The Milkweed

Dairy's best information and insights

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"Float like a butterfly, sting like a bee."
— Muhammad Ali

Dairy in Early Summer Doldrums: Down? Sideways? Up?

by Pete Hardin

Early summer is often a "wait and see" stretch for many dairy marketers. Summer 2022 is no exception. Speculation focuses on the array of factors that may individually push dairy commodity prices one way or another: up, down or sideways. But the collective impact of multiple vectors is where dairy's guessing game is currently parked.

Where is the United States' consumer economy headed? Will serious concerns about recession pull down domestic dairy demand, as consumers cope with higher costs for almost everything?

What about grain prices, once the fall harvest season starts? Short-term, the grain trade has been ignoring the fundamentals in early July, as the stuffing got kicked out of grain prices, before a bounce- back. (See grain analysis on this page.)

Will export demand remain fairly strong? Some weakening of global dairy demand has been witnessed recently. Potential export buyers of U.S. dairy commodities are perceived as taking a breather … waiting for anticipated lower commodity prices. Commodity prices traded at New Zealand's Global Dairy Trade have slid backwards in recent sessions.

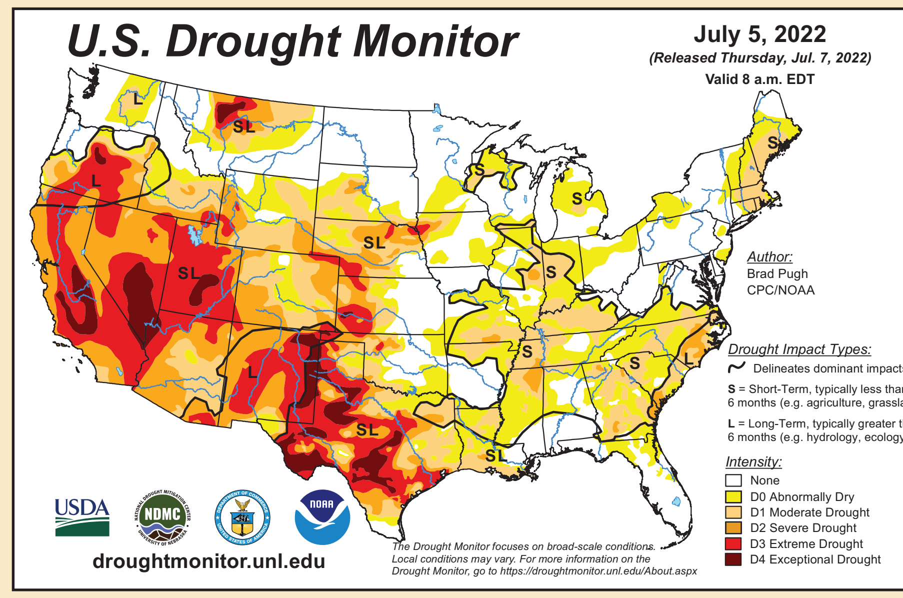
However, all three major dairy exporting regions of the world are struggling with lower farm milk output. New Zealand's milk flow for the upcoming pasture season that starts in late August is already being discounted, due to very dry pasture conditions. Western European dairy farmers are struggling with high grain prices and scarcity of fertilizer inputs for their 2022 crops. U.S. dairy farmers face high grain prices, while western states' producers must struggle with continued drought. To summarize: the supply-side of the global dairy picture is constricted, now and in the future.

To what degree will dairy farmers in drought-stricken regions of the United States be able to maintain milk production? High costs for purchased feed grains and forage mean any losses of volume and/or quality due to weather disruptions for individual dairy producers' 2022 crops will be very expensive to replace. There are no guarantees that aggregate milk production in the United States will remain adequate. Continued drought in western states threatens to pull down that region's milk flow.

Prices for cull cows are expected to climb during the second half of this year. Beef feedlot numbers indicate fewer beef animals moving to slaughter in this year's second half – a factor that should boost prices for dairy culls and steers. Serious drought overlaps the locations of many major beef feedlots in the Plains and Southwest. The combination of higher cull cow prices and high grain costs will compel dairy farmers to cull a bit more strategically. One potential downside for the beef price outlook: adverse feed supplies could force a significantly heavier run of beef cattle to market prematurely, come fall.

Individual dairy commodities …

Dairy's various commodities all have their individual supply-demand realities. Butter, for example, would seem to have the strongest legs underneath it. But whey, to the contrary, has fallen off its all-time peak prices seen earlier this year. Dry whey is now struggling, under 50-cents per pound in recent trading at the Chicago Mercantile Exchange (CME).



The July 5, 2022 U.S. Drought Monitor map shows continued severe drought in many western agricultural regions. Drought conditions have dramatically spread into large areas east of the Mississippi River – particularly in the Southeast. Also, part of the Midwest, major portions of the Mideast (including all of Indiana and Kentucky) and much of New England are now registering as drought areas. With continued tight grain and forage supplies, these extensive drought conditions will impair future U.S. milk production capacity.

Grade AA butter prices have hovered in the $2.90 to $3.00 per pound range recently. Butter production is down for 2022. Butter inventories, as of May 31, 2022, were 321.6 million lbs., according to USDA's Cold Storage report. That figure is 90 million lbs. below the May 31, 2021 butter inventory figure. Retail butter prices have climbed to levels that may dissuade some shoppers. However, demand for ice cream remains strong. And as summer shifts to fall, cream requirements by dairy and food processors climb significantly. Important to note: butter prices in Western Europe remain very high, compared to U.S. prices.

Cheese demand is a tougher call. An increasing response by Americans to cash-flow stresses is planning to eat fewer meals away from home. Meals away from home commonly use plenty of cheese and other dairy products. Commodity Cheddar prices have declined during the past month. That decline is attributed to concerns about food service demand. However, Mozzarella and pizza cheese production has continued strong. That's a good sign for the nation's economy.

Nonfat dry milk prices have eroded somewhat in the past month-plus. The strength of the U.S. dollar is creating a headwind butting against exports. About 60% of U.S. nonfat dry milk is produced in drought-stressed western states. That

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Grain Trading on Corn Belt's Volatile Weather

by Jan Shepel

The grain trade harbors concerns about inflation, the strength of the U.S. dollar (and how exports are impacted), and world supply and demand. Most experts note that current grain prices are driven by weather concerns. As traders and farmers watch various weather forecasts, grain markets are making volatile moves downward, and then rallying later in the same day.

Heat across the middle of the United States led to some severe storms in the first week of July. In South Dakota, Minnesota and Iowa, straight-line winds that qualified for the meteorological name "derecho" cut a swath of damage. The 60-mile-per-hour winds flattened corn on thousands of acres across a path of 240 miles.

While much of that corn will likely be lost and, if not lost, certainly compromised, analysts say that sort of local event doesn't usually affect the grain markets. The summer's heat and drought are the b-i-g factors being scrutinized.

At press time, about 15% of the Midwest is now considered to be in a form of drought. That figure is ***double*** the percentage from just the prior week. The region's trend towards increased drought comes during the critical pollination stage for the corn crop. Meanwhile, the western one-third of the United States continues to experience critical drought conditions.

As the markets closed on Monday July 11, analyst Josh Vinzant (with andersongrain.com) noted that we are now in a "full blown weather market." The grain trade can expect "a lot of wild swings" based on weather forecasts. He encouraged farmers to "take advantage of marketing opportunities if they present themselves."

On July 11, September corn closed up 3 ¾ cents at $6.37 a bushel and new crop corn was up 5 ½ cents to $6.29 a bushel. August soybeans were up 8 ¾ cents to $15.22 per bushel and new crop soybeans traded up 8 ½ cents to $15.02.

Wheat, which is being harvested in various areas across the United States, has been trading wildly – up 45 to 50 cents and then down into a range from $8.91 to $7.52. Jacob Christy, also with andersongrain.com, confirmed the markets have shown violent swings based on weather and crop ratings reports.

In the past week, China has entered the market

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Upper Midwest Superpools Seek Lower Class I Pooling Rules

by Pete Hardin

Two regional "superpools" have requested that USDA reduce the mandatory Class I performance rules in the Upper Midwest federal milk order (Order #30) from 6.0% to 4.5%, effective later this year. USDA's Agricultural Marketing Service is reviewing that request and seeking comments.

Those superpools are the Central Milk Producers Co-operative (CMPC) and the Upper Midwest Milk Marketing Assn. (UMMMA). CMPC operates in the extended Chicago market. UMMMA covers the Twin Cities area. These superpools are structured as "marketing agencies in common" – legal entities allowed by the 1922 federal Capper-Volstead Act that provided unique bargaining rights for agricultural cooperatives.

A proposal to lower monthly Class I (fluid) sales requirements by handlers regulated by Order #30 puts a new focus on serious problems in the region.

• The percentage of total Class I sales in Order 30 range in the low double-digits in "normal times"- whatever they may be. In May 2022, Class I use was 9% of all farm milk pooled.

• As reported in recent issues, some cheese plants in the Upper Midwest are depooling their milk. That is, the cheese plant operators for numerous reasons do not want their producers' milk regulated by Order 30. Problems include the formula for valuing whey in the Class III (cheese) milk price. Recovering the economic value ascribed to whey by the Class III formula is impossible for many cheese plants in the Upper Midwest.

• Order 30 features the lowest percentage of Class I sales among USDA's eleven regional federal milk orders. Order 30 also has the nation's lowest Class I differential (the regional add-on to USDA's monthly Class I base).

In net, by the time the low percentage of fluid milk sales are coupled with the low Class I differential, there's not a whole lot of "dollars and sense" value for Midwest cheese plants to associate with Order 30.

• Another problem: little competition exists among fluid milk processors in the Upper Midwest. Two cooperatives – Dairy Farmers of America, Inc. and Prairie Farms – are the only two major Class I processors. Kwik-Trip stores processes fluid milk, but only for sale in its hundreds of stores in the Upper Midwest. Some handlers do not trust DFA and Prairie Farms to equitably oversee a superpool in Order 30, where that pair comprises the vast percentage of Class I processing capacity.

• Recent fluid milk plant closings in northern Illinois and northeast Wisconsin leave few options for handlers (i.e., buyers of farm milk) to market milk to Class I handlers. Except for DFA's Kemp's plant at Cedarburg, Wisconsin, DFA's plant at Huntley, Illinois, and Prairie Farms' facility at Rockford, Illinois, there are virtually no Order 30-regulated Class I handlers to which to sell milk in southern Wisconsin, eastern Wisconsin, and northern Illinois.

In the extended Minneapolis-St. Paul market, DFA and Prairie Farms predominate.

The way the regional superpools work, smaller cooperatives and private handlers commit for one year, starting on August 1. Many of those handlers not connected to DFA really don't have much choice but to sign on for another year. Through CMPC and UMMMA, DFA and Prairie Farms generally cover other handlers' Class I sales requirements.

Past and current events do not inspire trust in DFA and Prairie Farms, which dominate fluid milk processing in the Upper Midwest. The notion of the region's two biggest fluid milk processors also dominating the region's superpools leaves a lot of questions.

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geographic reality means coming months' nonfat dry milk output is potentially diminished, if drought conditions persist in western states – as is anticipated by climatologists. For 2022's second half, prices for nonfat dry milk are perceived as reasonably stable, with some upside potential.

Whey prices are struggling, and could fall further. China, a major buyer of U.S. whey, has backed off. Dry whey prices have so far tumbled by about 30 cents per pound, off their all-time peak achieved earlier this year. That price decline is welcomed by numerous cheese-makers. At the higher levels of whey prices, many cheese plants are unable to recover the value for whey that USDA's monthly Class III (cheese) milk price imputes. Too-high whey prices breed their own set of headaches for the cheese industry.

International energy & food chaos

Taking a wider perspective, beyond summer 2022 and beyond the United States' borders, we see a world caught in both energy chaos and food chaos. It gets worse. Military conflict threatens to cause more energy shortages, exacerbate food shortages on multiple continents, and drive millions more refugees in eastern Europe and Africa from their homes. Those refugees will be dependent upon food donations to sustain them through the winter.

Western Europe faces very serious shortages of natural gas this coming winter. Russia is curtailing volumes of natural gas sold to Western European countries that are supporting Ukraine's defense against Putin's assault. One response to scarcity of natural gas supplies in Europe this winter may well be curtailing of drying dairy products – whey, Skim Milk Powder, etc. If either costs or shortages of natural gas force European firms to back down from normal dairy and food processing activities, the onus will be on the U.S.-sourced dairy proteins to try to supply an increasingly hungry world. Right now, the number of refugees displaced by war in Ukraine, come winter, remains incalculable.

In the modern world, energy is food and food is energy – the two are inextricably linked.

Summer doldrums, storms ahead …

Thus, here we find the U.S. dairy industry in early July … trying to weigh a large number of factors that, individually, may push up or pull down prices for dairy commodities and, consequently, farm milk prices. Beyond the slack period during these summer doldrums, there are huge forces at work that threaten the stability of national and global supplies for food and energy.

Difficult times, indeed, very difficult times may lie directly ahead. Citizens in many countries around the world wish they had the productive agricultural resources that the United States possesses. During World War II, this nation stepped up as the "Arsenal of Democracy." In coming months (and years?), the United States will likely be called upon to serve as the "Arsenal of Food Democracy."

Dairy is firmly enmeshed in the multiple challenges of drought, grain prices, energy costs … and possibly, international conflict. Keep an eye on China's actions towards Taiwan. China has been lying back in the weeds, observing the West's response to Russia's attack against Ukraine. China's designs on Taiwan are increasingly clear. Despite President Biden's recent statement, the United States would find it militarily impossible to effectively defend Taiwan against an attack by China. The United States quit planning for a "two ocean war" some years ago.

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to buy wheat as more than half of U.S. wheat has been harvested. The international buying helps lift prices, the harvest pressure pulls prices down.

Weather forecasts critical

As the second week of July continues, weather forecasts call for spotty rains and highs temperatures above normal. It's a key time for pollination of corn in many areas and how the weather turns out will bring eventual corn yields into question. The market, Christy said, has calculated a possible recession into the trade but "from here it all comes down to weather."

If the main part of the Corn Belt gets stuck under a weather pattern that produces hot and dry conditions during the critical pollination stage for corn, it will drive prices up. If the forecast calls for wetter and cooler conditions, the market will give back the weather-related premiums that have been added, Christy explained.

The grain trade will be watching every weather model. While world demand is still a concern, "weather will be the dominant factor over the short term," Christy said, adding that there will be plenty of volatility through the end of the month. At that time there will be a better picture of how U.S. crops are faring through July's volatile weather patterns.

Ted Seifried, a market analyst who appeared on the July 8 episode of "Market to Market" on Iowa Public Television, see episodes at:

iowapbs.org/shows/mtom

Seifried noted that soybeans have a "shockingly bullish potential" because the grain trade is "not trading the market fundamentals."

The amount of acreage and the "guestimate" of an average national yield could put the end-of-season carryover at 145 million bushels. "But if the national average is one bushel off then suddenly we're back to 130 million bushels," Seifried said, adding that soybeans have "explosive upside potential."

He said this year bears a strong resemblance to 2008, when commodities put in their highs in June and some of them were 70% off those highs by the end of the year. That year, corn hit highs of $7.99 in June, he said, and was down to $3.05 in December. Soybeans hit a high of $16.50 a bushel and were down to $7.83 at year's end. That phenomenon happened when an inflationary bubble burst, he added.

On the July 1 edition of "Market to Market" analyst Elaine Kub noted that "the American farmer can cure a bull market in one year" which is similar to old adage of "the cure for high prices is high prices." She noted that when the USDA released its quarterly grain stocks numbers and acreage report all the commodity prices fell. Soybeans rose briefly on reporting that farmers had planted fewer acres and then those prices turned sharply lower. The report showed 88 million acres planted rather than 90 million.

Kub and other market analysts are concerned that the soybean acreage on USDA's report is down and if that is true, the carryout of beans at the end of the season "goes down to zero." When that report came out the markets seemed to ignore that factor, she said. The USDA has stated it will recalculate its acreage report in August.

Ukrainian wheat

Affecting the grain market on a macro level is the fact that there is a backlog of grain in Ukrainian ports – reportedly as much as 20 to 23 million tons — waiting to be shipped out of the Black Sea ports that are now being blockaded by Russia. Some of the shipping channels have reportedly been mined by the Russians to prevent ships from passing.

Ukrainian farmers have winter wheat crops that are ready for harvest and they don't know what they might get paid for the crop, ***if*** they harvest it.

A Ukrainian grain farmer who was interviewed on National Public Radio said the grain terminals are all still full and he doesn't know if it will be worth his effort to harvest his grain or what he might get paid for it. There has also been news footage of Russian troops using flame throwers to set fire to Ukrainian wheat crops that looked about ready for harvest.

Kub said that for U.S. wheat producers there is never a seasonal expectation for wheat because it is so dependent on what's happening around the world. These days that involves Russia and Ukraine. Suddenly Russia is presenting massive amounts of wheat for sale on the world market.

The "Financial Times" did a good investigation with satellite imagery of grain ships being loaded out of Crimea, a place where not much grain is grown and the bill of lading says Russia, Kub noted. Those shipments are relieving some concerns in the Middle Eastern markets, but it's clear that the grain is being stolen from Ukraine.

According to the United Nations World Food Program, 400 million people in the world are fed by that Ukrainian grain. The Program called Russia's blockade a "declaration of war on global food security."

Inside Borden-Select's Black Mold-Infested Cold-Storage Locker

To block rain water from a leaky roof from dripping on cases of milk, heavy clear plastic was haphazardly attached to the ceiling and walls at this cold-storage locker in Franklin Park, Illinois operated by Borden-Select. Black mold has thrived on that plastic. Enough to gag a maggot!

by Pete Hardin

If you thought dairy's premier schmuck — Gregg Engle$ — walked away from the financial mess that led to Dean Foods' bankruptcy in 2019, take a look the mess remaining in his wake as Engle$' Borden-Select recently closed the milk depot at Franklin Park, Illinois.

Important to note: The three photographs on this page that depict unsanitary conditions are from the refrigerated dairy products' storage space operated by Borden-Select. This mess is all on Borden-Select. In that same building, refrigerated storage operated by the Mori Milk Company was immaculately maintained.

Borden-Select miserably failed to conduct the most basic maintenance and sanitation at its Franklin Park, Illinois facility. The walls at Borden-Select's cold-storage locker at Franklin Park, featured a heavy infestation of black mold and a leaky, unrepaired roof on June 21 when *The Milkweed's* editor-publisher walked through the facility. The leaky roof's "repair" featured a massive sheet of translucent plastic, perhaps 30' by 40' – haphazardly attached to the adjoining walls and ceiling – directly above cases of packaged milk. Like the walls, black mold adorned the plastic sheeting. The time-temperature recorder was inoperative, not having been used since Borden-Select began leasing the facility in mid-2021. Such conditions dramatically violate the 2011 federal Food Safety Modernization Act … and every other damn precept of food premises sanitation. Good question: When was the last time that Illinois health authorities inspected that wildly violative, food storage premises?

Perhaps alerted by security cameras at the facility, and perhaps curious about the walk-through of cold and frozen food storage areas by an unrecognized visitor, shortly after this writer and his escort returned to the distributor's mercifully air-conditioned trailer-office (the temperature in Chicago's suburbs that afternoon was around 102 degrees Fahrenheit), two bozos from Dean Foods skeletonized management team remaining at Franklin Park entered the distributor's trailer-office. Who was the unrecognized visitor? Their curiosity was quickly solved. When the distributor spotted those bozos entering his trailer-office on the panel of security camera screens in his back office, he uttered something unprintable under his breath and promptly went to greet the visitors.

About 30 seconds later, this reporter went to the entryway to retrieve his camera. Quickly turning on the camera and focusing on the pair, the older Borden-Select bozos wanted to know who was the guy aiming the camera at them. My reply went something like: "I have good news and bad news. The good news: you may be pictured in a national publication. The bad news: it's *The Milkweed*." They beat a hasty retreat. As he exited the trailer, Jim Lanciotti, the senior bozo, pleaded: "Don't print that picture until I get my settlement check!" Humor is where you find it.

"Don't print that picture until I get my settlement check," pleaded Jim Lanciotti (center) as he bolted out the door from the Mori Milk office. Lanciotti is, or was, a high-level employee at the Borden-Select depot at Franklin Park, Illinois. Accompanying Lanciotti is Carl Johnson (left) — another Borden-Select management type. John Mori (right) enjoys a rare chuckle on June 21.

By any measure, the unsanitary conditions at the Borden-Select cold-storage locker in Franklin Park, Illinois – black mold everywhere, a leaky roof, and a non-functing time-temperature recorder — were highly illegal and obviously long-standing. The facility looks like a bio-hazard. Never, in 50+ years as a dairy journalist, I have never seen anything so disgusting.

In this same cold storage locker, dirt and black mold are plastered thick, downwind from the ceiling fans. Note the disrepair of the ceiling in this storage area for packaged dairy products. Impossible to clean and sanitize that surface!

Black mold covers this filing cabinet in the Borden-Select receiving dock of the cold storage area at Franklin Park, Illinois. What a disgusting, dangerous mess.