MPC Weekly Friday Report

Date: October 21, 2022
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	+ $.0075	$2.0575
Barrels	- $.0350	$2.0900
Weekly Average Cheddar Cheese		
Blocks	+ $.0075	$2.0530
Barrels	- $.0210	$2.1620

Chicago AA Butter		
Weekly Change	+ $.0250	$3.2000
Weekly Average	+ $.0015	$3.1935
Dry Whey		
Dairy Market News	w/e 10/21/22	$.5050
National Plants	w/e 10/15/22	$.4846

Non-Fat Dry Milk		
Week Ending 10/15/22		
Nat'l Plants	$1.5862	14,492,713
Last Week Ending 10/08/22		
Nat'l Plants	$1.5808	17,892,874

California Federal Milk Marketing Order Price Projections

Price Projections	Class I Actual *(range based on location)*	Class II Projected	Class III Projected	Class IV Projected
Oct 21 Est	**$24.31 - $24.81**	**$25.76**	**$21.82**	**$24.88**
Last Week	**$24.31 - $24.81**	**$25.72**	**$21.77**	**$24.77**

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
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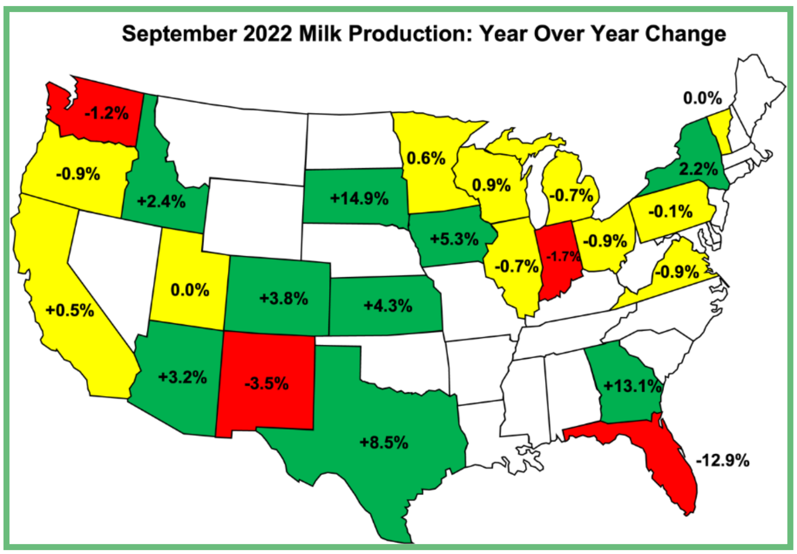
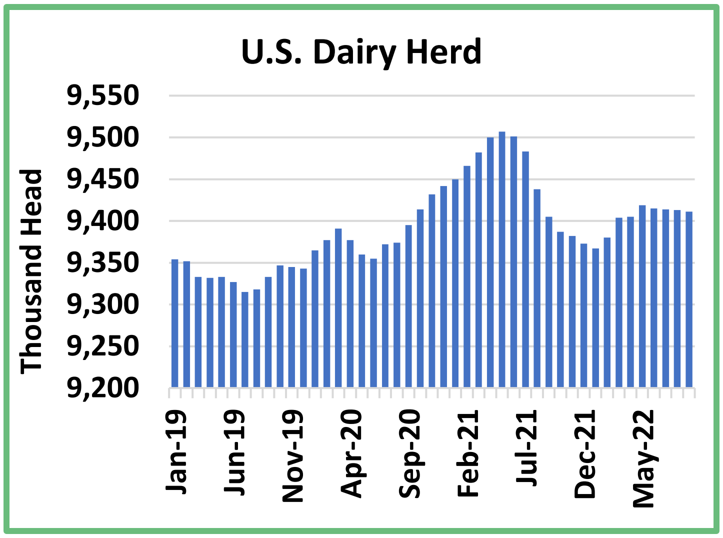
Milk & Dairy Markets

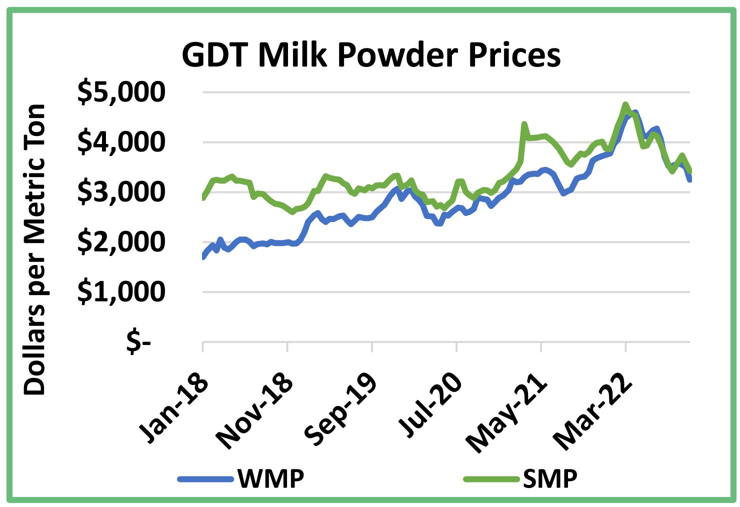
U.S. dairy producers forged ahead in September, posting increases in milk production for the third consecutive month. Totaling 18.282 billion pounds, production was 1.5% greater than in the same month last year. This represents moderately slower growth than the 1.7% reported in August as USDA revised their data up for that month. Despite challenging weather and margin complications, each of the major dairy states saw volumes rise. California, Wisconsin, and Idaho saw output increase by 0.5%, 0.9%, and 2.4%, respectively. Texas, now clearly the country's fourth largest dairy state, saw volumes soar by 8.5%. Production in the Lone Star state was just 34 million pounds shy of Idaho's production during the month.





Production growth was driven by both stronger yields and a modestly larger herd. Yields rose to 1,943 pounds per cow during the month, up 1.4% versus last year's value. Meanwhile, at 9.411 million head, the national herd was 6,000 cows larger than last September. However, USDA made important revisions to their herd number estimates in recent months. While previous numbers illustrated a herd that was growing through the summer, updated data now shows that the herd peaked in May at 9.419 million head, and has been gradually declining ever since.

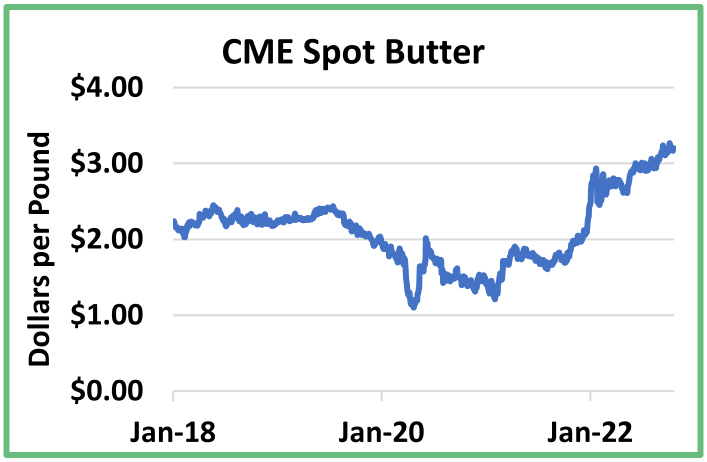
U.S. producers are likely to face headwinds in the coming months, decreasing the likelihood that production will grow in a material way. Margins are coming under increased pressure as milk prices retreat from their highs while operating costs remain elevated relative to historical standards. This situation is not unique to the United States. Similar circumstances are affecting producers in other global supply regions where weather challenges and regulatory shifts are further restricting production. Looking forward, it seems difficult to believe that global milk production could grow in a significant way, which is likely to keep dairy commodity prices above historical averages over the near term.



At the Global Dairy Trade (GDT) auction held earlier this week, the GDT index fell once again by 4.6%, the second consecutive decline. Lower prices were seen across every product though milk powders fared the worse. Skim milk powder and whole milk powder prices fell by 6.9% and 4.4%, respectively, relative to the prior event. Prices are now well off their highs achieved in March and April of this year, though they remain elevated relative to historical values.

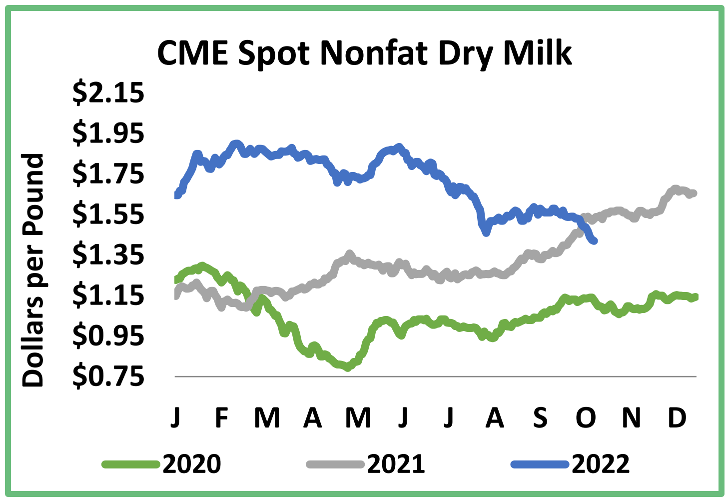
As autumn advances, cooler temperatures have ushered in stronger milk volumes and higher component levels in most parts of the country. Market participants indicate that demand has been solid from both bottlers and manufacturers and spot loads are moving around the country to fulfill their best use. Cream availability has increased, and multiples have fallen, even as demand from both Class II users and butter churns has remained strong.

Even with active churning activity and increased cream availability, spot butter prices remained elevated at the CME this week. On the heels of a small dip on Monday, a 3.25¢ gain on Tuesday pushed the butter market up to $3.20/lb. where it remained for the balance of the week. Activity was quiet, however, as no loads traded hands over the five trading days. Strong demand from the retail sector has



played a key role in keeping the market supported and some participants speculate that prices will begin to retreat once retail buyers have filled their holiday orders.

On the other side of the Class IV complex, nonfat dry milk (NDM) markets continue to sink. The spot market lost ground in every day of trading this week, ending Friday's session at $1.42/lb. down 7¢ compared to last week's close. Demand is lethargic, especially from international clients. Mexican buyers continue to perch on the sidelines waiting for prices to fall further before resuming their purchasing. Some are optimistic that we are nearing price levels that will be sufficient to reignite demand from south of the border.



Cheddar markets were volatile this week, with most of the activity taking place in the barrel trade. CME Cheddar barrels moved up during the first half of the week, stretching the inverted block-barrel spread as wide as 16¢ on Wednesday. Then, the tides turned and a 6¢ and 5.5¢ loss on Thursday and Friday pulled the barrel price back down to $2.09/lb., down 3.5¢ compared to last week. The block markets were more reserved with only a three-quarter cent gain on Thursday. Blocks wrapped up Friday's session at $2.0575/lb. reducing the inverted block barrel spread to 3¢.

Cheesemakers have been active but the relationship between supply and demand has been sufficient to keep tension in the markets, especially for barrels. Foodservice and export demand has generally remained steady however retail demand has begun to weaken. Dairy Market News reports that some retail consumers are, "buying smaller cheese packages or switching to private label brands."

Whey markets only observed modest fluctuations during the week. Robust cheese production has kept a steady whey stream available for driers. Meanwhile demand has been understated. At the CME, the dry whey market dipped slightly on Tuesday and Wednesday before posting a half penny gain on Thursday. Ultimately the market finished the week at 44¢ per pound, a quarter cent decrease compared to last week.

Grain Markets

While daily values ebbed and flowed, grain markets moved mostly sideways this week. Corn futures settled on Friday within a few cents per bushel of Monday's settlements. Meanwhile, soybean futures saw some modest increases with nearby contracts adding about a dime per bushel over the week. With corn contracts above $6.80/bu. and soybean above $14/bu. in the first half of next year, it appears that stubbornly high feed prices will continue to be a thorn in dairy producers' sides in the coming months.

Landowners Pushback in Greater Kaweah Groundwater Sustainability Agency

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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At the end of September, the Board of Directors of the Greater Kaweah Groundwater Sustainability Agency (GKGSA) took action to establish groundwater consumption allocations and fees for accessing those allocations. The GKGSA Board has a habit of going into a closed, confidential session at the beginning of Board meetings and then coming out of those confidential sessions with positions that then get adopted in short order in open session without much opportunity for the public to give input. The decision on September 27 went that way.

While there was always a disclaimer mentioned by GKGSA staff that the Board had the final say, and therefore numbers could change, there was every indication that the allocation that would be put in place for the period of October 1, 2022, through September 30, 2023, would be a total of 2.7 acre-feet per acre and that some percentage of precipitation would also be added to that allocation. The fee amounts that had been indicated were that the first 10 inches per acre would be free, the second 10 inches would be $75 per acre-foot and the remaining 12.4 inches would cost $125 per acre-foot. The GKGSA Board action on September 27 to adopt the 2.7 acre-feet, divided into tiers, was expected. However, the removal of the precipitation allocation and the increase of fees to $125 for tier 1 and $250 for tier 2 were not expected. As you can imagine, as word of this decision got out to the farmers, there was a strong reaction. This is a major change in cost calculation, done without public input and at the last minute.

In defense of the GKGSA Board, the other two GSAs in the Kaweah Subbasin are putting a lot of pressure on GKGSA to reduce pumping because of the impacts of that pumping on their GSAs.

What can be done?

There is a universal acknowledgement that groundwater pumping in the Kaweah Subbasin has to be reduced. Most farmers are dealing with well problems caused by declining water levels. Every subbasin must submit an annual report to the Department of Water Resources, which lists a "change in storage" in the subbasin. The last two years have been drought years, with the Kaweah subbasin reporting a -520,000 acre-foot change in water year 2021 and a -418,000 acre-foot change in storage in water year 2020. So, the problem is real.

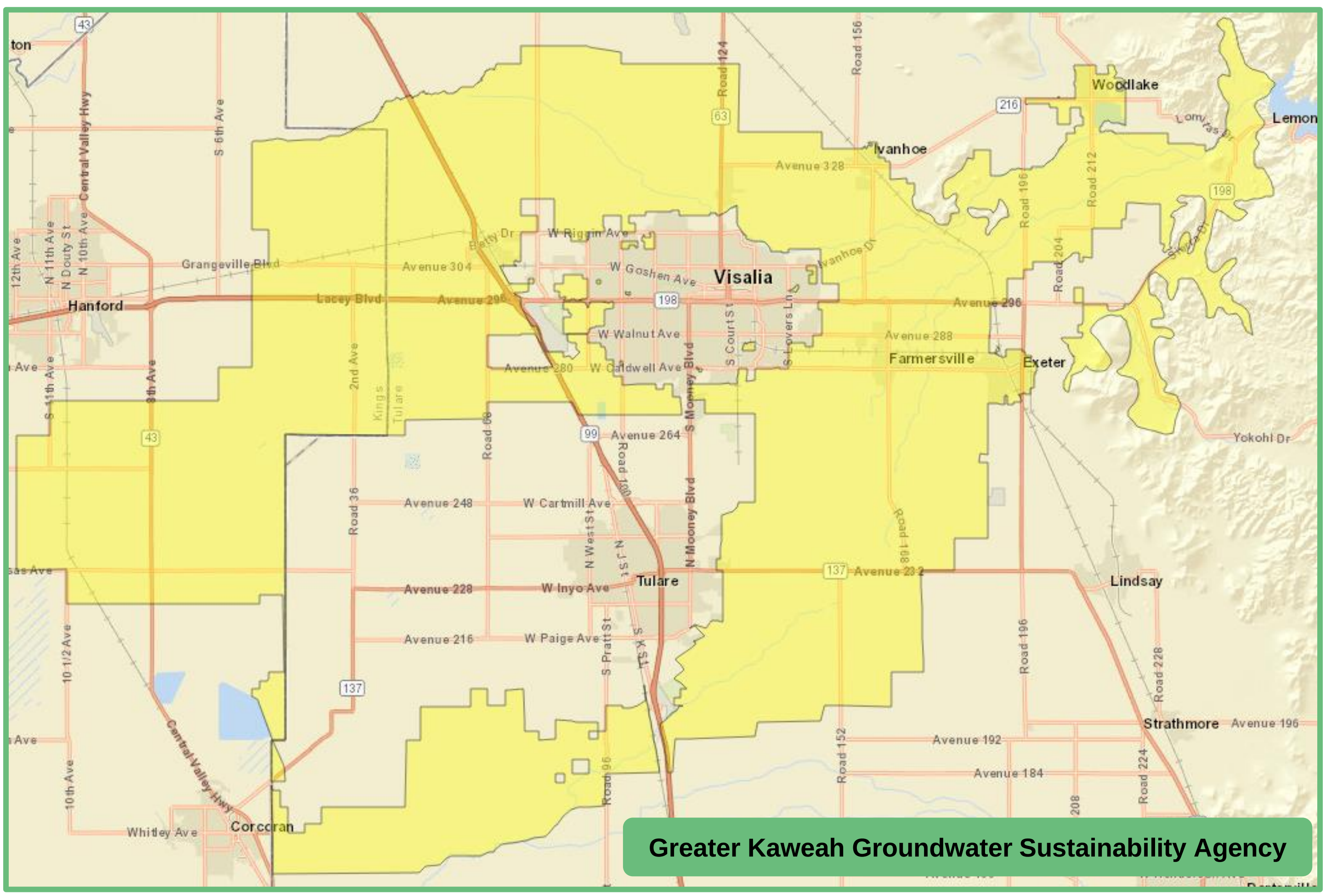
The Groundwater Sustainability Plan of Greater Kaweah does list a lot of projects that are designed to bring in more water and that is certainly part of the long-term answer, but short-term, the quickest way to reduce pumping is to pay farmers to fallow. The Delta View Water Association (DVWA) was formed to represent farmers in the GKGSA and has been promoting a plan to have farmers bid using a [Dutch auction]() for how much money they would need to be paid to fallow their ground. The new fees imposed by the GKGSA will generate nearly $40 million. The fees that the farmers expected to have to pay would generate about $18 million. DVWA estimates that for a payment of about $1,000 per acre, farmers would be willing to fallow some ground and $15,000,000 would fallow 15,000 acres, saving more than 43,000 acre-feet of groundwater.

There was another GKGSA Board meeting this past week and more than one hundred people showed up. DVWA, supported by a number of farmers, made these points to the Board. Later on in the meeting, the Board members did direct their staff to evaluate the points made by DVWA to see if some modifications could be made and if a short-term fallowing program could be implemented.

I realize that this information is very local, but there is a lot of dairy production in the Kaweah Subbasin. Furthermore, this story illustrates the challenge of the Sustainable Groundwater Management Act (SGMA). At its core, SGMA is about allocating pain. It is necessary. The problems are real, but the impacts are not evenly spread out to all landowners. It is unfortunate that we are in a serious drought as SGMA is being implemented. But that is reality. If you are in a good water area, be thankful, but please be supportive of collective efforts to bring in more surface water for your neighbor who may not be as blessed as you are. I do see folks really trying to put together solutions that will work for everyone.

The government has a role here, too. There will need to be significant public financing to both build new water supply infrastructure and also help fund land fallowing programs. I am aware of a number of efforts to advance these programs.

One thing I have discovered in life is that you do not so much solve problems as you outlast them. You keep working at it and eventually progress is made. But in the final analysis, God is in control and he knows what we need.



Greater Kaweah Groundwater Sustainability Agency

Enrollment Now Open for USDA's Dairy Margin Coverage Program

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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If you did not sign up at the beginning for the full five-year term of the Dairy Margin Coverage (DMC) Program, you have an opportunity to signup for this next year between now and December 7. The DMC is a great program for the first five million pounds you produce. It does cost you $0.15 per cwt. on your covered milk, but it is a pretty generous safety net program. You can sign up at your local FSA office.

More information about 2023 DMC enrollment is available here.