MPC Weekly Friday Report

Date: May 8, 2020
To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	*+ $.1000*	$1.3050
Barrels	*+ $.0800*	$1.2700
Weekly Average Cheddar Cheese		
Blocks	*+ $.0805*	$1.2770
Barrels	*+ $.1040*	$1.2465

Chicago AA Butter		
Weekly Change	*+ $.1025*	$1.2900
Weekly Average	*+ $.0745*	$1.2480
Dry Whey		
Dairy Market News	w/e 05/08/20	$.3800
National Plants	w/e 05/02/20	$.3744

Non-Fat Dry Milk		
Week Ending 05/02/20		
Nat'l Plants	$0.8585	22,998,958
Prior Week Ending 04/25/20		
Nat'l Plants	$0.8851	24,670,165

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 8 Est	**$14.55 - $15.05**	**$11.89**	**$11.55**	**$10.22**
Last Week	**$14.55 - $15.05**	**$11.76**	**$11.23**	**$10.03**

Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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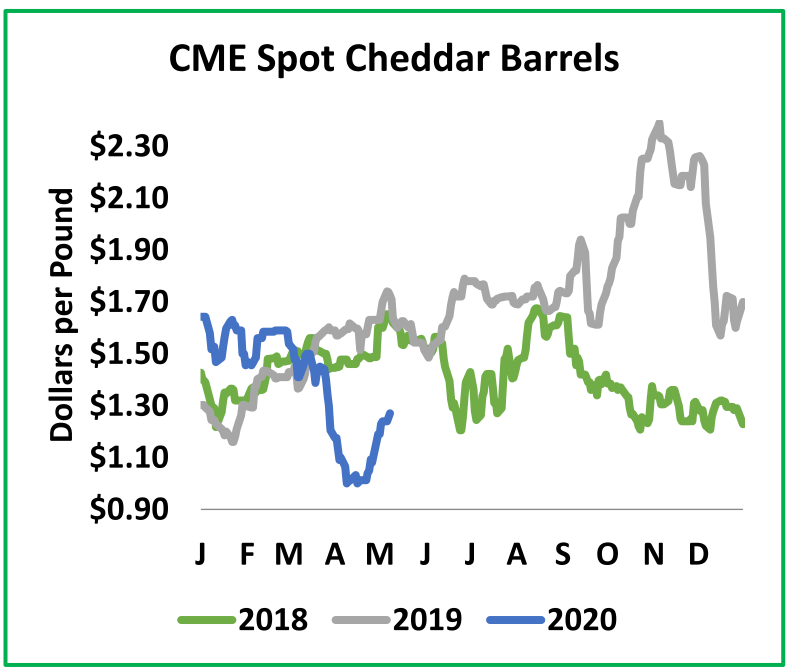
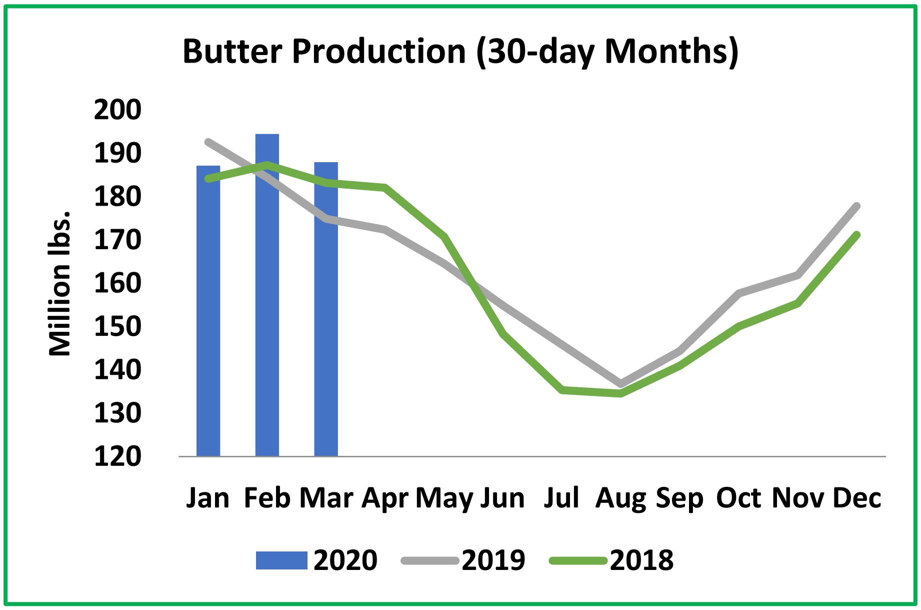
Milk & Dairy Markets

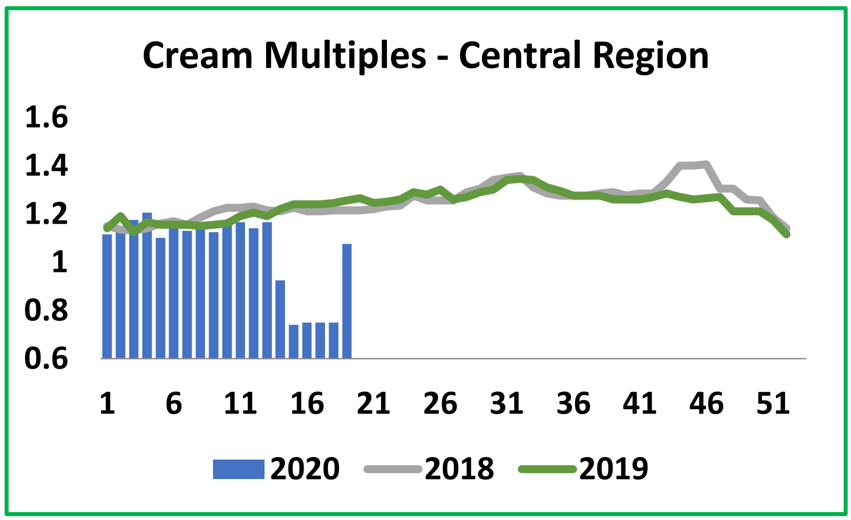
Apparently, dairy market bulls are not essential workers. Like many of us, they spent March and much of April sheltering in place. But the bulls are back to work now with a renewed energy after all their idleness. Most of the dairy complex gained ground last week, and this week prices moved higher across the board. June, July and August butter futures settled a nickel higher today, at their daily trading limit. Class III futures posted double-digit gains. The June contract climbed $1.491 this week to $13.68 per cwt. 2020 Class IV futures gained more than a half-dollar, on average. Despite the recovery, the next several milk checks promise to be agonizingly inadequate.





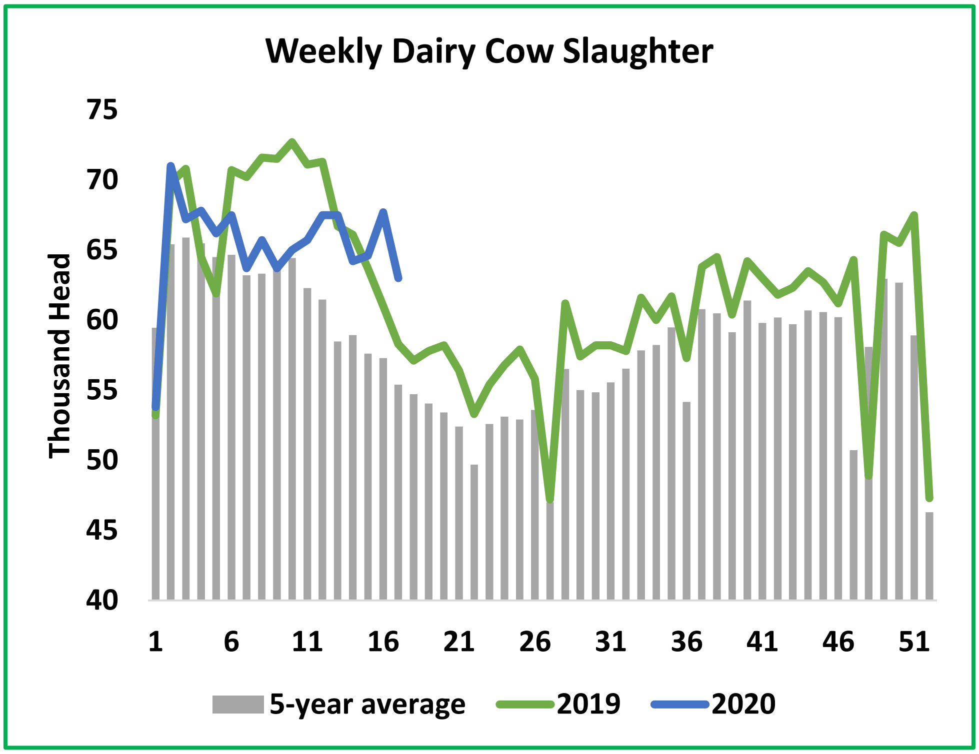
Prices moved sharply higher at the CME spot market. Spot butter climbed 10.25¢ to $1.29 per pound. Cheddar blocks finished at $1.305, a dime higher than last Friday. Barrels rallied 8¢ to $1.27, erasing all of the April losses. CME spot nonfat dry milk (NDM) added 3.25¢ and closed at 82.5¢. Whey powder inched 0.25¢ higher to 39.75¢. Prices moved mostly lower at the Global Dairy Trade (GDT) auction, but milk powders fared better than was feared. The average winning price for whole milk powder climbed 0.1%, and skim milk powder slipped just 0.3%, to the equivalent of NDM at $1.15 per pound.

U.S. cheese output barely grew in March, likely because manufacturers were cautious about stepping up output as customers pared back orders due to restaurant closures. Total cheese output reached 1.12 billion pounds, up just 0.2% from March 2019. Cheddar production increased 1.1% but Mozzarella output slipped 0.4% year over year. Amidst a flood of inexpensive cream, butter output jumped 7.5% from the prior year to 188 million pounds. Cream got even cheaper in April, so there is likely a lot of butter in cold storage. Now that ice cream season has arrived, cream multiples are noticeably higher than they were last month.

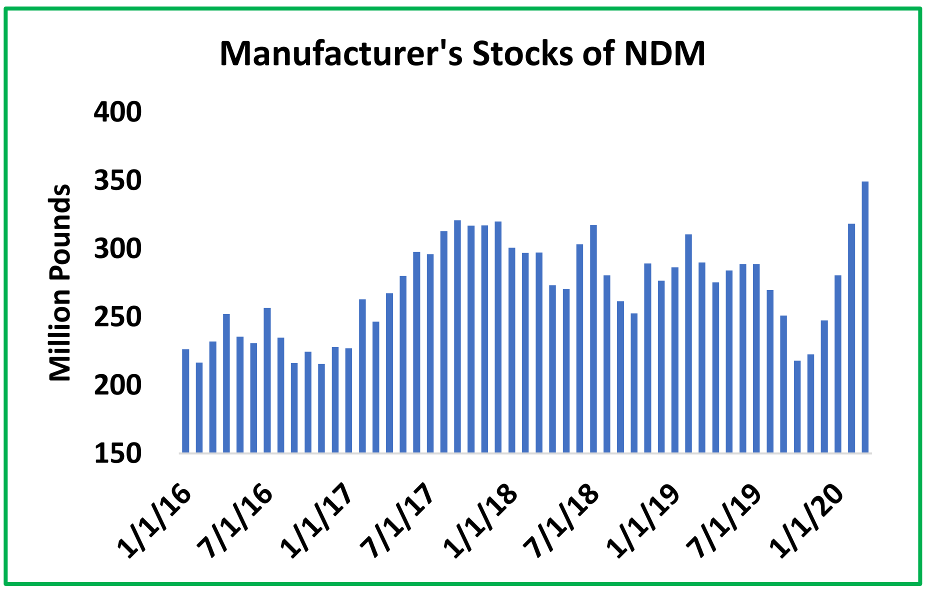


It feels like the worst may be over for milk prices. But these are far from happy times. The market is finding balance mostly because the industry has made painful production cuts. Over-production penalties and $11 milk have gone a long way to discourage output. Despite a collapse in national cattle slaughter volumes, dairy producers are culling cows in staggering numbers. In four of the past five weeks (through April 25), dairy cow slaughter has reached 34-year highs. At this time last year, the milk cow herd was in decline, largely due to aggressive culling. We are winnowing even faster now. Dairy cow slaughter topped year-ago levels by 11% in the week ending April 18 and 8.1% in the week ending April 25. Even so, there is a backlog of cows waiting for their turn at the packer. Cattle slaughter volumes have been particularly high in the West. Dairy producers in the Central and Eastern regions have some catching up to do now that packers are ramping back up.

Demand is reportedly ticking up, as grocers restock, and restaurants place new orders for the first time in a while. But consumers are still fearful, and dairy sales through foodservice may disappoint. USDA is joining the effort. Today the agency announced $1.2 billion in contracts for the new Farmers to Families Food Box Program, including $317 million for dairy products and $175 million for a



combination box which will also include dairy. This initial round of donations is moving forward quickly, and the spending is more generous than previously anticipated. There are likely plenty of families in need. The U.S. economy lost 20.5 million jobs in April and the unemployment rate soared to a record-high 14.7%. Meanwhile, the pandemic has hardly slowed. While the United States as a whole reports fewer new Covid-19 infections than it did a couple weeks ago, that's almost entirely due to the fact that the crisis has abated in New York City. Excluding New York, new daily cases of Covid-19 in the U.S. are still on the rise. Researchers are racing to create a vaccine, but it likely won't be widely available until next year.



In the meantime, we're piling up dairy products. As of March 31, manufacturers' stocks of NDM climbed to 349.2 million pounds, the highest total in USDA records dating back to 1930. While privately held stocks of U.S. NDM have never been this high, milk powder inventories were far higher in the 1990s, when the government held a milk powder stockpile. Still, the milestone is unwelcome. Milk powder inventories likely continued to grow in April, as driers ran at full speed and global commerce slowed. The European floor price could forestall U.S. milk NDM from dropping much lower, but rallies may be fleeting. Mexican buyers are mostly on the sidelines, and the peso is very weak. Slaughter volumes suggest that when we emerge from this crisis and demand recovers, there will be significantly less milk. But with inventories on the rise, it may be some time before we're short of dairy.

Grain Markets

After much back and forth, the feed markets barely budged. July beans rallied a penny to $8.505 per bushel. July corn climbed a fraction of a cent to $3.1925. More than half of the corn crop is in the ground, and farmers are seeding soybeans at a good clip. It's cold in the Corn Belt this weekend, but next week looks warmer. Dry weather is taking the top off of Brazil's second corn crop.

QIP assessment to increase

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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At a Zoom meeting this week, the Producer Review Board wrestled with the reality that the current 32.5-cent per cwt. assessment on all California Grade A production is not raising enough revenue to cover all of the quota payments that are due to California producers with quota. This is not a surprise.

When the stand-alone quota program was initiated in November of 2018, the initial assessment rate was 38 cents per cwt. Last summer when the Producer Review Board looked at the amount of money that the 38-cent assessment had generated, they realized that it was collecting more money than was needed to make the quota payments. They made a recommendation then, which the California Secretary of Food Agriculture implemented, to temporarily lower the assessment to 32.5 cents per cwt. They knew that this reduced amount was less than what would be needed on an ongoing basis, so that the over collected money could essentially be returned to producers.

The extra reserves have now been drawn down and so it is time to reset the rate closer to what will be needed to fund the program. The Department staff recommended that the rate be reset to 36.5 cents per cwt., which works out to $0.04195 per pound of solids non-fat. After some deliberation, the Producer Review Board voted to recommend this rate change to the Secretary.

News flash! CDFA reschedules hearing on STOP QIP petition

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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CDFA has just re-scheduled the hearing to consider the STOP QIP petition to repeal Chapter 3.5 of the Food and Agriculture Code. This hearing was originally scheduled for late March and then for April and then postponed because of the COVID-19 pandemic.

CDFA today set the hearing for June 9-10, 2020. The hearing will be a webinar and teleconference only with the opportunity to present written testimony and exhibits. You can read the full notice here.

No word from USDA on dairy COVID relief details

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The word on the street is that USDA has developed the rules for how they are going to dispense the distribution of COVID relief money to producers and that these rules have been sent over to the Office of Management and Budget for review and approval. Recall that these funds were authorized by Congress back on March 24 and that three weeks ago on April 18, USDA announced that they were going to distribute money to producers based on an intent to compensate producers for COVID related losses at a rate of 85% of the loss between January 15 and April 15 and 30% of the loss in income for the period of April 16-October 15.

Notwithstanding the rate, USDA announced that they would cap payments to producers at $125,000 per entity. This cap announcement triggered an extraordinarily strong negative reaction from producers and more importantly from Congress. Read the bi-partisan congressional letter [here](). Meanwhile, we have no idea what USDA has in mind for how they are going to calculate the rate of payment, but we should find out soon.

Court holds initial hearing on Delta pumping

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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On the waterfront, the initial court hearing was held Thursday on Governor Newsom's legal attempt to roll back the federal government's updated water pumping rules in the Delta. You can read a news report about that hearing here.

No immediate decision was made by the court, but the lineup against the Governor, who is joined in the lawsuit by a number of radical environmental organizations, is pretty remarkable. It includes virtually all of the water users in the entire state who are connected in anyway to the State or Federal water projects. It is very ironic and hard to understand why the Governor, who has made "California For All" the theme of his administration, has decided to fight virtually the entire community of agencies responsible for delivering water to people and farms to divert fresh water to the ocean. A ruling from the court is expected this next week.

Paycheck Protection Program and Economic Injury Disaster Loan Information

Courtesy of National Milk Producers Federation

Note from Kevin Abernathy, MPC General Manager

MPC President Cornell Kasbergen and I just completed a call with the National Milk Producers Federation, where they shared fact sheets regarding the Paycheck Protection Program (PPP) and Economic Injury Disaster Loans (EIDL).

PPP info sheet here. EIDL info sheet here.

EIDL Loan v. Grant

In addition to applying for an EIDL loan, you can also apply for an emergency grant at the same time, with the same application. The loan must be repaid and is capped at $2 million. You are under no obligation to take the SBA loan if one is offered to you, which will occur after SBA processes your full loan application. The emergency grant does not have to be repaid, is capped at $10,000, and is supposed to be delivered to your bank account between 2 and 4 days after you submit your completed application.

When you are completing the EIDL application, the form will ask you if you also want to apply for the emergency grant. If you say yes, the form will next ask you for your number of employees. SBA has advised that sole proprietors count themselves as an employee and that all employers count their part-time, full-time, and seasonal employees for the purpose of this question.

Accessing both PPP loans and EIDLs

There is nothing in the CARES Act that prohibits businesses from accessing both PPP loans and EIDLs.

However, because PPP loans can only be used for certain expenses, it is important to keep in mind how you apply for and use funds from each type of loan so you do not unintentionally reduce the amount you can receive through either program or your amount of PPP loan forgiveness.

Additionally, if the borrower takes an EIDL emergency grant and is seeking PPP loan forgiveness, the amount of the emergency grant will be deducted from any PPP loan forgiveness the borrower may otherwise be receiving.

California issues guidance for opening lower-risk workplaces

Courtesy of State of California

California will move into Stage 2 of modifying the state's Stay-at-Home order on May 8, 2020. Specific guidance for the agriculture and livestock industry is available here.

Before reopening, all facilities **must:**

1. Perform a detailed risk assessment and implement a site-specific protection plan
2. Train employees on how to limit the spread of COVID-19, including how to screen themselves for symptoms and stay home if they have them
3. Implement individual control measures and screenings
4. Implement disinfecting protocols
5. Implement physical distancing guidelines

To provide your input on future industry guidance, fill out the California Recovery Roadmap survey. It is critical that employees needing to self-isolate because of COVID-19 are encouraged to stay at home, with sick leave policies to support that, to prevent further infection in your workplace. See additional information on government programs supporting sick leave and worker's compensation for COVID-19.

Labor wins big on COVID workers' comp

Courtesy of Cal Matters

In a big win for labor unions, Gov. Gavin Newsom signed an executive order Wednesday that presumes California's essential workers who contract COVID-19 did so on the job.

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.