

Dairy Market Perspectives during Covid-19

The view in early September 2020

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What's new at DFA?

- DFA's Social Responsibility Report:
https://issuu.com/dairyfarmersofamerica/docs/sustbk1901_sr_pages_fnl?fr=sOWNkNzEwNzA5MDM
 - Protecting our land
 - Caring for our animals
 - Reducing emissions
 - Committing to 30% reduction by 2030
 - Conserving our resources
 - Engagement with members, employees, plant-sites and our communities we live in

What's new...

- **Farmers Feeding Families Fund**

- \$650,000 raised from members, employees and customers

- Supporting

- Dairy donations to food banks
- Money for food banks to buy refrigeration
- Donating milk powder and other dairy products

- Monetary donations accepted:

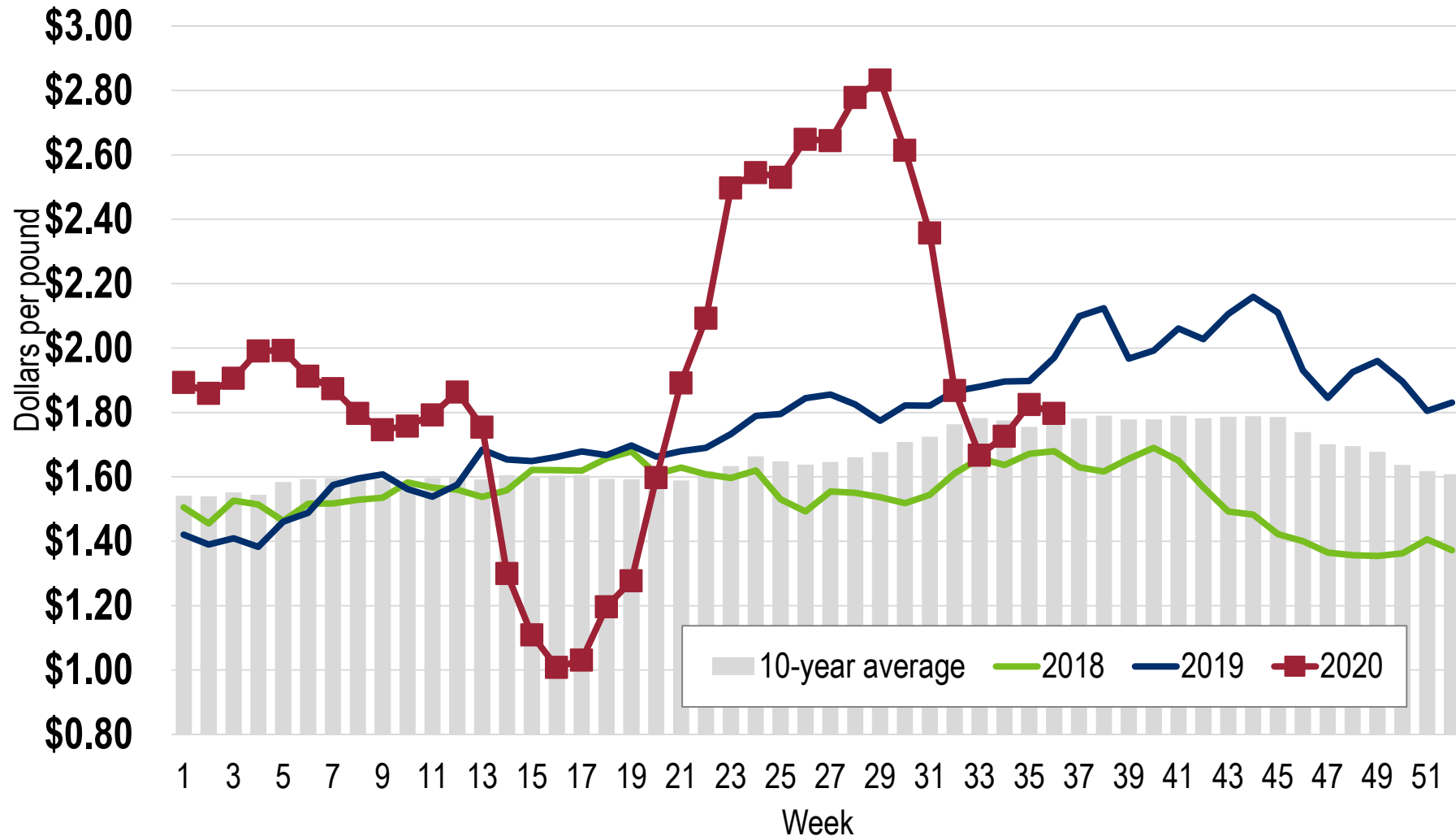
<https://connect.clickandpledge.com/w/Form/83a67ed3-dae2-4029-a9b7-24477d2d09cd>

- **Working with our customers to facilitate dairy product donations to food banks**

Coronavirus continues disrupting markets



CME spot 40-lb cheese price, V+ recovery

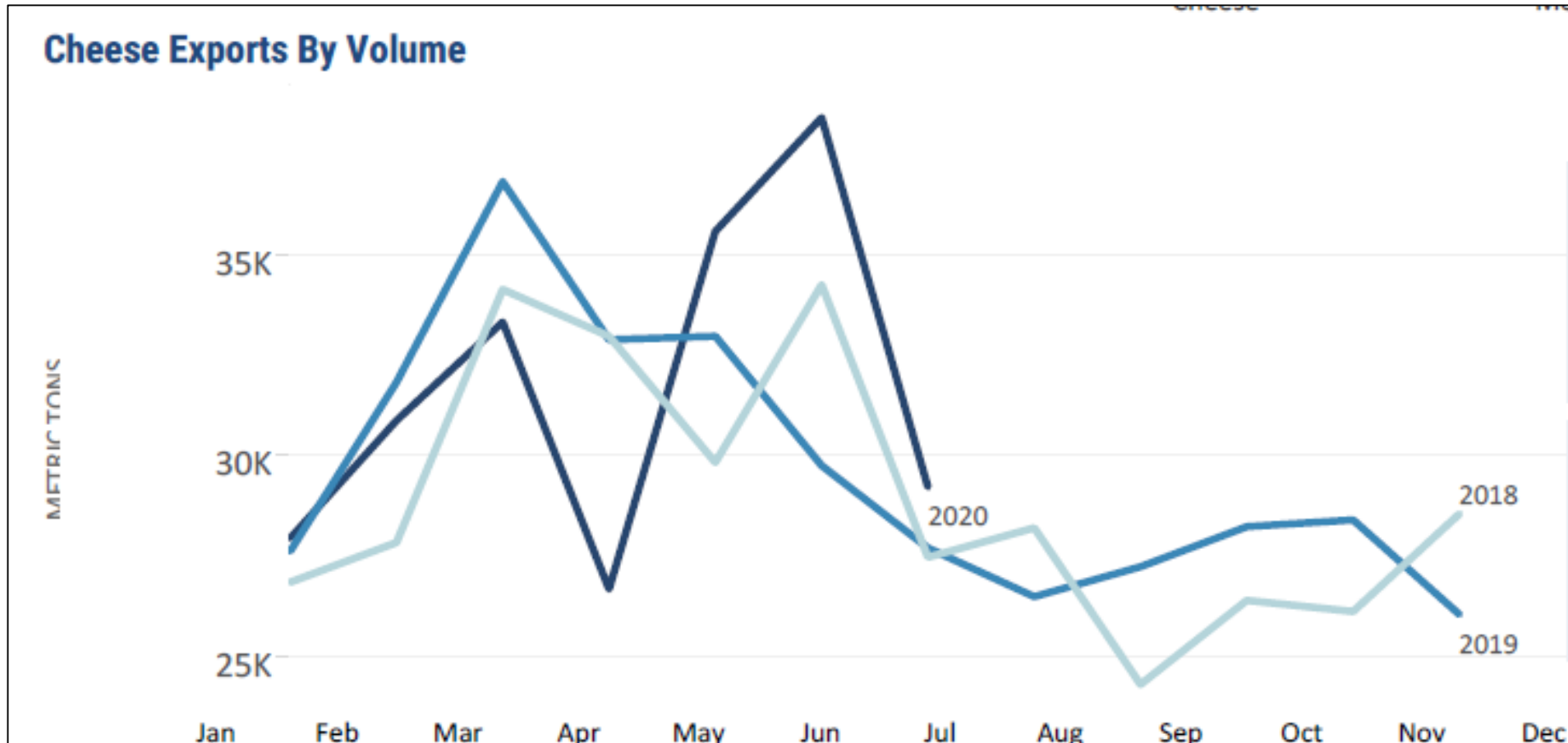


■ 40-lb block prices trading at early March levels around \$1.80

Markets will change: actions leading to convergence

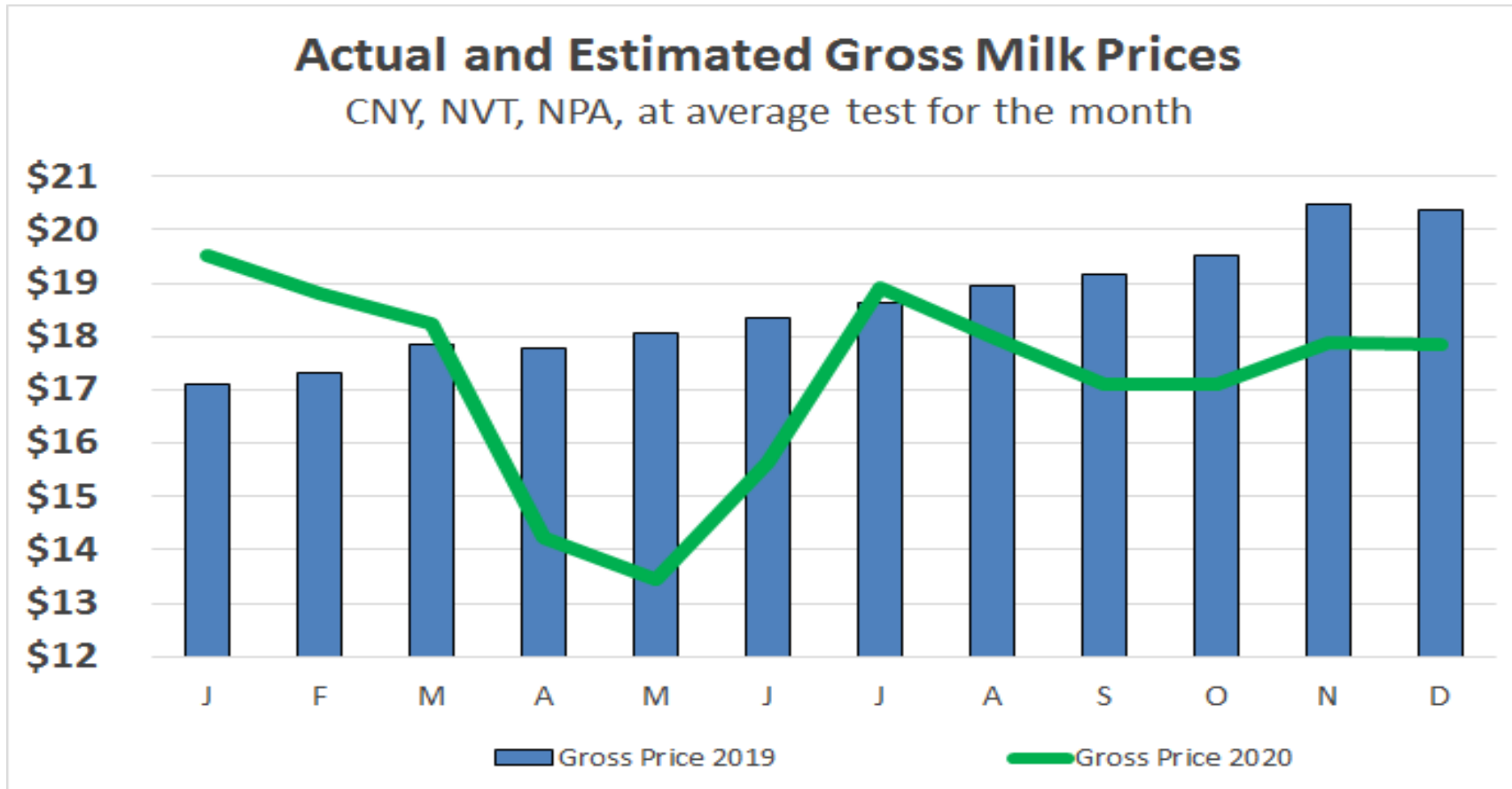
- **Marketable supply and demand**
 - Private actions
 - Dumping milk
 - Food assistance program product and monetary donations
 - Base excess programs
 - Federal Actions
 - \$1.8 billion Cares Act dairy product program
 - Other programs with \$1.7 billion and some type of allocation to dairy

US cheese exports increased in May and June



Source: USDEC

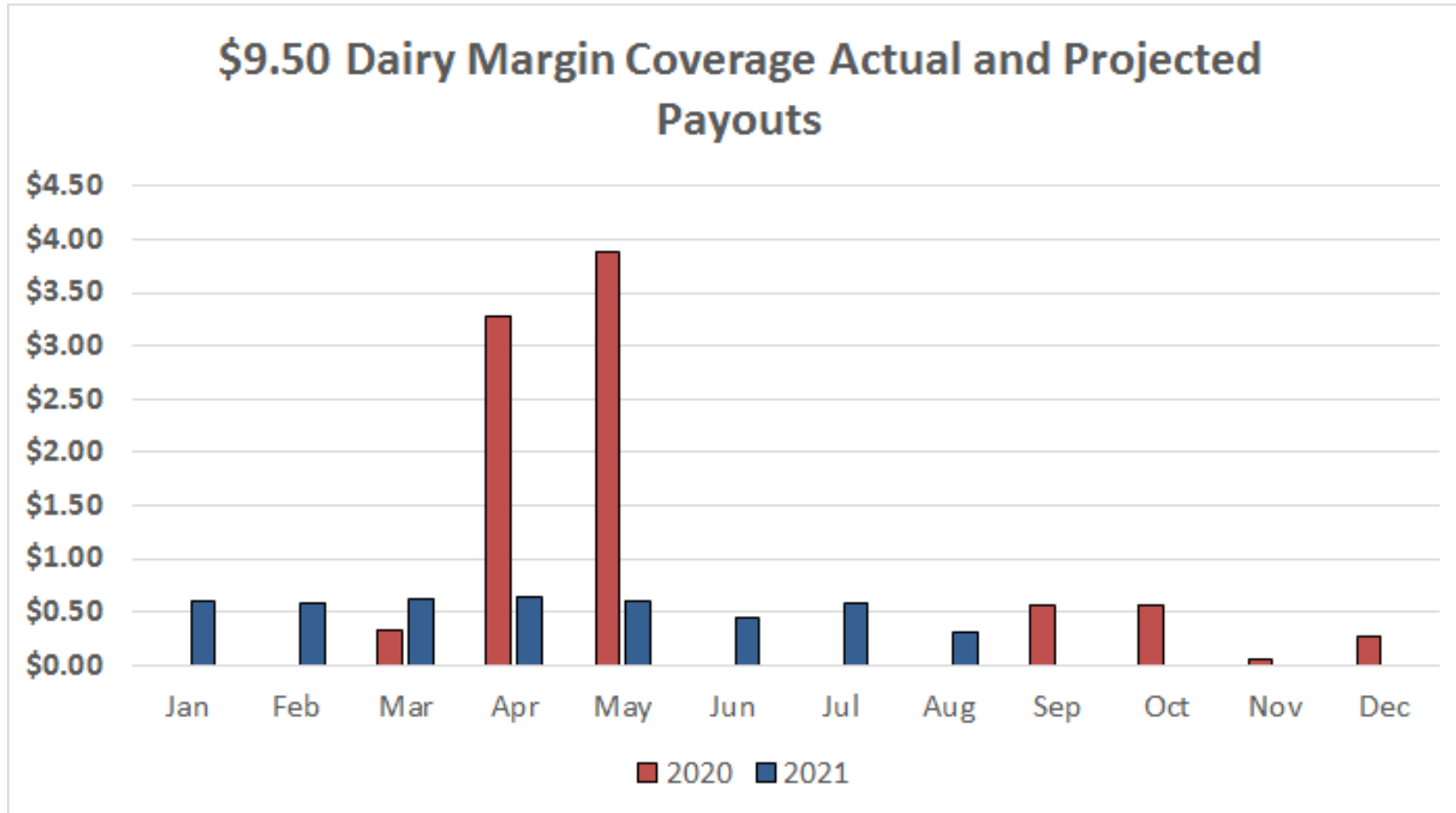
V+ recovery caused higher milk prices



- CME futures suggest milk prices stabilize between \$17-\$18, about the same level as March

Price forecasts based on CME Group futures prices on August 28, 2020

DMC payouts helped when most in need of extra cash



- Lower prices may result in DMC payments this fall
- DMC should be part of your risk management plan all the time
 - If not signed up for 2021, signups reopen in September

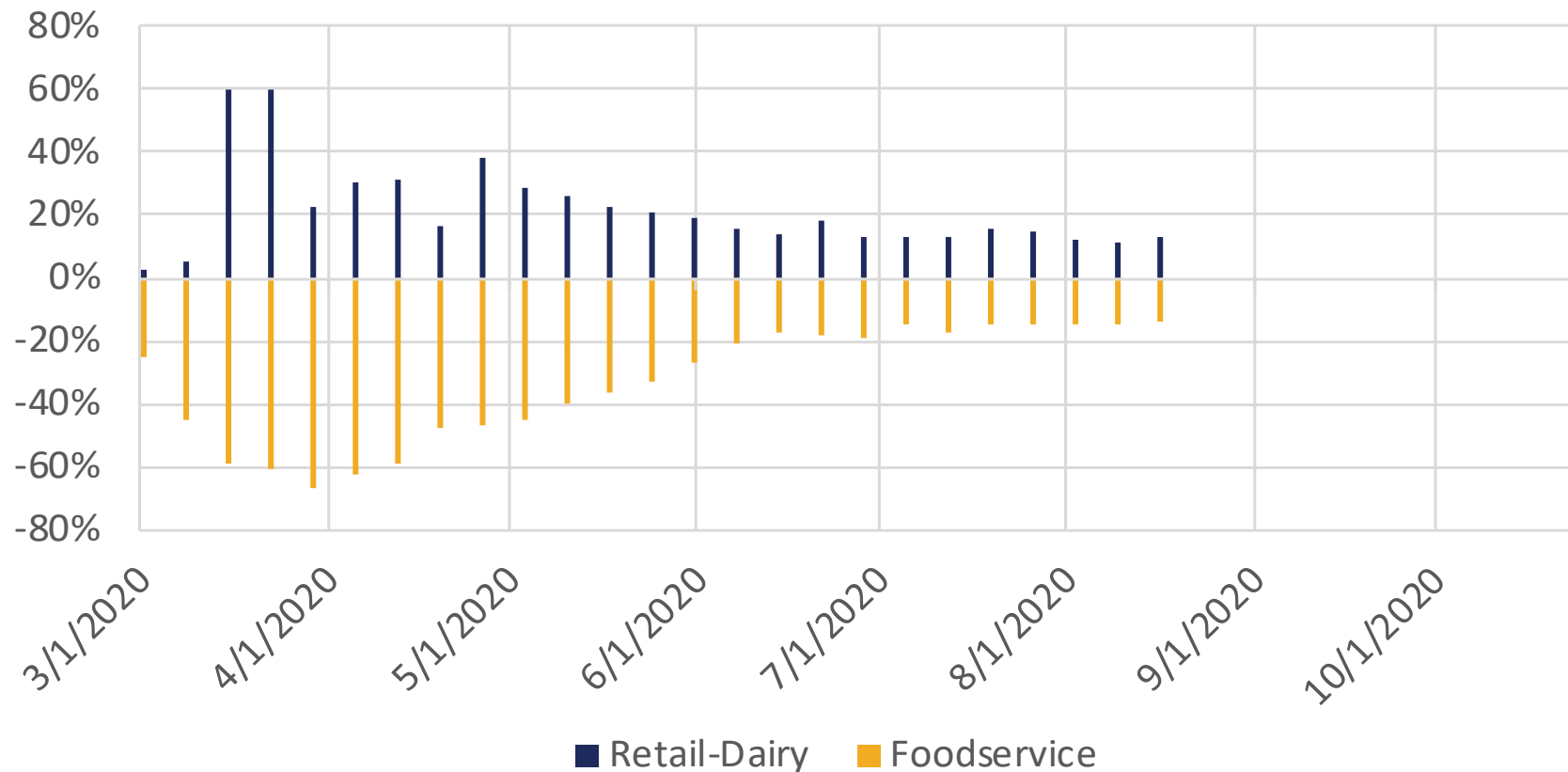
Price forecasts based on CME Group futures prices on August 28, 2020

So where are we now?



People learning to live with Covid-19 epidemic, food service recovering

Retail and Foodservice Sales (YoY Change)

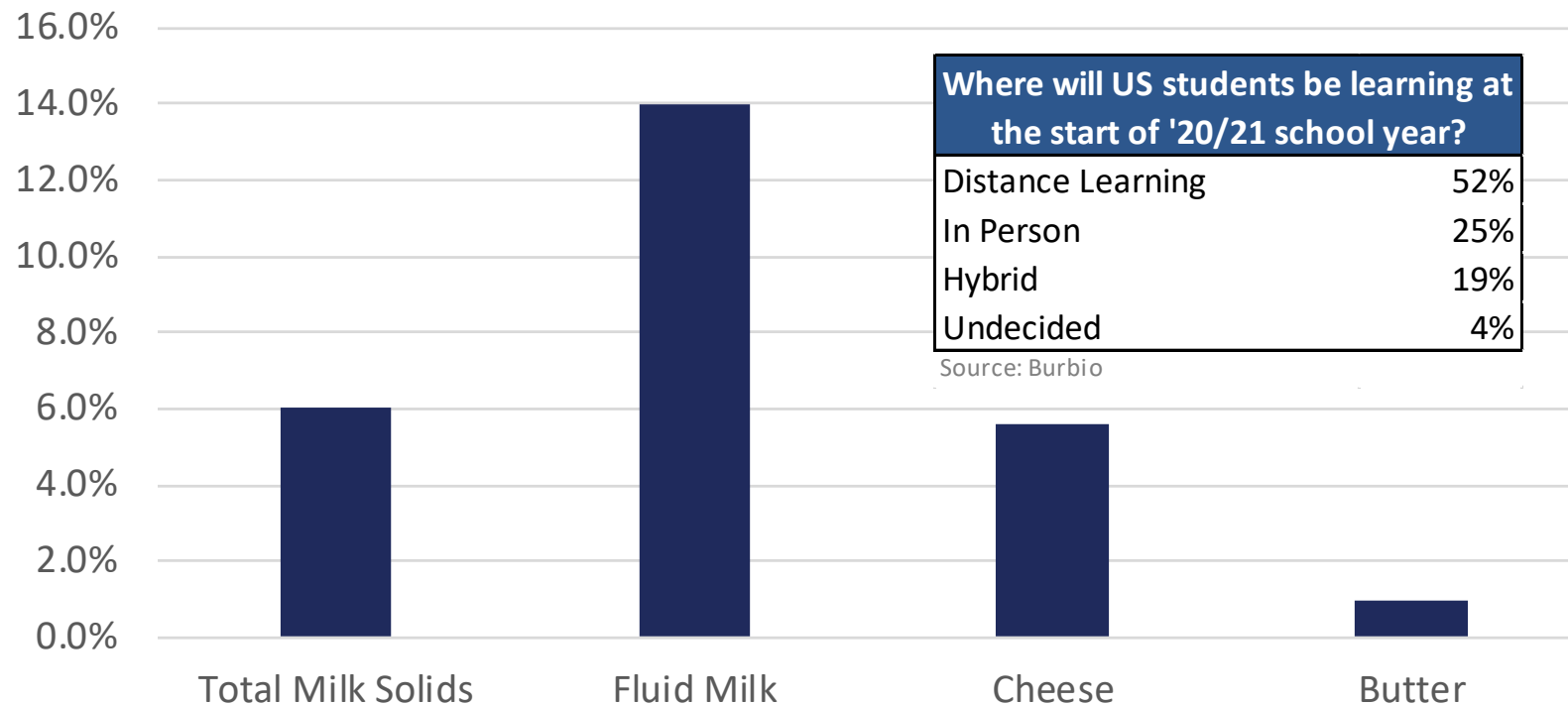


- Food service resurgence led mainly by take-out
- Lots of uncertainty
- Dine-in restaurants cautious, worried about later-on when outside dining not an option in many areas
- What happens with schools?

Source; IRI, Black Box Intelligence, StoneX Calculations and Estimates

Schools may account for about 6% of total US dairy consumption, dairy moving through US schools could be down 30-50%

Percent of US Dairy Products Consumed Through Schools (Pre-covid)



Where will US students be learning at the start of '20/21 school year?	
Distance Learning	52%
In Person	25%
Hybrid	19%
Undecided	4%

Source: Burbio

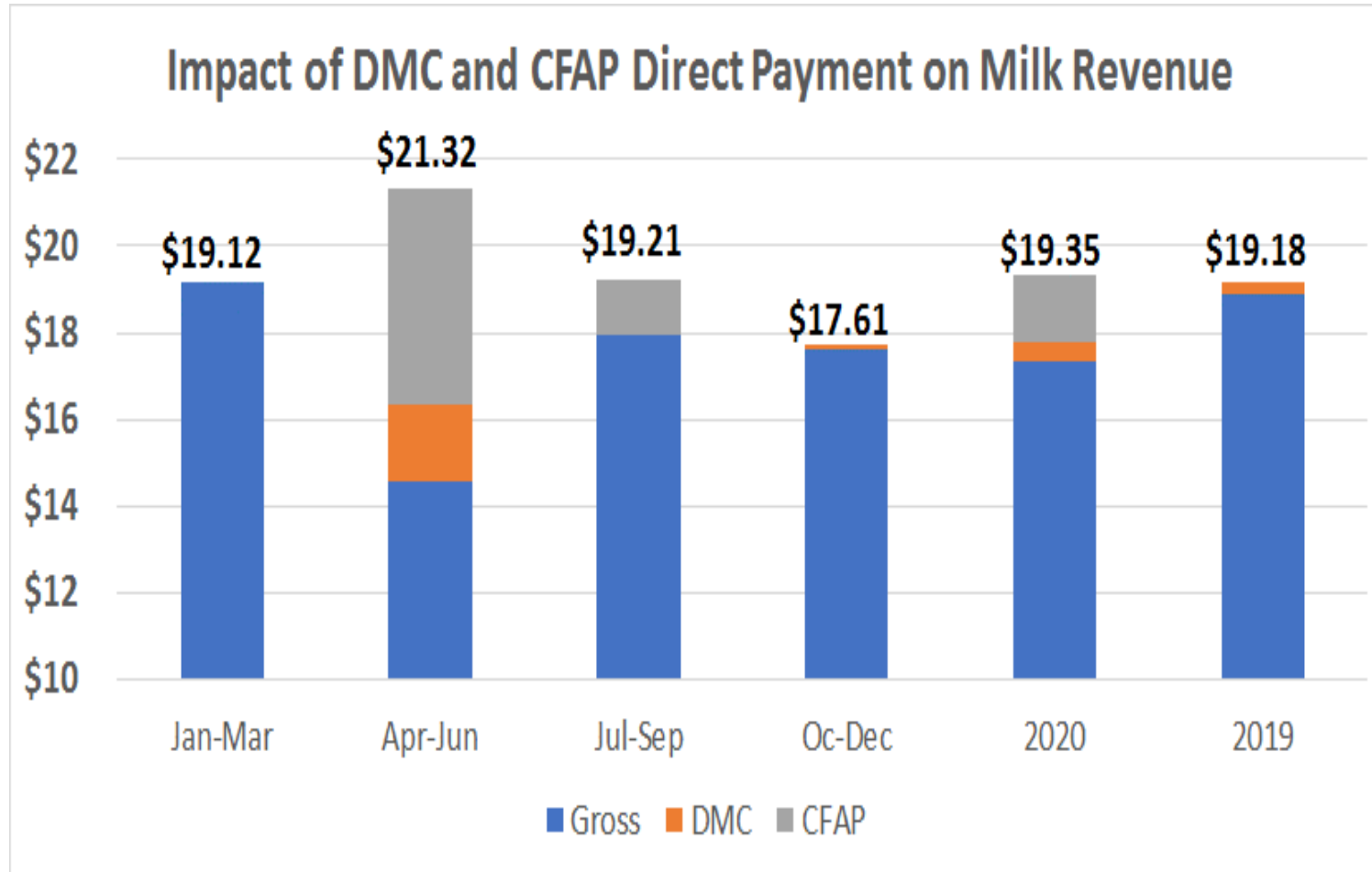
Source: StoneX Estimates

- Food service demand at schools will be lower
- It was lower in the spring too and we saw really strong demand at retail
- Dairy is well positioned in US diets, it will be consumed
- Uncertainty around where the sales will be could lead to a spike in orders

The USDA CFAP Food box program contributed to the “+” in the V

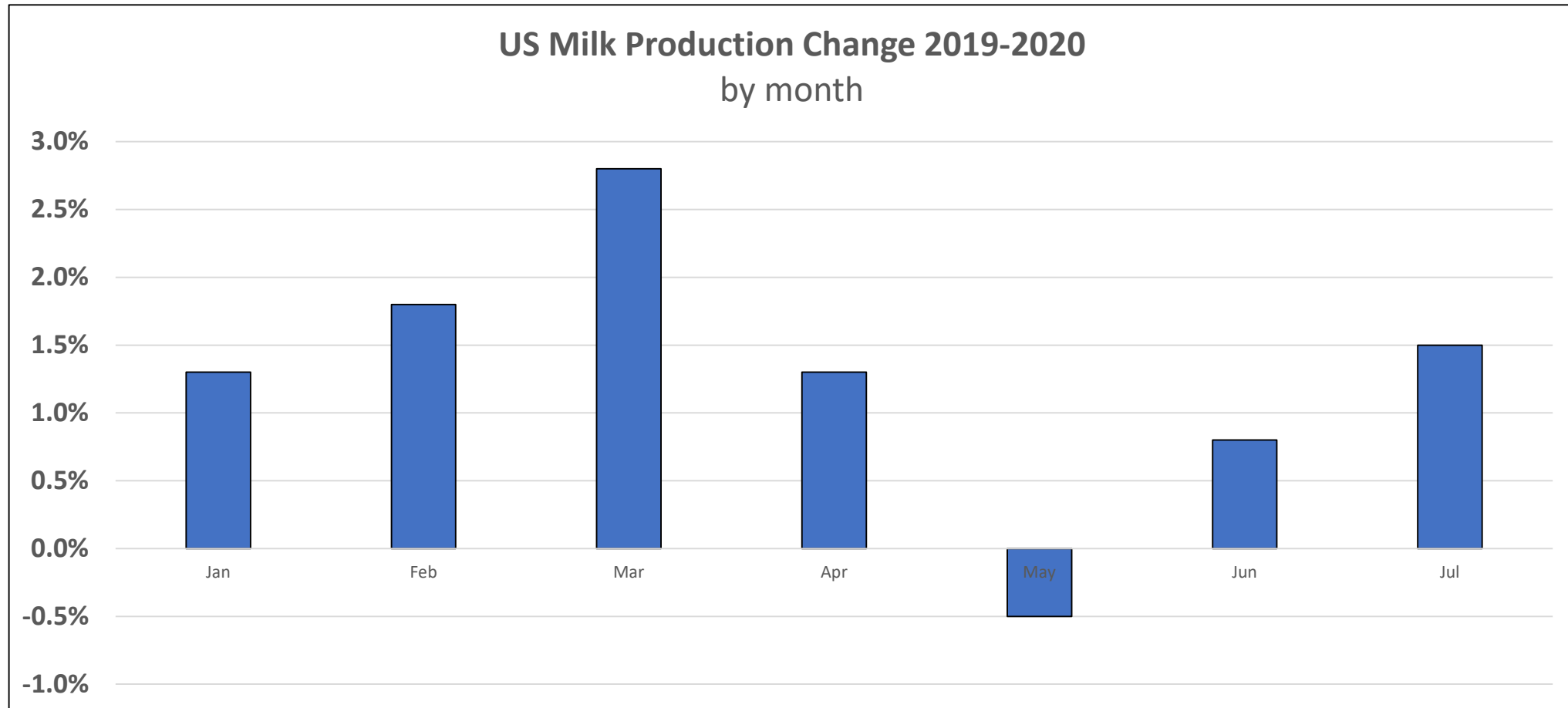
- Food boxes to food pantries for distribution
- Various boxes, one group has dairy; money allocated is for all food not just dairy
- **\$3 billion allocated and program announced in May**
 - Round 1: May 15 – June 30; \$1.2 billion used
 - Round 2: July 1 – August 31; \$1.3 billion used
- **August 28th announcement**
 - Round 2 deliveries extended through September 18
 - \$1 billion added to Round 3
 - Round 3: September 1 – October 31
 - About \$1.5 billion available
- **Expectation of another Federal stimulus package at some point**

Most NEAC members expected to do ok, all things considered



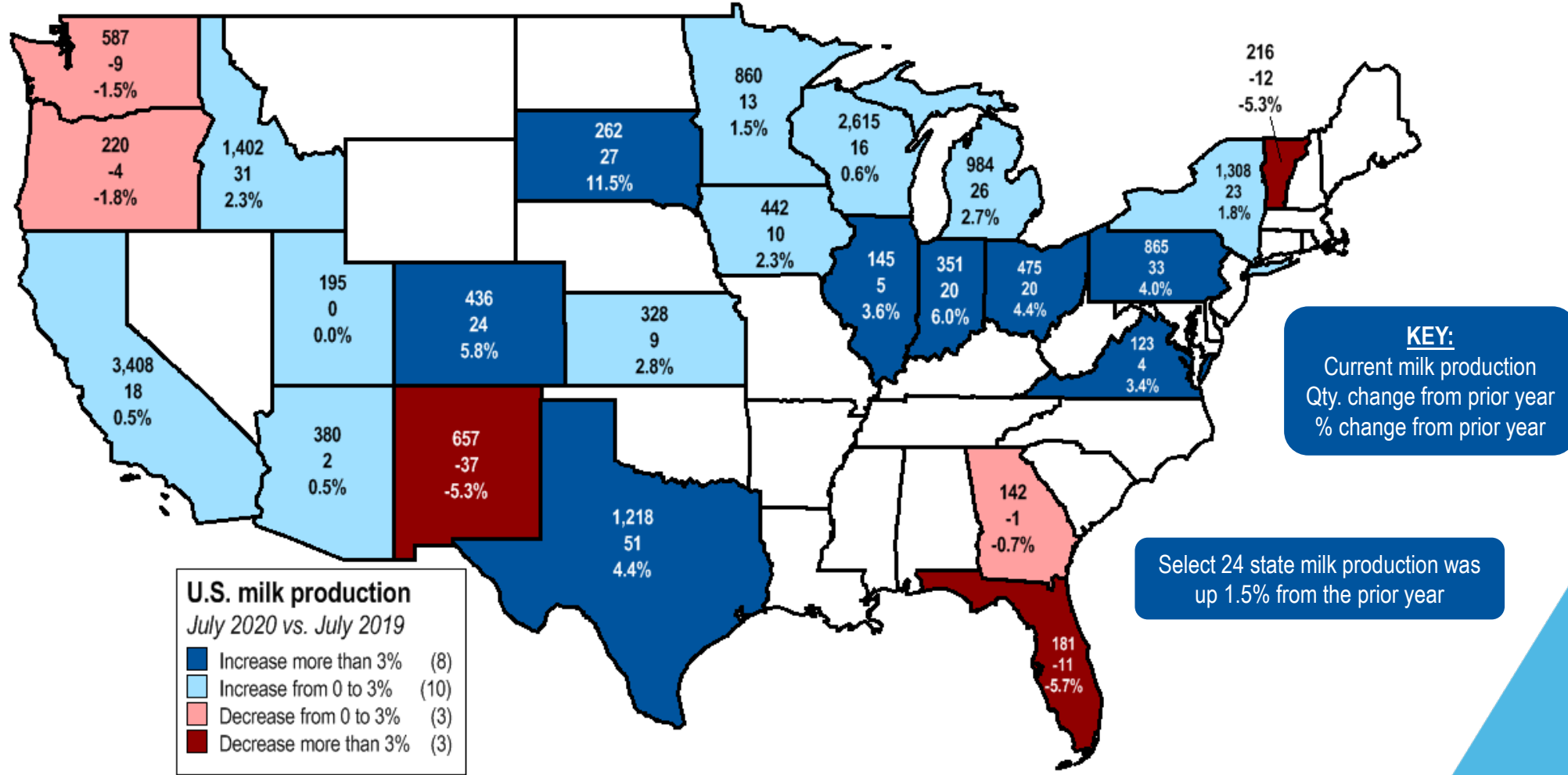
- About 10% of revenue from government programs, this year
- Dairies with about 1,000 cows or less look to do as well or better than 2019
- Others may have DRP and forward contracting adjustments that make up some or all of the difference
- The second CFAP Direct Payment has begun
 - The first payment was for 80% and the second payment is for the remaining 20%
- **CFAP Direct Payment signup deadline is September 11**

US dairies flush with cash, milk production growing....



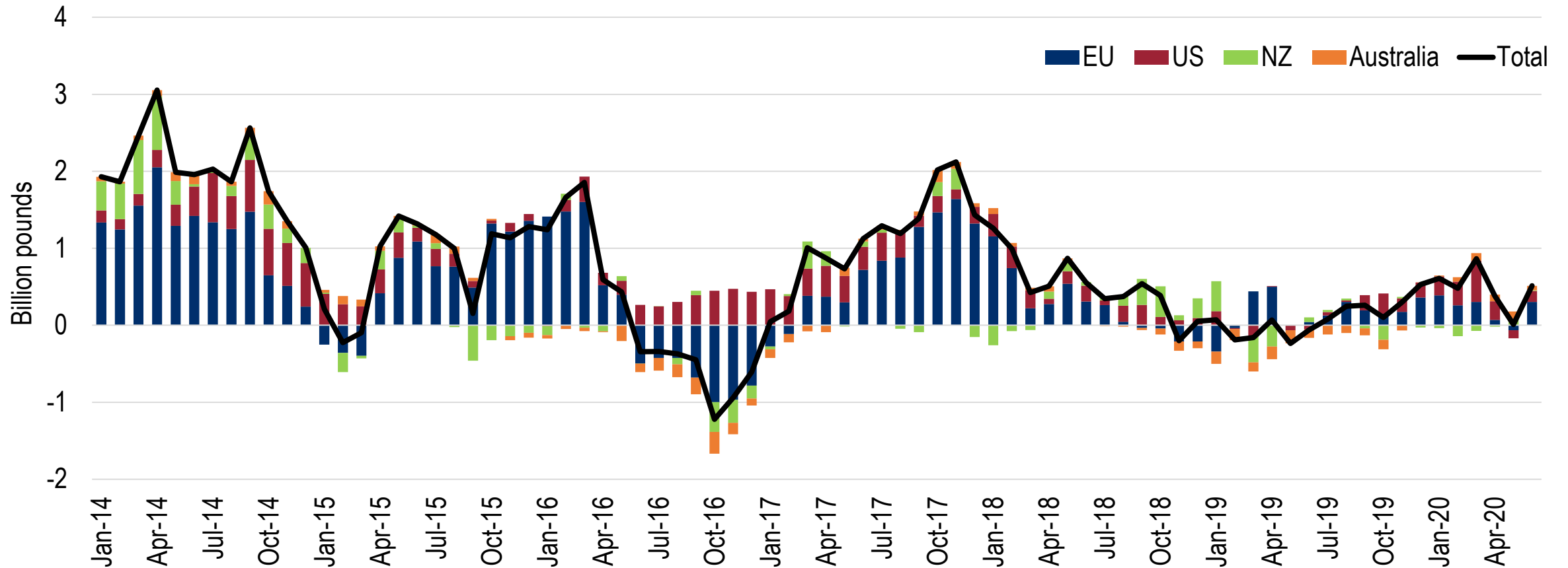
U.S. milk production

July 2020 vs. July 2019 (million pounds)



Top four global exporters milk production

European Union (EU), United States (US), New Zealand (NZ) and Australia



Will US exports hold up?

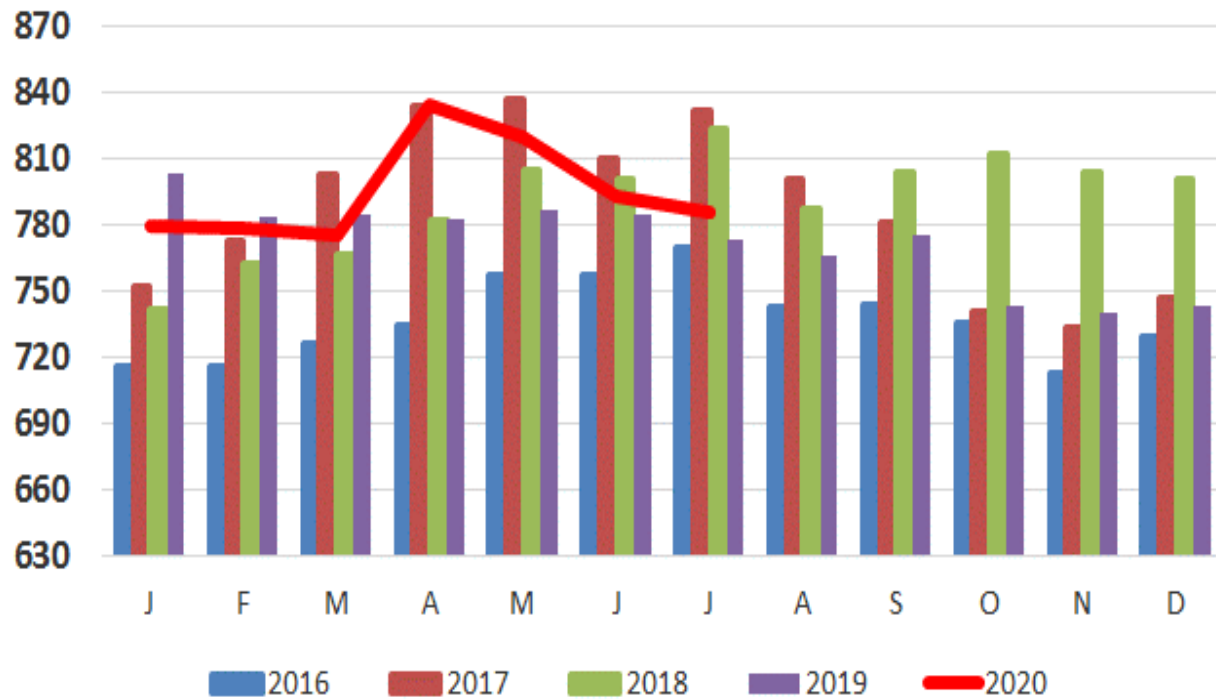
U.S. Exports

	LATEST MONTH		JULY (VOLUME, MT)	
	2018	2019	2020	% CHG
NDM/SMP*	54,406	49,440	75,294	+52
WMP*	4,193	3,488	3,122	-11
Cheese	27,524	27,756	29,266	+5
Butterfat	3,791	1,211	2,559	+111
Total Whey	39,374	34,699	45,217	+30
-Dry whey	15,570	11,194	18,477	+65
-WPC	9,898	9,635	12,594	+31
-Modified whey	10,144	10,557	9,229	-13
-WPI	3,763	3,313	4,917	+48
Lactose	33,886	36,594	32,538	-11
MPC	2,433	3,030	4,046	+34
Food preps (blends)	4,647	4,000	4,038	+1
Aggregate volume**	170,254	160,218	196,080	+22
Milk/cream (000 liters)	9,656	11,032	12,602	+14

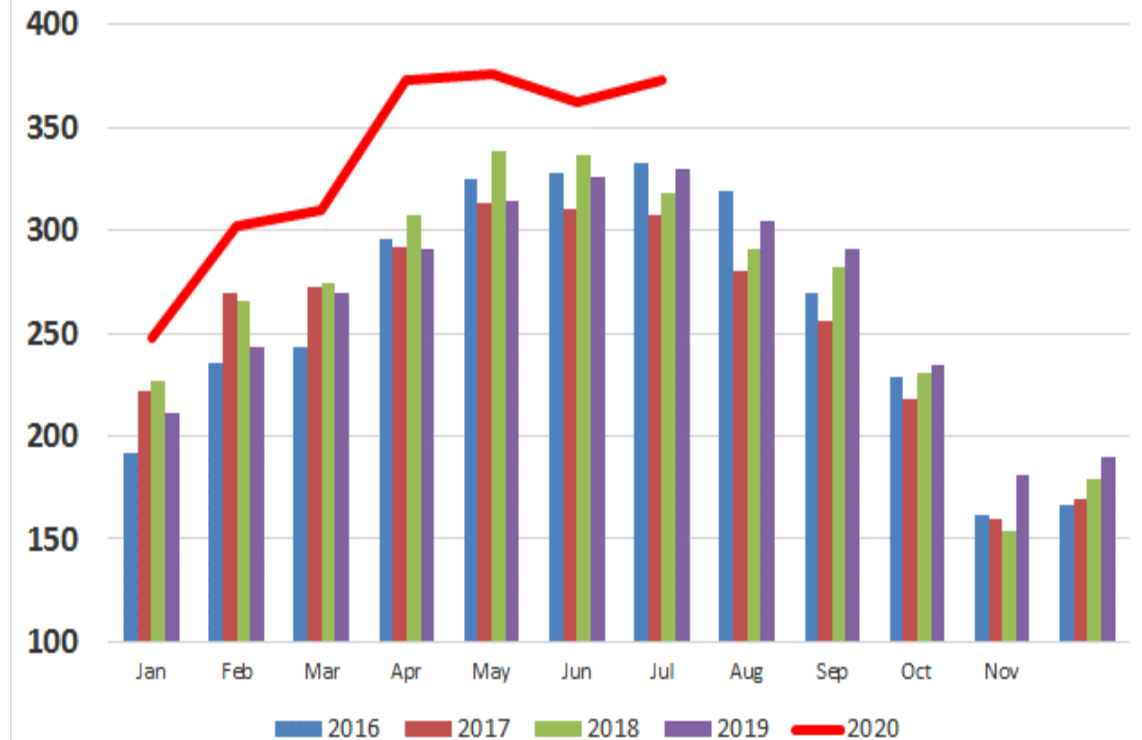
	YEAR-TO-DATE		JANUARY-JULY (VOLUME, MT)	
	2018	2019	2020	% CHG
NDM/SMP*	440,700	377,405	484,585	+28
WMP*	26,298	18,783	23,633	+25
Cheese	213,644	219,851	222,297	+1
Butterfat	24,787	14,885	14,189	-5
Total Whey	340,024	259,979	302,239	+16
-Dry whey	138,535	92,603	116,027	+25
-WPC	98,097	69,249	79,800	+15
-Modified whey	79,223	72,639	73,244	+0
-WPI	24,169	25,487	33,167	+30
Lactose	244,533	223,119	232,497	+4
MPC	17,301	20,437	27,163	+32
Food preps (blends)	37,045	30,253	32,798	+8
Aggregate volume**	1,344,332	1,164,711	1,339,402	+14
Milk/cream (000 liters)	65,841	76,510	76,930	+0

Cheese and butter inventories – two different pictures

US American-style Cheese Inventories

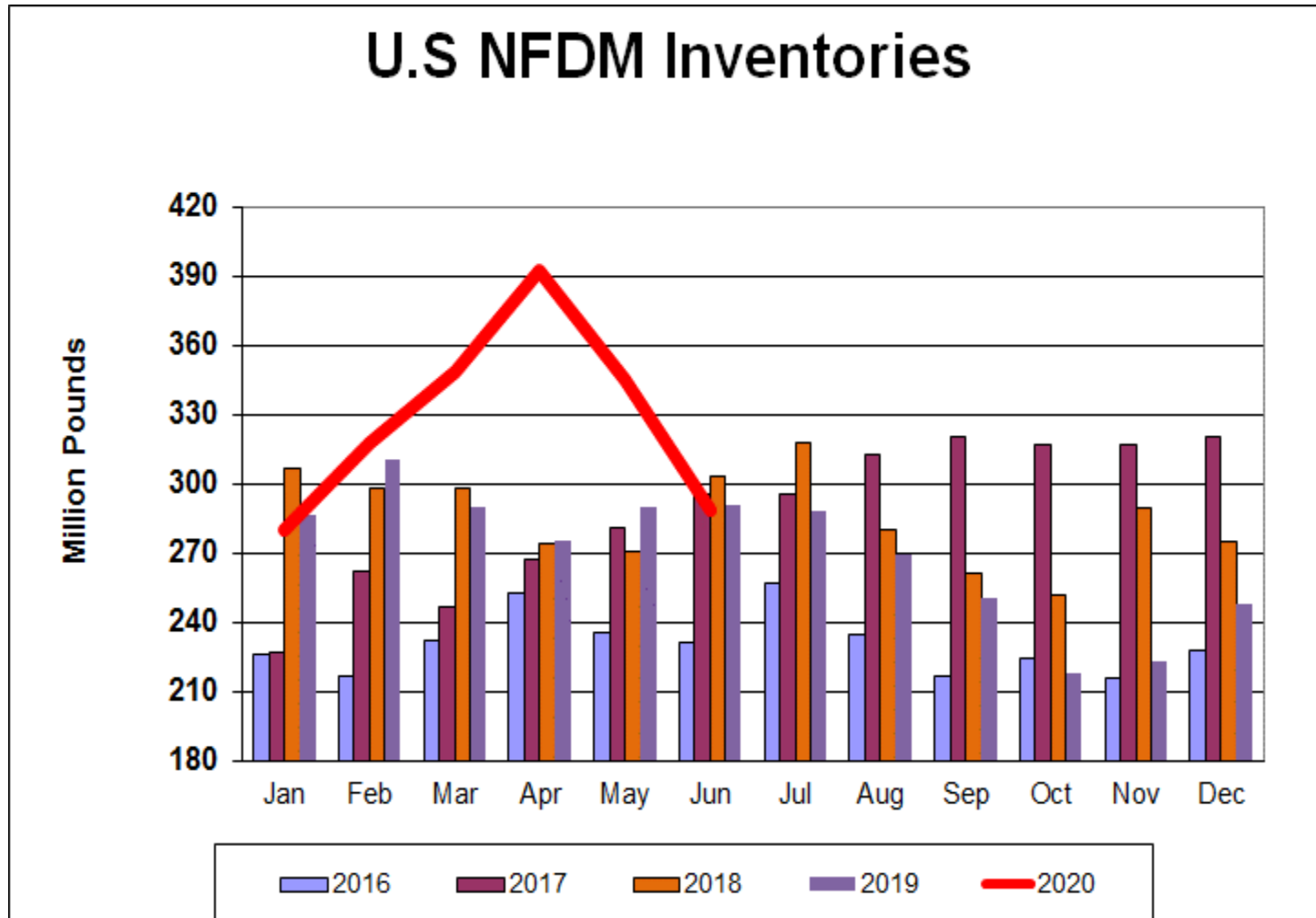


US Butter Inventories



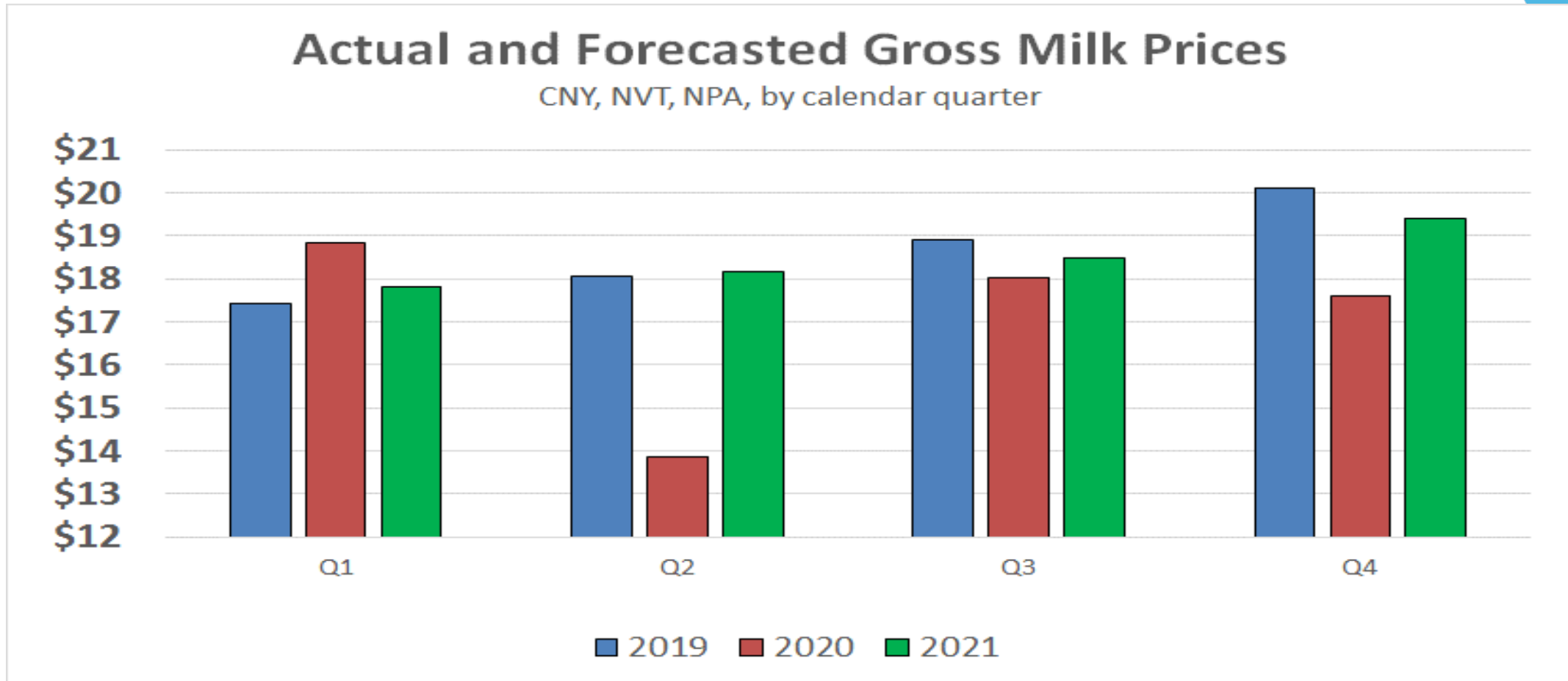
- High July and August cheese price discouraged inventory building, record cheese exports in June
- Futures market incentivized butter to be produced over the summer and sold in the fall

Powder inventories declined rapidly



- 77% YoY increase in powder exports in June
 - But buyers may have stocked up
- GDT powder prices up from prior auction
- NZ expecting descent springtime production
- Uncertainty about global economic growth, especially Mexico and SE Asia

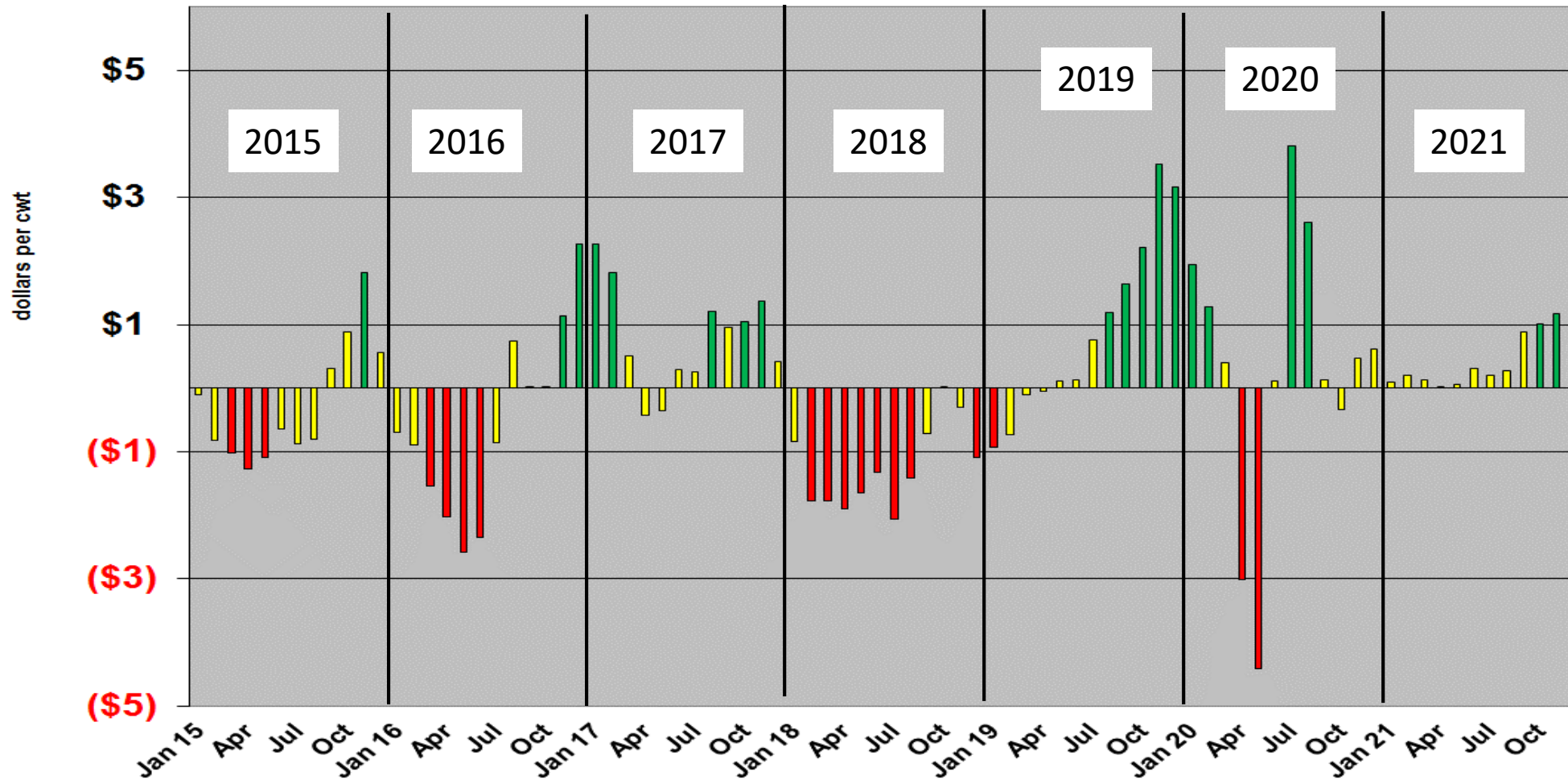
CME futures projecting next year to be more like 2019



Price forecasts based on CME Group futures prices on August 28, 2020

US Dairy Farm Average Net Margins

Estimated, Jan 2015- Dec 2021



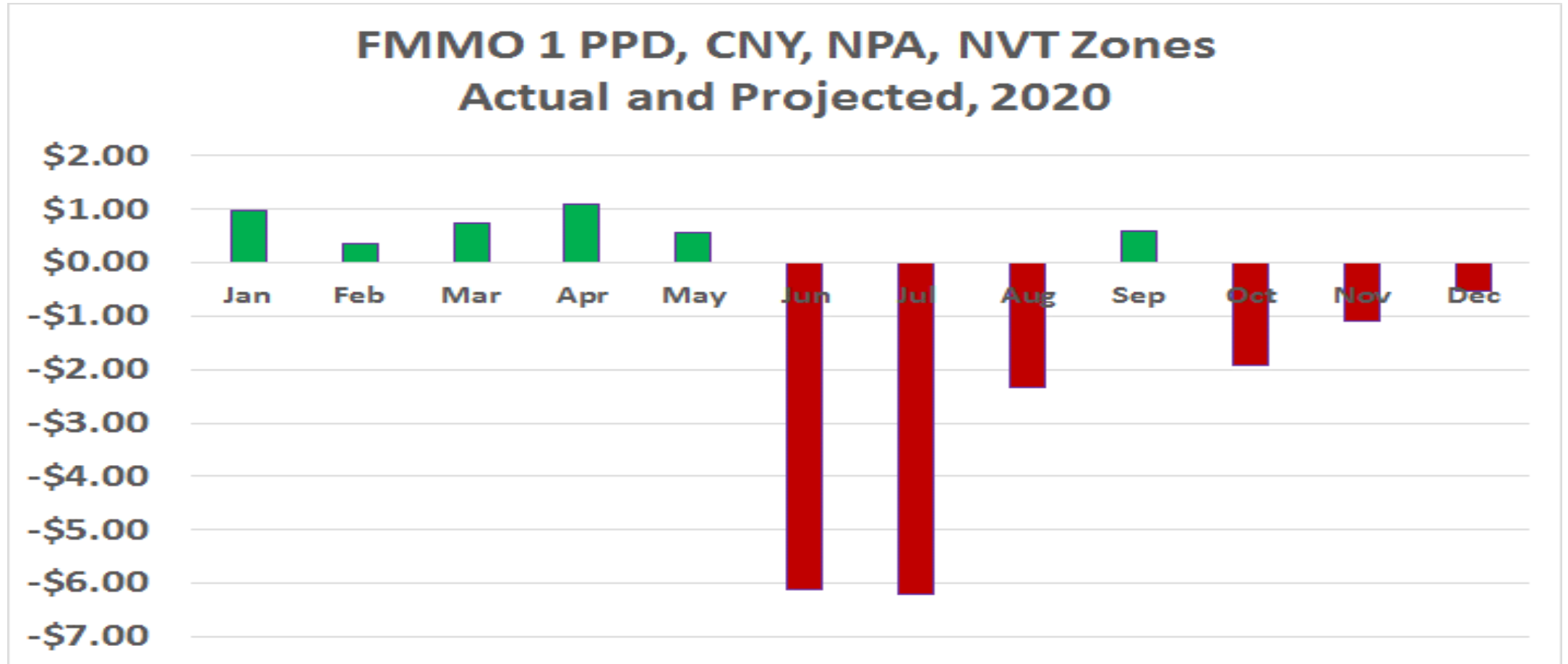
- Forecasted by Ed Gallagher using August 21, 2020 CME Group futures prices
- Chart does not incorporate the following payments:
 - DMC
 - DRP
 - FC or other RM
 - CFAP direct
 - PPP
- It does include negative PPDs

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Questions



V+ recovery led to negative PPDs



Price forecasts based on CME Group futures prices on August 28, 2020

Class III ➔ Blend = Negative PPD

