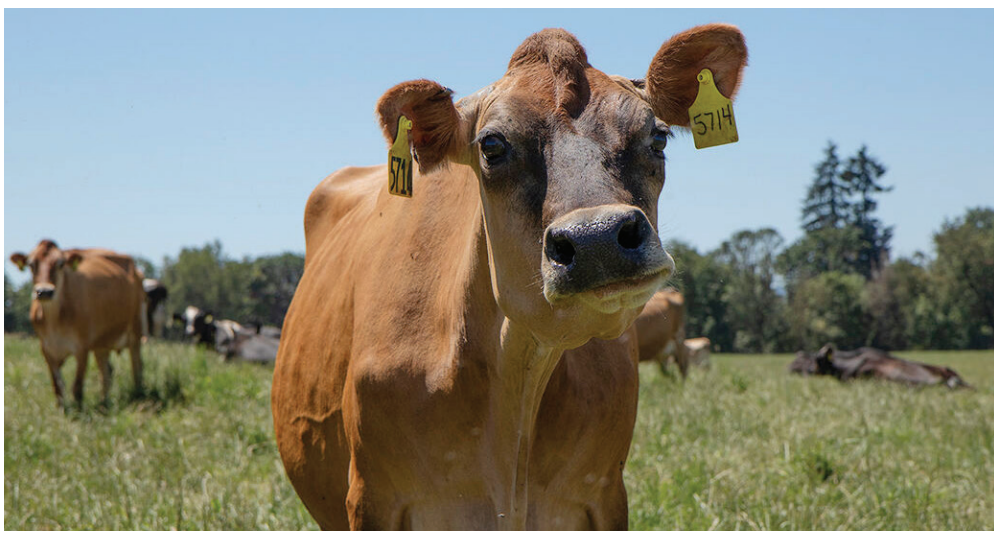

Sierra Dawn McClain/Capital Press

USDA has come up with a way to reimburse small- and medium-scale dairy farmers for low milk prices last year, but a national organization says the agency left out many large-scale operations.

USDA dairy assistance addresses Class I shortfall

By CAROL RYAN DUMAS
Capital Press

Aid for dairy operators hurt by the quirky milk market caused by a COVID-19 relief program leaves out many farmers, a dairy organization says.

USDA will provide about $350 million in assistance to dairy producers in federal marketing orders who received lower payments for their milk due to market abnormalities caused by the pandemic.

Under the Pandemic Market Volatility Assistance Program, USDA will reimburse producers on revenue losses on the sale of fluid milk — Class I milk — on 80% of the revenue difference between a newer pricing formula for that milk and the previous formula.

The assistance addresses an unforeseen consequence of the new formula caused by pandemic-related government purchases of cheese in its food box program.

The formula's "mover" sets the Class I base price to which a location differential is added. The calculation for the mover was changed in 2019 to provide better risk management for fluid milk processors. But that change proved costly to dairy farmers in the pandemic's wildly abnormal markets.

The previous mover was calculated as the "higher of" the advance prices for Class III (milk for cheese) and Class IV (milk for butter and powder).

It was changed to the average of the Class III and Class IV prices plus 74 cents per hundredweight, which reflected the average difference of the Class III and Class IV prices and the higher of the two.

The change was meant to be revenue-neutral, with equity among market participants a stated goal. It was until July 2020, when Class III milk prices soared, driven by government purchases of cheese.

The significant gap between Class III and Class IV prices resulted in a lower average price.

Thus the Class I mover was lower than it would have been previously, and farmers lost money on Class I milk. Revenue from that milk is shared in federal order pools, which market milk for different uses.

The newly announced assistance program will pay 80% of the revenue loss to dairy farmers on an annual production of up to 5 million pounds of milk on fluid milk sales from July through December 2020.

The payment cap represents the annual production of 210 cows in 2020, according to USDA data. While the 5 million pounds of annual production covers the majority of dairies in the U.S., many in the West have significantly more cows and higher production.

Dairy aid raises questions

By CAROL RYAN DUMAS
Capital Press

Milk pricing is complex to start with. Adding government assistance to the mix raises the bar.

USDA announced this week it will reimburse milk producers in federal marketing orders on lost revenue on sales of milk for fluid consumption — Class I milk — during the pandemic. The payments will be based on monthly sales from July through December 2020 and are capped at 5 million pounds of annual milk production.

The reimbursement is for 80% of the revenue difference between what that milk sold for under a change in the pricing formula that began in May 2019 and what it would have sold for under the previous formula.

USDA's payment rate will vary by region based on actual losses on pooled milk. USDA will make payments to independent handlers and cooperatives, which will distribute the money to their dairy producers.

But it's not so simple, especially considering the production cap.

Milk for all utilization in federal orders is pooled, and milk producers in the pool are paid a blend price based on the prices for and volumes of milk in each utilization — such as fluid, cheese or powder.

Sales of fluid milk contribute to that blend price. So reimbursement payments will be shared by producers within the pool — but there are caveats.

Peter Vitaliano, chief economist at the National Dairy Producers Federation, said he'd like to see more detail from USDA.

But conceptually, the total payments to each federal order pool for each of the months July through December 2020 — during which the current and previous Class I movers were so divergent — can be calculated, he said.

"And it will reflect the difference between the respective total contributions of Class I skim milk to each pool each month and, therefore, the same difference in the uniform statistical (blend) price paid to producers from each pool each month, based on their individual pooled milk volumes," he said.

Producers whose milk was depooled from any of the orders during any of the six months will not get payments, he said.

"Total cumulative payments to each producer will be added up for each month and payments stopped to each producer when their cumulative total reaches payment for 5 million pounds," he said.

It will make a difference for each producer whose total payment is limited by the production cap if the calculation is made sequentially from July to December or if it is based on an average over all six months, he said.

Wheat tops $10 a bushel, but will it stay that high?

By MATTHEW WEAVER
Capital Press

The price of soft white winter wheat has rocketed past $10 per bushel in the past week, but marketing experts disagree on whether it will remain that high.

The price of soft white wheat ranged from $9.80 to $10.25 per bushel Aug. 17 on the Portland market.

"It really depends on what Australia does," said Dan Steiner, grains merchant at Morrow County Grain Growers in Lexington, Ore.

"The USDA thinks the Pacific Northwest lost 100 million bushels worth of production" this year because of the drought, Steiner said. "Australia found it. They're on track right now for what could be a huge crop."

Australia had a record wheat crop of 1.2 billion bushels last year. This year's crop is estimated at 1.1 billion bushels. That nation grows hard and soft varieties and exports up to 75% of its total production, according to the Australian Export Grains Innovation Center.

USDA's Aug. 12 World Agricultural Supply and Demand Estimates report projected U.S. soft white wheat production this year would be 214 million bushels, down 29% from 302 million bushels last year.

USDA projections translate into about a 93.2 million bushel crop for Washington state, the smallest since 1973, said Glen Squires, CEO of the Washington Grain Commission.

The state's 2020 crop was 165.6 million bushels, according to the commission.

"Tighter supplies from reduced production certainly adds to price strength relative to demand," Squires said.

"With constrained supply this year due to tight stock carryover plus the reduction in production with the drought impacts, we are seeing the strength of that price," said Amanda Hoey, Oregon Wheat CEO, adding that higher prices are "important for producers in this year of low production."

Australia could still experience production problems, Steiner said.

"If they have a hiccup, if they have hot weather come in, if it quits raining, or anything like that, we're certainly, certainly going to go higher," he said. "If Australia stumbles ... we could be at $15 in very short fashion."

Dan Steiner

However, soft white wheat prices would have a tough time rallying any higher if Australia's crop continues at its current pace, Steiner said.

At the same time, the market is short enough that Steiner doesn't see a lot of downside for prices.

Another expert believes prices won't remain at their current levels for long.

Omaha, Neb., market analyst Darin Newsom expects prices to snap back lower, like a rubber band. The market could drop by a dollar, he said.

"We did go to a new contract high late last week," he said. "That normally doesn't last long. When that rubber band breaks, it snaps back to its base, which is fundamentals, and so we see the market sell off."

Fundamentals include acres planted, yield and demand. Newsom wants to see them get more bullish, prompting investors to believe the market will go higher.

The export market could heat up this year if — "and it's a huge asterisk" — USDA projections about a drop in global wheat production prove correct.

Newsom said he is not yet convinced supplies are tighter, except for high-protein hard red spring wheat.

"Markets are going to be searching for some protein wheat, anything right now," he said, adding that "there's just not going to be a lot of spring wheat, in Canada or the U.S."

Soft white winter wheat discounts for high protein due to heat stress will likely remain, he said, since higher protein isn't as desirable for products made using that particular wheat class.

Steiner estimates the Pacific Northwest lost 30% to 50% of its wheat production this year due to heat and drought, depending on the area.

The market will figure out a way to use any wheat, he said, even the wheat with higher protein caused by heat stress.

"Right now they max out discounts at 60 cents," he said. "You're looking at $9.40 wheat. What's wrong with $9.40 wheat? That's a good number."