



MCTCOMPASS

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Dairy Recovery Slowly Begins

USDA will make \$16 billion in direct payments to farmers and up to \$3 billion in food purchases, including fresh produce, dairy, and meat, through the Coronavirus Food Assistance Program (CFAP), announced April 17. These purchases are in addition to



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Section 32 program purchases currently underway to aid the beleaguered agriculture industry. The dairy market's initial reception to CFAP was cool, with spot and futures markets providing muted reactions to the stimulus. Nearly a week later, markets seem to be viewing the new program with more optimism, and prices have lifted from multi-year lows set earlier this month.

Markets have been less enthusiastic about the \$16 billion in direct payments to producers. Market participants view these payments as having little overall impact on the supply chain and as too small to provide meaningful relief to dairy producers who face mounting losses over the next few months. USDA's direct payments will follow the same model employed when it issued direct payments to farms negatively affected by the trade wars in 2018. There will be a \$150,000 limit per commodity and a \$250,000 overall limit per person or farm.

Initially, rumors swirled that the National Economic Council had requested that CFAP payments be reduced to producers receiving payments from the Dairy Margin Coverage (DMC) or Dairy Revenue Protection (DRP) programs. USDA quashed those rumors, confirming there would be no reduction in payments to producers who signed up for the DMC and/or DRP programs. The resulting impacts to the markets for penalizing farms for following sound risk-management practices would have been far-reaching. The full \$150,000 payment equates to nearly 50 cents per hundredweight for a 1,000-cow dairy

producing 85,000 lbs. of milk a day. With Class III milk futures forecasting a drop to \$10.63/cwt., an additional 50 cents per hundredweight will help, but it falls far short of mitigating the 40% plunge in milk prices that's occurred since the beginning of the year.

USDA's \$3 billion commitment for food purchases for food aid programs could be the largest in modern history

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Ken's Corner



*by Ken Meyers
President, MCT Dairies Inc.*

The coronavirus has devastated the foodservice industry and it likely will be one of the last to fully recover. States in the early stages of reopening have limited seating capacity in restaurants to allow for social distancing of customers. And not all consumers are ready to dine

in, especially in states where the daily confirmed new cases of COVID-19 continue to rise.

In Sweden—a country that has yet to close restaurants—year-over-year bankruptcies in April are expected to triple for the hotel and restaurant industry. Some U.S. restaurants have also filed for bankruptcy. While Cheddar is a staple at most U.S. restaurants, some eateries go heavier on specialty cheeses such as Blue, Feta, and Swiss, and the sales of these products have also suffered due to lost foodservice demand. Unfortunately, USDA aid programs are less likely to purchase these cheeses.

Governors across the country, both Democrat and Republican, have cautioned that a spike in new cases of COVID-19 could force them to again res shutter businesses that have face-to-face contact with customers, and a return to large events is still months away. While the dairy recovery has begun due to government aid, the rebound in foodservice demand could be bumpy. **MCT**

Price Increases Could Pick Up

By the end of April, CME cheese markets were rising and had recovered some of the losses they sustained

throughout the month. Butter and nonfat dry milk prices remained low and somewhat stable. Markets could

be temperamental through May as the seasonal peak in milk production approaches. Once output begins to subside and USDA and foodservice orders increase, markets could begin to recover at a faster pace. For now, markets are signaling cautious optimism that prices will be much improved by the end of the second quarter of 2020. **MCT**

MCT Forecast

	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Apr	1.1075	1.0750	13.12	1.2250	11.47	0.3750	0.9775
My	1.2250	1.1525	11.51	1.3025	10.81	0.3700	0.8625
Jun	1.3300	1.2750	12.67	1.4850	11.48	0.3700	0.8525
Jul	1.4675	1.2600	13.55	1.5675	12.23	0.3900	0.8975
Aug	1.6050	1.4800	14.83	1.5825	13.02	0.3875	0.9825
Sep	1.7275	1.5725	16.07	1.6650	14.09	0.4025	1.0650

* CME prices.

**NASS prices.

...food purchases to help rebalance markets

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and involves partnering with regional and local food distributors. The concept entails collecting, assembling and distributing food boxes to families in need. So far, USDA has committed to spending \$100 million per month for approximately six months on each of three categories: fresh fruits and vegetables, dairy products and milk, and meat. Distributors will be responsible for getting these boxes to “food banks, community and faith-based organizations, and other non-profits serving Americans in need,” according to USDA’s website.

The program is laudable for its attempt to move food from farmers to families, but some are skeptical of the efficacy of such a large endeavor. Others have expressed concerns that the \$100 million could be used to clear existing inventories and that a considerable amount of the money could be directed to assembly and distribution, reducing the overall impact for producers, cooperatives, and processors. Despite reservations, most in the industry are hopeful the program will work to rebalance supply and demand in the short run.

While the details and implementation of the CFAP

food-box program are still being worked out, USDA has issued solicitations to buy products for the Section 32 program and the Families First Coronavirus Response Act, including more than 4 million pounds of butter and nearly 12 million pounds of cheese. Most of this cheese will be yellow Cheddar and processed varieties. Even these small purchases have helped lift cheese markets from near \$1/lb. to \$1.19 for CME Cheddar blocks and \$1.16 for Cheddar barrels as of April 29.

If last year’s Section 32 purchases are a guide, the volume of purchases USDA has already announced could work to fill some of the void left by foodservice. At the same time, states across the nation are announcing plans to begin reopening their economies. Although the reopening process will likely be slow, with some expected setbacks, many dairy companies are reporting that orders are improving. Markets will likely remain well below pre-coronavirus expectations, but prices could continue to lift off the decades-low levels reached earlier this month. While all mitigation efforts will lead to the road to recovery for dairy markets, like many trips, it could take time to reach the final destination. **MCT**



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