MPC Weekly Friday Report

Date: June 9, 2023
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0075	$1.4225	Weekly Change		- $.0825 / $2.3625	Week Ending 06/03/23		
Barrels	+ $.0575	$1.5700	Weekly Average		- $.0743 / $2.3745	Nat'l Plants	$1.1549	21,371,815
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	+ $.0159	$1.4615	Dairy Market News	w/e 06/09/23	$.3350	Last Week Ending 05/27/23		
Barrels	+ $.0782	$1.5820	National Plants	w/e 06/03/23	$.3354	Nat'l Plants	$1.1502	19,903,204

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
Jun 9 Est	No Change	$18.70	$15.11	$18.11
Last Week	$20.11 - $20.61	$18.83	$15.29	$18.18

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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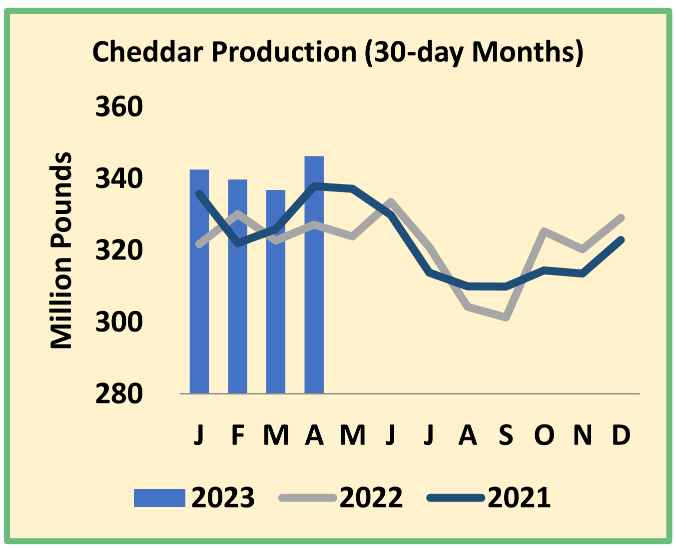
Milk & Dairy Markets

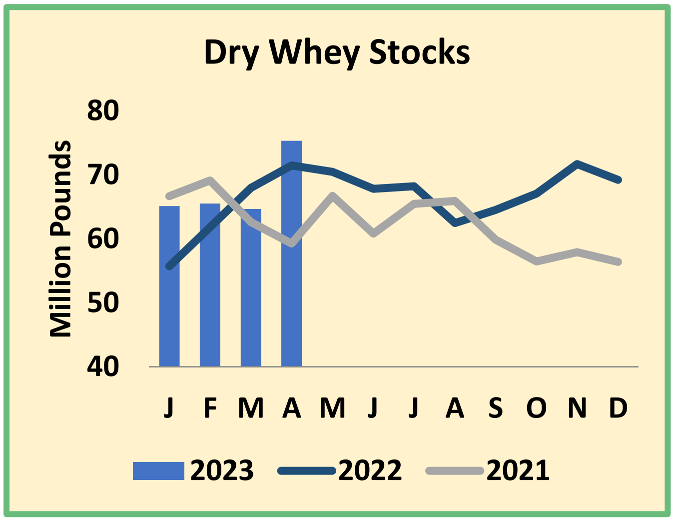
Dairy producers are bracing themselves for a very small May milk check. The futures promise meager revenues for June and July as well. Class III milk prices took another small step back this week. An 18¢ decline pushed June Class III down to an unpalatable $15.11 per cwt., and the July contract suffered its first weekly close below $16, settling today at $15.97, down 17¢ from last Friday. Most deferred Class III contracts posted modest losses, but the September contract managed to climb 3¢ to $17.79. Class IV futures moved decisively lower, with most contracts finishing 20 to 30¢ in the red. But Class IV values are much easier to stomach, ranging from $18 to $19.04 per cwt.



Summer break is here and school milk orders are in decline. Meanwhile, cooler temperatures have prolonged the flush. The Midwest is awash in milk, and many dairy producers have been forced to dump milk that could not find a home. Cheesemakers say they are taking all they can, but the spot milk market is still "sloppy," with more loads trading at steeper discounts.

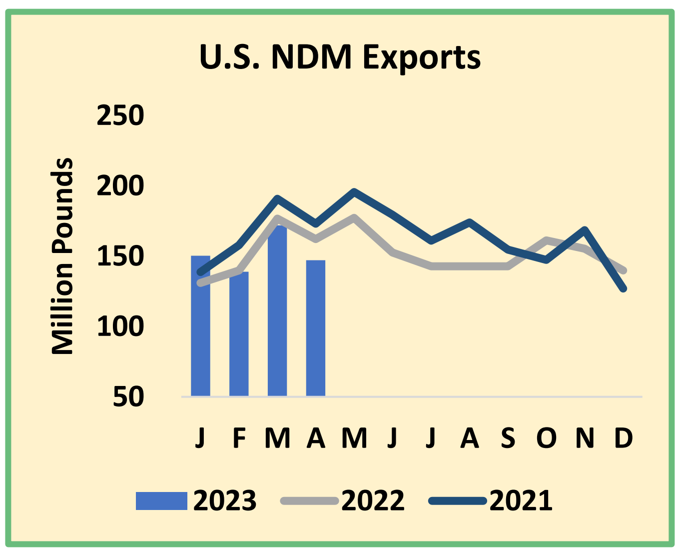
USDA's Dairy Products report shows that cheesemakers had room for improvement. Cheese output fell 0.2% below year-ago levels in April, highlighting cheese processors' struggles to run full throttle amid persistent labor issues and mechanical breakdowns this spring. Unfortunately, slower throughput likely won't translate to tighter cheese stocks. Cheese processors made less Mozzarella in April than the prior year, but they stepped up Cheddar output by 5.8%. Mozzarella is generally made to order and consumed fresh, so lower production signals slower demand for pizza. In contrast, Cheddar is often stored in the warehouse, and robust spring Cheddar production is clearly weighing on the market today. CME spot Cheddar blocks slipped once again, falling 0.75¢ this week to $1.4225, just a fraction of a cent above last week's multi-year low. But there are signs that the bottom may be near.

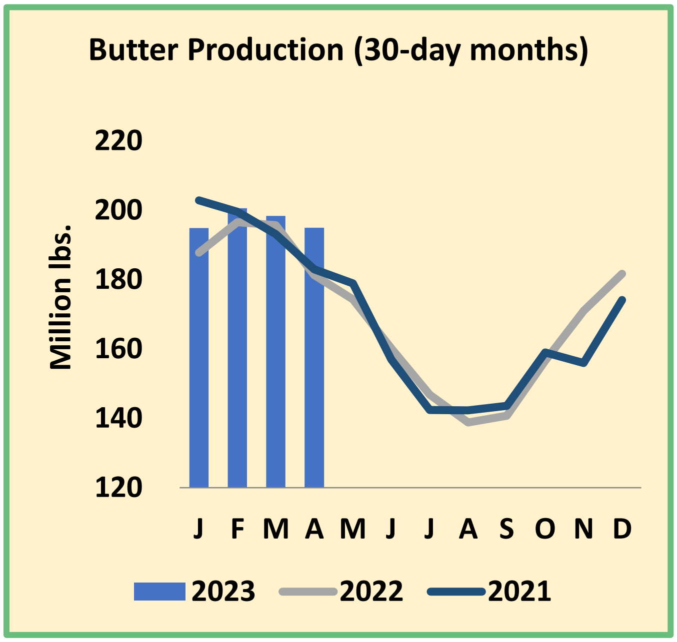
April cheese exports fell 11.7% from last year's record-breaking volume, despite another month of massive sales to Mexico. European exporters regained some market share this spring, but U.S. cheese is now the better bargain, and exporters are likely busy once again. Cheesemakers report that domestic orders are also accelerating. The barrel market is already showcasing a bit of the bullish tones that are finally starting to bubble up in one of dairy's most depressed sectors. Spot Cheddar barrels leapt 5.75¢ this week to $1.57.



Whey prices also perked up a bit. Spot whey powder rallied 1.75¢ this week to 27.5¢. That's still historically cheap, and this week's data explained the whey market's prolonged depression. Whey powder output moved up slightly in April, but stocks jumped nearly 10 million pounds from March to April, a 16.5% increase in just 30 days. Exports did not impress in April, with shipments down 8% year over year and off 21.8% for the year to date. There is no reason to expect whey prices to move sharply higher in a hurry, but the market seems to have stabilized.

U.S. milk powder exports also slowed in April. They fell 9.2% from April 2022 volumes, dragging overall milk solids exports down 13% from a year ago. Mexico imported more U.S. milk powder in April than during any other April on record, but it was not enough to offset weaker sales to other key markets in Southeast Asia. China's diminished appetite for foreign whole milk powder (WMP) has pushed New Zealand to make more skim milk powder (SMP), which is crowding out U.S. milk powder shipments in places

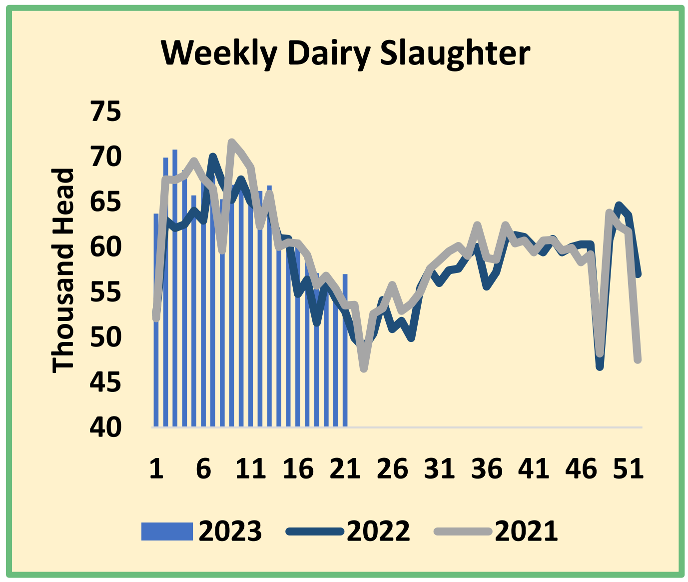




like Vietnam and the Philippines. Regional excess has kept milk powder prices under pressure, and WMP values declined 3% at this week's Global Dairy Trade auction. SMP posted a smaller setback, falling 0.4% to the rough equivalent of NDM at $1.33 per pound. In Chicago, spot NDM fell a penny to $1.16.

After months of relative calm, the spot butter market plummeted 8.25¢ this week to $2.3625, toward the low end of the recent trading range. Cream was relatively inexpensive this spring and churns ran hard. Butter output reached just shy of 195 million pounds in April, up 7.6% from a year ago. That makes a repeat of last year's holiday shortages unlikely, and prices are falling accordingly.

The market is doing its awful work, as painfully low prices revitalize demand and slowly curtail supplies. Dairy producers are under immense financial strain, and the auction houses are busy. Until recently, many of the cows sold at dispersal auctions made their way to neighboring farms, filling the vacuum left by lower heifer supplies. But in the week ending May 27, dairy cow slaughter jumped to 56,985 head, up 4,100 head from the same week a year ago and several thousand head larger than typical slaughter volumes during the flush. One week is not enough to determine a trend, but it is a first step on the long journey to lower milk production and higher dairy product prices.



Grain Markets

After six dry weeks in the Corn Belt, the weather pattern is finally shifting. Showers fell in the Northern Plains today, and the weekend looks wet for much of the Farm Belt. The rains are sorely needed. USDA estimates that 45% of U.S. corn production is currently in drought. In many areas, young crops have been dry enough for long enough to knock a few bushels off of yield potential, but timely rains could prevent further damage.

Crop prices moved back and forth this week with every update to the forecast. July corn closed at $6.0425 per bushel, down 4.75¢. The December contract fell 10.75¢ to $5.3050. But soybean prices moved higher. USDA reported a sale of old crop soybeans to "unknown destinations" and market chatter suggest these cargoes are bound for Europe to be crushed for oil for biodiesel. The prospect of a reinvigorated export market pushed July soybeans to $13.865, up 34¢ for the week. July soybean meal held basically steady at $397.20 per ton.

The Path Forward for the Sustainable Groundwater Management Act

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
Geoff@MilkProducers.org

The legislation that launched the state's comprehensive regulation of groundwater, commonly known as SGMA, was passed in 2014. One of the foundational principles of SGMA is that groundwater is to be managed locally, with the state providing support, guidance and backstop enforcement of the law.

After nearly nine years, much progress has been made in organizing the governmental efforts to sustainably manage California's groundwater. While the law sets 2040 as the year when the elimination of "undesirable results" is to occur, steady progress toward that objective is required.

Paul Gosselin is the Department of Water Resources (DWR) official in charge of implementing SGMA for the state. At a water conference this week he explained what we can expect from DWR over the next couple of years. One of the items of emphasis DWR has focused on in their evaluations of local Groundwater Sustainability Plans (GSPs) has been the extent to which those plans have provided for mitigation of dry domestic wells that are the result of falling groundwater levels. DWR recently released a guidance document that spells out what local Groundwater Sustainability Agencies (GSAs) need to consider when putting together their domestic well mitigation plans. There are currently more than 1,000 dry domestic wells in the Valley that need replacement. DWR has emphasized that this issue needs to be a high priority for the GSAs.

Gosselin said other guidance documents are coming soon. There is one coming on ***Interconnected Surface Water***, which is specifically called out as important in the SGMA law.

There is a guidance document coming on ***well permitting***. Currently it is counties who have primary well permitting responsibility. The Governor's drought emergency orders have inserted consultation with the GSAs into the well permitting process on a temporary basis and there has been legislation debated on this issue. DWR guidance for local officials would be preferable to a one size fits all legislative mandate on well permitting.

Another guidance document is coming on how to deal with ***subsidence***. The rate of subsidence is a huge concern in certain parts of the Valley and is a topic of great interest to DWR in their evaluation of the GSPs. Having DWR outline its expectations and how to meet them could be helpful. Gosselin said action to curb subsidence cannot wait; it must be a top priority of GSAs who are in impacted areas.

Guidance will also be coming soon related to ***climate change*** and how to account and plan for it.

Gosselin noted that there are a number of subbasins whose plans have been deemed "inadequate" which has transferred enforcement authority for those subbasins to the State Water Resources Control Board. He indicated that the goal is to get those plans fixed and approved and back into a normal relationship with DWR soon. Once everyone is operating with approved plans, then DWR intends to focus on making significant progress on ***inter-basin coordination***. The Subbasin boundaries in SGMA were drawn based on river watersheds. Obviously, groundwater moves back and forth across these boundaries and very little coordination has occurred to date between the subbasins. Gosselin indicated that it will take mediation and collaboration between neighbors to fully achieve groundwater sustainability and DWR will want to see progress on that front as well.

Gosselin's take away message is that the first big phase of SGMA is over and we are moving ahead with lots of adjustments facing us. He predicted that the next 5-10 years would be "rocky" but that the only path forward is through collaboration. I agree with him. Paul is a dedicated and competent public servant. I have great respect for him. The task is difficult, but there are solutions. The wet winter has reminded us that we have hope. The good Lord has not forgot about us, but how we respond is important. I too expect the next 5-10 years to be "rocky," but in agriculture, challenges are a way of life. Time and again, we have risen to those challenges. I don't expect anything different this time.

Producer Review Board Meeting June 12 at 10 a.m.

Courtesy of the California Department of Food & Agriculture

The Producer Review Board (PRB) will hold its next meeting on **June 12 at 10 a.m.** via teleconference. The PRB will review the Request for Proposals from companies to conduct the 5-year Quota Implementation Plan (QIP) survey of producers. The meeting agenda is available here.

MEETING AGENDA
PRODUCER REVIEW BOARD
by TELECONFERENCE
June 12th, 2023 - 10:00 am
Zoom Meeting Link:
https://us02web.zoom.us/j/86013422766?pwd=N0ptZ25NTHBIZGZtQW9pVCtjbnhYdz09
Meeting ID: 860 1342 2766
Password: ***JK5V^Zs**
To Join By Phone: 669.444.9171
Meeting ID: 860 1342 2766
Password: **77416261**

Dairy Sustainability Survey; Selective Dry Cow Therapy Study Invitation

Courtesy of the University of California Cooperative Extension

The University of California recently published its Golden State Dairy Newsletter, which you can read in its entirety here.

Benchmarking & Describing California Dairy Sustainability Metrics

A survey invitation will be hitting San Joaquin Valley dairy mailboxes soon! The California Dairy Research Foundation has funded a project to establish baseline energy and water usage on-farm. An additional part of the project will identify the potential for pipeline extension and/or conversion from flush to scrape manure management systems to improve on-farm nitrogen balances. The information gathered will be important to identify opportunities for improved efficiencies now and in the future. This will be the first survey looking at critical sustainability metrics and on-farm management practices in California. It should take less than 10 minutes of your time. You do not need to identify yourself for your answers to be included. Thanks, in advance, for your cooperation in this important area.

If you have any questions, don't hesitate to contact us: ***Deanne Meyer*** *(dmeyer@ucdavis.edujmheguy@ucdavis.edu) or* ***Jennifer Heguy*** *(jmheguy@ucdaivis.edu).*

Study Invitation: Impact of Selective Dry Cow Therapy Implementation in California Dairy Farms

The UC Davis Dairy Health, Reproduction, and Microbiome team invites collaborators to join us in assessing the impact of selective dry cow therapy (SDCT) in California dairy programs. Our focus will be on mastitis incidence and somatic cell count, health, fertility, and cost-effectiveness. Mastitis is the most widespread and costly disease in the dairy industry, leading to an annual loss of $1.7 billion. A large proportion of antibiotics in the sector are used for mastitis prevention as part of blanket dry cow therapy (BDCT) practices. Consequently, recent research explored SDCT programs that use non-antibiotic treatments, such as teat sealants, for cows with lactation SCCs below 200,000 cells/mL, among other criteria. That research indicates SDCT can be effectively implemented on appropriate dairy farms with good udder health.

However, the studies evaluating the impact of SDCT have been carried out in European, Canadian, and Midwest US research farms, which face different challenges compared to California. Factors like California's hot, dry summers, cool, rainy winters, and open dry lot dairies create a unique environment compared to the free-stall barns and other enclosed facilities used in previous SDCT studies. These differences in climate and facilities have been shown to influence the type and incidence of pathogens in dairy herds.

Therefore, it is crucial to examine the effects of adopting SDCT in California dairy farms concerning udder health, antimicrobial usage, antimicrobial resistance, and overall dairy farm sustainability. Our main goal is to investigate the influence of dry-off protocols used by California dairies on aspects such as mastitis incidence, SCC, culling, lactation, reproductive performance, and cost-effectiveness.

Inclusion study farm criteria:

- Dairies need to have >1000 cows per herd.
- Actively practicing a variation of selective dry cow therapy or blanket dry cow therapy.
- Either dry lot or free-stall barn housing facilities.

What would the study participants receive in exchange for sharing the information about the dry cow program and data? We will work with your dairy team to learn about the current dry-off program, collect your information and data, perform a comprehensive analysis of your dairy's milk quality program, and provide guidance on potential aspects to optimize milk quality based on takeaways from the study and current benchmark in the industry. Farms will remain anonymous, and data will not be shared with anyone.

Please contact ***Tana Almand*** *(tjalmand@ucdavis.edufalima@ucdavis.edu) or* ***Fabio Lima*** *(falima@ucdavis.edu) if you are interested in learning more about the study.*

NMPF Board Approves Farm Bill Recommendations

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

During its June meeting this week, the NMPF Board of Directors approved a series of recommendations about what Congress should include in the 2023 Farm Bill, which is expected to be adopted by the end of the year. The Board action encompassed nine items directed at the various titles within the Farm Bill, including:

- Improving the Livestock Gross Margin-Dairy and Dairy-Revenue Protection programs, including reducing premiums, and prioritizing such improvements within any available new funding;
- Continuing the Dairy Margin Coverage program and making the program's production history calculation more contemporaneous;
- Restoring the previous "higher of" Class I mover in the most expeditious manner possible, including administrative or legislative actions;
- Seeking language to direct USDA to conduct mandatory plant cost studies every two years to provide better data to inform future make allowance reviews, as approved by the Board of Directors on March 7, 2023;
- Maintaining robust funding for voluntary conservation programs, with additional emphasis on feed and manure management and relief from payment limitations, consistent with NMPF Policy Statements;
- Enhancing funding for trade promotion programs and seeking language to protect common food names, consistent with NMPF Policy Statements; and
- Supporting the continuation of federal nutrition programs and the enhancement of such programs to provide nutritious dairy products to beneficiaries, consistent with NMPF Policy Statements.

We will be working with the House and Senate Agriculture Committees on these items as the Farm Bill comes together this summer. A great deal rides on whether new money can be dedicated to those items that will generate added costs for one or more of the titles in the bill.