MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	+ $.0150	$1.9950	Weekly Change	+ $.2900	$2.7425	Week Ending 01/01/22		
Barrels	+ $.1550	$1.8650	Weekly Average	+ $.2595	$2.6670	Nat'l Plants	$1.5856	21,451,501
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 12/25/21		
Blocks	+ $.0710	$2.0210	Dairy Market News	w/e 01/07/22	$.7262	Nat'l Plants	$1.5582	14,789,660
Barrels	+ $.1410	$1.8245	National Plants	w/e 01/01/22	$.6564			

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
Jan 7 Est	$21.31 - $21.81	$22.35	$20.29	$22.35
Dec '21 FINAL	$20.77 - $21.27	$19.84	$18.36	$19.88

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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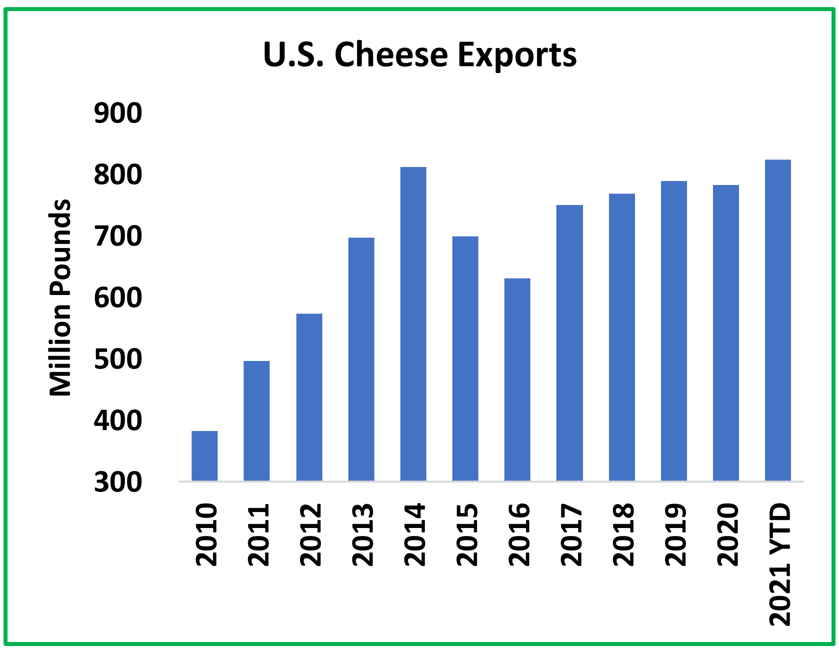
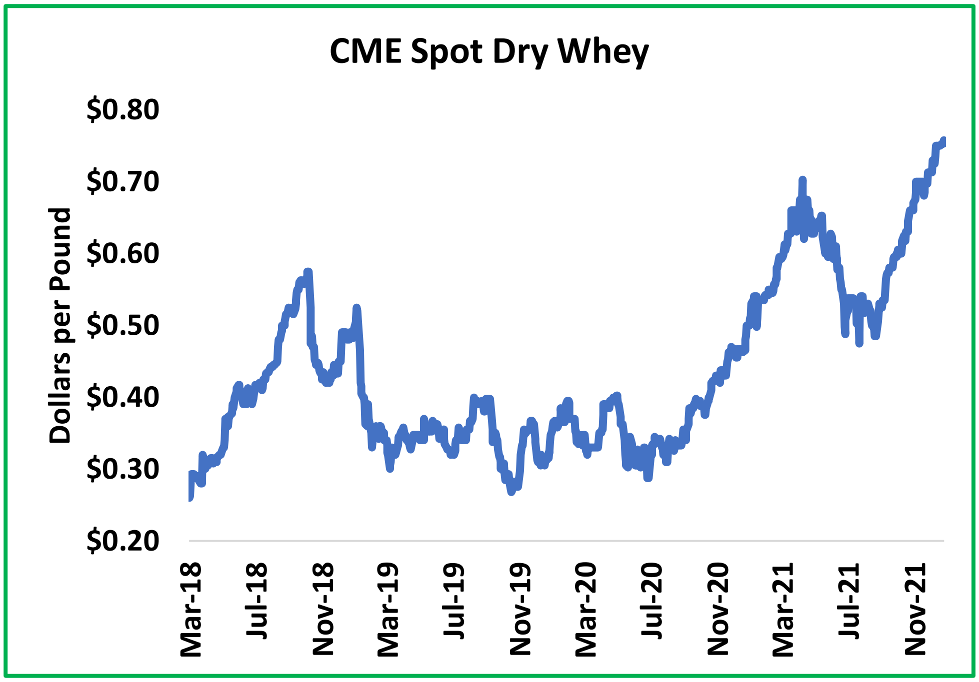
Milk & Dairy Markets

The dairy markets are off to an exciting start in 2022. Class III futures rocketed to life-of-contract highs Wednesday and then plumbed their lower daily trading limits Thursday. February Class III peaked at $22.45 per cwt., and closed today at a still lofty $21.43. Prices are high and extremely volatile as the trade tries to assess how long global milk output will remain depressed and whether demand will hold firm despite the rising cost of dairy.

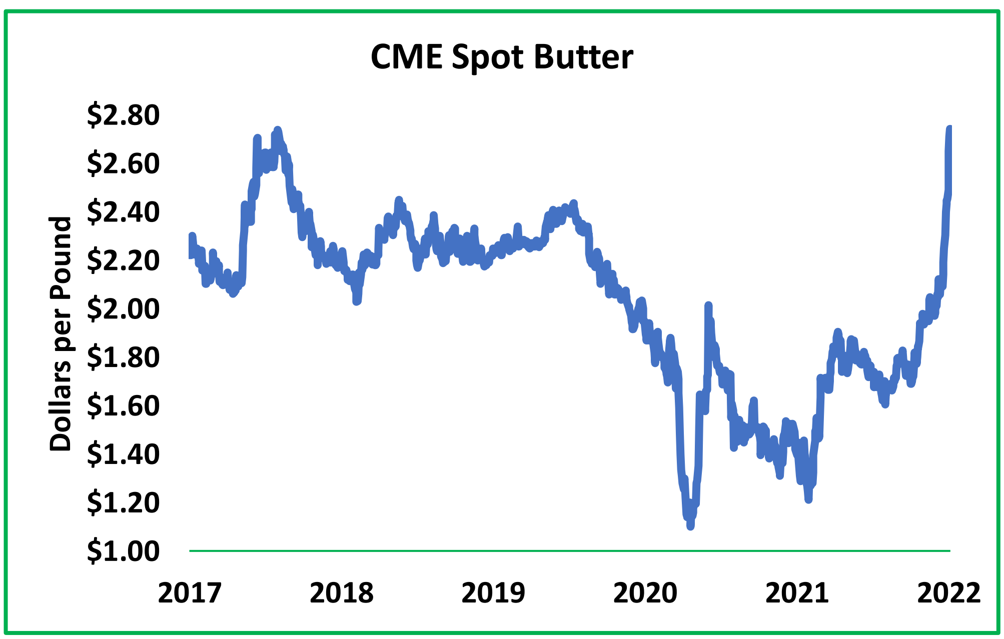


Uncertainty reigns in the cheese markets. Fresh cheese is tight enough to propel spot Cheddar to its highest price since late 2020. CME spot Cheddar blocks



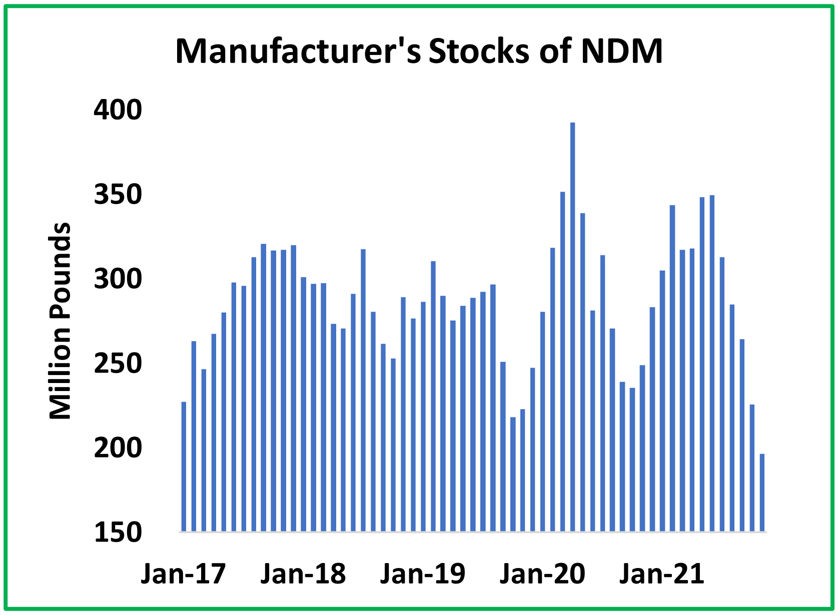
pushed well above the $2 mark this week but settled at $1.995 per pound, up 1.5¢ for the week and up 12.25¢ since Christmas. Barrels leapt 15.5¢ over the past five trading sessions and closed today at $1.865. But cheese stocks are heavy and the vats are full. The latest Dairy Products report showed November cheese output at 1.12 billion pounds, up 1.6% from a year ago. However, Cheddar output fell 4.4% short of the very high volumes made in November 2020, when the government's food box program boosted demand. This time around, cheesemakers focused on specialty and Italian-style cheeses, which suggests they were making cheese to meet orders rather than to push milk through their plants. Demand is reportedly strong as grocers restock after the holidays. And, despite all the headaches required to move cheese from the warehouses to the ports, U.S. exports are better than ever. We sent 73.9 million pounds of cheese abroad in November, up 39.9% from the prior year. With one month of data yet to be counted, U.S. cheese exports have already set a full-year record.

CME spot whey climbed to a fresh high in its nearly four-year tenure at the spot market. At 75.75¢, it is 0.75¢ higher than it was a week ago. Dry whey production is well above the very low levels of November 2020 but not heavy by historic standards. Processors continue to direct much of the whey stream into concentrates, leaving less to drag down the commodity markets. Dry whey stocks moved higher from October to November but are still somewhat tight, as befits a market at multi-year highs.



With both cheese and whey markets moving higher – albeit erratically – Class III futures gained a lot of ground over the past two weeks. 2022 contracts are up 70¢, on average, since the last trading session before Christmas, and the February through April contracts added well over a dollar. The futures promise $20 milk from now until November.

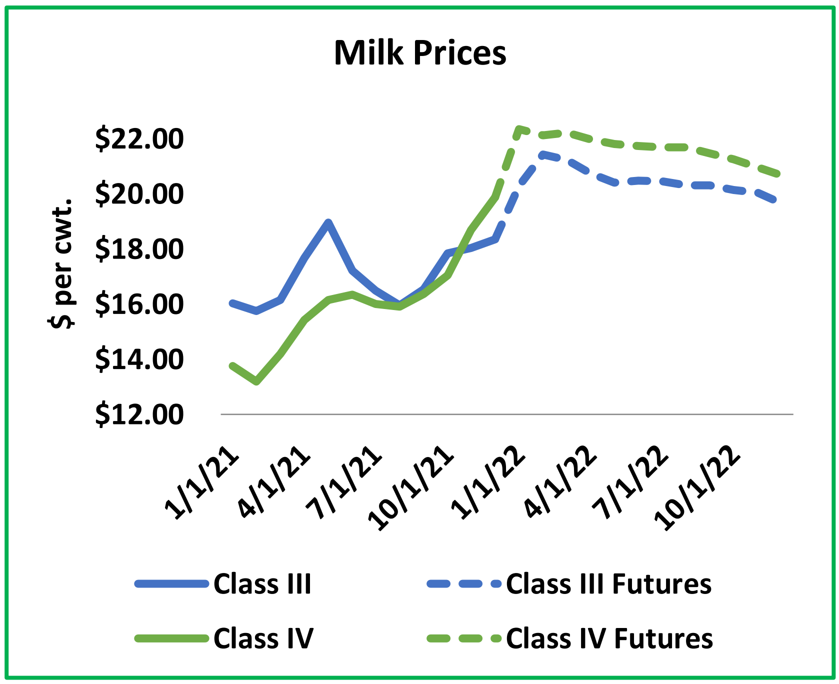
The Class IV markets are even stronger, with an average 2022 price of $21.67 and an



average two-week gain of 92¢. Both butter and milk powder are in relatively short supply as milk moves to cheese vats and cream is processed into whips and dips. Butter output slumped to 156 million pounds in November, down 9.6% year over year. The spot butter market took off on December 20, and it has been sprinting uphill ever since. It closed today at $2.7425, up 29¢ this week and up nearly 50¢ since Christmas. Spot butter hasn't been this pricey since 2015.

Manufacturers made just 181 million pounds of nonfat dry milk (NDM) and skim milk powder (SMP) in November, 17.8% less than the year before. Exports boomed and stocks waned. The U.S. sent a record-breaking 168.5 million pounds of NDM abroad in November, up 25% from a year ago. Manufacturers' stocks of NDM have moved from burdensome to scant in just five months. Inventories stood at 196.5 million pounds at the end of November, the lowest November total since 2013 and 21% lower than the prior year.

U.S. exports are likely to remain strong, because foreign milk powder prices just keep climbing. At the Global Dairy Trade auction on Tuesday, SMP advanced another 1% to the equivalent of NDM at $1.83 per pound, after adjusting for protein. In Chicago this week, CME spot NDM climbed 5.5¢ to $1.71, the highest price – by far – since 2014.



USDA announced the December Class III price at $18.36 per cwt., up 33¢ from November and up $2.60 from December 2020. At $19.88, December Class IV milk was $1.09 higher than the preceding month and up an astounding $6.46 year over year. It's been a long time coming, but dairy producers outside the cheese states can expect their best milk check in years, and the futures promise much bigger revenue in the months to come. But costs are high too.

Grain Markets

The corn market vacillated but finished close to where it began, at $6.0675 per bushel. Soybeans, on the other hand, moved sharply higher. The March contract closed at $14.1025, up nearly 80¢ in two weeks. March soybean meal vaulted to $425 per ton, up nearly $19. It's been hot and dry in southern Brazil and Argentina, and the forecast calls for scorching temperatures for at least another week. After that, rains are expected to bring relief. But until then, the soybean market will be on edge

Quota Petitions Filed

Two petitions were recently submitted to the California Department of Food and Agriculture (CDFA) on the Quota Implementation Plan by the STOP QIP organization. You can see the petitions here.

According to Steve Donaldson, Division of Marketing Services at CDFA, "CDFA is in the process of reviewing the petitions and will be providing information on any next steps."

For reference, click here for the to the QIP petition procedures.

Very Helpful Paper on Managing Manure Under SGMA

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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As implementation of the Sustainable Groundwater Management Act (SGMA) begins to impose real cuts in groundwater usage, dairy farmers are faced with the necessity of evaluating how their operations will cope with the new and coming realities. Innovative Ag Services, a long time Milk Producers Council associate member, has produced a very valuable white paper outlining options and opportunities. It is worth reading and maybe even printing out and keeping as a reference document. Many thanks to Nathan Heeringa, owner of Innovative Ag Services, for making this available. Check out a summary and a link to the guide below.

Manure Management Under the Sustainable Groundwater Management Act
Courtesy of Innovative Ag Services

Confined Animal Feeding Operations (CAFOs) need to take a comprehensive approach to manure management as they face limitations of farmland and irrigation water supply. As the Sustainable Groundwater Management Act (SGMA) is being implemented at an increasing rate with the ongoing drought, the traditional manure management system of agronomically applying manure to fields with irrigation water will be restrictive and costly.

CAFO facilities should evaluate each step of manure management to find solutions to these complex challenges. Nitrogen and/or salts are often the limiting factor of manure management, and these elements should be tracked from the time they are brought to the facility to the time they are exported or applied back to the field.

Each CAFO facility is unique, so each step of a CAFO's management should be evaluated with the management team and trusted partners to find solutions that work for each operation. Now, more than ever, it is important to be proactive in addressing the significant challenges that SGMA will have on your dairy or feedlot operation.

Continue reading here.

California Dairy Quality Assurance Program Update: 2021 Year in Review

Courtesy of CDQAP

CDQAP recently released its latest Quality Assurance Update. Read the entire update here.

CDQAP 2021: Year in Review

This year is nearly over. Similar to you and your dairy staff, CDQAP adapted to the changing needs of the COVID-19 pandemic. In spite of the ever-changing requirements associated with COVID-19 CDQAP continued to support our industry partners on a diverse range of issues. *Continue reading here*.

Dairy Seminars at World Ag Expo

The University of California ANR (Agriculture and Natural Resources) is hosting four different seminars at World Ag Expo. *Continue reading here*.

Stay Tuned: California Dairy Sustainability Summit April 12-14, 2022

The next virtual California Dairy Sustainability Summit will take place online on April 12-14. The summit hosts important and timely discussions, as dairy farmers and organizations around the world partner to reduce climate emissions and improve overall sustainability. *Continue reading here*.

Tackling the Climate Challenge

Courtesy of Dairy Cares

"There is no one-size-fits-all approach to the climate crisis and the challenges that we face in agriculture," said USDA Secretary Tom Vilsack to fellow world leaders at COP26. California dairy farmers are demonstrating this to be true in their efforts to tackle climate change and other environmental challenges. The state's 1,100 family dairy farms are showing how several technologies and strategies are effective in reducing climate emissions, cleaning the air, conserving and protecting water resources, creating renewable energy, and improving the overall health of our planet.

By reducing methane emissions, dairy farmers are greatly helping the state meet its short- and long-term climate goals. About 300 of California's dairy farms are installing or have already completed methane reduction projects. This includes 172 dairy digester projects located throughout the state—capturing methane from 177 dairies and creating renewable energy. Additionally, 114 dairies have implemented various alternative manure management projects, which avoid the creation of methane through alternative handling and storage of manure nutrients. Through a voluntary, incentive-based approach, the state has been helping dairy farmers invest in technologies and strategies that make sense for their operations, reducing methane while creating other environmental benefits.

Continue reading here.

NMPF President's Update

By Jim Mulhern, President & Chief Executive Officer, National Milk Producers Federation

USMCA Dispute Settlement Panel Finds in Favor of U.S. Dairy Sector – In a victory for America's dairy farmers, cooperatives, and proprietary processors– and also a win for the integrity of free trade agreements – an international dispute settlement panel this week found that Canada is not complying with market access concessions negotiated in the U.S.-Mexico-Canada free trade agreement signed in 2020. As we noted in our statement, after the USMCA was enacted 18 months ago, it became clear that Canada was reneging on its market commitments by unfairly giving domestic processors preferred access to tariff-rate quotas (TRQs), favoring its own dairy sector at the expense of American farmers.

USMCA specifically requires that Canada open its TRQ application process to anyone active in the Canadian food and agriculture sector. However, Canada designates the bulk of the TRQs to domestic dairy processors who have little incentive to import, does not provide fair or equitable procedures for administering the TRQs, and does not give retailers any access to the TRQs. These measures deny the ability of U.S. dairy farmers, workers, and exporters to utilize the TRQs and realize the full benefits of the USMCA.

Mindful of Canada's past efforts to thwart market opening concessions, NMPF and USDEC worked successfully to strengthen the enforcement chapter in the USMCA agreement. After the agreement was signed and implemented, we urged the Trump Administration – and subsequently, the Biden Administration – to hold Canada's feet to the fire by pursuing an independent dispute settlement panel to challenge Canada's initial TRQ administration. This week's ruling is the culmination of that process, which many other parties outside of dairy were also monitoring to determine whether USMCA disputes such as this can be handled expeditiously and fairly.

Canada has 45 days to comply with the decision; otherwise, the U.S. has the right to take retaliatory actions. Canada's trade minister has indicated a desire to abide by the ruling, although we'll be monitoring closely to see how that gets implemented. Although unrelated to this week's dairy decision, the Mexican government has now requested a USMCA dispute settlement panel to challenge the U.S. over our interpretation of rules of origin for the auto industry. Those rules specify how much of a product must originate in the region covered by the USMCA agreement to claim tariff-free status.

Volunteer to Help the 'More Water Now' Ballot Initiative Today!

MORE WATER NOW

The petition process to qualify the More Water Now initiative for the November 2022 ballot is officially underway. **Signatures from 1.5 million registered voters must be gathered by April 15, 2022,** just five short months from now. This initiative provides an opportunity to make a substantial – and long overdue – investment in California's water supply infrastructure, with funding put in place until five million acre-feet of new water is developed. Learn more about volunteering at MoreWaterNow.Com/Volunteer.

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