MPC Weekly Friday Report

Date: May 15, 2020
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	*+ $.4750*	$1.7800
Barrels	*+ $.4500*	$1.7200
Weekly Average Cheddar Cheese		
Blocks	*+ $.3205*	$1.5975
Barrels	*+ $.2730*	$1.5195

Chicago AA Butter		
Weekly Change	*+ $.3550*	$1.6450
Weekly Average	*+ $.2530*	$1.5010
Dry Whey		
Dairy Market News	w/e 05/15/20	**$.3800**
National Plants	w/e 05/09/20	**$.3794**

Non-Fat Dry Milk		
Week Ending 05/09/20		
Nat'l Plants	**$0.8396**	22,856,230
Prior Week Ending 05/02/20		
Nat'l Plants	$0.8585	22,998,958

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 15 Est	**$14.55 - $15.05**	**$12.15**	**$12.24**	**$10.65**
Last Week	**$14.55 - $15.05**	**$11.76**	**$11.23**	**$10.03**

April 2020 CA FMMO Statistical Uniform Price Announcement

April '20 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	**$18.24 (*Tulare*) $18.74 (*L.A.*)**	**$13.87**	**$13.07**	**$11.40**	**$12.44 (*Tulare*) $12.94 (*L.A.*)**	**$12.115 (*Tulare*) $12.615 (*L.A.*)**
Percent Pooled Milk	**21.2%**	**4.5%**	**1.3%**	**72.9%**	**100% (1.981 billion lbs. pooled)**	

**Quota rate of $0.325/cwt. as of September 2019 milk*

Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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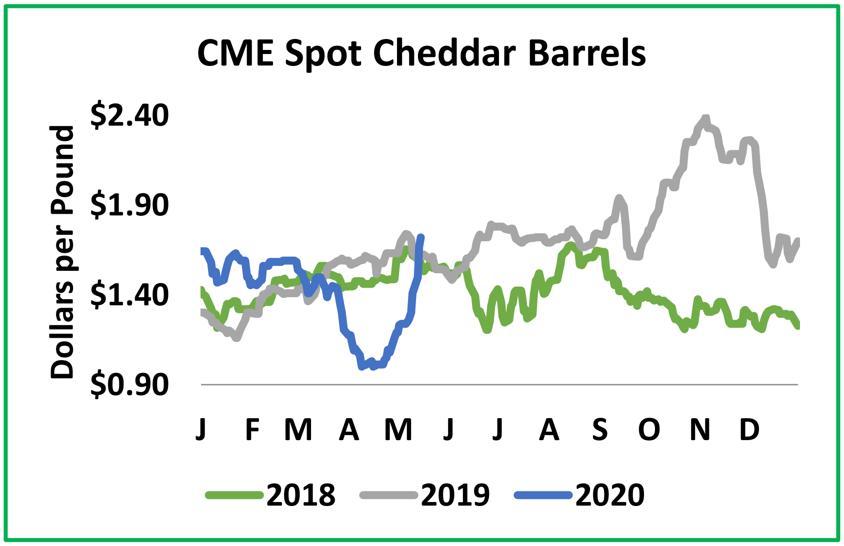
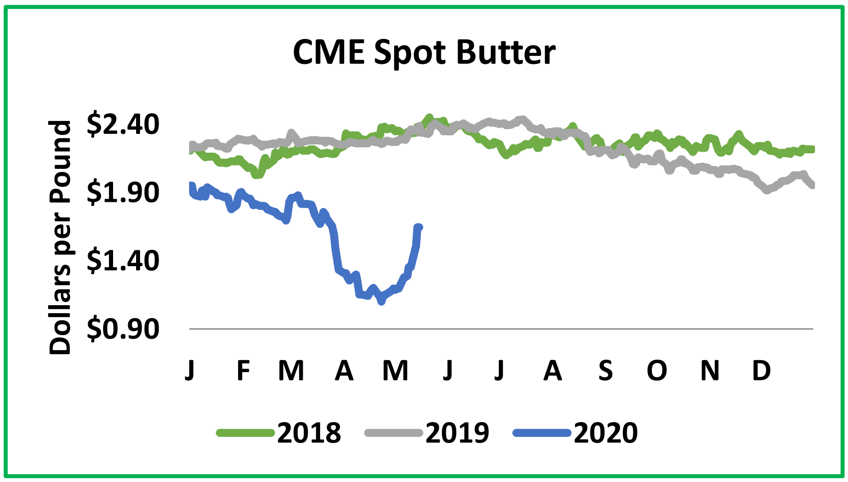
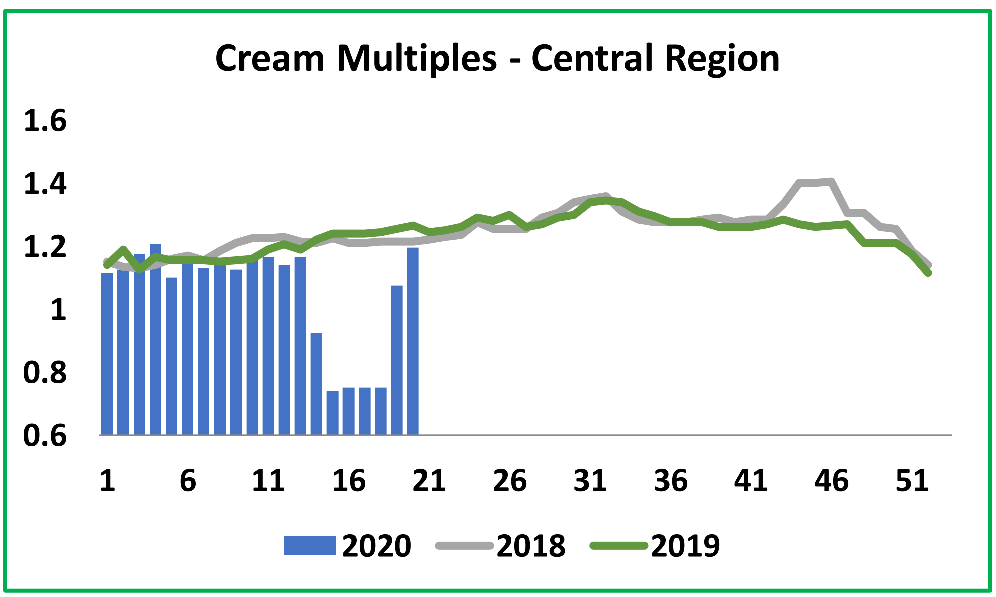
The bulls bellowed and bucked this week, and the bears fled. The dairy markets moved higher by leaps and bounds. Although the rally faded on Friday, the magnitude and velocity of this week's recovery are astounding. Cheese led the charge. CME spot Cheddar blocks jumped 47.5¢ this week to $1.78 per pound. Barrels soared 45¢ to $1.72, a new high for 2020. Both blocks and barrels stand above year-ago levels, a truly impressive feat given the state of the economy. Butter vaulted 35.5¢ this week to $1.645. CME spot nonfat dry milk (NDM) rallied 11¢ to 93.5¢. Whey slipped back 0.75¢ to 39¢.

The futures gained considerable ground. June Class III settled at $16.85 per cwt., up $3.17 from last Friday. The June contract has climbed more than $5 in the past three weeks. June through December Class III futures sit comfortably above $16. 2020 Class IV futures added more than $1.50, on average, this week. But at less than $15 per cwt., they are still a long ways from covering dairy producers' costs.

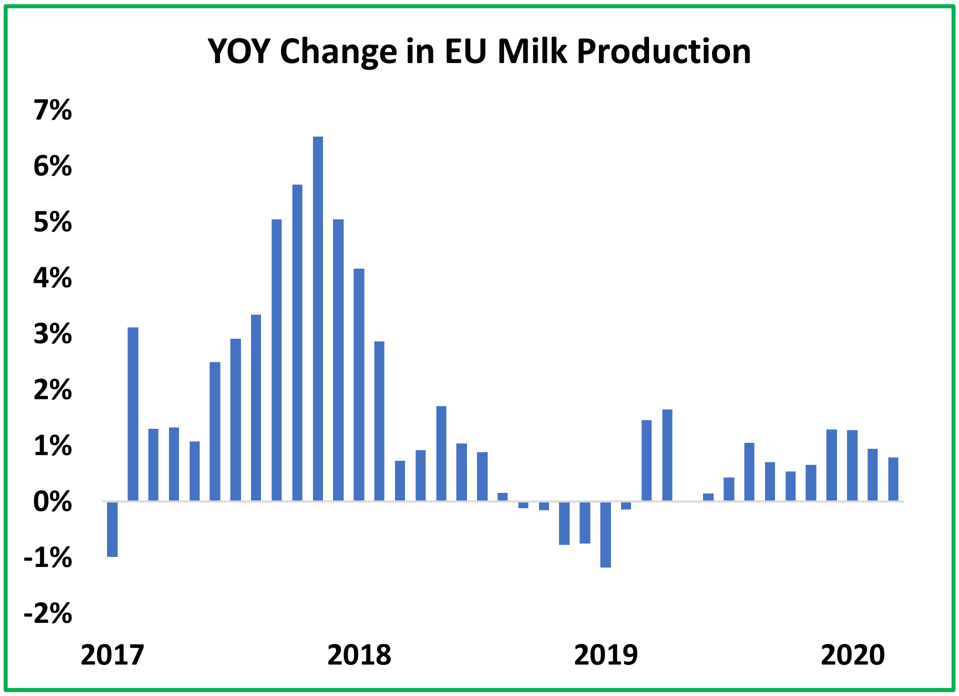




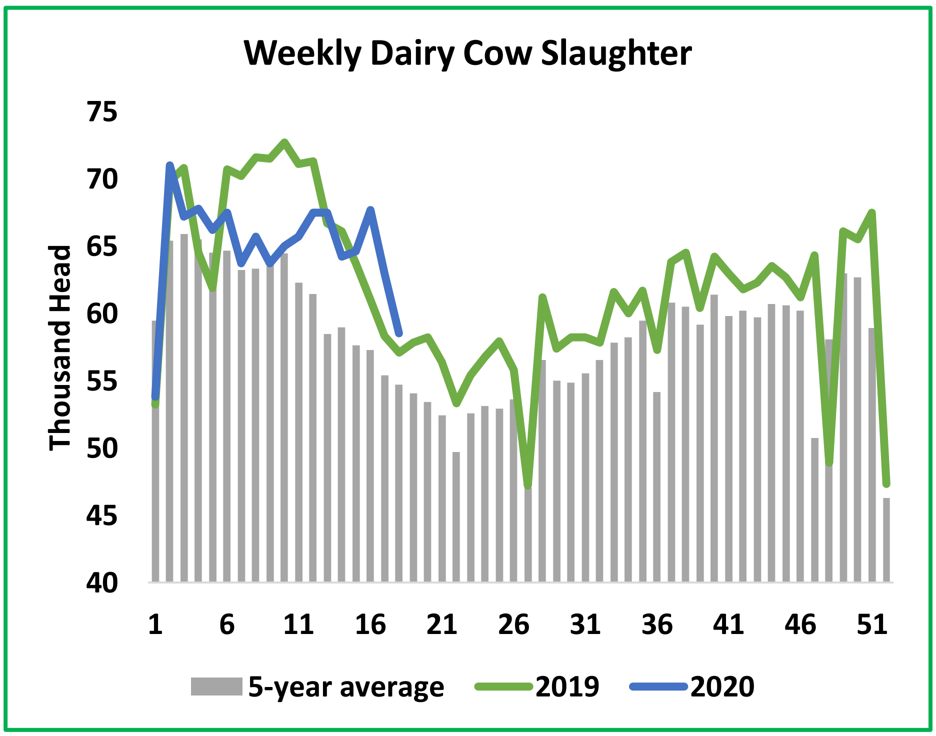
The dairy markets in general, and the cheese and butter markets in particular, have been buoyed by a perfect storm of purchases. U.S. cheese was a bargain a couple months ago. Now exporters are loading containers to fill orders that were booked earlier this year. Grocers are still moving dairy products in huge volumes. They are competing with restauranteurs who are restocking after spending most of March and April on the sidelines. Meanwhile, some companies that signed up to supply nonprofits with food boxes under USDA's Farmers to Families program are scrambling to secure the yogurt, dips, cheese, butter, and fresh milk needed to fill them. In the near term, processors may need to ramp up output to meet these simultaneous requests. Meanwhile, ice cream season has arrived, tightening up the cream markets and reducing butter production.



While dairy processors are hurrying to squeeze large orders into a very short timeframe, dairy consumption may be less concentrated. Dairy products are moving rapidly from processors to cargo containers, food banks, commercial kitchens, grocery pallets, and in-home refrigerators. But consumers probably aren't eating a lot more dairy than they were just a few weeks ago. USDA is donating dairy at such a scale that it's likely to cannibalize retail sales. Restaurant goers will also need fewer groceries. Importers who stocked up on U.S. cheese when it was on sale won't need to buy as much later. Orders are not expected to maintain their current heady pace.



Whatever the future brings, improved demand has ushered the milk market into balance at a time of year when that can be difficult to achieve. Lower output has helped too. Preliminary data shows European milk collections up just 0.8% from a year ago in March. USDA's *Dairy Market News* reports that high cull rates and variable feed quality have tightened milk supplies in the Northeast. Co-op penalties and self-imposed production cuts are reportedly weighing on milk yields in the Central region. In the Southwest and California, the heat is also dragging production lower. For the week ending May 2, dairy cow slaughter was 58,467 head, up 2.5% from the same week a year ago, and once again the highest total ever for this time of year, excluding 1986. Although the futures promise better days ahead, there is still immense pain on the farm. This week's vigorous rally suggests the dairy downturn may be over sooner than we had feared.



Grain Markets

The corn market went nowhere at all this week. July corn futures finished right where they started, at $3.1925 per bushel. On Tuesday, USDA published its first official supply and demand estimates for the 2020-21 crop year. With massive acreage and no sign of planting trouble, the agency projects end-of-season corn stocks at over 3.3 billion bushels, the highest total since the 1987-88 season. Soybean futures slipped 12¢ this week to $8.385. Exports are perking up, but the low corn price suggests that farmers may switch some ground into soybeans, which is not helping prices. The currency is also an impediment. This week the Brazilian real fell to an all-time low against the dollar, making South American soybeans extremely attractive for foreign buyers.

Tough Water News

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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On Tuesday morning, I read the 36-page opinion and order of Fresno Federal District Court Judge Dale Drozd granting the motion by the State of California and a group of environmental organizations for a preliminary injunction to prohibit the Central Valley Project (CVP) from operating its Delta pumping plant according to the new federal rules from May 14 until May 31. As I explained in an article I wrote about this issue two weeks ago, there are some fish species in the Delta that are protected by the Endangered Species Act. I thought there were two – the Delta Smelt and the Winter run Salmon – but there must be others because this decision by the court was to send more water to the ocean to protect the California Central Valley (CCV) Steelhead.

In a nutshell, there are three diversity groups of CCV steelhead that hang out in the Delta, with a certain group of steelhead migrating in the southern Delta near the pumps in the late spring. The old pumping plans designed to protect endangered fish regulated how much water could be pumped based on a ratio of inflow to the Delta to the allowable export from the pumps – the so called I/E ratio. The new plan got rid of the I/E ratio and uses a metric of counting how many endangered fish get trapped at the fish screen that sits in front of the pumping plant. The new pumping plan sets a limit of 1,552 steelhead that can be salvaged at the pumping plant between April 1 and June 15. It requires that when 50% of this number or 776 steelhead show up, then pumping needs to be throttled back. As of May 5, a total of 253 steelhead had showed up, or 33% of the 50% trigger. To quote the Judge, "In light of the above, defendants emphasize that actual loss numbers have not yet approached the 50% loss threshold, suggesting that this fact is dispositive of the court's irreparable harm analysis. The court does not agree."

How much water, in this relatively dry year, will be lost over these two and a half weeks of throttled back pumping? CVP contractors estimated that number at 52,000 acre-feet.

Long story short, Judge Drozd was not convinced that the fish counting strategy was protective enough of the steelhead, and so he imposed a preliminary injunction ordering the CVP pumps throttled back and operated to the old 2009 Biological Opinion standard until May 31. How much water, in this relatively dry year, will be lost over these two and a half weeks of throttled back pumping? CVP contractors estimated that number at 52,000 acre-feet. How much is 52,000 acre-feet of irrigation water worth? This week, Semi-Tropic Water Storage District in Kern County priced extra surface water to their growers at $650 per acre-foot. Buena Vista Water Storage District in Buttonwillow price some extra water they had available a few weeks ago at $800 per acre-foot. In Madera, extra water was priced at $375 per acre-foot and so there is a range. Using a $500 per acre-foot value, 52,000 acre-feet of south of Delta water supply is worth somewhere in the range of $26,000,000.

How much economic activity and tax revenue could have been generated from the usage of this water in the farming community as opposed to sending it out to the ocean? Did the court have any discretion? Judge Drozd talks about that in his decision: "Congress has 'removed from the courts their traditional equitable discretion in injunction proceedings of balancing the parties' competing interests.' (citation omitted) Thus, it is a 'fundamental principle' that, when courts are 'confronted with requests for injunctive relief in [ESA] cases,' the third and fourth prongs of the preliminary injunction standard—the equities and public interest factors—'always tip in favor of the protected species.' (citation omitted)."

This is just round one in what looks like a protracted legal battle over how many, of what kind, and during what time period will it take to protect these fish. I am going to make a couple of observations here that may upset some people. I was in the Delta last week looking at things. There is a lot of water there. And there are a lot of farms there who use Delta water to irrigate their crops. That water does not originate there – it comes through there from the Sierra Nevada mountains. The common method of irrigation is to have an open pipe stuck in the river or slough that sits 20 to 30 feet of elevation higher than the land surface. These open pipes, many with no screens, run up from the river over the levy and then down the other side where the water is distributed to the field. To get the flow of water started all that is required is to create vacuum to start the siphon, then gravity takes care of the rest.

How many steelhead smolts (and smelt and salmon) get sucked into those pipes? On the other hand, the pumping plants for the big water projects are essentially dead ends for the fish. When they get turned on, they can actually reverse the flow of the rivers. This is probably not good for fish either. Our forefathers left us with some engineering marvels and laid the groundwork for the development of an agriculture and urban miracle that is California. They had a much different perspective on what balance was, or was not, between man and the environment. We live in a whole different world today. And the laws society has passed require us to recognize a different balance.

My conclusion is that we will be forever battling and losing until we figure out how to grow more fish. And we probably need some changes to the way our pumps in the Delta work as well. I think this is really the point of the Voluntary Agreements process that showed so much promise until politics took over. We need to get back to the table in good faith to put a plan together that gets the balance right for both the fish and the millions of people and acres of productive farmland that depend on this resource for their livelihood.

If this continues to be a legal battle, Judge Drozd will likely be the man governing our water future. I strongly recommend you read his decision. I may have come to a different conclusion than he did, but I respect him for the care he took in making his judgement. When you read it, keep in mind that the court hearing on this issue was May 7 and his decision came out on May 11, just 4 days later. Judge Drozd looks equipped to give us legal decisions, but I seriously doubt we can get a happy outcome if we try to solve this problem in a courtroom.

Call your Farm Service Agency center to apply for direct payment coronavirus relief

By Kevin Abernathy, General Manager
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USDA yesterday hosted a webinar to help producers prepare for signing-up for the Coronavirus Food Assistance Program, which will provide direct payments to producers. You can watch the webinar here.

While the application period has not yet opened, you'll want to get ahead of the curve by gathering the following information: 1) Up-to-date contact information; 2) Your personal and business tax ID numbers; 3) Farming operating structure; 4) Adjusted gross income to ensure program eligibility; and 5) Direct deposit information to enable payment processing.

Farm Service Agency (FSA) county offices are conducting all business by phone, so we recommend reaching out to them to confirm that the information they have on file about your operation is up-to-date so processing of your application moves as quickly as possible. Once the application period opens, you'll want to call your FSA county office to schedule an appointment for completing the application over the phone.

Need contact information for your local FSA office? Find it here.

Still no details from USDA on direct payment portion of COVID relief program

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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It has been two months since the NBA suspended their season because of the coronavirus. It has been 51 days since the U.S. Senate voted 96-0 to borrow $2.2 Trillion to essentially shore up the economic capacity of the United States by sending cash to individuals, businesses and institutions that were impacted by the government's decision to shut down big swaths of the economy to save the health care delivery system. But somehow or another, USDA has not been able to figure out how to get some money to dairy farmers. Maybe next week is what we are hearing, maybe late on Friday. What we know about their plans is that it will seek to compensate producers for actual losses (how to calculate those losses is part of the mystery) and there will be a payment cap. The industry and Congress have complained loudly that the initially proposed payment cap of $125,000 per dairy was woefully inadequate to meet the need of the farms where a vast majority of the nation's milk supply is produced and we will see if these complaints have an impact when USDA finally gets this done.

On a more positive note, USDA did make a big splash with the awarding of contracts for the purchase of dairy products for the food box program. This action seems to have triggered a massive upward movement in market prices for cheese and butter and to some extent even powder. This market movement is driving up futures prices for Class III and Class IV for the remainder of 2020. If these price hold, most producers should be back to breakeven by late summer. To make sure you benefit from this newfound optimism in the market, you should definitely be looking at participating in the Dairy Revenue Protection crop insurance program and put floors under your milk price based on these higher prices now. In reality, it seems pretty clear that there will not be sufficient money coming from the U.S. Treasury to replace the lost income from the collapse of the dairy markets in the immediate aftermath of the pandemic. But getting market prices back up is the most valuable and effective way of shoring up the capabilities of America's dairy farmers to continue to provide milk and dairy products to the country and to the world. If USDA's action did that, then hats off to them.

Newsom moves to slash school, health spending — but asks feds for a rescue

Courtesy of Cal Matters

How does a liberal, blue-state governor take on the unappealing task of slashing the budget? By shifting a lot of the pressure to the federal government.

The order makes it easier for employees to access workers' compensation benefits by shifting the burden of proof to employers, who will have to prove employees did not contract COVID-19 at work in order to avoid a claim, CalMatters' Barbara Feder Ostrov reports. Such an expansion has been estimated to cost the state workers' compensation system billions a year.

Read the full article here.