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MCT COMPASS

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Tectonic Policy Shifts Ahead

The final week of February proved hectic for Congress as the $1.9 trillion stimulus package and a raft of confirmations pushed through the system. The latest stimulus bill contains a potential spending budget for USDA of up to $3.6 billion for food procurement, loans for small and mid-sized food processors to respond to Covid-19, loans and grants for supply chain resiliency, and payments for crop losses. While there are several food procurement options, dairy traders appear to be expecting additional funding to be spent on more food boxes, which could be why spot markets continue to trend higher despite fundamental data that suggests weaker prices lie ahead.

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While USDA could allocate more money to food boxes, most outside analysts believe programs like the Supplemental Nutrition Assistance Program (SNAP) and Women Infants and Children (WIC) will receive the bulk of the new funding, including a 15% increased allocation through at least the end of the current fiscal year.

The U.S. Senate also confirmed former Secretary of Agriculture Tom Vilsack to his former position. With Vilsack at the helm, USDA will increase its focus on environmental issues, including climate change. A January 27 executive order stated, “America’s farmers, ranchers, and forest landowners have an important role to play in combating the climate crisis and reducing greenhouse gas emissions.” That was followed by a statement that the Biden administration will work to conserve 30 percent of the nation’s land and water—a dramatic shift from the previous administration, which rolled back many environmental rules and regulations to the benefit of farmers and ranchers.

This tectonic shift will force businesses to once again focus on charting a course that more closely aligns with reducing greenhouse gases and accept that regulatory rollbacks were only respites. Dramatic and unprecedented weather events in recent years—everything from droughts to floods and frigid temperatures to sweltering heat—have

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Ken’s Corner

by Ken Meyers
President, MCT Dairies Inc.

The winds in Washington have definitely shifted, and businesses need to prepare for new policies. While the industry will welcome some of the Biden administration’s new policies, such as immigration reform and a renewed focus on trade, stricter environmental regulations could spark major opposition if they are not voluntary and/or accompanied by cost sharing. Even though most people understand that environmental restrictions are necessary—if not for the health of the planet than to at least retain favor with consumers and position the industry long-term—regulations tend to raise costs by requiring major investments in technology.

Agriculture Secretary Tom Vilsack, whom the Senate overwhelmingly confirmed this week, has a deep understanding of dairy, the most complex of all major agricultural sectors. As the former CEO of the U.S. Dairy Export Council, Vilsack realizes the importance of trade and has already earned the respect of governments and the food and agriculture industries both here and abroad. The dairy industry should have a friend in Vilsack.

Moreover, the Biden administration and Vilsack will likely prove predictable and consistent in their policies and their choice of words and that will provide farms and processors with the information they need to plan and invest for the future regardless of whether they agree or disagree with the changes. **MCT**

Lots of Milk, Lots of Product

U.S. milk production climbed 1.6% in January compared to a year earlier. The gain was less than market expectations given fourth-quarter 2020's sizeable increases over 2019. Wisconsin led the gains, adding 77 million pounds of milk, while output in states in the Southeast fell behind previous-year levels.

MCT Forecast							
	Block*	Barrel*	Class III	Butter*	Class IV	Whey**	NFDM**
Feb	1.5700	1.4475	15.59	1.4125	13.61	0.5100	1.1350
Mar	1.6150	1.4250	15.38	1.5000	13.75	0.5075	1.1075
Apr	1.6400	1.4750	15.78	1.4450	13.31	0.4950	1.0850
May	1.6100	1.5400	16.15	1.5250	13.56	0.4725	1.0725
Jun	1.6850	1.6300	16.64	1.6175	14.07	0.4600	1.0875
Jul	1.7550	1.6875	17.06	1.6950	14.69	0.4425	1.1200

** CME prices.*
***NASS prices.*

Producers milked 85,000 more cows this January, compared to last year, which could push production higher in the second quarter. January butter stocks were nearly 33% greater than last year at 328.4 million pounds as of Jan. 31. Total cheese stocks were 3.3% larger, which was a slower growth rate than the five-year average that the trade viewed as supportive to markets. **MCT**

... immigration reform, a keystone issue

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negatively affected crops and livestock production. While the impacts from these events have been undeniable, many in agriculture are still reluctant to attribute these events to climate change. To overcome this reluctance, the new administration has enlisted USDA to bring the discussion full circle, but Vilsack and his staff will have to work hard to obtain widespread acceptance of ramped up environmental oversight.

Immigration reform, another keystone issue that the Biden administration intends to tackle early, is one that many in agriculture can get behind due to widespread and ongoing shortages of experienced farm and food production labor as well as rising labor costs. More certainty regarding the H2-A visa program as well as Homeland Security policies could provide needed stability in an area fraught with uncertainty and frustration for workers and employers alike. Based on recent comments, President Joe Biden appears set to propose small changes in immigration policy while seeking bipartisan support to implement long-term change. A permanent solution to the immigration issue could not come soon enough for U.S. agriculture and will likely be well received at the farm level. While a larger labor pool will certainly help in the short term, it likely won't derail the trend toward more on-farm automation.

Finally, trade is coming into clearer focus given Biden's new U.S. Trade Representative Katherine Tai. Despite the pandemic, U.S. dairy in 2020 had its best trade year on record, and now the industry is looking for even more opportunities to market product abroad. In recent years, the United States has been slow to join multilateral trade deals and instead has focused on bilateral agreements. Shortly after picking Tai, Biden received resounding approval from both parties for his choice. Most view Tai as a fair-minded negotiator willing to creatively seek bipartisan support. At the same time, many believe Tai will be tough on China, insisting the country uphold its trade promises. Whether through multilateral or bilateral trade deals, dairy will continue to work toward leveling the playing field with Oceania and Europe, two regions that have been inking trade deals at a breathtaking pace over the past decade. Going forward, dairy exporters and food manufacturers could see more consistent sales as the trade war atmosphere gives way to pro-trade rhetoric. **MCT**

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