

MPC WEEKLY FRIDAY REPORT

DATE: AUGUST 4, 2023
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 6



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	+ \$.0575	\$1.9650	WEEKLY CHANGE	-\$.0600	\$2.6200
Barrels	+ \$.0125	\$1.7750	WEEKLY AVERAGE	-\$.0110	\$2.6430
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 07/29/23	
Blocks	+ \$.0890	\$1.9610	DAIRY MARKET NEWS	W/E 08/04/23	\$.2850
Barrels	+ \$.0495	\$1.8420	NATIONAL PLANTS	W/E 07/29/23	\$.2525
				LAST WEEK ENDING 07/22/23	
				NAT'L PLANTS \$1.1276 24,710,018	
				NAT'L PLANTS \$1.1478 16,882,711	

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 4 EST	\$18.22 - \$18.72	\$19.65	\$17.20	\$18.75
JUL '23 FINAL	\$18.92 - \$19.42	\$19.12	\$13.77	\$18.26

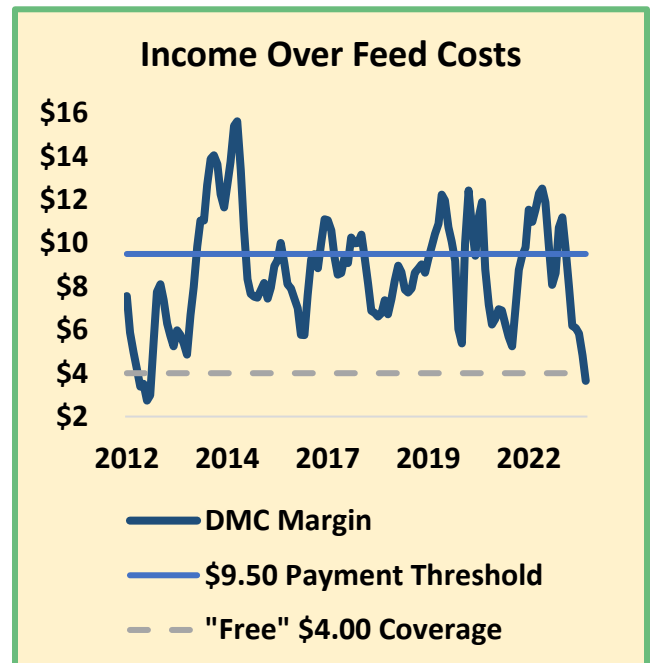


Milk, Dairy and Grain Market Commentary

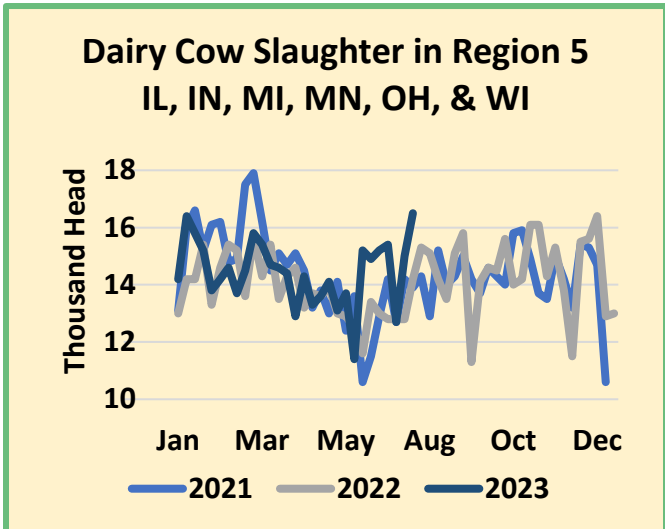
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Dairy producers are getting pummeled, and the bruises are starting to show. In California and the Southwest, where feed costs are highest, slaughter volumes have been elevated all year. In the Northern Plains and Midwest, slaughter volumes ramped up noticeably in mid-June, not long after the disappointing May milk checks hit the mailbox. May Class III was \$16.11 per cwt. and many dairy producers got far less than that as cheap spot milk – and dumped milk – resulted in steep discounts. The June check was even worse, with Class III at just \$14.91. The discounts got worse as well. This week USDA announced the July Class III price at \$13.77. Discounts on spot milk in the cheese states could take a smaller bite out of the July milk check, but milk revenue will be pitifully small.

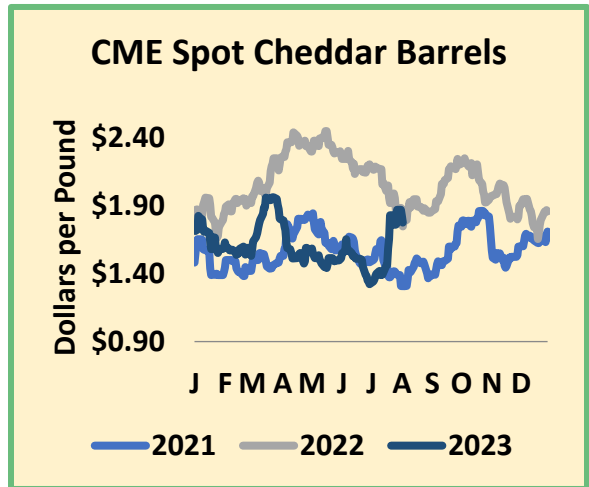


Margins were low enough that the income-over-feed margin as calculated by USDA’s Dairy Margin Coverage (DMC) program dropped to just \$3.65 per cwt. for June, its lowest reading in more than a decade. Most dairy producers enroll their first 5 million pounds of annual milk production at the DMC’s \$9.50 threshold, and they will receive a payout of \$5.85 on this portion of their June DMC coverage. About one-fifth of U.S. milk production was covered with a \$9.50 DMC floor. Most dairy producers sign up the rest of their milk at the nearly-free \$4 tier. For the first time, margins were low enough in June to trigger a 35¢ payment for this disaster-level \$4 protection.



Awash in red ink, dairy producers in the Upper Midwest stepped up cull rates. National dairy cow slaughter reached 255,700 head in June, the highest tally for the month since 2009. Slaughter volumes remained high in July and are likely to climb in August. In the week ended July 22, dairy producers sent 61,242 cows to the packer, the highest late-July head count since 1986, the year of the cow-kill program.

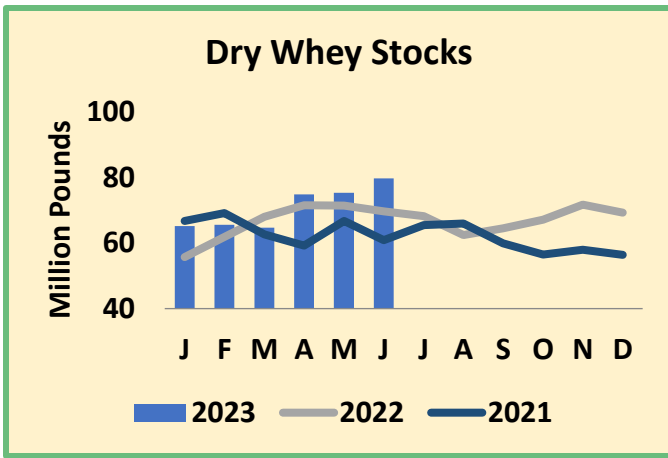
Meanwhile, scorching temperatures stressed the cows in the parlor. Between the heat and the herd dispersals, processors saw milk flows drop significantly in the past few weeks. Components dropped too, and cream values shot higher. That likely means lower butter and milk powder production in July and August. But cheese vats are still full. However, one major cheese plant took some downtime, which temporarily tightened supplies of fresh Cheddar for sale in Chicago.



The summer cheese short squeeze lifted spot Cheddar once again on Monday, and both blocks and barrels notched four-month highs. But the bids dried up Tuesday, and the bulls retreated. CME spot Cheddar blocks held firm into Friday and closed at \$1.965 per pound, up 5.75¢ for the week. Barrels started strong but then petered out. They closed today at \$1.775, just 1.25¢ higher than last Friday.

There is still plenty of cheese to be had. USDA’s Dairy Products report showed cheese production just shy of 1.17 billion pounds, up 0.4% from a year ago. Cheddar output slipped 1.1% year over year in June, which contributed to the steep rise in cheese prices in July. Mozzarella production fell 1.6%, signaling continued weakness in U.S. cheese exports to Asia. Cheesemakers eschewed production of fresh cheeses like ricotta (-9.5% year over year) for hard cheeses like Parmesan (+9.4%). That means the market will have to contend with an abundance of cheese in aging programs for the foreseeable future.

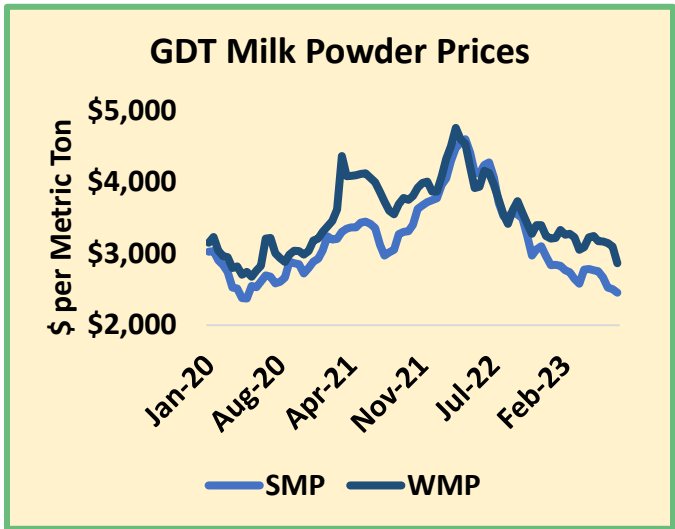
Whey output remains strong. Production of dry whey for human consumption was up 2.7% year over year in June, and whey protein concentrate (WPC) output jumped 10.8% from June 2022. Stocks are burdensome and whey is still cheap. CME spot whey advanced 2.25¢ this week to 27.25¢ per pound.



June butter output topped year-ago levels by 2.3%, thanks to plenty of butterfat in the milk supply during the tail end of the flush. Now that both milk flows and components are much lower, churns are sitting idle. Slower summer output helped to lift butter prices to a new plateau, but it wasn't enough to keep them at last week's highs. CME spot butter fell 6¢ this week to a still lofty \$2.62.

Lower milk output reduced milk powder production in June. Combined production of nonfat dry milk

(NDM) and skim milk powder (SMP) fell 1.5% from June 2022 to nearly 220 million pounds. Manufacturers' stocks of NDM inched lower in June, thanks to strong demand from Mexico. U.S. milk powder production is in decline and likely to fall sharply over the next six months as a greater share of the shrinking milk supply heads to cheese vats. But that's not enough, on its own, to lift milk powder prices. Demand matters as well. And on that front, the outlook is a little less sunny. While Mexico continues to import huge volumes of U.S. milk powder, demand from other markets is anemic. At the Global Dairy Trade (GDT) auction on Tuesday, both whole milk powder (WMP) and SMP prices dropped to their lowest level since 2020. The GDT auction was so disappointing that it prompted Fonterra to trim its 2023-24 farmgate milk price forecast by a dollar to a midpoint of NZ\$7 per kg of milk solids, a five-year low. CME spot NDM slipped 3.5¢ this week to \$1.125. Class IV futures finished 30¢ to 50¢ lower than last Friday, in the high-\$18s. Contraction in the U.S. dairy herd is setting the stage for much higher prices down the road, but unless global demand perks up, it could be a long and painful journey.



Grain Markets

The forecast is wet and relatively cool, nearly ideal for the pollinating corn and soybean crops. But while the weather out the windshield is positive for yields, the market remains anxious about the impact of the much harsher conditions in the rear-view mirror. And there are plenty of issues abroad. Drought and heat trimmed potential from crops in Canada and Europe. Flooding reduced India's rice crop and the Indian government banned exports of certain rice varieties, which will likely push some consumers to wheat as a substitute. Russia continues to destroy Ukrainian grain and the facilities required to move it. But Russian actions also pushed prices lower at times over the past week, as they promised free grain to African nations in exchange for their diplomatic support. Grain and oilseed traders are hopeful that July and August weather will allow for decent U.S. crops, but they are still wary that supplies will feel tight. Feed prices are down considerably from where they stood a week ago, but they remain on edge. December corn futures fell 33¢ to \$4.9725 per bushel. November soybeans finished at \$13.87, up nearly a nickel. September soybean meal closed at \$422.60 per ton, down \$11.



The Producer Review Board Holds a Meeting

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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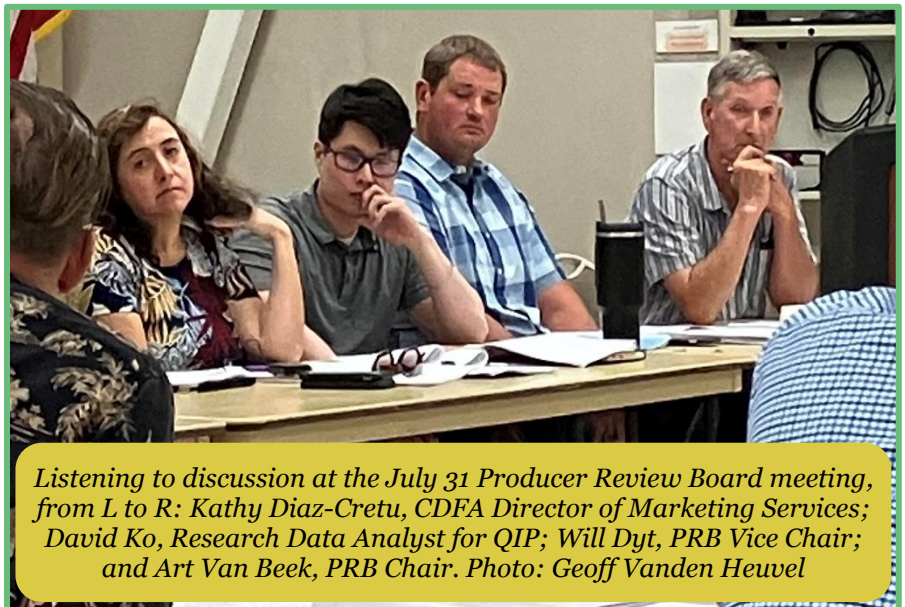
On Monday, July 31, the Producer Review Board (PRB) held an in-person meeting at the Stanislaus County Ag Commissioner's complex. The reason for the meeting was to give input to the research firm that will be conducting the required five-year survey of the effectiveness of the Quota Implementation Program (QIP).

But before getting to that item, the battle over the minutes of past PRB meetings resumed. Minutes from June 6, 2022; October 3, 2022; May 5, 2023; and June 12, 2023, were up for approval. At the June meeting, individual members of the PRB brought up changes they wanted made to the draft minutes. The Department took those comments under advisement. For this meeting, the Department staff reviewed the suggested changes and incorporated some of them into an updated version of some of the minutes. However, Department staff did not believe other member comments should be in the minutes. Those other comments were put in a document that the PRB could review. After lots of discussion, a motion was made, seconded and passed to approve all four sets of minutes together without those supplemental member comments being added. It was not a unanimous vote.

Another item discussed was the budget for administering the QIP. The current budget is around \$1.15 million per year. The assessment collects about \$1.2 million per year, but the costs of administering the QIP have been much less than budgeted over the past four years, which has caused the balance in the QIP Administration Fund to grow to well over \$3.5 million. The PRB passed a motion to recommend that the .003 per cwt. QIP administrative fee be suspended indefinitely.

There was also a reminder that the QIP fee to fund the quota payments was reduced as of July 1, 2023, to .033 per pound of Solids Not Fat, which equates to \$0.287 per cwt. on 8.7% SNF milk. This is down from \$0.34 per cwt. where it has been since March of 2023.

Another significant announcement was that the Department determined that a [petition](#) it received from the STOP QIP organization on June 22, 2023, that seeks a referendum to immediately terminate the QIP is a valid petition. What this means is that the Department is currently examining the signatures submitted with the petition to determine if there are a sufficient number of producers who have signed the petition to bring it forward for consideration. The Department has



Listening to discussion at the July 31 Producer Review Board meeting, from L to R: Kathy Diaz-Cretu, CDFA Director of Marketing Services; David Ko, Research Data Analyst for QIP; Will Dyt, PRB Vice Chair; and Art Van Beek, PRB Chair. Photo: Geoff Vanden Heuvel

90 days to conduct this signature validation. If 25% of the eligible producers in California have signed the petition, then the process will proceed.

The PRB meeting then turned to a discussion about the contents of the five-year study. Research America, Inc., who was awarded the contract to conduct the study, had a first draft that the PRB was able to respond to. Many of the questions surround the mechanics of how the QIP program operates. There were strong opinions expressed from some PRB members that the study also needed to solicit opinions from producers about their support for the continuance of the plan. Department staff pointed to the [minutes of the September 12, 2017, meeting](#) of the PRB where the contents of Section 1100 of the QIP were debated and a final recommendation was made to the Secretary. The adopted QIP language is: *“Section 1100. A producer survey shall be conducted by an independent party selected by the Producer Review Board at least every five (5) years. The survey shall evaluate the effectiveness of the Plan. The results of the review will be provided to the Producer Review Board for its consideration, and recommendation to the Secretary.”*

The whole question here is what does “effectiveness of the plan” mean? There were a number of additional questions suggested by PRB members that would allow producers to expand on their thoughts and opinions of the QIP. There will be an updated survey questionnaire distributed to PRB members within the next week. CDFA wants to get the final version of the survey distributed to producers for their responses by late August with the intention of having the results compiled before November 1, which is the five-year anniversary of the QIP.

The next meeting of the PRB is anticipated to be in September.

Watch: Starbucks Sustainable Dairy

Courtesy of [Starbucks Coffee](#)

Starbucks Coffee recently released a short video featuring a California dairy farm. Watch [here](#).



FDA's Fake Milk Guidance Not Enough to Prevent Misleading Labeling

*Courtesy of Jim Mulhern, President & CEO
[National Milk Producers Federation](#)*

NMPF [told the Food and Drug Administration](#) this week that its proposal to allow plant-based beverages to use “milk” in their names is not acceptable. At issue is a draft guidance that, if implemented, allows processors to continue using terms such as oat “milk” or “almondmilk.”

In [our comments](#), NMPF did commend the FDA for its acknowledgement of consumer confusion about the nutritional content of dairy imitators. The FDA’s guidance would require marketers to prominently display the nutritional differences between the fake milk products and real dairy milk. But that labeling disclosure (which may not be fully utilized by processors or enforced by FDA) is insufficient to fully address the public health ramifications of imitation products failing to offer the same consistent nutrition as real milk while utilizing dairy terms.

Because of the voluntary nature of the proposed guidance and FDA’s un dependable labeling enforcement history, NMPF continues its work in Congress to pass the bipartisan, bicameral DAIRY PRIDE Act, which would direct FDA to enforce its own rules and clarify that dairy terms are for true dairy products.

