

# MPC WEEKLY FRIDAY REPORT

DATE: JULY 7, 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	+\$0.0575	\$1.3925	WEEKLY CHANGE	+\$0.0400	\$2.4800
Barrels	+\$0.0350	\$1.3800	WEEKLY AVERAGE	+\$0.0565	\$2.4725
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		NAT'L PLANTS	
Blocks	+\$0.0415	\$1.3750	DAIRY MARKET NEWS	W/E 07/07/23	\$3.000
Barrels	-\$0.0329	\$1.3506	NATIONAL PLANTS	W/E 07/01/23	\$2.892
				LAST WEEK ENDING 06/24/23	
				NAT'L PLANTS \$1.1760 14,105,994	

## 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
JUL 7 EST	\$18.92 - \$19.42	\$18.92	\$13.90	\$18.05
JUN '23 FINAL	\$19.61 - \$20.11	\$18.83	\$14.91	\$18.26



## Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra

[Monica.Ganley@QuarterraGlobal.com](mailto:Monica.Ganley@QuarterraGlobal.com)

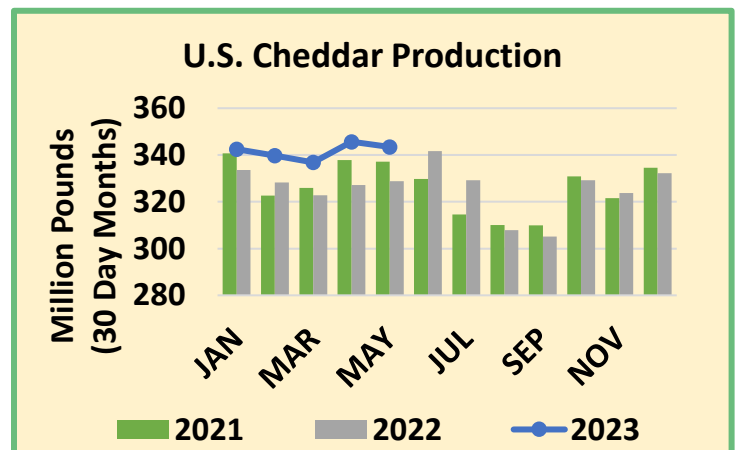
### Milk & Dairy Markets

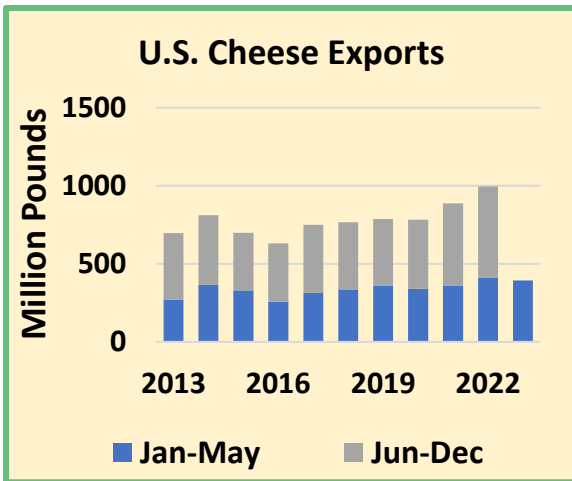
There were plenty of fireworks in the dairy markets during the holiday shortened week. Dairy commodity prices continue to flounder under the pressure of plentiful supplies and, in turn, are weighing on milk prices.

After tumbling during last week's trade, spot Cheddar prices moved modestly higher. Blocks moved up on Monday, Thursday, and Friday and even with a loss on Wednesday finished the week

at \$1.3925/lb., an increase of 5.75¢ compared to last Friday. Barrels lost ground on Monday but increased over the balance of the week ultimately rising 3.5¢ to \$1.38/lb. An astonishing 93 loads of barrels changed hands during the four-day week, the largest volume since late 2017.

American cheese manufacturers have been busy. According to USDA's *Dairy Products* report released

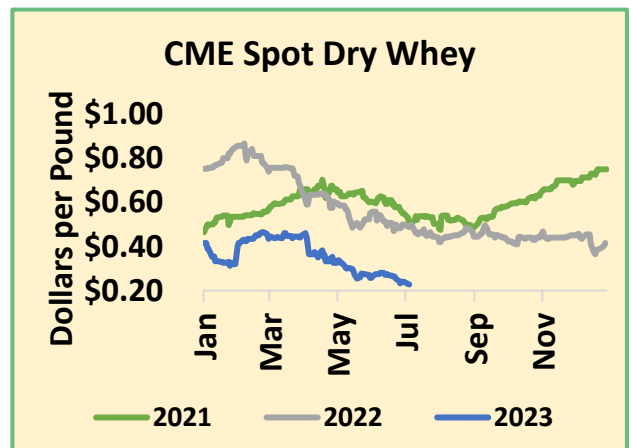




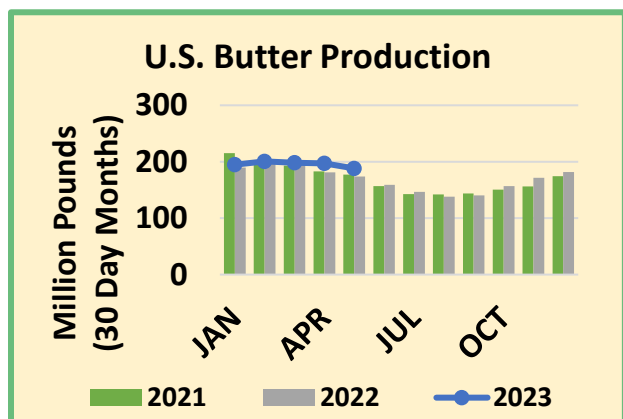
yesterday, the production of American style cheeses rose 4.2% year over year in May to 508.9 million pounds. Cheddar production alone was up 4.5%. This increase mostly offset losses in the production of Italian varieties which fell by 2.2% versus May 2022. Mozzarella production was up 1% but a 14-million-pound decline in Provolone output pulled the category downward. Total cheese production fell by a modest 0.2% year over year in May to 1.203 billion pounds.

As production moved ahead, demand from international buyers plummeted. The U.S. exported 73.1 million pounds of cheese in May, a decrease of 17.9% or nearly 16 million pounds, compared to the same month last year. Significantly lower purchases from South Korea and other Asian destinations drove the decline while exports to Mexico continue to be a bright spot with cheese exports destined for south of the border up 20.9%. Heavy production and lower international demand have left lots of product available for the domestic market where demand is mediocre at best.

Apparently unsatisfied with the lows achieved last week, the spot dry whey market continued its descent, setting fresh record low prices on Thursday and again on Friday. Once the dust settled after Friday’s spot session, dry whey had sunk to 22.75¢ per pound, the lowest price ever seen in that market. Activity was again upbeat as 42 loads traded hands, including 20 in Friday’s session alone. Busy cheese production has kicked off a plentiful whey stream that is keeping the market well supplied while domestic demand remains understated. In May, the production of dry whey for human consumption rose 1.7% year over year to 77.3 million pounds while output of whey protein concentrate (WPC) was up 18%. Whey protein isolates (WPI), however, saw May volumes fall by 18.3%.



Despite plentiful domestic production whey exports fell in May, due especially to lower demand from China. Total whey exports dipped 25.2% year over year to 94.9 million pounds. This represents the lowest volume for the month of May since 2019. Exports of dry whey were down by 1.9% while shipments of whey protein concentrates dipped by 20.8%. Only high protein products of more than 80% protein saw a gain with volumes rising by 16.9%. U.S. exports of whey to China fell to 37.6 million pounds a decline of 31.4% compared to the same month last year.



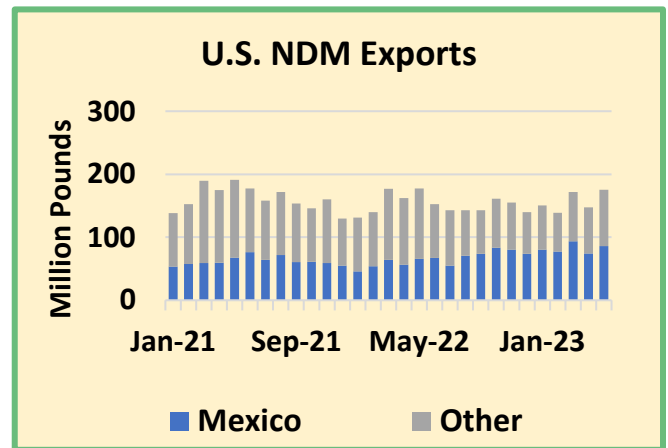
Once again in May plentiful cream supplies fueled elevated butter production. Butter output for the month totaled 194.449 million pounds, an increase of 8.1% year over year. Commentary from *Dairy Market News*

suggests that in recent weeks cream supplies have tightened due to a combination of higher temperatures and elevated demand from ice cream makers and other Class II manufacturers.

Butter inventories are strong but domestic demand remains steady through both retail and food service channels. International buyers have been little help in clearing product as butter exports in May fell 29.7% year over year to 6.3 million pounds with lower volumes headed to Mexico, South Korea, and the Middle East. At the spot market, butter prices edged up over the week with gains on Monday, Thursday and Friday overcoming a modest loss on Wednesday. Spot butter ended Friday's session at \$2.48/lb. an increase of 4¢ compared to last Friday.

After an unchanged result on Monday, the spot price for nonfat dry milk (NDM) fell during the final three days of trading and breaking through the persistent \$1.10/lb. floor. Ultimately the market ended the week at \$1.0875/lb., down 3¢ from last Friday and notching the lowest price seen since November 2020. Dryers have been busy but there is some indication that as milk supplies begin to fall, condensed skim supplies are tightening up. Combined production of NDM and skim milk powder (SMP) in May fell by 0.8% year over year to 241.5 million pounds. Manufacturers showed a marked preference for making NDM over SMP, likely reflecting sustained weakness from international buyers.

Exports of NDM and SMP were down in May, but only by 1.1%. The relatively respectable result was driven by continued demand for U.S. powder from Mexican buyers. U.S. exports to Mexico were up 30.5% and delivered the strongest result ever for May, besting the next best volume set in 2018 by 12.6 million pounds. Robust exports to Mexico have helped to offset lower exports to other destinations, especially in Southeast Asia, where demand continues to languish.



Summer heat has set in across most of the country with high temperatures causing contraction in milk supplies. The drop will likely be accelerated further by low milk prices. Class III markets continue to fall with the JUL23 contract settling below \$14/cwt. on Thursday and Friday. Class IV also softened during the week with AUG23 through DEC23 contracts settling today at \$17.75/cwt. or below. Lower milk prices are resulting in dismal margins. USDA announced last week that the income over feed cost calculated in May as part of the Dairy Margin Coverage program fell to \$4.83/cwt., the lowest figure seen since the creation of the program.

### Grain Markets

The grain markets were mixed over the week as traders worked through information proffered by USDA and weather developments. While there was volatility during the week nearby corn contracts remained relatively close to their starting points as the week wrapped up. SEP23 corn settled on Friday at \$4.8725/bu. while DEC23 corn went into the weekend at \$4.945/bu. The soybean markets were a bit more dramatic, falling on Thursday and Friday after rising during the first half of the week. AUG23 soybean meal ended the week at \$402.80/ton, down nearly \$9 from Monday's settlement. Both the soybean and corn crops remain precarious and market participants are closely watching weather developments which could dramatically influence the crops' development.



## A First for Dairy Margin Coverage

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

The [Dairy Margin Coverage \(DMC\) Program](#) is the basic safety net USDA provides for America’s dairy farmers. It is structured to provide payments to enrolled farmers when the margin between milk income and feed costs become compressed.

A major component of how the program is structured is that the best margin coverage (which provides payments when the margin is less than \$9.50 per cwt.) is available only on the first 5 million pounds of milk a dairy facility produces per year. That amount fully covers the milk from about 200 cows. Obviously, here in California where the average dairy is well over 1,500 cows, this program falls far short.

In the last Farm Bill in 2018, Congress did make a modest attempt to provide some coverage to the higher volumes of milk by retooling the premium structure for milk volumes above 5 million pounds. Margin coverage at \$4 per cwt. has always been free. But in 2018, Congress provided that producers could sign up for \$5 margin coverage for a premium of ½ cent per cwt. or \$50 per 1 million pounds of coverage.

Until May of 2023 the margin had never been below \$5. But in May the margin was \$4.83 per cwt., which will provide a payment of 17 cents per cwt. for all the enrolled annual pounds divided by twelve months, less a required 5.7% sequester. What that means is a payment of \$1,603 for every million pounds of covered production. This is nowhere near enough to cover the massive losses occurring right now, but it’s not nothing either.

Month	Corn (\$/bu)	Premium Alfalfa Hay (\$/ton)	Soybean Meal (\$/ton)	All Milk (\$/cwt)	Final Feed Costs for DMC(\$/cwt)	Milk Margin Above Feed Costs for DMC(\$/cwt)
January	6.64	328.00	482.40	23.10	15.16	7.94
February	6.80	324.00	500.53	21.60	15.41	6.19
March	6.67	314.00	484.40	21.10	15.02	6.08
April	6.70	315.00	457.25	20.70	14.86	5.84
May	6.54	317.00	423.58	19.30	14.47	4.83

It is likely that margins will be below \$5 for at least a few months unfortunately. What this points out is that even though it seemed very unlikely that margins would get this low, there is no real floor in the dairy industry market. Having a risk management strategy is an important function that each dairy should take seriously and there are a number of tools that can be utilized. The DMC didn’t seem like it would ever pay at these low margin levels, but here we are.

More information about the Dairy Margin Program, including a producer decision tool and enrollment information, is available [here](#).

## Reminder: Dairy PLUS Program Workshop July 13; Grant Applications Due August 28

Courtesy of the [California Dairy Research Foundation](#)



The California Department of Food & Agriculture recently released the first solicitation for the Dairy PLUS Program, the producer co-funding program to encourage implementation of advanced manure management practices. Applications are due August 28, 2023, by 5 p.m. Information about the program and the solicitation can be found on [CDFA's website for the program](#) and can also be found on [CDRF's Climate-Smart webpage](#).

The California Dairy Quality Assurance Program and California Dairy Research Foundation will host a workshop on **July 13 from 10 a.m. to noon** regarding the new Dairy PLUS Program. **Register [here](#)**. For questions, please contact Denise Mullinax, CDQAP-CDRF at (209) 585-6744 or [mullinax@cdrf.org](mailto:mullinax@cdrf.org).

## NMPF Urges USDA to Reject Unrelated FMMO Hearing Requests

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

As the USDA moves forward with its action plan to conduct a Federal Order hearing this summer, NMPF has expressed its opposition to the consideration of certain other proposals that are not germane to the process.

In a [letter sent last week](#) to USDA-AMS Administrator Bruce Summers and Deputy Administrator Dana Coale, we asked the Department to only consider proposals that fall within the scope of its request for submission of additional proposals -- which was limited to the **current pricing provisions applicable to all Federal Milk Marketing Orders**. Five proposals that were submitted to USDA by interested parties do not meet that test because they are either regionally-directed, do not address pricing provisions of the orders, or they seek to change definitions of how the FMMO system functions, all of which are outside the scope of the Department's request as it considers the possibility of a national order hearing which we have requested.

We also urged that the agency focus only on issues that it has the authority to regulate under the Agricultural Marketing Agreement Act. We noted that "no one will benefit if the possible hearing is consumed with promotion or criticism of hypothetical order provisions that cannot become part of federal regulations." Fourteen proposals submitted to USDA are not within the authority conferred upon the Department by the AMAA.

National Milk's letter also asked the USDA to reject two requests to not hold a hearing at all, given the urgent need across the entire dairy industry to update the FMMO pricing provisions. We expect USDA to announce later this month when and where a national hearing will take place.

MY JOB DEPENDS ON  
**WATER**  
Farming in the SGMA Era

# GROWER EVENT

Hosted by the Kaweah Subbasin Groundwater Sustainability Agencies



Thursday, July 13th, 2023 | 7:30 AM - 1:30 PM

**BBQ LUNCH PROVIDED**

Reserve your lunch by July 6th  
at [ekgsa.org/rsvp](http://ekgsa.org/rsvp)  
or call 559-697-6095



International Agri-Center in Tulare  
in the Banquet Hall  
4500 S. Laspina St.  
Tulare, CA 93274

<b>7:30 AM</b>	Check-in begins
<b>7:30 AM – 8:30 AM</b>	Vendor fair, coffee & donut social
<b>8:30 AM – 11:00 AM</b>	Kaweah and Friant water supply updates, Kaweah Subbasin SGMA coordination, irrigation tools & funding for growers
<b>11:00 AM – 1:30 PM</b>	BBQ lunch, vendor presentations, vendor fair, and raffle

The Kaweah Subbasin GSAs are partnering to equip growers with tools and expert advice on water management for their farms. Join us for a CVP water supply issue briefing from Friant Water Authority CEO Jason Phillips, catch up on groundwater management from your GSA leaders, and learn from other experts on grant funding for growers and the status of water in your area.

- **EQIP & SWEEP grant funding for growers**
- **Surface water supply issue briefing**
- **SGMA and groundwater updates**



Thank you to our sponsors!

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