

# 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

|                                      |           |                          |                   |                                  |          |
|--------------------------------------|-----------|--------------------------|-------------------|----------------------------------|----------|
| <b>CHICAGO CHEDDAR CHEESE</b>        |           | <b>CHICAGO AA BUTTER</b> |                   | <b>NON-FAT DRY MILK</b>          |          |
| Blocks                               | - \$.0950 | \$1.8650                 | WEEKLY CHANGE     | + \$.1025                        | \$2.3750 |
| Barrels                              | + \$.0775 | \$1.6300                 | WEEKLY AVERAGE    | + \$.0730                        | \$2.3445 |
| <b>WEEKLY AVERAGE CHEDDAR CHEESE</b> |           | <b>DRY WHEY</b>          |                   | <b>NAT'L PLANTS</b>              |          |
| Blocks                               | - \$.0860 | \$1.8770                 | DAIRY MARKET NEWS | W/E 02/03/23                     | \$ .3850 |
| Barrels                              | - \$.0155 | \$1.5945                 | NATIONAL PLANTS   | W/E 01/28/22                     | \$ .4001 |
|                                      |           |                          |                   | <b>LAST WEEK ENDING 01/21/22</b> |          |
|                                      |           |                          |                   | NAT'L PLANTS \$1.3981 18,857,523 |          |

## CALIFORNIA FEDERAL MILK MARKETING ORDER PRICE PROJECTIONS

| PRICE PROJECTIONS | CLASS I ACTUAL<br>(RANGE BASED ON LOCATION) | CLASS II PROJECTED | CLASS III PROJECTED | CLASS IV PROJECTED |
|-------------------|---------------------------------------------|--------------------|---------------------|--------------------|
| FEB 3 EST         | \$22.38 - \$22.88                           | \$20.69            | \$17.92             | \$18.76            |
| JAN '23 FINAL     | \$24.01 - \$24.51                           | \$21.61            | \$19.43             | \$20.01            |



### Milk, Dairy and Grain Market Commentary

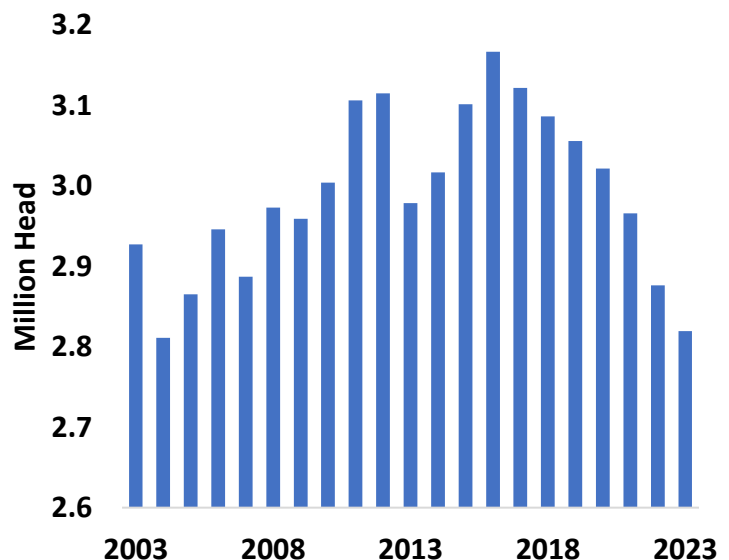
By Sarina Sharp, Daily Dairy Report  
[Sarina@DailyDairyReport.com](mailto:Sarina@DailyDairyReport.com)

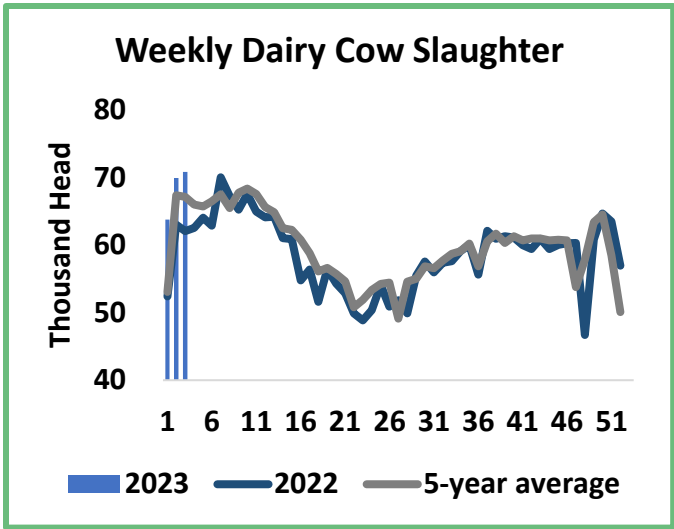
#### Milk & Dairy Markets

The dairy markets have digested a lot of bad news over the past few months. A renewed focus on economic and demographic slowdown in China and a shift to higher milk output in the U.S. and Europe emboldened the bears. In Chicago, spot dairy products and milk contracts logged multi-year lows in January. The powders were particularly pitiful. But this week most markets came roaring back. It seems the dairy trade may have overindulged on pessimism.

Last week's Milk Production report showed slower-than-expected growth in U.S. milk

#### Dairy Heifers Expected to Calve





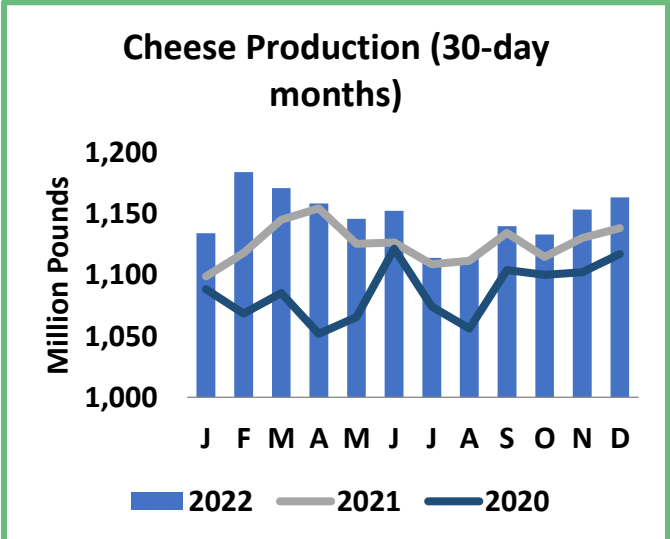
output, and this week USDA hit the dairy complex with two more datapoints that suggest sluggish growth ahead. There were just 2.77 million dairy heifers expected to calve and enter the milking herd this year, according to the agency’s annual Cattle report. That is 2% fewer than last year and the smallest dairy heifer inventory since 2004. If dairy producers develop an appetite for expansion, the scarcity of heifers will lift dairy cow values, raising the cost to put more cows in the barn and more milk in the tank.

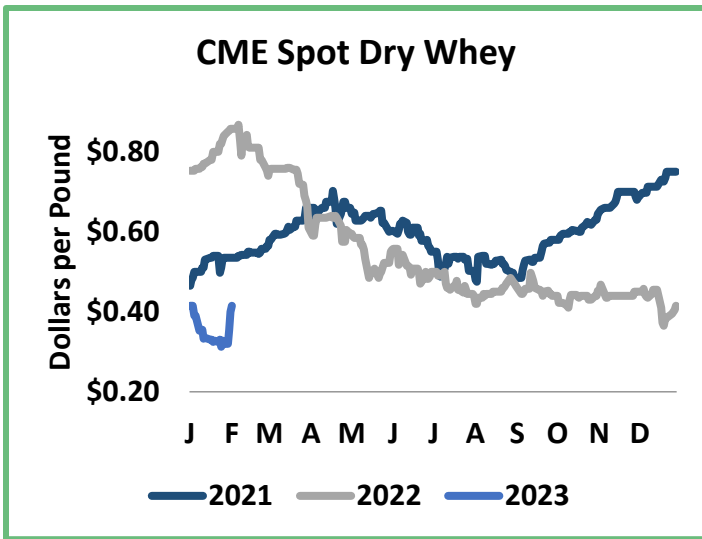
And there is no sign that producers want to expand at the moment. In fact, there’s been a notable uptick in dispersal auction notices, and cull rates are climbing. USDA reported dairy cow slaughter in the week ending January 21, at 70,826 head, up 13.3% from the unusually low slaughter seen at the same time last year. An uptick in culling in the West suggests that severe weather is partly to blame, but poor margins have also played a role. Regardless of the cause, these are cattle that won’t be making milk in the future.

Still, there is more than enough milk for now. For the seventh week in a row, some cheesemakers in the Midwest were able to snap up spot milk at as much as \$10 per cwt. below class. Such steep discounts indicate chronic oversupply in the Northern Plains, home to much of the growth in milk output over the past few years. Processors are simply overwhelmed with the volume of milk, and, the *Daily Dairy Report* notes, “persistent labor issues, technology troubles, severe weather, and trucking delays are making matters worse.”

With cheesemakers running overtime to take advantage of cheap milk, cheese output is likely growing. And it was already formidable. U.S. cheese production topped 1.2 billion pounds in December, up 2.2% from the hefty volumes the year before. Mozzarella production jumped 4.1% year over year, as cheesemakers geared up for the football playoff season. 2022 Mozzarella output was 3.8% greater than 2021, driving a 1.8% increase in total cheese output. Cheddar production topped year-ago volumes in the final quarter of last year, but the annual tally lagged 2021 by 0.8%. Cheese prices diverged in Chicago this week. CME spot Cheddar blocks fell 9.5¢ to \$1.865 per pound. Barrels still looked like a bargain, and buyers took home another 27 loads this week. They closed at \$1.63, up 7.75¢ since last Friday.

Despite heavy cheese production, whey output was surprisingly light. Dry whey output lagged the prior year in both November and December, and production of whey protein concentrates and isolates also fell short. Nonetheless, whey stocks jumped, which explains why whey dipped toward 30¢ in late



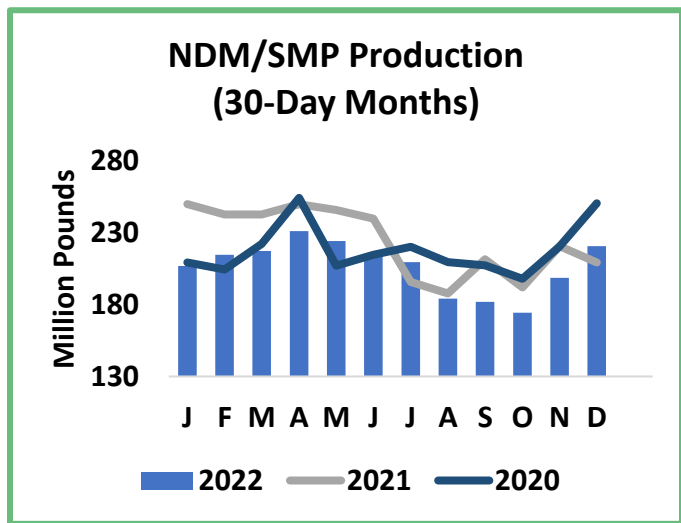


January. But cheap proteins are starting to attract some buyers. Whey values made a sharp about-face this week. CME spot dry whey jumped 8.75¢ to 41.5¢. Every penny move in whey adds up to a 6¢ change in Class III values so, if it holds, this week’s rally will add more than 50¢ to Class III milk.

Driers ran hard over the holidays. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) was 5.3% higher than December 2021. Manufacturers’ stocks climbed seasonally. While not alarmingly high, they were 4.5% above prior-year volumes. The trade

assumed that milk powder piled up in January, and global prices continued to slide. But this week, the trade was more optimistic. CME spot NDM rallied 9¢ to \$1.2425.

Butter output topped year-ago volumes in November and December, but it remained below the record-setting production levels of 2020. Stronger output and slower sales have weighed heavily on butter values since their October peak, but they may have fallen far enough for now. CME spot butter leapt 10.25¢ this week to \$2.375.



USDA announced the January Class III price at \$19.43 per cwt., down \$1.07 from December and 95¢ lower than January 2022. At \$20.01, January Class IV milk was \$2.11 lower than December and \$3.08 below January 2022. Milk checks are expected to shrink further as winter fades to spring. February Class III milk slipped 14¢ this week to \$17.92 per cwt. March was weaker still, down 28¢ at \$17.73. February Class IV also lost some ground this week, falling 16¢ to \$18.76. But the other Class IV contracts moved sharply higher and deferred Class III futures perked up a bit too. As evidenced by the uptick in dairy sellouts and the surge in slaughter volumes, today’s lower prices are already doing the painful work necessary to tighten up dairy supplies and set the stage for better prices later this year.

### Grain Markets

Corn prices gave back a little ground this week. The March contract settled at \$6.775 per bushel, down 5.25¢ from last Friday. Two weeks of good rains revived the corn and soybean crops in Argentina, which pressured grain values. But more rain is needed, and the forecast looks pretty dry. Corn bulls were also encouraged to see China shopping for U.S. corn for the first time in months. The prospect of a recovery in U.S. corn exports could keep a high floor under corn values for some time. And the trade remains anxious about the South American soy crop, and the slow crushing pace in the U.S. and Argentina. That lifted March beans to \$15.32 today, up 22.5¢ for the week. Soybean meal remains disconcertingly expensive. It climbed another \$23 this week to \$496.50 per ton.



## California Dairy Water Meeting Discusses Critical Issues

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

Yesterday, about 200 dairy farmers and allied industry members gathered in Tulare for a two-hour discussion about water issues facing California's dairy industry. A panel including **Scott Hamilton** of the Water Blueprint for the San Joaquin Valley, **Dr. Michael McCullough** from Cal Poly, SLO and myself discussed the implications of the Sustainable Groundwater Management Act (SGMA), findings from a recent economic assessment about the impacts of SGMA and strategies for developing more water outlined in the Water Blueprint.

The event was co-hosted by Dairy Cares, the California Cattle Council and the California Creamery Operators Association.

You can download the following materials from yesterday's meeting by clicking on each title. The meeting was also recorded, which we will share when it is available.

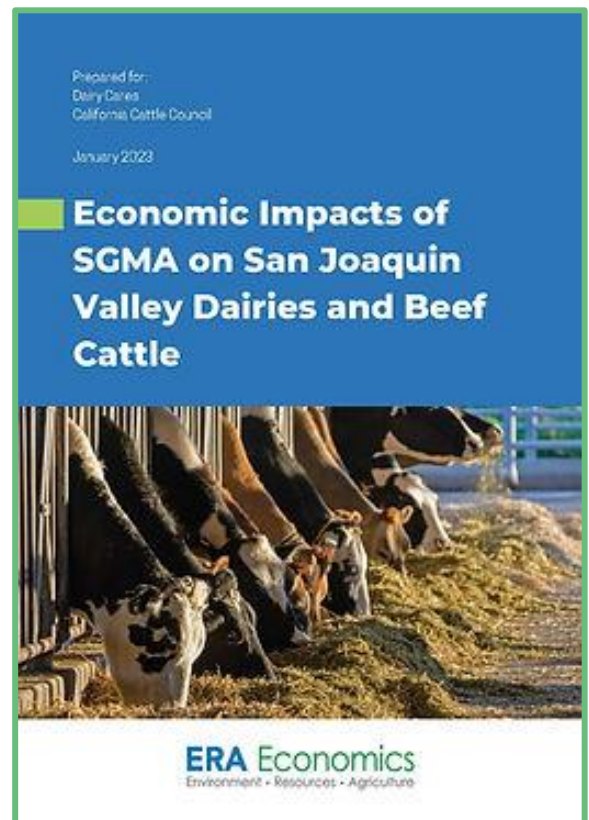
### **Executive Summary of Economic Report:** **[Economic Impacts of SGMA on San Joaquin Valley Dairies and Beef Cattle](#)**

### **Geoff Vanden Heuvel's Presentation: [Game Changer? What SGMA Implementation Means to the CA Dairy Industry](#)**

### **Dr. Michael McCullough's Presentation: [Overview of Economic Impacts of SGMA](#)**

### **Scott Hamilton's Presentation: [Water Blueprint for the San Joaquin Valley](#)**

I also was recently interviewed by Brian German of [AgNet News Hour](#), where we discussed the recent storms and the impact they have had on Delta pumping. The interview starts at about the 24-minute mark of the show, which you can find [here](#).



## USDA Offers Disaster Assistance to Farmers and Livestock Producers in California Impacted by Floods

Courtesy of the [United States Department of Agriculture](#)

California agricultural operations have been significantly impacted by the recent floods throughout the state. The U.S. Department of Agriculture (USDA) has technical and financial assistance available to help farmers and livestock producers recover. Impacted producers should contact their [local USDA Service Center](#) to report losses and learn more about program options available to assist in their recovery from crop, land, infrastructure and livestock losses and damages.

Producers who experience livestock deaths may be eligible for the [Livestock Indemnity Program](#) (LIP). To participate in LIP, producers will be required to provide verifiable documentation of death losses resulting from an eligible adverse weather event and must submit a notice of loss to their local FSA county office within 30 calendar days of when the loss of livestock is apparent.

## Managing Dairies During Heavy Rainfall

Courtesy of the [California Dairy Quality Assurance Program](#)

By Dr. Michael Payne and Denise Mullinax, California Dairy Quality Assurance Program (CDQAP)



Any producer who's wrestled with local flooding, corral ponding and mud knows it's easier to take preventative measures before the storms than it is to address them once they've begun. Every year CDQAP provides [Tips for Water Board Inspections](#) and every fall highlights [Dairy Winterizing Checklists](#). But what can be done after the rains have already started? Here are some things to think about while it is calm between storms.

### Property Perimeter

Water Board staff advise that during and after storm events all dischargers (including non-dairy facilities) should check for threatened off-site discharge. Visually surveying the property perimeter provides final confirmation that manure infrastructure is working. This includes that tailwater berms are intact, pumps in settling basins and storage ponds are functioning, transfer pipes are not clogged and pathways for clean-water runoff have not been obstructed with debris.

### Lagoons

Softened by prolonged rain and stressed by increased hydrostatic pressure, full earthen dams, levees and ponds can experience catastrophic failure. This is why dry-season prevention of weed roots and rodent holes is so important. During storm season producers should carefully monitor the integrity of lagoon and berm walls.

Lagoons are required to have adequate freeboard (2' for above ground ponds and 1' for in ground ponds) to maintain structural integrity. Lagoon water spilling over the top of containment walls can create erosion gullies, weakening wall structure. This "[overtopping](#)" phenomenon is also one of the most

common cause of dam and levee failure and can progress rapidly to a crisis. Under no circumstances should a lagoon be allowed to spill over. If evidence of threatened overtopping, seepage or boils is present, producers should seek professional assistance immediately.

### **Levees**

Producers whose property contains or is adjacent to a public or private levee may have obligations to maintain or at least not harm levee integrity. For both farm safety and legal reasons producers should monitor nearby levees and report threatened structures to county emergency management immediately.

*Continue reading this story and others from CDQAP's monthly Quality Assurance Update [here](#).*



*Repairs on the Cosumnes River in Sacramento County.  
Credit: [Fred Greaves/Reuters](#)*

## **NMPF Update: USTR Files New Dispute over Canada's Dairy System**

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

As Canada's dairy sector has continued to wriggle out of its commitments to import more U.S. products, the Biden administration Tuesday asked for a [second dispute settlement panel](#) under the terms of the USMCA. This panel will review whether Canada's system for allocating dairy tariff-rate quotas continues to discriminate against U.S. exporters – an objection NMPF and USDEC [have continued to raise](#) with our government as well as with Canada's.

The United States won its first dispute panel on the matter in December 2021, which found that Canada was reserving most of its preferential dairy TRQs for Canadian processors that have little incentive to import U.S. products. But while that finding was supposed to spur some adjustments, Canada's revised approach, released last May, also provided inequitable advantages to Canadian processors and thus didn't fix the problem for the U.S. dairy sector.

Members will soon be appointed to this second panel, and have 150 days to produce a draft report. If this new panel ultimately affirms our complaint that Canada is still violating its obligations under the USMCA, the U.S. would be granted the right to impose retaliatory duties.

This week's action by the USTR followed a bipartisan letter sent earlier this week from Senate Ag Committee leaders Debbie Stabenow (D-Mich.) and John Boozman (R-Ark.) asking U.S. Trade Representative Katherine Tai to request a new panel to review the issue because the earlier panel's ruling in 2021 had not led to satisfactory changes in Canada's TRQ system.