MPC Weekly Friday Report

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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	- $.0775	$1.3925	Weekly Change	- $.0150	$2.8075	Week Ending 03/16/24		
Barrels	- $.0175	$1.4250	Weekly Average	- $.0080	$2.8210	Nat'l Plants	$1.1983	20,278,188
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	- $.0215	$1.4280	Dairy Market News	w/e 03/22/24	$.5000	Last Week Ending 03/09/24		
Barrels	+ $.0410	$1.4780	National Plants	w/e 03/16/24	$.4856	Nat'l Plants	$1.2000	18,422,137

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
Mar 22 Est	No Change	$21.07	$16.41	$20.09
Last Week	$20.40 - $20.90	$20.97	$16.43	$19.98

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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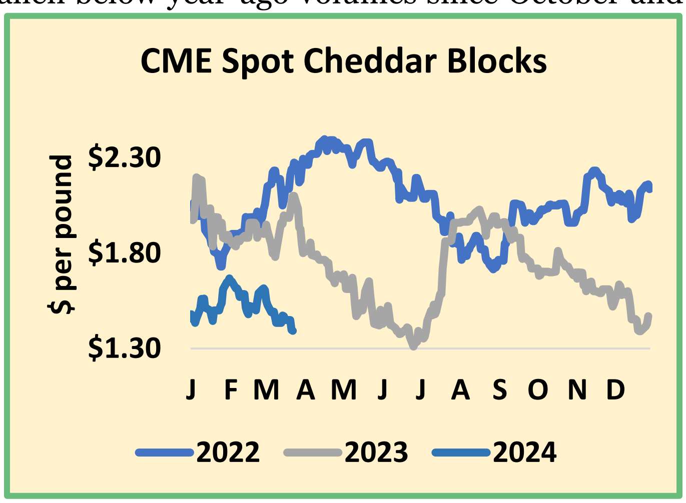
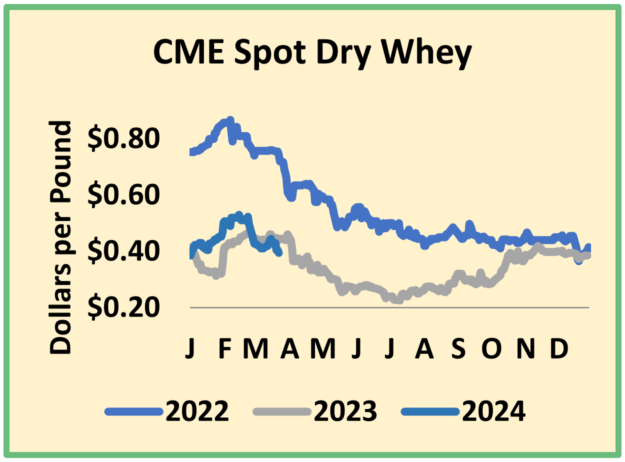
Milk & Dairy Markets

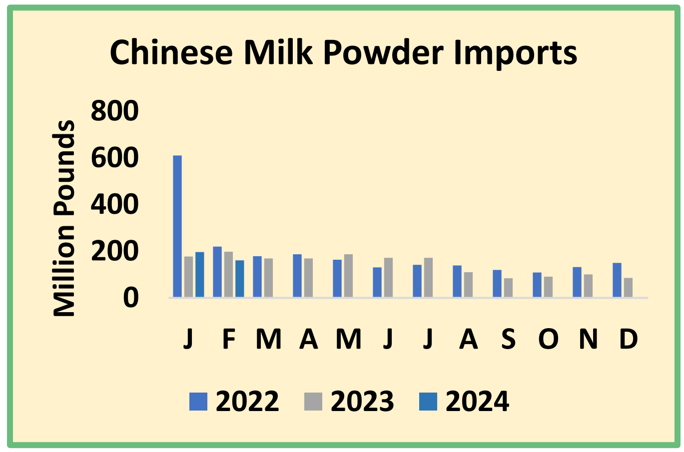
Despite signs of continued contraction, the dairy markets just keep dropping. CME spot Cheddar blocks led the retreat. They fell 7.75¢ this week to $1.3925 per pound, a nine-month low. Barrels slipped 1.75¢ to $1.425. Cheddar output has fallen below year-ago volumes since October and overall cheese production was lower than prior-year output in December and January. Nonetheless, cheese supplies are burdensome, and the industry remains concerned about the capacity to make more. Anecdotal accounts suggest that cheese output has rebounded from the mid-winter lull. USDA's *Dairy Market News* reports that some Midwestern processors turned away spot milk loads at $6 under class because they were already running at capacity. Industry stakeholders describe domestic demand as "lackluster," but they hope it will perk up for Easter.





Cheap cheese has attracted a few export contracts, but most foreign buyers are deterred by the shape of the futures curve, which persistently offers pricier product later this year.

CME spot whey dropped a nickel this week to 39.5¢, within a penny of the year-to-date low. Demand for high-protein whey products remains strong, but, with cheese vats full, there is more than enough whey leftover for the drier. Chinese demand for U.S. whey is in decline. Amid financial strain in its hog sector, Chinese whey imports fell 24% from last year in January and February. The U.S. accounted for an unusually small share of the shrinking pie, and U.S. whey shipments to China in February plummeted to a four-year low.

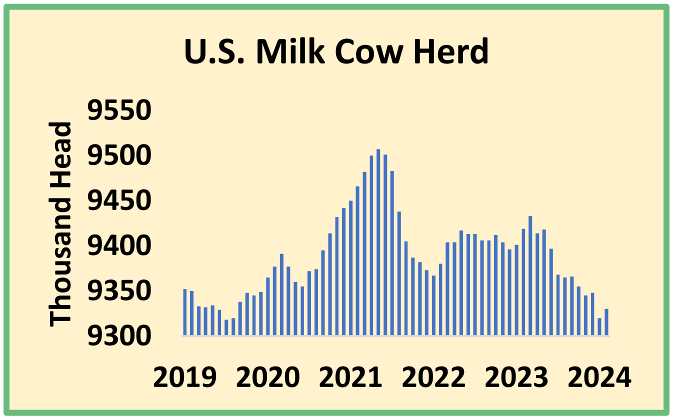


Chinese milk powder imports also disappointed. China imported more whole milk powder (WMP) in January and February than it did last year, but that was a very low bar to clear. Chinese imports of skim milk powder (SMP) fell short of 2023 volumes in February. Comparisons to previous years are skewed by changes to tariff policy. Before 2023, tariff structures incentivized Chinese milk powder buyers to stock up early in the year before low-tariff quotas ran out. Now that tariffs on Kiwi milk powder are no longer in play, there is no new year's rush. Even after adjusting for that context, Chinese WMP and SMP imports look light. With China on the sidelines, milk powder prices turned south. WMP values fell 4.2% at the Global Dairy Trade auction this week and SMP dropped 4.8%. On LaSalle Street, CME spot nonfat dry milk lost 5.5¢ and closed at $1.1075, a six-month low.

Even butter lost ground this week, although the setback in the butter market was modest and felt much different from the significant lows notched in the rest of the dairy complex. CME spot butter fell 1.5¢ to a still lofty $2.8075. USDA reports that cream is "readily available" but "not overwhelming." When combined with a healthy dose of demand and a dash of anxiety about butter supplies later this year, that's a recipe for stubbornly strong butter prices.

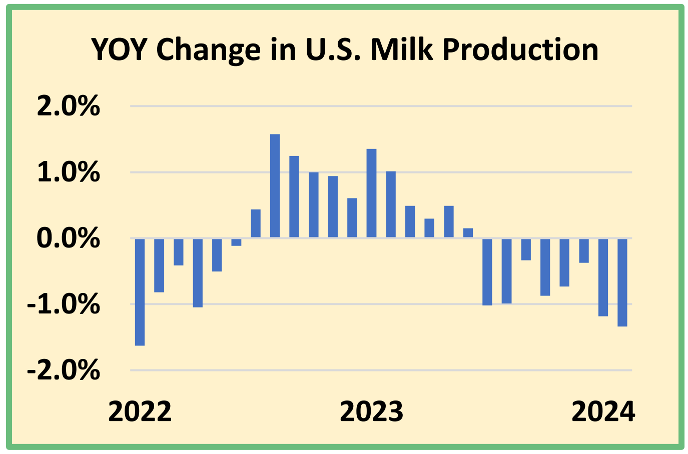
Despite the steep decline in milk powder prices, Class IV futures didn't go anywhere at all this week. Nearby contracts settled on either side of last Friday's close, and deferred futures settled a penny or two higher than last week. April and May Class IV finished in the high $19s, while all other Class IV contracts stood above $20 per cwt. That's more than enough to pay the bills for the minority of dairy producers who benefit from Class IV revenue.

On the other hand, Class III futures are low and falling. The April contract plunged 27¢ this week to a devastating $15.74. With both cheese and whey in decline, all second quarter Class III futures finished



at life-of-contract lows. The market promises better prices later this year, but it's going to be a rough spring flush for many dairy producers with low Class III prices and steep discounts besides.

Financial pain is sure to translate to an uptick in sellouts and a decline in cow numbers. But USDA estimates that the dairy herd grew slightly in February, after dropping hard in October through January. Still, at 9.33 million head, the herd is 89,000 cows lower than it was in February 2023. Milk production continued to slip. After adjusting for leap day, output fell 1.3% below prior-year volumes, the steepest year-over-year deficit since January 2022.



Milk output is inching lower in the Southwest as dairy producers there combat a mysterious illness. Herds in the Texas Panhandle and in nearby states have seen a small share of their cattle – particularly later-lactation cows – struggle through fever and respiratory distress, stop eating, and produce a thick, colostrum-like milk. The illness is not fatal, and many cows bounce back after treatment. But some produce little or no milk even after other symptoms abate. Regional milk production declines so far have been incremental, and milk powder plants in the Southwest, which would be the first to go without milk, are still running at nearly typical volumes. Dairy producers are restricting cattle movement and adopting stricter biosecurity measures. The Texas Animal Health Commission, USDA, and veterinarians are working furiously to determine a diagnosis. The industry will be watching closely to see if this illness can be contained.

Despite numerous reasons for concern about milk production potential, lackluster demand continues to weigh on dairy product prices and dairy producers' incomes. But financial losses are deep and widespread which will likely keep a firm lid on U.S. milk production. Eventually, that will add up to higher prices.

Grain Markets

Feed prices continued to rebound this week, but momentum seems to be slowing for the grain market bulls. May corn settled at $4.3925 per bushel, up 2.5¢ from last Friday. May soybeans climbed 15.25¢ to $11.925. May soybean meal jumped $10 to $339.10 per ton. The market was leaning heavily short of row crops a few weeks ago, but the funds have been trimming their short position – and pushing prices higher – as they face the uncertainties of next week's Prospective Plantings report and as they rebalance their investments ahead of the end of the quarter. Worries about the weather in South America have also enlivened the bulls, but there are big rains on the way in central Brazil which should help to alleviate some of those concerns. It's also going to be wet or snowy in much of the central United States. Winter storms are bringing a welcome shot of moisture ahead of spring planting.

Mid-Kings River GSA Holds Meeting Ahead of State Probationary Hearing

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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It was a big week in Hanford, California for the Mid-Kings River Groundwater Sustainability Agency (MKRGSA), one of the five Groundwater Sustainability Agencies in the Tulare Lake Subbasin. Three identical public workshops were held where landowners learned what the Sustainable Groundwater Management Act (SGMA) is all about, what MKRGSA's plan is going forward and how this plan is going to impact farmers in this area with groundwater pumping restrictions and costs. The reason I am writing about this, and the reason so many other people outside of the area are watching, is because the Tulare Lake Subbasin is the **FIRST** subbasin that is having a formal State Water Resources Control Board (State Board) Probationary Hearing. This Probationary Hearing was triggered when the California Department of Water Resources (DWR) declared last year that the Tulare Lake Subbasin Groundwater Sustainability Plan (GSP) was "inadequate." The hearing is scheduled for April 16, 2024.

Landowners and farmers from across the Mid-Kings River GSA attend a stakeholder meeting on March 19 in Hanford.

As explained by MKRGSA manager Dennis Mills, "The State Board's conclusion is that Ag/Industrial pumpers [which use 93%of the groundwater pumped in the MKRGSA] are causing undesirable results in the area, and they want those pumpers to either cut back so impacts do not occur or pay to mitigate the impacts on other users."

Mid-Kings River GSA Manager Dennis Mills discusses the agency's revised GSP.

A decision by the State Board to put the Tulare Lake Subbasin into probation essentially takes away control of the subbasin from the local GSAs and puts it into the hands of the State. The law allows the State to impose a **$300 per well annual fee** and charge **$20 per acre foot of groundwater extraction**. The approach of the State is to eliminate "undesirable results" through pumping restrictions only.

The clear objective of the Tulare Lake GSAs is to maintain local control. An updated GSP is near completion and will be resubmitted to the State Board before the April 16, 2024, Probationary Hearing. A domestic well mitigation program has been included in the new GSP which will have the GSA pay for new domestic wells for those whose wells go dry because of falling groundwater levels. It will also include specific groundwater pumping caps on farmers.

To fund these programs, the MKRGSA has established two different fees: A land-based fee of **$25 per acre** and a **pumping fee of $95 per acre foot** for water extracted above the Corcoran clay and a **$35 per acre foot fee** for water pumped below the clay. Both of these fees are subject to a Proposition 218 vote/protest from landowners in the GSA. The specific purpose of the workshops was to answer questions and take comments about the fees. The workshops were well attended, and as can be imagined, there were lots of questions and comments.

The updated plan came together recently and very quickly without much involvement from the stakeholders. The Tulare Lake Subbasin GSAs' approach in the original GSP envisioned that they had a much longer period of time to reach sustainability. Manager Mills described a fundamental misunderstanding that the locals had about what the expectations of the State were for an acceptable GSP. This is understandable because this really is the first rodeo for both the local stakeholders and the State. What is clear here is that the threat of State intervention is a powerful motivator to getting difficult and expensive changes made in the GSPs. I would argue that if the State's desire is to actually achieve groundwater sustainability in the least damaging way possible, the threat of State intervention is much more effective than **ACTUAL** State intervention would be. Familiarity with basic human nature will tell you that if the State Board on April 16 actually puts the Tulare Lake Subbasin on probation, what incentive would the locals have to support adopting the Proposition 218 fees to implement their local plan on April 23?

Clearly, the Tulare Lake Subbasin GSAs have made mistakes and been slow to act, but they are now acting. That positive momentum needs to be recognized and encouraged by the State Board. A vote by the State Board in April to put the Tulare Lake Subbasin in probation would be demoralizing to the very people who have stepped up to meet the SGMA challenge. Other inadequate subbasins are watching. They too are substantially updating their GSPs to meet the concerns of the State. While it is Tulare Lake Subbasin that is subject of immediate concern, how the State Board handles this case will reverberate throughout California.

Last Chance to Register!
California Dairy Sustainability Summit March 26 in Davis

Courtesy of Dairy Cares

Register now for the California Dairy Sustainability Summit, which will be held on **March 26, 2024, at the UC Davis Conference Center**. For those unable to come in person, virtual registration is complimentary for all dairy farmers using the code DAIRYFARMER. Virtual registration is also complimentary for all students (code DFAStudent), courtesy of Dairy Farmers of America. Summit speakers highlight progress, policies, and partnerships that support the innovation and advancement of planet-smart dairy farm practices, while enhancing sustainable and nutritious food systems.

Register here.

Congress Close to Finalizing FY 2024 Funding Package

Courtesy of Gregg Doud, President & CEO
National Milk Producers Federation

As I write this memo, the Senate is preparing to vote on a bill to fund the remaining six federal agencies whose annual spending measures haven't yet been finalized for fiscal year 2024. Senate consideration, likely tonight, follows a House vote to approve the 1,000-page measure earlier this morning. As a reminder, while legislation appropriating funds for the U.S. Department of Agriculture and Food and Drug Administration has already been enacted, these six remaining agencies represent 70% of all federal spending. This will be the final step in a drawn-out process where temporary measures have funded the government almost six months into the fiscal year.

As is often the case with these delicately negotiated omnibus packages, the leaders of the Senate are confident they've lined up the votes to put the winning shot in the hoop (to use a March Madness metaphor). But politics, like physics, can be a funny thing, and it's possible the legislative process won't be completed before a partial government shutdown commences tonight after midnight. When the measure is eventually passed, the government will be fully funded through September 30, when fiscal year 2024 ends. And congressional appropriators will have to turn right around and begin working hastily on the FY 2025 spending measures.