MPC Weekly Friday Report

Date: December 9, 2022
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	- $.0050	$2.0950
Barrels	+ $.0525	$1.9500
Weekly Average Cheddar Cheese		
Blocks	- $.0035	$2.0925
Barrels	+ $.0915	$1.9375

Chicago AA Butter		
Weekly Change	- $.0875	$2.8125
Weekly Average	- $.0760	$2.8370
Dry Whey		
Dairy Market News	w/e 12/09/22	$.4775
National Plants	w/e 12/03/22	$.4707

Non-Fat Dry Milk		
Week Ending 12/03/22		
Nat'l Plants	$1.4553	23,268,054
Last Week Ending 11/26/22		
Nat'l Plants	$1.4933	13,668,274

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
Dec 9 Est	**$24.18 - $24.68**	**$23.07**	**$20.50**	**$21.82**
Last Week	**$24.18 - $24.68**	**$22.90**	**$20.28**	**$21.70**

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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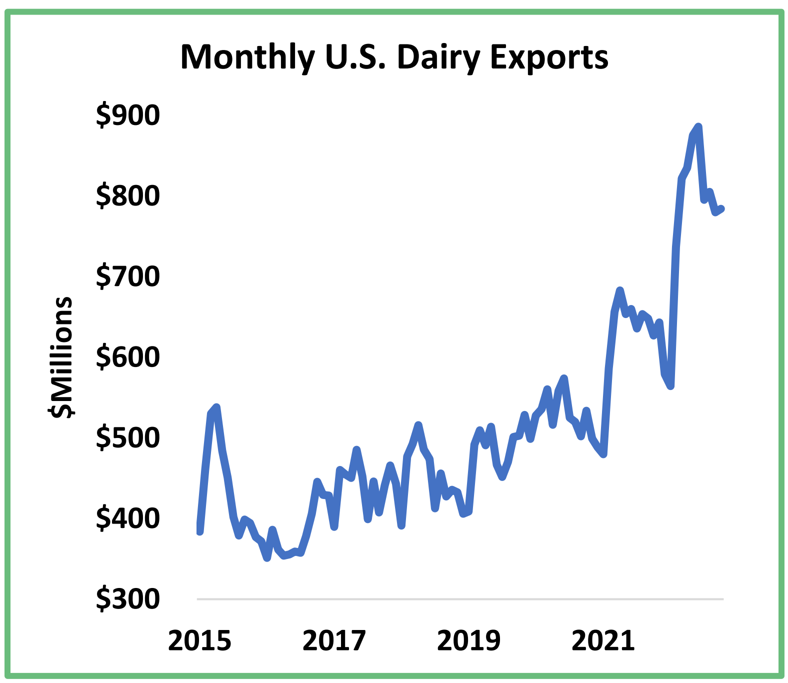
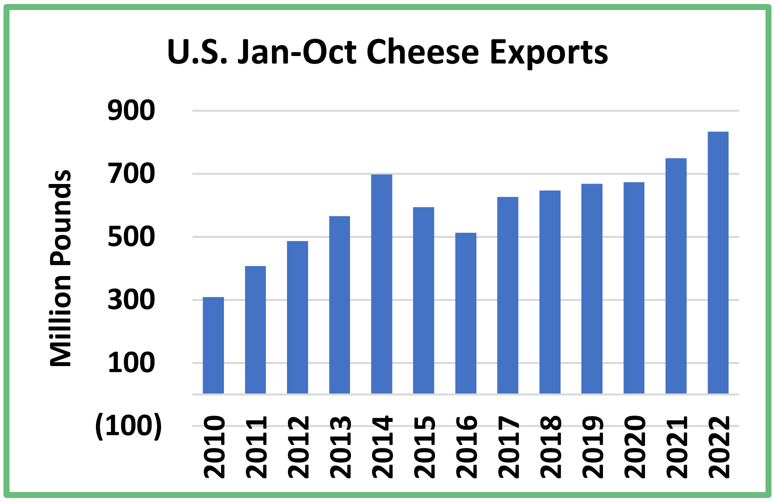
Milk & Dairy Markets

The dairy markets are in transition. The factors that propelled milk prices above $25 per cwt. this summer – a sustained global milk production deficit and record-breaking Chinese demand – are no longer in play. But those extremely bullish forces will continue to impact the markets for a little while longer, as exporters fill orders signed months ago, when most U.S. dairy product prices were much more competitive than they are today.

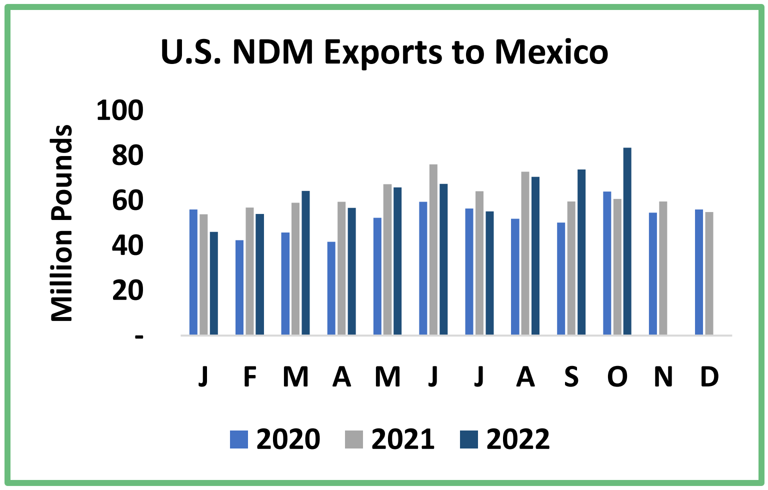


Through October, the United States continued to move massive volumes of dairy products overseas. Exporters sent a hefty 525



million pounds of dairy abroad in October, worth over $810 million. That was up 25% by value and 8% by volume from the record-breaking tallies of October 2021.

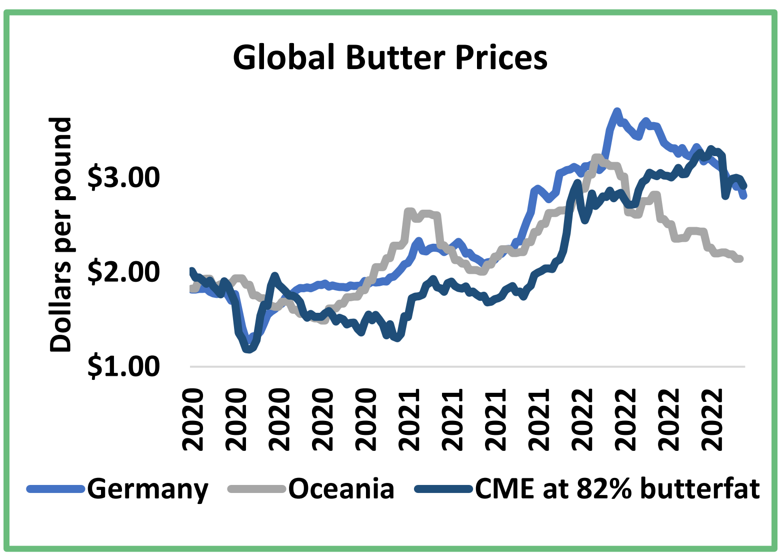
The U.S. shipped out 81.5 million pounds of cheese in October, 3.8% more than the prior year and a new record for the month. Cheese exports are high and likely to remain so, as U.S. cheese prices remain inexpensive relative to global benchmarks. U.S. cheese is especially attractive in Mexico, our top market, as the peso is one of the few currencies that has gained ground against the dollar this year.



Whey exports also set a new October record, and exports of dry whey topped last year by an impressive 22.2%, helped by a strong showing to China. The forecast for whey exports is a bit murky, as much depends on how China's hog industry fares in the shift away from the nation's onerous zero-Covid policies.

U.S. exports of nonfat dry milk (NDM) and skim milk powder (SMP) improved in October to 161.3 million pounds. They were 10.5% greater than the year before. For the year to date, U.S. NDM exports trail last year's record-shattering pace by 7.2%, but they are healthy in comparison to all other years. Mexican buyers have picked up the pace since August, but other major milk powder importers, including the Philippines, China, and Vietnam, have taken a step back.

For most of 2021 and the first few months of 2022, China imported milk powder at a breakneck pace. But they shifted into lower gear this summer, after they'd filled up their food reserves. Strong growth in Chinese milk output is also keeping imports in check. This will have huge ramifications for the dairy markets in 2023. Lower Chinese demand for whole milk powder (WMP) is freeing up more milk and cream in Oceania for other uses, and erasing the impact of the Oceania milk production deficit. Indeed, with less cream going to the drier, New Zealand is likely making more butter, and prices in the region are dropping accordingly.



October butter exports were shockingly large, at 15.7 million pounds. That was 62% greater than the prior year and the highest monthly volume since April 2014. Butter exports are sure to be much, much lower in the months to come, as U.S. butter prices are far too high to attract foreign buyers. The U.S. is likely to become a net butter importer once again next year. Meanwhile, domestic butter demand has floundered.

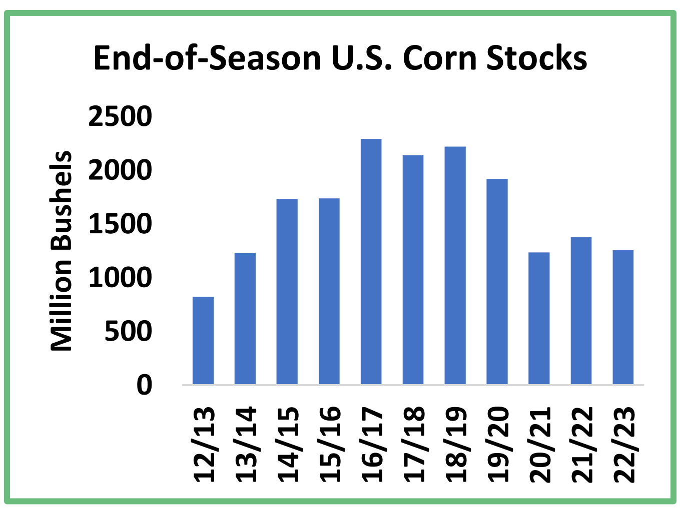
U.S. dairy exports are unlikely to sustain their current pace for much longer. This assumption has already dragged the forward-looking milk markets down several dollars. But perhaps they've gone far enough for the nonce. Global milk output is on the mend, but it is certainly not surging, and there is no indication that it will anytime soon. For all the concerns about the global economy, dairy demand is still healthy, despite the setbacks in China. With that in mind, prices moved mostly higher at Tuesday's Global Dairy Trade (GDT) auction. The GDT Index rose a modest 0.6%, building on gains from the mid-November event. WMP prices climbed only 0.1%, but SMP jumped 1.7% from the previous auction. SMP at the GDT is now roughly equivalent to NDM at $1.50 per pound.

At the CME spot market, NDM rallied a half-cent this week to $1.365. Cheddar barrels climbed 5.25¢ to $1.95. The other products moved lower. Cheddar blocks slipped 0.5¢ to $2.095. Spot whey powder fell 1.5¢ to 43.5¢. Butter plummeted Thursday but came roaring back Friday. It closed today at $2.1825, down 8.75¢ for the week. December Class III and IV contracts gained some ground this week, closing at $20.50 and $21.82, respectively. But 2023 contracts finished deep in the red.

Grain Markets

The EPA lit a fire under the soybean meal market last week, and it continues to blaze. The soy industry had assumed that soy crushers would run as hard as possible next year, making renewable diesel for the federal Renewable Fuel Standards mandate. But the agency upended those expectations, calling for a mere 7% increase in biodiesel – including renewable diesel – production over the next three years. Speculators and industry stakeholders who had purchased soybean oil and sold soybean meal are now unwinding those trades, and the market is lowering its estimate of soybean meal output. Soybean meal values climbed relentlessly this week. January soybean meal closed this afternoon at $471.60 per ton, by far the highest price ever for the contract and nearly $50 more than it was a week ago. Soybean meal and related products like canola meal occupy a relatively small part of the typical dairy ration compared to grains, but dairy producers will surely feel the impact of a surge of this magnitude.

Grain costs inched lower this week. March corn settled at $6.44 per bushel, down 2.25¢. USDA made very few changes to U.S. crop balance sheets in its monthly update, but the agency acknowledged the slow pace of corn shipments and trimmed its outlook for 2022-23 corn exports. This will result in higher end-of-season corn stocks than previously thought, although corn inventories are still projected to be slightly below those of the 2021-22 crop year.



Producer Review Board Takes Next Step to Conduct Quota Implementation Plan Survey

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The Producer Review Board (PRB) held an online meeting this week with a very focused agenda. The only substantive item requiring action was whether to recommend to the California Department of Food and Agriculture (CDFA) Secretary that a solicitation be made for a professional firm to conduct a producer opinion survey about the effectiveness of the Quota Implementation Plan (QIP). There was some discussion about what the survey should cover and one PRB member challenged the whole idea of a survey. In the end, a motion passed to move forward with securing an outside firm to do the work. There will be another opportunity for the PRB to provide input on the actual questions included in the survey once the outside firm is in place.

A couple of other announcements from the meeting included that the nomination period for new board members had closed and the staff were reviewing the applications, with new board member appointments expected soon. It was also announced that a lawsuit had been filed against CDFA's operation of the QIP, but no details were given.

Submit Forms Now for Updated Rule 4702: Internal Combustion Engines

Courtesy of the San Joaquin Valley Air Pollution Control District

MPC members can contact General Manager Kevin Abernathy with questions regarding the Compliance Bulletin below. This rule update will apply to natural gas-powered pumps on agricultural wells, which could require additional control devices to meet new lower standards.

District Rule 4702 was amended on August 19, 2021 to reduce NOx, CO, and VOC emissions from spark-ignited internal combustion engines. The rule amendment includes a requirement for agricultural engine operators to submit an Authority to Construct application, Emission Control Plan, or Permit Exempt Equipment Registration to the District.

Agricultural operators of spark-ignited engines that have not yet submitted their Authority to Construct (ATC) application form, Emission Control Plan (ECP), or Permit Exempt Equipment Registration (PEER) form **must do so immediately**.

Links to the Compliance Assistance Bulletin, ATC/ECP application form, PEER application form, and Rule 4702 are provided below.

- Compliance Assistance Bulletin
- ATC/ECP Application Form
- PEER Application Form
- Rule 4702

2023 Dairy Margin Coverage Deadline Extended to Jan. 31, 2023

Courtesy of United States Department of Agriculture

The U.S. Department of Agriculture (USDA) has extended the deadline for producers to enroll in Dairy Margin Coverage (DMC) and Supplemental Dairy Margin Coverage (SDMC) for program year 2023 to Jan. 31, 2023.

DMC is a voluntary risk management program that offers protection to dairy producers when the difference between the all-milk price and the average feed price (the margin) falls below a certain dollar amount selected by the producer.

"We recognize this is a busy time of year with many competing priorities, so we've extended the DMC enrollment deadline to ensure every producer who wants coverage for 2023 has the opportunity to enroll in the program," said Farm Service Agency (FSA) Administrator Zach Ducheneaux. "Early projections indicate DMC payments are likely to trigger for the first eight months in 2023. We all know that markets fluctuate, sometimes at a moment's notice and sometimes with no warning at all, so now's the time to ensure your operation is covered. Please don't let this second chance slide."

Nearly 18,000 operations that enrolled in DMC for 2022 have received margin payments for August and September for a total of $76.3 million. At $0.15 per hundredweight for $9.50 coverage, risk coverage through DMC is a relatively inexpensive investment.

DMC offers different levels of coverage, even an option that is free to producers, aside from a $100 administrative fee. To determine the appropriate level of DMC coverage for a specific dairy operation, producers can use the online dairy decision tool.

MPC Signs Agriculture Workforce Coalition Letter Urging Senate Action

Courtesy of the Agriculture Workforce Coalition

MPC signed on to a letter this week prepared by the Agriculture Workforce Coalition and submitted to Senate Majority Leader Schumer and Minority Leader McConnell, calling on the U.S. Senate to pass an agriculture labor reform bill. Below is an excerpt of the letter, which you can read in its entirety here.

> *Sen. Michael Bennet (D-CO) and Sen. Mike Crapo (R-ID) are working on legislation to provide stability for our existing workers and make key reforms to the H-2A program, the visa program farmers use to hire legal workers to supplement their U.S. workforce. The House has passed legislation already and it is time now for the Senate to act before the end of the year. The House bill is not perfect and needs improvements. The Senators are working to address many of those concerns and provide stability to farmers across the country. Without immediate action by the Senate, the federal government's outdated policies and broken immigration system are forcing many farmers to consider whether they can continue in labor-intensive agriculture.*

Environmentally Friendly Delta Diversions Can Increase Water to California's Cities and Farms

By Edward Ring
Courtesy of California Globe

When it comes to cost-effective ways to increase the supply of water to California's cities and farms, every idea should be considered. The residential, commercial and industrial water requirements of California's 40 million people add up to about 8 million acre feet of water per year. The nine million acres of irrigated farmland that produces the food they eat, requires another 30 million acre feet of water per year.

With droughts and increasing priority given to letting water stay in the rivers to maintain ecosystem health, this water supply is threatened. Water scarcity and water rationing, along with fallowing millions of acres of farmland, is the only answer California's legislature seems to support. Efforts to increase the water supply have been incremental at best.

From a cost perspective, most supply solutions are financially viable, but nonetheless quite expensive. For example, only about one-third of California's urban wastewater is recycled. Construction costs to upgrade every water treatment plant in the state that isn't already turning sewage back into recycled water for landscaping or even for potable reuse would cost about $20 billion, and give back up to 2 million acre feet per year.

Desalination is another option, but is roughly twice as expensive as wastewater recycling. For an estimated construction cost of $20 billion, about one million acre feet of ocean water per year could be desalinated. While it is the most expensive option, desalination has the virtue of being a perennial supply of new water, impervious to drought. What other options are there?

In an era that may involve warmer and dryer winters, with less rain and less snowpack, it is necessary to more efficiently harvest runoff from the storms that do hit the state. The traditional way to do this is via reservoir storage, but in-stream reservoirs cannot be allowed to fill from early storm runoff, because that would take away their ability to prevent flooding if there are late spring storms. Then if late sprint storms don't materialize, there's inadequate reservoir storage and another water shortage.

Off-stream reservoirs, by contrast, don't block the flow of a natural river. they are typically constructed in arid valleys, and flood runoff is pumped into them during storm events. Using the proposed Sites Reservoir as an example ($4.0 billion for an annual yield of 500,000 acre feet per year), off-stream reservoirs could capture and release one million acre feet per year for a construction cost of $8 billion. But where will the water come from?

A new proposal, the "Water Blueprint for the San Joaquin Valley," is a work-in-progress, authored by a coalition of San Joaquin Valley community leaders.

Continue reading here.