



SUDDEN STORM

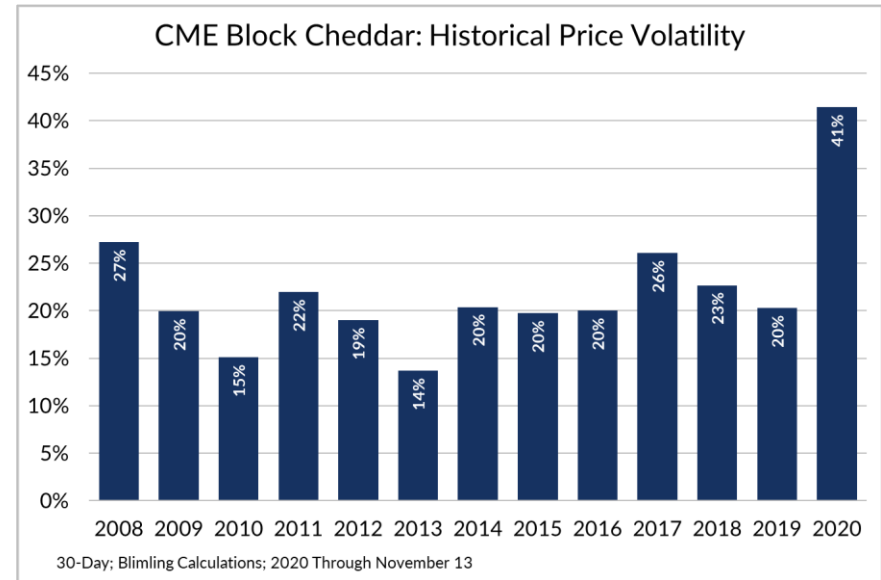
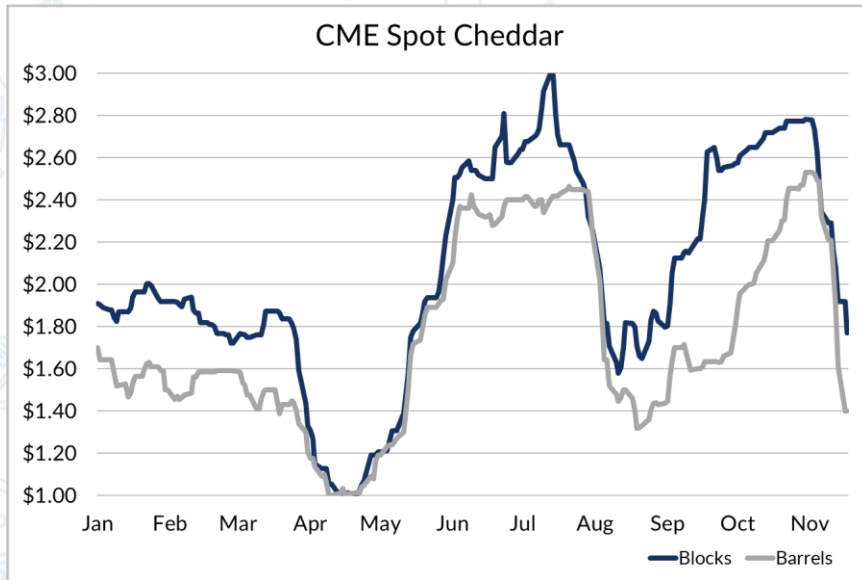
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2810 Crossroads Drive, Suite 3900 | Madison, WI 53718 | 800-945-8891 | info@blimling.com

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a year unlike any other



- CME blocks from \$2 to \$1 to \$3 to \$2...and not done yet
- Cheese and butter have been among the most volatile commodities in the world in 2020

numerous “achievements”

CME Block Cheddar Daily Change			
Five Biggest Declines		Five Biggest Gains	
12/13/2004	-28.00	9/18/2020	+22.75
6/24/2020	-23.00	5/14/2020	+17.25
10/23/2014	-21.25	6/1/2020	+17.00
12/6/2004	-20.25	3/12/2004	+16.00
5/21/2004	-20.00	6/19/2020	+15.00

CME Block Cheddar Weekly Change			
Five Biggest Declines		Five Biggest Gains	
8/7/2020	-54.75	5/15/2020	+47.50
11/6/2020	-44.00	9/18/2020	+46.25
4/3/2020	-44.00	6/5/2020	+32.25
11/13/2020	-42.50	9/4/2020	+29.75
6/25/2004	-35.00	5/29/2020	+29.25

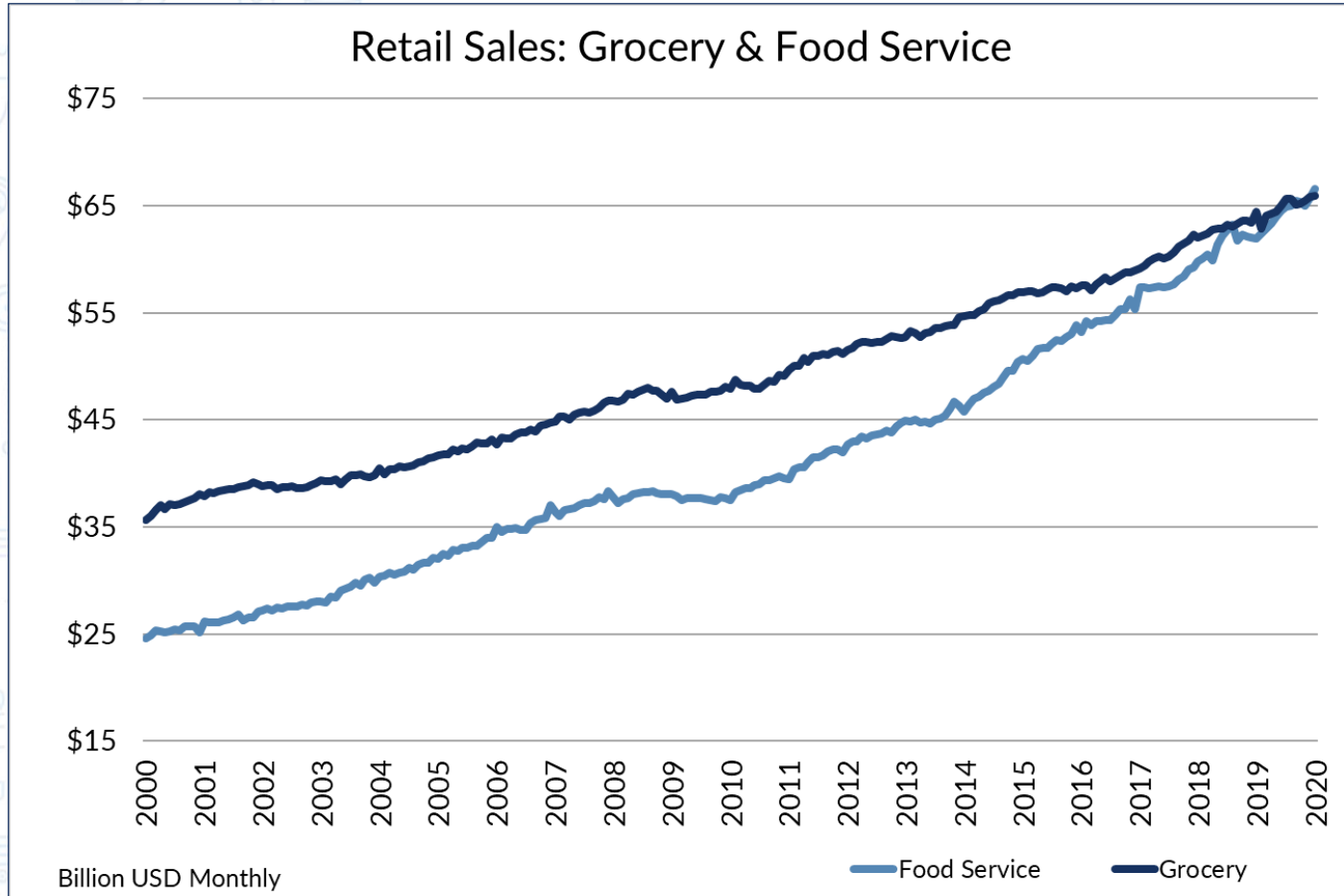
Block Cheddar Friday Close			
Five Lowest		Five Highest	
2/28/2003	99.25	7/10/2020	291.50
11/3/2000	100.00	10/30/2020	278.25
4/17/2020	101.25	10/23/2020	277.25
2/21/2003	102.00	10/16/2020	272.00
10/20/2000	102.50	7/3/2020	267.50

CME Barrel Cheddar Daily Change			
Five Biggest Declines		Five Biggest Gains	
11/13/2020	-29.00	3/12/2004	+16.75
7/30/2008	-28.00	5/14/2020	+16.75
12/18/2007	-22.75	5/24/2004	+16.00
12/11/2008	-22.50	7/31/2008	+15.00
5/21/2004	-22.00	11/17/2004	+13.50

CME Barrel Cheddar Weekly Change			
Five Biggest Declines		Five Biggest Gains	
8/7/2020	-71.75	5/15/2020	+45.00
11/13/2020	-70.75	6/5/2020	+33.75
12/13/2019	-53.25	3/12/2004	+29.50
6/25/2004	-30.50	10/2/2020	+29.50
3/18/2011	-26.50	9/4/2020	+27.00

Barrel Cheddar Friday Close			
Five Lowest		Five Highest	
11/3/2000	100.00	10/30/2020	253.00
10/20/2000	100.00	10/23/2020	245.50
10/27/2000	100.00	7/24/2020	245.00
10/13/2000	100.00	9/19/2014	243.00
4/10/2020	100.00	7/17/2020	243.00

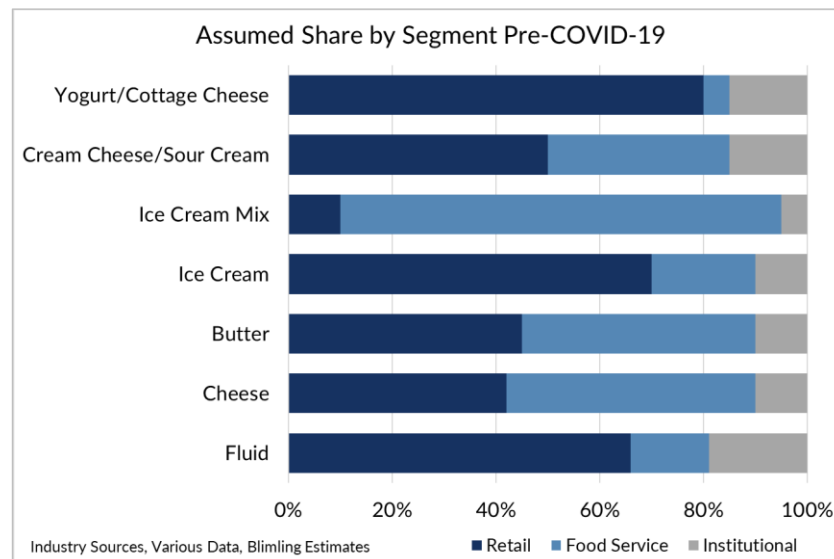
pre-pandemic: eat-out \$ = eat-in \$



lots of dairy in food service

- We estimate that restaurants accounted for nearly 50% of cheese and 45% of butter use pre-COVID-19

Assumed Share by Segment Pre-COVID-19			
Segment	Domestic Retail	Domestic Food Service	Institutional
Fluid	66%	15%	19%
Cheese	42%	48%	10%
Butter	45%	45%	10%
Ice Cream	70%	20%	10%
Ice Cream Mix	10%	85%	5%
Cream Cheese/Sour Cream	50%	35%	15%
Yogurt/Cottage Cheese	80%	5%	15%





Going out is
overrated.



McDelivery

It's not just
the food that's
great.



McDelivery

Going out
is overrated.



McDelivery

Uber
Eats



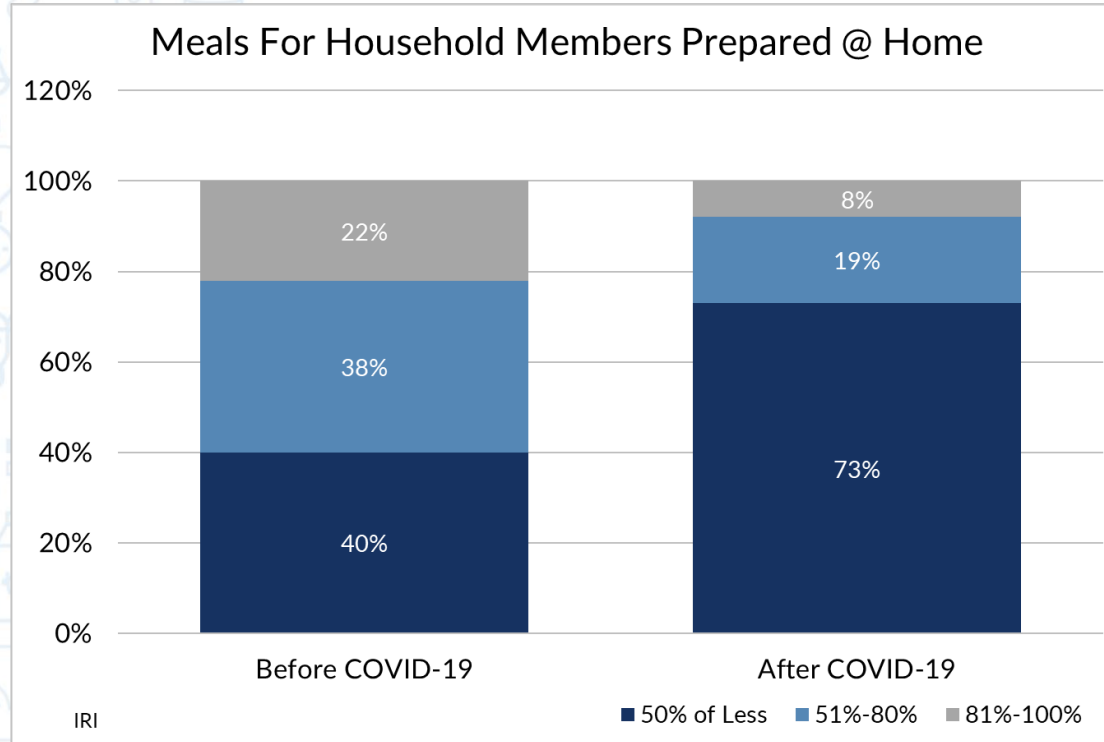
Uber
Eats



Never Underestimate the Laziness of the American Consumer!

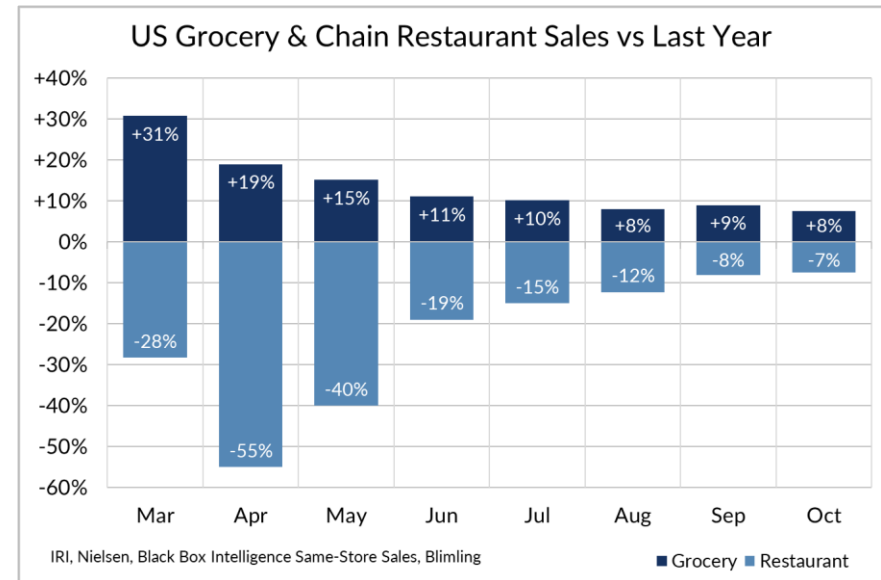
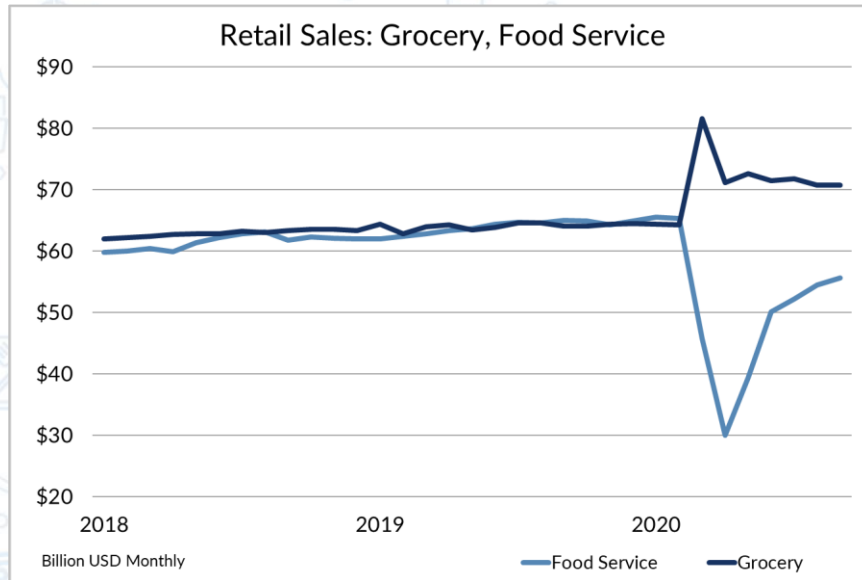


a lot more home cooking



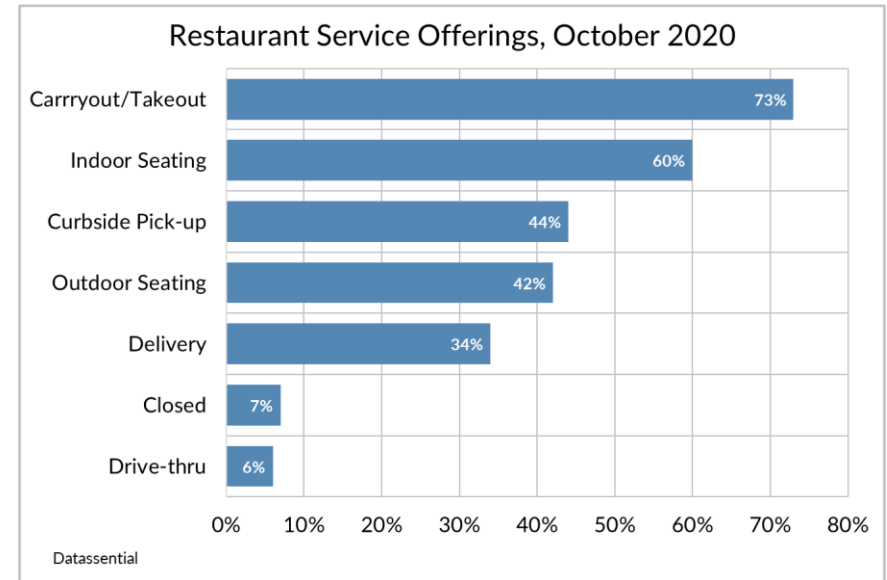
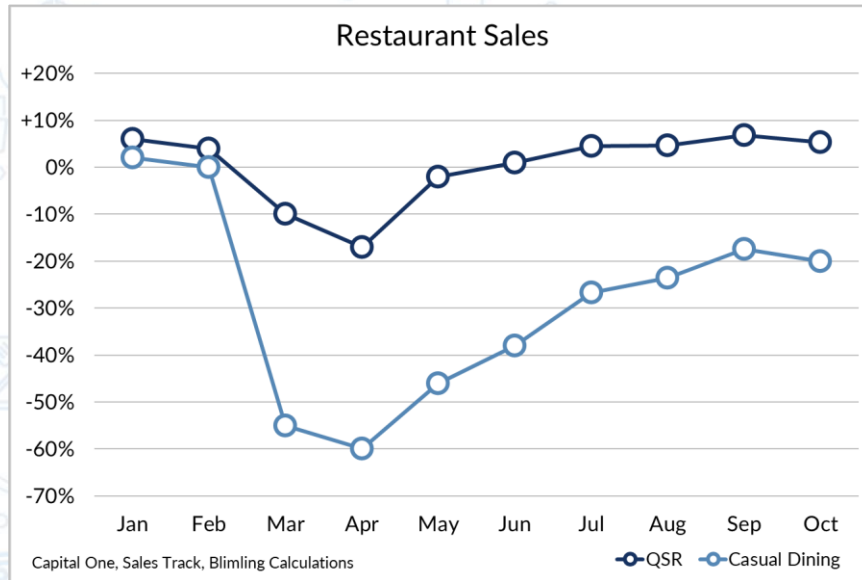
- In May, IRI reported that 73% of Americans were preparing more than 80% of all meals at home for all household members

the great rotation



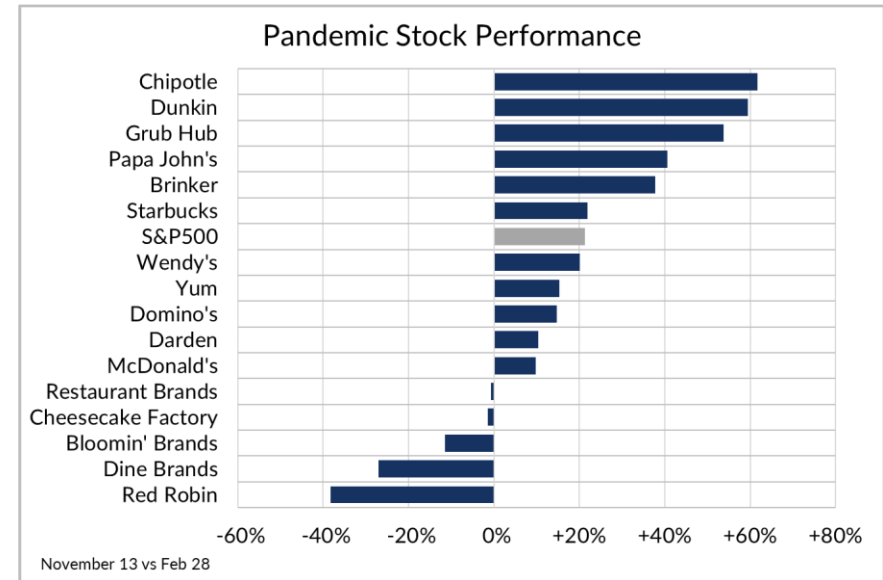
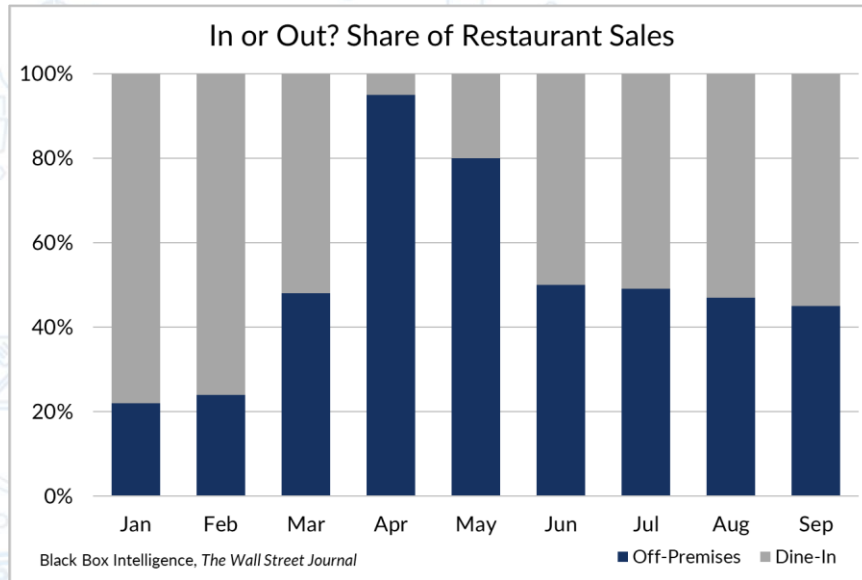
- For October, chain restaurant sales down 7% with traffic down 10%,
- Grocery stores: +8%

quick service restaurants faring well



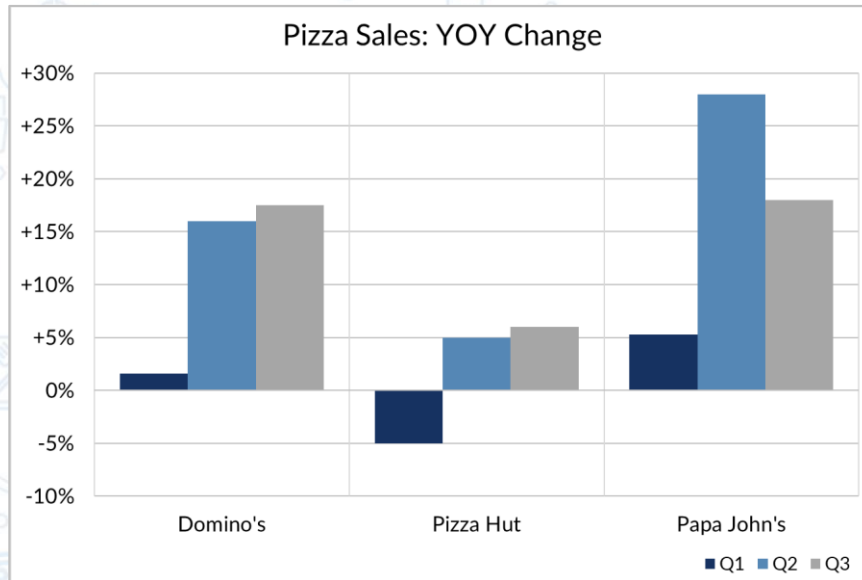
- A lot of qsr business was already happening through the drive thru and operators have added capacity

pickup/drive-thru/delivery surge



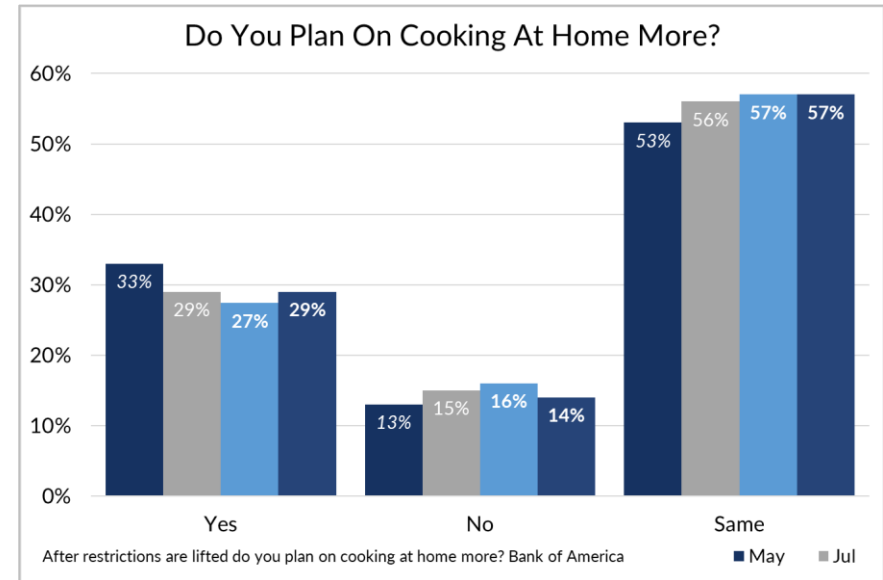
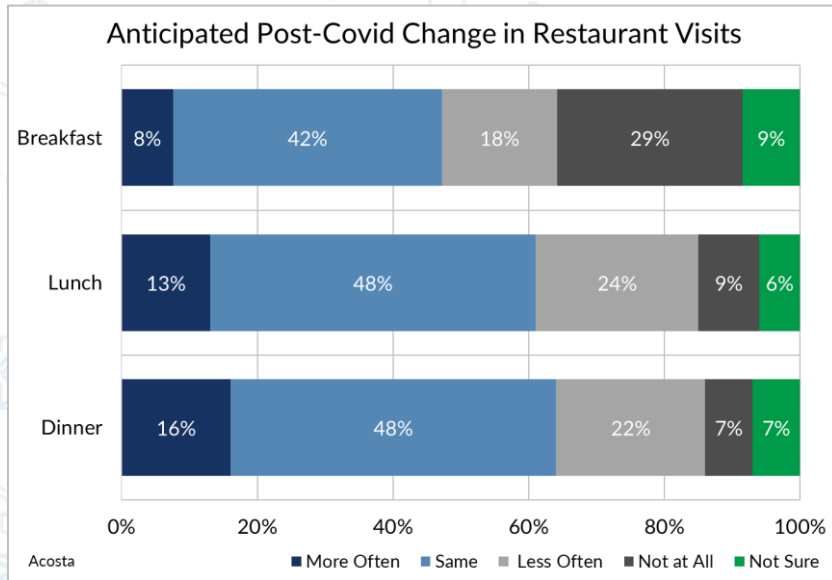
- Between 45% and 50% of restaurant sales are for off-premises consumption
- Big chains with off-premises angles are winning big

pizza and ghost kitchens



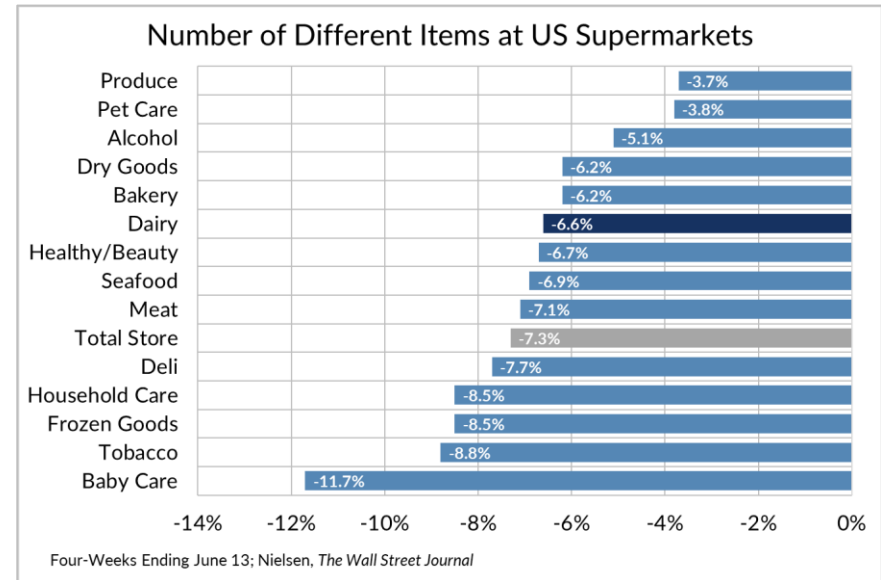
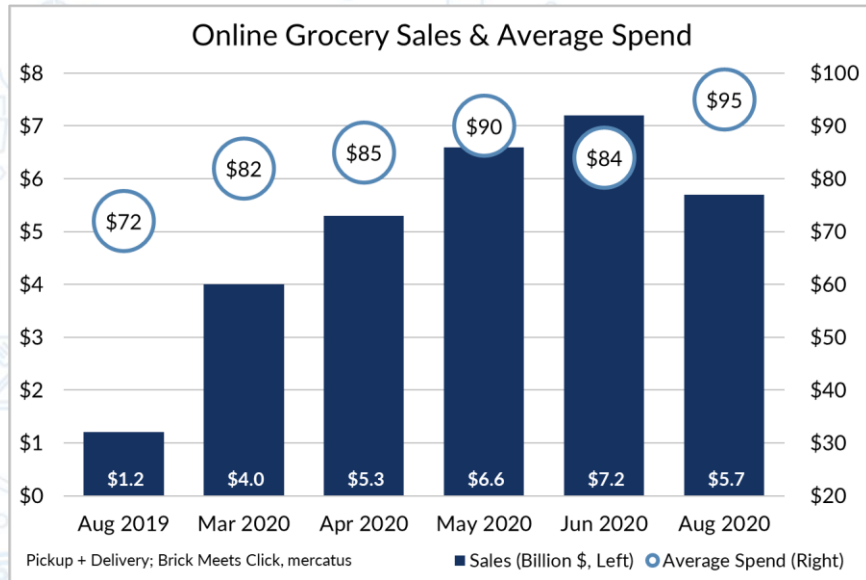
- Pizza does well in this environment, with big chains outing up big numbers. Frozen pizza sales are strong, too.
- Lots of new delivery/pickup concepts emerging

will we continue to eat at home?



- Several polls say we plan to eat at home more often... but will we?
- Fat, drunk and awake: Bank of America says 42% of Americans are snacking more, 18% are drinking more and 29% are taking on more caffeine

changing retail landscape

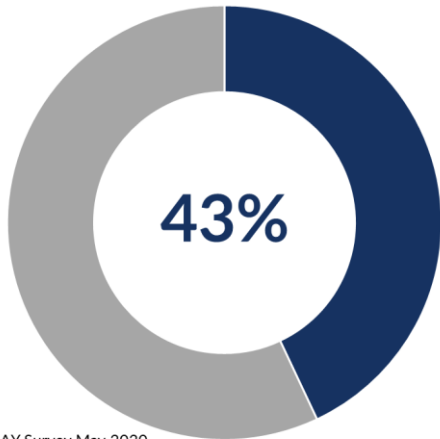


- Pickup/delivery dollar volume is running 5x year-prior levels, with 29% of US households active users, up from less than 15% last year
- Retailers cutting back on SKUs (how does dairy continue to stand out?)

more people will work from home

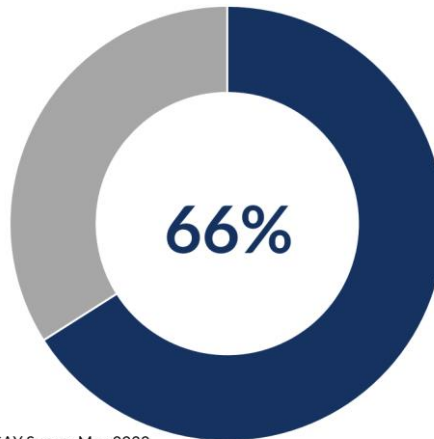
- Surveys say many are okay working from home
- Employers will save money, too
- What does this mean for restaurants?

Americans That Prefer Working From Home After Pandemic



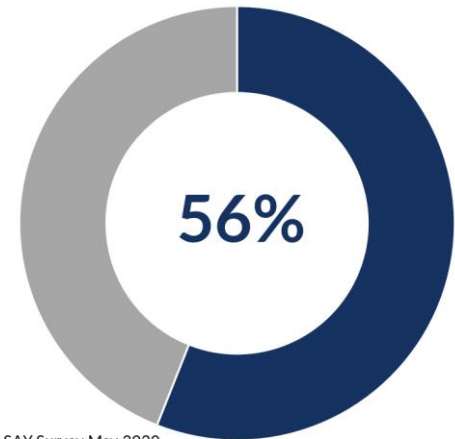
PIPLSAY Survey May 2020

Americans Comfortable With A Permanent Work From Home Culture



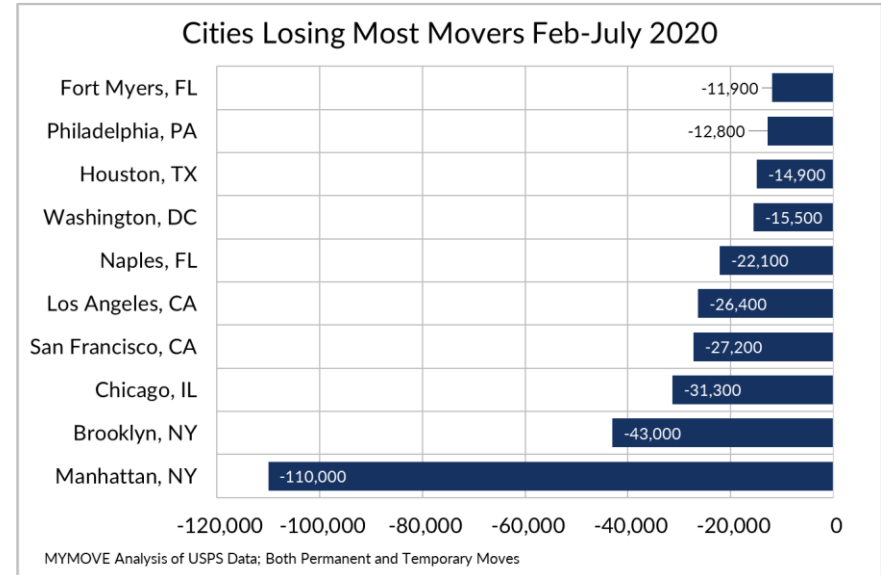
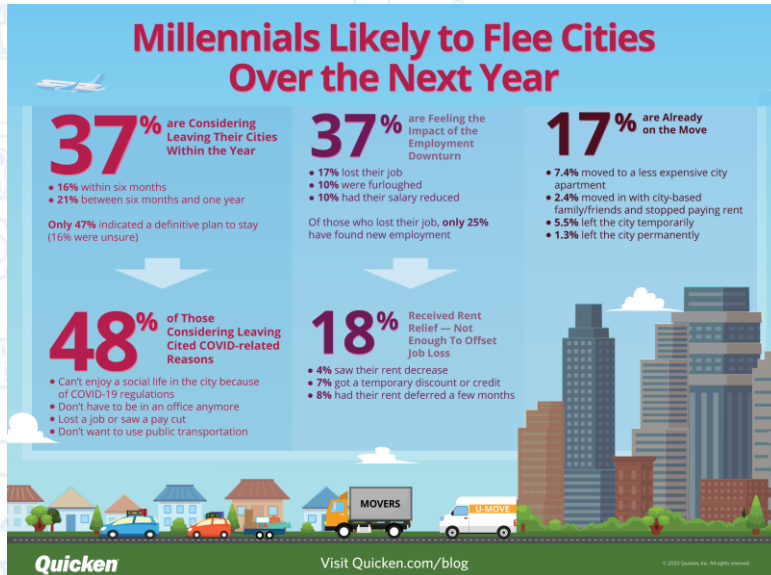
PIPLSAY Survey May 2020

Americans Believing That Remote Work Will Create Great Opportunities



PIPLSAY Survey May 2020

urban retreat could hurt food service



- More than one-in-three millennials say they are considering leaving their cities within the next year
- More than 150,000 people out of Brooklyn and Manhattan
- Let's go to Texas: 7 of 10 cities with biggest net gains

less travel

72%

Unlikely to travel for Thanksgiving.

69%

Unlikely to travel for Christmas.

30%

Have taken an overnight vacation or leisure trip since March.

8%

Expect to travel for business within the next 6 months.

8%

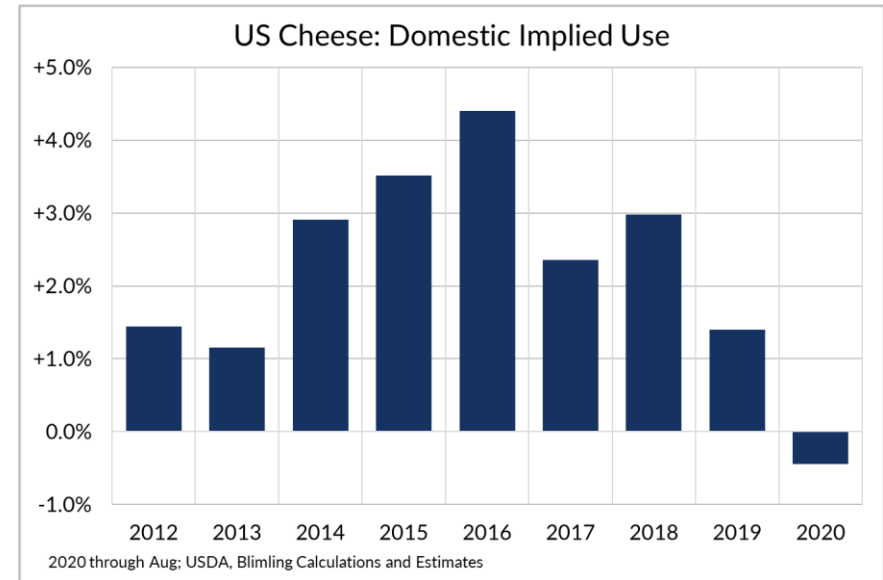
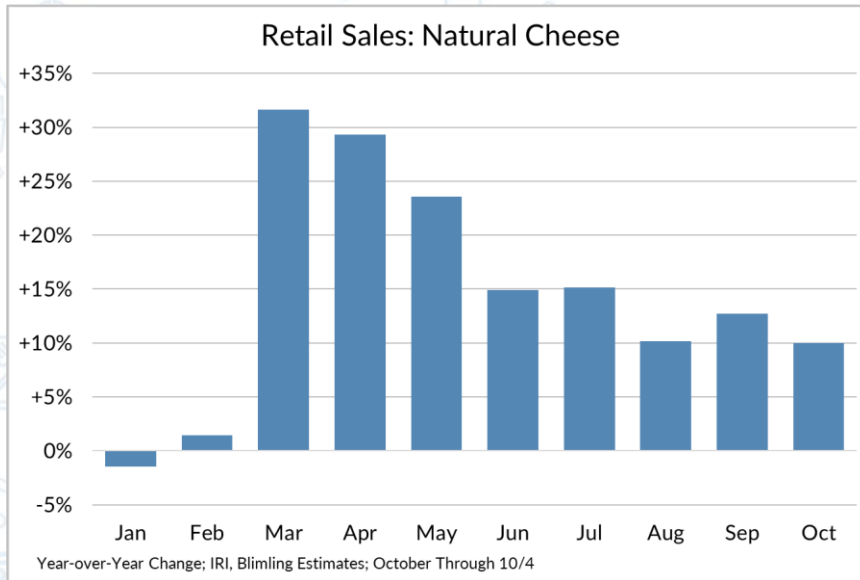
Have taken an overnight business trip since March.

44%

Say next hotel stay for vacation or leisure will be a year or more from now.

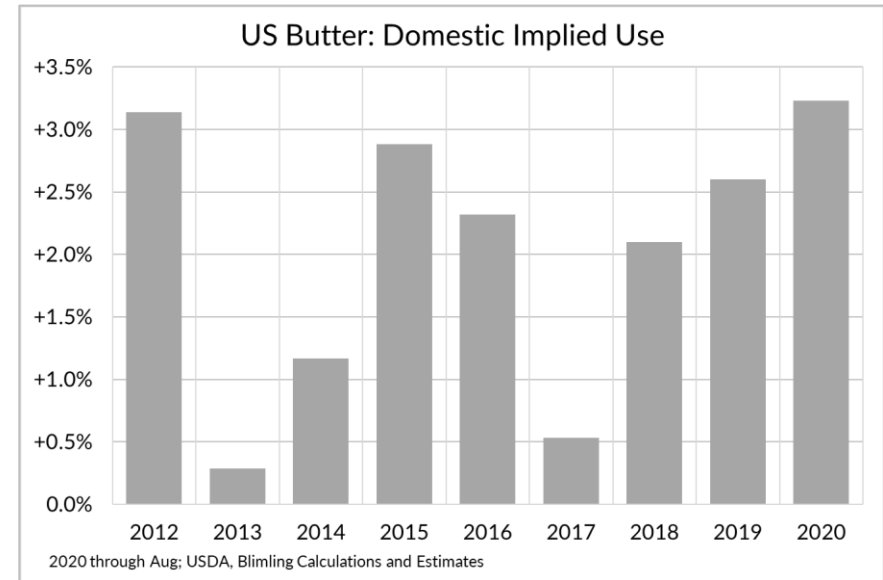
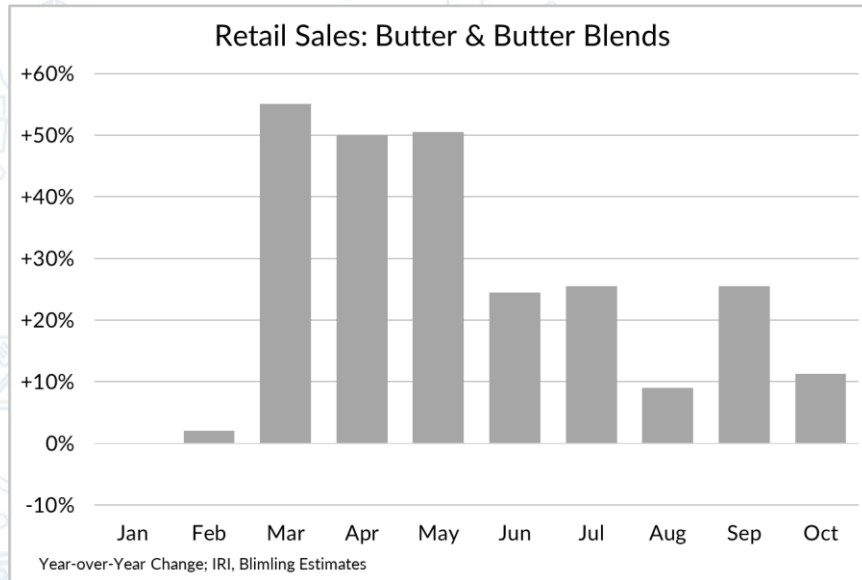
American Hotel & Lodging Association Survey November 2-4

domestic demand is just okay



- Retail demand still running well above year-prior levels
- But, gains in grocery are not outpacing losses in food service, institutions
- Total domestic use was down slightly year-to-date through August

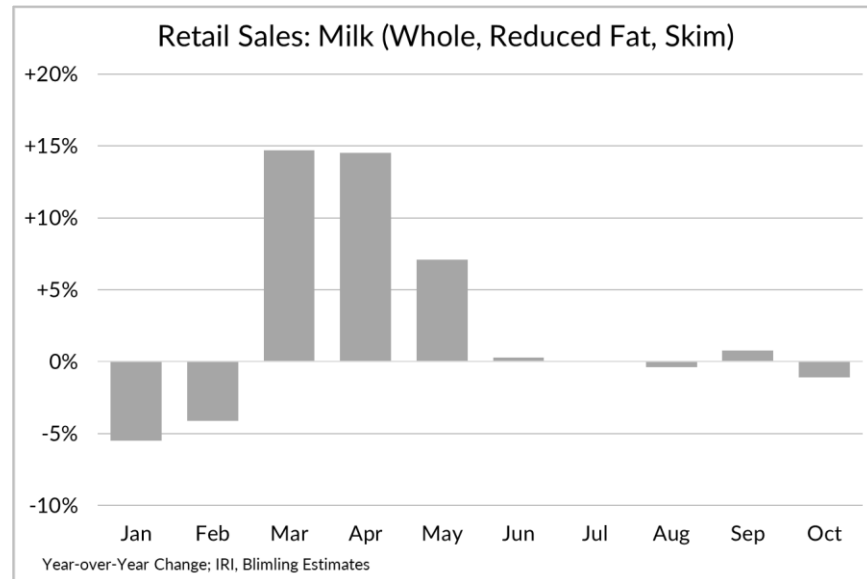
butter: strong retail, so-so overall



- Overall butter demand is up 3%, much less than retail demand growth – about 25% on average since pandemic began

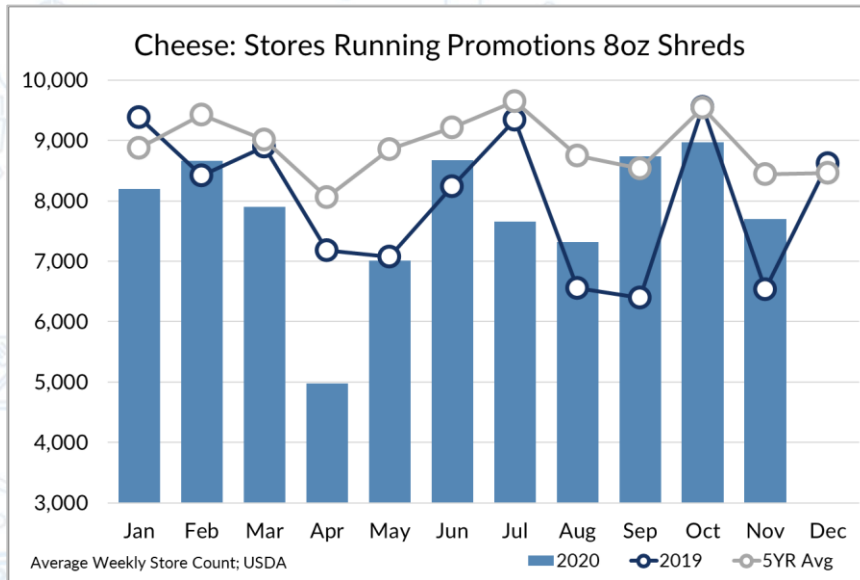
school milk not adding up

School Milk Math				
Annual Fluid Milk Sales (pounds)	43,000,000,000			
Estimated % Into Schools	8%			
Annual Milk Into Schools (pounds)	3,440,000,000			
Number of School Weeks	40			
School Milk Weekly (pounds)	86,000,000			
Per School Week	@ 70% of Normal	@ 60% of Normal	@ 50% of Normal	@ 40% of Normal
Pounds of Milk Lost	-25,800,000	-34,400,000	-43,000,000	-51,600,000
Pounds of Powder =	2,367,743	3,156,991	3,946,239	4,735,487
Truckloads of Powder =	54	72	90	108
Pounds of Cheese =	2,580,000	3,440,000	4,300,000	5,160,000
Truckloads of Cheese =	59	78	98	117



- Approximately 60% of K-12 students started the year virtually, so schools are ordering less milk and other dairy products
- How much gets picked up in the home? IRI data not showing much of a pop.

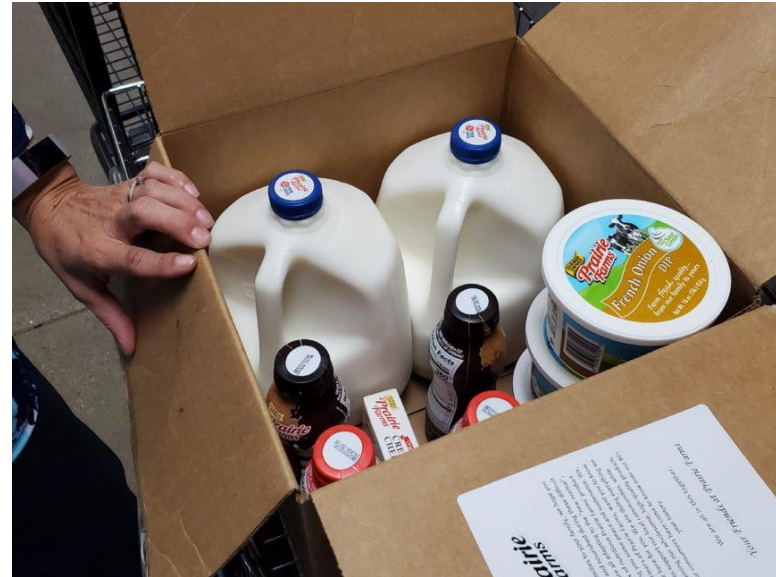
dairy as a “loss leader”



- Grocery stores want to be “the one” for consumers
- Retailers may use dairy products as a way to drive traffic

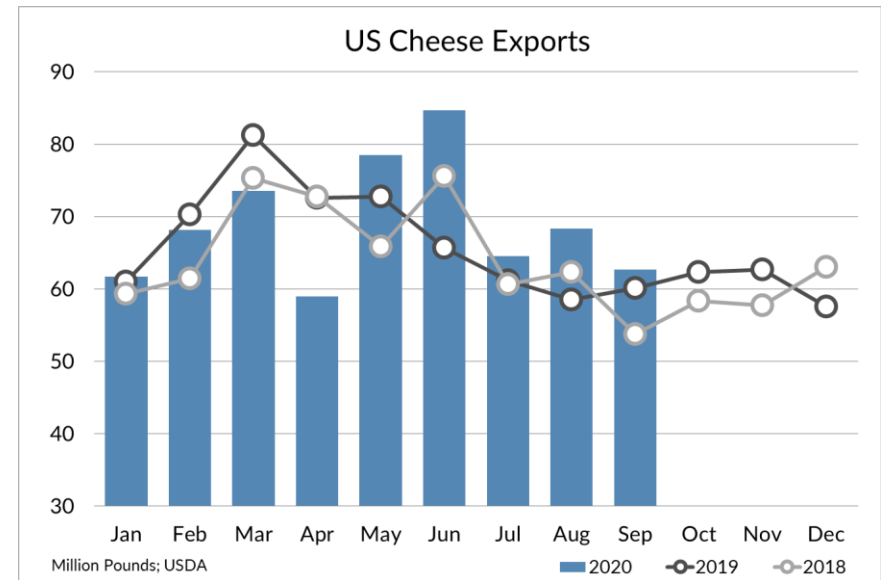
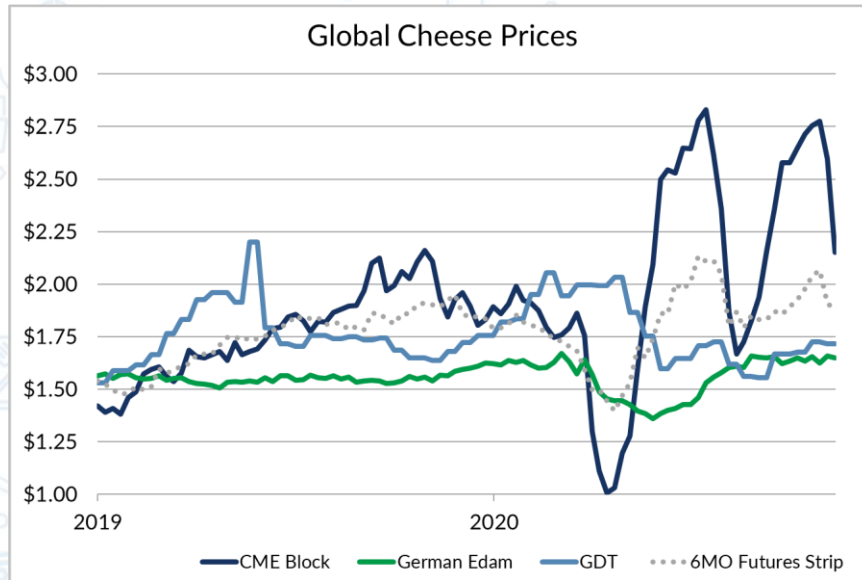
100+ million food boxes

USDA Farmers -to-Families Food Box Program	
Round 1: May 15 to June 30	
	Delivered Value
Total USDA Spending	\$ 947,000,000
Dairy Products Box	\$ 111,410,288
Fluid Milk Box	\$ 43,914,358
Share of \$ on Dairy	16%
Round 2: July 1 to August 31	
	Delivered Value
Total USDA Spending	\$ 1,472,000,000
Dairy Products Box	\$ 148,064,038
Fluid Milk Box	\$ 49,478,811
Share of \$ on Dairy	13%
Round 3: September 1 to October 31	
	Delivered Value
Total USDA Spending *Estimated	\$1,000,000,000
Dairy Products Box (thru 9/18)	\$ 925,258
Fluid Milk Box (thru 9/18)	\$ 166,948
Share of \$ on Dairy	



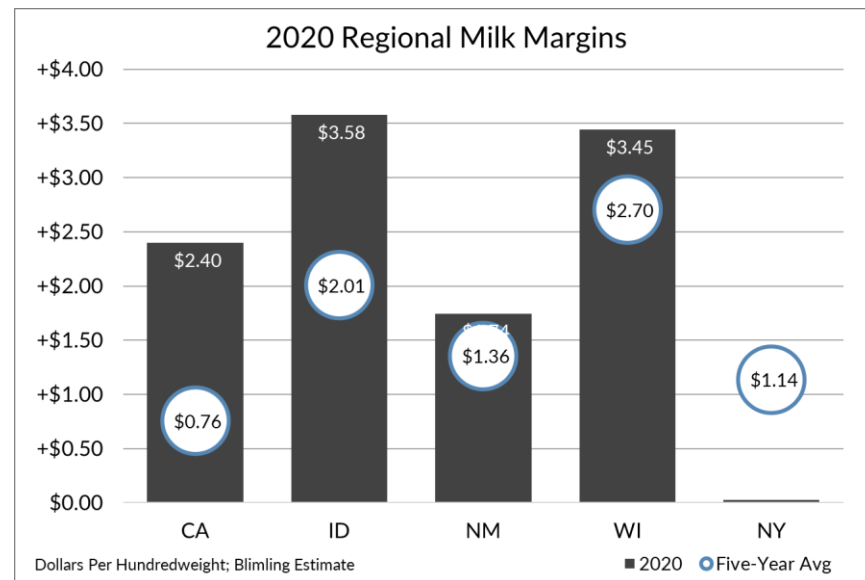
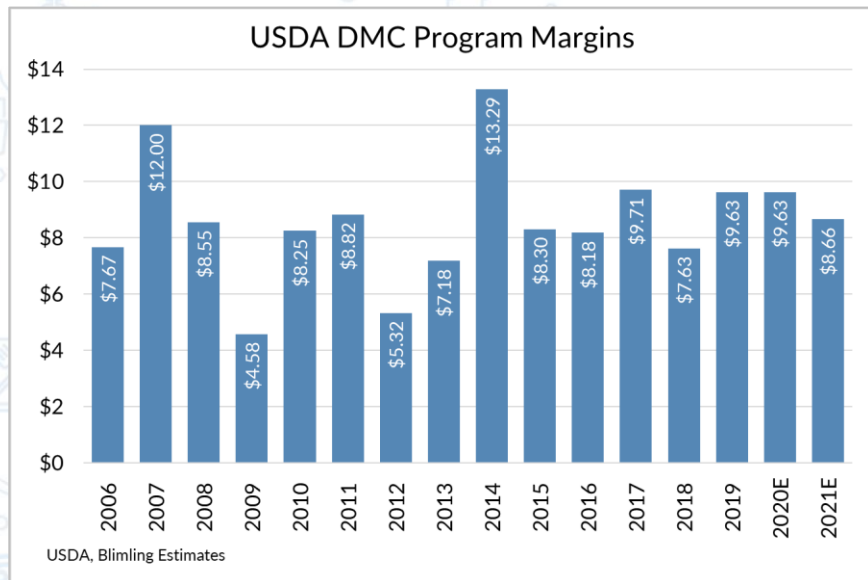
- Program is moving a lot of dairy
- What happens now?

us cheese too expensive for the world



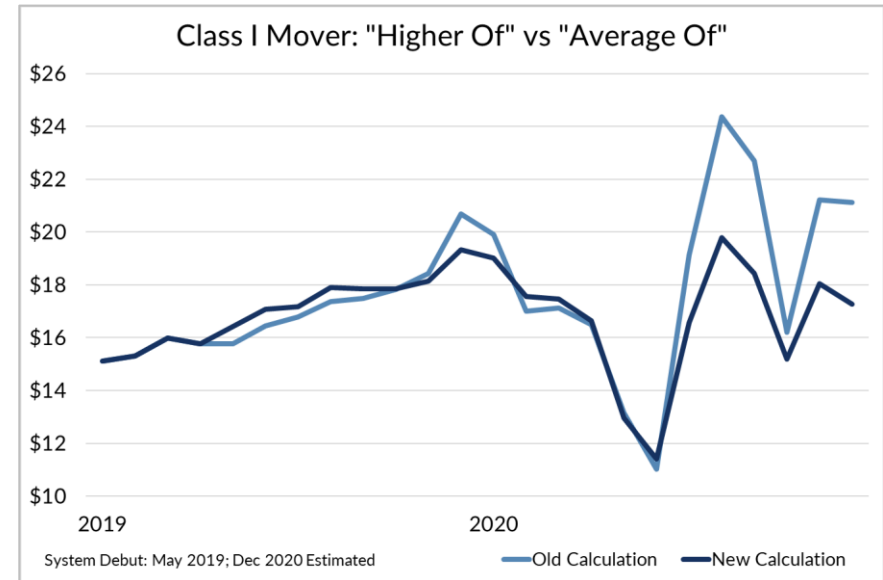
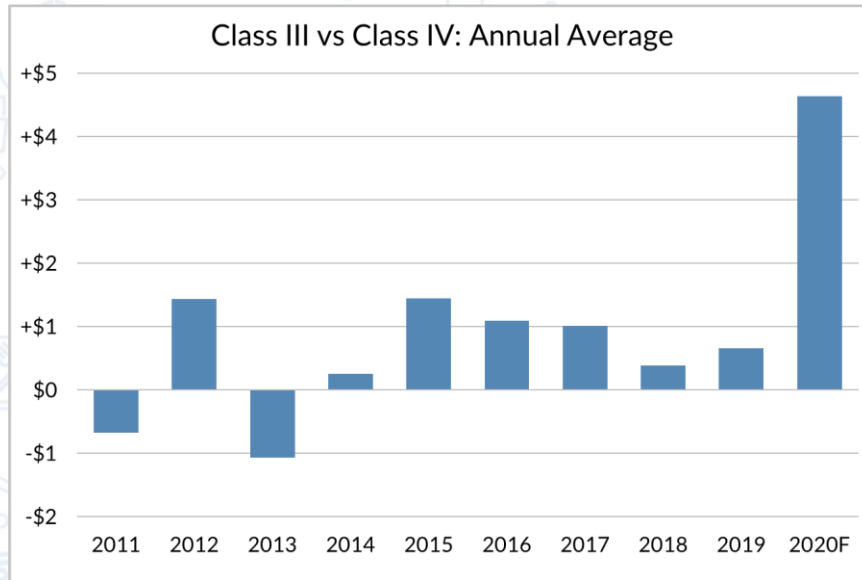
- US spot and futures prices above levels necessary to be competitive in export markets
- While up some versus 2019, September exports down from August and June peak

farm finance: it depends



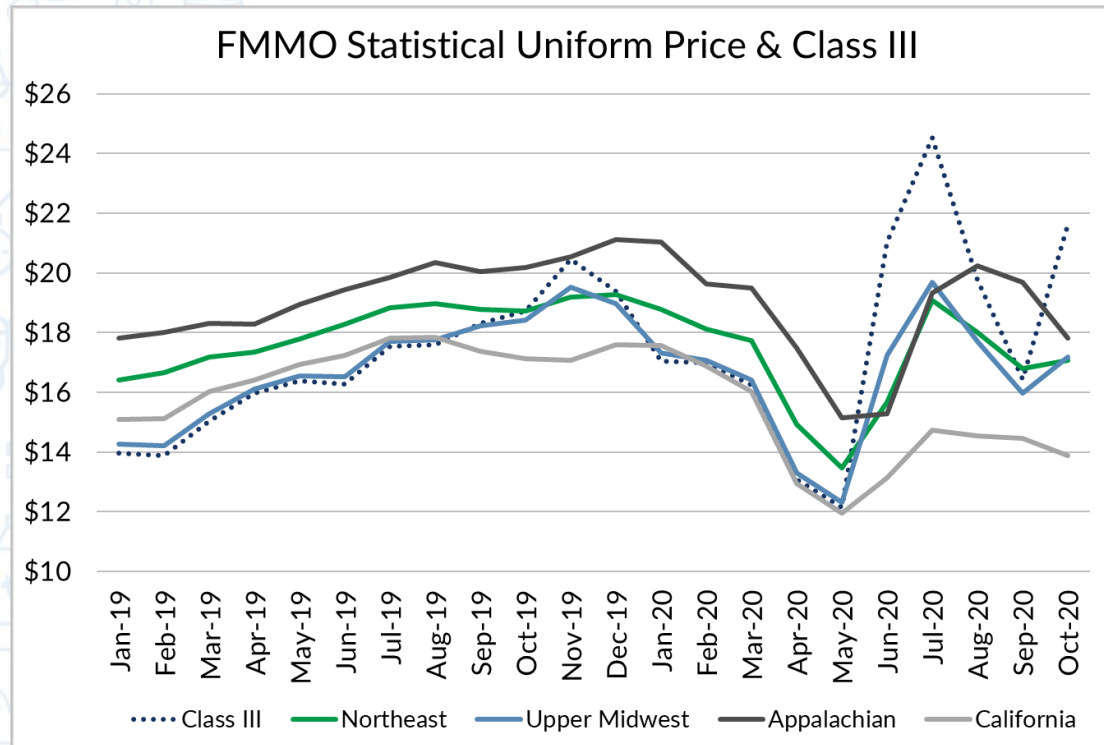
- Overall margins seem reasonable for 2020 (especially with CFAP \$\$\$)
- But: wide spreads, de-pooling and different milk utilization rates dramatically skew performance across regions
- Still: we expect 2021 milk production to grow by 1.7%.

class iii/class iv spread “issues” persist



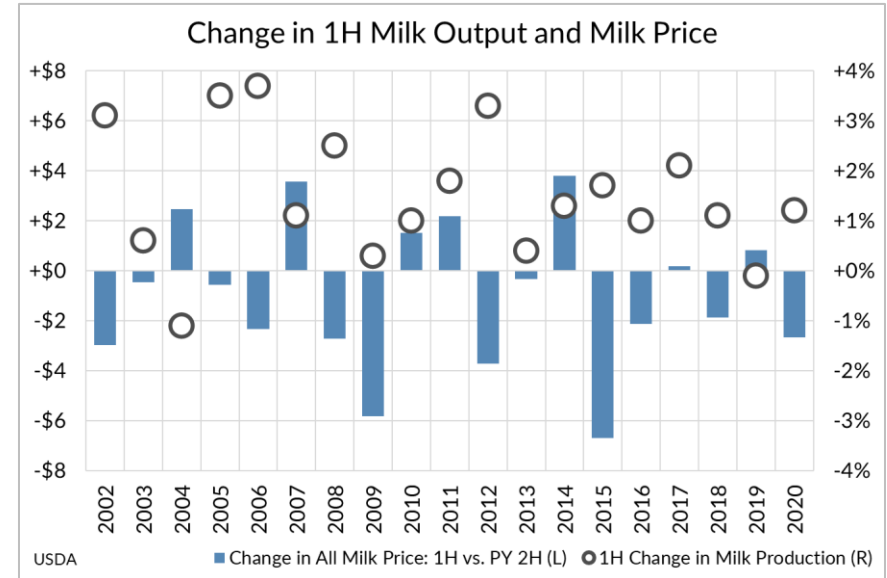
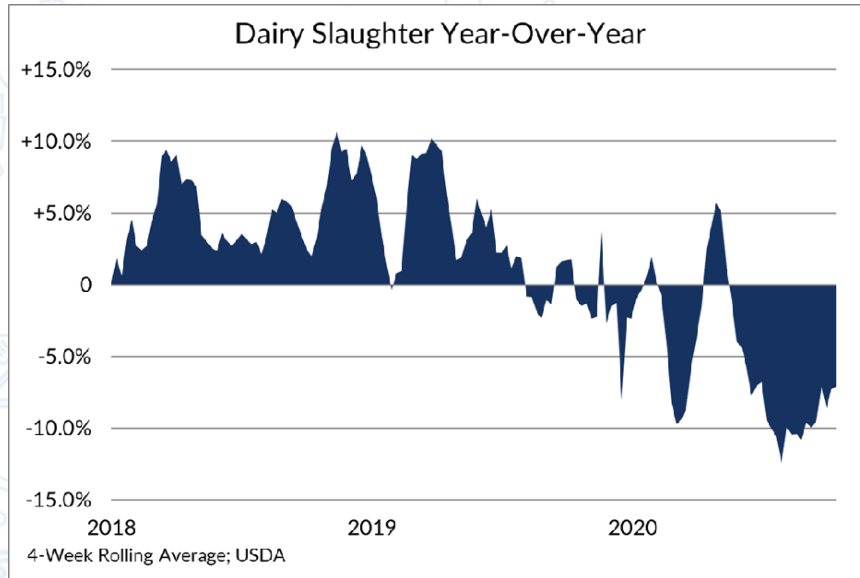
- Class III/Class IV spread remains wide
- Because we now use “average of +74” instead of “higher of” to calculate Class I price, producer results uneven by region

regional fmmo price disparity



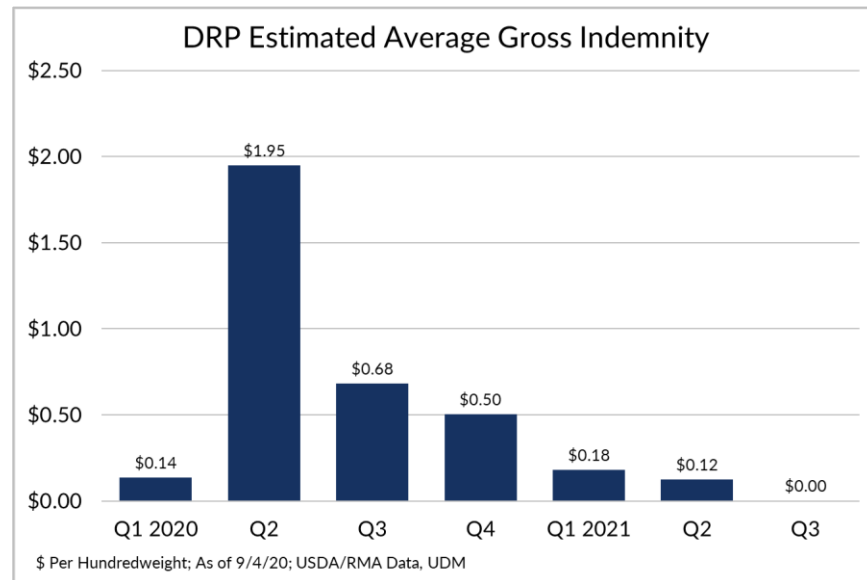
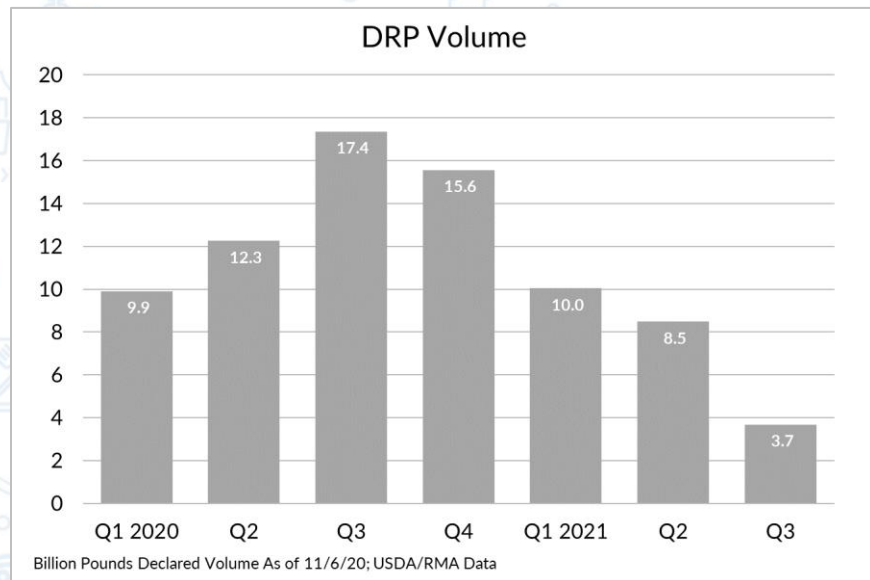
- With wide Class III/Class IV spread, Federal Order minimums vary widely by region

history says more milk = less money



- Dairy cow slaughter is running consistently behind the year-prior pace
- In years with first half milk output up by more than 2% (our expectation for 2021), All Milk price drops by about \$2 per hundredweight versus second-half year-prior

drp: popular risk management tool

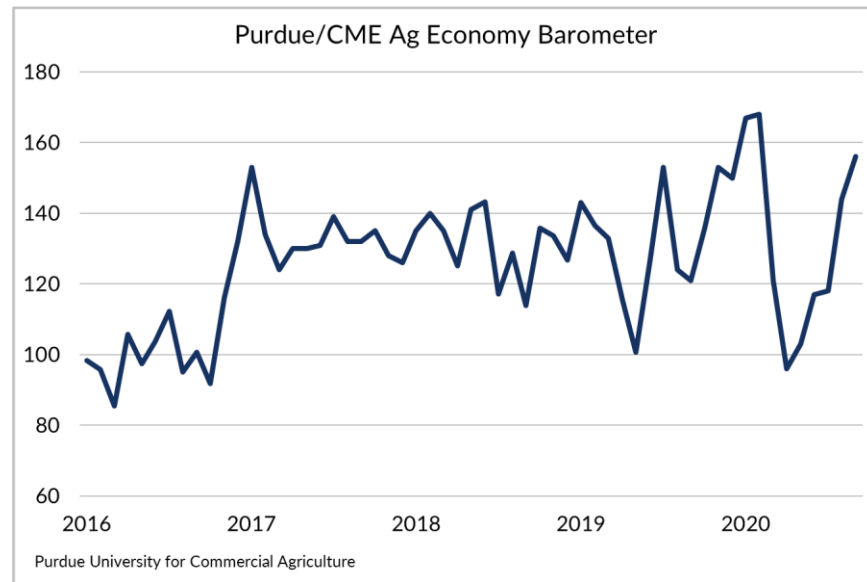
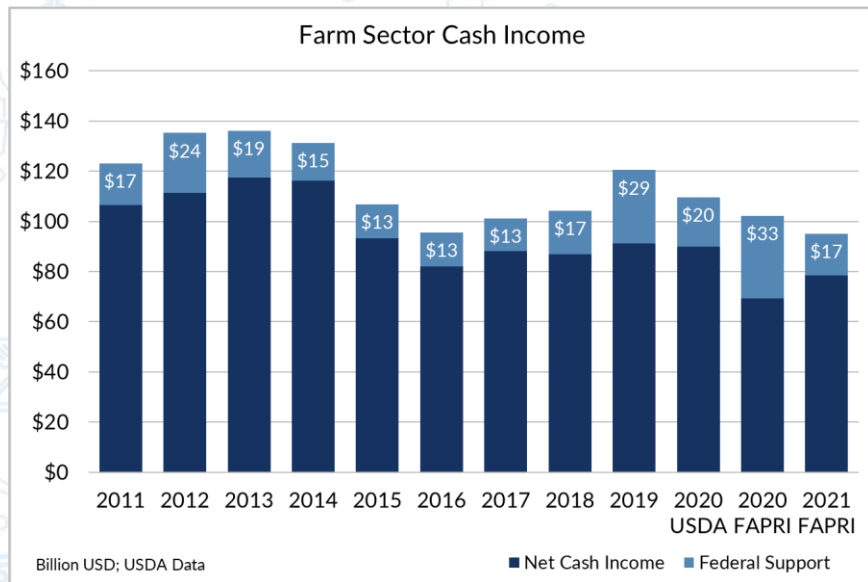


- Dairy Revenue Protection program covered about 25% of US milk in 2020, with significant payouts for Q2 and some for Q3 and likely Q4
- Volatility is pushing up premium costs for 2021.

CBOT Corn Futures



ag sector optimistic

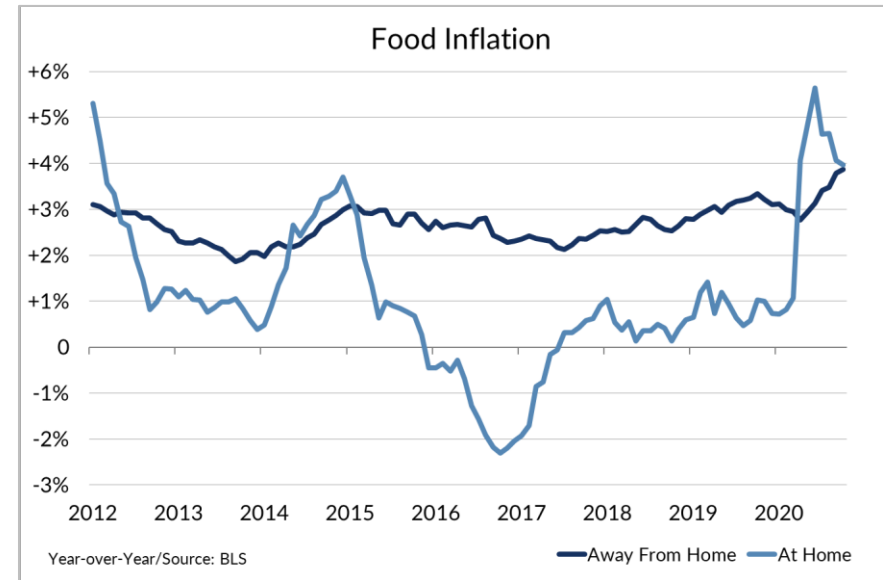
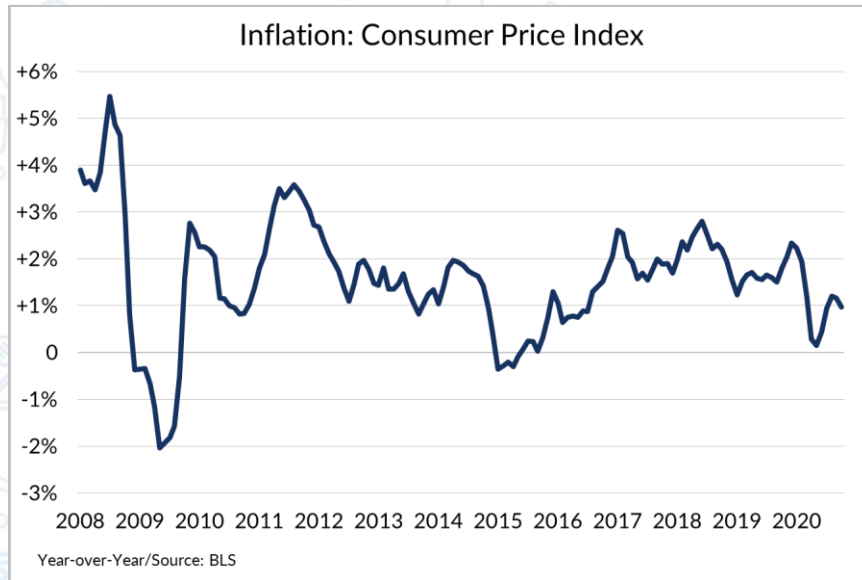


- This year was supposed to be about renewed traded and fewer government payments... turns out that has not been the case
- Majority of farmers still see good/better times ahead -- 23% of farmers expect higher land prices in 12 months, most since survey began (2016).

everything is just fine...really

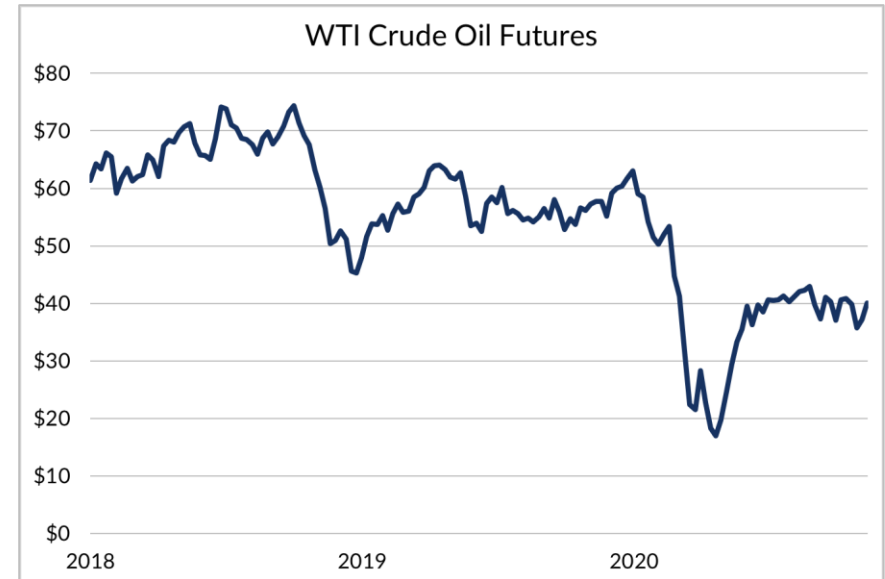
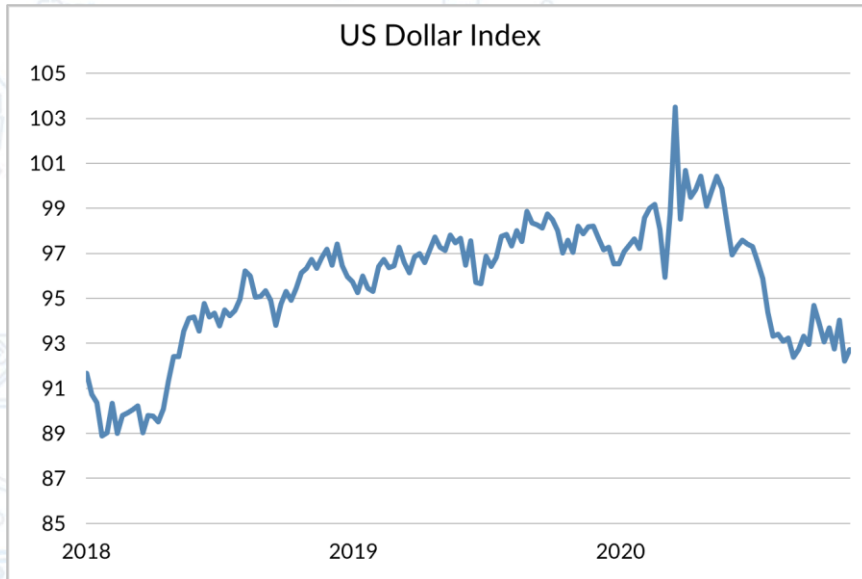


inflation: slow overall, food high



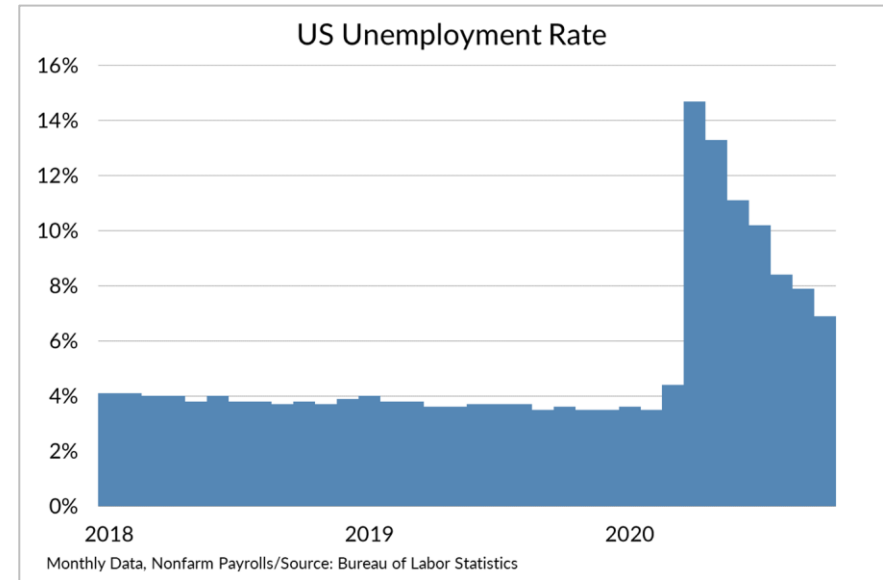
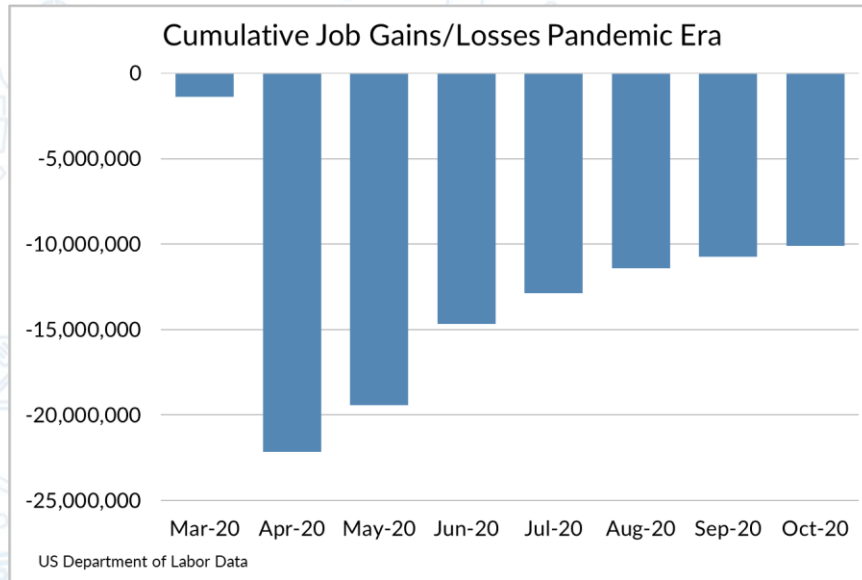
- With gasoline prices low, overall consumer price inflation has been modest
- But: food prices are up about 4% year-over-year

inflation monitor



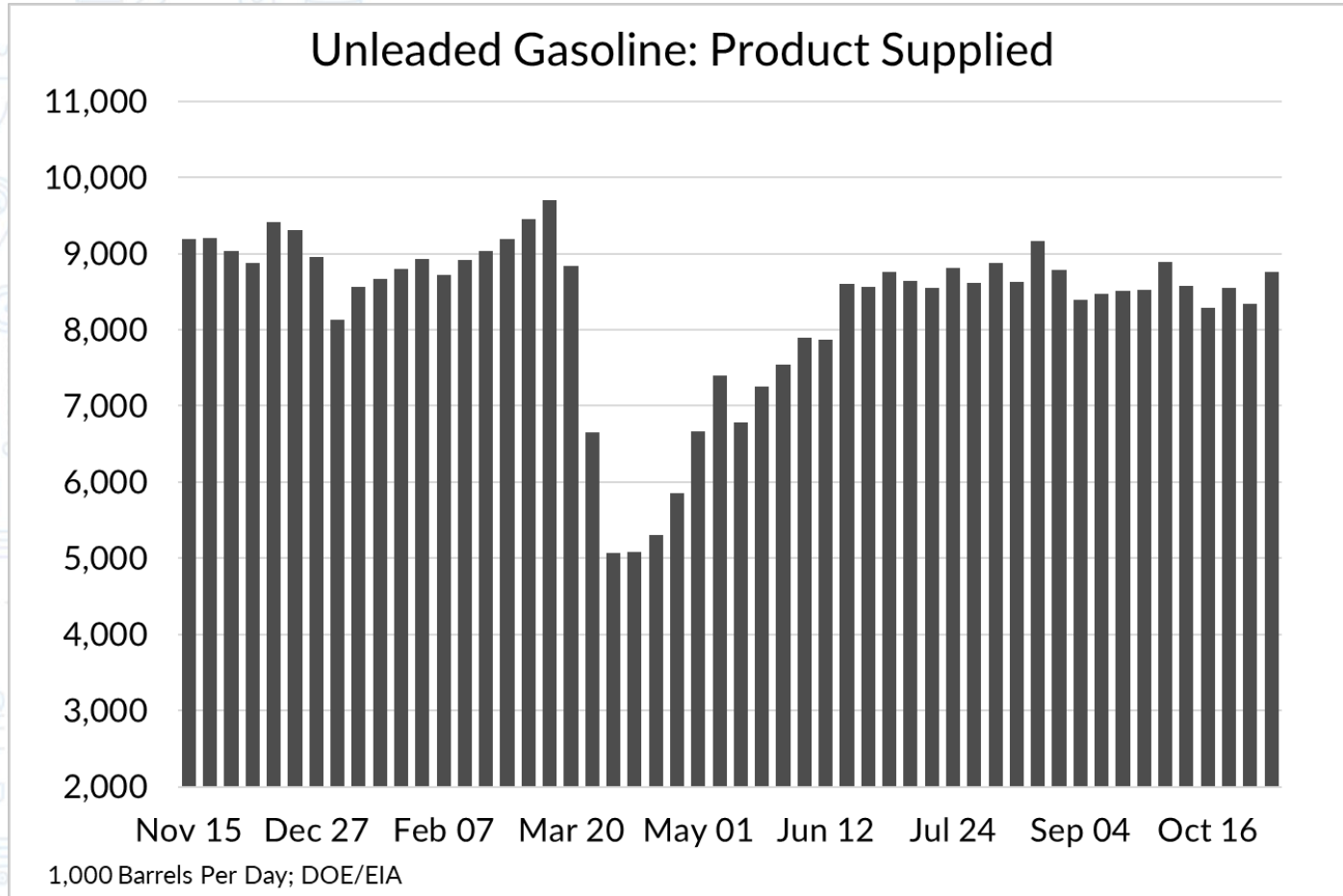
- USDIX is near two-year lows
- Fed seems to be okay with a little inflation
- Seems to be some speculative money flowing into commodities

employment situation: better



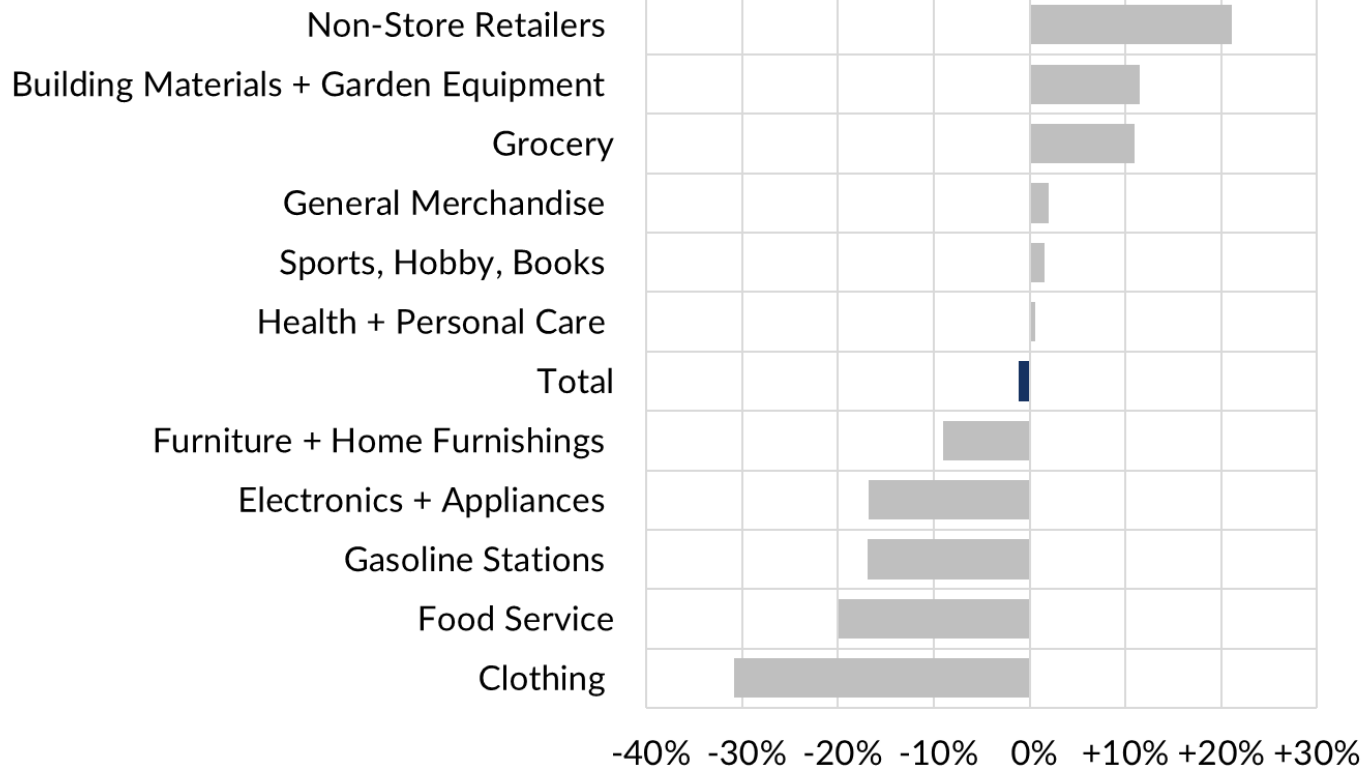
- September *Employment Situation* report showed payrolls expanding by 638,000, above expectations
- We've now regained about 45% of the jobs lost in March and April
- Unemployment rate drops to 6.9%

key indicator: gasoline demand



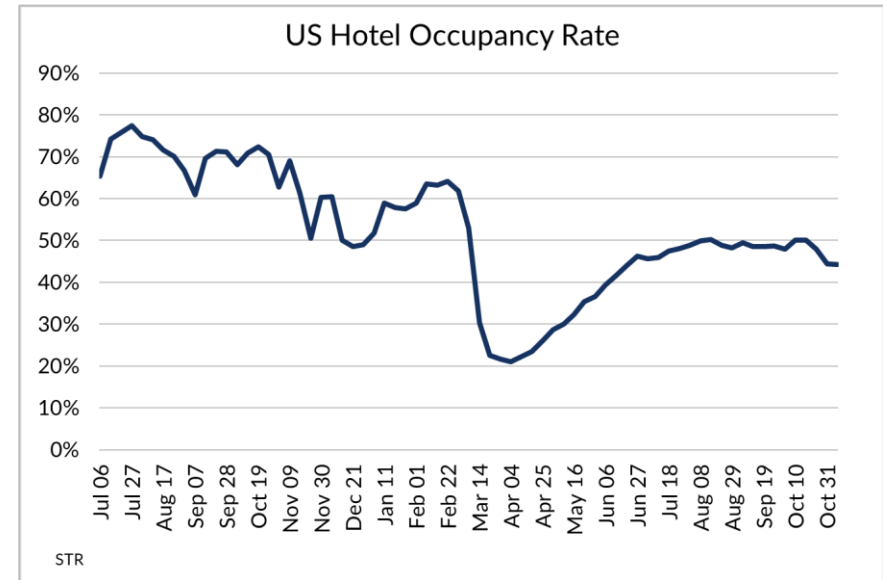
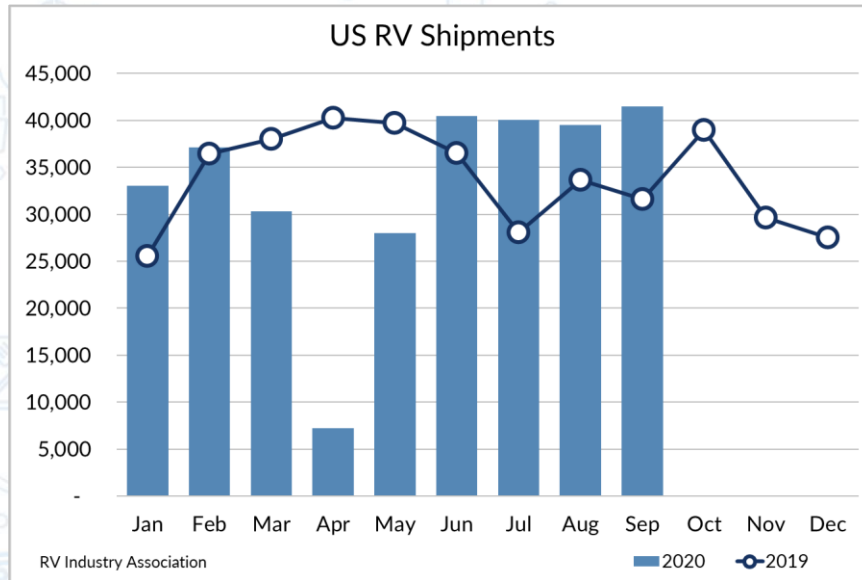
key indicator: retail sales

US Retail Sales: Annual Change YTD Sep 2020



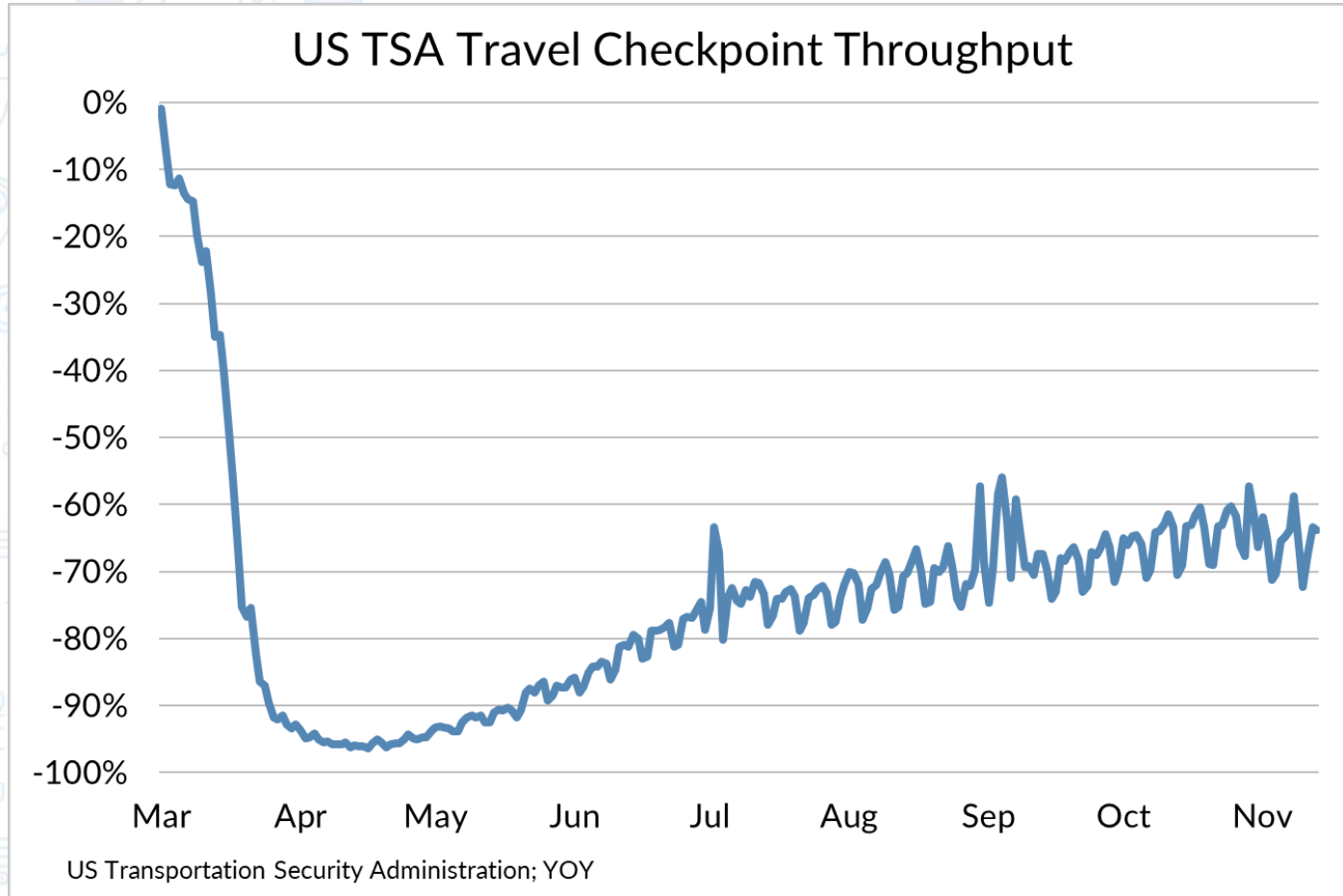
US Census Bureau

sleeping in the new rv



- RV sales up 24% year-over-year for June through September
- Hotel occupancy having trouble getting beyond 50%

key indicator: airline travel



assertions and opinions

The Only Certainty is Uncertainty

Lots of questions... with no way to predict the answers. There's no playbook.

Convenience & Cost Dominate

Companies that make it easy and make it cheap will stay in front.

We Are Pretty Resilient

"Normal" is a long way off, but America will figure out more ways to cope.

Uncle Sam May Be Less Accommodating

The election is over. But: food aid could remain a big deal.

"Too Much" Milk More Likely Than "Too Little"

We have a lot of supply side momentum. That could be a problem.

Be Proactive, Not Reactive!

Lots of convenient tools to manage price risk. Some easy. Use them!

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.

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608.249.5030

www.blimling.com

Dairy.com

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Suite 300

Frisco, TX 75034

214.442.5928

www.dairy.com



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