

Dairy Market Update

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a division of Dairy Farmers of America

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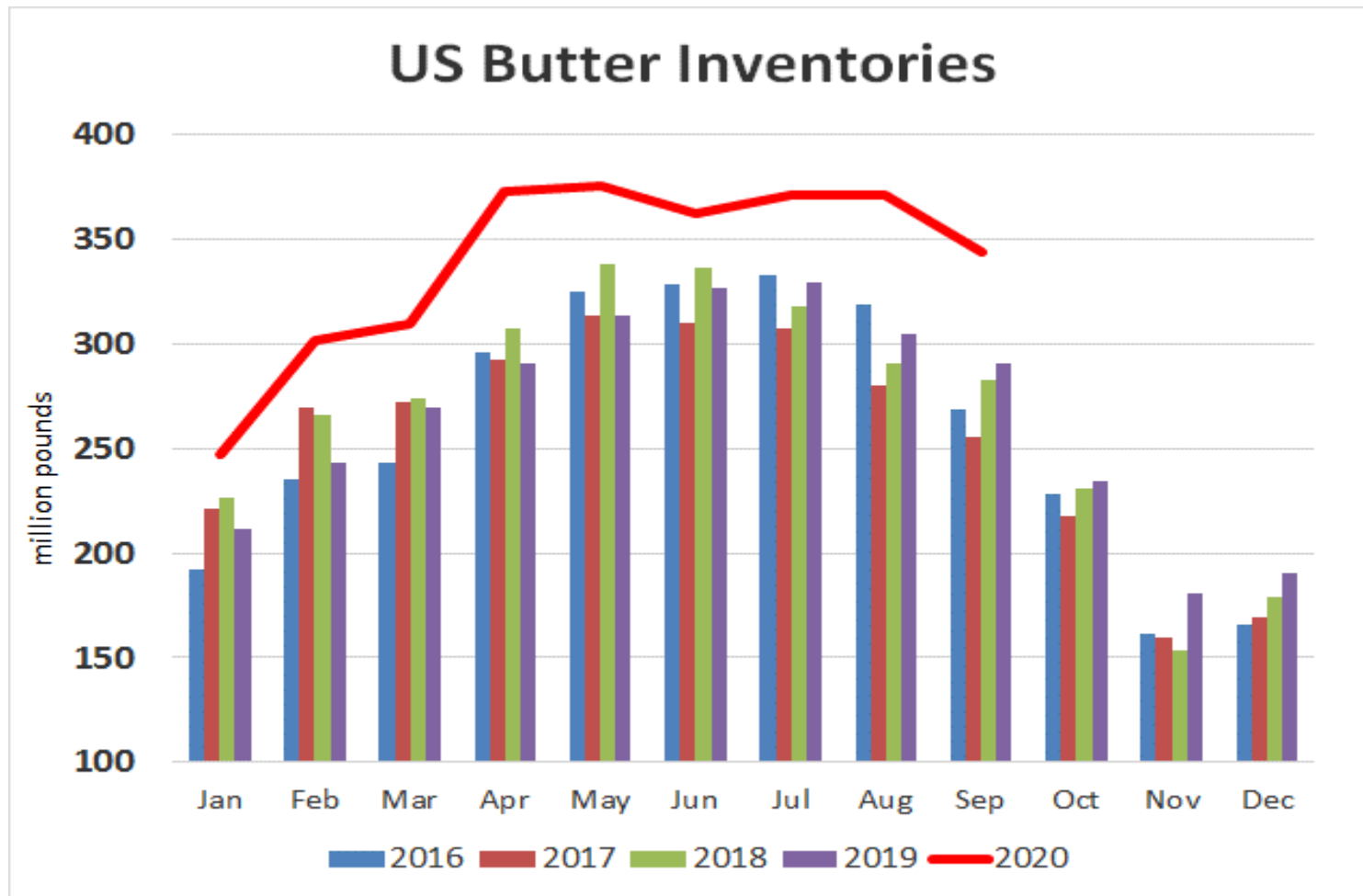
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Dairy demand still impacted

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- Food box program and other donation programs have supported demand
 - Retail demand is higher than year earlier for most key dairy products
 - This trend started in the spring, although growth not as strong as earlier months
 - US exports have increased – most prognosticators forecasted a decline early on
 - Restaurant and Food Service
 - Quick serve and those offering “take-out” have seen better results
 - Fine dining has modestly grown from the spring-time near total shut down
 - However, uptick in Covid cases is hurting restaurant performance
 - Food service spotty and impacted by local Covid issues
 - Schools/colleges partly remote or totally remote
 - The biggest demand hit is in butter and butterfat products to the restaurant and food services sectors

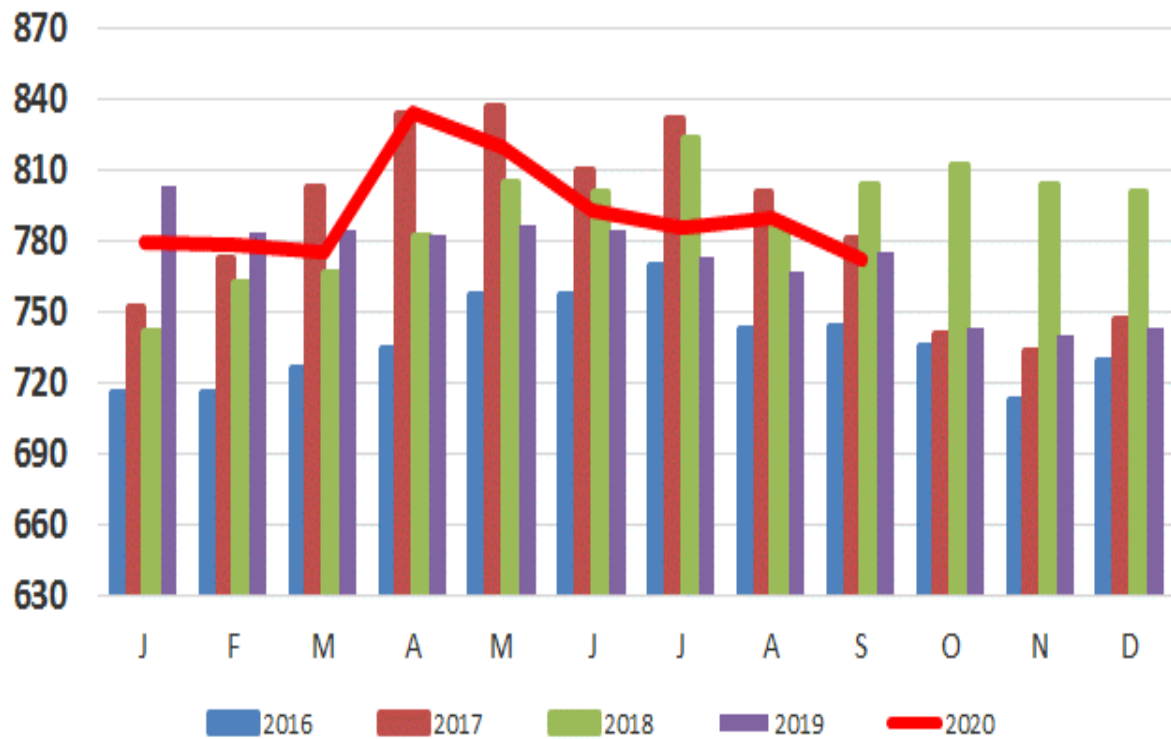
Butter inventories a different story



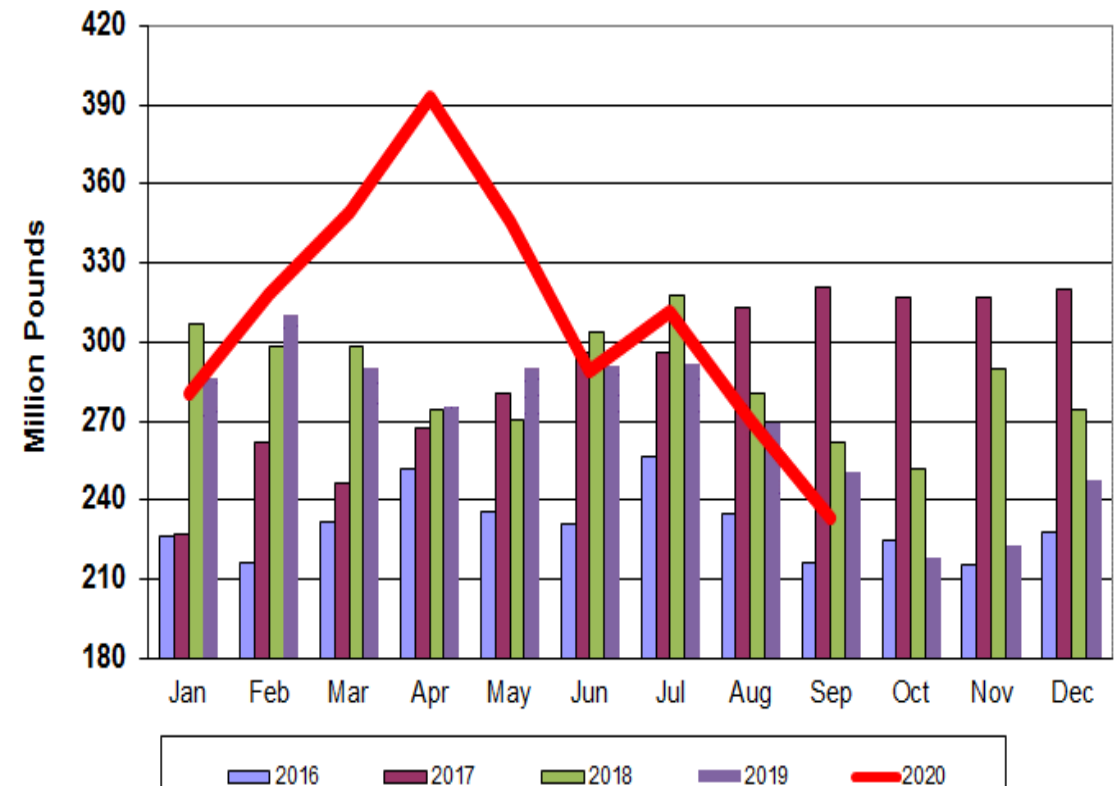
- Butter demand is more strongly influenced by food service
 - It will take a while for this to be resolved
 - The opening of the Michigan cheese plant will help
- Low butter prices hold down Class IV prices
 - This is a contributing factor to the negative PPD issue

Cheese and NFDM inventories have weathered the pandemic

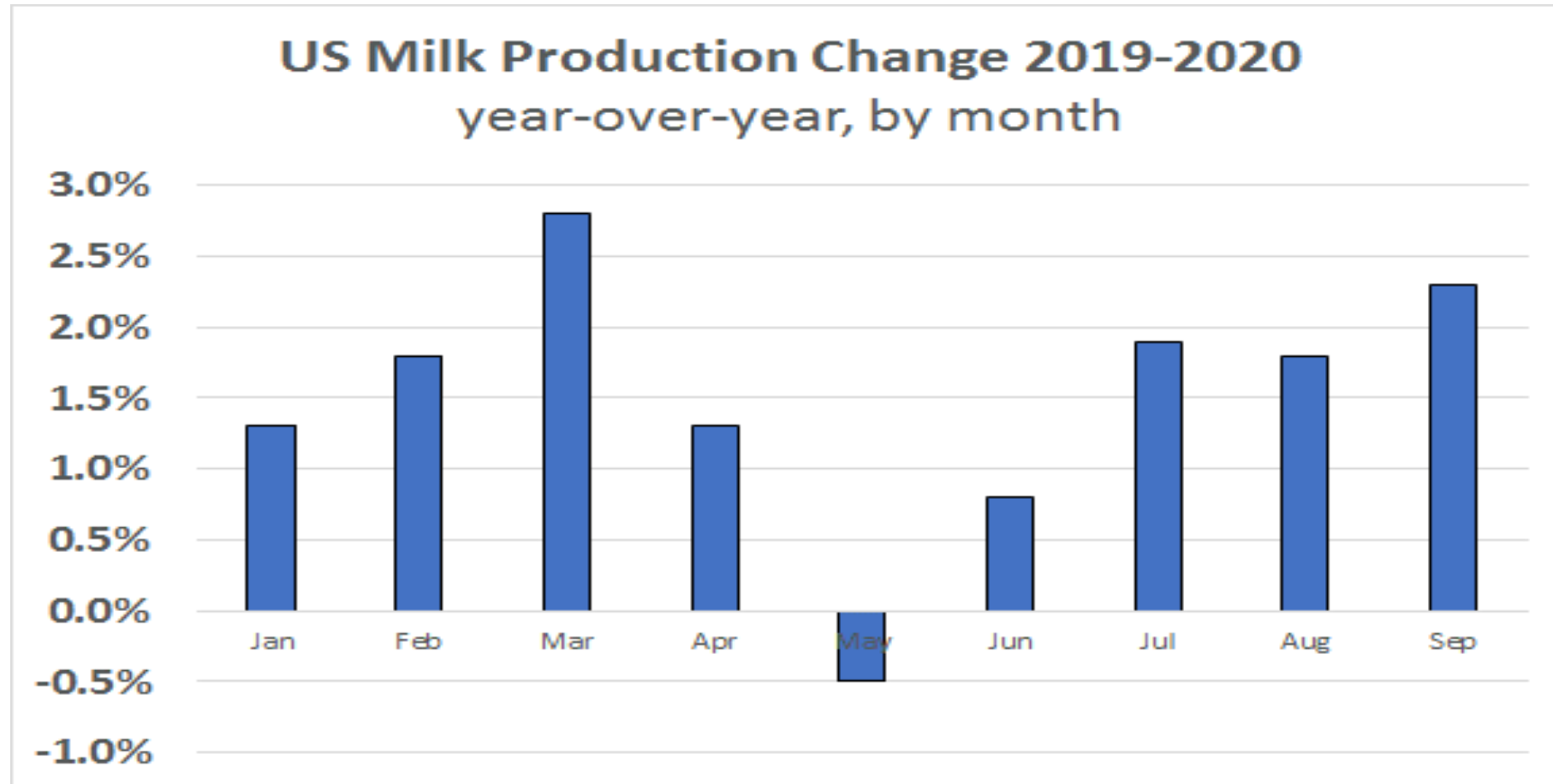
US American-style Cheese Inventories



U.S. NFDM Inventories

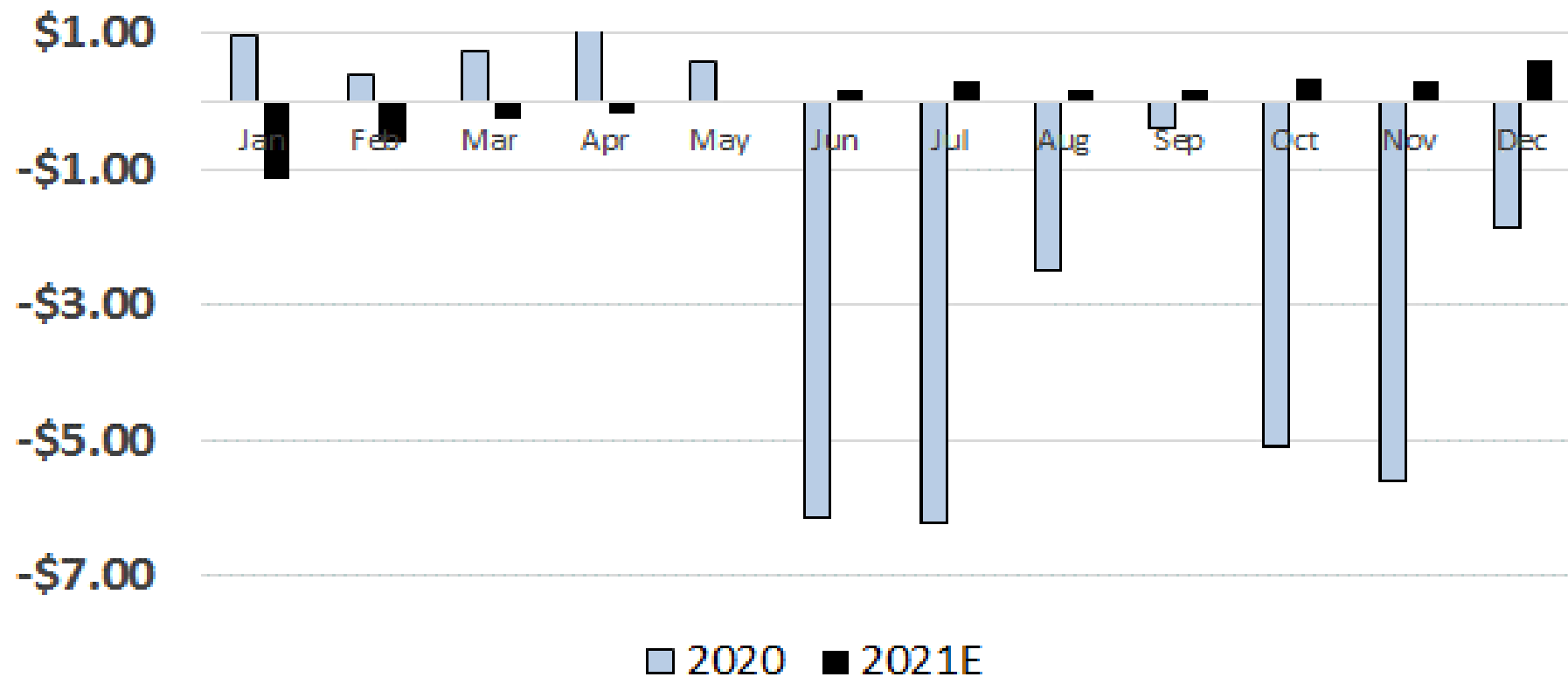


US milk production responding to improved pricing and Federal direct payments



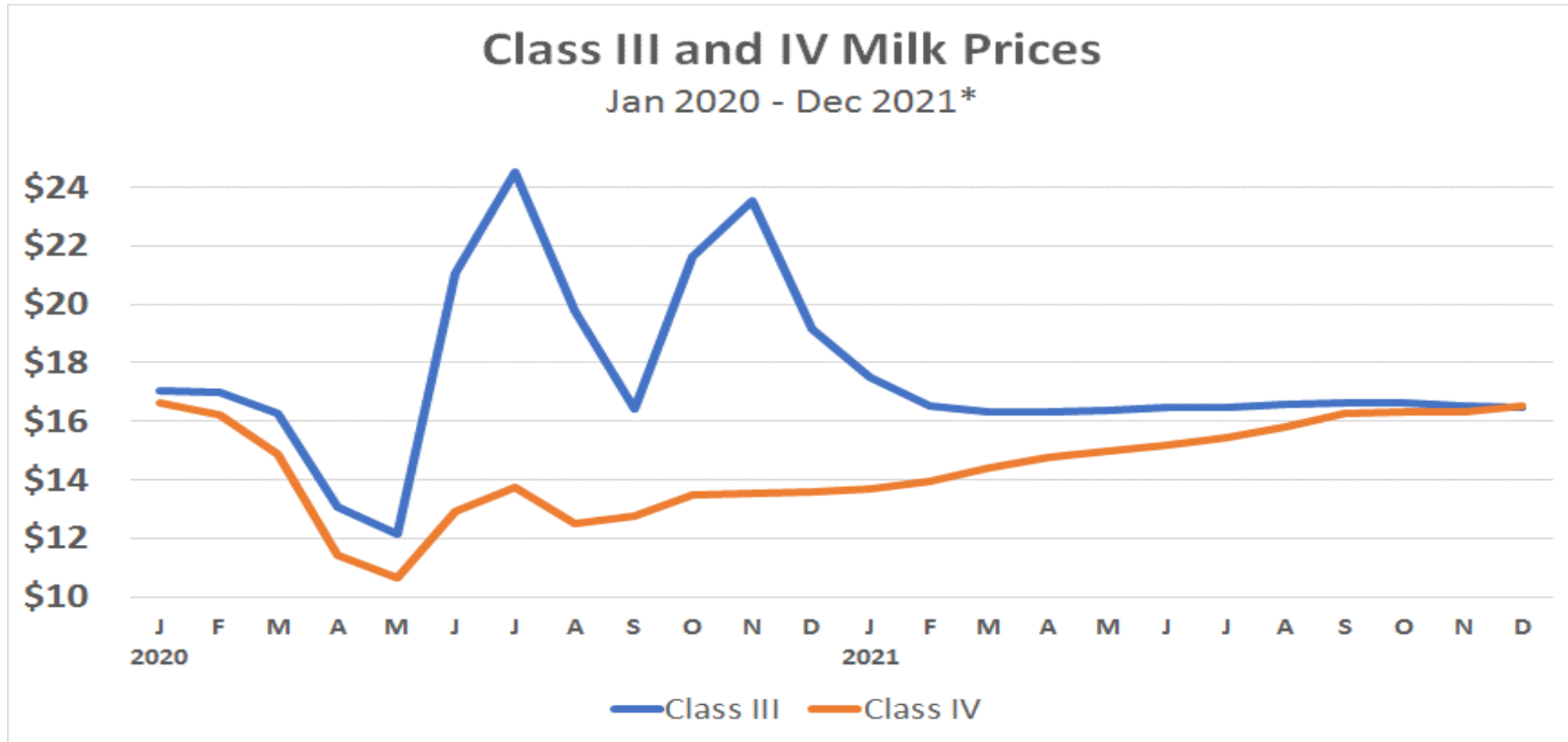
FMMO 1 PPD

CNY, NVT, NPA Zones (-\$.75), 2020-2021E



Oct 2020 – Dec 2021 forecast using CME Group futures prices on November 5, 2020

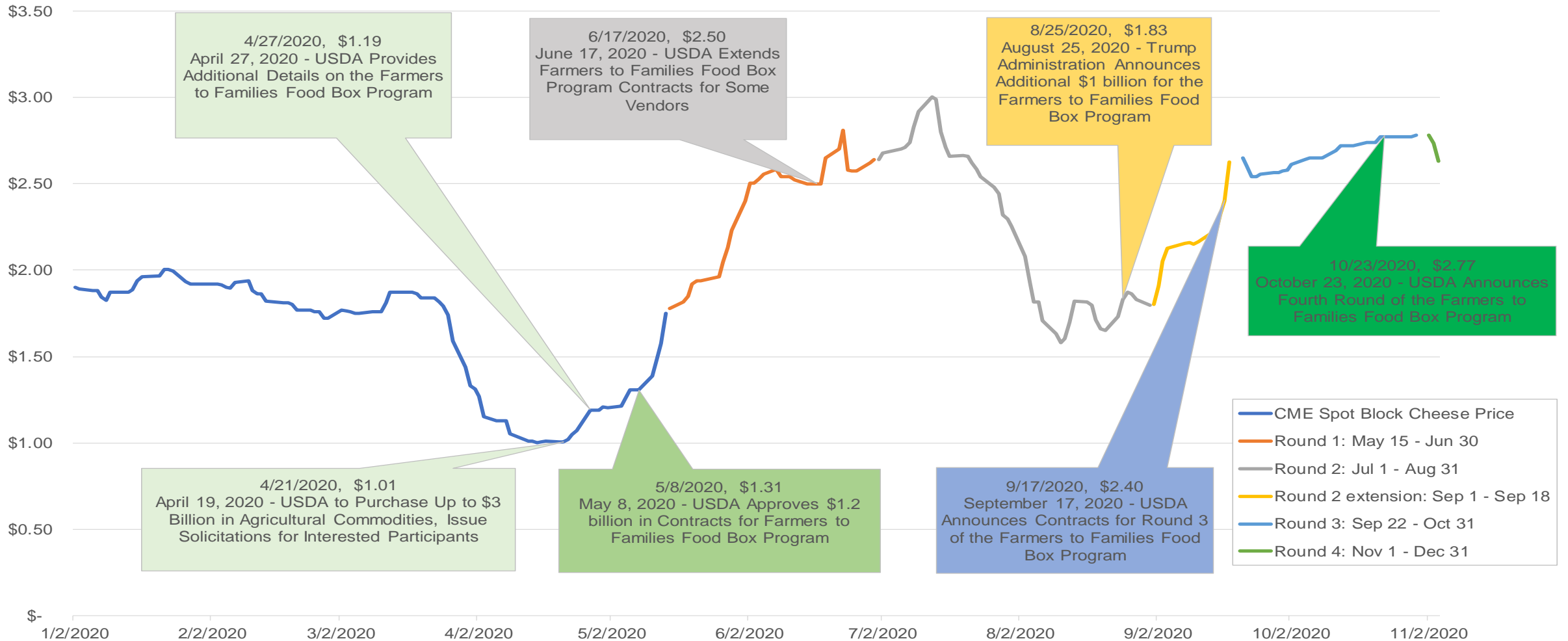
Class III and Class IV prices drive your milk price



November 2020 – December 2021 based on CME Group futures prices on November 5, 2020

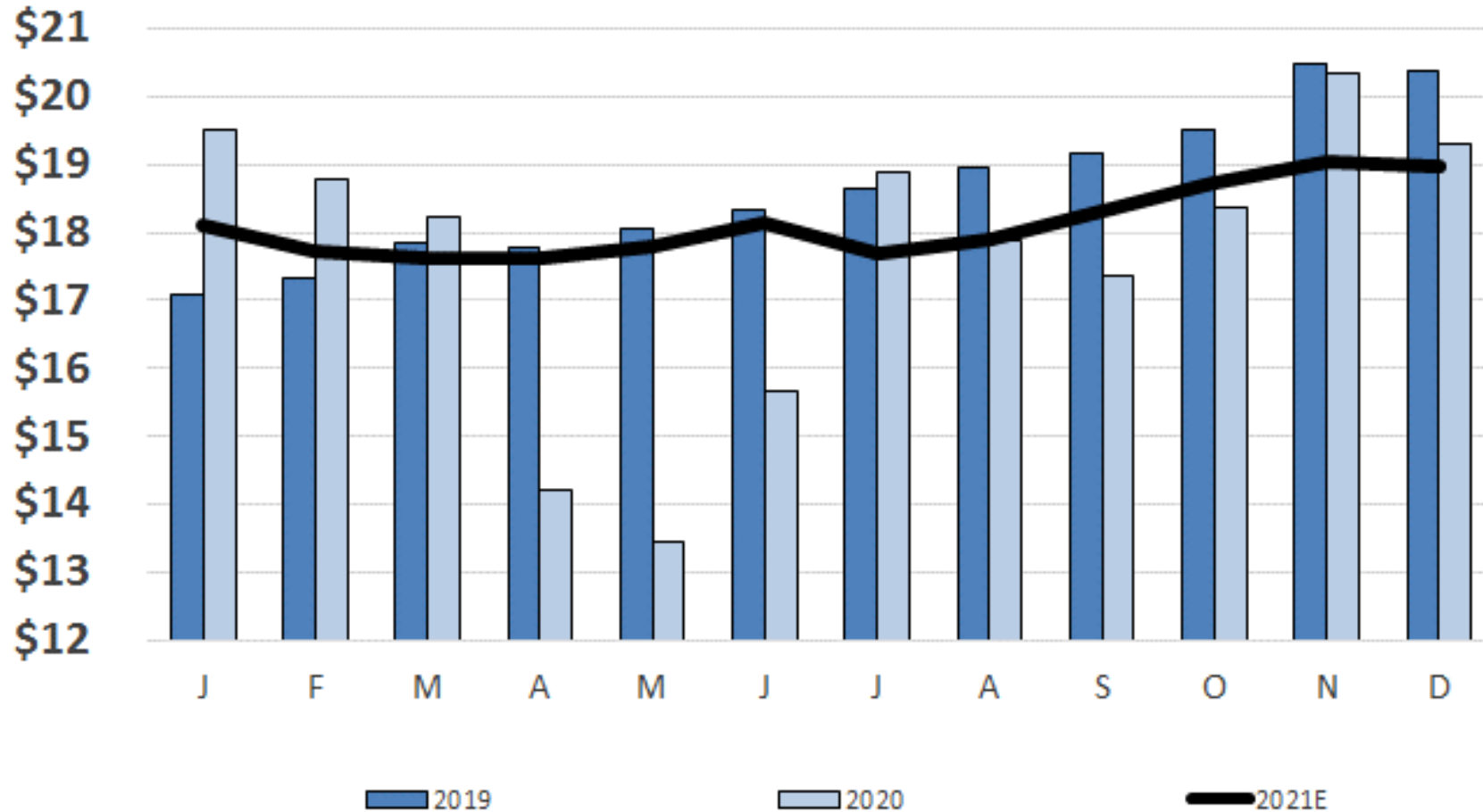
The Food Box program supported milk prices

CME Spot block cheese price by Food Box program round



Actual and Estimated Gross Milk Prices

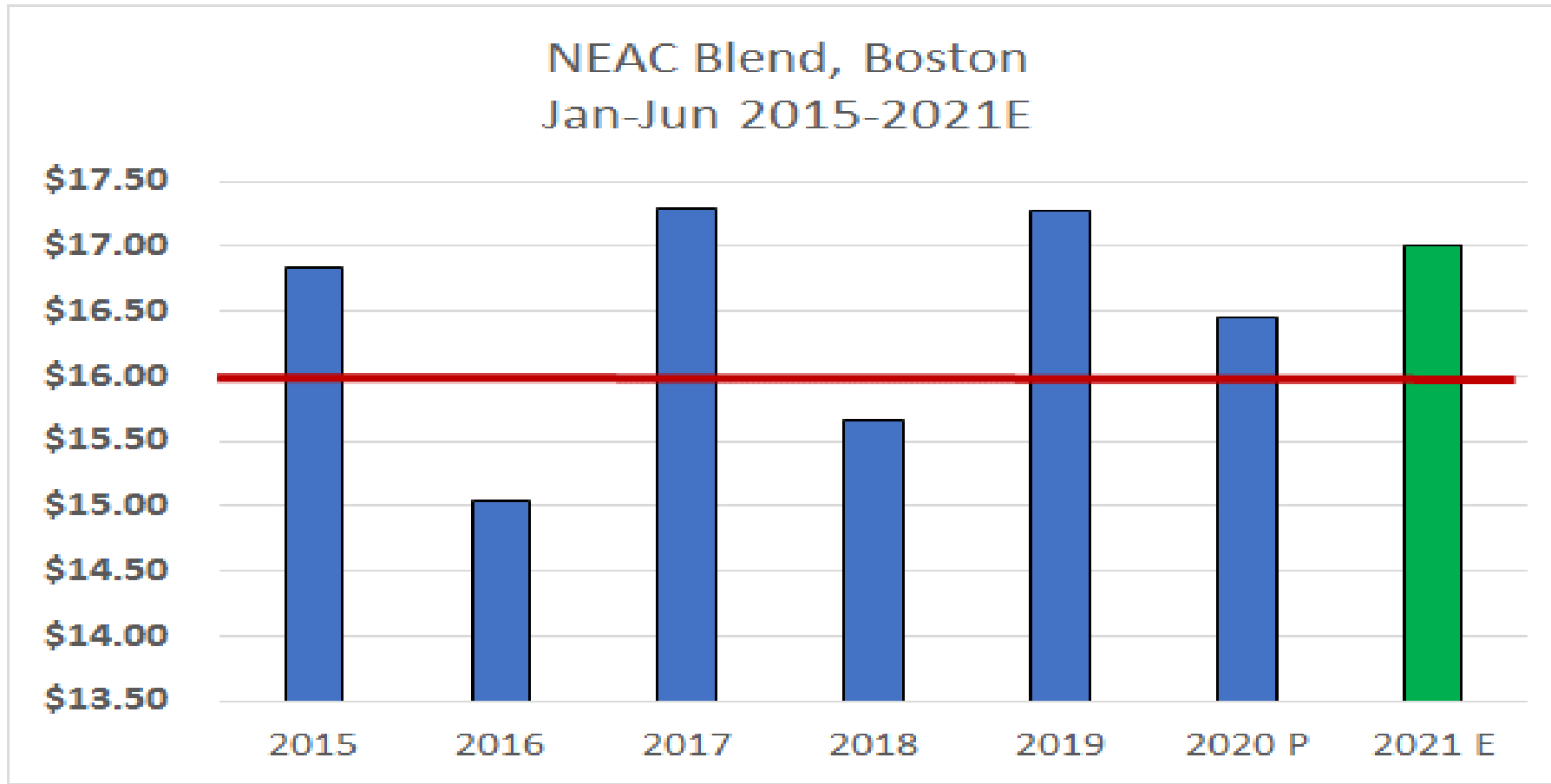
CNY, NVT, NPA, at average test for the month



- Includes negative PPDs
- Does not include:
 - DMC
 - CFAP direct payments
 - DRP or forward contract adjustments
- CY averages:
 - 2019 \$18.63
 - 2020 \$17.67
 - 2021 \$18.14

Oct 2020 – Dec 2021 forecast using CME Group futures prices on November 5, 2020

First half 2021 blend prices estimates and DRP opportunities

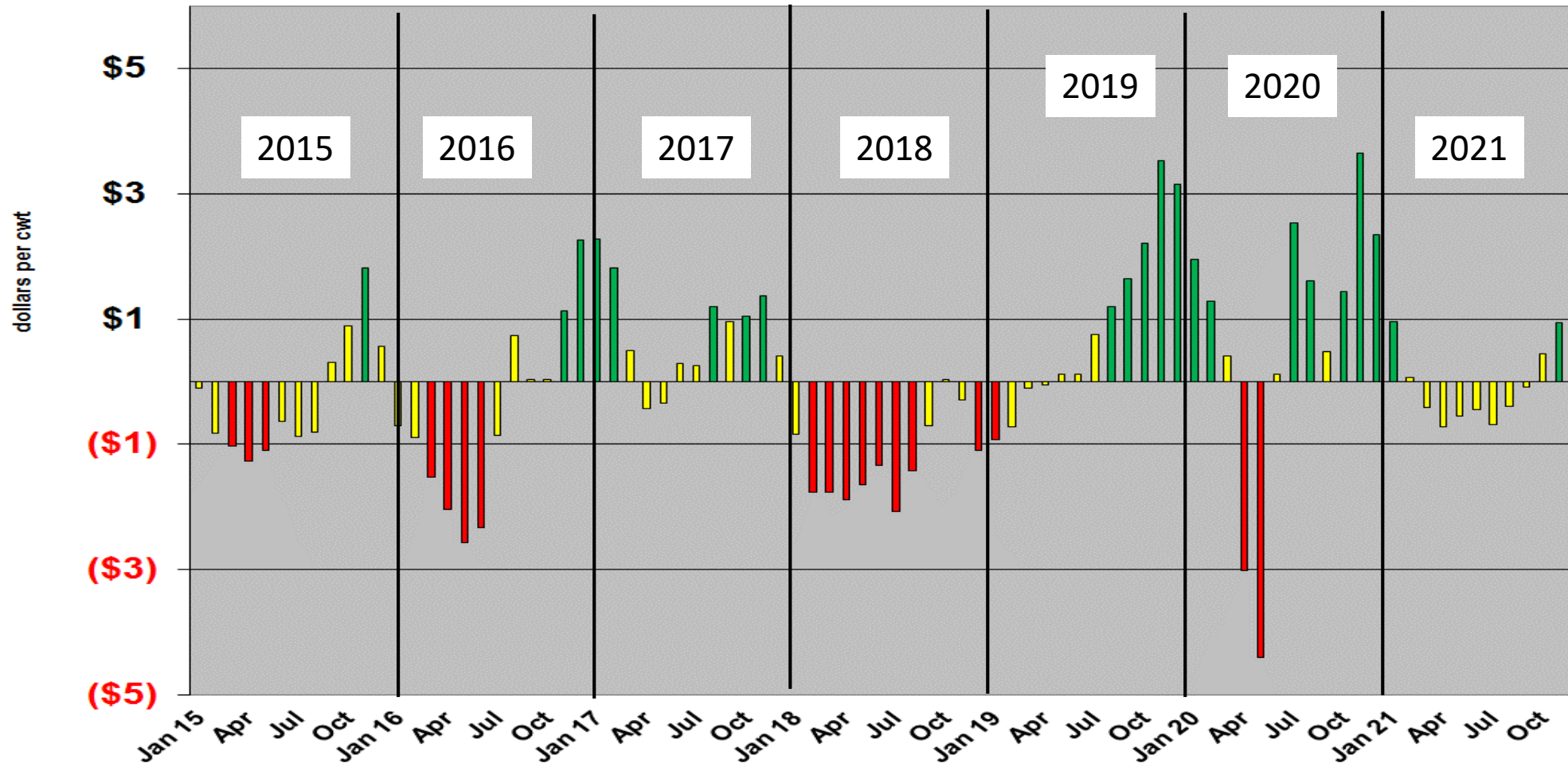


- The red line is the 2021 H1 DRP blend price floor equivalent after premiums
- 2021 H1 pricing down about \$.50/cwt over last two weeks

Oct 2020 – Dec 2021 forecast using CME Group futures prices on November 5, 2020

US Dairy Farm Average Net Margins

Estimated, Jan 2015- Dec 2021



- Forecasted by Ed Gallagher using November 4, 2020 CME Group futures prices
- Chart does not incorporate the following payments:
 - DMC
 - DRP
 - FC or other RM
 - CFAP direct
 - PPP
- It does include negative PPDs

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Policy Responses and Outlook

Chris Wolf

Cornell University

Government Programs

- Dairy Margin Coverage Program
- Dairy Revenue Protection
- Coronavirus Food Assistance Program
 - Payments to Farmers
 - Farmers to Families Food Box Program

Dairy Margin Coverage Program

Month	Corn (\$/bu)	Blended Alfalfa Hay (\$/ton)	Soybean Meal (\$/ton)	All Milk (\$/cwt)	Final Feed Costs for DMC(\$/cwt)	Milk Margin Above Feed Costs for DMC(\$/cwt)	Gross Payment at \$9.50 coverage
January	3.79	190.5	300.11	19.6	8.88	10.72	0
February	3.78	190.5	295.28	18.9	8.84	10.06	0
March	3.68	190	312.38	18	8.85	9.15	0.35
April	3.29	195	295.39	14.4	8.37	6.03	3.47
May	3.2	195	288.56	13.6	8.23	5.37	4.13
June	3.16	190	288.66	18.1	8.11	9.99	0
July	3.21	183	291.25	20.5	8.09	12.41	0
August	3.12	182	290.18	18.8	7.97	10.83	0

In NY 847 herds (29.2%) signed up for 2020 covering 39.1% of total eligible production history

Food Assistance Programs

- Existing programs:
 - SNAP benefits increased 73% in April YOY
 - The Emergency Food Assistance Program (TEFAP) was up 34%
- Coronavirus Food Assistance Program (CFAP) Farmers to Food Box

Farmers to Families Food Box Program

- USDA finances the purchase of food items, including dairy products, for direct distribution to needy Americans through local soup kitchens, food pantries, and similar non-profit organizations.
- **Four rounds announced through 2020**
 - Round 1 purchased \$1.2 billion of products between May 15 and June 30.
 - Round 2 \$1.47 billion between July 1 and August 31.
 - Round 3 an additional \$1 billion made available for deliveries through Oct. 31, 2020.
 - Round 4 announced Oct. 23, 2020, will purchase up to \$500 million worth of food and deliver between November 1 and Dec
 - Total exceeds \$4 billion

Food Box Dairy Purchases

- USDA purchases in FY2020 included large increases in butter and American Cheese
 - Butter \$46 million (+1000% YOY)
 - Fluid milk \$43 million
 - Mozzarella \$148.7 million
 - American cheese \$202.5 million (+20%)
 - Processed cheese \$89.8 million

**\$441 million
in cheese**

All Milk Price, DMC and CFAP payments

Quarter	All Milk	Net DMC	CFAP	Total
	\$/cwt			
Q1	18.83	-0.03	6.20	25.00
Q2	15.37	2.38	1.20	18.95
Q3	19.07	-0.12	1.20	20.15
Q4*	19.95	-0.15	1.20	21.00

Sources of Volatility for 2021

- Lockdowns and other issues related to pandemic
- US govt purchases—continue? At what level?
- US govt income/unemployment support
- Expected supply response to higher milk prices (US and international)
- Butter inventory
- Split between cheese and butter prices