

Dairy Market Update – early 2021

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a division of Dairy Farmers of America

Disclaimer

(i.e., the fine print)

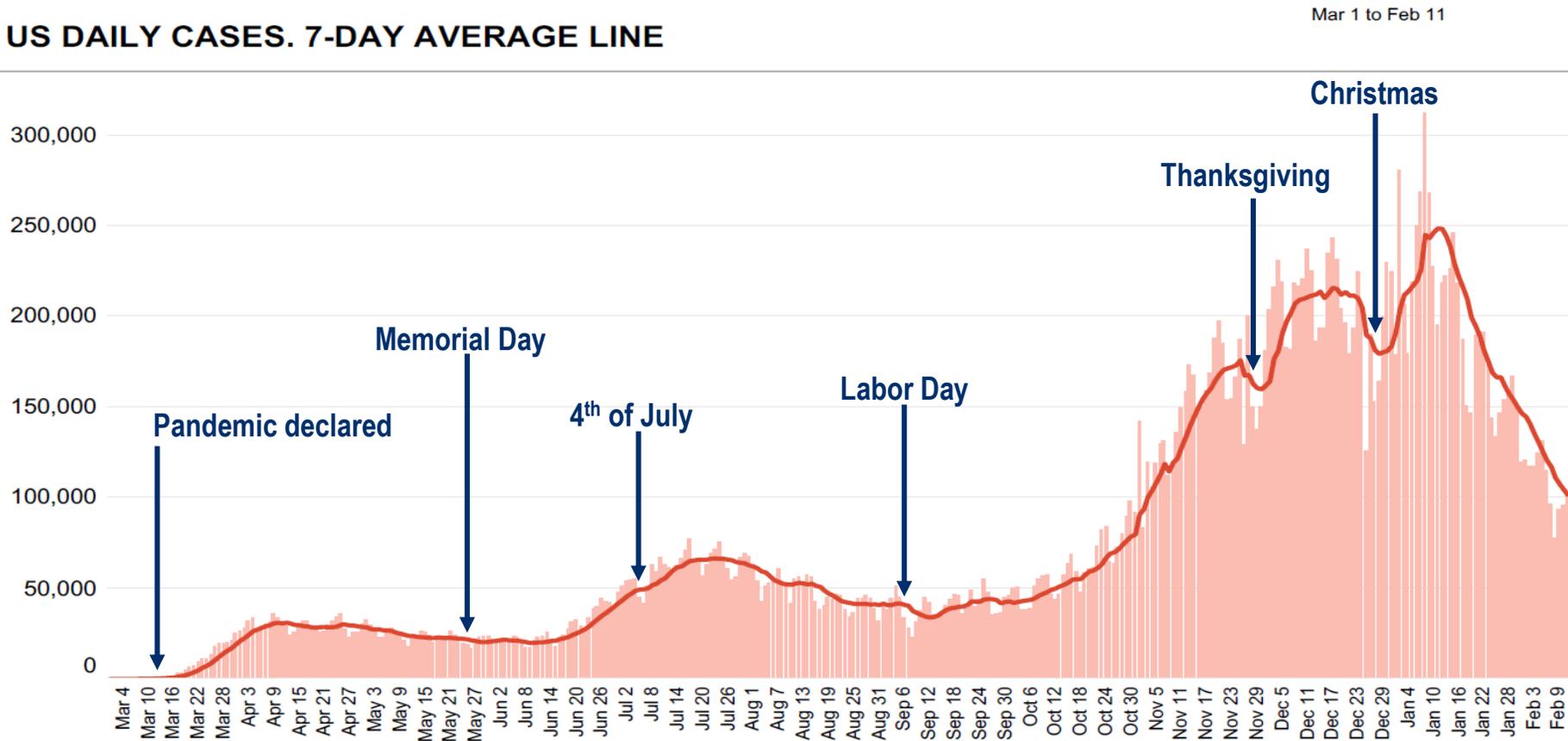
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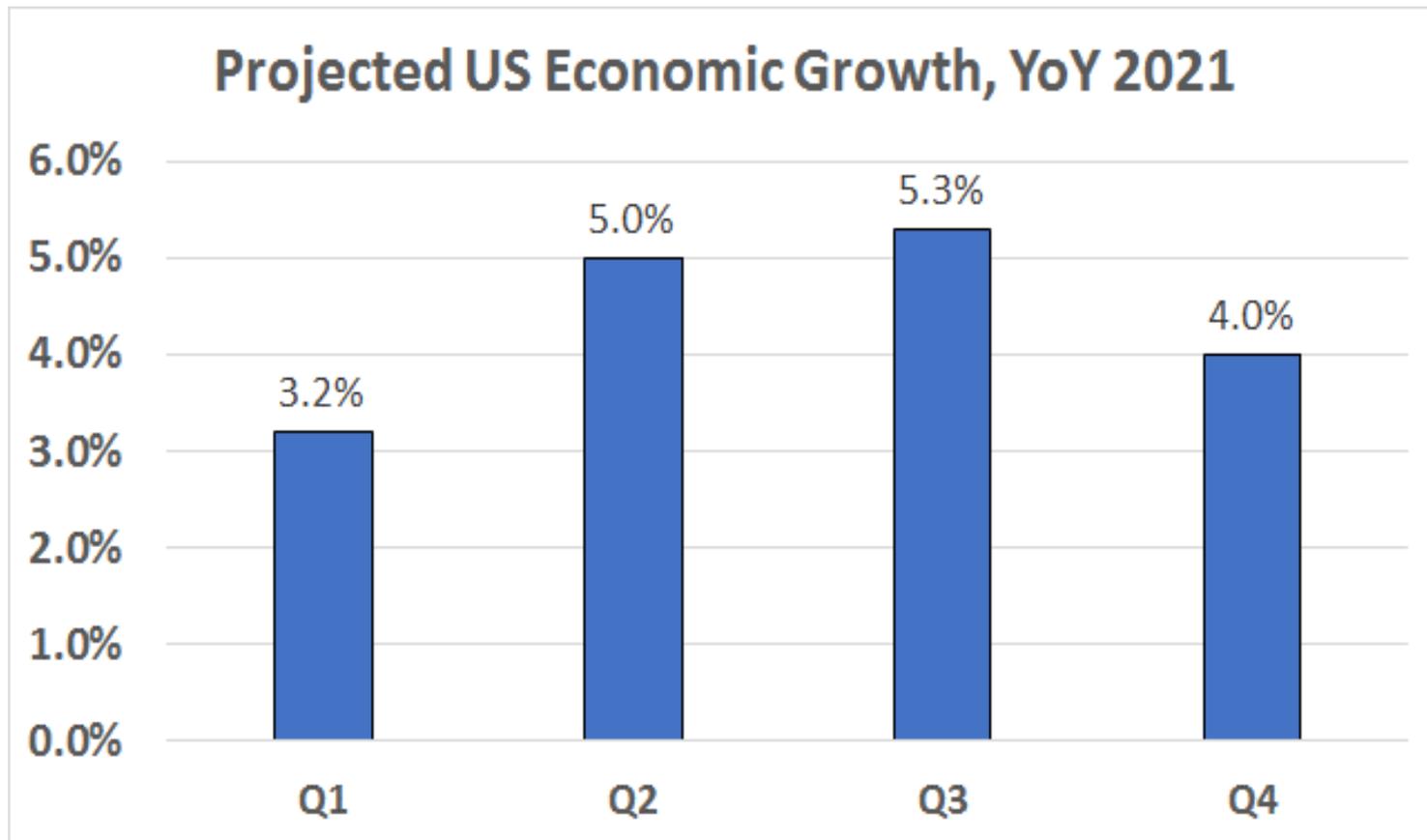
COVID-19 pandemic mitigation is key to dairy outlook

US DAILY CASES. 7-DAY AVERAGE LINE



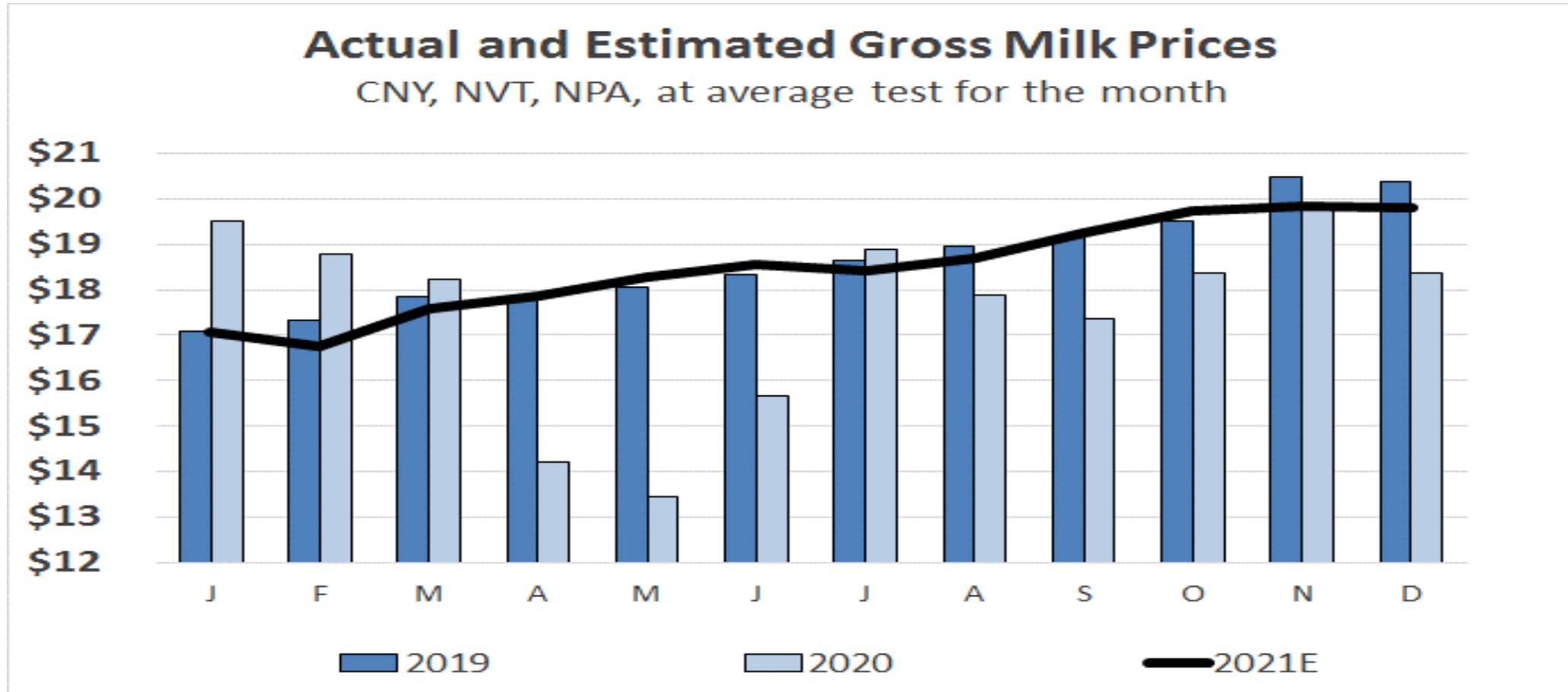
- To date, more than 80 million people vaccinated at least once
- June 1 vaccination goal set by President Biden

US economy expected to rebound sharply



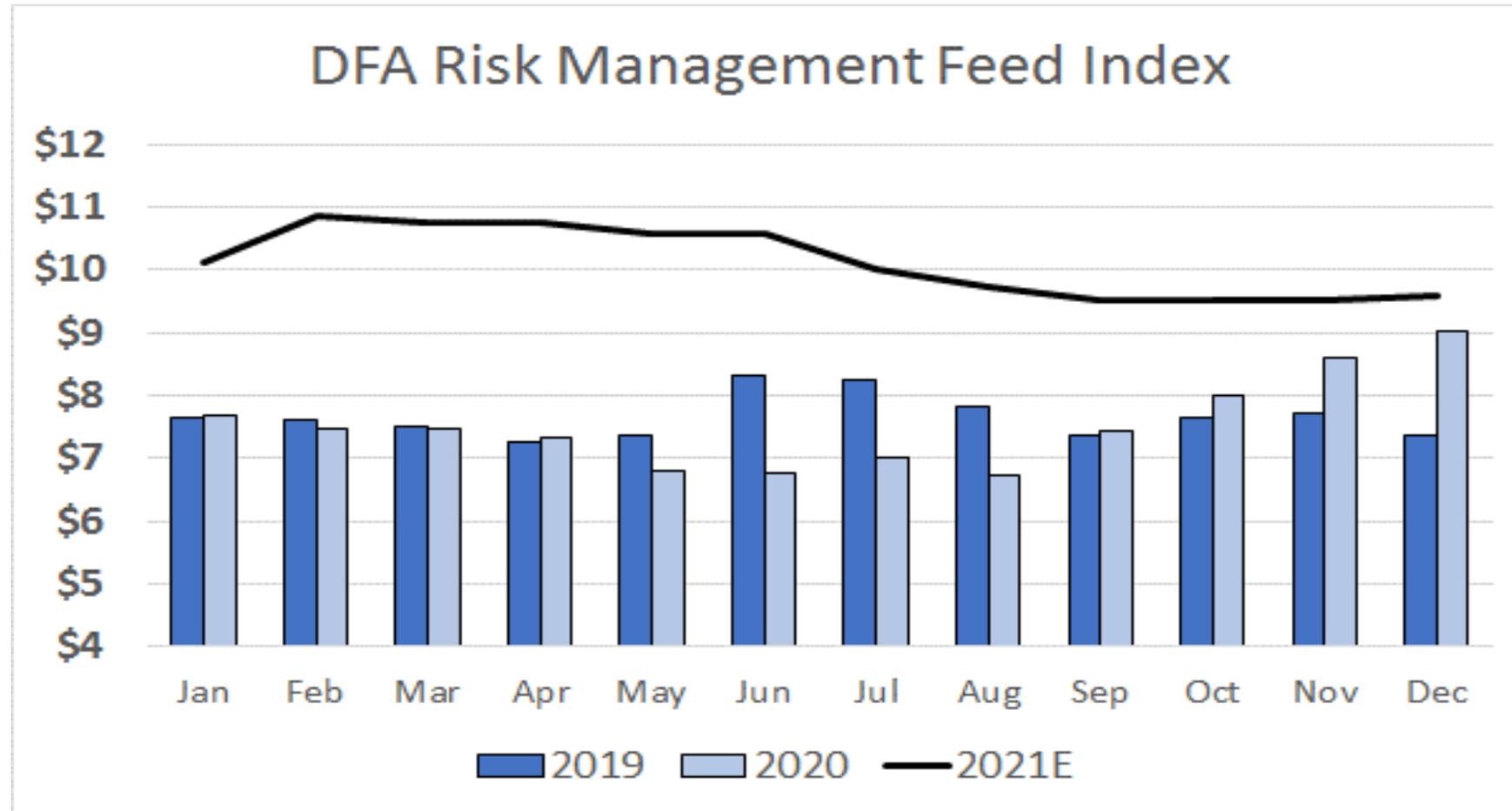
- 2020 growth down 3.5% - largely due to Q2 2020 contraction
- More fiscal stimulus expected
 - US savings rate spikes with stimulus payments
- Expectations of inflation around 2% in 2021

Expecting milk prices to rise as the economy re-opens



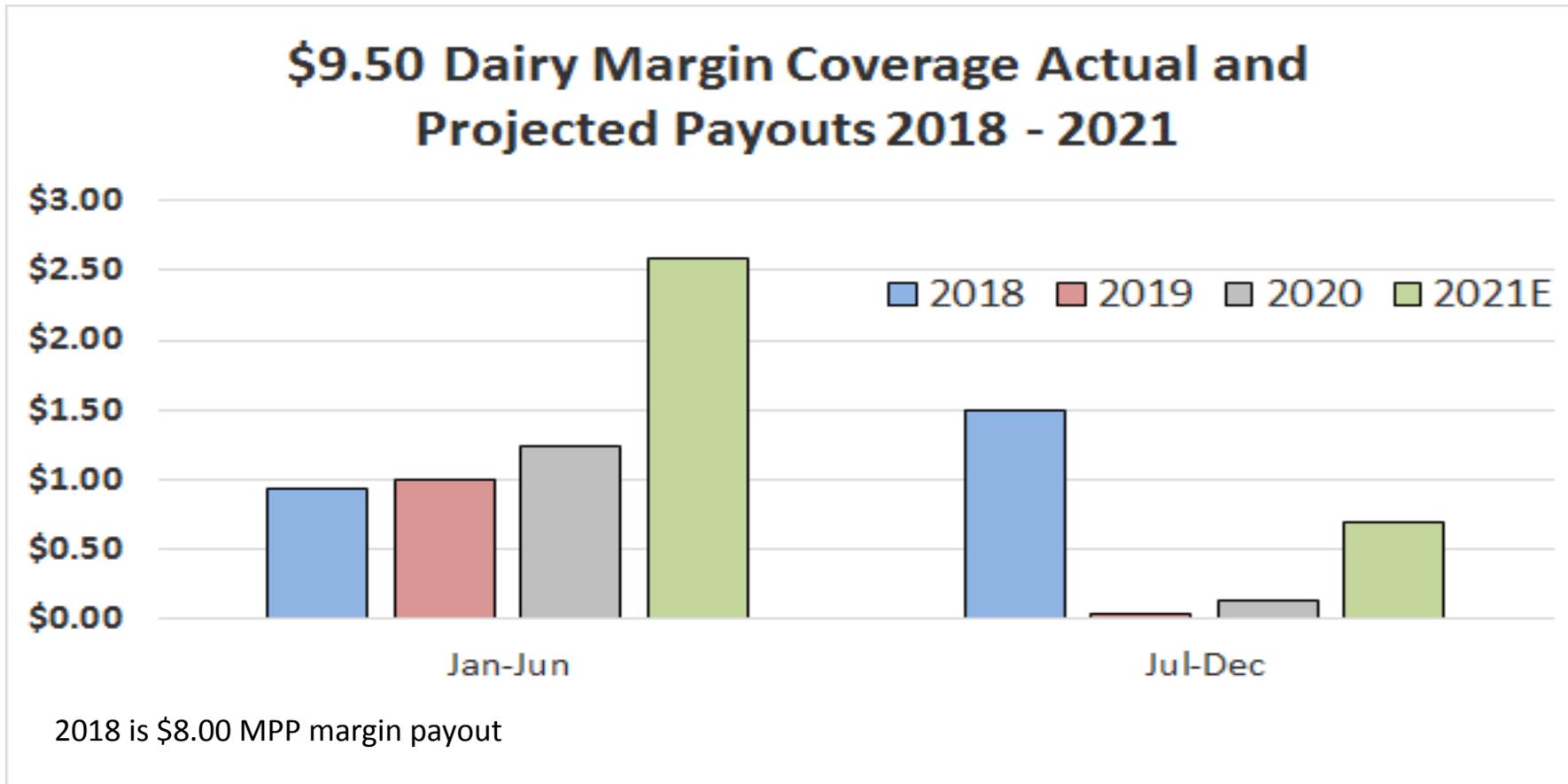
DFA RM estimates using CME Group futures prices on February 25, 2021

Livestock feed prices up due to demand from China



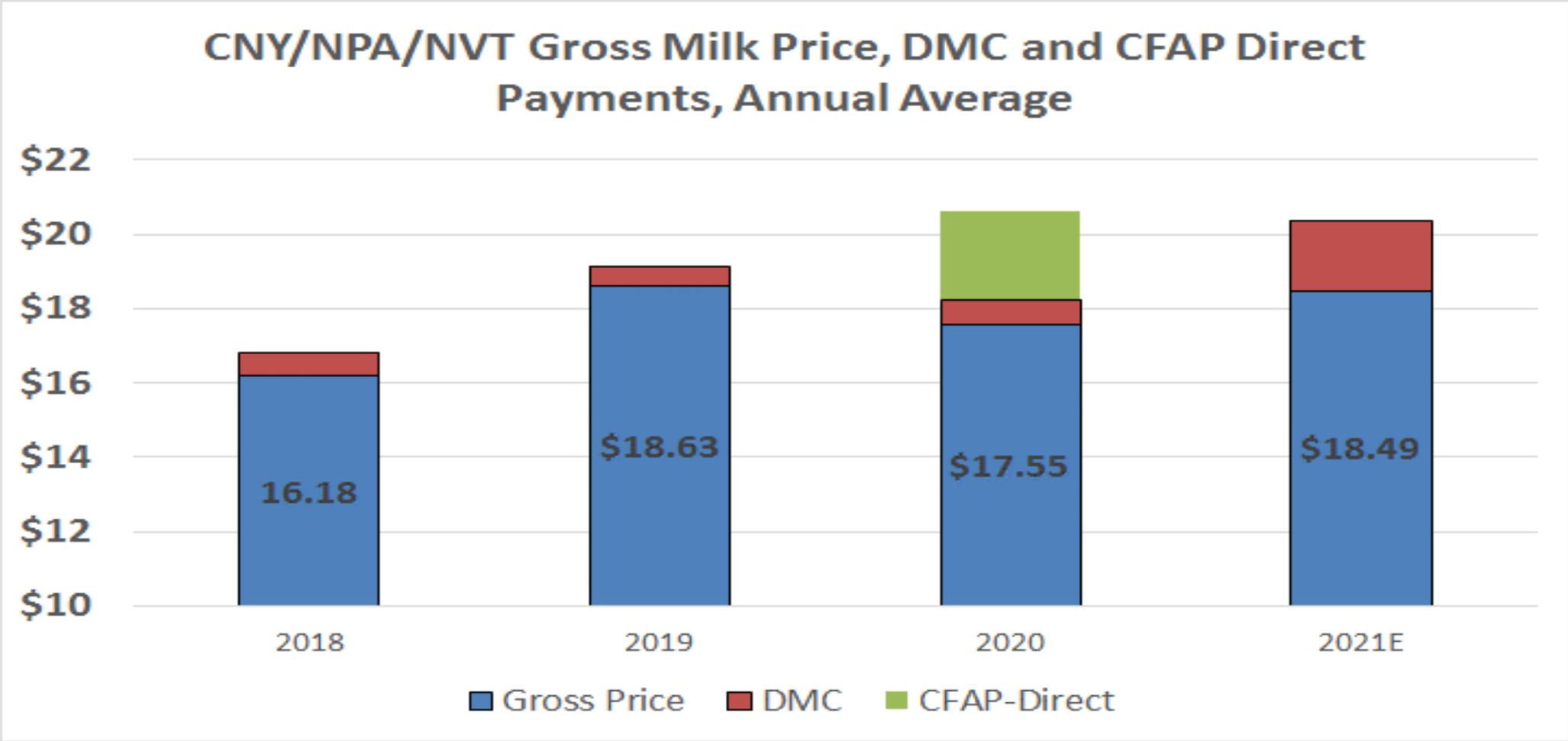
2021 estimates based on CME Group futures prices on March 3, 2021

2021 DMC payouts higher due to higher feed prices

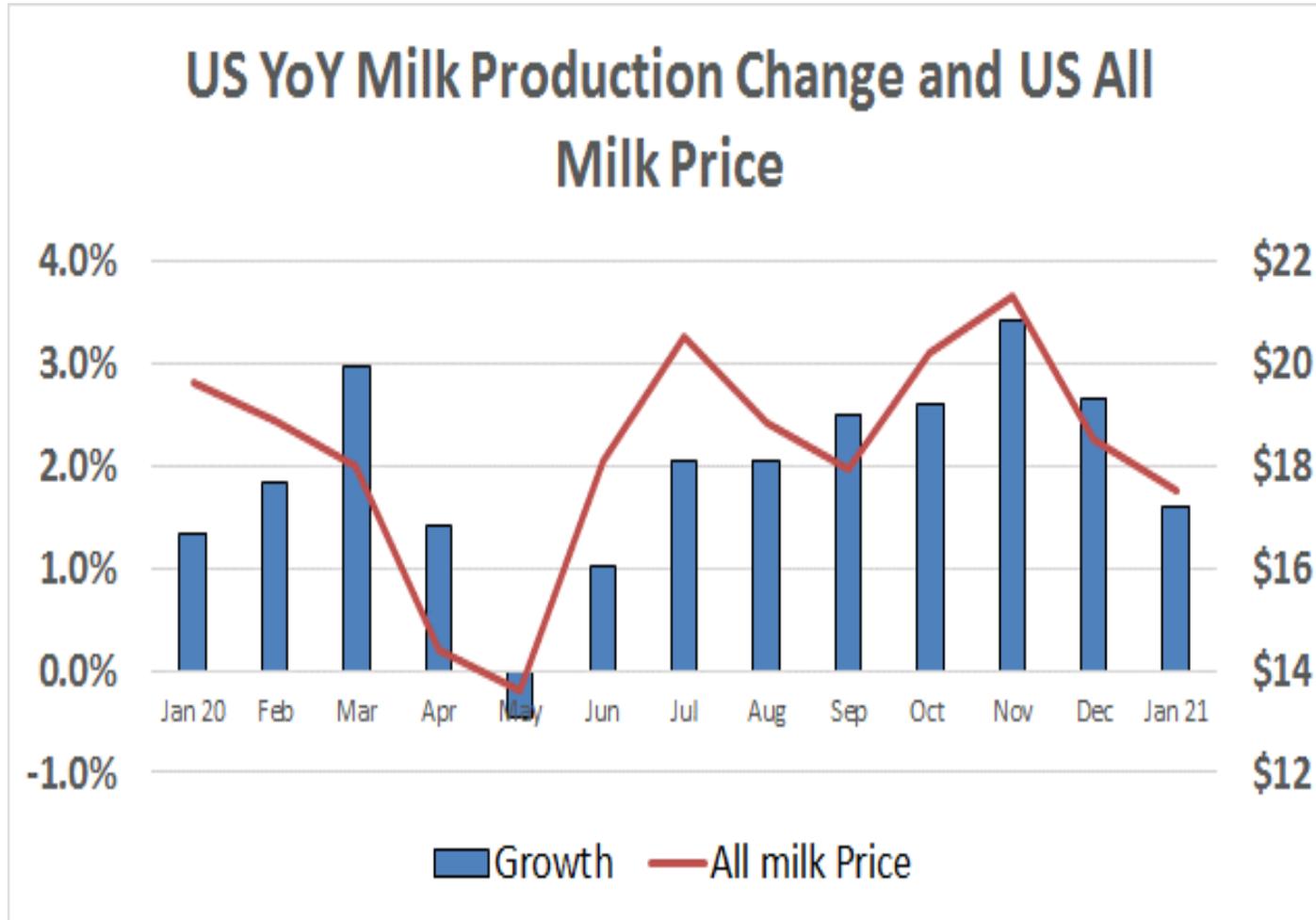


Data sources: USDA and CME. Estimates by DFA RM based on CME futures market prices on February 25, 2021

All things considered; milk prices weren't that bad in 2020



There is lots of milk ...



- **Milking herd grew by 95,000 head between June and January**
- **Production per cow was very strong**
 - Now slowing
 - Freezing temps in the south will slow output growth, modestly
- **Is January's production correct?**
- **February's production impacted by Southern US freezing temperatures**

Farmers to Families Food Boxes



Program Future is Uncertain

- Round 5 extended in late December with \$1.5 bil.
- Runs through April 30
- Combo boxes only
- About 25% allocated to date – about 11 mil boxes

Round 1
36 million food boxes

Round 2
66 million food boxes

Round 3
17 million food boxes

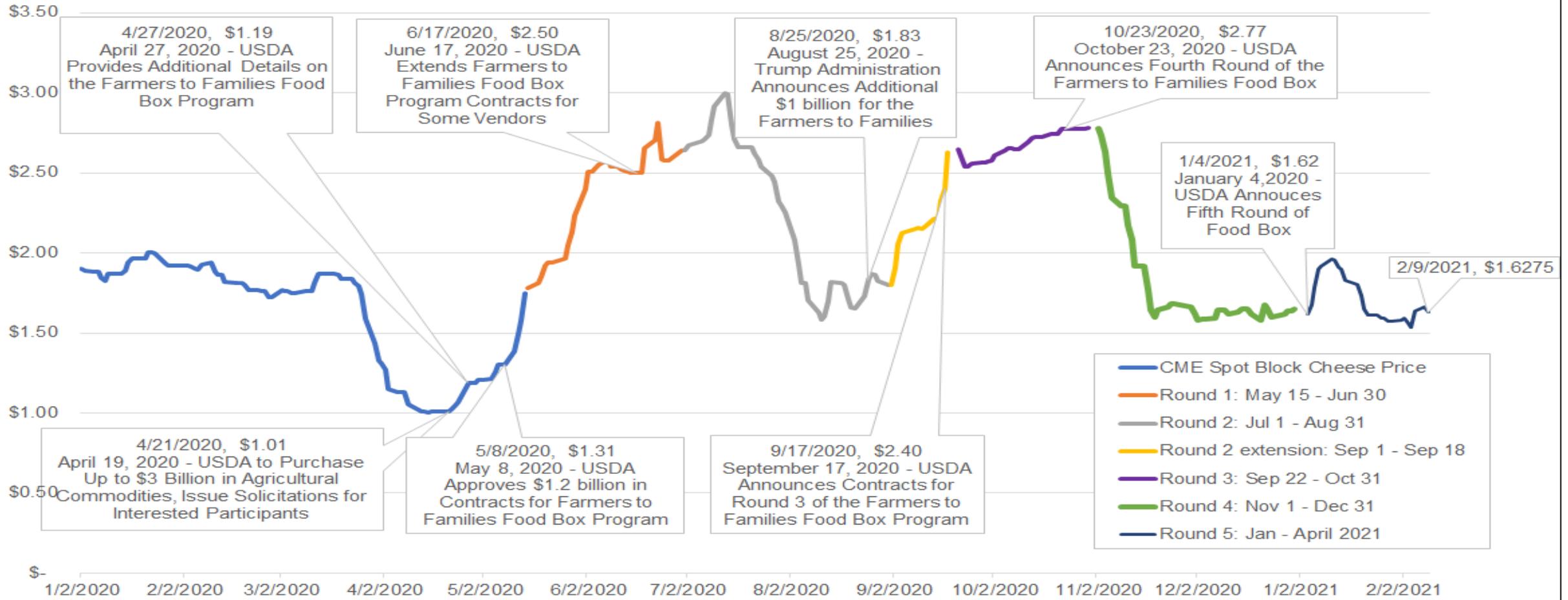
Round 4
1.8 million food boxes

Estimated Total Dairy in Food Boxes - \$1.25 Billion

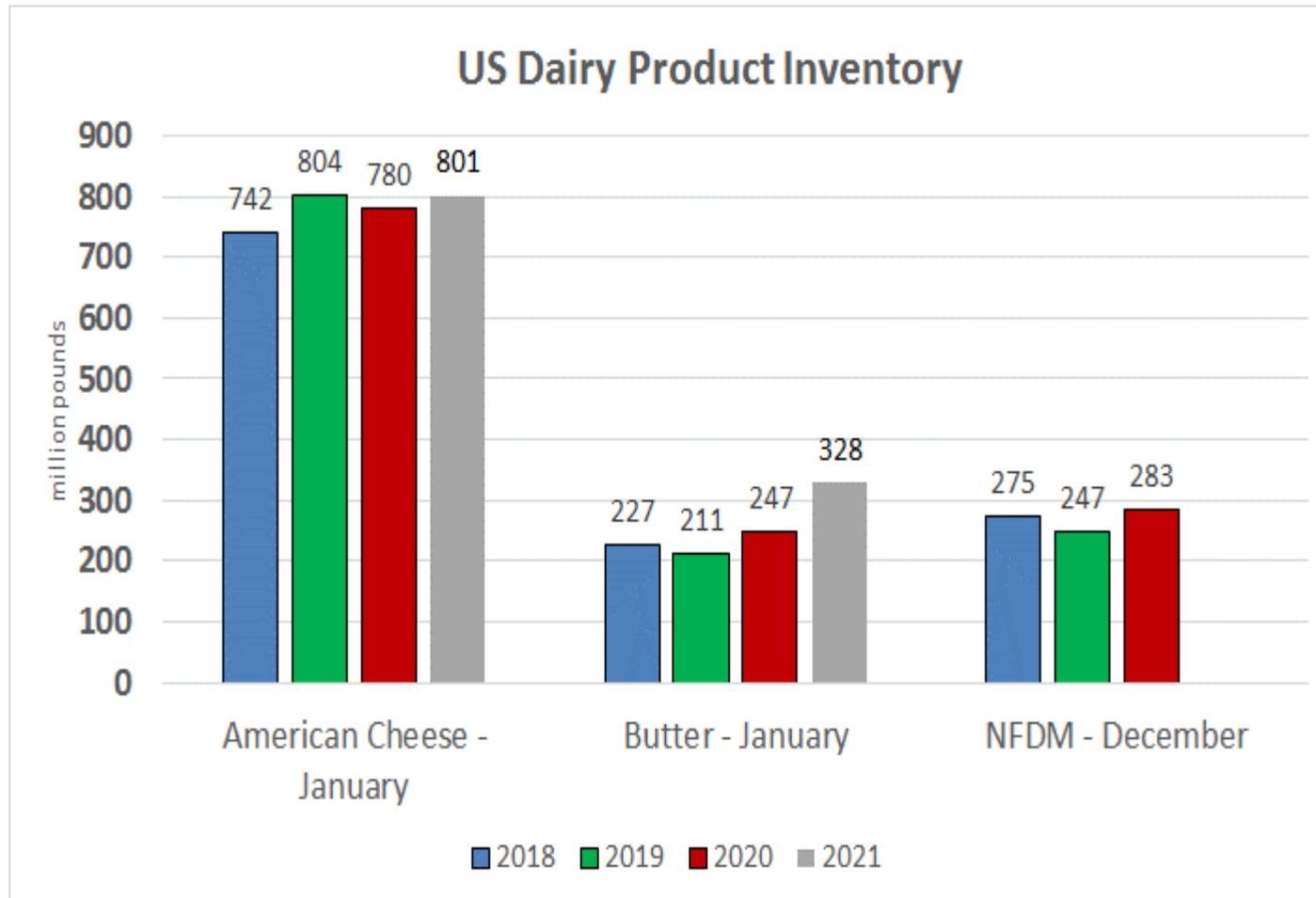
Source: NMPF

Food Box – phasing out and no longer the price shock it once was

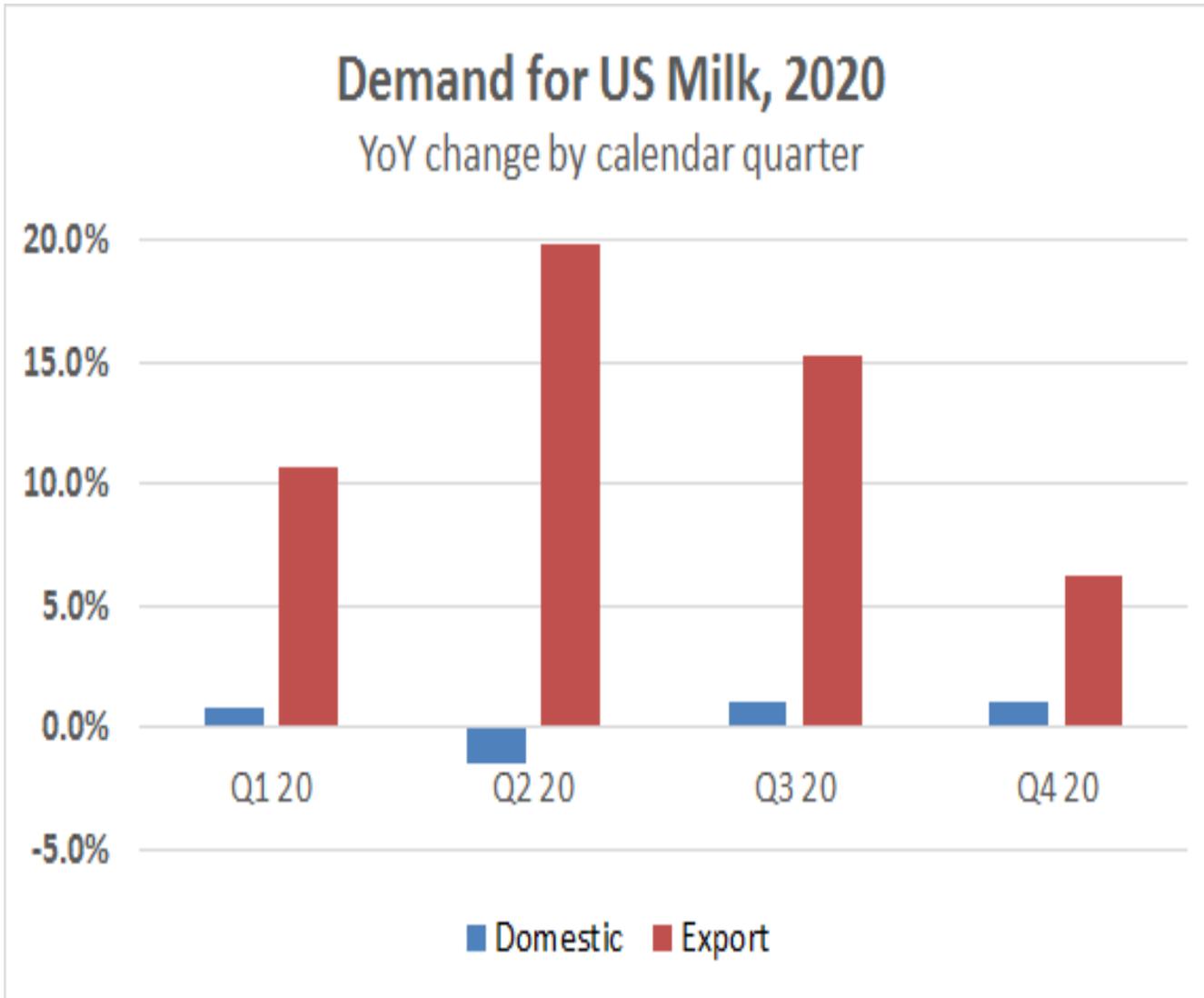
CME Spot Block Cheese Price by Food Box Program Round



Inventories show mixed signals

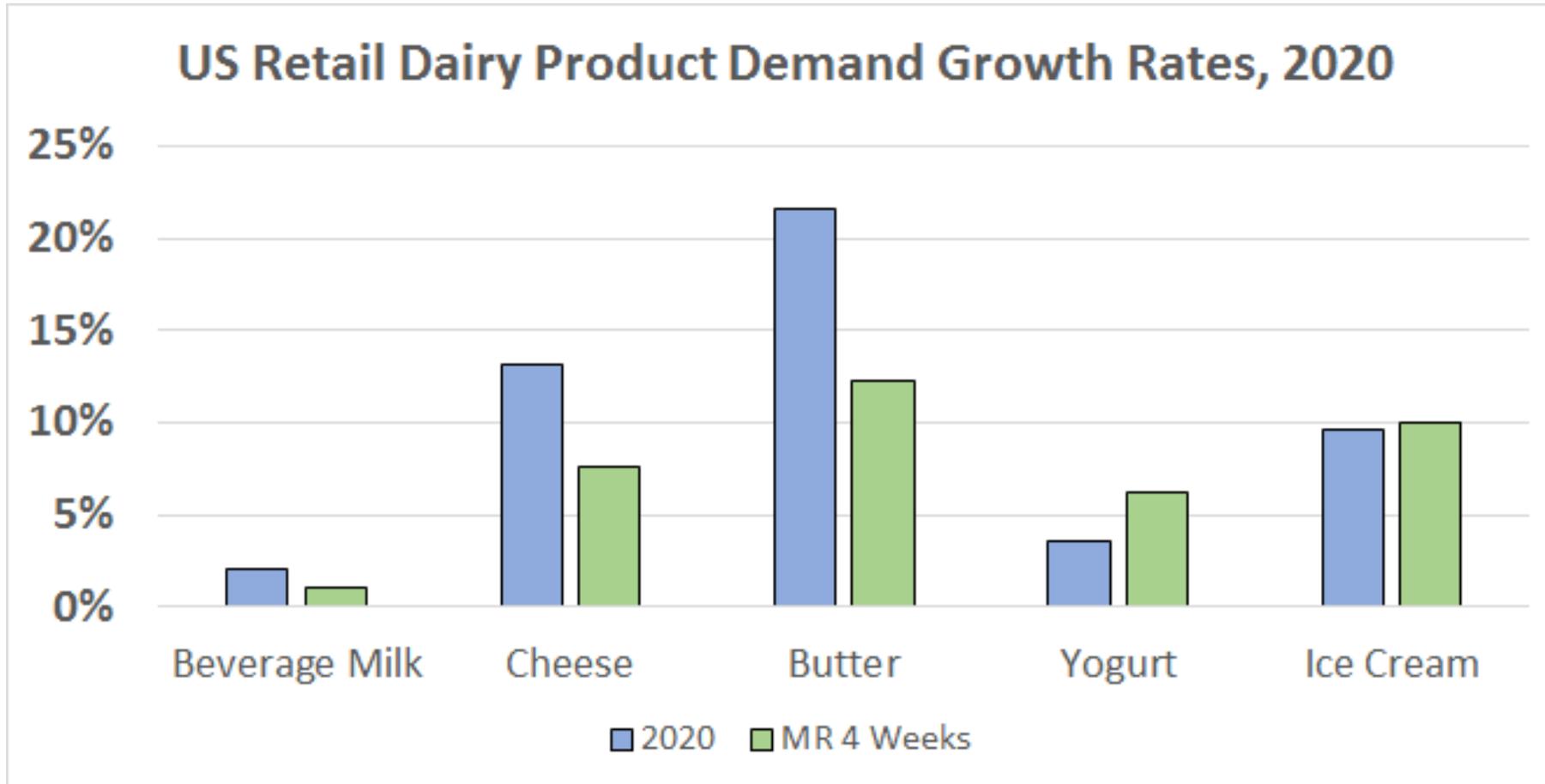


- **Cheese inventory as a percent of December's demand is about 190%**
 - High but not troubling
 - But inventories grew since July when usually they decrease
 - Also, more cheese production capacity coming online
- **NFDM inventory higher in 2017**
- **Butter is high — highest in more than 20 years**



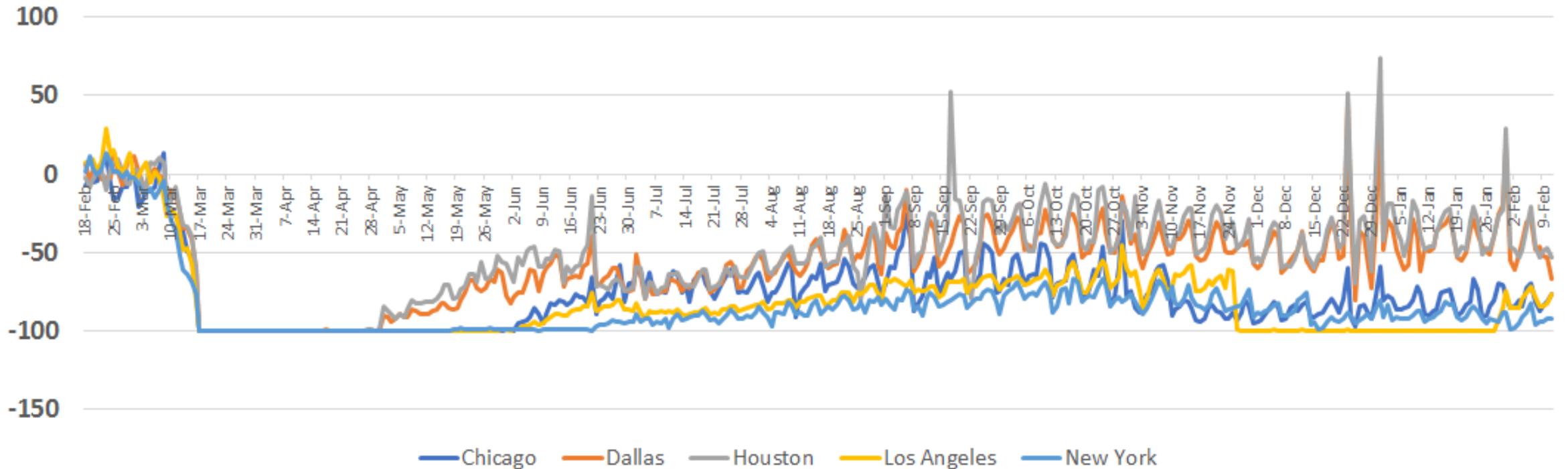
- **US domestic dairy demand contracted at the beginning of the pandemic**
 - But exports surged
- **Demand rallied in Q3 and Q4 as:**
 - restrictions reduced or lifted
 - people learned to live with the pandemic
 - USDA Food Box and other Federal support implemented
 - private food donations occurred
- **U.S. exports finished year +13%**
 - Domestic demand down about 1%
- **For 2021, total demand forecast to grow 2+ percent in January-June**

Retail continues to have strong growth



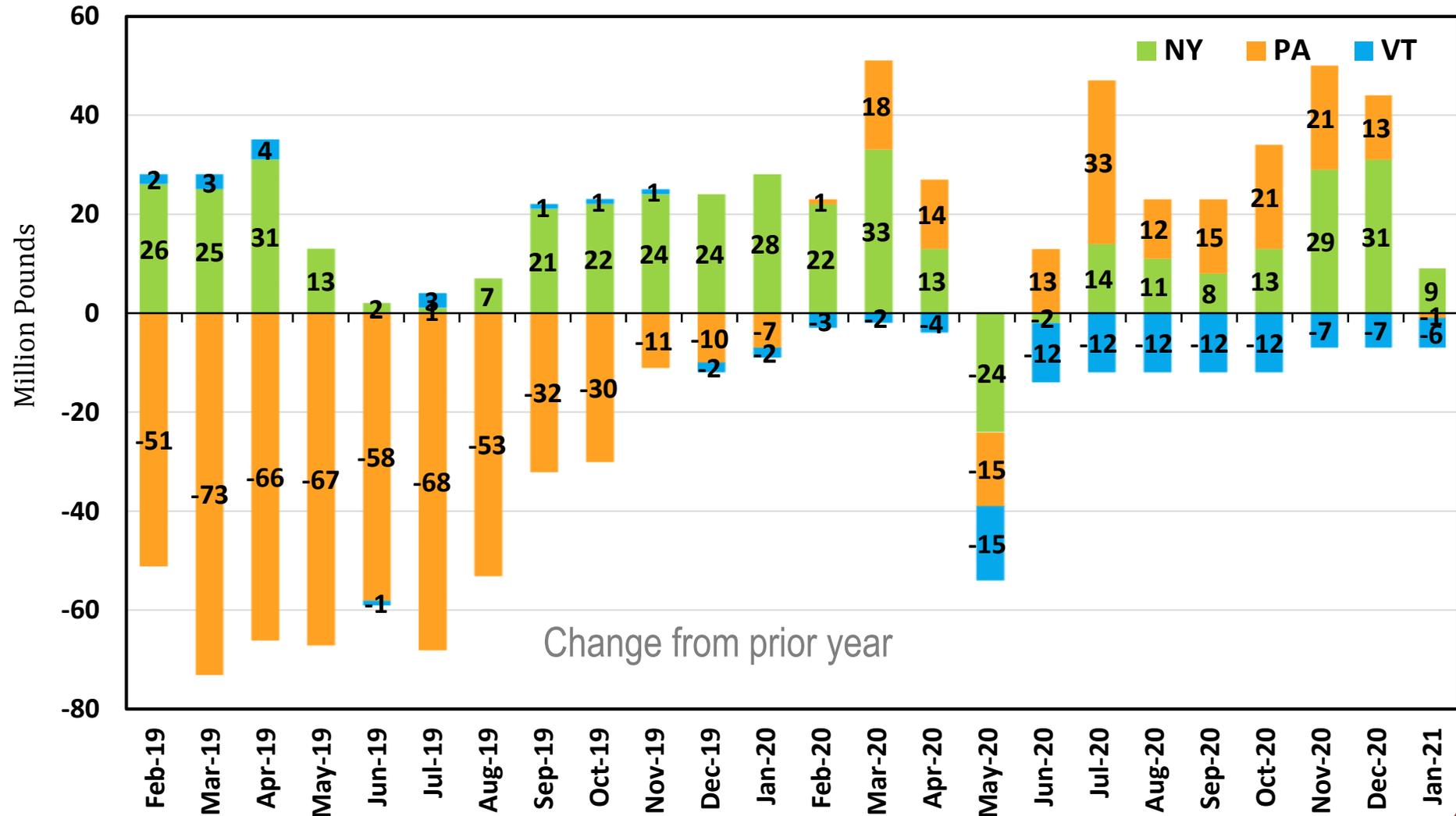
Restaurant traffic impacted by holiday COVID-19 spike; uneven impact

Open Table: YOY change in Seated Diners
from on-line, phone and walk-in reservations



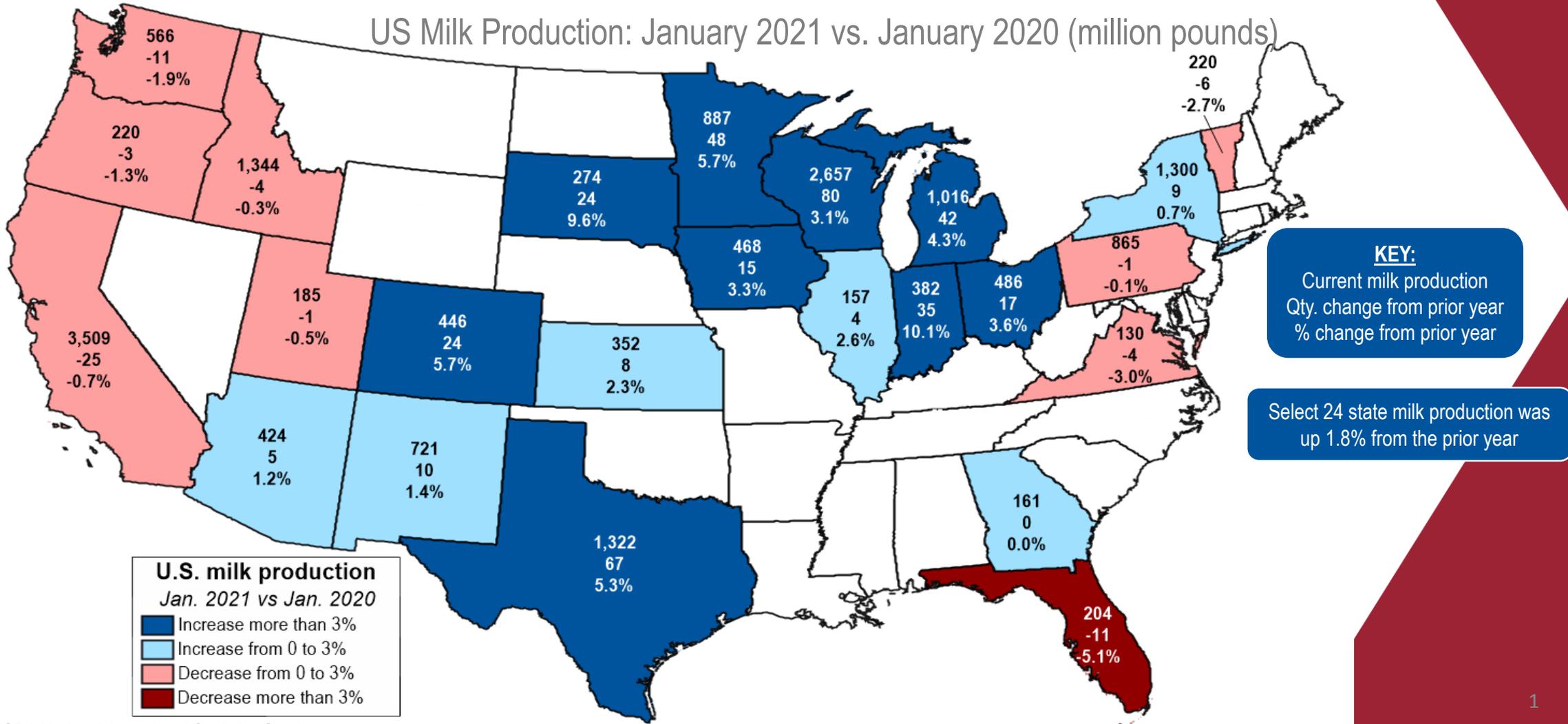
- BlackBox Intelligence: January 2021 down 4.9% YOY, best month since March 2020
- NY, LA and Chicago, home to about 50 million people, still way down; tremendous pent-up demand growth opportunities

Northeast production impacted by base excess programs

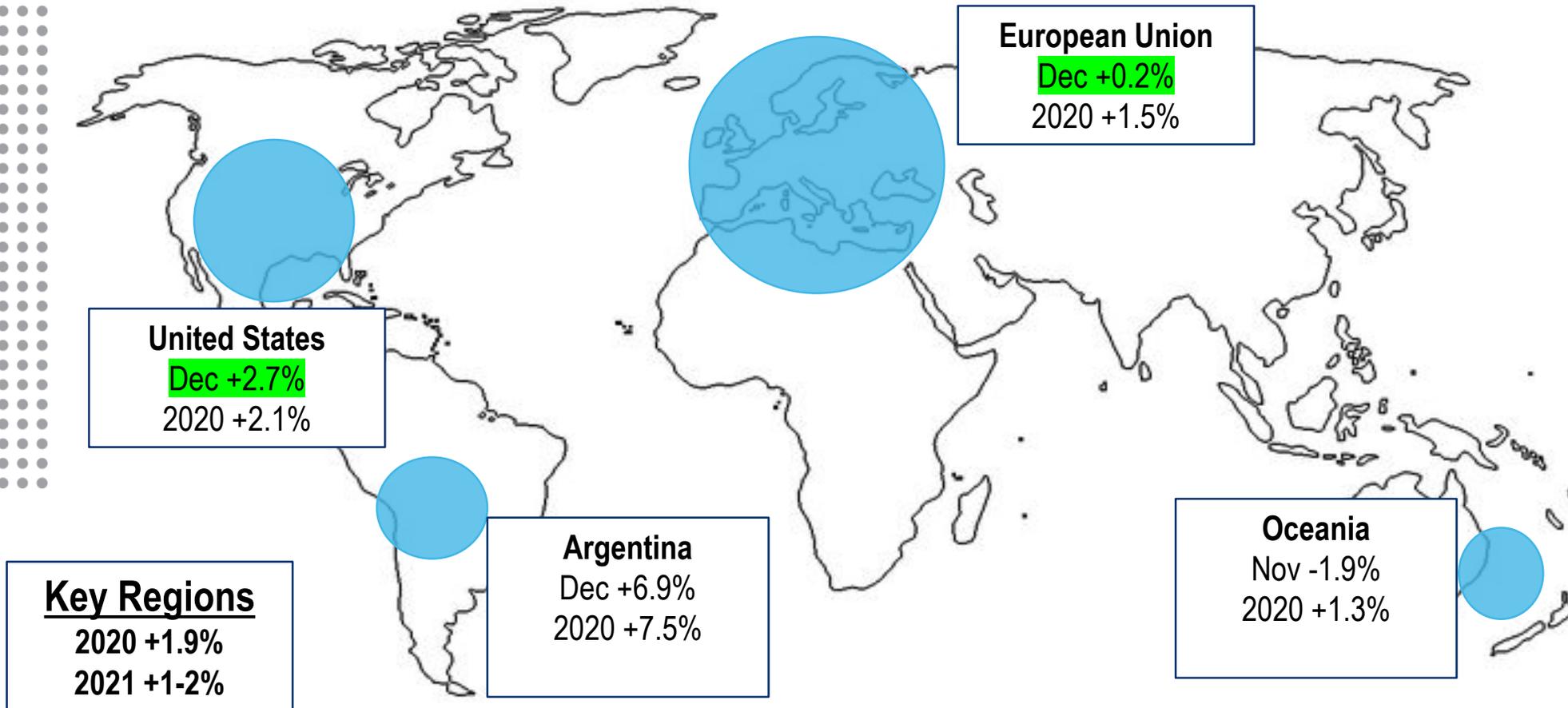


Most regions have multiple handlers with base-excess type programs

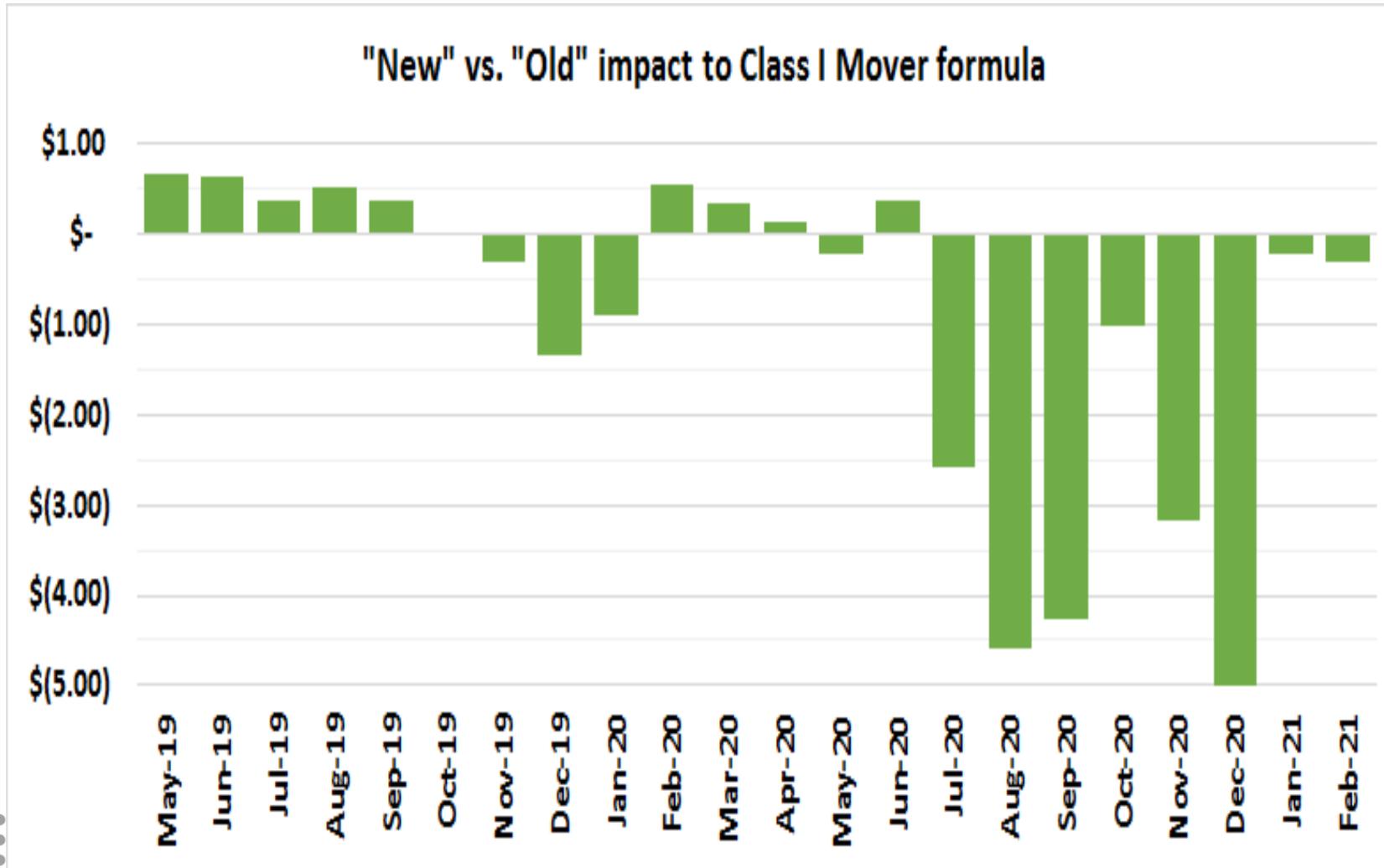
US Milk Production: January 2021 vs. January 2020 (million pounds)



Global milk production – major exporting countries



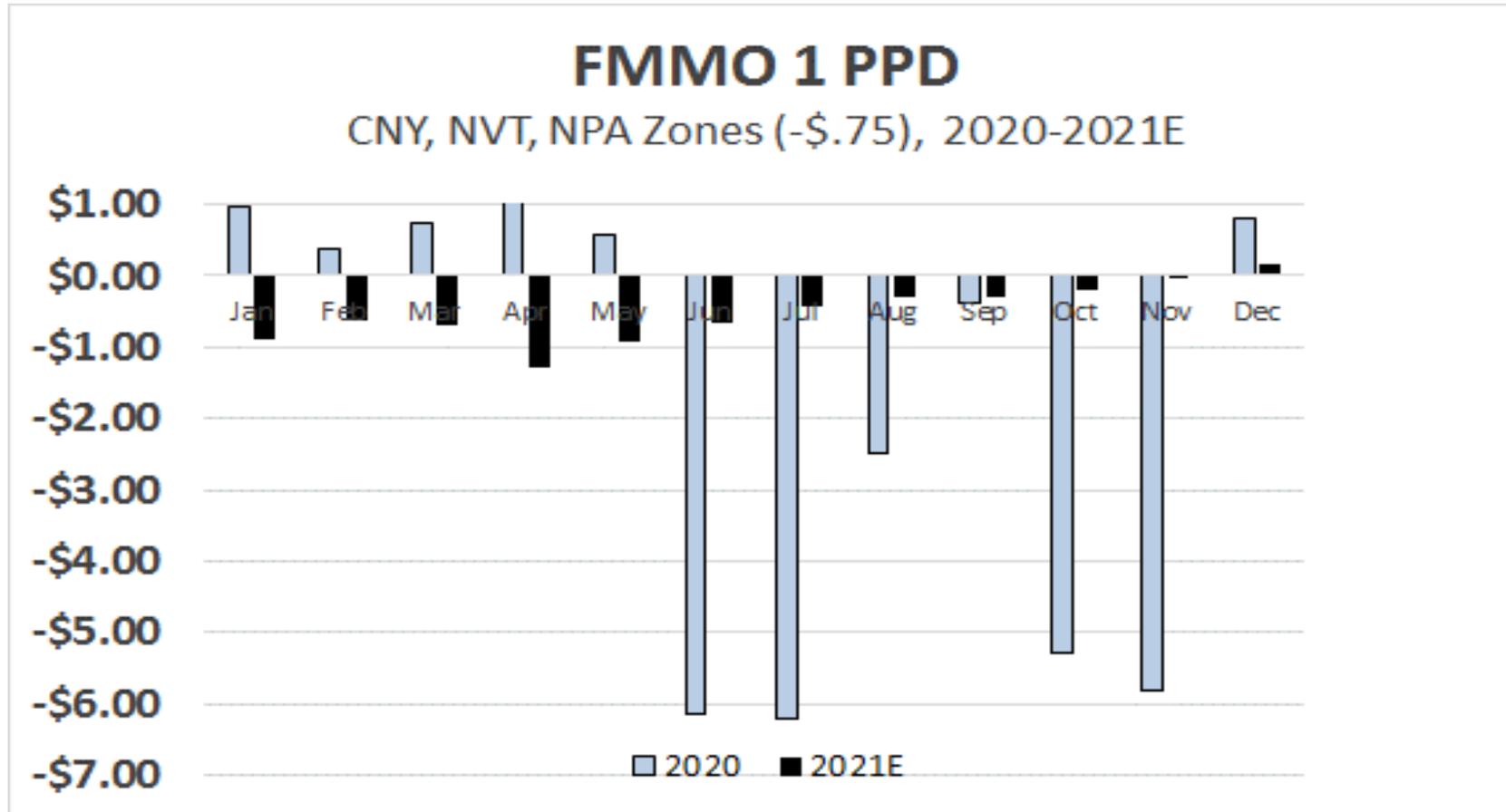
Class I mover not performing to IDFA and NMPF agreement



- Change from “higher of” to “average of” agreed to allow Class I better access to hedging tools, but at no loss to FMMO Class I prices

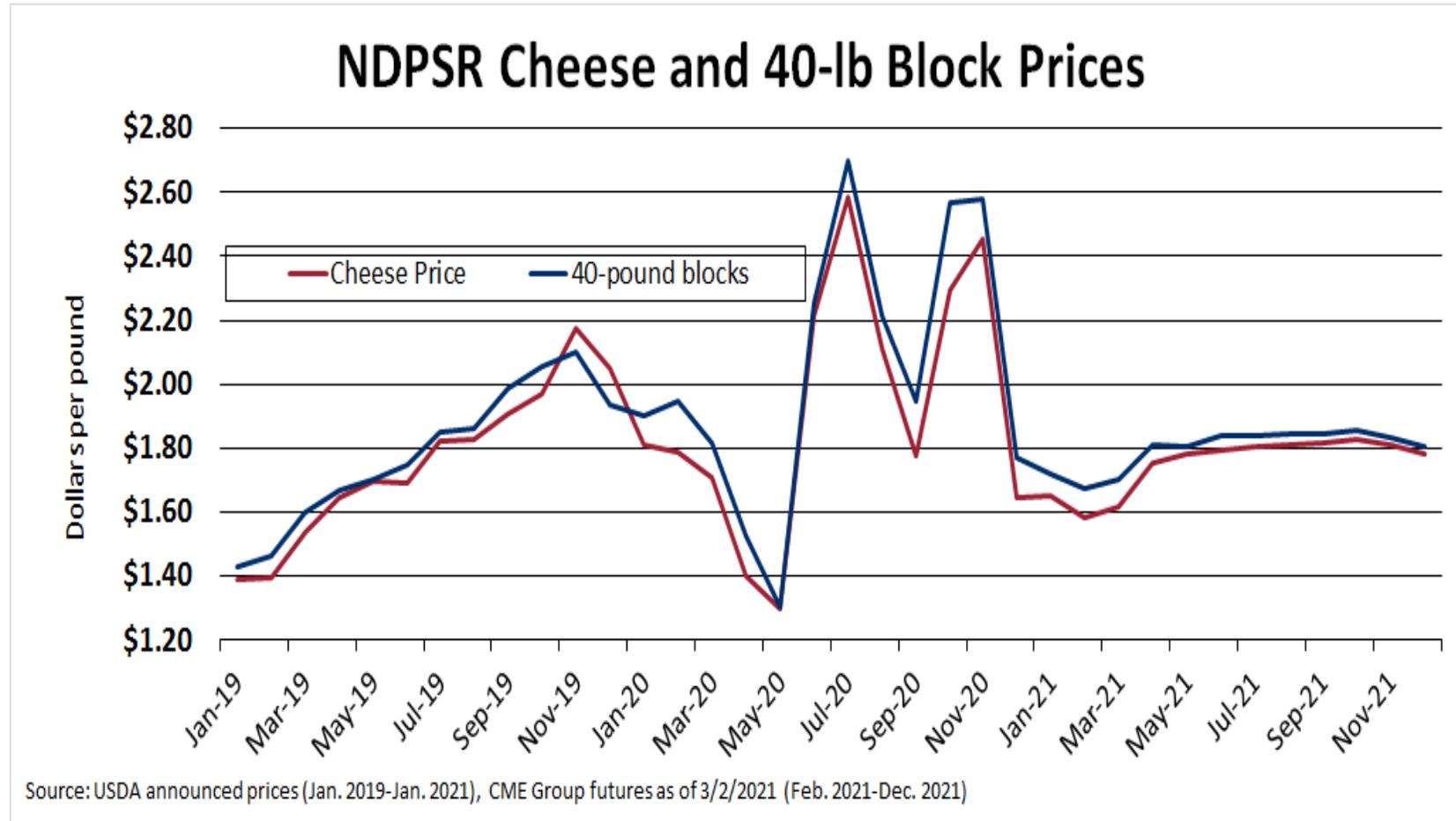


PPDs forecast to be negative due to stronger Class III than Class IV prices



- Negative PPDs and depooling go hand in hand
- US dairy cooperatives that depool use the revenue to support their members' milk checks

Cheese price level lower



- Food Box demand not as large, recently
- New cheese production capacity has come on-line
- H2 2021 block/barrel spread narrowing
- Industry effort to create a more viable CME barrel cash market



Questions?