the U.S. Trade Representative (USTR) to immediately raise this issue with Canada and insist that Canada adheres to the terms of the pact. Canada’s administration of dairy TRQs in the past has limited the value of such market access, and we’ve continued to tell the Administration and Congress that the process needs to be different in the future.

This issue was also addressed by USTR Robert Lighthizer this week during a lengthy congressional hearing. When pressed on the dairy access issue, he pledged that the U.S. will be keeping a close eye on Canada to make sure it lives up to its promise for dairy reforms. If Canada reneges on its promises, “we’re going to bring a case against them,” Lighthizer said.

NMPF Calls for End to EU Dairy Dumping in International Markets – In a letter to U.S. Trade Representative Robert Lighthizer and Agriculture Secretary Sonny Perdue, NMPF said this week that the U.S. needs to challenge how the European Union has manipulated international dairy markets. We pointed to a [new economic analysis](#) by Darigold that details how the EU’s skim milk intervention program created a “beggar thy neighbor” dynamic that hurt the U.S. dairy industry. The EU program depressed the global price of SMP and thus farm-level milk prices in 2018 and 2019, contributing to a \$2.2 billion loss of U.S. dairy-farm income those years. In [a joint letter with USDEC and IDFA](#), we urged the U.S. government to prevent the EU from using future intervention practices that depress global milk protein prices.

Finally, in our [most recent podcast](#), we reviewed how the coronavirus pandemic has shifted dairy consumption patterns away from fake milk products toward what consumers know is tried and true. While consumers bought 7.9 million more gallons of plant-based beverages during the two peak weeks in March than they did during the same period a year earlier, milk demand exploded by more than 45 million gallons, erasing its year-to-date decline in less than two weeks. If current trends hold, milk’s revival may finally force a revision of the “death of dairy” myth.

Thanks for reading and enjoy your weekend.

