February 2021

MILKLINE NEWSLETTER

FARM FIRST DAIRY COOPERATIVE

Taking on Uncertainty

A few weeks ago FarmFirst staff was asked by a dairy magazine writer "In a word, what's the mood as 2021 gets under way?" Our response, "Uncertainty."

Uncertainty can be uncomfortable and challenging, yet these circumstances often lead us to grow the most. Uncertainty also challenges us to dig deeper for solutions when new issues arise, and the dairy industry is no exception.

It's no understatement that dairy farmers and processors were on a milk market roller coaster over the past year, and the uncertainty that drove the highs and lows is still not comfortably behind us. Such dramatic changes caught the attention of leading dairy economists and market analysts. Furthermore, its caused greater attention by dairy farmers to consider their risk management options. Dairy farmers can take some of the uncertainty of future milk prices by utilizing the many options available to them to protect their bottom line. (Read the 2021 milk market forecast and dairy risk options on page 5.)

This uncharted territory has also caused issues in the dairy industry we rarely think about, including skyrocketing transportation costs and ridiculous shipping delays, as container ships sit idle at U.S. ports, struggling to get emptied to then take U.S. dairy products back to their shores. (Read more about these shipping delays on page 4.)

With a new Administration and Congress there will be attempts to try new ideas to fix old problems. Yet, many of these policymakers may not have a clue to the unintended consequences (some may know exactly the consequences) policy changes may have on dairy farmers. FarmFirst is keeping an eye on these issues and maintaining our seat at the table. As issues such as tax reform, climate change and pandemic support get discussed, it will be vital for FarmFirst to offer and support solutions to today's issues and stand up against proposals that make it impossible for you to operate and manage your farm.

Clearly, there's plenty of work to be done, and FarmFirst is diving in deep to ensure policymakers, market analysts, economists and everyone in between is well aware of your needs and to do our best to lessen the uncertainty of dairy farming. Afterall, you make this wonderful industry exist in the first place.

What to Know About Getting Your COVID-19 Vaccine

The COVID-19 pandemic has presented numerous challenges for U.S. dairy farmers. Now that vaccines are becoming more available, FarmFirst has the information you need to know:

How To Get A Vaccine
The CDC has issued recommendations on who should get the vaccine first, but states have established their own criteria. Each state has divided their populations into phases, working through their own pace. To view the latest information on your state, please visit www.FarmFirstDairyCooperative.com.

If I already had COVID-19 and recovered, do I still need to be vaccined?
Yes. According to the CDC, due to the severe health risks associated with COVID-19 and the fact that reinfection with COVID-19 is possible, you should be vaccinated regardless of whether you already had COVID-19 infection. If you were treated for COVID-19 symptoms with monoclonal antibodies or convalescent plasma, you should wait 90 days before getting a COVID-19 vaccine. Talk to your doctor if you are unsure what treatments you received or if you have more questions about getting a COVID-19 vaccine.

For more COVID-19 information specific to dairy farmers and vaccinating your workforce, please visit www.FarmFirstDairyCooperative.com.

Dedicated to serving and representing you, our family farm members, FarmFirst Dairy Cooperative represents farms in Wisconsin, Minnesota, South Dakota, Michigan, Iowa, Illinois and Indiana through policy advocacy, dairy marketing services, laboratory testing opportunities and industry promotion.

FARMFIRST DAIRY COOPERATIVE

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Cooperative Happenings

2021 Scholarship Application Available

Scholarship applications are now available for the 2021 FarmFirst Dairy Cooperative scholarship program. The application deadline is **March 31, 2021.** Applications are available online at www.FarmFirstDairyCooperative.com or by calling 608-286-1909. Submissions can be received through the online form, via email or a printed, paper copy can be mailed in with a postmark date of no later than March 31, 2021. Please confirm receipt of your application.

CENTRAL PLAINS DAIRY EXPO

You're Invited!

FarmFirst's Member Appreciation Breakfast
Thursday, March 25 at The Crooked Pint
(located within the Holiday Inn) 2040 W. Russell Street, Sioux Falls, SD.

Hot Breakfast Available from 7:00 a.m. - 9:00 a.m.
Visit with General Manager Jeff Lyon & Field Rep. Betty Lund to learn more about FarmFirst programs and opportunities. Members also receive free FarmFirst apparel!
Make your reservations today! Call Betty at 715-491-9119.
Reservations allow for a more accurate meal count.

Special Thanks to our 2021 Virtual Annual Meeting Sponsors

Due to the restrictions of in-person meetings, the 2021 Annual Meeting has moved to a virtual platform, being held Friday, February 12 in a condensed format. Because of these changes, this year's sponsorships will go towards support of the cooperative's scholarship fund in lieu of not being able to raise funds through the live and silent auctions that typically take place during the in-person event. FarmFirst would like to thank this year's Emerald sponsors including CliftonLarsonAllen LLP, Investors Community Bank, StoneX, Vrakas Blum, Wisconsin Beef Council and the Wisconsin Livestock Identification Consortium as well as these Platinum sponsors featured here for their support of the cooperative and its scholarship program. Thank you!

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Priorities for Ag Outlined at Vilasck Confirmation Hearing

Agriculture Secretary-designate Tom Vilsack during his confirmation hearing with the Senate Agriculture Committee earlier in February, laid out his priorities for USDA in 2021 and discussed some of the changes he sees compared to his first stint at the agency, which started in 2009.

During the virtual committee meeting, Vilsack said USDA will play a key role in helping the Biden Administration manage the response to the coronavirus pandemic, with an eye toward making certain that food-insecure Americans have better resources to meet their nutritional needs, and that farm workers have the proper resources to protect their health while on their jobs.

On the topic of climate change and agriculture, Vilsack spoke in favor of voluntary, market-based programs to help farmers both reduce the environmental impact of agriculture and develop new revenue streams through the marketing of carbon credits. Vilsack urged Congress to create an official task force of farmers to provide guidance on how to structure a carbon market, including what processes are measured and how the economic benefits can be directed primarily to farmers. Vilsack indicated that the Commodity Credit Corporation could be accessed to provide funding to jump start a carbon bank within USDA, but he made it clear that CCC funds would continue to be used first and foremost for farm bill and related programs.

FarmFirst will follow this issue intently, as the carbon bank within USDA would help achieve the industry's initiative for net zero carbon emissions. However, FarmFirst is strongly against utilizing Commodity Credit Corporation funds that were originally earmarked for dairy farmer programs, such as those included in the Farm Bill.

Calls for Class I Mover Change Amid Push for Improved Dairy Pricing

Dairy industry leaders are calling for changes to the so-called Class I fluid milk price mover to recover losses dairy producers have faced from the extreme price disruptions caused by the coronavirus pandemic, which is part of a suite of policies essential to advancing the well-being of dairy farmers and the entire industry in response to challenges due to the COVID-19 pandemic.

The current Class I mover used to price fluid milk in federal milk marketing orders took effect in 2019. It applies a $0.74/cwt adjuster to the monthly average of Class III and IV prices and replaced the previous Class I formula, which was based on either the Class III or IV price each month, whichever was higher – an approach that worked for farmers but made it more difficult for fluid milk handlers to hedge milk prices using the futures market. The 2019 change was intended to be revenue-neutral and was widely supported across dairy when it was implemented. But the significant gap between Class III and IV prices that has developed during the pandemic has exposed dairy farmers to asymmetrical losses not experienced by processors.

It is estimated that dairy farmers may lose roughly $800 million in revenues under the current Class I mover, making its re-examination necessary.

The National Milk Producers Federation has also received guidance from its members to explore updates to the pricing formula to better protect dairy producers, and to continue an ongoing in-depth examination of important issues related to Federal Milk Marketing Orders as well as the ongoing imbalances in block and barrel cheese pricing.

USTR Urged to Enhance Efforts Protecting Use of Common Names

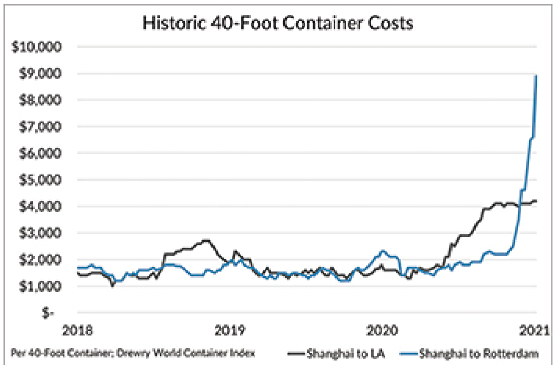
Comments were submitted by the National Milk Producers Federation and U.S. Dairy Export Council on Jan. 28 to the U.S. Trade Representative's Office urged a more robust approach to preserving U.S. cheesemakers' ability to export their products that rely on common cheese names such as parmesan, feta, asiago, and others. Their submission echoed the same concerns filed by the Consortium for Common Food Names, both of which were filed in response to USTR's call for input to inform its annual Special 301 Report on Intellectual Property issues that documents key challenges facing U.S. companies and what USTR is doing to address them.

NMPF noted in their comments that the European Union's use of trade agreement to erect barriers to competition "creates a deeply uneven playing field that makes it much more difficult to successfully export the products that American workers have created using milk from U.S. farms." To address this, the Administration was urged to secure firm and explicit commitments assuring the future use of specific generic food and beverage terms targeted by or at risk of EU monopolization efforts. Last year, more than 160 Senators and Republicans had urged the pursuit of that same policy.

Logistical Headaches Create Snarls

Guest Feature by Kathleen Noble Wolfley, Senior Economist and Research Specialist for Blimling and Associates Inc.

Talk of stimulus packages, vaccines, strong milk production and USDA aid programs have been capturing attentions over the past few months. But outside of the limelight, logistics have been a nightmare for many U.S. companies, be it retail, autos or agricultural produce. What began with a tight domestic freight market with hauling rates at multiyear highs soon evolved into a similar struggle sourcing and paying for export containers. That's become a major problem for dairy exporters, and it is causing significant downstream implications across several markets.



So what's the deal? In short, there aren't enough containers in the right place at the right time. Today, too many containers are sitting on idled ships just waiting to be unloaded at U.S. ports. In some cases, they're waiting several days, if not weeks, to anchor. And, once docked, the unloading process is taking longer than usual because of reduced workforces due to COVID flare ups at the ports. Meanwhile, Chinese exporters urgently need those containers, as the country's post-COVID economic rebound is facilitating a boom in export business. This while U.S. imports are outpacing exports, creating a major imbalance in container demand. Case in point: According to the National Retail Federation, U.S. ports handled a record 2.11 million 20-foot equivalent units (TEU) in November, up 25% year-over-year. Estimates suggest that December volume also topped 2 million TEU, and 2021 likely got off to a strong start, too.

Spiking inbound volume has simply been too much for U.S. ports to handle, especially during a pandemic.

These bottlenecks are ultimately creating ripple effects across the shipping industry, causing spot ocean freight rates to skyrocket in response. Take the cost to ship product from Shanghai to Los Angeles. According to Drewry World Container Index, in January 2019, it cost about $2,000 per 40-foot container. Today, it's more than double that. Shipping to Europe from China? That'll cost you about $9,000.

Shipping lines have taken aggressive measures to quickly flip containers to get them back on the water — even if empty — given the exponentially higher rates paid by Chinese exporters. These short container turns are leading to a major decline in backhaul opportunities. U.S. agriculture exports have been hit especially hard by this development as product ready to set sail has seen container bookings canceled last minute or pushed out several weeks. This forces some to lean on expensive air freight for more urgent deliveries. These headaches — which started in late 2020 — led to an investigation by the Federal Maritime Commission around the prioritization of U.S. agriculture shipments. Shipping lines appear to be responding to this government scrutiny, though many U.S. exporters are still struggling to get product moved.

While talk of stranded soybeans, rotten apples and frozen fish are creating splashy headlines, dairy exporters are facing the same challenges. Anecdotal reports point to difficulties getting products on ships or making sure they stay refrigerated after weeks of shipping delays. But delays along the way are also a huge challenge for domestic dairy operations. Delays getting product out of warehouses...into port....and onto a ship. Those delays are leading to longer lead times on orders and presumably driving frustration among many U.S. export customers, pushing some buyers to load up on extra to cover longer-term exposures. Given these evolving hurdles around time and cost, U.S. dairy exporters could see blowback on the international market even if U.S. prices are competitive across product lines. This could create some unusual domestic inventory dynamics to start the year.

How does the situation get remedied? Shippers are trying to get containers back to Asia as swiftly as possible, and many analysts say the upcoming Chinese New Year — which starts on Feb. 12 and runs to the last week of the month — could create opportunity for realignment. Over the holiday, a short pause in China's manufacturing, and therefore product shipment, could help carriers catch up at demand ports and get back to China as the nation reopens. But some analysts aren't quite as optimistic, suggesting efforts to slow the spread of COVID in China — from limited port-to-port container movement to staggered manufacturing facility closures — could stall any repositioning. But there are already signs of some improvement in container availability from late 2020.

Port-related backlogs are hitting U.S. trucking and rail industries, too, with delays and slow truck turnaround rates further clogging operations. In an effort to limit slowdowns and backups once product gets off the ship, the Port of Los Angeles is offering incentives to operators to cut truck turnaround times by 5% to 20%. Dry van rates for January were hovering around $2.45/mile.

The dairy industry is (unfortunately) unlikely to wake up from this logistical nightmare anytime soon. Though container issues may start to improve over the next few weeks, experts expect that the continuation of misaligned global economic recovery and the longer-term impact of high spot container prices on 2021 contract rates could keep costs high and supply constrained.

This editorial originally appeared in the February 5 edition of The Cheese Market News. The views expressed by guest columnists are their own opinions and do not necessarily reflect those of the cooperative.

FarmFirst Discusses 2021 Outlook and Price Protection During Dairy Risk Management Webinar

Dairy farmers joined FarmFirst Dairy Cooperative for a closer look at 2021 milk markets and explored dairy risk management options during the cooperative's January 26th Dairy Risk Management webinar.

Mark Stephenson, the director of dairy policy at UW-Madison, kicked off the webinar by sharing his outlook on the year ahead, while also addressing the turbulent year the industry just wrapped up.

"We've had such incredible volatility in 2020. Even though the average prices in 2021 may look like something we could live with, those low prices make it really tough on folks," said Stephenson. "The only reason that 2020 ended up being a better milk income year than what we had thought was thanks to some additional sources of income, including the Dairy Margin Coverage (DMC) program, as well as the federal assistance programs, including the Coronavirus Food Assistance Program (CFAP) which helped support dairy farmers' income."

Stephenson shared some optimism about the year ahead, while taking a cautious look to the growing amount of milk production.

"We have optimism about the fifth food box program, that grocery store sales are strong and that we've had a return to home cooking. Additionally, restaurants and schools are reopening, and we have got some export opportunities. Hopefully, we can clear our markets," said Stephenson. "Yet, there are concerns about vaccines being administered and how quickly that can happen. There is also some hope that new processing capacity is coming on across the Upper Midwest as well as across the country. The question is, do we have the customers for this additional product whether here or abroad."

Travis Glaser with ARM Services, LLC based out of Barron, Wis. joined the webinar to provide insight on various risk protection programs including the Dairy Margin coverage program, the Livestock Gross Margin Program, and the Dairy Revenue Protection program.

Both Stephenson and Glaser recommended that dairy farmers lock in coverage through the DMC program at the $9.50 level as it is a very cost-effective coverage option and data has proven to provide a number of payments at this level. Glaser also believes data has shown the Livestock Gross Margin (LGM) program and Dairy Revenue Protection (DRP) program to be excellent options as well.

"Both LGM and DRP establish a floor on your milk and leave the top open, meaning your milk price isn't capped by your risk protection. This is ideal considering it allows you to still take advantage of the upside of any increase in milk prices," said Glaser.

Glaser also recommended exercising caution knowing that sometimes emotion unintentionally plays a bigger role in some management decisions.

"I really like taking the emotion out of the decision. Because you have less opportunities to lock in the milk price with LGM than you do DRP, it tends to be less based on emotion and the off-whim chance to think you are capturing a unique opportunity and end up not," said Glaser.

Quite often, dairy risk management is associated to only deal with purchase programs or buying and selling futures options that involve puts and calls. While these can be effective options, Glaser noted, "You have to be careful when working with these. Personally, I am very averse to locking in that topside of your milk, which these do. Tread carefully."

Glaser also recommended making sure your agent is digging into the data.

"You want to be asking, 'Why should we be buying this, when should we buy it, and how is it working?' You will want to have the confidence in what you're doing and why you're doing it, and a good agent can help with that," said Glaser.

When beginning to prepare a risk management strategy, Glaser has a few recommendations.

"Make sure you're aware of all the options. That is why it is important to have someone you know has good data and stays current on how these insurance policies are changing and how they best serve farmers," stated Glaser. "From there, stay away from unneeded risk and manage your risk in a consistent manner."

"You've got to work your plan," added Stephenson. "Sure, you want to monitor things but ultimately, you need to follow the plan you have put in place and stick with it. Knowing the marketplace, especially how it's acted this past year, these are all great options to protect against low milk prices."

FarmFirst hosted the webinar free to all dairy farmers as a way to foster discussion on dairy risk management options available to producers and should act as a starting point for continuing the conversation. For those looking to connect with Travis Glaser at ARM Services and learn more about the data he presented, they can contact him at 715-5-456-5607.

For those that wish to view the webinar, they can do so by visiting www.FarmFirstDairyCooperative.com.

Federal Milk Order Market Information

DECEMBER 2020

		UPPER MIDWEST	CENTRAL	MIDEAST
Order Name and Number		**Order 30**	**Order 32**	**Order 33**
Producer Milk (lbs.)		1,715,952,449	1,085,961,532	1,420,719,812
Producer Price Differential @ base zone		$ 0.17	$ 0.51	$ 1.18
Statistical Uniform Price/cwt @ 3.5% BF*		$ 15.89	$ 16.23	$ 16.90
Class I Price/cwt		$ 21.67	$ 21.87	$ 21.87
Class II Price/cwt		$ 14.01	$ 14.01	$ 14.01
Class III Price/cwt		$ 15.72	$ 15.72	$ 15.72
Class IV Price/cwt		$ 13.36	$ 13.36	$ 13.36
Component Prices & Test Avg. % aves				
Butterfat/lb.	$ 1.5399	4.21%	4.09%	4.05%
Protein/lb.	$ 3.0282	3.24%	3.31%	3.27%
Other Solids/lb.	$ 0.22450	5.77%	5.79%	5.77%
SCC Adjust Rate/1000	$ 0.00082			
Producer Milk Classified %				
Class I		13.30%	37.88%	41.40%
Class II		9.70%	11.65%	20.90%
Class III		66.00%	16.66%	18.30%
Class IV		11.00%	33.81%	19.40%
		100.00%	100.00%	100.00%

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HAPPY Valentines DAY