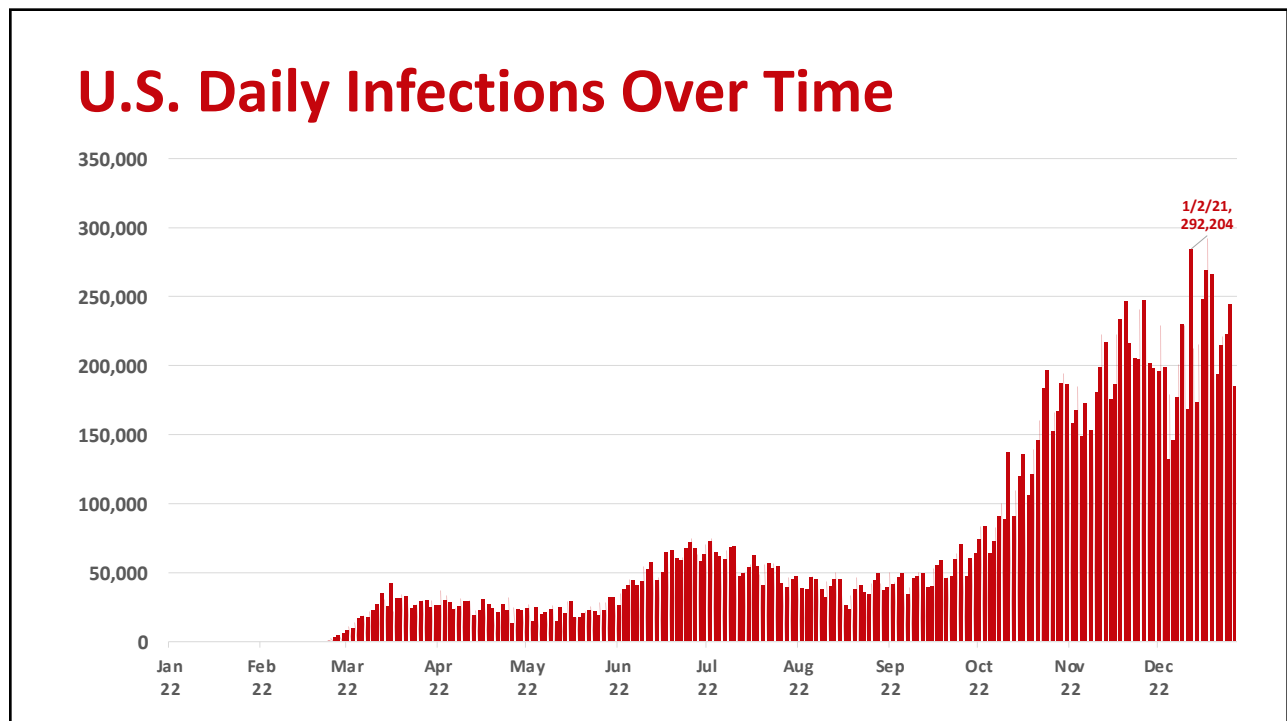




1



2

## Markets Have Done a Remarkable Job of Moving Milk To Meet Consumer Demand

Historically, about half of cheese is consumed in out-of-home eating

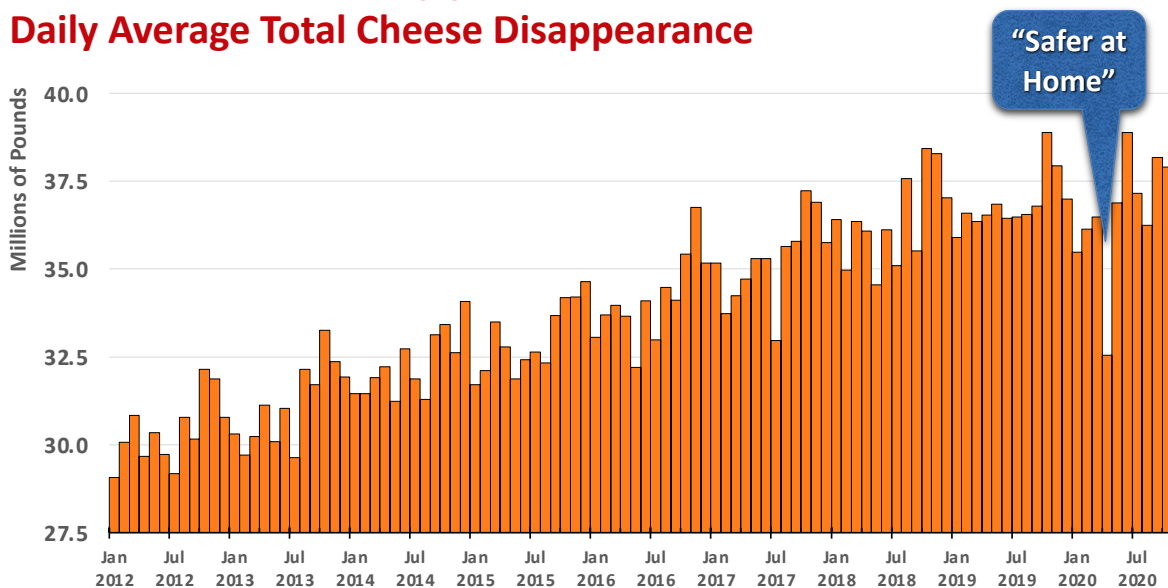
- ☞ The vast majority of American processed cheese is served through food service
- ☞ Majority of pizza sales are take out anyway and those sales have surged
- ☞ Farm to Family Foodbox has had a large impact

Total cheese consumption up at retail and down at food service and institutional establishments. Total commercial use down about 0.4% but was expected to be down by much more.

3

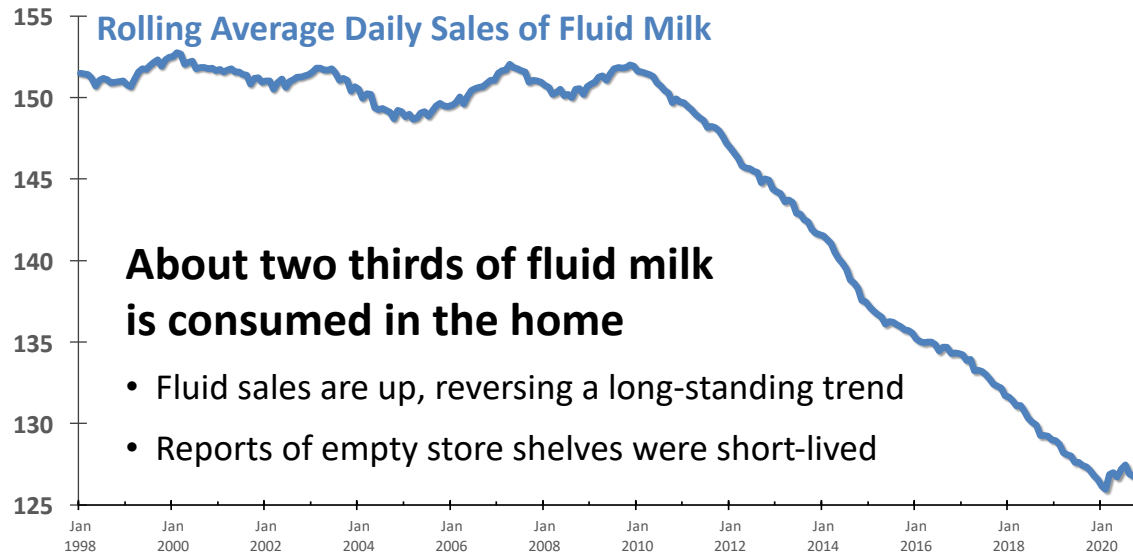
## Commercial Disappearance of Cheese

### Daily Average Total Cheese Disappearance



4

## The Markets are Moving Milk To Meet Consumer Demand



5

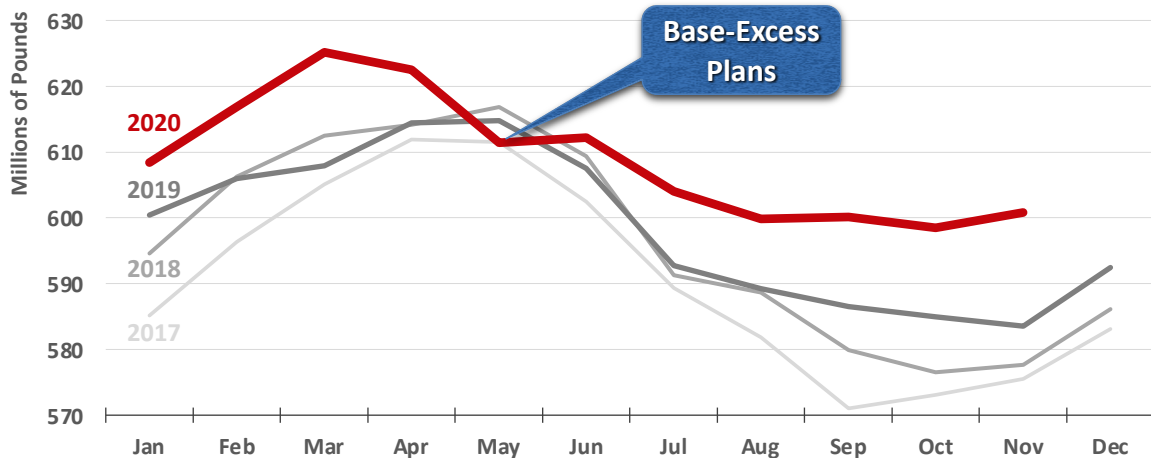
## The Markets are Moving Milk To Meet Consumer Demand

- More than half of butter is used in out-of-home eating
  - ☞ Food service and institutional uses are substantial
- Butter sales have been way up at retail through July but have slowed a bit since then—pandemic cooking is a real thing.
- Total butter commercial disappearance of butter about down 0.2% for the year.

6

## The Big Concerns

Base-excess reductions in April-May were significant but short-lived.  
We are officially back at large production increases.



7

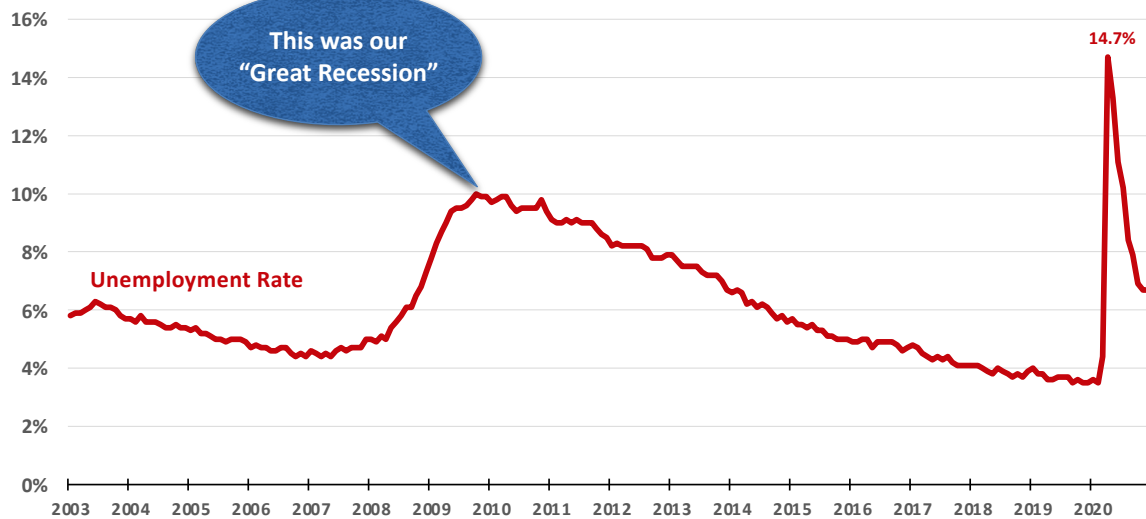
## Big Concerns

- Pandemic prices have not been as bad as expected, but I'm not sure how much production we can handle.
- Powders are clearing the market, but butter stocks, although being drawn down, are growing.
- Food boxes have really caused tightness in cheddar cheese markets, but those markets have swept out fresh inventory.
- \$1 a pound cheese prices in April caused a surge of export sales and \$3 a pound squashed those sales 6 weeks later.
- Tailspin into worldwide recession because of virus induced supply chain disruptions (not just dairy).

8

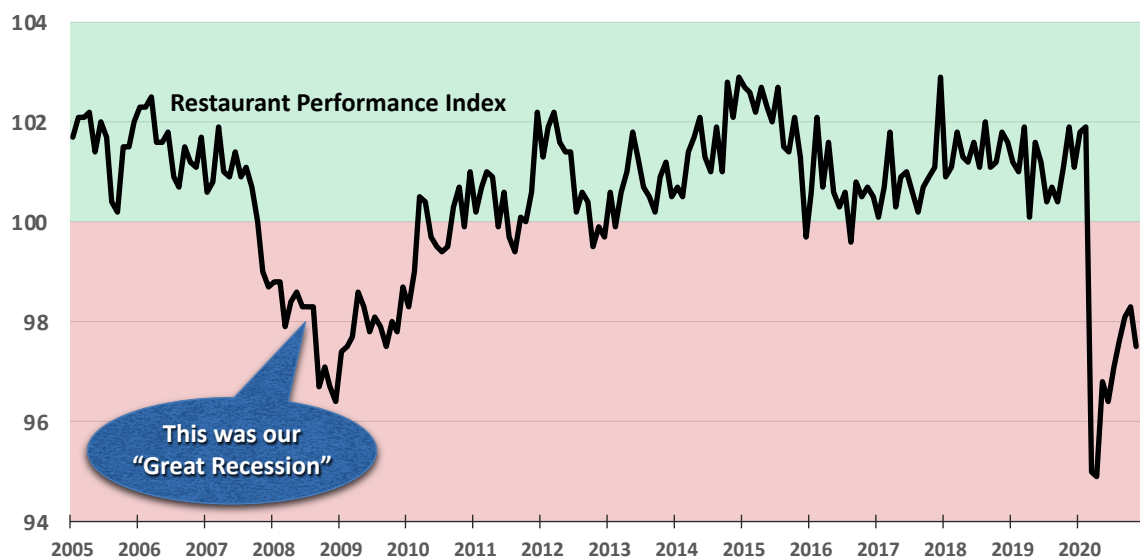


## The Economy Was Strong, But...



9

## Some Segments Have Been Hard Hit



10

## Consumer Confidence in the Economy



11

## This is a Different Recession

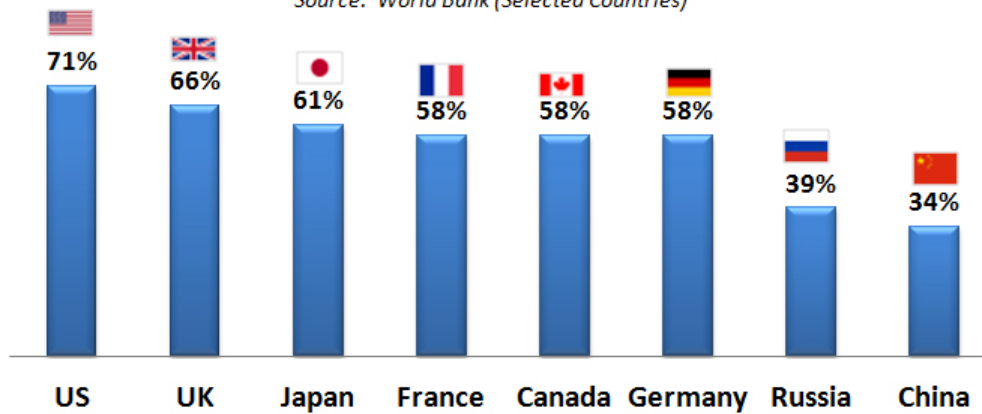
- 2008-09 was about decline in asset values
  - ☞ Had a greater impact on the wealthy
- Pandemic recession is about job loss
  - ☞ Has a greater impact on people in service sector
- This will have an impact on dairy demand going forward if people remain out of work and don't have extra unemployment benefits

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## A Consumption-Based Economy

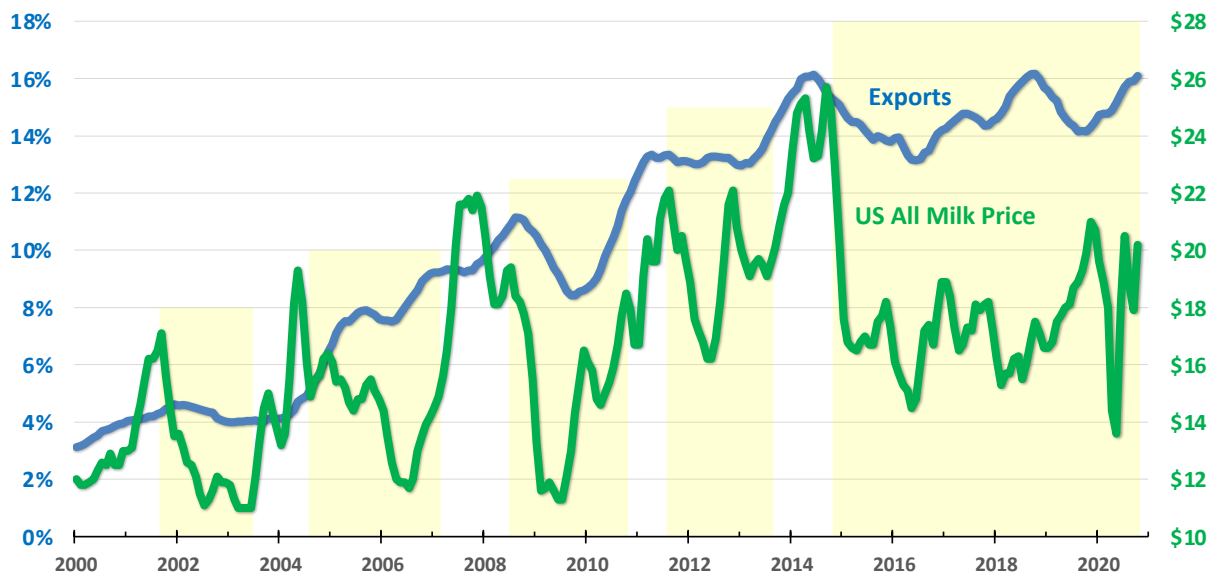
### International Comparison of Consumption as a Percent of GDP

Source: World Bank (Selected Countries)



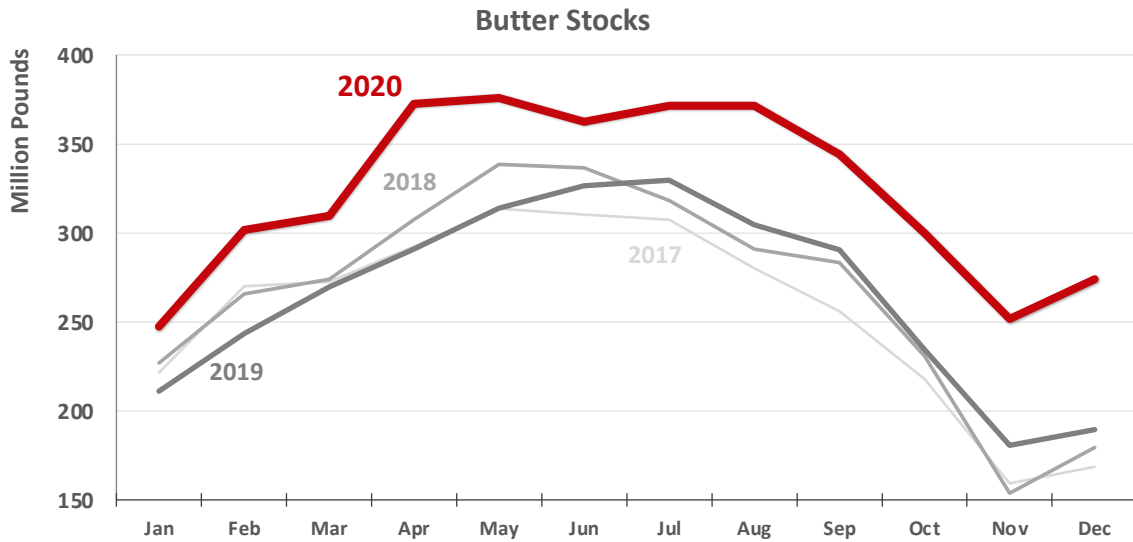
13

## The Importance of Dairy Trade



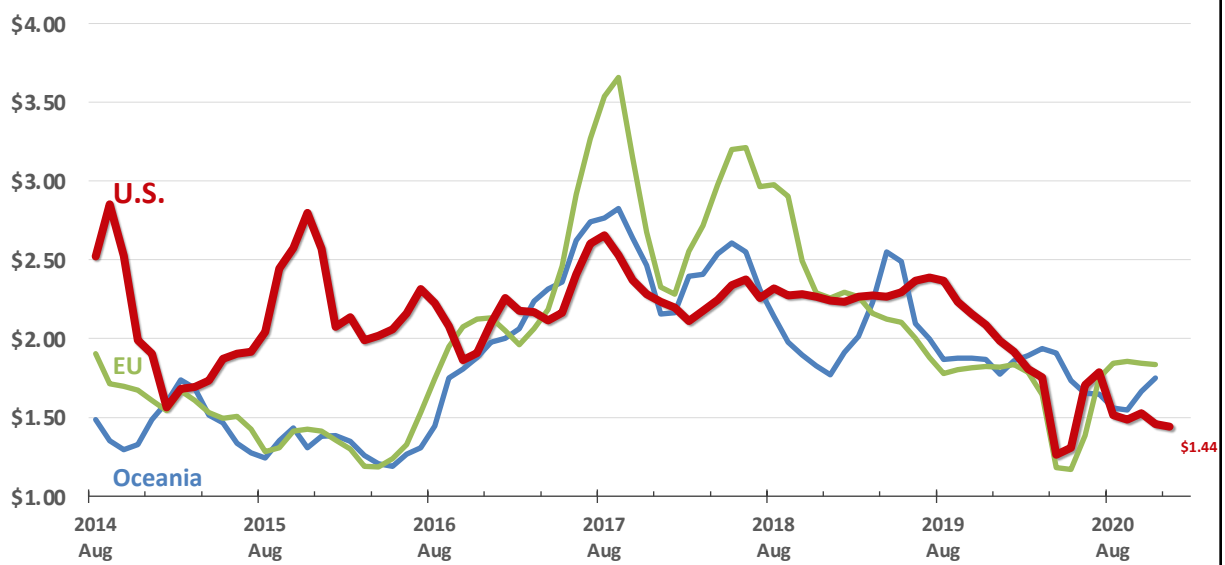
14

## Concern



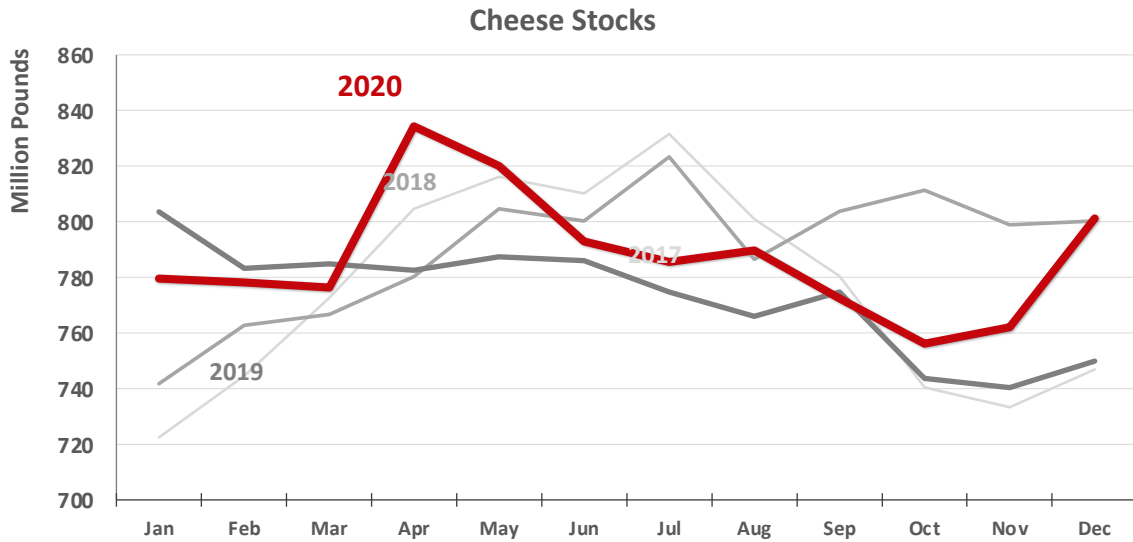
15

## Global Butter Prices



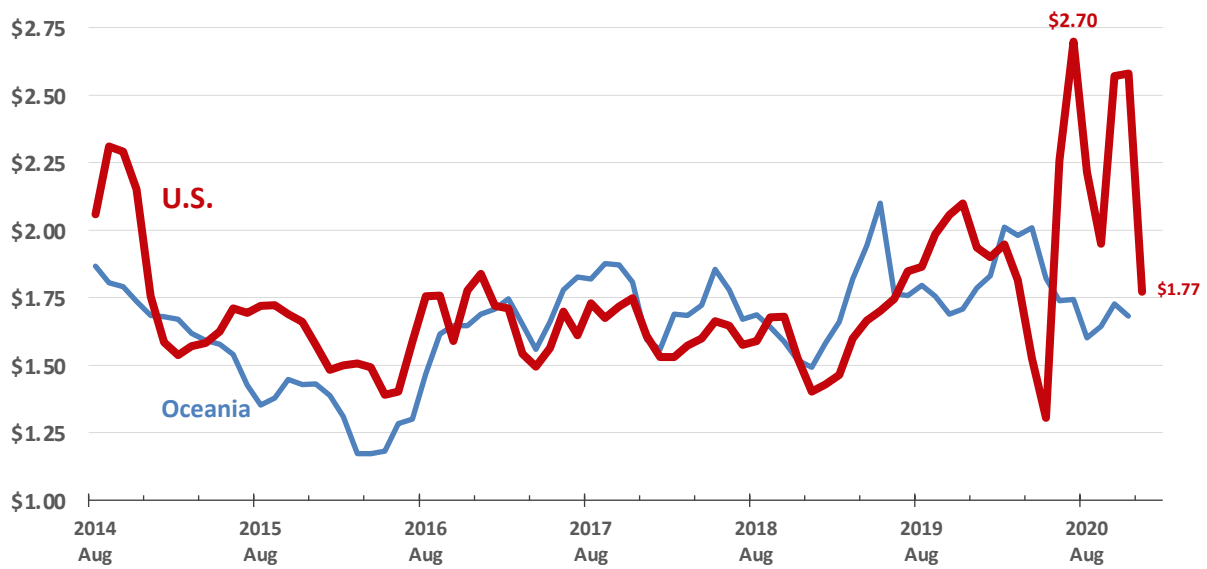
16

## Concern

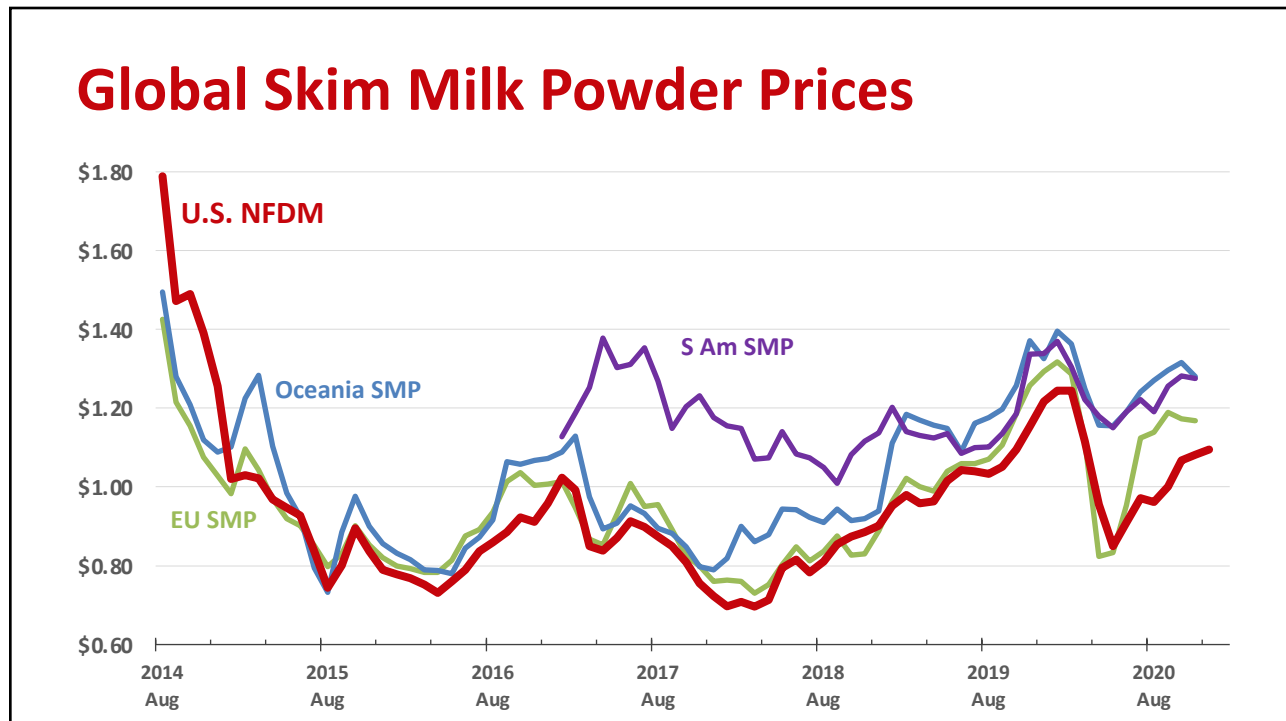


17

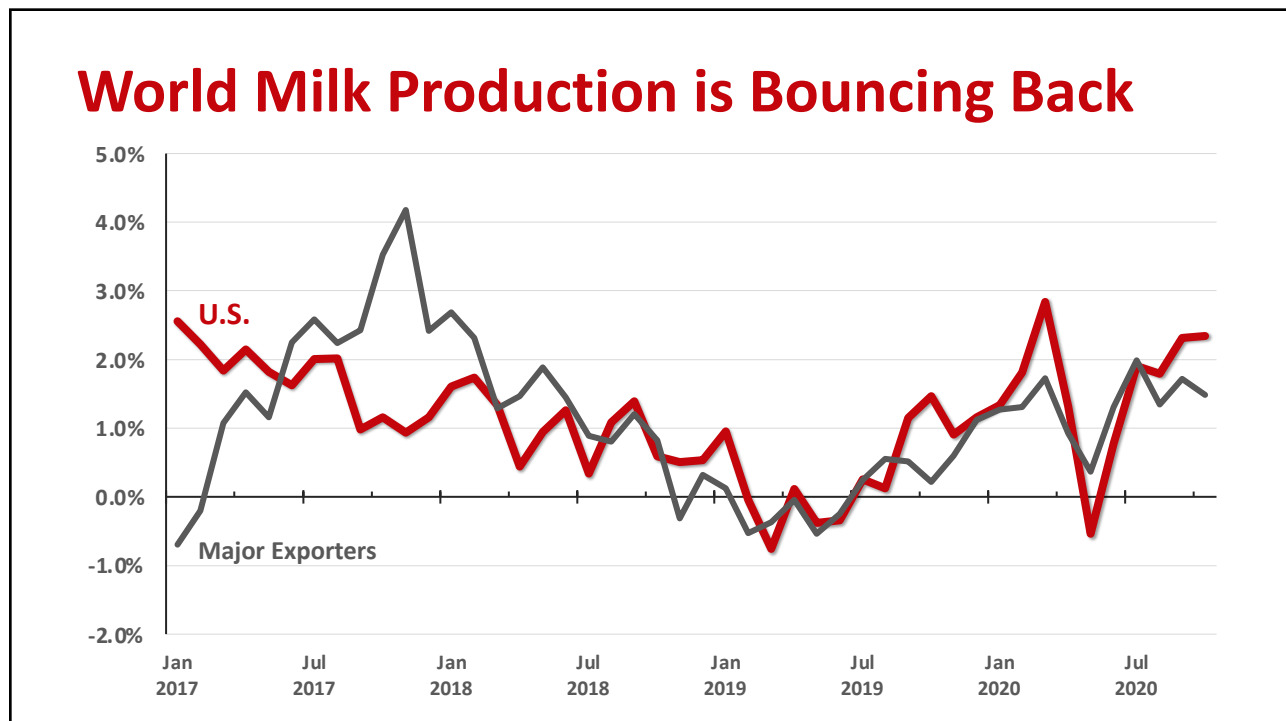
## Global Cheddar Cheese Prices



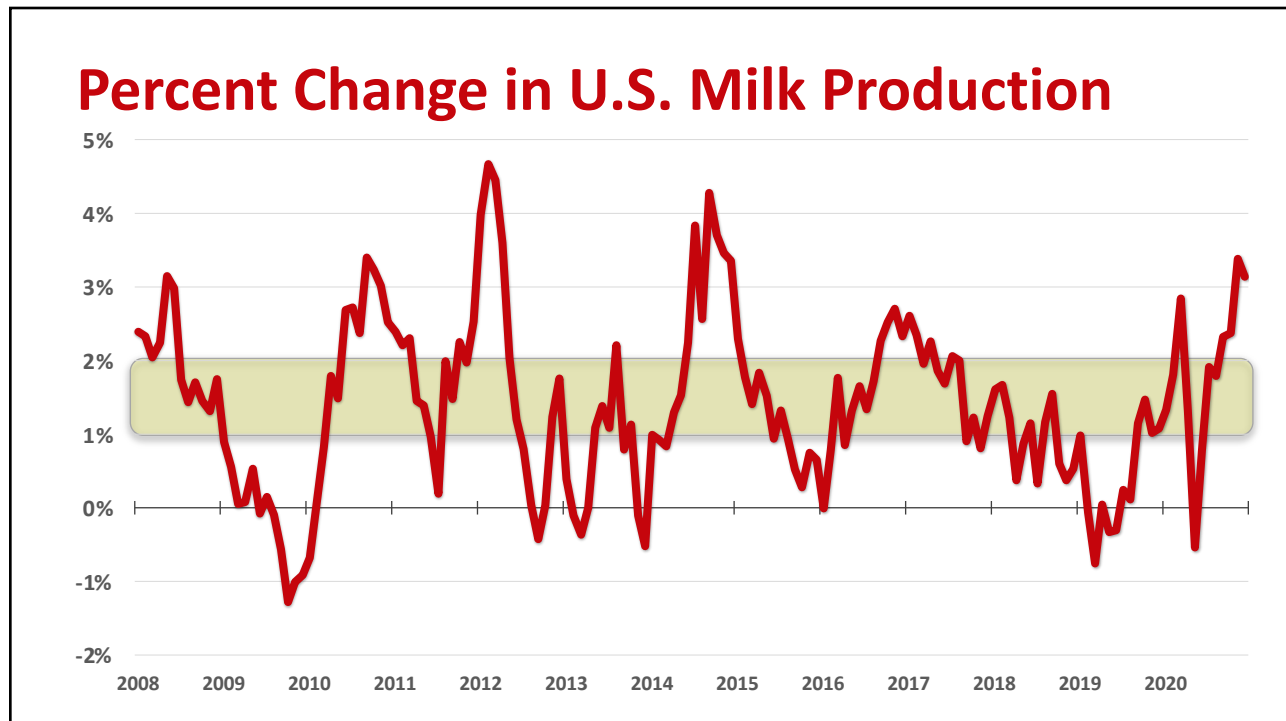
18



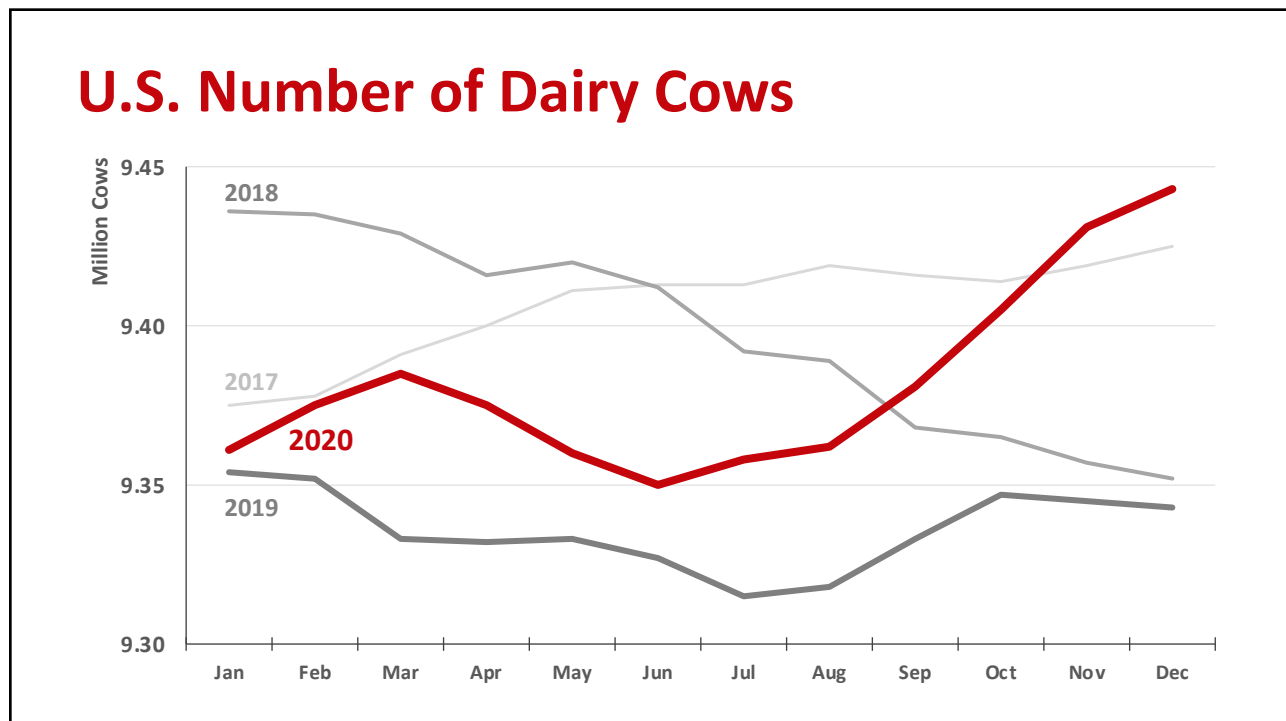
19



20



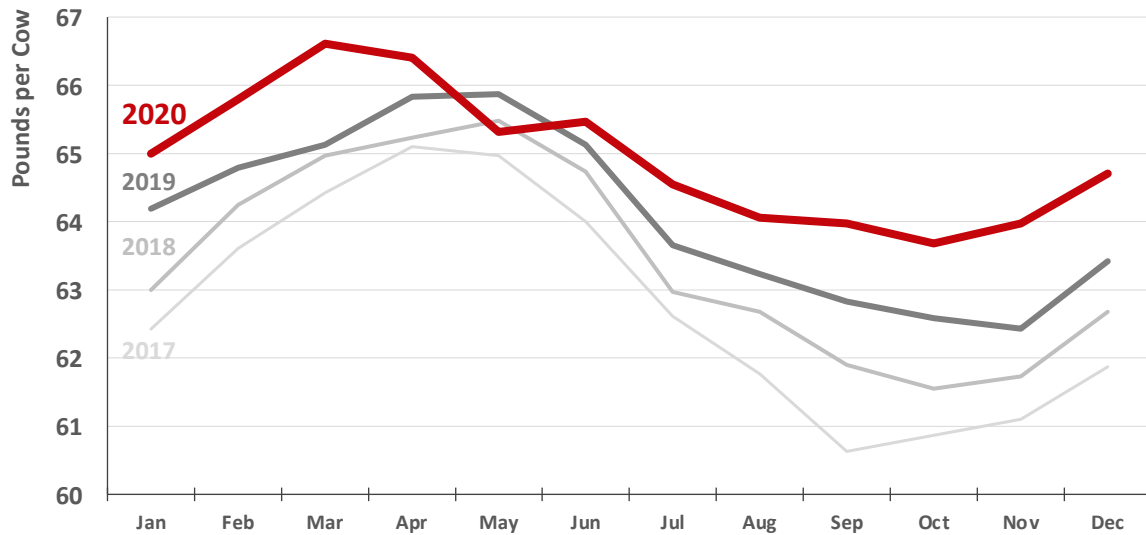
21



22



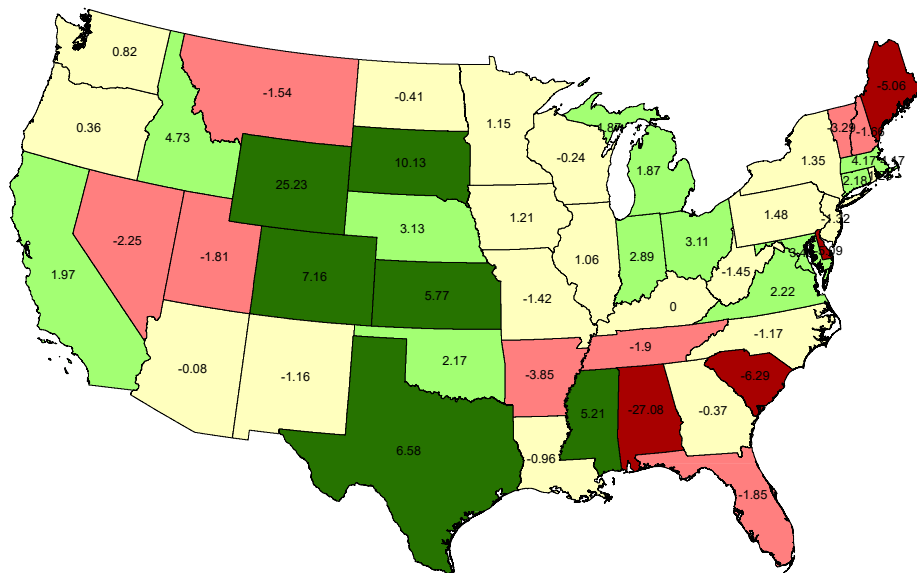
## Milk per Cow per Day



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## Regional Changes in Milk Production

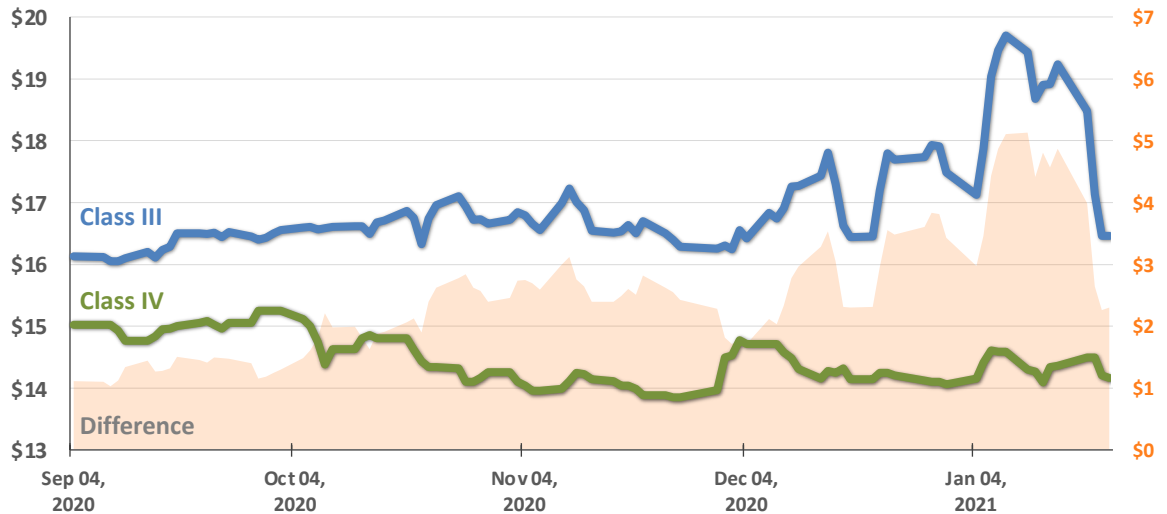
Percent Change in First Three Quarters — 2020 vs 2019



24

## Optimism, or Pessimism?

### February 2021 CME Contract Prices Over Time



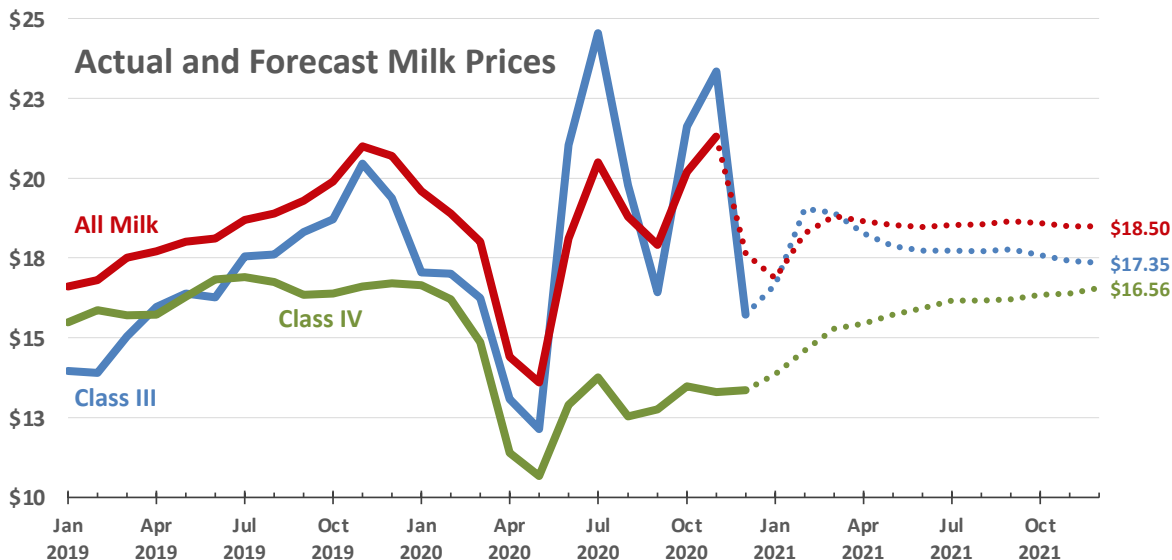
25

## Forecast Factors

- We have optimism about:
  - ☞ 5th Foodbox program
  - ☞ Grocery store sales and a return to home cooking
  - ☞ Restaurant and schools re-opening
  - ☞ Back to work and some version of “normal”
  - ☞ Export opportunities
  - ☞ Effective COVID-19 vaccine, better testing & contact tracing
- But, real concerns about a widely administered vaccine and U.S. / Worldwide recession
- New Class III capacity— Michigan, I-29 corridor & Wisconsin
  - ☞ Could imply Class III clearing markets at world prices

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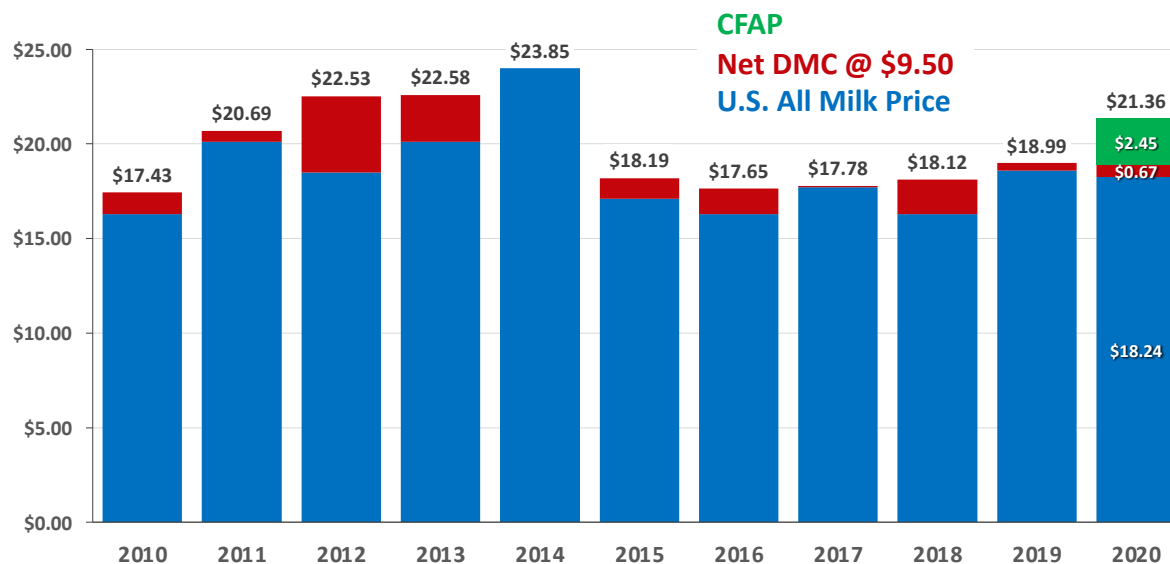
## Price Forecasts



27

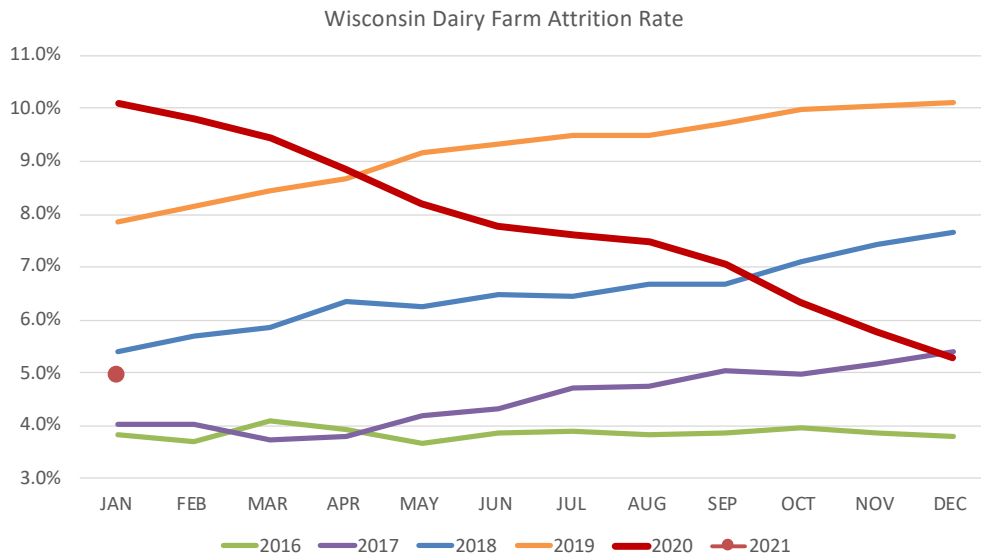
## 2020 Was Better Than We Thought

### Net Milk Income



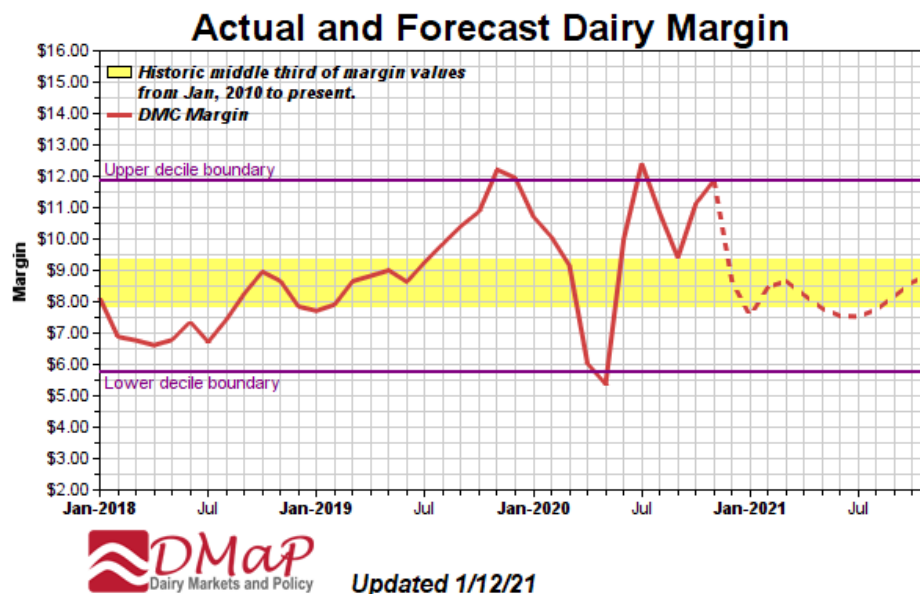
28

## Wisconsin Farm Loss is Slowing



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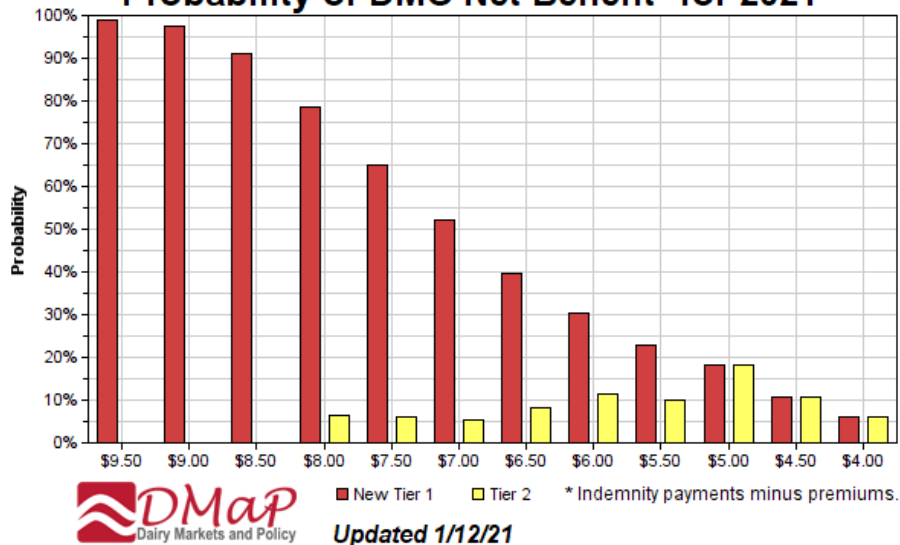
## Dairy Margin Coverage



30

## Dairy Margin Coverage

Probability of DMC Net Benefit\* for 2021



31

## Have You Managed Your Risk?

- DMC is a no-brainer — sign up for all the Tier 1 you can at \$9.50

- ☞ Farms will be able to increase historic production up to 5 million pounds

- Watch for opportunities in futures markets

- ☞ Price opinions may move around quite a bit.

- ☞ Look for price floor opportunities with Dairy Revenue Protection a quarter or more out.

- ☞ Look for price floor opportunities with options in the near quarter. Not seeing much now, but maybe in the future.

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## PPDs

Upper Midwest Order 30									
Class I Differential:	\$ 1.80			Misc					
Utilization:	8%	4%	84%	Adjust:	\$ (0.03)				
					With no Depooling		With complete depooling		
					Est Uniform	Est PPD	Est Uniform	Est PPD	Actual
	Class I	Class II	Class III	Class IV	Price		Price		PPD
May-20	\$ 14.75	\$ 12.30	\$ 12.14	\$ 10.67	\$ 12.27	\$ 0.13	\$ 12.27	\$ 0.13	\$ 0.17
Jun-20	\$ 13.22	\$ 12.99	\$ 21.04	\$ 12.90	\$ 19.74	\$ (1.30)	\$ 12.90	\$ (8.14)	\$ (3.81)
Jul-20	\$ 18.36	\$ 13.79	\$ 24.54	\$ 13.76	\$ 23.15	\$ (1.39)	\$ 15.88	\$ (8.66)	\$ (4.86)
Aug-20	\$ 21.58	\$ 13.27	\$ 19.77	\$ 12.53	\$ 19.34	\$ (0.43)	\$ 17.05	\$ (2.72)	\$ (2.06)
Sep-20	\$ 20.24	\$ 13.16	\$ 16.43	\$ 12.75	\$ 16.43	\$ -	\$ 16.41	\$ (0.02)	\$ (0.46)
Oct-20	\$ 17.00	\$ 13.63	\$ 21.61	\$ 13.47	\$ 20.57	\$ (1.04)	\$ 15.09	\$ (6.52)	\$ (4.43)
Nov-20	\$ 19.84	\$ 13.86	\$ 23.34	\$ 13.30	\$ 22.25	\$ (1.09)	\$ 16.52	\$ (6.82)	\$ (5.43)
Dec-20	\$ 21.67	\$ 14.01	\$ 15.72	\$ 13.36	\$ 16.00	\$ 0.28	\$ 16.00	\$ 0.28	\$ 0.17
Jan-21	\$ 16.94	\$ 14.26	\$ 19.77	\$ 12.53	\$ 19.00	\$ (0.77)	\$ 14.98	\$ (4.79)	
Feb-21	\$ 18.66	\$ 14.76	\$ 19.23	\$ 14.36	\$ 18.78	\$ (0.45)	\$ 16.42	\$ (2.81)	
Mar-21	\$ 19.66	\$ 15.44	\$ 19.04	\$ 15.12	\$ 18.76	\$ (0.28)	\$ 17.28	\$ (1.76)	
Apr-21	\$ 19.83	\$ 16.14	\$ 18.55	\$ 15.76	\$ 18.41	\$ (0.14)	\$ 17.70	\$ (0.85)	
May-21	\$ 19.88	\$ 16.61	\$ 18.04	\$ 16.06	\$ 18.02	\$ (0.02)	\$ 17.92	\$ (0.12)	
Jun-21	\$ 19.84	\$ 16.79	\$ 17.76	\$ 16.11	\$ 17.79	\$ 0.03	\$ 17.79	\$ 0.03	

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**2020 in the Rearview Mirror...**

**What will  
2021 Offer  
For Dairy Prices?**



**Mark Stephenson, Ph.D.**  
*Director of Dairy Policy Analysis*

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