MPC Weekly Friday Report

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From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	+ $.0600	$1.8450	Weekly Change		- $.0750	$2.9350	Week Ending 08/06/22	
Barrels	+ $.0950	$1.8875	Weekly Average		- $.0655	$2.9625	Nat'l Plants	$1.7327	20,644,694
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	- $.0050	$1.8220	Dairy Market News	w/e 08/12/22	$.4850		Last Week Ending 07/30/22	
Barrels	+ $.0550	$1.8740	National Plants	w/e 08/06/22	$.5348		Nat'l Plants	$1.7366	20,274,656

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
Aug 12 Est	**$26.73 - $27.23**	**$26.86**	**$20.15**	**$24.60**
Last Week	**$26.73 - $27.23**	**$26.76**	**$20.02**	**$24.70**

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
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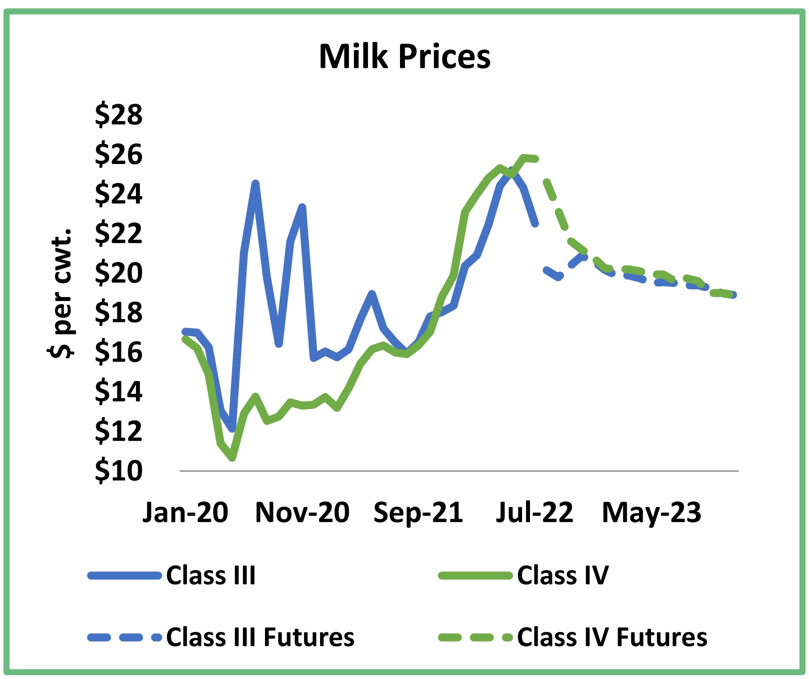
Milk & Dairy Markets

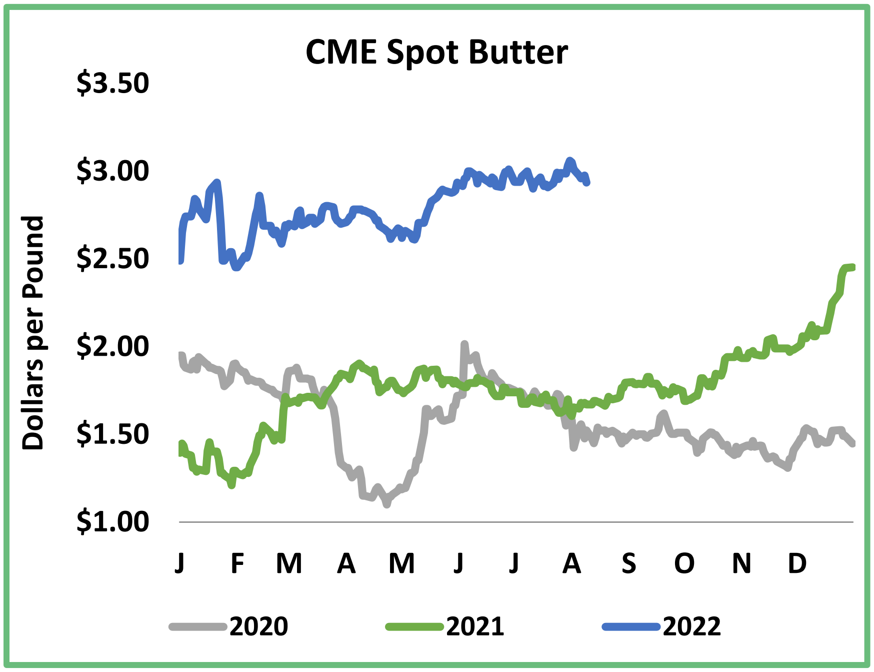
On the heels of persistent declines, most products at the CME managed to stop the slide this week. While some modest increases suggest that the tone may be shifting, the markets continue to feel unsettled as they digest various fundamentals. Economic anxiety is still threatening consumer purchasing power and though a robust international appetite has kept product moving offshore, the balance between supply and demand feels precarious.



Boiling temperatures and stifling humidity are pushing back on milk production in many areas of the country. With school openings around the corner, bottlers are increasing their raw milk demand. In most areas, supplies have been sufficient to meet Class I demand without depriving manufacturers of too much volume. However, if weather conditions continue to beat back output this may not be the case for long.

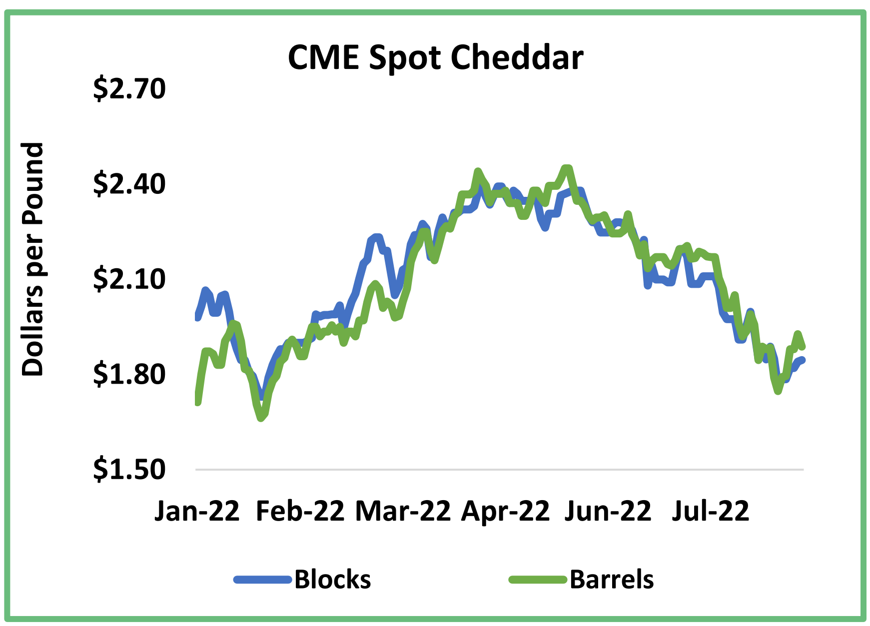
Milk futures bounced around over the course of the week but both Class III and Class IV saw contracts through the balance of the year settle higher on Friday than on Monday. Class IV prices continue to hold a premium to Class III, due to strength in the fat markets, which the futures markets anticipate will persist over the majority of next year.

After weeks of pushing upward, butter prices moved down this week. In particular, a 4¢ loss during today's trade ushered the spot price down to $2.935/lb., a decrease of 7.5¢ compared to last Friday. The trade continues to be active with 34 loads of butter trading hands over the course of the week. Despite the decline, however, butter markets remain elevated relative to historical averages and continue to demonstrate surprising resilience.



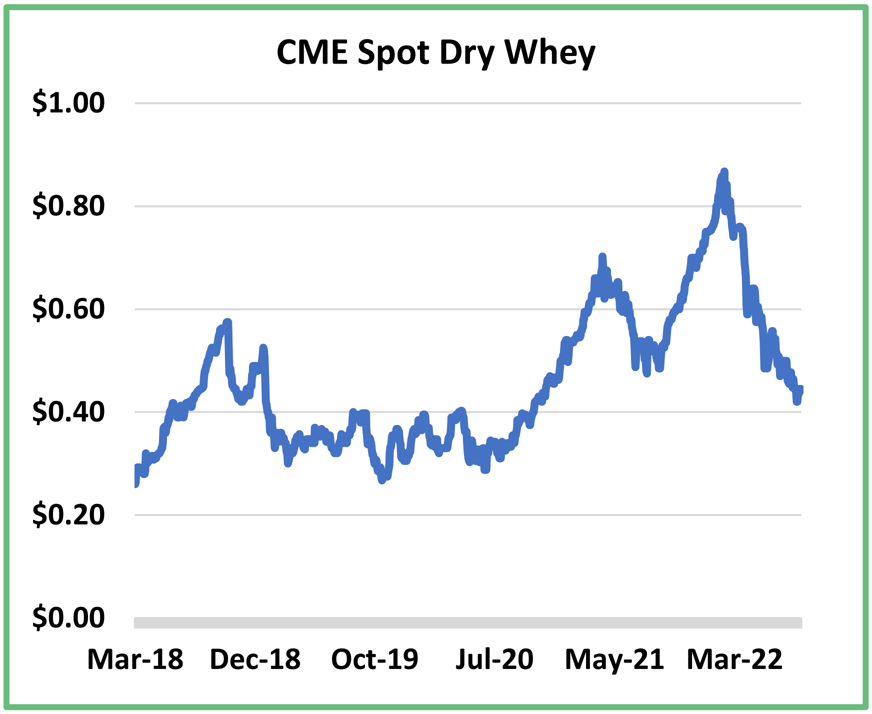
Cream availability is tight as seasonal, hot weather is reducing both milk availability and component levels. In addition, cream demand from cream cheese manufacturers is strong and believed to be depriving churns of spot cream loads. With the fall baking season looming, butter manufacturers are optimistic that retail demand will improve. For the moment, however, most butter buyers seem to have their needs covered. Tepid demand and sufficient, if not overwhelming, inventories, are lending some doubt about how much longer butter may be able to persist at prevailing price levels.

On the other side of the Class IV complex, manufacturers of nonfat dry milk (NDM) indicate that stocks are plentiful. Export demand for NDM and skim milk powder has slowed, especially from Mexico. However, according to *Dairy Market News*, "some are hopeful that the recent decline in prices will entice purchasers." At the CME, spot prices slid as low as $1.46/lb. on Tuesday before gaining some ground later in the week. Ultimately, the market closed at $1.5175/lb. on Friday, an increase of 1.5¢ compared to last week, with 25 loads moving.



The Cheddar markets also managed to make some gains during the week. In the block market, after beginning the week unchanged on Monday, gains on Tuesday, Thursday, and Friday lifted the price to $1.845/lb., 6¢ higher than last Friday. Barrels saw important gains on Tuesday and Thursday before giving up some ground during today's trade. At the end of today's session, barrels were at $1.8875/lb., up 9.5¢ versus last week. Barrels held as much as an 8.75¢ premium to blocks this week though the advantage was whittled down to 4¢ today.

According to market participants, cheese inventories are readily available. Production continues at a steady clip though competition for milk with other users threatens to reduce the quantity of milk headed to cheese vats. In addition, ongoing labor issues are preventing manufacturers from being as productive as they might like. The high prices seen in recent weeks have taken a bite out of cheese demand in both retail and foodservice channels, though lower prices could help to restore some of that interest.



Whey markets moved in a narrow band this week, ultimately gaining a penny compared to last Friday's close. The spot dry whey price ended the week at 44.5¢/lb. with just two loads trading during the week. Demand has purportedly slowed from both domestic and international sources and inventories are accumulating as a result. Higher protein products continue to offer more attractive margins for manufacturers.

Grain Markets

USDA released its World Agricultural Supply and Demand Estimates report this afternoon, making some modest edits to both the corn and soybean balance sheets. In the case of corn, USDA trimmed its yield expectations for the 2022/23 corn crop to 175.4 bushels per acre, ultimately reducing their forecast for corn production by 1% to 14.539 billion bushels. Reduced production flowed through to lower exports along with lower feed and residual use. In the global balance sheet, lower exports from the U.S. were more than compensated by larger exports from Ukraine and Russia, as corn begins to move out of ports there.

Despite reducing the forecast for area harvested by 300,000 acres, a 0.8% increase in the yield projection lifted the soybean production forecast to 4.531 billion bushels. This represents an increase of 0.6%, or 26 million bushels compared to last month's estimate. Exports were raised by 20 million bushels. Even so, USDA's updated balance sheet suggests there should be marginally more soybeans available for domestic use.

Both corn and soybean futures markets found the report as sufficient motivation to move upward, though gains were more dramatic in the corn market. Every corn contract through JLY23 settled at least a dime higher today.

Governor Newsom Makes a Big Water Announcement

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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As regular readers of this newsletter know, Milk Producers Council was a strong supporter of the More Water Now initiative effort conducted late last year. This citizen initiative sought to place on the ballot a California constitutional amendment that would dedicate 2% of the state's general fund every year to finance water supply projects. The goal of the initiative was to create water abundance in California by advancing an "all of the above" strategy, including water recycling, increased water storage, both above ground and below ground, improved conveyance, ocean and brackish water desalination, in addition to continuing water conservation efforts. Not only did the initiative include funding for projects, it also included provisions to streamline permitting to enable these projects to actually get built. The effort to get 1 million signatures to qualify the initiative for the ballot was not successful, but Edward Ring, the main organizer of the effort, published a book on the experience entitled "The Abundance Choice: Our Fight for More Water in California."

Yesterday, Governor Newsom held a press conference in Antioch, California at the construction site of a desalination plant to outline a new plan to invest in increased water supply for California. The Governor pointed out that so much of our conversation about water has been from a water conservation mindset and that needs to change, "moving away from a scarcity mindset to one more of abundance." He pointed out that increasing urban water recycling and desalinization will reduce demand on the traditional conveyance projects in the state, which leaves more water available for agriculture.

Governor Gavin Newsom discusses water supply strategy for a hotter and drier future at the construction site of a desalination plant in Antioch, California.

The new plan aims to create storage space for up to 4 million acre-feet of water allowing the capture of big storms when they occur and store that water for use in dry periods. Also in the plan is the goal of creating 800,000 acre-feet of annual recycled water for reuse and significantly enhancing stormwater capture and desalinization projects. Another big part of the plan is to streamline permitting processes for building water infrastructure.

The Governor said, "The time to get these damn projects is ridiculous; it's absurd; it's reasonably comedic. And in so many ways, the world we invented from an environmental perspective is now getting in the way of moving these projects forward."

Governor Newsom said all the right things yesterday. Of course, those are just words, will he follow through? Will we help him? Time will tell, but water abundance for this great state is a goal worth getting behind.

California Dairy Processors Innovate to Cut Emissions and Close Loops

Courtesy of Dairy Cares

California dairy processors are improving planet-smart practices in the plant, on the road, and in packaging.

While California dairy farmers have been busy adopting more planet-smart practices, so have the people who process and deliver milk. In 2020, the entire U.S. dairy community (field, farm and processor) committed to achieve greenhouse gas neutrality by 2050. As they contribute to this effort and work toward California's own ambitious climate and goals, dairy processors in the Golden State are trying new strategies and delivering positive results. They are thinking outside of the milk carton—or rather rethinking it and how it gets from farm to consumer.

Clover Sonoma launched both the first fully renewable milk carton and the first PCR milk jug in the United States.

Pioneering Packaging and Recycling Efforts

Petaluma-based Clover Sonoma is a third-generation family-owned and operated dairy company at the forefront of innovative, sustainable packaging solutions. In 2020, the company launched the first fully renewable milk carton in the United States. This year, Clover Sonoma launched the first post-consumer recycled (PCR) gallon milk jug. Starting with 30% PCR content, the company is committed to increasing the PCR content across all their organic gallon milk jugs by 2025. Packaging is a major area of focus for Clover Sonoma; they work to decrease the use of fossil fuels, utilize less plastic, encourage recycling, and ultimately bring sustainable dairy products directly from family farms to consumers.

In 2021, the California Milk Advisory Board, in partnership with Clover Sonoma and MilkPEP, launched a public information campaign aimed at increasing awareness of the recyclability of milk jugs made of high-density polyethylene or #2 plastic. The "Recycle the Jug" campaign—with the "Pour it. Cap it. Bin it." message—is helping drive sustainable behavior by promoting the recycling of plastic gallon and half gallon milk jugs.

Transitioning to Zero Tailpipe Emissions

Producers Dairy is a third-generation family-run dairy processor and direct-to-store supplier that is investing in more sustainable transportation. The company has integrated two Volvo VNR Electric, zero-tailpipe-emission trucks into their fleet—the first commercial, battery-electric Class 8 trucks ever deployed in California's Central Valley. The electric trucks are delivering farm-fresh dairy products from the Fresno facility to local grocery stores.

Continue reading here.

NMPF Update: House Passes Major Climate Bill

By Jim Mulhern, President & CEO
National Milk Producers Federation

Following passage last weekend in the Senate, the House of Representatives today returned to Washington from its August recess and approved the Inflation Reduction Act (IRA), handing the Biden Administration a major victory after a year of negotiations over the scope of the climate, healthcare and tax package. NMPF supported the nearly $20 billion in funding for climate-smart agricultural practices that will help the dairy industry achieve its net zero objectives over the next three decades.

The largest share of this funding, $8.45 billion, is going to the Environmental Quality Incentives Program, a program that directly benefits dairy farmers. This includes doubling funding for the Conservation Innovation Trials created in the last farm bill from $25 million to $50 million annually, with emphasis on projects that use feed management to reduce enteric emissions.

The ag-focused funding also includes about $4.95 billion for the Regional Conservation Partnership Program, $3.25 billion for the Conservation Stewardship Program, and $1.4 billion for the Agricultural Conservation Easement Program. The funding for all four programs is spread out over fiscal years 2023-26.

In addition, the IRA provides $13.3 billion for rural development programs, $6 billion for FSA farm loan borrower assistance, and $5 billion for forestry programs. A more detailed summary of the farm- and rural-related elements in the IRA is available here.