

MPC WEEKLY FRIDAY REPORT

DATE: OCTOBER 18, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	- \$.1325	\$1.9675	WEEKLY CHANGE	+.0200	\$2.1150	WEEK ENDING 10/12/19		
Barrels	-.0225	\$2.0000	WEEKLY AVERAGE	+.0385	\$2.1265	NAT'L PLANTS	\$1.0953	16,128,381
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 10/05/19		
Blocks	-.0335	\$2.0275	DAIRY MARKET NEWS	W/E 10/18/19	\$3.450	NAT'L PLANTS	\$1.0674	23,549,800
Barrels	+.0910	\$2.0140	NATIONAL PLANTS	W/E 10/12/19	\$3.533			

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
OCT 18 EST	\$19.44 - \$19.94	\$16.68	\$18.63	\$16.45
LAST WEEK	\$19.44 - \$19.94	\$16.65	\$18.64	\$16.37

SEPTEMBER 2019 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

SEPT '19 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT*
MINIMUM CLASS PRICE	\$19.45 (TULARE) \$19.95 (L.A.)	\$16.93	\$18.31	\$16.35	\$16.87 (TULARE) \$17.37 (L.A.)	\$16.545 (TULARE) \$17.045 (L.A.)
PERCENT POOLED MILK	25.8%	8.8%	6.2%	59.2%	100% (1.76 BILLION LBS. POOLED)	

*QUOTA RATE OF \$0.325/CWT. AS OF SEPTEMBER 2019 MILK

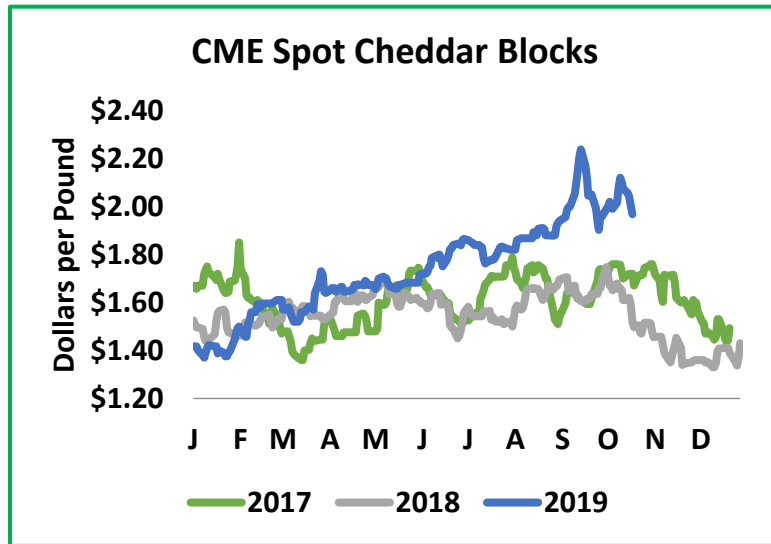


Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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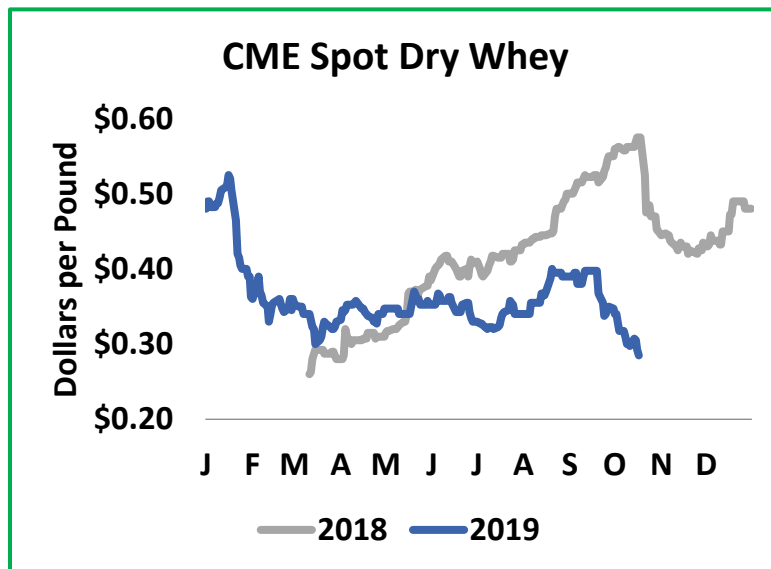
Milk & Dairy Markets

The cheese trade is struggling to interpret an onslaught of mixed signals, and its judgment is further clouded by stupefying volatility and a sense of déjà vu. CME spot Cheddar blocks took a big step back this week, ceding all the ground they gained last week and



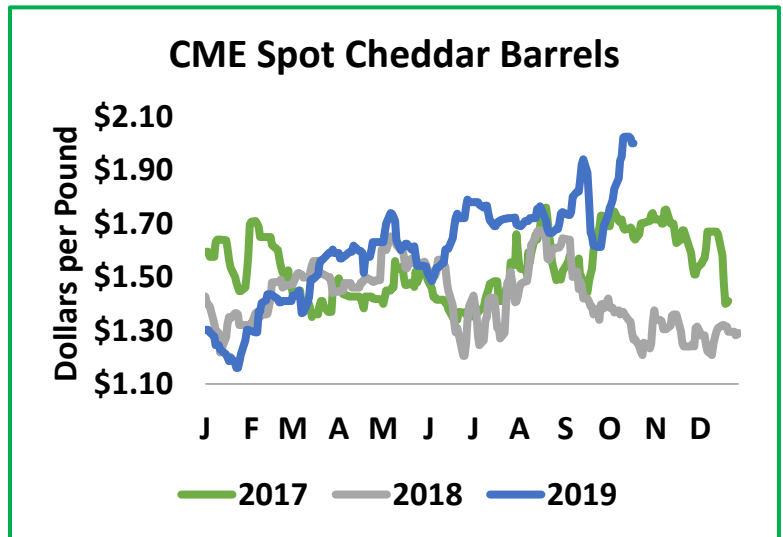
strong enough to forestall an all-out collapse, even at these historically high prices. Although spot Cheddar barrels slipped 2.25¢ this week, they look surprisingly comfortable at \$2, an elevation to which they rarely climb, much less take a rest and enjoy the scenery. The dramatic reversal in the block-barrel spread – from 43.25¢ less than a month ago to -3.25¢ today – is a testament to formidable demand for commodity cheese.

Perhaps the meteoric rise in barrels is, at least in part, the result of government intervention. USDA has promised to purchase and donate processed cheese to food banks in November through February, as part of the agency’s efforts to undo the damage of the trade war. USDA is likely bidding for cheese alongside end users preparing for holiday orders, resulting in a run on the market. As USDA’s bids subside, so might barrel prices. However, this is not the first time that Uncle Sam has stepped in and tried to support the cheese markets in this way. The



then some. Blocks closed today at \$1.9675 per pound, off 13.75¢ from last Friday and the lowest price so far in October. Sky-high cheese prices are simply difficult to sustain. As values top \$2, end users reassess their purchases. USDA’s *Dairy Market News* reports that “customers are a bit resistant to current price trends.” Most end users are relying on their inventories and “buying based on short-term needs.” Many foreign buyers have long since turned their attention elsewhere. At the Global Dairy Trade (GDT) auction this week, Cheddar values fell 2.2%, to \$1.65 per pound.

On the other hand, domestic demand remains strong enough to forestall an all-out collapse, even at these historically high prices. Although spot Cheddar barrels slipped 2.25¢ this week, they look surprisingly comfortable at \$2, an elevation to which

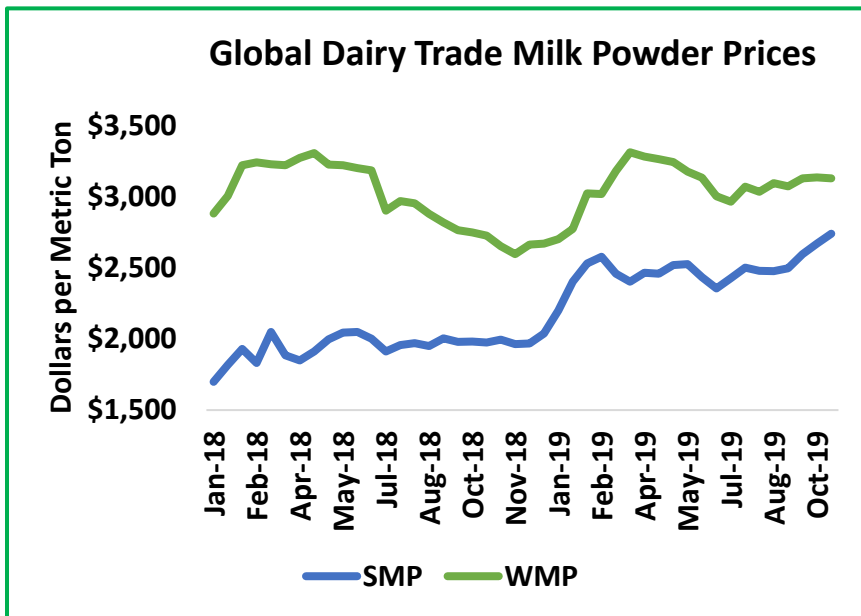


pricing impact was much less noticeable in previous rounds, which suggests that the government is not the dominating factor at play. Indeed, USDA may have sidelined some buyers who will be quicker to step in as prices fade. And supplies remain far from burdensome. According to *Dairy Market News*, even as some end users put off purchases, hand-to-mouth buying is “enough to keep processors’ inventory under control.”

The whey market is simply anemic. CME spot whey lost ground again, falling 1.75¢ to 28.5¢ per pound. That’s the lowest value in 18 months, and within a few cents of the lowest price ever published in whey powder’s 19-

month tenure at the spot market. Volume remains high; 62 loads changed hands in Chicago this week. Tighter milk supplies are reportedly reducing cheese and whey output in the Midwest, but even at these prices, demand is in question. Domestic buyers see whey as a bargain, but foreign demand is curtailed by a strong dollar, punitive tariffs, and reduced consumption from Southeast Asia's disease-wracked swine herd.

Despite the selloff in both whey and Cheddar, Class III values held their own. November Class III fell 15¢ to \$18.56 per cwt., but most other contracts posted double-digit gains. Class III futures had some catching up to do after taking a wait-and-see approach to the spot market's steep ascent last week. The trade seems encouraged by the barrel market's resilience.

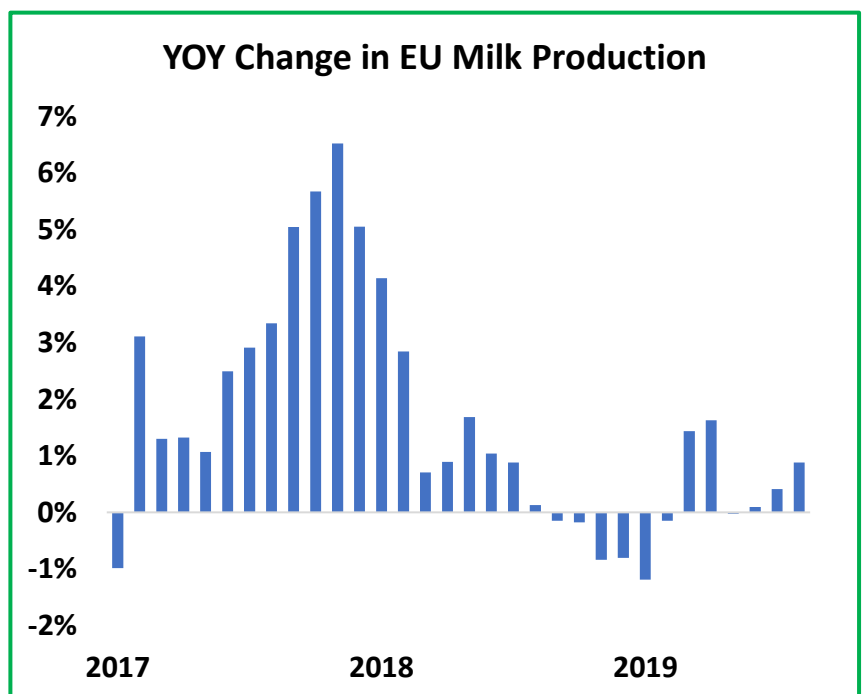


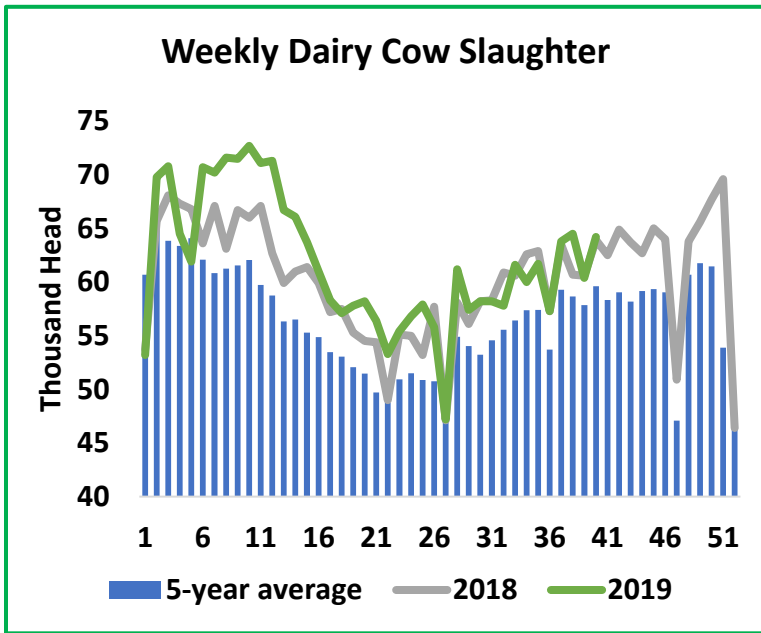
The Class IV products climbed, and futures moved sharply higher. CME spot butter added 2¢ and reached \$2.115. Cream remains plentiful, but butter values seem to be stabilizing. Spot nonfat dry milk (NDM) gained a half-cent this week and closed at \$1.17, its highest value since February 2015.

The milk powder market was helped by skim milk powder's (SMP) strong performance at the GDT. SMP jumped 2.4% to the protein-adjusted equivalent of NDM at \$1.34. In much of the U.S., tighter milk supplies are reducing drying and boosting demand. Rather than pay a premium for spot milk, many

cheesemakers are fortifying their vats with milk powder. Manufacturers' inventories of NDM are "highly committed" into next year, according to *Dairy Market News*.

European milk collections have started to bounce back after a sweltering summer. Assuming steady output in Spain, Austria, and Cyprus, which have yet to report data, milk collections in the EU28 totaled 29.1 billion pounds in August. That's up 0.9% from a year ago, the strongest advance since April. Growth in European milk output began to slow in the second half of 2018, making year-over-year comparisons easier. Relative to August 2017, this year's output is up just 1%, the smallest two-year growth since June 2017. Gains in output were modest but widespread, with most of the major dairy nations back in the black.





In the U.S., cows are comfortable and milk yields are climbing seasonally. Milk output remains very strong in Idaho, where spot loads are leaving the state at steep discounts. But there is no indication of a looming flood of milk anywhere else. Slaughter volumes continue to impress, signaling that dairy producers are still convalescing after years of financial pain. In the week ending October 5, dairy producers sent 64,242 cows to the packer, 300 head more than the same week a year ago, when the milk-cow herd was much greater. This week's slaughter is the largest on record for the first week of October, aside from 1986, when the government paid dairy producers to kill their whole herds. It could be a while before the U.S. dairy herd starts to grow in earnest.

Grain Markets

It's been a frustrating fall for farmers. Cold wet weather last week – and a blizzard in the Dakotas – slowed harvest efforts noticeably. As of Sunday evening, combines had rolled through just 22% of the grain corn fields and 26% of soybean acreage. Sunnier skies this week may allow for better progress, but the cold snap has capped yields in much of the northern Corn Belt. A hard freeze in the Texas panhandle also damaged crops there. Dairy producers in many regions will face higher costs and lower milk yields as a result of local scarcity and variable feed quality.

Corn futures retreated from last week's highs, likely due to concerns about exports. December corn settled at \$3.91 per bushel, down 6.75¢ from last week. November soybeans closed at \$9.34, down 2¢.



CV-SALTS Basin Amendments Approved by State Water Board; Significant Changes Ahead for Dairies, Agriculture

By Kevin Abernathy, MPC General Manager & Dairy Cares
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Introduction by Kevin Abernathy, MPC General Manager

MPC – through the Dairy Cares coalition – has been active in a critical water quality regulatory process over the past decade, one that will shape the future as it relates to nitrate and salt management by Central Valley agriculture.

This process, known as CV-SALTS, was intended to create new options for complying with the Central Valley Regional Water Quality Control Board's (Regional Board) regulations for groundwater quality and nitrogen management. At its core, it preserves our ability to farm – empowering agriculture to continue as the Central Valley's economic engine – while also assuring safe drinking water for those whose water supplies are already impacted.

CV-SALTS tackled this tough issue by proposing changes to inflexible water quality regulations, which required that all water discharges seeping into groundwater meet drinking water standards. Despite

significant advancements in nutrient management technology and even with implementation of today's best practices, farmers – including dairy farmers – are put in a no-win situation trying to meet the current water quality rules as prescribed by the Regional Board. The technology to completely prevent seepage of nitrates into groundwater simply doesn't exist for most crops and soil types.

The regulatory changes proposed by CV-SALTS are a better plan that allows farmers, other water dischargers (municipalities, food processors, industrial manufacturers, etc.) and their neighbors the ability to work together to ensure safe drinking water while not crippling Central Valley family farms. The decade-long process involved many stakeholders: state and local agencies, regulated dischargers (growers, dairies, food processors, etc.) and environmental groups. Engaged throughout this process has been Dairy Cares, serving as a voice for dairy families every step of the way. Earlier this week, the State Water Resources Control Board adopted the CV-SALTS plan, which is summarized in the article below by J.P. Cativiela, Dairy Cares Environmental and Regulatory Affairs Director.

By Dairy Cares

On Wednesday, October 16, the State Water Resources Control Board – after several delays and postponements – finally adopted the CV-SALTS amendments to the Central Valley's Water Quality Control plans.

The amendments – which Dairy Cares has advocated for the past several years – create additional flexibility for dairies, farmers and other water quality permit holders who have struggled to comply with rigid and impractical water quality permit requirements. Most importantly, they create new conditions to allow additional time to meet water quality objectives when meeting those targets is impractical.

The 4-0 vote in favor of the amendments came at the end of a day-long hearing, during which State Water Board members heard continued opposition from environmental advocates, who decried the plan as a license for agriculture to continue to pollute drinking water. They also heard a lot of support from representatives of the regulated community, including Dairy Cares.

The State Water Board made significant concessions to environmental advocates, the most significant of which was ordering the Central Valley Regional Water Quality Control Board to immediately begin a process to “amend the amendments.” They gave the Regional Board one year to return with a revised plan with a shorter timeline.

One key point of contention was how much time can pass before agriculture, including dairies, and other permittees, must show they are no longer “causing or contributing to exceedance of water quality objectives” for nitrate. This has been an extremely difficult bar to reach because so many areas already exceed nitrate objectives and not contributing to those levels essentially requires allowing almost no fertilizer to escape into groundwater. Regional Board officials have acknowledged that while agriculture and dairies have been improving their efficiency, there is still no economically feasible combination of technologies and practices that can meet water quality objectives for nitrates today on all crops and soil types – and they don't know how long it would take to develop solutions that can meet that goal.

Because of the difficulty, the Regional Board had proposed in its plan that permittees must meet nitrate objectives “as soon as practicable” but in a time frame not to exceed 50 years. However, under pressure from environmental advocates, the State Water Board directed the Regional Board to bring back an amended plan with a not-to-exceed 35-year time frame.

The plan now goes for review by the state Office of Administrative Law and is expected to go into full effect by early 2020. That will trigger several activities, including formation of nitrate Management Zones in many areas, and notices to permittees regarding the option to participate in such zones.

Now that CV-SALTS has passed, it is expected that the State Water Board will soon turn its attention to a longstanding petition from several environmental groups regarding the Dairy General Order. Many important and complex activities are ahead and 2020 will be an extremely busy year related to water quality and dairies.



Next Round of Quota Meetings Scheduled; This Time There's Homework

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

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The Phase 2 meetings of the effort to evaluate options surrounding the California quota program have been scheduled.

Meetings will take place on Wednesday, October 30, 2019 at 2 p.m. in Chino at the Chino Fairgrounds, 5410 Edison Avenue. On Thursday, October 31, there will be a meeting at 10 a.m. at the Tulare County Fairgrounds, 620 K Street in Tulare. A third Phase 2 meeting will take place on Friday, November 1 at 10 a.m. in Turlock at the Turlock Ballroom, 528 N. Golden State Boulevard. You can register for the meetings [here](#).

In addition, there is a homework assignment. There are important study materials that have been prepared by Dr. Bozic and Matt Gould to help guide the deliberations of these Phase 2 meetings. Those papers will be available online [here](#).

The Phase 1 process produced many suggestions and ideas and over 1,200 comment cards which form the basis of the memos you are being asked to study. The memos are not very long and they are organized by subjects and options. While it may seem a bit overwhelming at first when you look at the material, I think you will find it very worthwhile to take the time to read the papers and come with questions, comments and suggestions to one or more of the scheduled meetings.

