

MPC WEEKLY FRIDAY REPORT

DATE: JUNE 25, 2021
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7

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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	-\$.0025 \$1.4900	WEEKLY CHANGE	-\$.0675 \$1.7175	WEEK ENDING 06/19/21	
Barrels	-\$.0525 \$1.4900	WEEKLY AVERAGE	-\$.0650 \$1.7395	NAT'L PLANTS \$1.2751 15,786,705	
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		PRIOR WEEK ENDING 06/12/21	
Blocks	-\$.0170 \$1.4835	DAIRY MARKET NEWS W/E 06/25/21	\$.6200	NAT'L PLANTS \$1.2676 18,280,841	
Barrels	-\$.1280 \$1.4860	NATIONAL PLANTS W/E 06/19/21	\$.6250		

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 25 EST	\$19.89 - \$20.39	\$16.65	\$17.18	\$16.40
LAST WEEK	\$19.89 - \$20.39	\$16.76	\$17.33	\$16.48



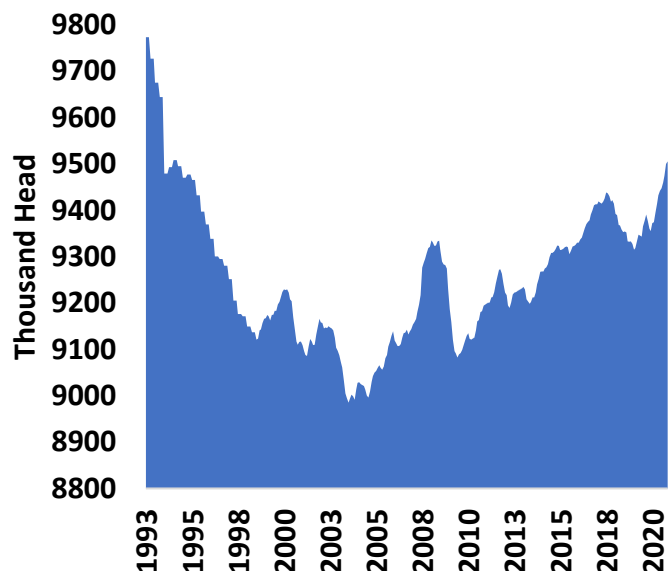
Milk, Dairy and Grain Market Commentary

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

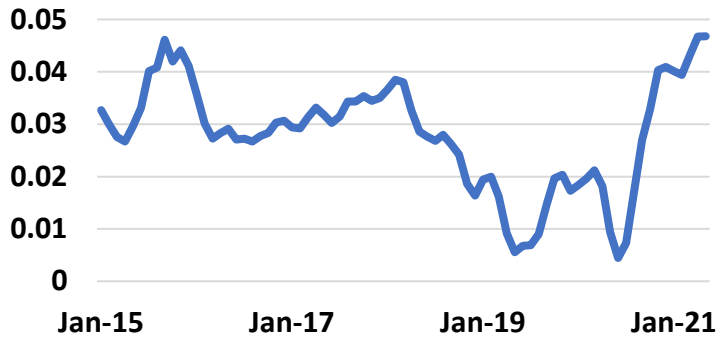
Milk & Dairy Markets

Summer officially arrived this week. Right on cue, the mercury is climbing on the West Coast. Temperatures will top triple digits from Washington to California, shattering records in the Pacific Northwest. In California's Central Valley, home to the nation's greatest concentration of dairy cows, the forecast calls for highs in the 100s for the foreseeable future. Heat stress is sure to drag down milk yields there. In the Northeast, the heat is not nearly so extreme, but temperatures are expected to average above normal, gradually bringing an end to the spring flush. But in the Midwest and Southern Plains, it's unusually cool and expected to remain so. Milk yields have slipped from the peak, but the mild weather is prolonging the flush, no matter what the calendar says.

U.S. Milk Cow Herd



Two-year Growth in U.S. Milk Production Rolling Three-month Average

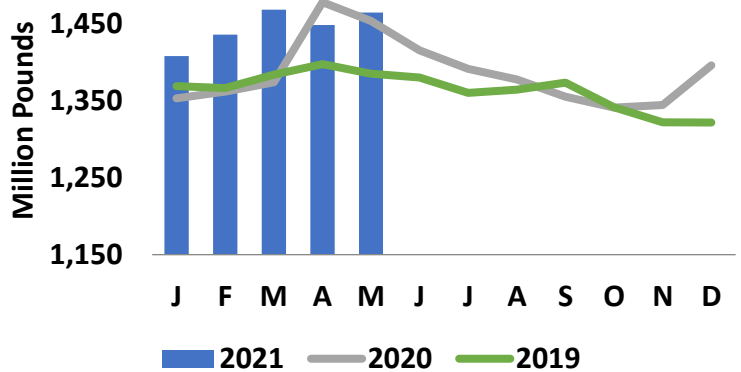


Cows abound. On Monday, USDA offered its latest look at monthly milk production. The agency revised upward its estimate of the April dairy herd by 10,000 head. According to USDA’s new figures, dairy producers added 13,000 milk cows in February, 14,000 in March, 26,000 in April, and another 5,000 in May. There were more than 9.5 million milk cows in May, the highest total since 1994 and 145,000 more than there were in May 2020. That’s the largest year-over-year expansion in the dairy herd since 2008, a surplus which led to an immensely painful 2009.

All those cows made for a profusion of milk. Output reached 19.85 billion pounds last month, an all-time high. Production was up 4.6% from May 2020, when pandemic lockdowns prompted a steep selloff in the dairy markets, and numerous supply chain issues – caused by a scared workforce, storage shortage, and tumbling demand from foodservice – reduced processing capacity. Amid onerous but necessary supply management programs, producers were forced to dump countless loads of milk last spring. As the *Daily Dairy Report* notes, “Against that backdrop, it’s not surprising to see such a staggering year-over-year increase.”

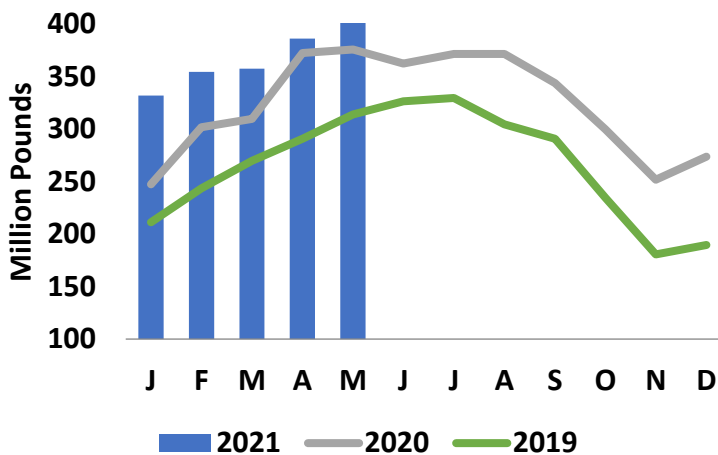
A two-year comparison gives a clearer portrayal, without allowing the pandemic to cloud the picture. Since October, U.S. milk output has been roughly 4% greater than it was two years prior, the most formidable increase since 2015. In the Midwest, processors continue to snap up loads of excess milk at steep discounts even after significant expansions. *Dairy Market News* reports that cheesemakers are running at “max capacity.”

Total Cheese Stocks



Thankfully, demand is also strong. Both cheese and butter inventories grew in May, but the increases were smaller than those of a typical year, and they came on the heels of lower-than-average growth in butter stocks since February. Cheese stocks climbed modestly after a highly unusual setback in April. Still, there is plenty of product. Cheese inventories reached 1.465 billion pounds, up 0.7% from a year ago. At 401.8 million pounds, butter stocks are 6.9%

Butter Stocks



greater than they were a year ago. There hasn't been this much butter in cold storage since 1993, at the height of the low-fat craze.

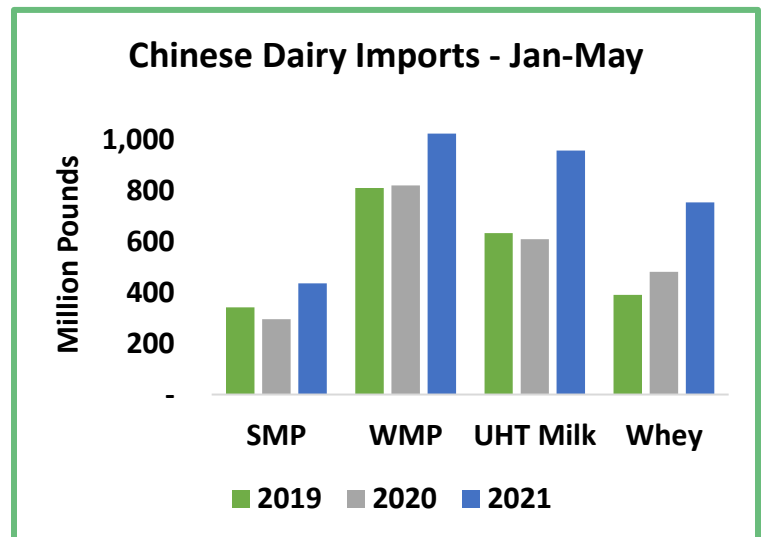
Heavy stockpiles continue to weigh on pricing. At the spot market this week, butter fell 6.75¢ to a three-month low of \$1.7175 per pound. Blocks slipped 0.25¢ to \$1.49. Barrels plunged 5.25¢ and also closed at \$1.49. Milk fell too. Nearby Class III futures finished a little lower than last Friday, while August through December contracts settled 40¢ to 65¢ in the red. Most Class IV contracts were 30¢ to 50¢ lower and September Class IV fell 72¢.

For weeks, whey buyers have pushed back as prices topped 60¢. Their pluck has paid off. CME spot whey fell 3.25¢ this week to 57.75¢. Inventories are far from burdensome, but they are starting to grow thanks to formidable cheese output. Demand for high-protein whey products remains strong, and exports are moving at a good clip. China brought in 161.8 million pounds of foreign whey in May, just shy of the all-time high set in March. So far this year, Chinese dry whey imports are record large and up 56.4% from 2020. The United States has accounted for 37% of the total, down from 55% in 2017, before the trade war opened the door for our competitors.

CME spot nonfat dry milk values held steady at \$1.265. Amid heavy milk output, driers are running hard. Processors find it difficult to keep product moving on time due to a shortage of truck drivers and continued backlogs at the ports. The slowdown is forcing manufacturers to stash milk powder in warehouses as distant buyers wait on delivery. Warehouse space is tightening, and some Western driers have been forced to sell more spot loads of powder to preserve storage space for their export commitments.

Chinese milk powder imports continue to impress. The world's largest dairy importer brought in 164 million pounds of whole milk powder (WMP) last month, the highest May total on record and 72% more than in May 2020. For January through May, China's WMP and SMP imports were 25% and 47% greater than the first five months of 2020, respectively.

China's imports of other dairy products are all off to a record-smashing start. For the year to date, China has imported 16% more butter, 57% more ultra-high temperature fresh milk, and 69% more cheese than in 2020. The United States is largely excluded from these markets due to retaliatory tariffs, but big Chinese purchases from our competitors free up space for the U.S. dairy industry to sell product elsewhere. Still, the industry is surely missing out on export opportunities due to our lack of free trade agreements in the Asia-Pacific. Given all the milk we're making, that's a costly disadvantage.



Grain Markets

The bears continued to bellow in the grain pits. Heavy rains watered crops in much of the Corn Belt, putting to rest fears of a widespread drought. But it's still painfully dry in the Dakotas, Minnesota, and northern Iowa. There are plenty of rains in the forecast for the next two weeks, but the pattern remains

the same, with only light, scattered showers in the driest areas. Many parched fields could miss the moisture altogether.

The crop markets were already on the run when the Supreme Court ruled that the EPA could grant small refiners an exemption from their Renewable Fuel Standards obligations to blend ethanol and biodiesel into the fuel supply. Although the ruling was relatively narrow, it gave fresh life to speculation that the Biden administration would grant waivers to refiners who have fallen short of their commitments to blend biodiesel. Those waivers could significantly reduce demand for soybean oil. Lower soybean oil prices would weigh on soy crushing margins and perhaps slow the crush enough to tighten soybean meal supplies. With that, corn and soybean values plummeted further, while soybean meal bounced back. Despite the Friday rebound, August soybean meal dropped nearly \$25 per ton this week to \$348.90. September corn settled at \$5.3025 per bushel, down 47.25¢ since last Friday.



USDA Creating Program to Reimburse Producers: Secretary Tom Vilsack

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

[Last week](#) I wrote about additional pandemic aid USDA will be providing dairy farmers, including an idea that payments should be targeted to producers who were impacted by lower Class I prices and the record high price of cheese stimulated by massive government purchases. [In the clip below](#), USDA Secretary Tom Vilsack briefly discusses a program aimed at such relief, stating:

“We are creating a program to help reduce the differential that occurred between Class I and Class III milk pricing because of the disproportionate number of purchases of cheese during the Food Box effort. That distorted the market and it caused a lot of harm to smaller producers. We’re putting resources in to reimburse those producers for some of the loss they incurred.”



Water Blueprint for the San Joaquin Valley Sends Drought Investment Recommendations to Governor

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

[The Water Blueprint for the San Joaquin Valley](#) – of which MPC is an active participant – submitted recommendations last week to Governor Gavin Newsom for near-term investments for effective drought response. You can read the entire document [here](#).

With the [Governor's announcement to dedicate \\$5.1 billion](#) to drought mitigation and infrastructure projects, the Blueprint identifies several investments that will assist the San Joaquin Valley weather reoccurring drought and flood cycles.

These are some of the highlights of the Blueprint's recommendations:

- \$785 million in restoration of conveyance capacity for projects such as the Friant-Kern Canal, the California Aqueduct and the Delta-Mendota Canal
- \$500+ million for multi-benefit pilot projects in San Joaquin Valley communities
- \$475 million in immediate drought mitigation and water conservation
- No less than \$50 million for access to safe, clean and reliable drinking water
- \$20 million for assistance in water development planning
- \$10 million for riparian habitat restoration and groundwater recharge
- \$5 million in fish friendly diversion pilot projects

California Creamery Operators Association Virtual Meeting Starts Monday – Free Dairy Farmer Registrations Still Available

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

The [California Creamery Operators Association](#) (CCOA) will host its [121st Annual Meeting](#) as a virtual event on June 28-30. The three half-days are packed with informative and engaging panel discussions. A line-up of more than 20 expert speakers will be sharing the latest insights on federal policies, consumer trends, dairy innovation, exports and international markets, water scarcity, and more. See the conference agenda [here](#).

I'm excited to moderate a panel at the conference titled, "Surviving Increased Water Scarcity in California." I look forward to engaging with this esteemed panel of Golden State water thought leaders (see below).

Another interesting panel on the agenda is "Inside Washington: What to Expect from the Biden Administration and a Balanced Congress." Panelists (see below) will share the latest developments in federal issues with significant implications for California dairy.

MPC is proud to be a sponsor of this conference. If you're interested in tuning into the virtual event, **there are a number of complimentary registrations available to dairy farmers**. Please contact Jennifer Bingham at jbingham@westcoastadvisors.com if you're interested.

Surviving Increased Water Scarcity in CA

Wednesday, June 30, 2021 | 9:00 am PT



Matthew Swanson
Vice Chair,
CA Water Commission
CEO,
Associated Feed



Ellen Hanak
Vice President and Director,
Public Policy Institute of CA,
Water Policy Center



Jason Gianquinto
General Manager
Semitropic Water Storage District



Geoffrey Vanden Heuvel
Director of Regulatory/Economic Affairs
Milk Producers Council
Moderator

Inside Washington: What to Expect from the Biden Administration and a Balanced Congress

Tuesday, June 29, 2021 | 9:00 am PT



Jim Costa
Congressman, 16th District CA
House Ag Livestock
Committee Chair



Jaime Castaneda
Executive President for Policy
U.S. Dairy Export Council,
National Milk Producers Federation



Chip English
Partner-in-Charge
Davis Wright Tremaine



Darrin Monteiro
VP, Member/Government Relations
California Dairies, Inc.
Moderator

Registration is Now Open
121ST ANNUAL MEETING
VIRTUAL EVENT
JUNE 28 - 30, 2021

**MPC Dairy Farmer Members:
Contact Jennifer Bingham for
complimentary registration!**
jbingham@westcoastadvisors.com

**The Milk Check Podcast:
Consequences of the Drought, Demand and Shortages**
Courtesy of [Jacoby Dairy Product Merchants](#)

Note from Kevin Abernathy, MPC General Manager

Sarina Sharp of *Daily Dairy Report* has provided expert market commentary and analysis of dairy and grain markets for the *MPC Friday Report* for more than nine years. She recently appeared as a guest on *The Milk Check Podcast* to discuss the lack of precipitation out west, labor shortages and dairy demand for the remainder of 2021 – and what it means for California dairy producers. Listen [here](#).

