

The Milkweed

Dairy's best information and insights

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

— Muhammad Ali

Dairy Crisis Shifting from Milk Prices to Feed Supplies/Quality

by Pete Hardin

In Wisconsin and other northern tier dairy states, you wouldn't know that Class III milk prices are headed to \$20 per hundredweight for the last couple months of the year. With the possible exception of top-end springers and just-fresh cows, dairy livestock prices are collapsing, due to severe shortages of livestock feed stockpiled for the upcoming winter.

Wisconsin's feed crisis is particularly acute the further north one travels in the state. Crops (except for hay) were relatively decent in southern Wisconsin this year, given what Mother Nature provided. But further north, crops were even later planted, due to colder, wet soils. Across the central and northern thirds of Wisconsin, severe winterkill of alfalfa stands was experienced – lowering forage yields and boosting costs for replanting. Reports from central Wisconsin indicate that some farmers haven't filled even one chopper wagon with corn silage this fall – too wet!

In Michigan in late October, tales are that some farmers were pulling their silage chopping equipment and silage wagons through muck using an extra tractor for each. Larger farms had to resort to blowing silage into chopper wagons instead of adjacent semi-trucks ... because the fields were muddy for the semis to navigate. Some of the larger farm equipment was spotted with huge “balloon” tires in place of the normal rubber. The only reason to do that is to get through too-wet fields.

Dire concerns about winter feed supplies are pushing numerous farmers to make some tough choices on livestock numbers. A heavy run of livestock to auction barns is in progress, pulling down values for most cows. Prices for good cull cows have dropped by 25-33% in recent weeks. Less desirable culls in Wisconsin are yielding prices from a nickel

to 30 cents per pound.

Some bull calves are being shot, due to lagging buyer interest. Some farmers report receiving negative returns for sending bull calves to market.

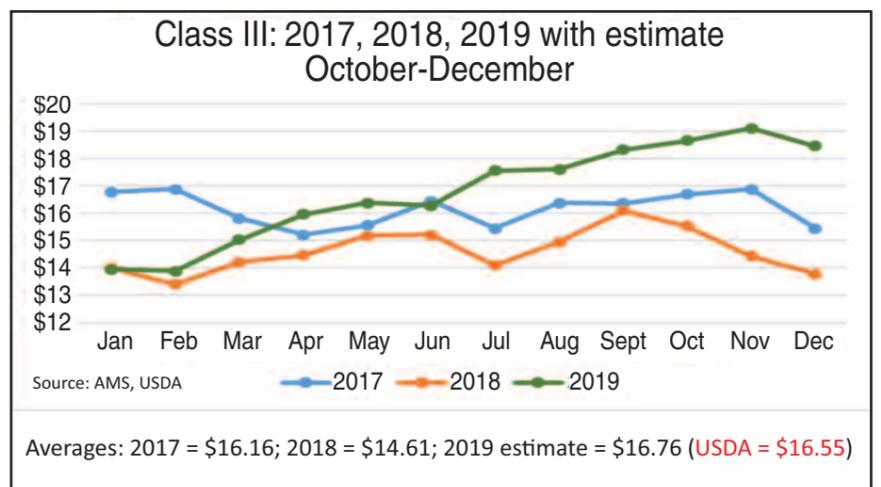
Sale barn bids for once-pricey, “black” calves (Angus/ Holstein crosses) have tumbled sharply. The “good news” in this dramatic exodus of dairy livestock to auction barns and slaughterhouses? In southern Wisconsin and California, prices paid for nice springing heifers have climbed \$150 to \$200 in the past month. But in central Michigan, for example, the early November sale at Rosebush saw prices for dairy springers and just-fresh cows fall backwards by \$150 to \$250 per head, compared to prices in early October.

Many dairy livestock owners are assessing their stored crops and calculating how many critters they can feed over winter and into spring. Hay prices are rising fast – making it costly to buy hay to feed dairy livestock that aren't adding volume to the bulk tank. Robert Filhart – owner of the Rosebush, Michigan sales barn – reports that at a late October hay auction in Michigan, top-end small square bales of hay went for \$12.50 each. Top-quality alfalfa is selling at auction for well above \$300 per ton in southern Wisconsin.

Even livestock bedding materials are scarce. Straw prices are through the roof – a result of fall 2018's wet weather that impaired intended winter wheat plantings. At Kidron, Ohio, recent hay auctions have seen round bales of corn stover (old corn stalks, a bedding alternative) sold for \$90 to \$120 per ton.

Ahead: Significantly higher dairy commodity and farm milk prices, as multiple dairy regions of the country see crop volumes and quality pull down milk output in the months ... and perhaps years ... ahead. For all our modern dairy expertise, Mother Nature ul-

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While the USDA is predicting a 2019 average of \$16.55 for Class III milk, dairy economist Bob Cropp sees a higher price with the final year-end average standing at \$16.75 – far better than the ugly \$14.61 average that was the 2018 price for cheese milk. Cropp's graph shows 2019 prices surging over figures from the last two years, starting in July.

Barrel Cheddar Prices Spike at CME, Eclipsing 40-lb. Blocks

by Pete Hardin

From Paul Bauer's lips to the ears of the Cheddar “gods” at the Chicago Mercantile Exchange???

At a dairy town hall meeting at World Dairy Expo on October 1, Bauer – the capable manager of the Ellsworth Cooperative Creamery in northwestern Wisconsin – detailed a long litany of woes regarding barrel Cheddar in front of USDA Secretary Sonny Perdue. Bauer detailed how ruinously low prices for 500-lb. Cheddar barrels were costing cheese plants making barrels roughly \$3.00 per hundredweight ... the way USDA's federal milk order pricing system works. Around October 1, barrel Cheddar prices were ranging 30 cents per pound under Cheddar blocks.

Bauer's gripes, as manager of a dairy cooperative producing barrel Cheddar, were legitimate. On Friday, September 20, barrel Cheddar prices were \$1.6550 per pound – a full 39.5 cents per pound lower than Cheddar blocks. And on September 27 (the Friday before World Dairy Expo) Cheddar barrels also settled at \$1.6550 – a mere 30 cents per pound lower than blocks. Ouch.

As Bauer addressed Perdue, plants producing barrel Cheddar had already been diverting farm milk away from their vats and, when feasible, shifting to producing other cheese varieties. Recent USDA data shows a big decline in the nation's September 2019 Cheddar production. Cheddar output that month plunged last September – down 3.1% compared to September 2018's figure. Longer-term, Cheddar output during 2019's first nine months has lagged behind last year's numbers: down 2.3%, or 66 million pounds. No USDA data breaks down Cheddar barrel vs. block output.

But those disincentives for producing barrels

will revert to their normal stance, somewhat below Cheddar blocks ... when tight supplies ease.

Higher prices are now spurring heavier production of Cheddar barrels. Sources report that in Idaho, Agropur's plant at Jerome is making as many barrels as possible, trying to fill customers' needs. That plant has the capacity to shift volumes between varieties such as Cheddar and Mozzarella, as well as alternately producing barrels or blocks.

Cheddar resulted in far tighter inventories of 500 pounders. And by October 18, barrel Cheddar prices (\$2.00/lb.) pushed ahead of block Cheddar (\$1.9675/lb.) in cash trading at CME. Starting on October 24, barrel Cheddar prices have dramatically eclipsed block Cheddar.

At press time (November 8), at \$2.33 per pound, barrel Cheddar prices rested a whopping 32 cents above blocks at CME.

Industry sources confirm that barrel Cheddar supplies are T-I-G-H-T. Further, those sources report that Kraft-Heinz – purveyor of such wondrous processed cheese products as Velveeta, Kraft Singles, and Cheez Whiz – is desperate to obtain barrel Cheddar. “Kraft is buying up every barrel it can get its hands on,” one industry source related.

The dramatic reversal of Cheddar block and barrel prices has occurred as the dairy and food industries gear up for heavier demand as the year-end holidays approach. Over the past few decades, the holiday “party season” has extended another month or so – leading up to professional football's Super Bowl – and increasing consumers' demand for processed dairy products.

Yes, short-term, 500-lb. Cheddar barrels are tight. No, the current reversal of block and barrel Cheddar prices will not last, long-term. Barrel prices

will revert to their normal stance, somewhat below Cheddar blocks ... when tight supplies ease.

For sure, weather and crop events – along with tight supplies of replacement dairy heifers – will lock in tight farm milk supplies in many key dairy regions of the United States for at least a couple years ... in the analysis of *The Milkweed*.

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DATCP Explains Complaint about Adulterated Cheese

by Jan Shepel

A complaint first reported in *The Milkweed* about adulterated cheese returning from animal food channels into human food channels resulted in a thorough investigation from Wisconsin Department of Agriculture, Trade and Consumer Protection (DATCP) food safety officials.

Wisconsin cheese packager “Shorty” Curran and *The Milkweed’s* editor and publisher, Pete Hardin, complained to members of the agency’s policy board in September that no one was held responsible for adulterated cheese that should never have entered the human food chain, and nearly did. (Curran contends that as much as 1.6 million lbs. of cheese were originally condemned.)

During a public comment period at the September meeting of the board, Curran related how he had almost gotten drawn into a scheme to take cheese that was supposed to be used to feed mink and repackage it for human consumption.

Curran’s first clue that there was something wrong with the semi-load of cheese was that it was not in the normal format for cheese intended to be cut and wrapped at his Argyle, Wisconsin business. The Cheddar came from a broker and was stacked on pallets. Curran had to work to get that cheese in the right format to process it.

When Curran asked the broker where the cheese came from, he was told “What does that matter to you? It’s private information.” That conversation, which occurred last year, made him even more suspicious. Not wanting to be party to something he felt might be illegal, Curran consulted his lawyer.

Curran’s attorney contacted the Food Safety division at DATCP to relay these concerns. DATCP personnel investigated the incident and put a hold on the cheese, which eventually ended up in the Green County landfill. The attention Curran and Hardin brought to the issue drew a lengthy report to the DATCP board on Nov. 7 in Madison.

Steve Ingham, administrator for the department’s division of Food and Recreational Safety, explained that the incident had involved a great number

of people, some of them outside Wisconsin. “An initial key point to be made is that a food, or the ingredients making up a food, can pass through many hands in Wisconsin, the United States and internationally,” he reported to the board. “This case involved at least two brokers located in Minnesota, three Wisconsin dairy plants, three Wisconsin food warehouses, two Wisconsin mink farms and two trucking firms.”

There may even have been more entities involved, he added. Ingham also noted that when large amounts of product are dealt with, small increases in price per pound will add up to significant money, “So the opportunity to buy product at animal feed prices and sell it at human food prices is extremely lucrative.”

Curran had brought the agency’s attention to roughly 37,000 pounds of cheese at his plant, but there were 6 million pounds of cheese in the DATCP investigation – all part of the production that was intended for animal feed.

Ingham didn’t name the plant, but *The Milkweed* has learned that the cheese came from AMPI’s plant at Blair, Wisconsin — which uses a municipal water source. Unknown to the cheese makers, a filter had failed in the municipal water system and allowed their cheese to be adulterated with black specks from activated carbon filters used in the water treatment system. AMPI personnel exercised proper caution, deciding that the cheese should not be sold for human consumption. AMPI then contacted a Minnesota cheese broker to move the product into animal food channels – to Wisconsin Mink Farm “A” in Ingham’s report – at a steep discount.

Ingham emphasized that AMPI made the decision to move that cheese into animal feeding channels on its own – without asking for input from regulators. “I don’t fault the initial dairy company. They got it to someone who was supposed to get it out of human food channels.”

Cheryl Daniels, an attorney with the department, said there was also no problem with the first broker. “The dairy asked for it to be sold as animal feed and it was sold for animal feed,” she told the board.

Mass quantities ...

Because of the huge amount of cheese involved, it was stored in at least three different food ware-

houses, contained in wooden boxes containing 640-pound blocks of cheese.

Ingham said the amount of cheese bought by the first mink farm was so much that they couldn’t use it all, so some of it was sold to Mink Farm B. At that point broker B (also in Minnesota) entered the picture, arranging for the sale of cheese from the second mink farm to what Ingham called an “intra-family” operation that involved several trucking companies and “at least one dairy plant.”

This second dairy plant arranged for some cheese to be moved from at least one of the food warehouses to Curran’s cutting and repackaging plant. Part of that process involves removing and disposing of lower-quality or blemished cheese, a not-unusual part of the packaging business, Ingham said. “Throughout the industry, cheese subdivision may involve reducing 640-pound blocks to 40-pound blocks or even smaller pieces and/or it may involve shredding.”

Based on conversations he had with the broker who sent him the cheese, Curran believed that the cheese he received to cut up was moving from the mink farm to human food sales. Customer lists later obtained by DATCP investigators “lent credence to this assertion,” Ingham said. “Of particular note to me and my colleagues were numerous customers in the federal prison system.”

As the food safety officials began asking more questions, word got out to the industry and the second dairy plant involved got nervous and began moving cheese back to the warehouses and out of the multi-company facilities. Food safety officials began putting hold orders on the cheese. This included the cheese at Curran’s plant along with about 5.8 million pounds of cheese at the three food warehouses and mink farm A, Ingham said.

“Through one set of lenses,” he said, “a crime was not committed. We caught it.” But the division found that poor recordkeeping was common and much of the business dealing appeared to be done verbally, so records were non-existent. “We can’t conclusively say whether this style of record-keeping was deliberate.” His agency’s attempts to get further records “were met with varying degrees of cooperation,” Ingham said.

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

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Dean Foods’ Fortunes Sinking Lower & Lower

by Pete Hardin

In advance of Dean Foods’ third-quarter earnings report and conference call with investment advisors around November 11, worries are mounting about the future of the nation’s largest fluid milk processor.

Dean Foods’ stock has declined recently, down to \$0.84 per share on November 7. And a knowledgeable source reports that Dean Foods’ bonds are now trading at about 35 cents on the dollar of face value. Dean Foods has about \$700 hundred million dollars of unsecured bonds coming due in 2023.

Additionally, a source indicates that there is festering interest in Dean Foods by Big City bankruptcy lawyers.

Dairy Crisis Shifting

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timately calls the music.

Adverse weather has impaired 2019’s crops – from planting to harvest. In northern dairy states, annual crops were generally planted late – due to cold, wet weather. Those crops were slow to mature in many instances. And it’s been the same story this fall, as unusually cold, wet weather has challenged harvesting corn silage and grain. Hay? Wet weather either delayed first-cuttings, or else flat-out ruined **man** of them. A large amount of hay harvested in 2019 was impaired by wet weather.

Even California is facing serious scarcity of dairy-quality alfalfa. Local sources predict that in early 2020, California dairies will see milk production per cow pared, due to feeding of less desirable forages. In early November, quality hay prices are moving up. Local sources estimate that alfalfa testing 180 relative feed value delivered into Tulare is now running around \$235 per ton.

Fast-rising Class I milk costs promise to make more difficult Dean Foods’ efforts to restore profitability. Predictably, Class I (fluid) milk prices will be driven higher by rising dairy commodity prices – particularly cheese. For firms struggling with operating costs, those higher Class I prices will make it even more difficult to crawl out of the hole they’re in.

Throughout much of the past year, analysts have pointed to the likelihood of higher milk costs as a negative factor in Dean Foods’ efforts to regain profitability. *The Milkweed* projects Class I prices in December 2019 and the early months of 2020 will be several dollars per cwt. higher than prices for those same months one year ago. Stay tuned!

Dairy entering an unprecedented period.

What do these chaotic crop and livestock conditions mean, in the larger context for the U.S. dairy industry?

- Milk supplies in important dairy states – Wisconsin, Michigan, Ohio, Minnesota and California, Iowa, Indiana and South Dakota – will constrict, in some cases severely. Beyond short-term considerations, the current crop problems will result in shortages of replacement dairy heifers ... at least for the next two years. Prior to this fall’s crop headaches, replacement heifer numbers were already looking in short supply, due to recent years’ use of beef semen on many dairy cows and heifers ... as well as large placements of open dairy heifers in beef feedlots.

- Higher dairy commodity prices and farm milk prices look like they’re locked in place for a couple years, in the analysis of *The Milkweed*. Don’t pay attention to prices cited by dairy futures/options – they’re always slow to respond to significant upticks in prices.

The U.S. dairy industry is in for virtually unprecedented months and years ahead: scarcity is replacing the surplus that has generally reigned from early 2015 until sometime around mid-2019.