



DAIRY OUTLOOK

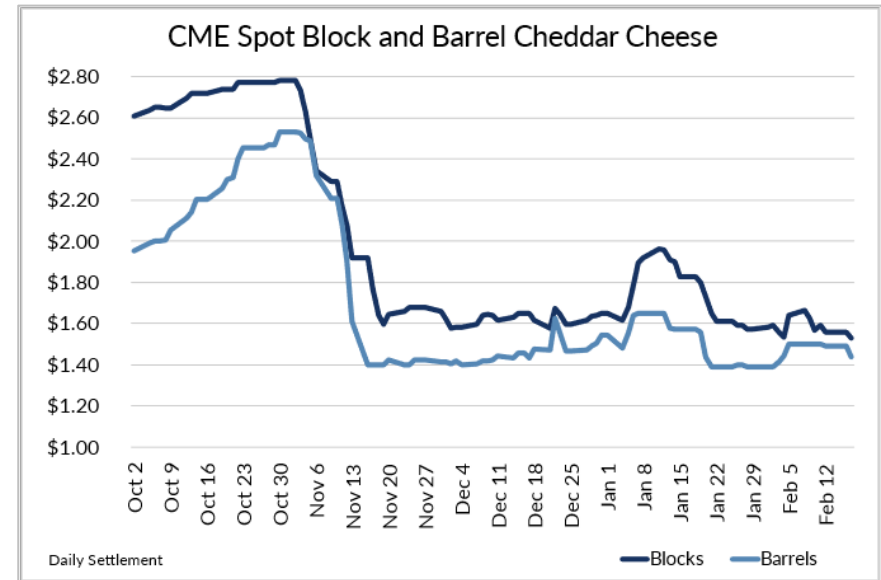
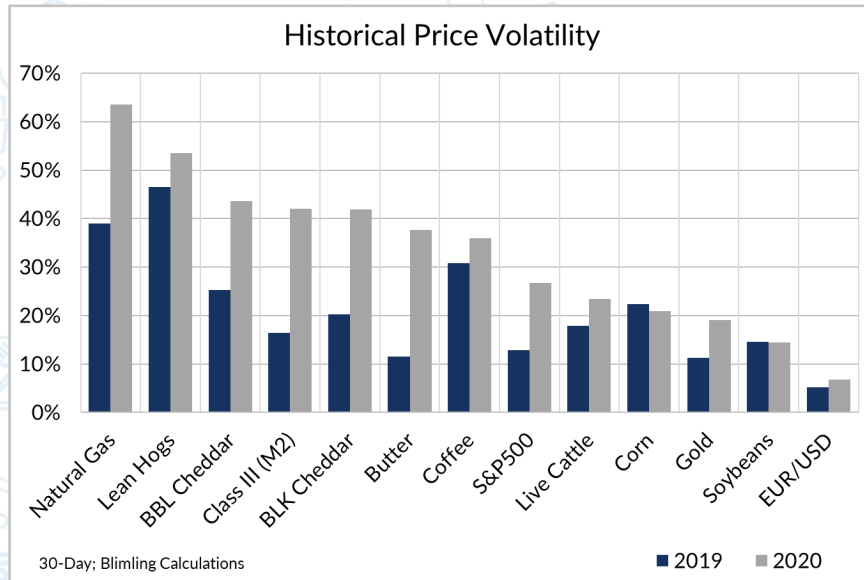
PHIL PLOURD • **USDA AG OUTLOOK FORUM** • FEBRUARY 19, 2021

BLIMLING
and **ASSOCIATES**

2810 Crossroads Drive, Suite 3900 | Madison, WI 53718 | 800-945-8891 | info@blimling.com

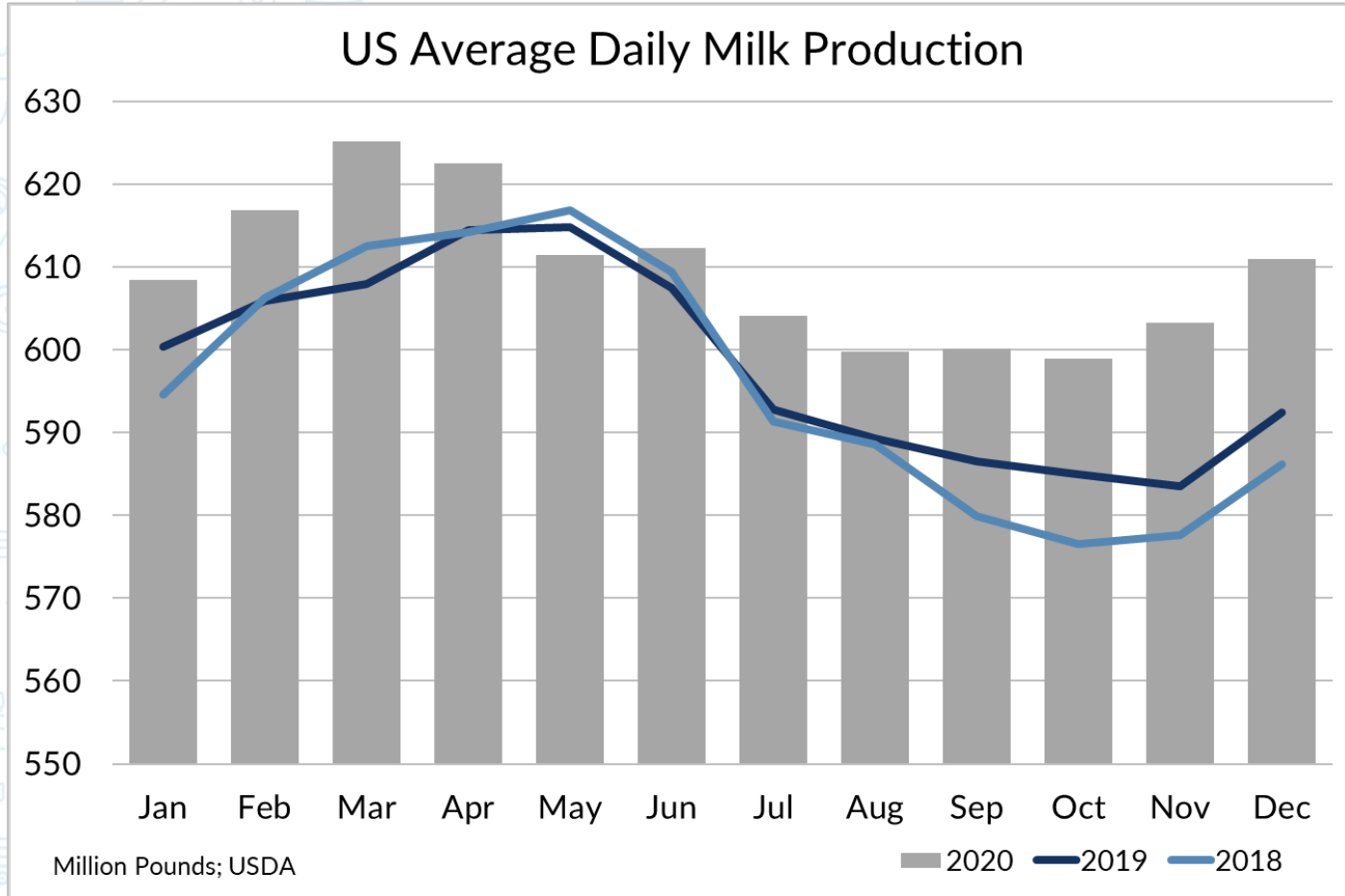
© 2021 **Blimling and Associates, Inc.** This report is prepared for the exclusive use of Blimling and Associates' clients. Reproduction in part or in whole without permission is strictly prohibited. This information is carefully compiled, but not guaranteed to be complete or free from error; nor does it constitute a solicitation to buy or sell futures/options contracts. Futures and options trading involves risk. Contact a licensed professional for more information.

massive volatility (and it continues)

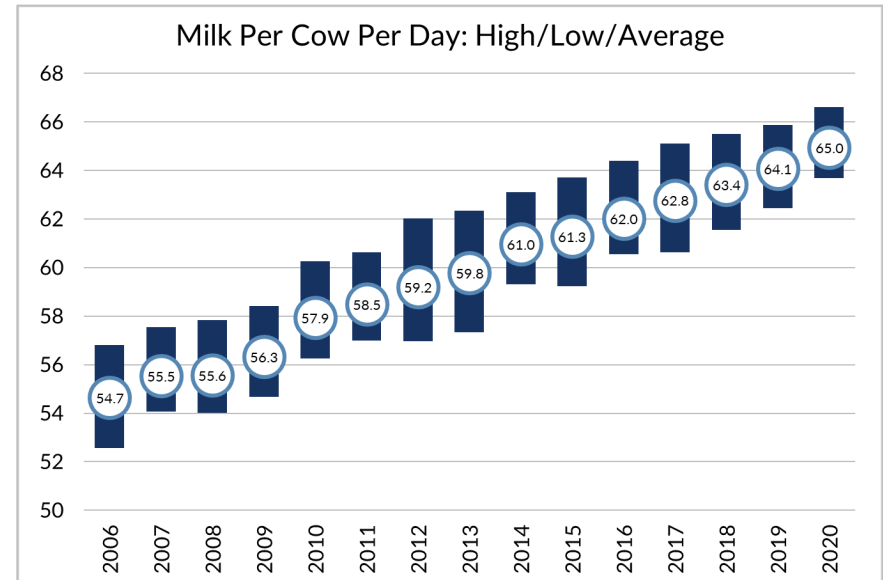
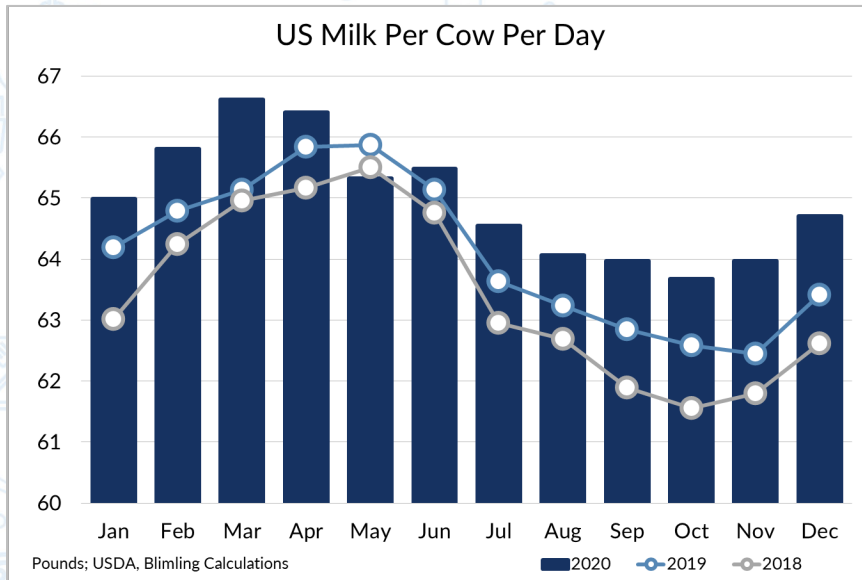


- US dairy markets were among the most volatile in the world in 2020
- CME spot block cheddar and spot butter market volatility ran at nearly double the five-year average rate
- YTD block volatility still running at >40%

milk production up >3% (again)

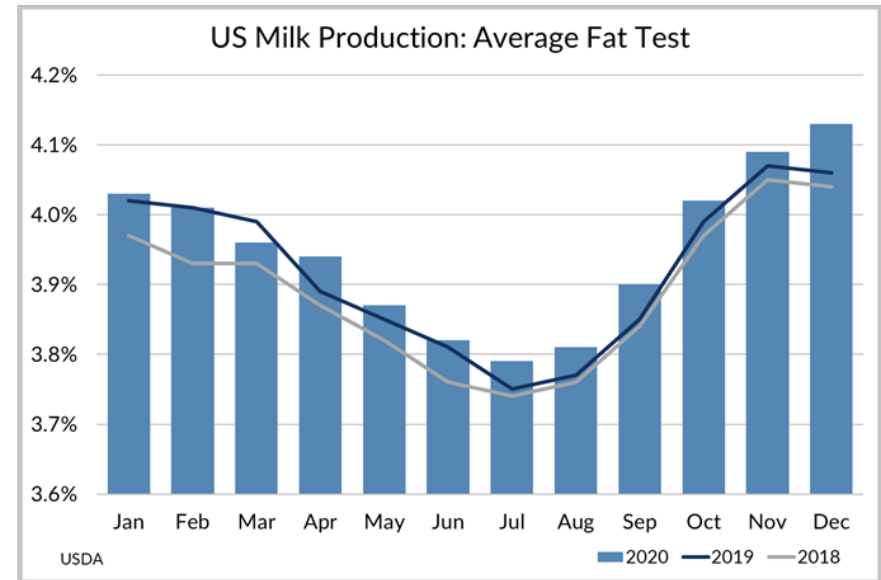
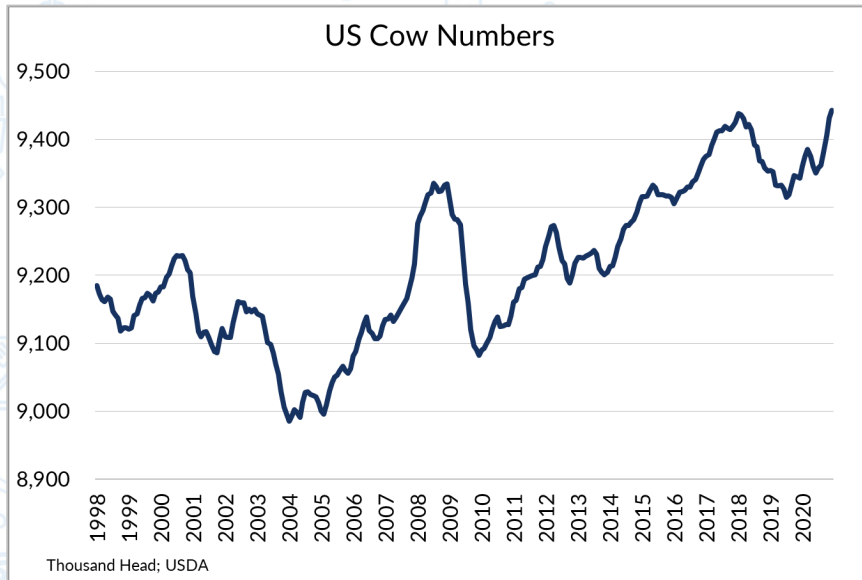


remarkable productivity



- Nov and Dec milk per cow per day up by more than 2% year-over-year – something that’s not happened in back-to-back months since 2016
- For the year, milk per cow per day at 65.0 pounds, up 1.4%, most since 2004 and above the five-year average of +1.0%

more cows & higher components

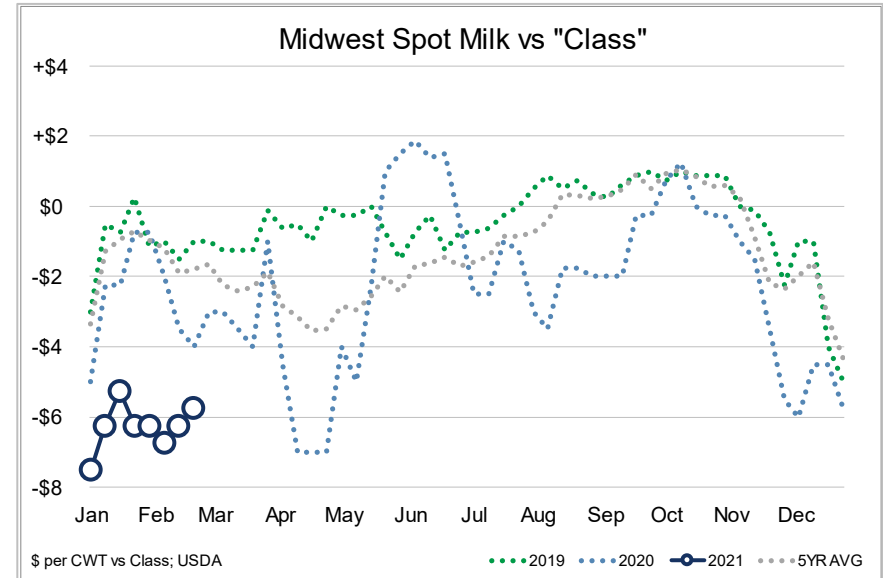


- In December, USDA data put national herd up 100,000 year-over-year
- US average for 2020 at 3.95%, up from 3.92% in 2019
- December: 4.13% in 2020 versus 4.06% in 2019 -- +36.6 million pounds of fat, enough to make 30+ truckloads of data per day

plenty of extra milk available

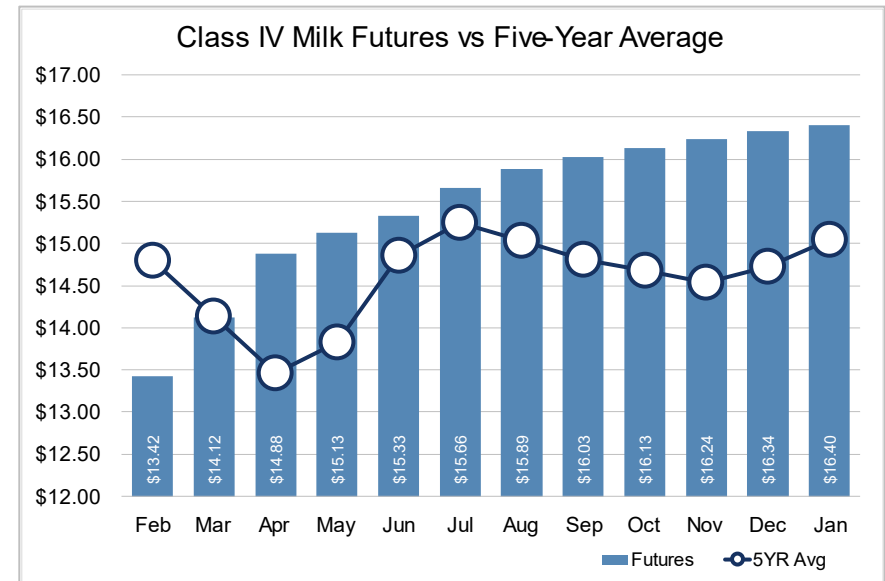
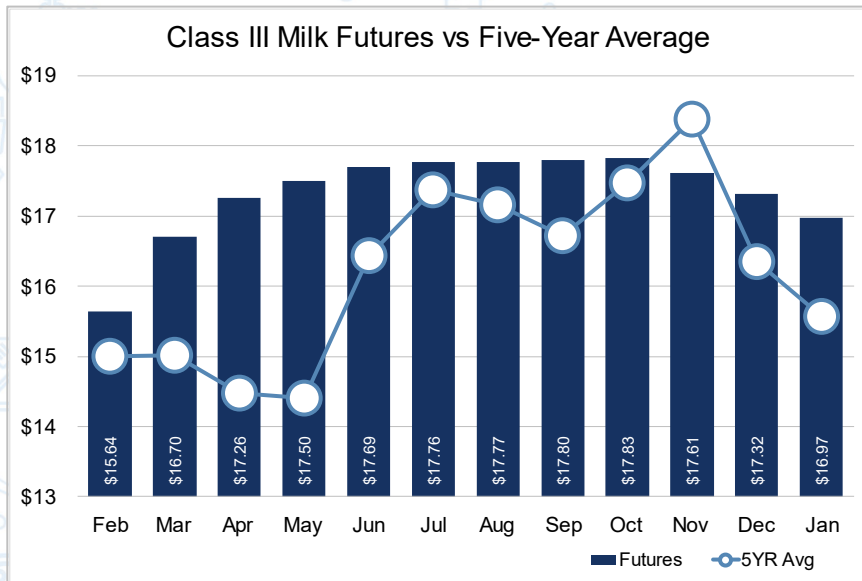
10 Largest Midwest Spot Milk Discounts

Week	Low	High	Average
1-Jan-21	-\$10.00	-\$5.00	-\$7.50
2-Jan-15	-\$11.00	-\$3.00	-\$7.00
10-Apr-20	-\$8.00	-\$6.00	-\$7.00
17-Apr-20	-\$8.00	-\$6.00	-\$7.00
24-Apr-20	-\$8.00	-\$6.00	-\$7.00
5-Feb-21	-\$8.50	-\$5.00	-\$6.75
8-Jan-21	-\$8.50	-\$4.00	-\$6.25
22-Jan-21	-\$8.50	-\$4.00	-\$6.25
29-Jan-21	-\$8.50	-\$4.00	-\$6.25
12-Feb-21	-\$8.80	-\$4.00	-\$6.25



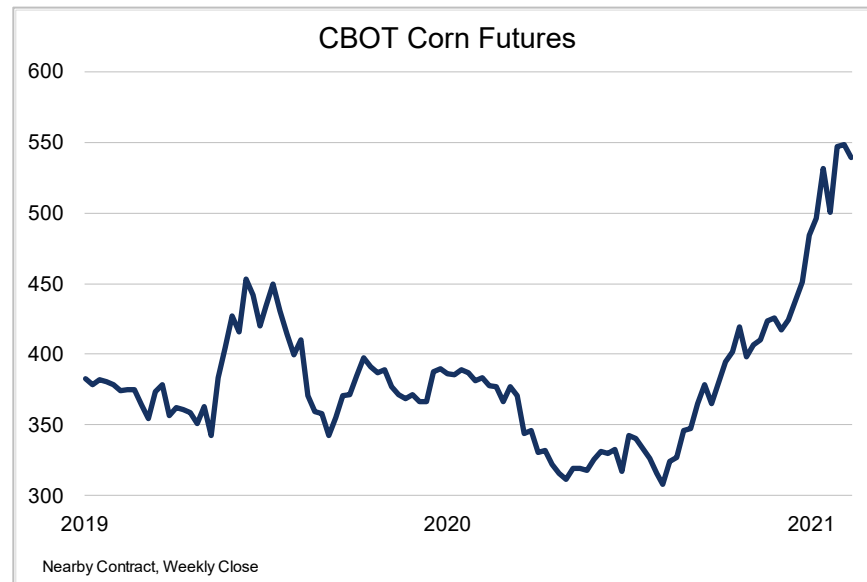
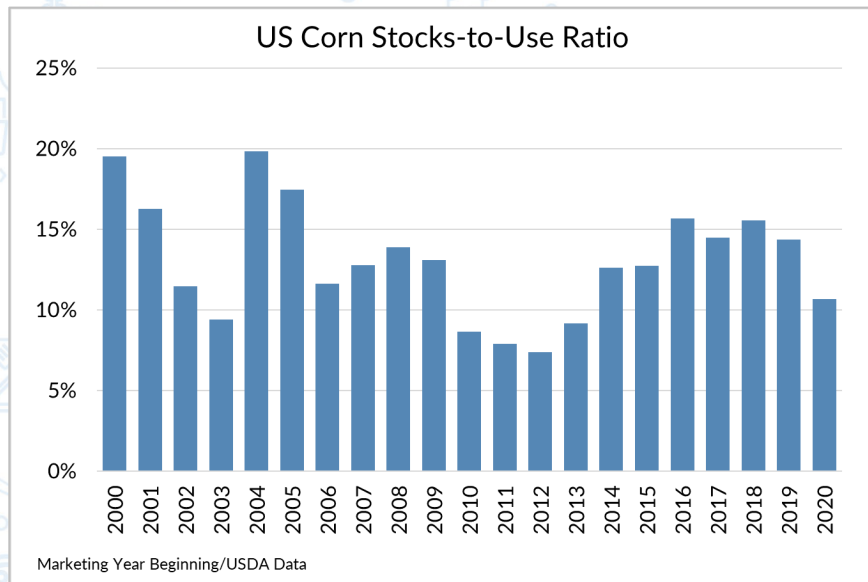
- Spot milk in the Midwest is as abundant and as inexpensive as ever. Six of first seven weeks in 2021 on the "top 10 cheapest" list.
- Situation likely to persist for 90 to 120 days as farm volumes increase. Bottom line: Cheese makers will have access to plenty of milk.

forward pricing



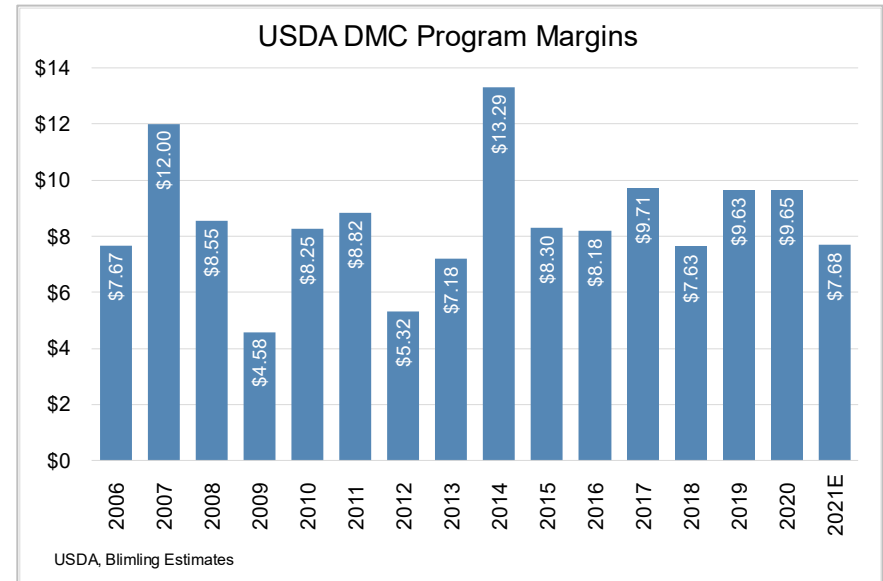
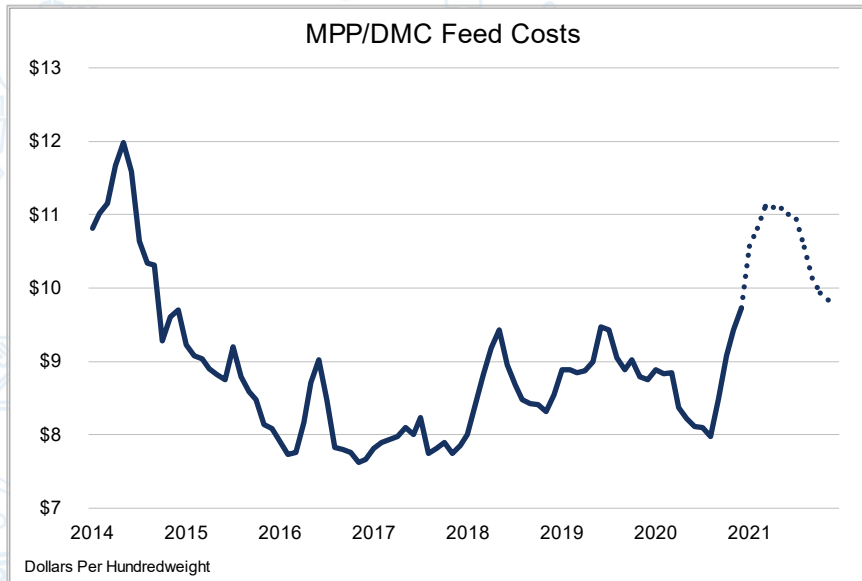
- Class III for 2021 at \$17.21 per hundredweight compared to \$16.10 five-year average.
- Class IV for 2021 at \$15.26 per hundredweight compared to \$14.79 five-year average

corn market at highest levels since 2013



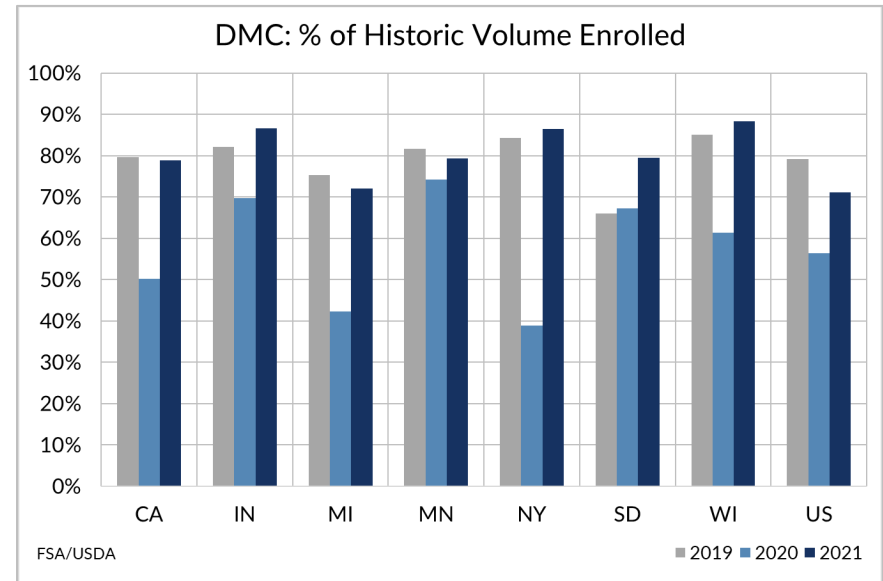
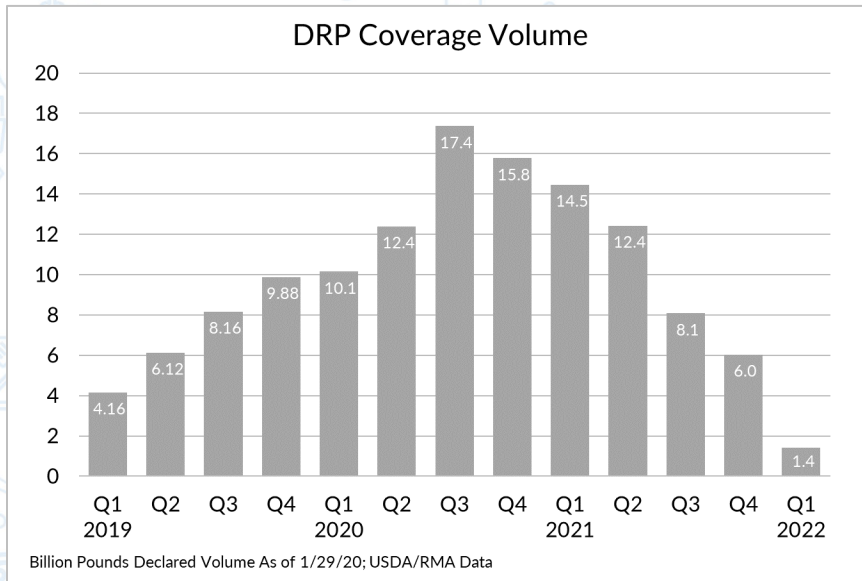
- A smaller-than-initially anticipated 2020 crop and solid export demand have combined to drag down USDA domestic ending stocks estimates.
- What was a 3.3 billion bushel “carryout” in May is now at 1.5 billion.
- Market will likely be edgy (and elevated) through planting season.

higher feed costs will pressure margins



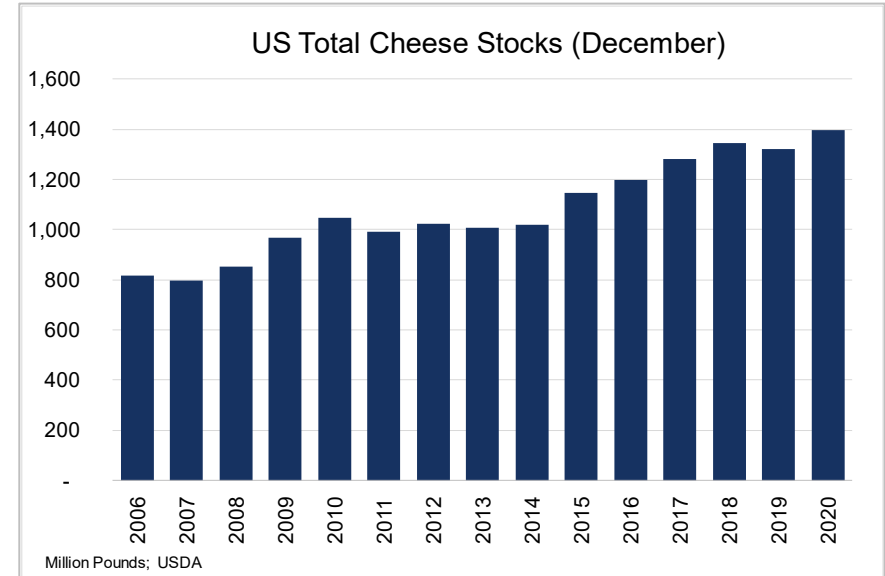
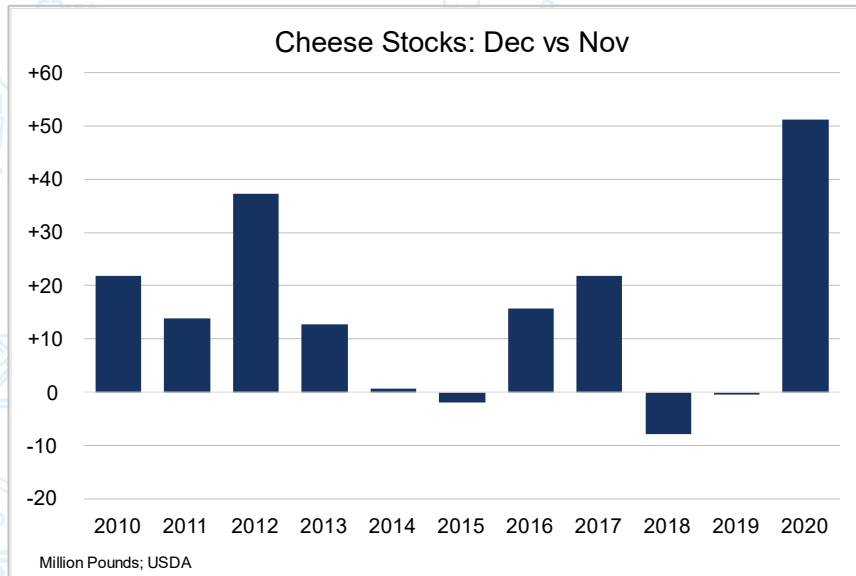
- Higher corn and soy prices have DMC feed costs up to near \$11 per hundredweight at the peak of the futures curve.
- Based on prevailing futures, prospective 2021 margin at \$7.70 per hundredweight compared to \$9.60 for 2020.

drp & dmc



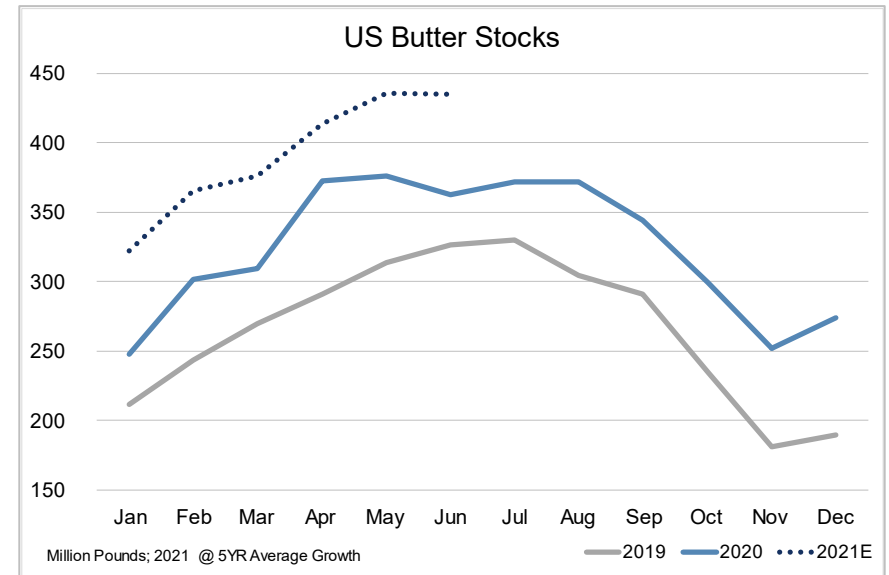
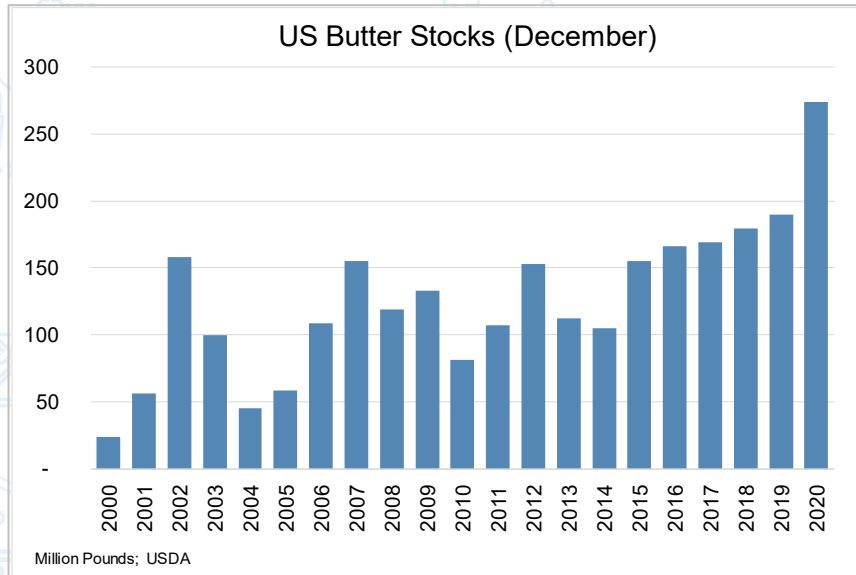
- DRP program covered about 25% of milk volume in 2020
- DMC participation is up for 2021 versus 2020 (70% of farms vs 55%)
- Programs provide some insulation and staying power if milk prices move lower and/or grain prices move higher

key drivers: cheese stocks



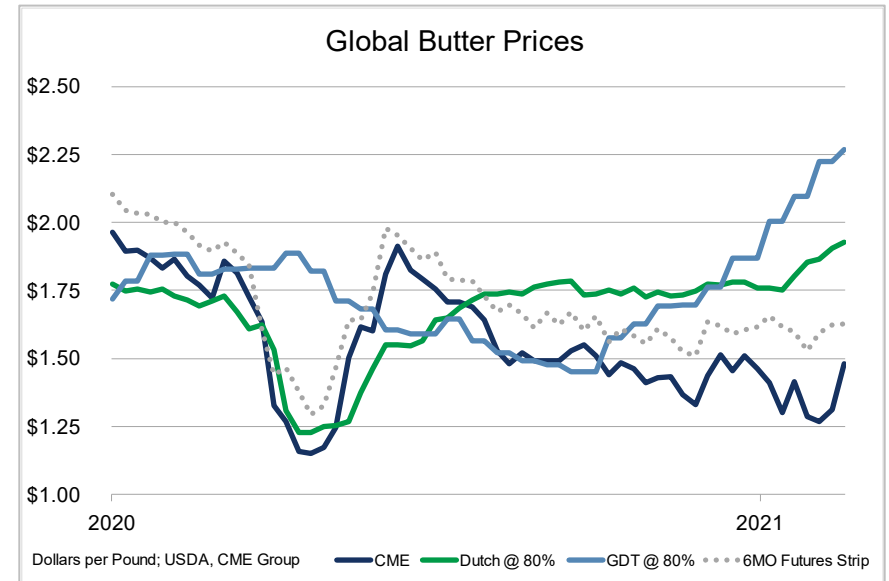
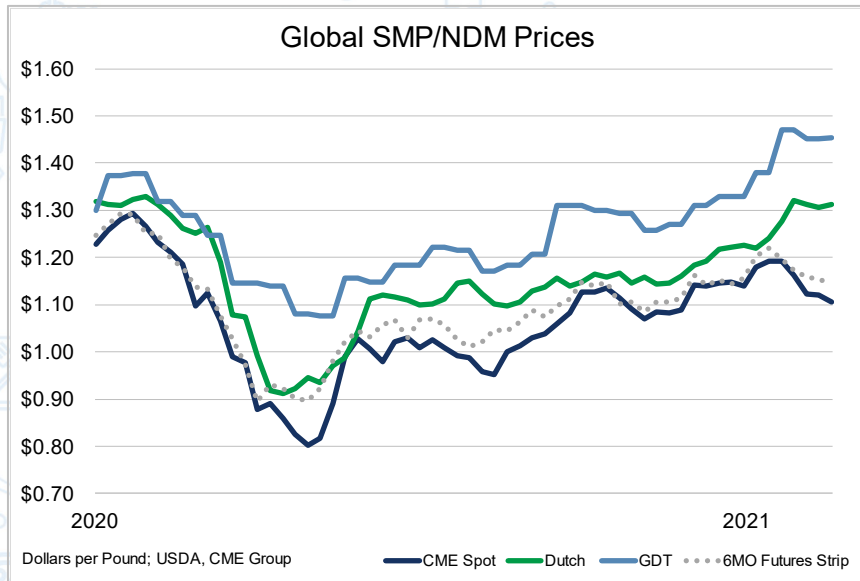
- Cheese stocks built rapidly between November and December -- up 51 million pounds, the biggest increase on record for the two months
- Total on hand was up nearly 6% year-over-year in absolute terms, the biggest gain since April

key drivers: butter stocks



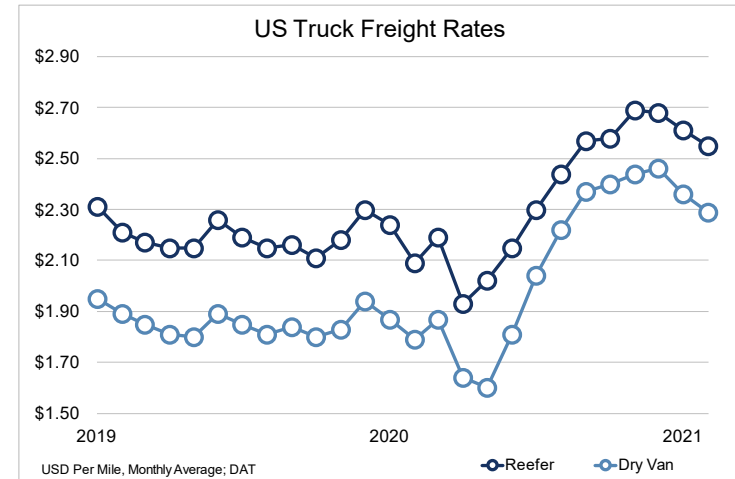
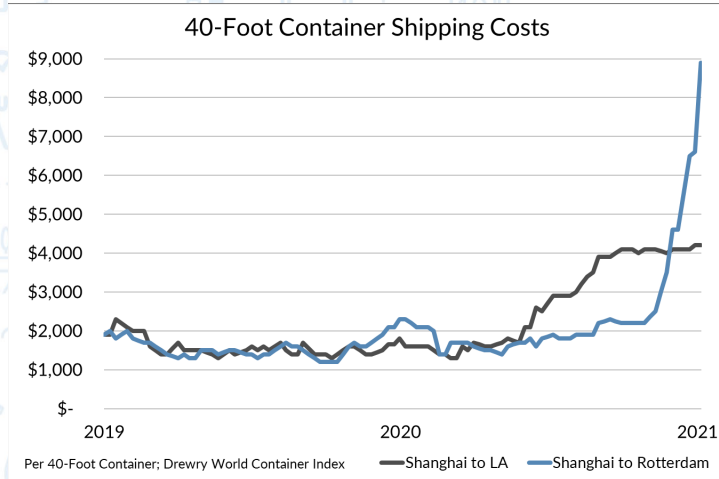
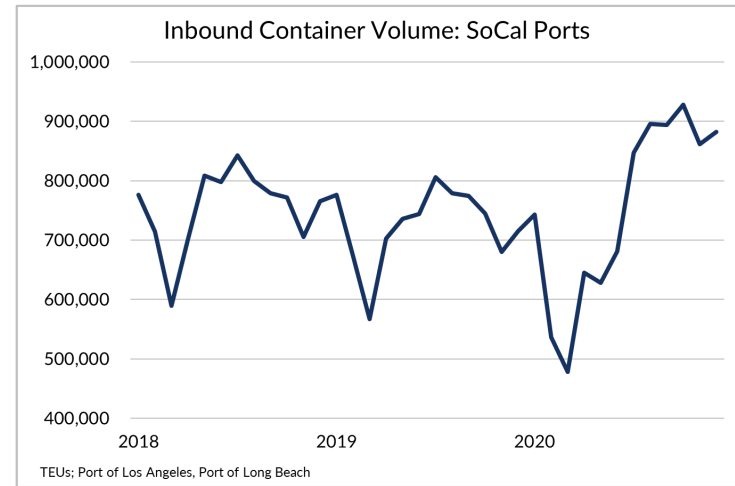
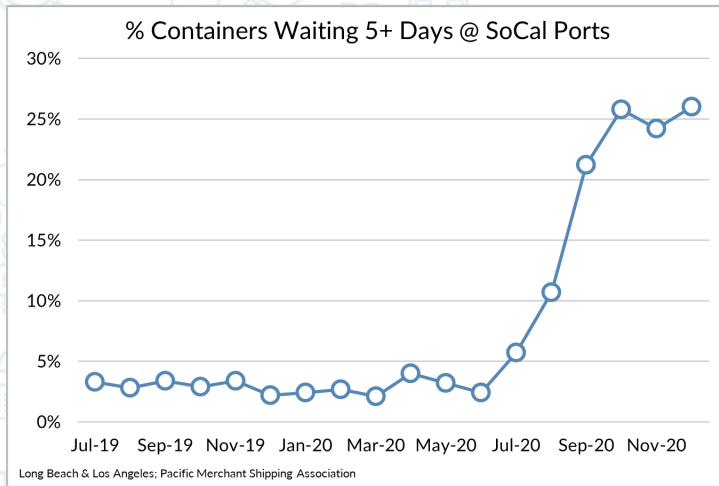
- December stocks at 274 million pounds, most for year-end since 1982
- “Normal” stocks growth would put 2021 peak at something like 435 million pounds

export potential exists

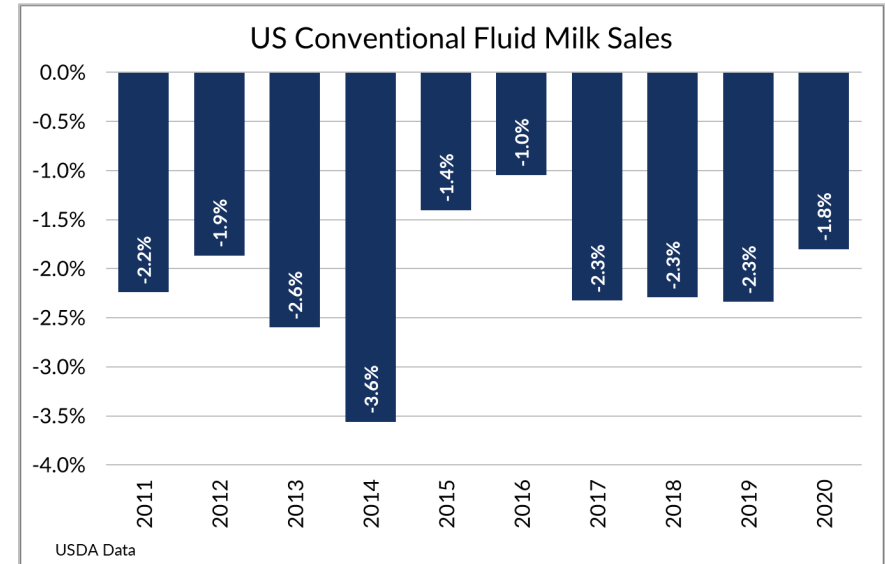
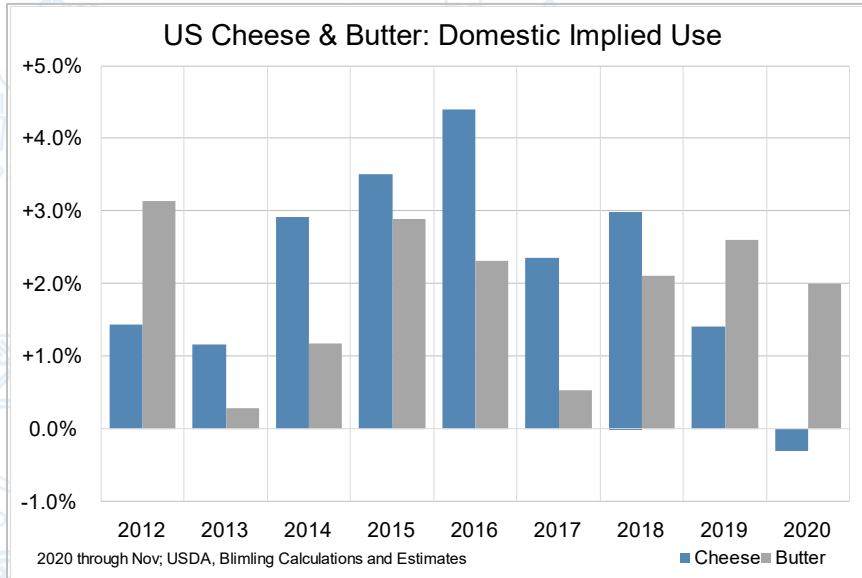


- US cheese pricing is close to competitive, but things seem quiet
- On powder and butter, CME spot and futures prices are well below global values
- Big issue: Containers and shipping are hard to find

logistics issues on multiple fronts



domestic demand: fair overall



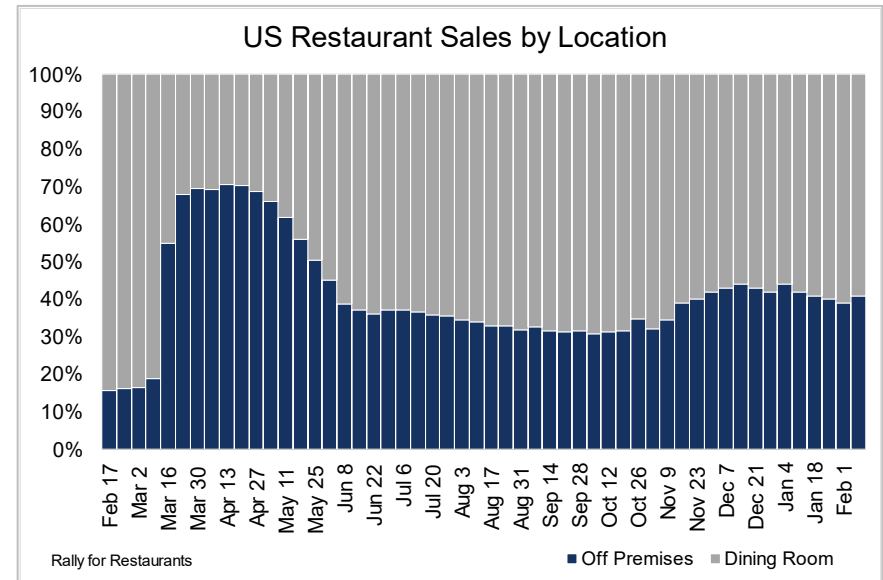
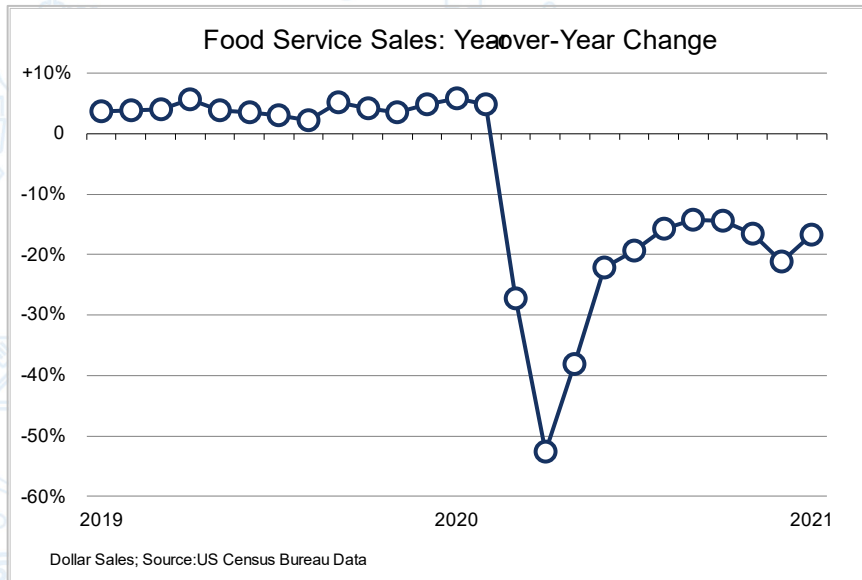
- Great grocery sales – cheese +13%, butter/butter blends +22%, milk +2%, ice cream +10%,
- But volume gains not enough to offset losses in food service and institutional segments

farmers to families food boxes: take five

Round	Dollars
Round 1: May 15-June 30	\$947,000,000
Round 2: July 1-August 31	\$1,472,000,000
Round 3: September 1-October 31	\$865,222,361
Round 4: November 1-December 31	\$485,648,660
Total	\$3,769,871,021
Round 5: January-April 2021 (Allocated)	\$1,500,000,000

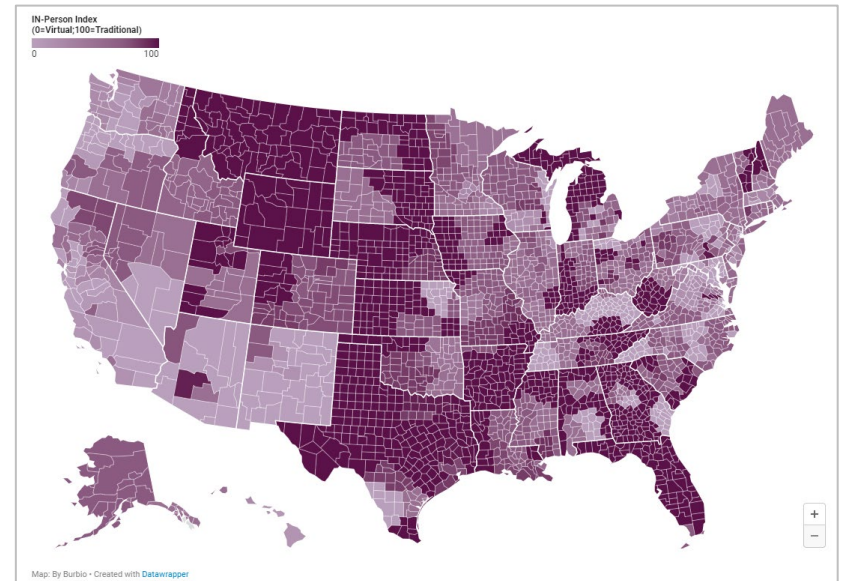
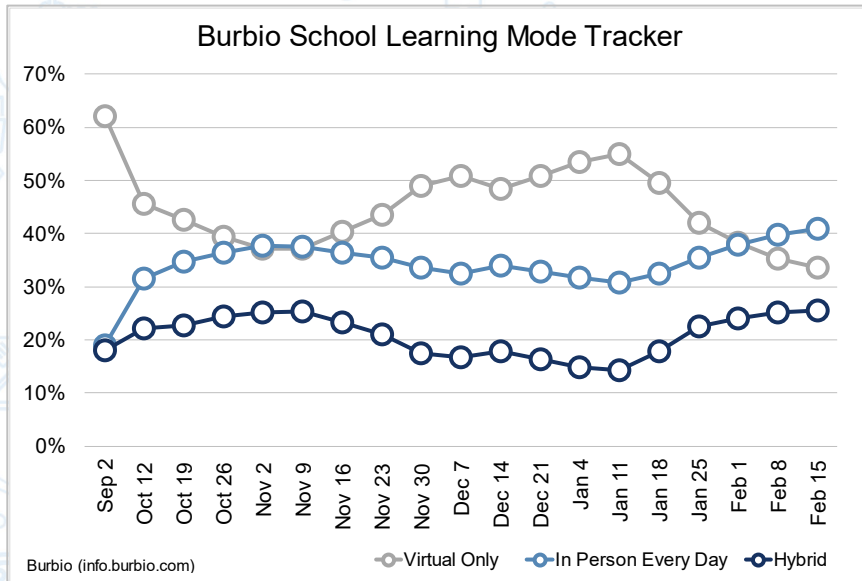
- Round 5 will roll out in three waves – one each for February, March and April.
- If USDA is satisfied with contractor performance over the course of wave one, the contract terms will renew for wave two. Same is true for wave three.
- As initially laid out, the three waves add up to ~\$1.1 billion and 33.3 million boxes.
- Filling the program will consume a lot of milk over the next few months, but things are a lot different than in previous iterations:
 - Milk production is strong – up 3% year-over-year in December,
 - Food service demand remains soft (it was in recovery mode during Round 1/Round 2),
 - Cheese exports are light (they were rising sharply in May/Jun because of Apr bookings),
 - New cheese plant in Michigan is putting new, extra cheddar into the marketplace.
- Biden Administration already taking steps to boost SNAP funding. While that's not the same as direct dairy purchases, extra dollars could boost overall demand at retail.

restaurants still reeling



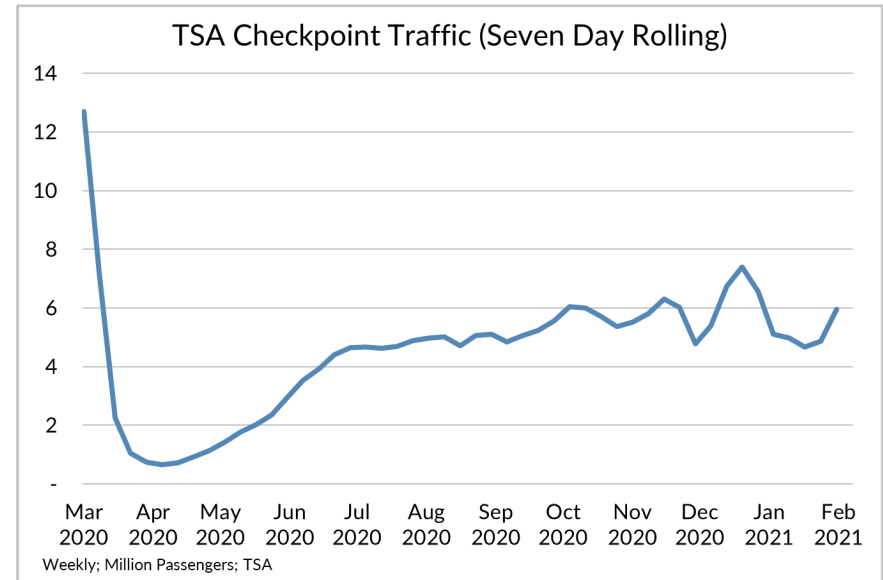
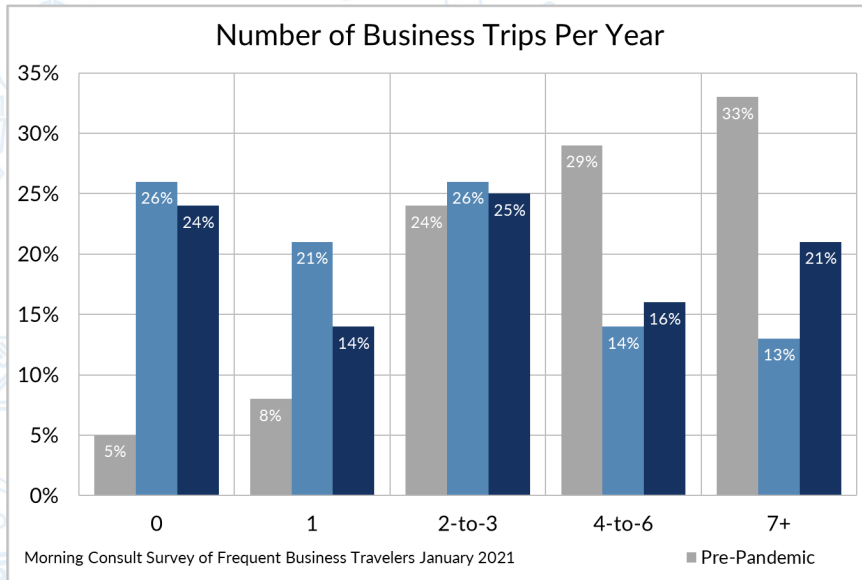
- US Census Bureau data showed “food and drinking place” dollar sales down 19% in 2020
- Nationally, about 55% of business is in dining rooms, with 45% for off-premises consumption (drive through/pickup/delivery)

burbio: a little more “in-person” learning



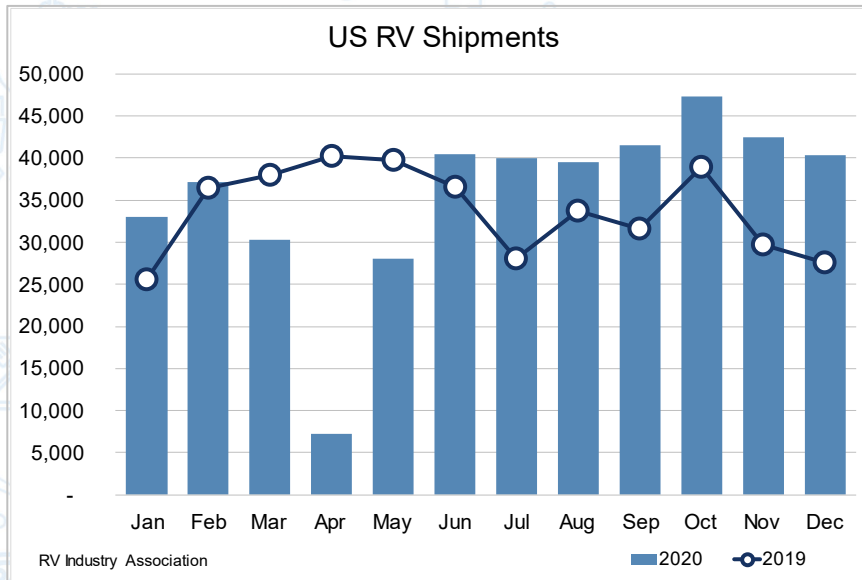
- According to Burbio, 34% of K-12 students are in “virtual only” mode, lowest level since beginning of school year.
- USDA data shows poor packaged milk sales through November, with volume down 2.0% versus the same period in 2019.

a long road back



- American Hospitality and Leisure Association: *The recovery of the travel industry is anticipated to take place in three phases: leisure travel, small and medium events, and group and business travel. While recovery will begin in 2021, full recovery is not expected until 2024.*
- Plus: WFH is going to matter!

sleeping in the new rv



Bloomberg

Hyperdrive

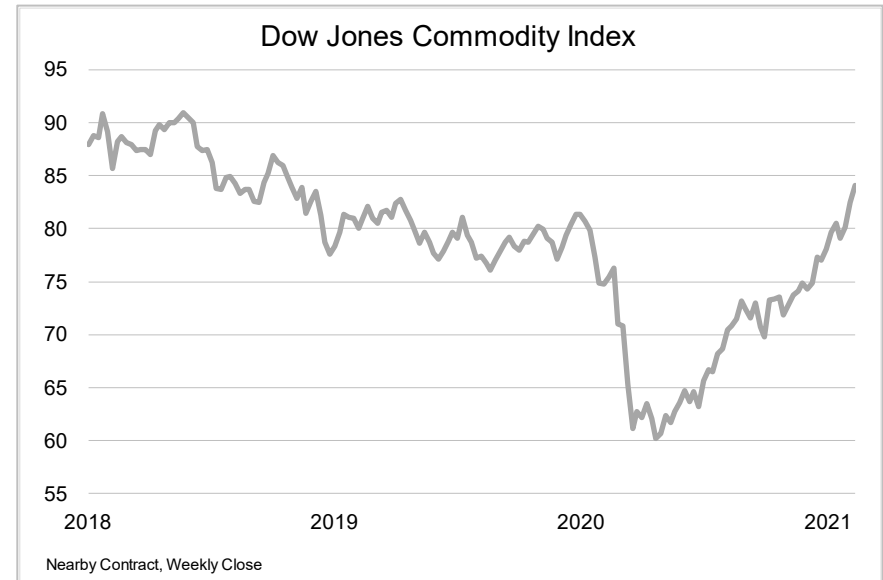
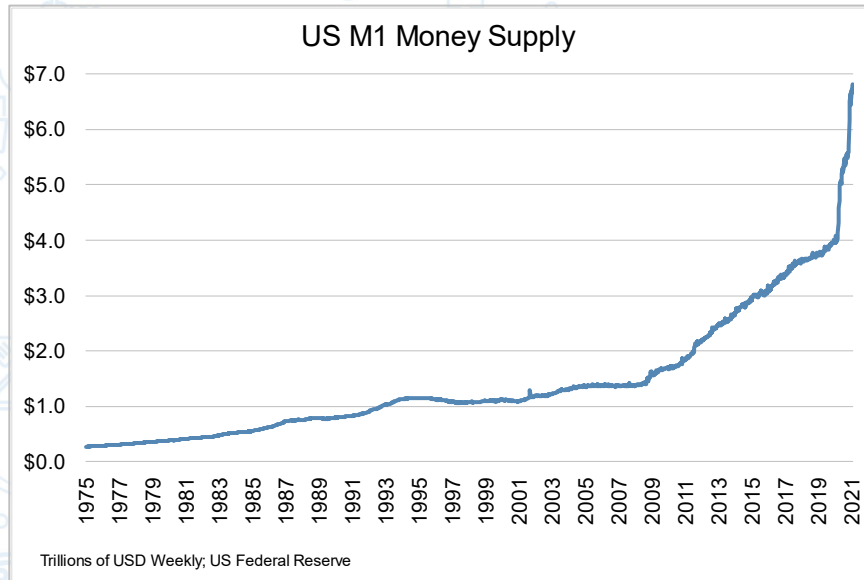
Airstream's New Trailer Comes With Beds That Transform Into an Office

The bougie RV brand doubles down on digital nomads with a model that makes work feel more like a vacation.

Airstream's Flying Cloud 30FB Office. Source: Airstream

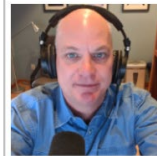
- With no need to go to the office, people are taking to the open road
- RV sales up 33% year-over-year for July through December

wall street loves reflation/inflation trade



- US money supply up 67% year-over-year, currency in circulation up 15%
- Beyond money supply, story has “weak USD” and “China!” angles
- Dow Jones commodity index up 19% since end of Q3 2020
- Might create a tailwind for dairy product prices globally?

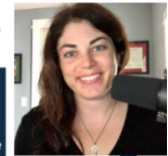
listen today: the dairy download podcast



PHIL PLOURD, HOST

Phil Plourd is president of Blimling and Associates, Inc., a research and consulting firm focused on the dairy markets. Phil has been involved in dairy market analysis, research, forecasting and risk management activities for 20 years. He is based in Madison, Wisc.

KATHLEEN NOBLE WOLFLEY, HOST



Kathleen Noble Wolfley is senior economist and research specialist for Blimling and Associates. Previously, she worked as a dairy economist for Leprino Foods, the world's largest mozzarella cheese maker. She grew up on a dairy farm and today is based outside of Buffalo, NY.

www.idfa.org/thedairydownload

d

Guests

Joe Glauber • Former USDA Chief Economist
Marin Bozic • University of Minnesota
Yin Woon Rani • Milk PEP
Michael Flood • Los Angeles Food Bank
Kurt Epprecht • Great Lakes Cheese
John Newton • American Farm Bureau
Collin Peterson • US Congress/MN
Dee Davis • Center for Rural Strategies
Marshal Cohen • NPD Group
Greg Ferrara • National Grocers Association
Bob Costello • American Trucking Association

Darci Vetter • Former USTR Negotiator
Brooke Markley • Leprino Foods
Mike Brown • Kroger
Jessica Tomlinson • Fleming's Steakhouse
Ryan Pandya • Perfect Day
Chase Purdy • "Billion Dollar Burger"
Carrie Mess • Dairy Carrie Blog
Donna Berry • Berry on Dairy Blog
Paul Snyder • Tillamook Cooperative Creamery
Boris Munster • Tetra Pak
Patti Smith • Dairy America

A better way of doing business.

Blimling and Associates

2810 Crossroads Dr

Suite 3900

Madison, WI 53718

608.249.5030

www.blimling.com

Dairy.com

3801 Parkwood Blvd

Suite 300

Frisco, TX 75034

214.442.5928

www.dairy.com



© 2021 Blimling and Associates, Inc. This report is prepared for the exclusive use of Blimling and Associates' clients. Reproduction in part or in whole without permission is strictly prohibited. This information is carefully compiled, but not guaranteed to be complete or free from error; nor does it constitute a solicitation to buy or sell futures/options contracts. Futures and options trading involves risk. Contact a licensed professional for more information.