

The Milkweed

Dairy's best information and insights

Issue No. 491 • June 2020

This issue mailed on June 12



“Float like a butterfly,
sting like a bee.”

— Muhammad Ali

Recent Yo-Yo Cheddar Prices: Down Like a Rock, Up Like a Rocket

by Pete Hardin

2020 is the wildest year in the nearly 50 years that the author has been reporting dairy marketing events. And 2020 isn't even half over!

Down like a rock ...

On February 7, 2020, block Cheddar prices at the Chicago Mercantile Exchange stood at \$1.9300 per pound. That price strength was coming off a strong demand surge during fall 2020, capped off by professional football's Super Bowl in early February. (The week prior to the Super Bowl is the single biggest week of the year for retail cheese sales.)

Common logic in the dairy industry in early February was that after the Super Bowl, Cheddar price declines at CME would follow. But no one could predict the gruesome collapse of Cheddar prices, as COVID-19 closed businesses, schools, and disrupted many other normal functions of our nation's society. From that early February peak of \$1.9300/lb., CME block Cheddar prices nose-dived during March and April, bottoming out at \$1.00 just after mid-April.

That disastrous free-fall in CME cash Cheddar prices ... as well as other dairy commodities ... resulted from severe disruptions of dairy's supply-chain that stretches from farm to consumer. More than 40% of all dairy product consumption in the United States normally went to consumers through restaurants, food service, and fast-food outlets. Starting some time around mid-March, with restaurants closed (or operating as take-out only), dairy processors and distributors lost major outlets to consumers.

At the same time, another strategic shift in consumers' food patterns emerged: far greater home-

preparation of meals, which resulted in dramatic increases in food purchases at supermarkets and other food retailers. Consumers shifted habits quickly to meet their food needs. But it took a while for dairy processors/marketers to adjust packaging and distribution to meet those new patterns of consumption.

In late March, USDA announced nationwide “milk dumping” would be permitted in all federal milk orders. “Dumping” – which had primarily been practiced during stressful periods of surplus milk in the Northeast region – went national. Simply stated (there's nothing simple about federal milk orders) sanctioning “dumping” means that raw milk that's dumped due to no demand was allowed to be “pooled” on federal milk orders at the lowest Class price for the given month. Farmers would be credited with milk marketings, but all producers in the regional milk orders would absorb some of the costs. Sometimes the fat portion of the milk may be recovered, prior to “dumping.” During the first half of April, large volumes of farm milk were dumped ... as commodity Cheddar prices collapsed to \$1.00/lb. Even at those lower-than-earthworm-castings prices, many dairy processors lacked the resources and/or vision to boost inventories in hopes of better times ahead.

Meanwhile, dairy's farm-to-consumer supply chain was adjusting to new realities. Weekly dairy sales at supermarkets shot up dramatically. Some stores were limiting the number of gallons of milk that customers could purchase. Some foolish consumers reportedly tried freezing gallons of milk to build home stockpiles. (See summary of weekly retail dairy sales, March through most of May 2020, on page 16 of this



This young man is no clown. David Scharfman grew up working in his parents' cheese plant in Wisconsin. He developed and markets a baked cheese snack product with first-year sales that totaled \$3.5 million! In April, David appeared on the television show *Shark Tank*. See pages 8-9 for the Specialty Cheese Company's history.

issue.) Those spectacular retail dairy sales starting in early March were driven by several factors, including:

- More home-prepared meals that included plenty of pasta- and rice-based entrees. (Sales of pastas and tomato sauce went wild.)
- Increasingly scarce supplies of meat in supermarkets effectively drove consumers to the dairy case to supplement their needed daily protein intake.

Meanwhile, certain pizza outlets reported big gains in take-out pizza sales during April and May.

Then, USDA entered the marketplace – contracting large volumes of dairy products to be provided in food boxes and to food pantries, as part of a

Continued on page 3

Three Important Analyses Inside: Cream Multiples, Midwest Spot Prices & “Depooling”

by Pete Hardin

What a difference six to eight weeks can make! Inside this issue, we try to reflect dairy commodities' volatile upwards momentum, spurred by demand, both domestic and global.

Up front, let's briefly detail three critical dairy demand/pricing matters:

Cream “multiples” — Last month, we documented rising, weekly cream “multiples” for the three regions, as reported weekly by USDA's Dairy Market News. In April, cream supplies went begging – “multiples” were below 1.0. (The multiple is the factor by which daily cream sales are priced, using the daily Grade AA butter cash market quote from the Chicago Mercantile Exchange as the basis.) During recent weeks, cream multiples have shot into the stratosphere. Example: USDA reported the East Region multiple for the week ending Friday, June 5 was 1.40 to 1.65. The May 1, 2020 East region multiple had been 0.50-0.98. See page 4 for greater details.

Cream (and butter) prices are driven by tight supplies and very strong demand.

Midwest Class III “spot” prices – Dairy Market News also reports weekly ranges for the “spot” price for Class III (cheese) milk in the Upper Midwest. At the low point in mid- and late April, unlucky marketers of farm milk in the region received spot prices for distressed (i.e., homeless) milk ranging from *minus* \$6 to \$8/cwt. *under* the month's Class III for milk delivered to buyers. Ouch. But for the week ending June 5, Dairy Market News reported spot prices for Class III milk in the Upper Midwest were bringing premiums of *plus* \$1-\$3/cwt., delivered. In roughly six weeks, that's a net, positive swing of \$7 to \$9/cwt. in buyers' interest to acquire spot milk in the heart of cheese country.

“Depooling” in June – Every party has pooper ... Predictably, the “pooper” in current milk pricing events will be widespread “depooling” of Class III (cheese) milk from federal milk order pools for June 2020. Spectacular, recent gains in commodity cheese prices – as they filter through USDA's manufacturing class pricing formulas – leave early June's Class III futures in the \$19/cwt. range, early in the month. That's a gain of nearly \$7/cwt. above the May 2020 Class III price. But predictably lurking ahead: depooling. June 2020's Class III prices will zoom far above Class I (fluid) milk prices. (Same for July.) That means much Class III cheese milk in federal milk orders will be “depoled.” Yes, the money goes to the firms that sold the cheese milk. Result: Revenue from those high Class III prices will not be reflected in federal milk order statistical uniform prices for June. Firms depooling Class III milk — both co-ops and privately-owned firms – legally don't have to share those higher revenues with the regional milk order pools. However, competitive pressures and keen expectations by producers for better milk prices will help assure that most of that Class III revenue for June shows up in the milk checks ... where healthy competition for milk prevails. Will dairy farmers see the big increase in their settlement checks for June 2020 milk sales?

See page 4 for Richard Bylsma's analysis of likely “depooling” Grand Larceny ahead for June 2020 milk payments.

Never has dairy seen events such as what has occurred during the past several months. The impacts of down-and-up, “yo-yo” of dairy commodity and farm milk prices are hard to fathom, let alone explain ...

The Milkweed 06/20

Dairy's best source for news and analysis.

To subscribe, send your check to:

The Milkweed

P.O. Box 10

Brooklyn, WI 53521-0010

Subscription rates:

\$90 per year (2nd Class);

1st Class Fast-Pak \$140 (1st Class)

***Foreign subscription rates, one year:**
Canada: \$120 (US\$); foreign air mail: \$175 (US\$)

To subscribe on-line, visit our website:

www.themilkweed.com and click the

“Subscribe Now link” on the home page.

New: Electronic Subscriptions, See Page 2

(Name)

(Firm)

(Address)

(City, State, Zip)