MPC Weekly Friday Report

Date: November 3, 2023
To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	- $.0650	$1.6650
Barrels	- $.0425	$1.6400
Weekly Average Cheddar Cheese		
Blocks	- $.0495	$1.6900
Barrels	- $.0490	$1.6580

Chicago AA Butter		
Weekly Change	- $.0850	$3.1075
Weekly Average	- $.1065	$3.1900
Dry Whey		
Dairy Market News	w/e 11/03/23	$.3900
National Plants	w/e 10/28/23	$.3403

Non-Fat Dry Milk		
Week Ending 010/28/23		
Nat'l Plants	$1.1723	19,281,147
Last Week Ending 10/21/23		
Nat'l Plants	$1.1640	19,281,147

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
Nov 3 Est	$21.35 - $21.85	$21.14	$17.33	$20.75
Oct '23 Final	$21.07 - $21.57	$21.95	$16.84	$21.49

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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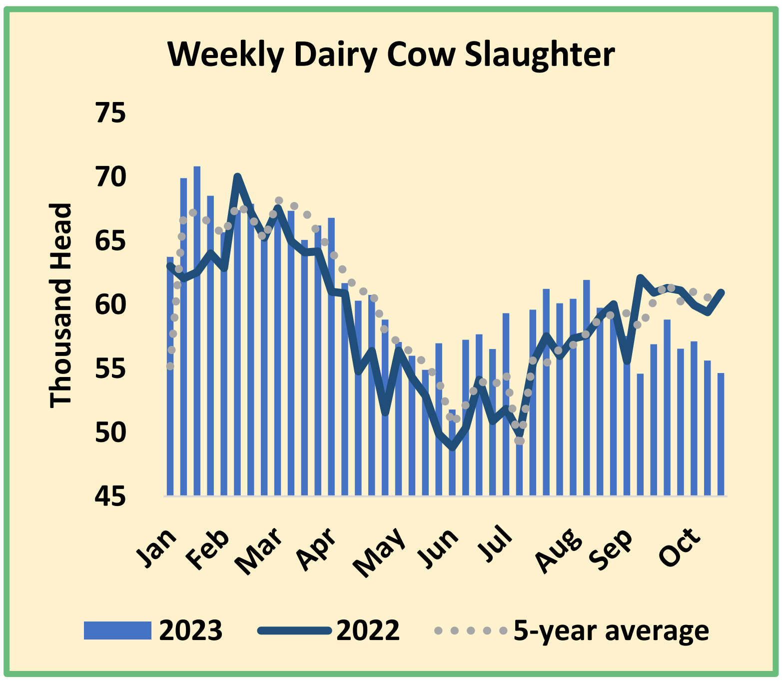
Milk & Dairy Markets

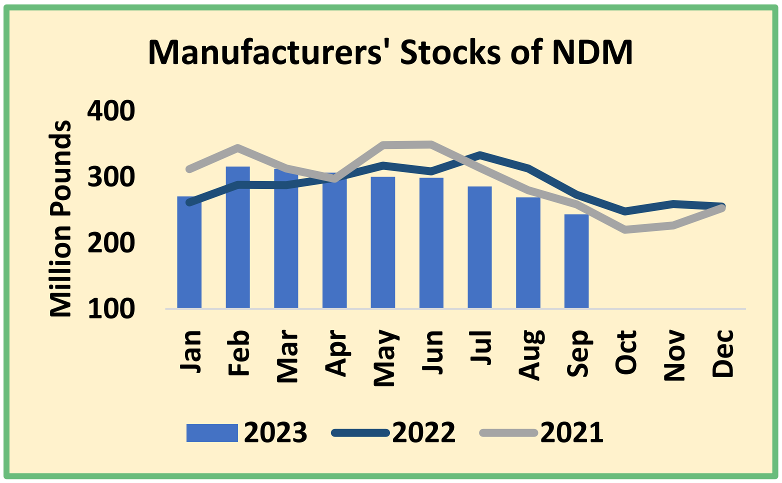
There was a lot of red ink on LaSalle Street this week, and every product at the CME spot market finished lower. Most milk futures also finished the week below where they began it, although losses were relatively modest. November through January Class III futures traded in the low $17s. November Class IV futures settled at a buoyant $20.75 per cwt., but the other contracts hovered in the $18s and $19s.



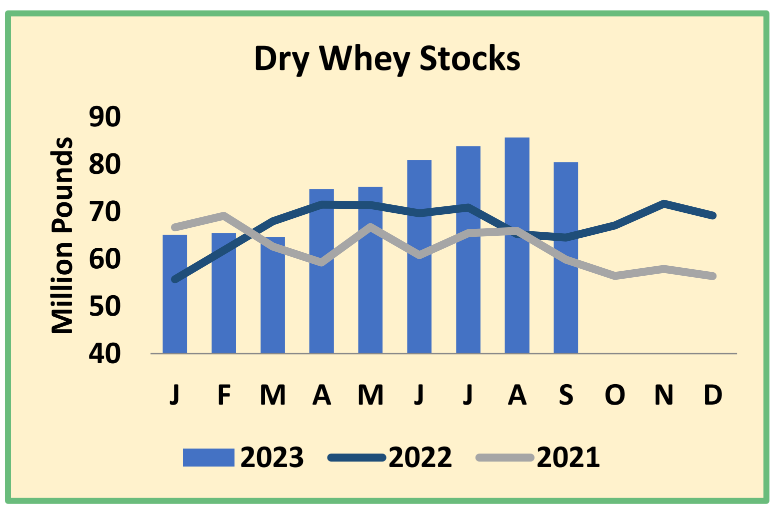
Class IV futures are adequate to pay the bills, but most producers receive at least some Class III revenue as well. The milk markets are offering much better returns than they did this summer, but they're still not likely to bring widespread prosperity. Nonetheless, there are indications that milk production is improving. Cooler temperatures are boosting milk output and components. Slaughter volumes have been running light for at least seven straight weeks. Some of the slowdown in cull rates can be dismissed as the inevitable consequence of aggressive culling this summer, which left fewer low-production or ailing cows to be killed this fall. And tight heifer supplies are forcing some dairy producers to rein in cull rates just to retain their head counts. But there is no denying that slaughter volumes have been lower than expected for longer than expected, hinting at growth – or at least stabilization – in the milk-cow herd.

On the other side of the world, New Zealand milk output technically fell short of year-ago volumes in September, with fluid milk collections down 0.4% from September 2022. But milk solids output jumped 1.3% year over year, flipping season-to-date milk solids collections into the black. Kiwi producers are frustrated with high interest rates and relatively low pay prices, and they may face a difficult summer due to El Niño. However, they're coasting through the seasonal peak in relatively good condition.

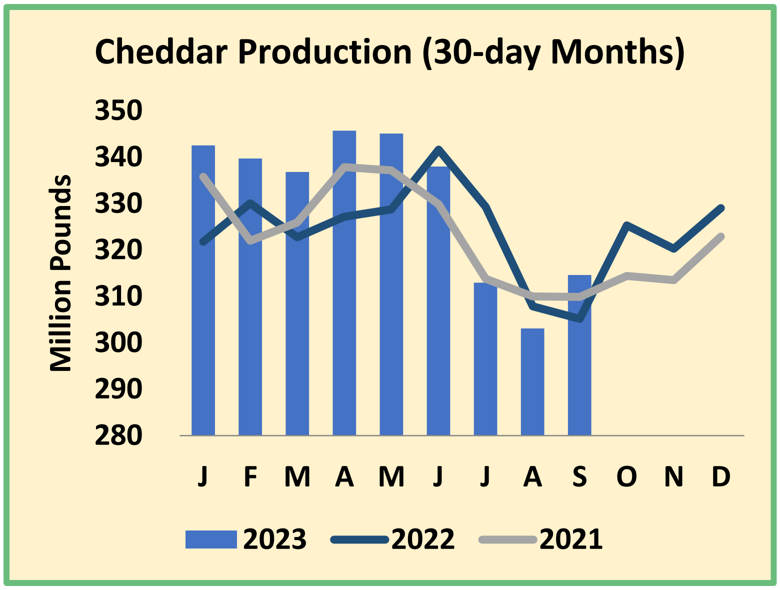
Optimism about U.S. and Kiwi milk production prospects and pessimism about global dairy demand hurt the milk powder markets this week. Milk powder prices retreated once again at the Global Dairy Trade (GDT) Pulse auction Tuesday. Skim milk powder (SMP) prices were especially soft. The trade doesn't yet know whether the GDT Pulse offers a good proxy for the full GDT auction, which attracts significantly more buyers and more volume. A strong showing at next week's GDT could assuage a lot of fears, but for now, the GDT has stopped the global milk powder rally in its tracks. In Chicago, CME spot nonfat dry milk (NDM) lost 1.25¢ and closed at $1.185 per pound.



While there are concerns about demand, U.S. milk powder supplies offer some fodder for the bulls. Combined production of NDM and SMP totaled 156.7 million pounds in September, down 18% from a year ago and the lowest tally for the month since 2015. Manufacturers' stocks of NDM declined once again in September, pushing inventories to their lowest mark since November 2021. It takes decent demand to propel prices sharply higher, but tighter supplies will help to put a firm floor under the milk powder market.

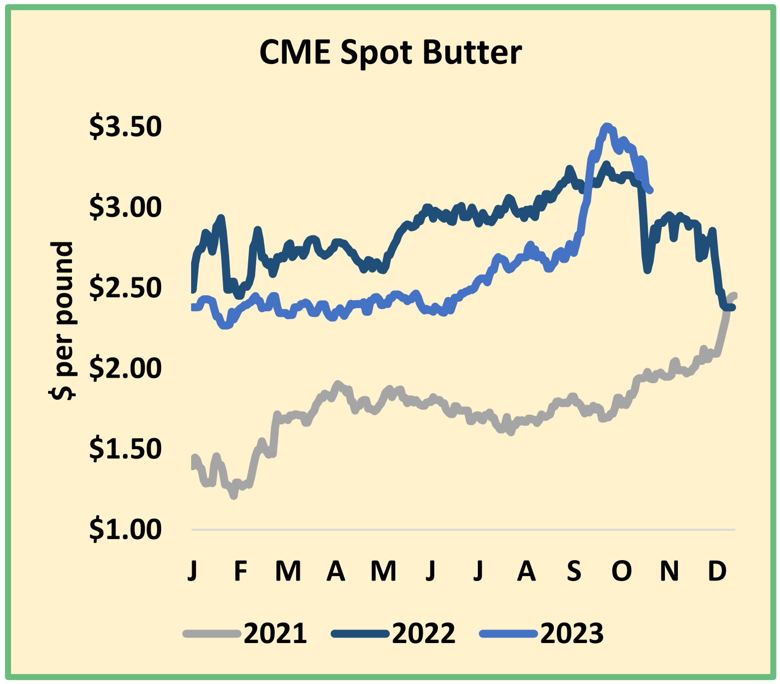


Whey powder output also fell short of year-ago volumes in September, albeit by a narrow margin. Still, a deficit is a deficit and it's nice to see a shift after five months of formidable output. Whey processors are clearly sending more whey into concentrates, leaving less for



commodity whey powder. Whey stocks declined from August to September, but they remained 24.7% above year-ago levels. At the CME spot market, dry whey finished at 38.75¢, down 1.25¢ from last Friday's six-month high.

Cheese production inched upward in September, clocking in at 1.15 billion pounds, up 0.1% from last year. But the details beneath the headline were less encouraging. Mozzarella output fell 1.3% from last year, confirming that cheese processors suffered a slowdown in orders from pizza makers or international buyers or both. Meanwhile, Cheddar production jumped 3.1% from year-ago volumes, and that's cheese that is likely to sit in a warehouse or show up in Chicago. This week at the spot market, Cheddar blocks dropped 6.5¢ to $1.665, their lowest price since July. Barrels slipped 4.25¢ to $1.64.



Churns ran a little harder in September. Butter output climbed to 144.6 million pounds, up 2.9% from September 2022. Cream prices dropped in October, and anecdotal reports suggest that butter output grew once again last month. Spot butter took another large step on the long road to post-holiday values. It plummeted 8.5¢ to $3.1075. So far, the early-November decline in butter pricing is not as breathtaking as last year's cliff jump. But there is more work to be done.

Grain Markets

The grain trade is comfortable with the size of the corn crop and the market continues to trade in a well-defined range from $4.70 to $4.90 per bushel. This week, corn futures tested the waters just below the typical trading range and then bounced right back. They closed at $4.7725 per bushel, down 3.5¢ from last Friday.

The soy complex offers more drama. The U.S. and global soy balance sheets are tight, and any sign of production issues sends prices soaring. After a couple showery weeks in central Brazil, the forecast now calls for a short dry spell. That was enough to reignite the U.S. soy markets. Soybean meal prices began the week in retreat, but they came roaring back today. December soybean meal settled at $442.10 per ton, down just 30¢ from last Friday's life-of-contract highs.

Producer Review Board Has Another Meeting (And Another One is Planned in Less Than Three Weeks)

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Back in the day, serving on the Producer Review Board (PRB) was easy duty. One meeting a year to talk about the pooling budget, maybe a hardship case or two, and you were done for the year. Not anymore. Big issues and controversies. Strong opinions and strong personalities. This is important stuff and the PRB is the forum where these items are discussed.

The agenda for the Monday, October 30, 2023, meeting stated that the it would begin at 10 a.m. and would be "in-person" only. The department expected the meeting would last four hours and there would be no lunch provided. Chairman Art Van Beek, a gentleman if there ever was one, arranged to have sandwiches available and at 12:30 p.m., during a particularly heated part of the discussion, announced the presence of food and called for a 15-minute break. That time provided nourishment, not only for the body, but also allowed everyone to take a few minutes to relax and refocus.

From L-R, Kathy Diaz, CDFA; David Ko, CDFA; Will Dyt, PRB Vice Chair; Art Van Beek, PRB Chair.

Walking through the agenda, the July 31 and October 2 meeting minutes were surprisingly approved without objection. Moving on to updates, the Department reported it had done an investigation of the approximately $5.5 million that was transferred from the old State Equalization Fund into the QIP fund back in November of 2018. There had been questions about the status of this money and CDFA announced that its investigation had determined that this is producer money. It was transferred over to the QIP fund to "manage the cash flow needs" of the QIP fund. Part of the challenge the PRB has been wrestling with over the past couple of years is how to manage the assessments to make sure there is enough money in the fund to make the quota payments without carrying too much of a balance. Until just recently, the PRB was unaware – because the Department had not included this $5.5 million in the QIP fund reports – that there actually was a lot more money in the QIP fund than was being reported. CDFA had indicated that it thought there needed to be about $2 million in funds to absorb the cash flow needs of the QIP fund, but that was in addition to the $5.5 million that CDFA knew was available, making the total cash available $7.5 million. Learning for the first time that the Department now considers this producer money, PRB members want to have a further discussion about whether $7.5 million in float is really necessary to run the program. This is topic #1 for the next PRB meeting tentatively scheduled for November 17 at the Tulare Farm Show facility.


PRB members from L-R, Arie De Jong and Case Van Steyn.

There were brief updates reminding everyone that nominations for PRB positions are ongoing. See the PRB nomination form here. CDFA was asked if the quota ownership of individual nominees was considered in the appointment process. They answered that it was one of the considerations.

There was also an update on the petition that was received by STOP QIP for a referendum to immediately terminate the QIP program. CDFA was asked to describe the signature validation process. They said they looked at every signature and compared it to signatures they had on CDFA records from these dairies. They also validated that the person signing was identified as legally authorized to sign for the dairy. See the petition validation results here. Chairman Van Beek said that the required review of the petition for findings and a recommendation would be on the agenda of the next PRB meeting on November 17.

There was also a litigation update. CDFA has ongoing litigation with STOP QIP but had nothing to report. The Department also successfully defended in court the QIP assessment that had been imposed on a handler for milk. This paves the way to collect $400,000 in unpaid assessment from that handler. The Department also reported that the new auditing staff has been active and identified more than $2 million of potentially unpaid assessments they are pursuing. $500,000 of that amount has already been acknowledged by the handlers and will be paid. The rest is in some form of legal enforcement action.

Next on the agenda was a hardship request from a producer. Essentially the producer asked to be relieved of paying the QIP assessment because they were losing money. The Department had evaluated the request in light of the QIP rules for hardship and sent a letter to the producer indicating that the request did not meet the "framework for hardships" under the QIP. But because the producer was an active California dairy farmer, the request would be on the agenda of the next PRB meeting. The producer was invited, but not in attendance at the meeting. The PRB members discussed the request, and a motion was made and seconded to recommend approval of the hardship request. The observation was made that if this hardship was granted, hundreds of additional hardship requests asking for assessment relief could be forthcoming. The motion failed 8-4.

The last part of the PRB meeting was reviewing the required five-year producer study on the effectiveness of the QIP program. Research America, Inc. was contracted to do the study and their representative presented the results. You can see the presentation here.

There were 275 respondents to the survey. The mix of respondents is on page 5 of the presentation. The key findings and recommendations are on pages 7-9 of the presentation. Opinions are favorable as far as the "nuts and bolts' of the program itself. Satisfaction with, and impact of, the QIP is strong among quota holders, but significantly less so among non-quota holders. In fact, quota holders are satisfied while non-quota holders are clearly not satisfied. There is no difference in size of farm or type of product sold; quota holding is the key determining factor in a respondent's opinion. Research America made this recommendation, *"The unrest and opinions that fall along quota holder/non-quota holder lines warrant further investigation and changes to the quota program should be considered."*

PRB members from L-R, Craig Gordon and Debbie Azevedo.

The PRB had a robust and passionate discussion about the study and the issue. Eventually this led to a number of motions by committee members. The first motion was to recommend to the Secretary of Agriculture that a referendum be held to reapprove the QIP with the same vote criteria as the original QIP was adopted. The intent of the motion was that if the QIP failed to obtain the super majority vote, it would terminate. CDFA legal representatives indicated that, in their legal opinion, the QIP was not subject to a continuation referendum requirement, as is the case for other dairy programs like the Milk Advisory Board. By this time, two PRB members had left the meeting and the motion failed on a 6-4 vote.

The next motion was to forward the Research America survey results to the Secretary and a summary of the PRB discussion of the issue, requesting input from Secretary Ross. This motion passed 8-2. The next motion was, in light of the nearly 50/50 split in the survey responses – pro and con on the QIP – that the PRB requests the Department provide professional facilitation and technical support to help producers move forward on this issue. That motion passed 7-3.

The motion to adjourn was unanimous and the meeting ended at 1:45 p.m. Just under 4 hours.

California's Young 'Water Buffalo' JB Hamby Spurs United Colorado River Rescue, For Now

By Janet Wilson, Palm Springs Desert Sun

California's Colorado River Commissioner and Imperial Irrigation District Vice President of Division 2 J.B. Hamby is photographed at the Coachella Canal in Thermal, Calif., March 9, 2023. (Credit: Jay Calderon/The Desert Sun)

It was a rough debut. JB Hamby, 26 years old, had rocketed to the innermost circle of state and federal officials charged with saving the Colorado River from collapse. In mid-January, he was elected to chair California's river board, representing Imperial Irrigation District, by far the biggest recipient of the overused river's supply.

Federal officials had bluntly threatened to impose mandatory cuts across the region if huge voluntary reductions weren't made.

But 12 days later, after contentious closed-door talks, he watched in dismay as media outlets across the U.S. published stories about six states releasing a joint plan to save the river, with only his state, California, refusing to sign on.

It was a baptism by near drowning for the youngest "water buffalo," as negotiators of Colorado River agreements have historically called themselves. But Hamby didn't respond angrily or publicly. Instead, he wrote individual thank-you notes to top negotiators in every other state, and asked if he could meet with each to discuss mutual solutions.

"My mother always made us sit down and write thank you notes immediately," Hamby said when asked about the sequence of events.

It worked.

Negotiators who'd privately lambasted Hamby to reporters now texted him for lunch and coffee, and momentum built.

Still, the 7 states faced an enormous challenge. After 23 years of drought amped up by climate change, the over-used river's massive reservoirs had plunged to 25% of capacity. It fell so low by the summer of 2022, long-buried bodies dumped in Lake Mead were exposed to daylight. The river was at risk of hitting "dead pool," unable to flow downstream to 35 million people's homes and 5 million acres of farmland, or that its massive hydropower turbines providing power to 4 million people might grind to a halt.

U.S. Bureau of Reclamation Commissioner Camille Calimlim Touton, also new to her post, warned Congress that June that up to 4 million acre feet needed to be conserved by 2023. That's about as much as the state of California is allowed to take annually for 19 million people and farm fields.

Continue reading here.

Dairy Environmental Stewardship Gets a Boost with Major Conservation Funding

Courtesy of Jim Mulhern, President & CEO
National Milk Producers Federation

Agriculture Secretary Tom Vilsack on Wednesday announced nearly $1 billion in new funding awards under the Regional Conservation Partnership Program (RCPP), which supports targeted partnership projects that incentivize reduced methane emissions. The announcement occurred in the context of the Biden Administration's multi-week rural outreach road tour which began this week.

NMPF helped secure this funding as part of the Inflation Reduction Act enacted last year. Wednesday's announcement will help a number of NMPF member cooperatives and industry partners build on their ongoing sustainability efforts in both feed and manure management. This includes projects sponsored by DFA, CDI, Darigold, Maryland & Virginia, Tillamook, and Newtrient, which will be working with Michigan Milk and Foremost Farms USA. In addition to the sustainability projects, the White House also announced new funding for rural broadband initiatives, biofuels, and energy efficiency improvements.

Last month, NMPF sent a letter to USDA's Natural Resources Conservation Service to urge their support for the multiple RCPP applications advanced by NMPF member cooperatives and partners. NMPF will continue to work with USDA as the agency further considers how to allocate conservation program resources in the coming years.