MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	- $.1200	$1.6925
Barrels	+ $.0275	$1.4775
Weekly Average Cheddar Cheese		
Blocks	- $.0035	$1.7505
Barrels	+ $.0815	$1.4930

Chicago AA Butter		
Weekly Change	- $.0075	$1.6625
Weekly Average	+ $.0080	$1.6820
Dry Whey		
Dairy Market News	w/e 08/20/21	$.5537
National Plants	w/e 08/14/21	$.5605

Non-Fat Dry Milk		
Week Ending 08/14/21		
Nat'l Plants	$1.2579	15,822,030
Prior Week Ending 08/07/21		
Nat'l Plants	$1.2375	26,203,969

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
Aug 20 Est	$18.50 - $19.00	$16.46	$16.01	$15.75
Last Week	$18.50 - $19.00	$16.47	$16.19	$15.75

Milk, Dairy and Grain Market Commentary
By Sarina Sharp, Daily Dairy Report
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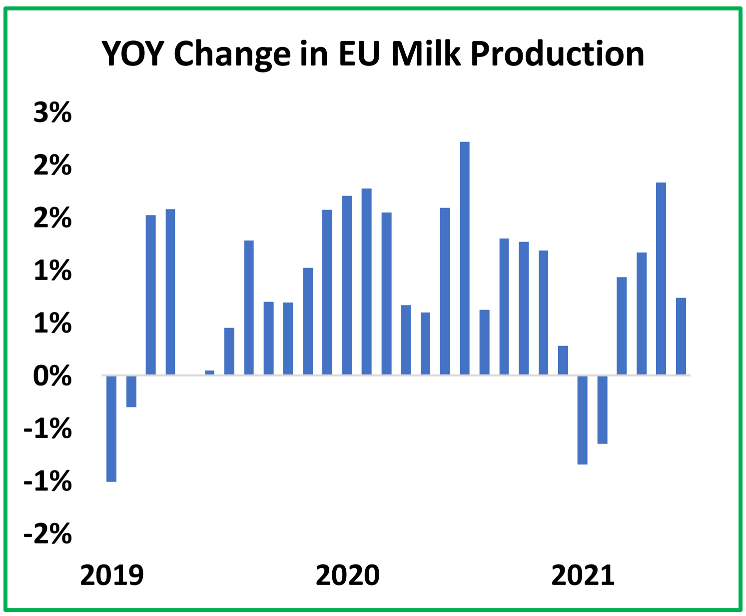
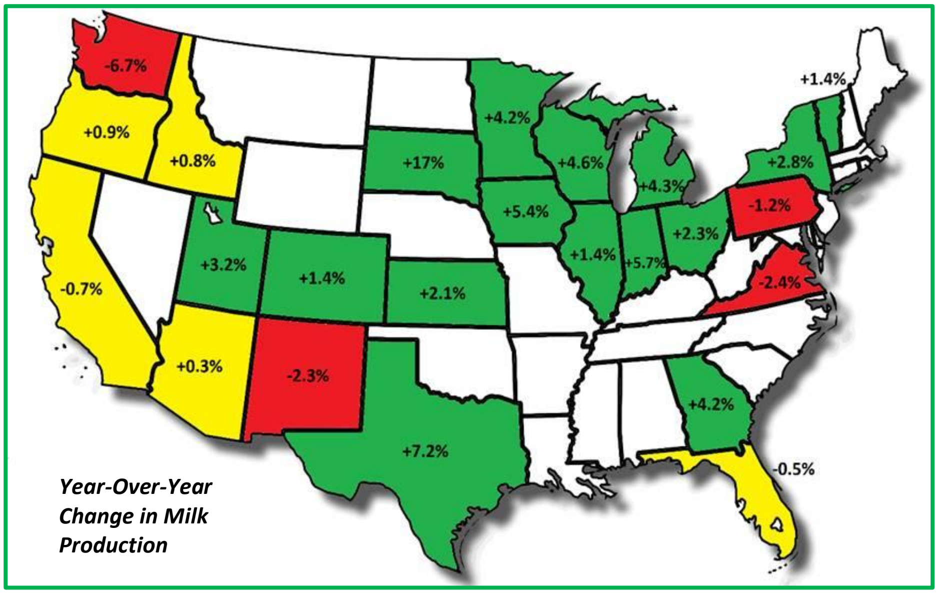
Milk & Dairy Markets

There is an abundance of milk in both the United States and Europe, but momentum is slowing. In Europe and the United Kingdom, June milk collections totaled roughly 30.7 billion pounds, up just 0.7% year over year. Low-quality forage and poor on-farm economics have slowed growth in milk output. USDA's Dairy Market News reports that milk prices "have not kept up with higher feed costs." Some farmers are leaving the industry and the milk-cow herd is in decline in Europe's traditional dairy regions. Flooding in Western Europe further dampened milk collections in July, but in Eastern Europe output remains strong.

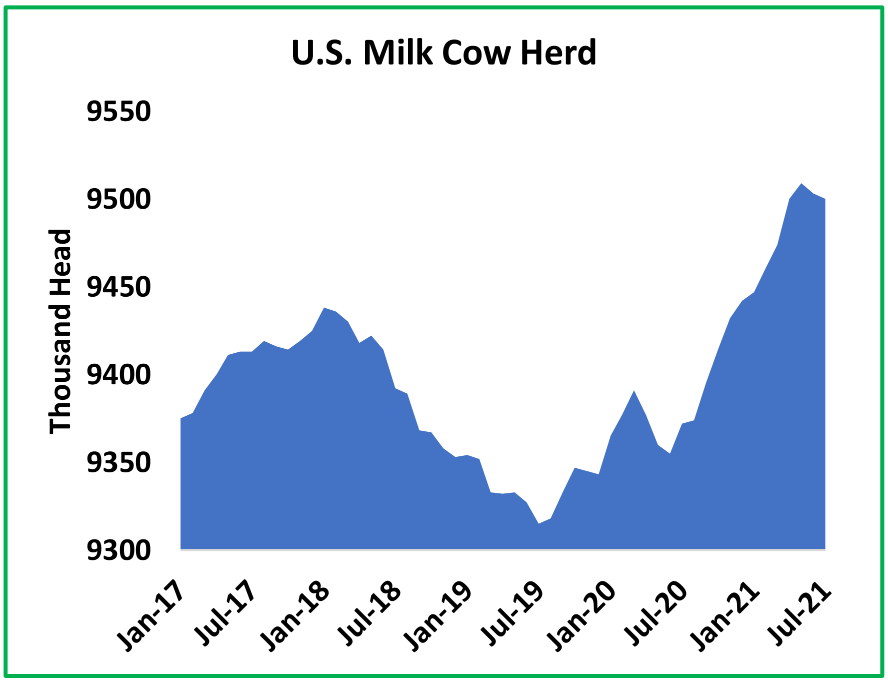




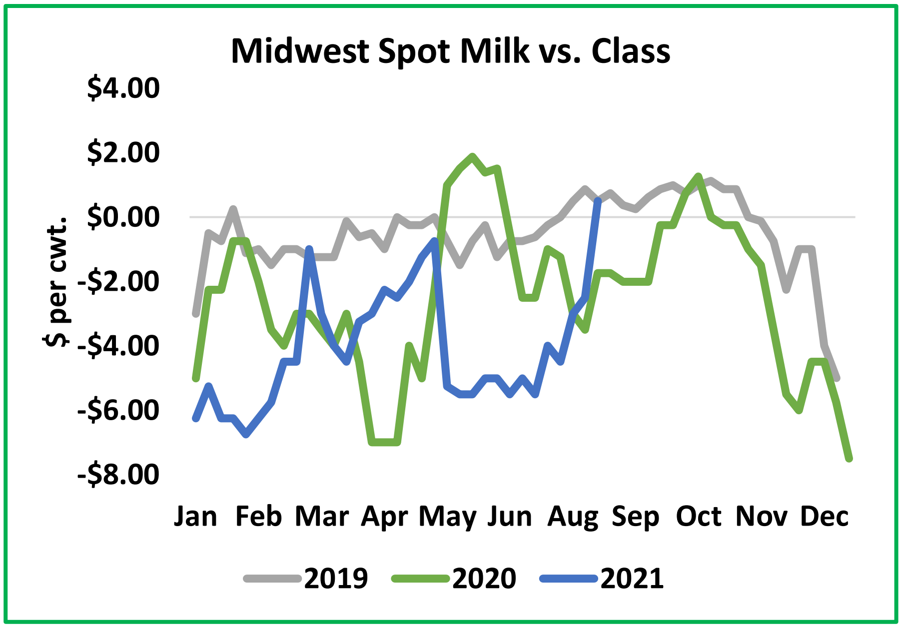
U.S. milk output reached 19.1 billion pounds last month. As expected, year-over-year growth waned from an average of 3.7% in the second quarter to a still-healthy 2% in July. Heat, humidity, and smoke clearly took a toll on milk yields in the Pacific Northwest, California, and the Southwest. Milk output continues to accelerate in the Midwest, but August temperatures have finally started to cut into milk yields in the heartland.

The U.S. milk-cow herd remains massive, at 9.5 million head, up 128,000 from July 2020. But contraction is underway, particularly in areas with big dairies – whose government payments fell well short of pandemic-era losses – and high Class I or Class IV utilization. After peaking in May, the U.S. milk cow herd declined by 6,000 head in June and another 3,000 head last month. Weekly slaughter volumes suggest the dairy herd will continue to shrink at the margins.

The combination of summer temperatures and back-to-school demand has tightened milk supplies noticeably. School milk orders could be especially strong this year. Just like the 2020-21 school year, USDA will offer free lunches with milk to all students this year. Unlike last year, most students will learn in person this year, which will presumably enhance demand for school milk cartons. Additionally, the Biden administration announced a permanent 27% increase in food stamp benefits, which is sure to boost dairy purchases at the margins. In fiscal 2019, dairy accounted for 13.5% of all purchases made through the Supplemental Nutrition Assistance Program.



Already, cheesemakers note stiff competition from Class I bottlers and say there is no spot milk to be had. In late July, cheesemakers in the Upper Midwest could buy excess loads of milk at as much as $6 per cwt. below Class III. Today, spot milk is trading at Class III to a dollar over. Tighter milk supplies are a double boon for milk powder. Balancing plants are running light, and, in the absence of discounted milk, cheesemakers are fortifying their vats with nonfat dry milk (NDM). Across the pond, European milk continues to flow into cheese vats, leaving driers with very little. European skim milk powder (SMP) exports are light, and inventories are lean. Meanwhile, global demand for milk powder remains

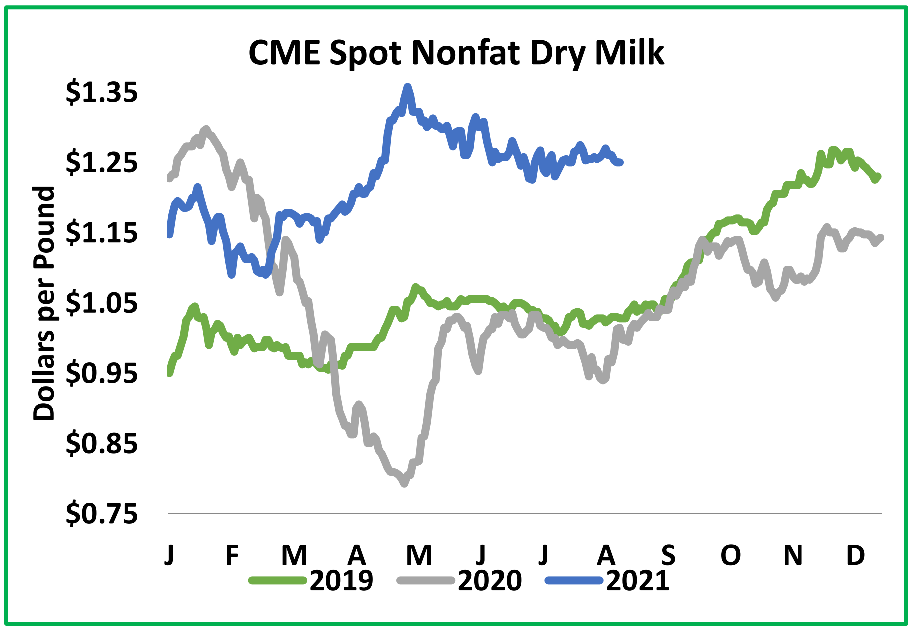


strong. SMP values rallied 1.1% at the Global Dairy Trade auction on Tuesday. Nonetheless, CME spot NDM slipped 2¢ this week to $1.25 per pound.

CME spot Cheddar converged this week. Cheddar blocks tumbled 12¢ to $1.6925. Barrels climbed 2.75¢ to $1.4775. Cheese demand is reportedly steady at restaurants and at retail. Export orders have been creeping higher, but the strong dollar is not likely to help U.S. export prospects going forward.

CME spot whey powder gained 1.25¢ this week and closed at 53¢. Overall demand for whey is steady. Domestic orders are climbing, and interest in high-protein whey products is particularly strong. But exports are weakening.

CME spot butter fell 0.75¢ this week to $1.6625. Churning is starting to slow in the Midwest as cream supplies tighten. Demand is holding, but sentiment has soured. Butter makers are clearly concerned about the impact that higher Covid counts could have on foodservice.



Class III futures took a big step back this week, as they erased some of the premium they held over the spot market. An overall selloff in equities and commodities and the stronger dollar likely also weighed. September through December Class III futures lost between 55 and 75¢. They are holding at $17 or better. Class IV futures were steady to a little higher, but they are still trading roughly a dollar below Class III.

Grain Markets

The grain and oilseed markets took a big step back this week. Export sales, ethanol production, and the soybean crush have all slowed of late, leading to slightly lower demand projections. Heavy rains are expected in the Northern Plains and Western Corn Belt, which will surely help the region's parched soybeans. It's too late in the season for the rains to have a huge impact on corn yields, but they surely won't hurt. Funds hold an unusually large corn position as we head into harvest, which could add to typical seasonal selling pressure. December corn settled today at $5.37 per bushel, down 36¢ from last Friday. November soybeans fell more than 80¢ to $12.9075. Soybean meal dropped $5.50 per ton to $354.90.

Agriculture Secretary Vilsack Makes a Disappointing Announcement

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

When the pandemic hit in the Spring of 2020, nationwide stay-at-home orders greatly impacted the dairy industry along with huge sectors of the American economy. Congress responded by authorizing the expenditure of massive amounts of money to help sustain folks through what has ended up being a prolonged period of disruption. Some of the government actions with regards to dairy – done with the best of intentions (like requiring cheese, but not butter be in the Farmers to Food Box Program) – had the practical effect of creating very high cheese prices and therefore high milk prices for dairy farmers selling to cheese plants. This left behind other producers who did not have access to those windfall values, which in turn created real competitive pressures within the dairy community.

For some time now, USDA has been signaling that they were going to use some of the billions of dollars of remaining COVID relief funds to address this unequal result. USDA Secretary Vilsack went to Vermont this week to announce a program to address the issue. It is a bit complicated, and we do not have all the details yet. What USDA has announced is that "payments will reimburse qualified dairy farmers for 80% of the revenue difference per month based on an annual production of up to 5 million pounds of milk marketed and on fluid milk sales from July through December of 2020." While we are still awaiting final details, the program seems designed to address the shortfall in fluid milk revenue that came from changing the Class I formula from being based on the "higher of" Class III or Class IV, to being based on the "average of" Class III and Class IV. See here for more information on this topic.

The payment will be based on compensating 80% of the difference between what it would have been under the "higher of" compared to what it was under the "average of." Milk produced between July 2020 and December 2020 will be eligible. The payments will be processed through milk handlers and the payments to producers will be limited to an annual production cap of 5 million pounds, as well as subjecting producer recipients to the standard USDA Adjusted Gross Income (AGI) limits. These caps severely limit how much money California producers will receive from this program.

Here's how the math works out for California producers:

- For the period July to December 2020, the difference between what the Class I would have been under the "higher of" formula versus what it was under the "average of" formula was **$3.56 per cwt.**

- There was a little over **11 billion pounds** of milk pooled in the California FMMO in July through December 2020, of which about **22% was Class I milk**.

- **$3.56** (the difference between "higher of" and "average of") multiplied by **22% Class I milk** in the pool equals **$0.78 per cwt. for all the milk in the pool**, for a total revenue shortfall of **$87 million for California** (11 billion pounds multiplied by $0.78 per cwt.).

- Then the USDA program says its intent is to compensate **80%** of that, which takes the total compensation for California down to just under **$70 million**.

- Dividing **$70 million** by the **11 billion pounds** that was pooled equals **$0.62 per cwt.**

- But then USDA says they will only cover up to **5 million pounds annual production per producer** and since this program is for 6 months only, the effective cap is **2.5 million pounds**.

- Bottom line, **2.5 million pounds** multiplied by **$0.62** equals about $**15,000 per producer**. If there are 800 eligible producers in California and they all get about $15,000 then that would send about **$12 million to California producers** instead of the **$70 million before the cap**.

- USDA's announcement states that it "will provide about **$350 million** in pandemic assistance payments to dairy farmers." California's contribution to the U.S. milk supply is nearly **20%**, which seems to correspond to the $70 million that California producers would receive BEFORE the cap. Given that there are many other states with large herds that will be capped out as well, it is hard to understand how USDA will distribute $350 million with these rules.

There will be more details about all this in the weeks to come, but the volume caps imposed on this program are very discriminatory against California producers who were already placed at a competitive disadvantage by USDA's pandemic-era cheese purchasing preferences.

Worth a Read: 10 Questions Farmers Frequently Ask the U.S. Dairy Export Council

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

There is a lot of interesting and useful information compiled in a user-friendly way in a brochure recently released by the dairy-farmer-funded U.S. Dairy Export Council. It is clear from the data that, like it or not, exports are a huge part of the U.S. dairy industry's sales portfolio. Reading this brochure will get you up to speed on what you need to know. You'll also see MPC members **Art and Renae De Jager**, and **Ray Prock, Jr.** in the report!

Access the report here.

Golden State Dairy Newsletter

Courtesy of the University of California Agriculture and Natural Resources

University of California Agriculture and Natural Resources recently released its latest Golden State Dairy Newsletter.

Excerpts are below and you can read the entire update here.

Don’t Stress (Too Much) Over Drought-Stressed Corn Nick Clark
UCCE Kings, Tulare & Fresno & Jennifer Heguy – UCCE Stanislaus, Merced, & San Joaquin

Drought is a familiar foe in California, and it strikes dairy farmers hard when the feed bunkers can’t be filled fast enough. Corn silage, a staple in most rations, is especially sensitive to drought. Drought stress in corn can be chronic (Figure 1) –a little bit stressed for a long time – or acute (Figure 2) – very stressed over a short time. Chronic stress tends to result in small, stunted plants with small ears and poor grain fill. Acute stress at the worst time, pollination, can cause poor grain-fill on otherwise healthy-looking plants. Both types of stress cause yield loss and decreases feed quality. We have developed guidelines for mitigating drought stress in corn (scan QR code with your phone’s camera on the next page) but deciding how to harvest drought-stressed corn and how to feed it also poses unique challenges. This brief article provides some key tips to help you harvest the best quality corn silage when drought has got you down.

Buying or Selling Corn Silage this Summer? Do You Want to Adjust the Price for Dry Matter?
Jennifer Heguy - UCCE Merced, Stanislaus & San Joaquin Counties

Traditionally, corn silage is purchased on a 70/30 basis; that is 70% moisture and 30% dry matter (DM). Let’s assume we’re buying a field for $60/ton. What happens when the corn silage is delivered at 28% DM, is the value still $60/ton? What if it’s delivered at 32% DM?

Surveillance of Antimicrobial Resistance on California Dairy Farms
Dr. Emmanuel Okello, Rose Atukunda, Dr. Essam Abdelfattah, Dr. Sharif Aly - UC Davis School of Veterinary Medicine & Betsy Karle - UCCE Northern Sacramento Valley.

Antimicrobial drugs play a vital role in maintaining the health and welfare of dairy cattle. Predictably though, the use of antimicrobial drugs can contribute to the emergence and spread of antimicrobial resistance (AMR), jeopardizing the availability of a vital tool in dairy production. To control AMR, the US Food and Drug Administration recently implemented changes in the animal drug regulations (VFD rule), increasing veterinary oversight in the use and distribution of medically important antimicrobial drugs (MIADs), or drugs that are important in the treatment of human infections, starting January 2017. In California, Senate Bill 27 (SB 27) was implemented starting January 2018. Senate Bill 27 incorporated and expanded on the elements of the VFD rule. Jointly, these regulations transitioned all MIADs from the over-the-counter status to veterinary feed directive (VFD) or prescription status and prohibited use for growth promotion.

Nutrient Content of Anaerobic Digester Digestate Nicholas Clark
UCCE Kings, Tulare & Fresno, Dr. Anthony Fulford – UCCE San Joaquin, Stanislaus & Merced, Joy Hollingsworth – UCCE Fresno, Madera, Kings & Tulare and Dr. Deanne Meyer – UC Davis & UCANR

The purpose of anaerobic digesters is to treat carbon in manure. The biogas is collected, scrubbed and used to power vehicles. Data from a current project funded by the California Dairy Research Foundation provide insight to the nutrient content of digestate, the effluent coming out of the digester. Samples were taken at five freestall dairies with anaerobic digesters. September samples represented summer conditions (Figure 1). January samples represented winter conditions. Five samples were collected in 2.5 days in each season. Cows had feedline soakers and access to corrals in summer. Cows had no access to corrals and soakers did not run in the winter.

Upcoming Meeting Dates

September 23: Kearney Alfalfa & Forage Field Day
Parlier, CA
For more information, please contact Nick Clark at neclark@ucanr.edu or 559-852-2788

September 30 – October 1: California Animal Nutrition Conference
Hyatt, Sacramento
For more information, please visit: http://cgfa.org/events.html

November 1 – 4: Western Dairy Management Conference
Peppermill, Reno
NEW DATES FOR 2021!
For more information, visit the conference website at: http://wdmc.org

November 16 – 18: Western Alfalfa & Forage Symposium
November 16th – 18th
Grand Sierra Resort in Reno, NV
For more information (including past proceedings), please visit: https://alfalfa.ucdavis.edu/

National Milk Producers Federation Update

By Jim Mulhern, President & CEO
National Milk Producers Federation

USDA Announces Limited Payments for Class I Losses

USDA said yesterday it is providing approximately $350 million in reimbursements to make up for a portion of the losses generated by the problematic Class I mover that has cost farmers more than $750 million since the onset of the coronavirus pandemic last year.

As we noted in our statement, the USDA relief, under the auspices of its Pandemic Market Volatility Assistance Program, provides welcome assistance to some producers, but falls far short of offering the level of compensation commensurate with the losses many producers suffered as a result of the Class I pricing disruptions caused by the pandemic.

We had sought equitable relief to all producers impacted by the decline in Class I revenues in the various federal orders across the country. **But with the five-million-pound volume cap imposed on this assistance it falls woefully short of meeting the needs of dairy farmers nationwide.** Disaster aid should not include limits that prevent thousands of dairy farmers from being meaningfully compensated for unintended, extraordinary losses.

Under the terms of yesterday's announcement, USDA's AMS will provide funds to handlers to reimburse qualified dairy farmers for 80 percent of the revenue difference per month, based on annual production of up to 5 million pounds of milk marketed and on fluid milk sales from July through December 2020. USDA will make payments within 60 days of reaching an agreement with independent handlers and cooperatives, who would then have 30 days to distribute funds to qualified dairy farmers. Payment rates will vary given the different losses by order. The USDA has released this summary offering some additional details.

From the beginning of our discussions with the Department we knew there would not be enough money available to fully compensate producers for all the Class I losses, and that we would need to seek additional assistance from Congress to help fill the gap. Now, in light of the major shortcomings of this formula, additional work will be needed to remedy the revenue losses more fully for all dairy producers. NMPF will work with Congress to seek supplemental funding to close this gap on a more equitable basis for all producers.

We will also look anew at the best approach to updating the current Class I mover (which uses the average of Class III and IV monthly prices) to rectify the problems in Class I pricing that occur when there's a wide spread between the two manufacturing classes – which resulted last year from USDA's pandemic-related dairy purchases that focused too heavily on cheese.