The Milkweed

Dairy's best information and insights

Issue No. 503 • June 2021

This issue mailed on June 11

"Float like a butterfly, sting like a bee."

— Muhammad Ali

North American Drought Monitor

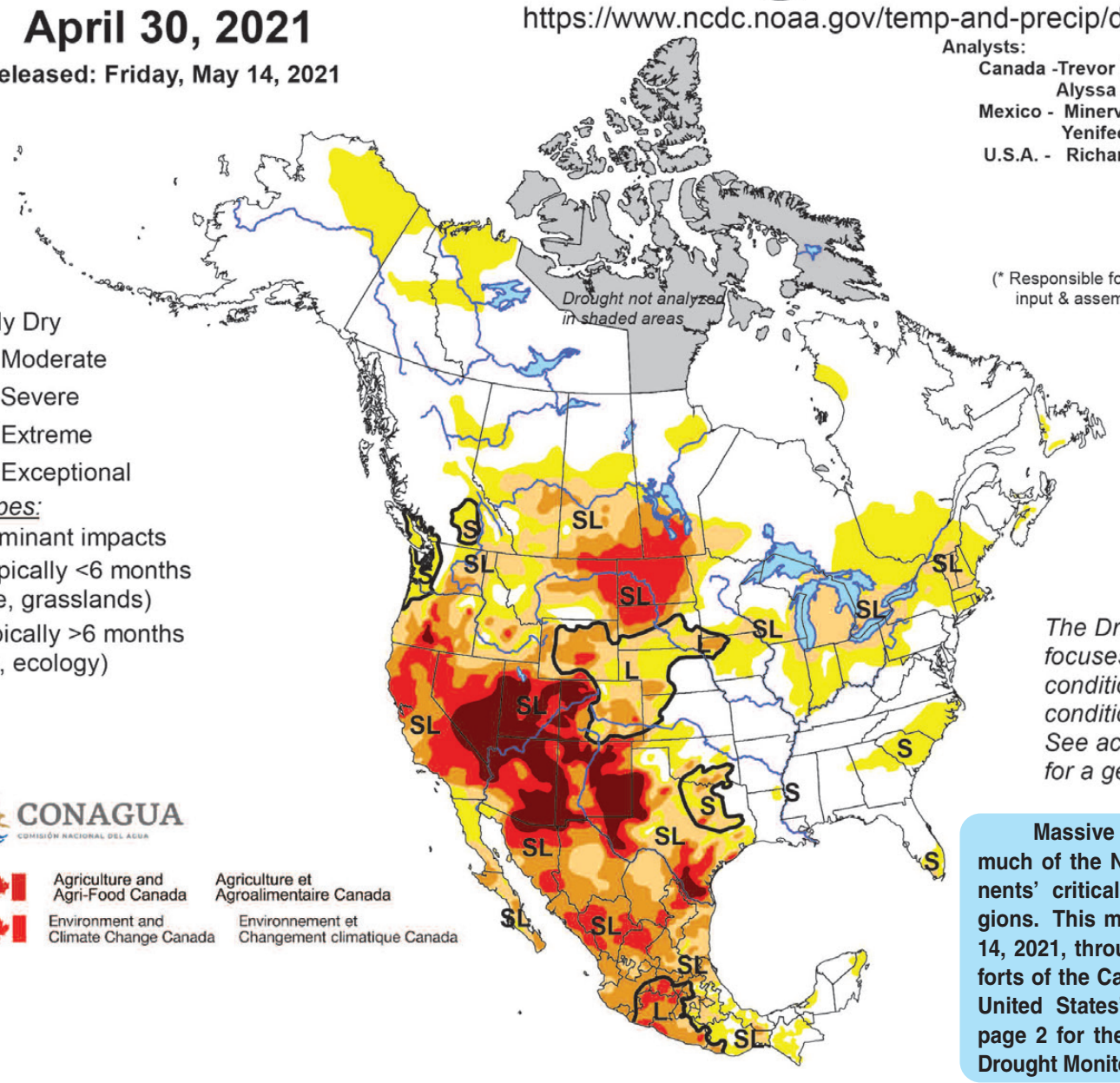
April 30, 2021

Released: Friday, May 14, 2021

https://www.ncdc.noaa.gov/temp-and-precip/drought/nadm/

Analysts:
Canada -Trevor Hadwen
Alyssa Klein
Mexico - Minerva López
Yenifeer Loranca
U.S.A. - Richard Heim*

(* Responsible for collecting analysts' input & assembling the NADM map)



Intensity:
- D0 Abnormally Dry
- D1 Drought - Moderate
- D2 Drought - Severe
- D3 Drought - Extreme
- D4 Drought - Exceptional

Drought Impact Types:
- Delineates dominant impacts
- S = Short-Term, typically <6 months (e.g. agriculture, grasslands)
- L = Long-Term, typically >6 months (e.g. hydrology, ecology)

USDA · NDMC · CONAGUA Comisión Nacional del Agua · NOAA

Agriculture and Agri-Food Canada / Agriculture et Agroalimentaire Canada
Environment and Climate Change Canada / Environnement et Changement climatique Canada

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text for a general summary.

Massive drought blankets much of the North American continents' critical, food-producing regions. This map was released May 14, 2021, through the combined efforts of the Canadian, Mexican, and United States' governments. See page 2 for the latest United States Drought Monitor map.

Widespread Drought Threatens U.S. & Global Food Supplies

by Pete Hardin

Current drought conditions are baking much of the western half of the United States, with drought further extending from the Dakotas to the Mid-East, parts of the Northeast and Southeast, and across much of New England.

The western states' drought looms as perhaps the worst since the United States' westward expansion commenced in the second half of the 19th century. This year's wide-ranging drought conditions are firmly entrenched, as the nation's grain reserves are drawn down following problematic weather conditions for agriculture in 2019 and 2020.

Global demand for U.S. grain reserves and the 2021 new crop is strong, due to factors such as adverse conditions in South America and China's restocking food and grain reserves.

But 2021's serious, indeed, ***epic*** drought respects no international borders.

Drought conditions spread across large swaths of North America, stretching from western Canada's prairie wheat lands all the way down to parch almost all of Mexico, except for the Yucatan Peninsula. While the North American Drought Monitor map depicted on this page does not show drought conditions in Central and South America, parts of those regions are also problematic.

Simply put, drought-impaired agricultural production in the United States, Canada and Mexico threatens to disrupt all three nations' agricultural economies and food supplies. Beyond North America, the world's food system is in dire need for abundant harvests from the United States and Canada to replenish struggling grain and food supply "pipelines."

This nation faces serious challenges to the stability of major food systems, as the 2021 crop season enters summer. It's a long way to go until this year's crops are (hopefully) safely in the bin. The following paragraphs attempt to summarize these fast-deteriorating conditions.

California's water scarcity mirrors wider problems. Severe drought blankets much of the western half of the United States. Experts warn that California may be facing its worst, prolonged drought since settlers of European heritage proliferated in the Golden State. Climate scientists contend that California's settlement, along with other western states – starting roughly in 1850 and extending sometime into the second half of the 1900s – featured atypically heavier precipitation than the longer-term, historic norm. (That conclusion comes from studying centuries of data gleaned from tree's growth rings.)

For the past several decades, western states' precipitation has reverted to more normal, drier levels. Thus, the modern American west developed during more than a century of above-average precipitation for that region. During that time, California emerged as the nation's leading agricultural state, as well as the nation's top milk-producer. Current shortages of surface water supplies available to California agriculture promise to ripple throughout this nation's food supplies – resulting in shortages of some commonly available food products and higher prices to consumers.

Parts of Mexico, Central & South America also baking. The drought that's parching the U.S. Southwest doesn't respect international borders.

Continued on page 2

U.S. & Global, con't

Continued from page 1

Mexico's agriculture is being baked worse than the United States. Mexico has boosted purchases of dairy products from the United States in recent weeks and months, stocking up on needed food supplies to offset crippled local production.

Changed climate issues – both drought and hurricane-driven deluges — are driving some farmers in Central American countries off their land.

In May, Argentina suspended beef exports for at least 30 days – a supply/demand-driven effort aiming to keep drought-limited beef supplies at home, while trying to keep consumers' costs from escalating even further.

Due to fears of drought-driven shortages of corn and soybeans, Brazil has suspended import tariffs on grain — positioning that nation to be a net *importer* of grain in coming months. Brazil as a grain importer in coming months??? That's a big switcheroo. Normally, Brazil is one of the top grain-exporting nations in the Western Hemisphere.

Worst spring cold blast in nearly 100 years hits Western Europe. Western Europe featured its coldest blast of spring weather since the 1920s, (Source: *Barry Wilson's Dairy Industry Newsletter* — an excellent, every-other-week, global dairy publication.) That cold blast seriously knocked back spring growth of grasses, as well as severely harming France's 2021 wine grape industry.

Making sense of all these events?

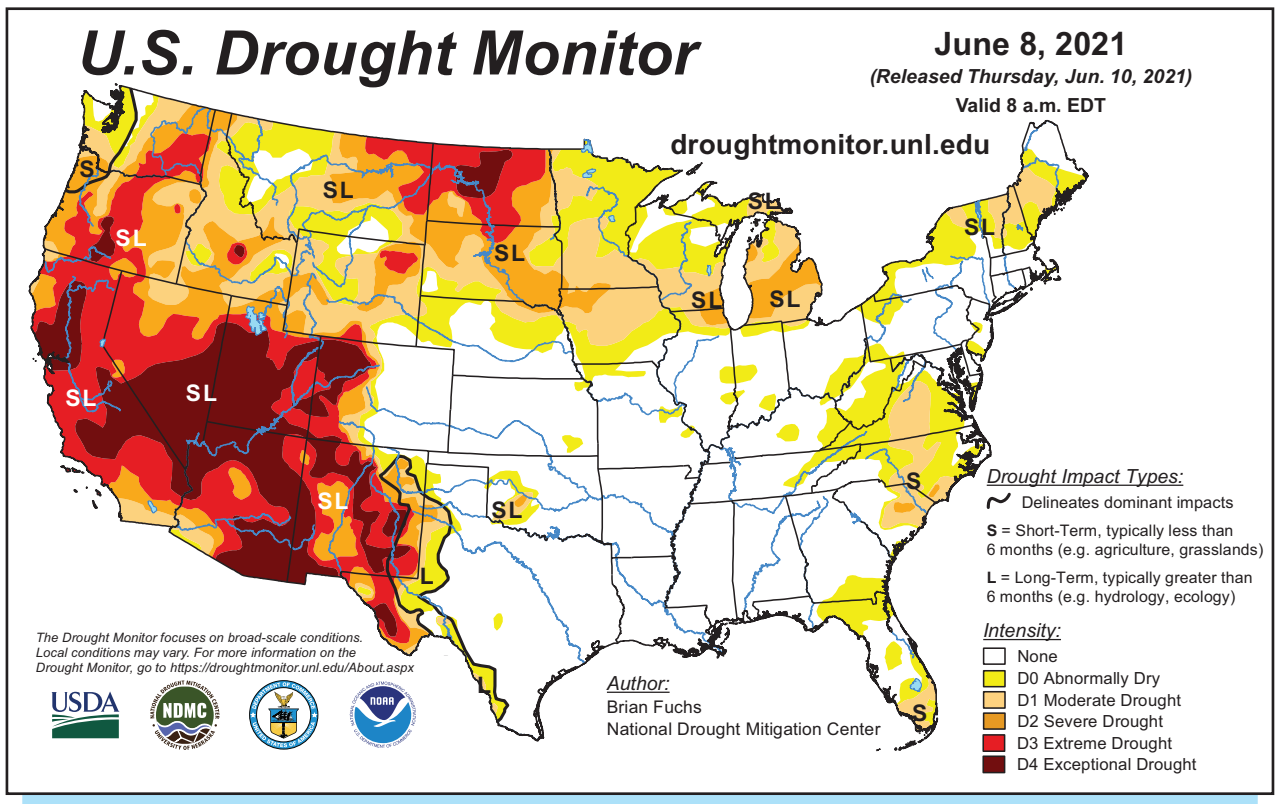
• Projections for U.S. grain production in 2021 have been optimistically boosted in recent weeks, due to estimates for better moisture. As a result, futures prices for the 2021 corn and soybean crops have fallen back from month-ago peaks. However, it's a long time 'til the Corn Belt's fall harvest is in the bin … and a lot of challenges may surface between now and then.

In 2021, even near-bumper crops for soybeans will not lift carry-over stocks significantly by the end of the 2021-2022 crop marketing year (8/31/22). The farm-to-end-user supply pipeline for soybeans in the United States is expected to run short, before 2021's new crop becomes available. Due to anticipated, near-zero, carry-over soybean stocks, anything less than an optimum U.S. soybean harvest in 2021 will lock in tight supplies and high prices at least until early fall 2022.

New crop corn production and prices are a crapshoot right now. Great weather uncertainty – both domestically and globally — coupled with relatively low stocks and strong exports, make corn markets harder to accurately predict. As with dairy-related futures/options, the grain gurus at Chicago tend to be conservative in the face of potential price up-ticks.

Corn exports to China are seasonally strong. Chinese buyers are avoiding their usual strategy of significant purchases, followed by pulling back from the U.S. market. In recent months, China has been "all-in." China is currently forced to take a wider, global perspective on grain supplies. Brazil's scarce, or perhaps even non-existent, grain supplies available for export in coming months are probably a major factor driving China's strategic calculations on future grain prices/supplies. China has historically imported volumes of grain from Brazil. With 1.444 billion mouths to feed, China's leaders do not have the luxury of betting on good weather and growing conditions for the U.S. 2021 corn and soybean crops. At this point in 2021, China is socking away food reserves. That nation's leaders wisely link food security to societal stability.

Perhaps not since the early- and mid-1970s, will so much interest – domestic and global – be following the progress of U.S. crops as in 2021. In all honesty, concerns should properly focus on weather in all major food production nations and regions of the world. Why? Because the world's food reserves are very tight. Any significant disruptions of grain and food production in 2021 will ripple world-wide.



The latest U.S. Drought Monitor map is dated June 10 and summarizes the situation as of June 8. The western states' drought may be the worst drought in more than a century and a half. Drought conditions have spread across the Dakotas, moving east through Michigan and then hop-scotching to parts of upstate New York and much of northern New England. Major portions of the Mid-Atlantic Coastal states – Virginia and both the Carolinas – are also drought-inflicted.

Stunning Block/Barrel Cheddar Price Flip-Flop

In recent weeks, the block/barrel split for Cheddar has reversed its historic relationships. Starting in mid-May, cash market trading in Chicago has seen block Cheddar prices fall below barrels. What's going on?

First, food service demand is rebuilding, which boosts barrel Cheddar demand (used for processed cheese products).

Second, retail cheese sales are slowing. So block demand is softer.

Third, the new Glanbia plant at St. Johns, Michigan is putting about 15 truckloads of block Cheddar on the market. That extra volume has sparked a price-cutting war, resulting in a California competitor disposing of burdensome block Cheddar inventories at the Chicago Mercantile Exchange.

All Mfg. Milk Classes Rose for May 2021

Across the board, prices for manufacturing milk Classes rose in May. Those gains were driven by stronger prices for the key dairy commodities: Cheddar, Grade A butter, Grade A nonfat dry milk, and dry whey.

The all-important Class III (cheese) milk price climbed to $18.96/cwt. for farm milk testing 3.5% milk fat. That figure represents a gain of $1.29/cwt. above the April 2021 Class III value.

Meanwhile, the Class II (cultured products) price in May hit $16.22/cwt. (+$0.66). And the Class IV (butter-powder) price was $16.16/cwt. (+$0.74).

These manufacturing Class prices applied to all manufacturing milk pooled on USDA's federal milk marketing orders during May 2021.

To attain the monthly manufacturing Class prices, USDA collects weekly surveys from sellers of the above-listed commodities. Those surveys include both volumes sold (aged less than one month) and prices per pound. From the weekly surveys, USDA economists calculate monthly averages. And those averages are used in formulas to determine the monthly manufacturing Class values.

The weekly survey's reported prices and commodities' volumes are reported as the National Dairy Products Sales Report.

USDA's weekly survey prices track closely, but not exactly … about two weeks behind the ups and down of dairy cash commodity markets traded at the Chicago Mercantile Exchange (CME). Important to note: Cheddar and dry whey prices have declined in recent weeks, suggesting a downturn for the June 2021 Class III value.

For May 2021, USDA reported the following product values that were used to calculate the manufacturing Class prices:

Butterfat .....$1.9851/lb.
Protein .....$3.1307/lb.
Nonfat solids .....$1.0607/lb.
Other solids .....$0.4645/lb.

Unfortunately, we must observe that a strong uptick in a month's Class III price creates the "negative Producer Price Differentials" (PPDs). Negative PPDs boost incentives for some marketers in some regional federal milk orders to depool cheese milk for a given month. Now you see it, now you don't.

PRICES PER POUND	March '21	April '21	May '21	April-May Difference
Butter	$1.5898	$1.7814	$1.8107	+2.83¢/lb.
Nonfat Dry Milk	$1.1164	$1.1680	$1.2392	+7.12¢/lb.
Cheddar Cheese	$1.5981	$1.7106	$1.8206	+11.00¢/lb.
Dry Whey	$0.5537	$0.6135	$0.6501	+4.66¢/lb.

USPS: 561120 **ISSN: 1533-6026**

EMAIL SUBSCRIPTION OPTIONS

The Milkweed now offers email delivery to subscribers. Here are the costs:

__ Email only–$115/year.

__ Email + Second-Class Mail copy–$175/yr.

__ Email + First-Class mail copy–$210/yr.

Persons wishing to pay by check may send their check to *The Milkweed,* P.O. Box 10, Brooklyn, WI 53532. Those wishing to pay by PayPal should go to this publication's website and click the "Subscribe" icon on the home page for instructions. You can also visit:

www.themilkweed.com

The Milkweed

Publisher/Editor: Peter L. Hardin
Associate Editors: Paris Reidhead, Jan Shepel, Mark Kastel, and Will Fantle.
In memoriam: John Bunting and Jim Eichstadt.

The Milkweed is a monthly dairy marketing report for dairy farmers and other people with an interest in the dairy industry. First issue published June 1979.

Second-Class Subscription rate:
$90 for one year.
First-Class Subscription rate: $140 per year.
Single issues: $5.00.
Mailing address: ***The Milkweed,***
P.O. Box 10, Brooklyn, WI 53521-0010
Phone: 608-455-2400 • Hm: 608-835-5981

The Milkweed is published monthly by The Milkweed, Inc., W717 Amidon Rd., Brooklyn, WI 53521. Periodical postage paid at Brooklyn, WI, and additional mailing offices.
Postmaster: Send address changes to:
The Milkweed, P.O. Box 10
Brooklyn, WI 53521-0010