MPC Weekly Friday Report

Date: April 24, 2020
To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	+ $.0575	$1.0700
Barrels	+ $.0450	$1.0500
Weekly Average Cheddar Cheese		
Blocks	+ $.0230	$1.0310
Barrels	+ $.0140	$1.0255

Chicago AA Butter		
Weekly Change	- $.0425	$1.1450
Weekly Average	- $.0050	$1.1525
Dry Whey		
Dairy Market News	w/e 04/24/20	$.3675
National Plants	w/e 04/18/20	$.3739

Non-Fat Dry Milk		
Week Ending 04/18		
Nat'l Plants	$0.9338	23,236,372
Prior Week Ending 04/11		
Nat'l Plants	$0.9812	22,116,541

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
April 24 Est	**$18.24 - $18.74**	**$13.94**	**$13.20**	**$11.42**
Last Week	**$18.24 - $18.74**	**$13.92**	**$13.41**	**$11.42**

Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report
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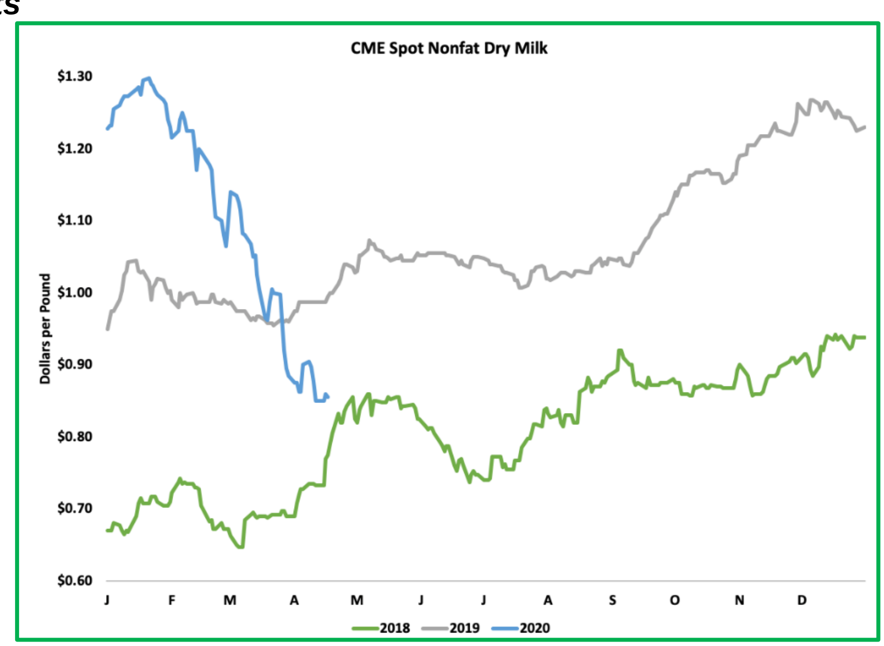
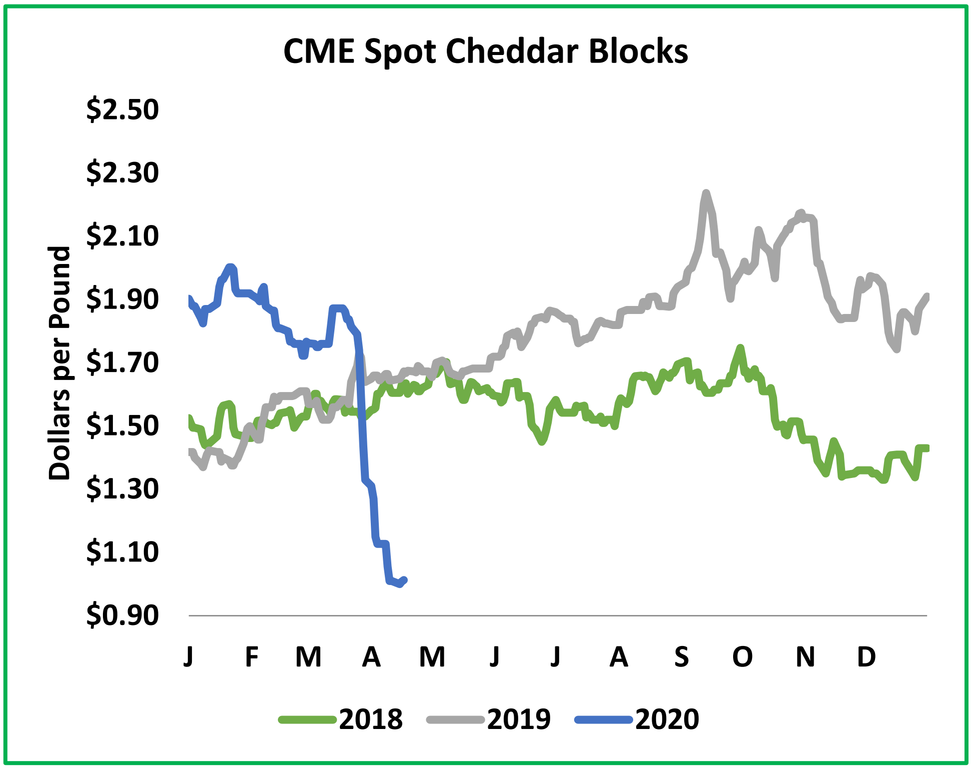
Milk & Dairy Markets

The milk markets retreated once again this week. Class III and IV futures posted double-digit losses and nearby contracts plumbed new life-of-contract lows. The markets managed to perk up from mid-week lows, but values remain depressed, with May Class III and IV slumping to levels not seen since 2009. On Thursday May Class IV traded below $10/cwt., but it managed to rebound to a still inadequate $10.05.



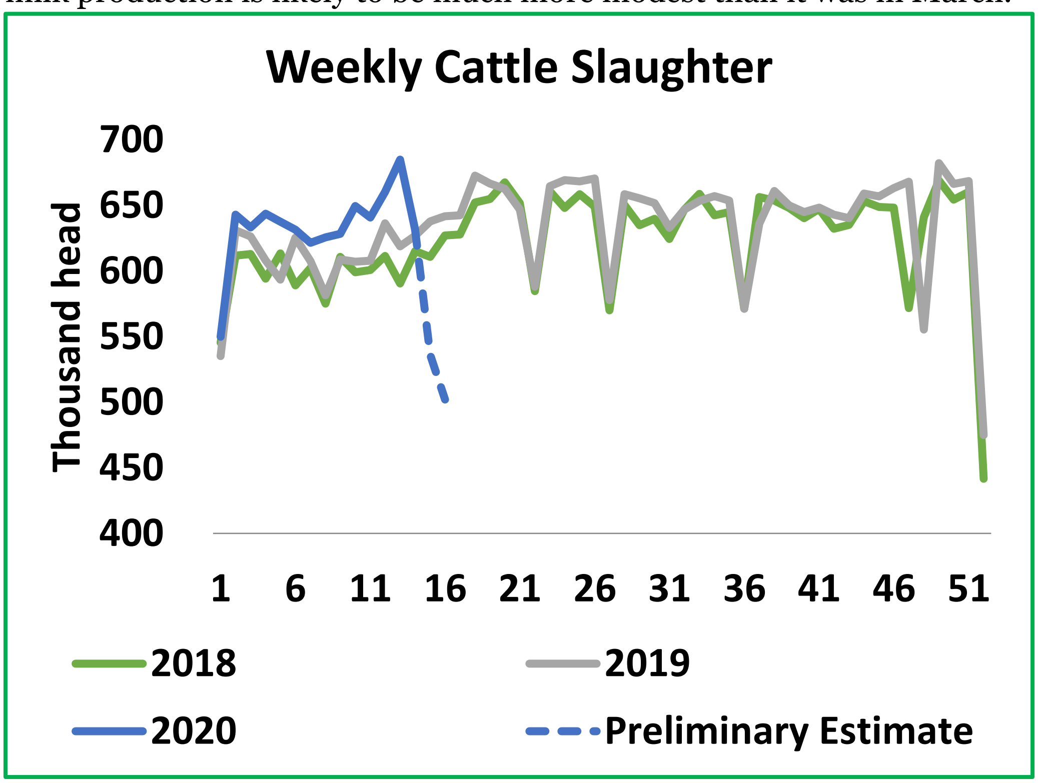
These milk prices will not pay the bills, and dairy producers are likely cutting milk production accordingly. In some regions, co-op penalties will accelerate



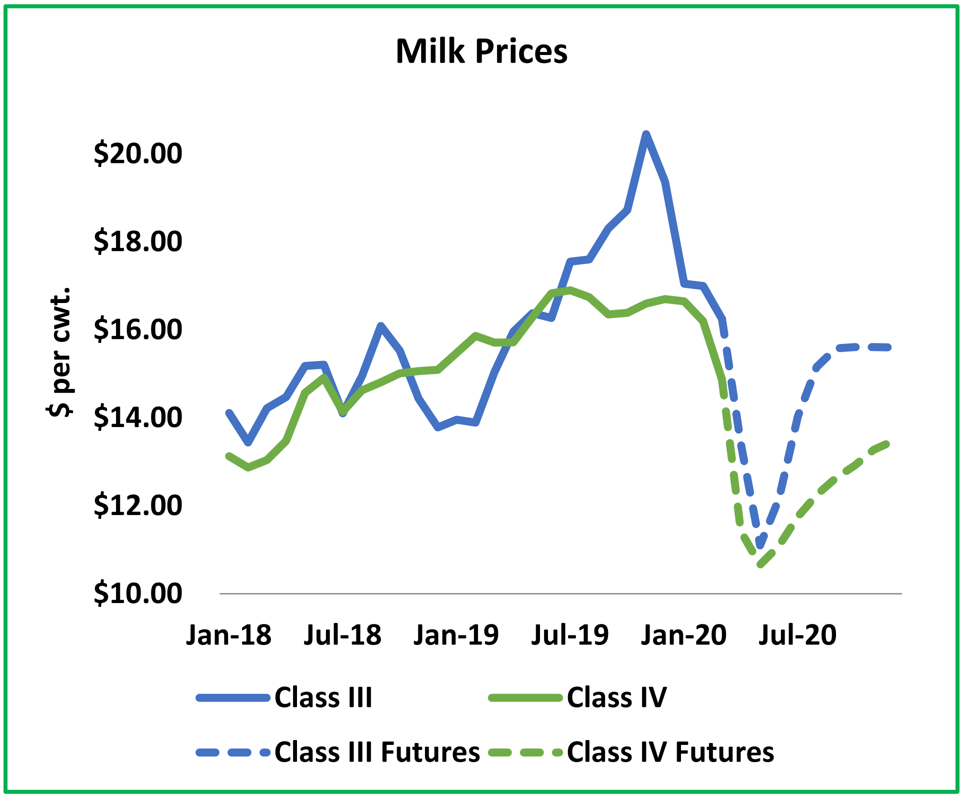
contraction. These incentives were largely absent in March, when the spring flush arrived with a vengeance. Milk output climbed to a record 19.26 billion pounds, up 2.2% from March 2019. It was relatively easy to grow milk output from last year, when a harsh winter and shrinking cow herd translated into a significant contraction in U.S. milk output. The staggering output helps to explain why so much milk was dumped in late March and early April, as the industry struggled to adjust to the impacts of COVID-19.

Milk production advanced in nearly every state, and the milk-cow herd grew as well. USDA revised upward its estimate of February's dairy herd by 5,000 head and reported another 5,000-cow increase in March. At 9.38 million head, the U.S. milk-cow herd stands at a 19-month high, up 47,000 head from March 2019. If slaughter facilities cannot process dairy cows in sufficient volumes, it's possible that the dairy herd will continue to expand in the near-term. However, dairy producers are likely to cull cows aggressively when the opportunity arises. Indeed, dairy cow slaughter topped the record-high levels of last year in two of the past three weeks of available slaughter data. If dairy producers are forced to slow cull rates, they will likely step up other measures to cut costs and reduce milk output. Growth in April milk production is likely to be much more modest than it was in March.

The cheese and butter stockpiles were less burdensome than expected. There were 1.37 billion pounds of cheese in cold storage warehouses on March 31, 0.8% less than the year before. Inventories of American cheese fell 1.2% from March 2019 volumes. At 309.6 million pounds, butter stocks were 15% greater than they were a year ago, and the largest March 31 total since 1993. Cheese and butter stocks grew in March, but the month-to-month increase was smaller than in a typical year. This is likely



due to the fact that manufacturers responded urgently to keep grocery cases full. At the same time, the impact of the collapse of the foodservice industry on cheese and butter stocks lagged the declines in restaurant traffic. In the fog of uncertainty, restaurateurs likely didn't cancel shipments for food they had ordered weeks in advance, which meant product kept moving out of warehouses through most of March even as consumers stayed home. The brunt of this lost demand will be reflected in dairy product inventories on April 30. Already, refrigerated storage space is becoming scarce. Nonetheless, the bullish Cold Storage report helped to give the markets a boost on Thursday and Friday.



After falling to $1 per pound last week, the spot Cheddar market bounced back decisively. Spot Cheddar blocks closed at $1.07, up 5.75¢. Barrels climbed 4.5¢ to $1.05. The other products moved lower. Spot whey slipped a half-cent to 38.5¢. Butter fell 4.25¢ to $1.145. Spot nonfat dry milk (NDM) dropped 4.5¢ to 81¢, the lowest value since July 2018. Milk powder prices also moved lower at Tuesday's Global Dairy Trade auction.

It's likely that many state and local governments will ease stay-at-home orders in May, which suggests that restaurant demand could improve from its current rock-bottom level. A Civic Science poll from early April finds that Americans list "going out to bars and restaurants" as the activity they miss second-most, just behind gathering with friends, but well ahead of shopping, self-care, and sports. We are feeling cooped up and tired of cooking. But we're clearly not ready to risk infection just to avoid doing the dishes. A CBS News Poll found that only 13% of Americans would definitely return to public places if stay-at-home orders were lifted. Nearly half said they plan to avoid public places until the outbreak is over, while another 39% would assess the prevalence of the virus before they consider venturing out. Restaurants might improve sales as they continue to adapt for carryout, but in the absence of better treatments or a vaccine, it seems unlikely that the foodservice sector is going to meaningfully bounce back anytime soon. The dairy markets in general, and the butter market in particular, are likely to remain under pressure until consumers feel confident enough to dine out in large numbers. Unfortunately, it could be a very long time.

Grain Markets

Both corn and soybeans lost about a nickel this week. July corn settled at $3.26 per bushel, while July soybeans closed at $8.4675. Planters are rolling in the Western Corn Belt, with none of the wet weather woes of last spring. Ethanol production continues to drop, and exports are hit-or-miss. Feed demand is likely also declining as the beef industry places fewer cattle on feed, and pork and poultry growers euthanize some young stock. COVID-19 has countless victims.

USDA's dairy COVID response misses the mark (so far)

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The U.S. government, in response to the Coronavirus pandemic, made a strategic decision to shut down the American economy to save the health care delivery system. Our country was faced with a deadly virus for which there is no immunity in the human species, which is highly contagious from people who show no symptoms, for which there are no known remedies, and for which there is no vaccine. The models were showing tens of millions of infected people, with potential fatalities into the millions. So, the government shut down America, and with it, a big chunk of the economy.

The U.S. GDP runs about $5 trillion per quarter. Congress unanimously passed the CARES Act, which borrows $2.2 trillion to essentially replace the GDP income for the purpose of preserving the **productive capabilities** of the U.S. economy for the next couple of months. Overnight, huge swaths of the economy shut down, but the cows didn't get the memo. They kept producing.

Part of the $2.2 trillion was allocated to the United States Department of Agriculture (USDA) to deal with the impact of the shut down on the dairy industry. Immediately, National Milk Producers Federation and the International Dairy Foods Association teamed up to present a package of items to USDA to address this existential threat to the viability of the nation's dairy industry. This is no different than the existential threat to the airline industry that the government is working hard to save. The big exception is that they can park airplanes; we cannot park our cows.

So, what did USDA do? Last Friday they announced that they are going to make direct payments to dairy farmers, at rates that are not yet known, but that the payments will be capped at $125,000 per facility. Since well over half of the U.S. milk production is produced on facilities for which the $125,000 cap renders the payment virtually meaningless, one wonders why ***IF*** the goal is to protect the production capabilities of the industry, what is the point of capping the help? It is the equivalent of having an airline bailout and essentially not covering United, American and Delta Airlines. This plan leaves much of the productive capacity of the U.S. dairy industry to fend for itself, especially here in California.

USDA also rejected any notion of incentivizing milk supply cutbacks leaving it to the industry to figure out how to handle the massive oversupply ramifications of the government-ordered shutdown of much of the food service sector. USDA did come up with a food purchase program that included $100 million per month of dairy purchases. But this too vastly misses the mark. In a normal year, food banks serve about 40 million Americans, but this is not a normal year. In the past four weeks, more than 26 million Americans have filed for unemployment. Including their dependents, it is not inconceivable that the demand for food assistance in the country could rise to 100 million people. $100 million per month in dairy purchases is $1 per capita PER MONTH. Certainly, USDA can do better than that.

The industry and Congress have reacted to this initial announcement by USDA. 126 bipartisan members of Congress sent a letter this week to President Trump outlining their displeasure with the low cap. You can read the letter here.

The goal of a food purchase program of USDA should be to replace a substantial percentage of the demand destruction that has occurred due to the shutdown with food purchases for food banks. There have been indications that USDA would be open to a more robust food purchase program. However, this experience is a good reminder that, ultimately, everybody needs to do everything they can to manage risk. That is why we buy insurance for all sorts of risks and revenue insurance is also something that needs to be part of the mix. I have no doubt that in time there will be improvements in the government's response to this pandemic. But there will be a lot of damage in the meantime – some of it permanent.

At times like this I am reminded of the quote attributed to Winston Churchill, the pugnacious Prime Minister of Great Britain during World War II. He said, "You can always count on the Americans to do the right thing, but not until they have tried everything else." So true. Let's hope USDA gets closer to the right thing sooner rather than later.

Big problems on the water front

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

In this already stressful time for agriculture and our country, Governor Newsom decided this week to file for a preliminary injunction against the permits that allow the federal Central Valley Project (CVP) to deliver water out of the Delta. This is in addition to the state issuing for the first time their own permits, separate from the federal permits for Delta water pumping, of the State Water Project.

The new state permit severely restricts water exports as well as substantially increasing the fees that State Water Contractors must pay for environmental mitigation. The press release headline issued by the radical Natural Resources Defense Council says it all: "California Delivers Blow to Trump Administration's Plan for Extinction in the Bay Delta."

Remember, 25 million people and thousands of acres of productive California farmland are irrigated with water that moves through the Delta. There are a few fish species that are endangered and millions upon millions of acre feet of fresh water have been sent out to the ocean over the past decade in compliance with rules written by environmental agencies designed to help these fish. Despite all that wasted water, the health of the endangered fish has not materially improved. Millions of dollars of research has been done over the past decade to discover new ways to save these fish. As a result of that research, new requirements and rules were written by the appropriate fish agencies of the federal government and the new rules took effect this Spring. Those rules are designed to improve the health of the fish, and by the way, they also allow, under very limited conditions, more water to be sent to the people and farms of California.

This infuriated the radical environmental community and they have convinced the governor to take their side. This completely man-made disaster is headed to the courts where radical environmental organizations and the Newsom administration are lined up against the federal agencies and the entire California water community. This is so sad. Just a few months ago, the parties were very close to a master "voluntary settlement" deal that would have made major investments in environmental improvement projects in exchange for predictable, although somewhat diminished, water delivery policies.

All that good work now seems to be shredded at a time when our people need wise and prudent leadership. From an agriculture perspective, our risk from the governor's suit against the CVP is that if he is successful, the permit that the CVP operates under could be invalidated, leaving the CVP unpermitted and therefore unable to deliver water. But the urban population is also at significant risk, particularly in Southern California, who will bear a huge brunt from the State assault on the water supply for people and farms. The Metropolitan Water District (MWD) of Southern California Board of

Directors is so alarmed that they voted this week to file suit against the state for their actions. MWD will be joined by almost the entire water community in that lawsuit. The initial court hearing is scheduled for May.

Small-Business Loans Program a balm for farmers – but act fast, NMPF's Larson says

Courtesy of the National Milk Producers Federation

Note from Kevin Abernathy, MPC General Manager
Congress replenished funds for two coronavirus aid programs this week, which you can read more about below and in a press release from Congressman Josh Harder here. As many of our producers know firsthand, funds ran out of these programs very quickly on the first go around. We recommend producers apply as soon as possible and where ever they can to get in the funding queue.

ARLINGTON, VA – Congress's move to replenish two coronavirus-related assistance programs that are available to dairy businesses may help keep some dairies afloat – but application windows may close fast, said Claudia Larson, government relations director at the National Milk Producers Federation, in a new NMPF podcast.

Congress's latest $484 billion coronavirus aid package replenishes two new small business loan programs that were overwhelmed by demand when first offered – the Paycheck Protection Program, which allows qualified banks to offer low-interest loans that can later be forgiven, and Economic Injury Disaster Loans, a parallel program operated by the Small Business Administration. Applications, which have been on hold for additional funding, will re-open soon. Dairies seeking assistance "should do it relatively quickly," Larson says. "It's been projected that these funds are going to run out within 36 hours after they're released."

To listen to the full podcast, which gives the ins and outs of the programs, click here. NMPF also has more information about them on its coronavirus webpage. You can find the podcast on Apple Podcasts, Spotify, SoundCloud and Google Play. Broadcast outlets may use the MP3 file below. Please attribute information to NMPF.

MPC, broad coalition of agricultural groups urge Federal Government to address western water challenges

By Kevin Abernathy, General Manager
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MPC joined a coalition of 150 agricultural and water organizations this week urging Congress and President Trump to address the aging western water infrastructure as further measures are considered to help the U.S. economy recover from the ongoing coronavirus crisis.

In separate letters to Congress and President Trump, our coalition said, "The COVID-19 pandemic underscores the importance of safety and stability provided by domestic food production. As this crisis has pointed out, a stable domestic food supply is essential and of national security interest. For farmers and ranchers to survive, and for food to continue to be produced here in the American West, a stable water supply is a necessary part of any conversation about our national food security."

Read the letter here.

DDRDP & AMMP Applications due on Monday

By Kevin Abernathy, General Manager

We are sharing a reminder from California Department of Food and Agriculture that applications for both the Alternative Manure Management Program (AMMP) and the Dairy Digester Research and Development Program (DDRDP) are due by **5 p.m. PT, April 27, 2020**. More information and the online submission portals can be found by clicking on the links below. *Read more about DDRP here. Read more about AMMP here.*