MPC Weekly Friday Report

Date: July 8, 2022
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
Office@MilkProducers.org • www.MilkProducers.org • *Fax (909) 591-7328*

MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0625	$2.1100	Weekly Change	- $.0400	$2.9700	Week Ending 07/02/22		
Barrels	- $.0225	$2.1825	Weekly Average	- $.0280	$2.9475	Nat'l Plants	$1.8161	19,600,745
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	- $.0677	$2.0913	Dairy Market News	w/e 07/08/22	$.5400	Last Week Ending 06/25/22		
Barrels	- $.0039	$2.1756	National Plants	w/e 07/02/22	$.5877	Nat'l Plants	$1.8389	19,600,745

California Federal Milk Marketing Order Price Projections

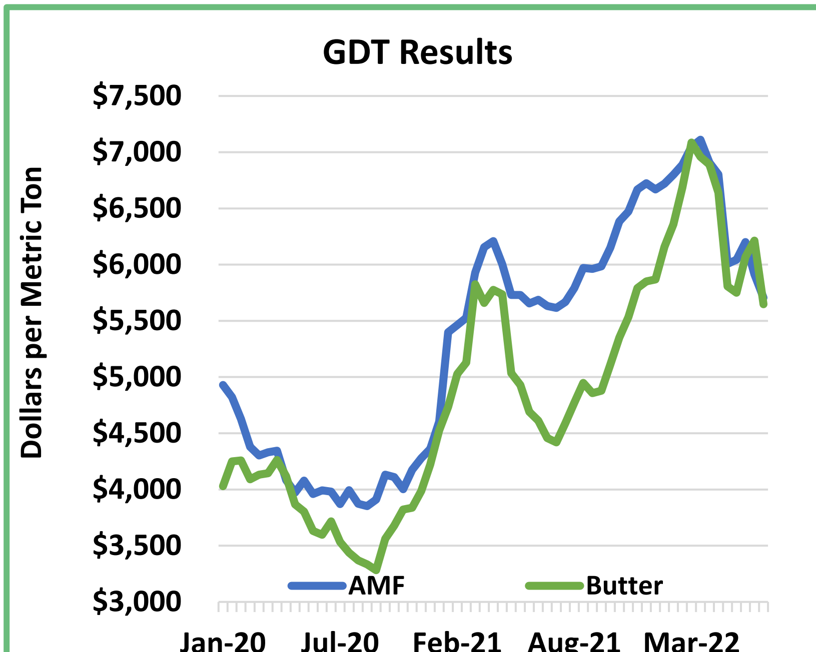
Price Projections	Class I Actual *(range based on location)*	Class II Projected	Class III Projected	Class IV Projected
Jul 8 Est	**$27.47 - $27.97**	**$26.57**	**$22.79**	**$25.63**
Last Week	**$27.47 - $27.97**	**$26.67**	**$22.42**	**$25.68**

Milk, Dairy and Grain Market Commentary

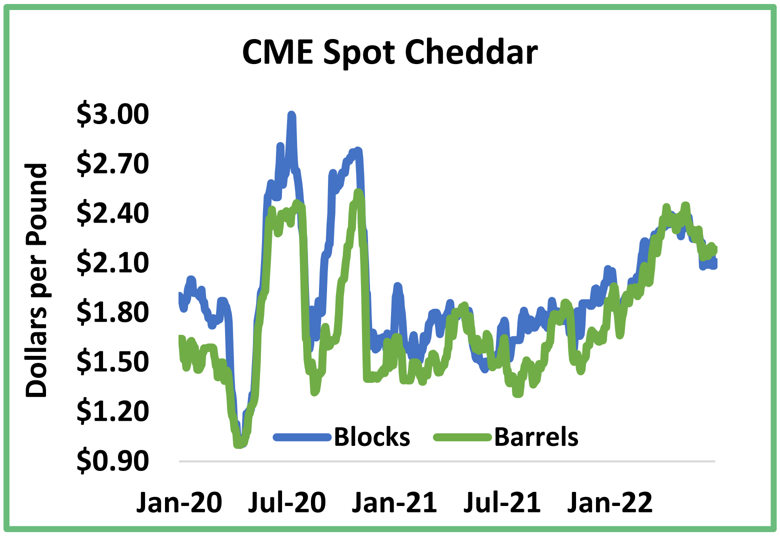
By Monica Ganley, Quarterra
Monica.Ganley@QuarterraGlobal.com

Milk & Dairy Markets

The bears were out in full force during this holiday-shortened week. Prices for dairy commodities moved lower both at home and abroad as the markets sort through supply and demand dynamics. While production shortages persist among most global dairy suppliers, concerns about economic cooling, inflation, and the resulting impact on dairy demand seems to have been sufficient to push back on pricing.

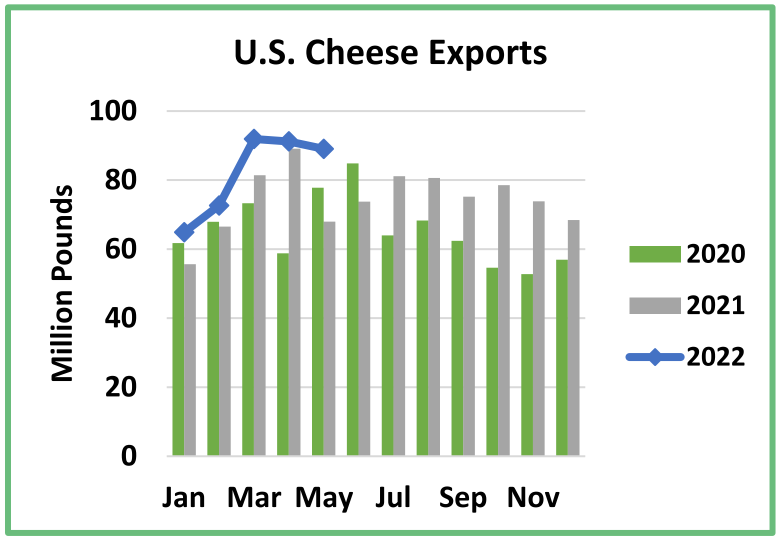


During Tuesday's trading session, the Global Dairy Trade (GDT) index moved down by 4.1%, weighed on by particularly precipitous losses in fat products. The GDT index has declined in seven of the

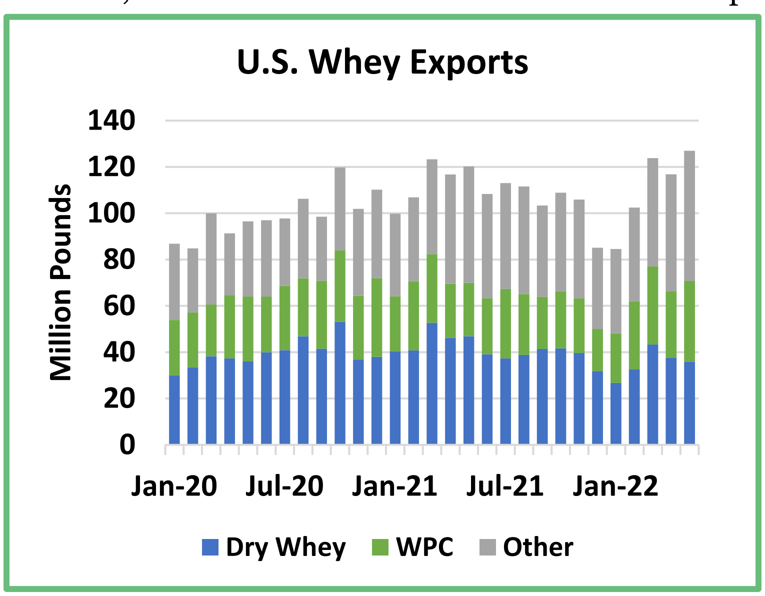


last eight events, suggesting that global prices are well past their peak. U.S. dairy products continue to move into the international market at a rapid clip. At 579.2 million pounds, U.S. dairy exports set a record in May and were up 4.8% relative to the same month last year. Cumulative exports during the first five months of the year led 2021 by 1.3%, though a strengthening U.S. dollar could challenge this pace in the future.

Spot prices for all products fell at the CME this week, due especially to big losses on Tuesday. In the Cheddar markets, blocks plummeted on Tuesday, losing 8.75¢ during the day before finding their footing and recovering somewhat later in the week. Ultimately, blocks ended Friday's trade at $2.11/lb., down 6.25¢ compared to last Friday. Barrels followed a similar, if less dramatic trajectory over the week, ultimately finishing today's trade at $2.1825/lb., 2.25¢ lower than last week. Barrels are carrying a 7.25¢ premium to blocks.



Cheesemakers report that plenty of milk is available for processing. USDA's *Dairy Market News* indicates that spot loads of milk can be picked up for as little as $6 under Class III prices. Despite the availability of milk, however, complications abound. Labor shortages continue to limit processing capacity while transportation challenges are interrupting the smooth movement of spot loads across the country. Domestic cheese demand appears to have softened through both retail and foodservice channels. Export demand, however, has remained robust and continues to keep tension in the market. U.S. exporters shipped 89 million pounds of cheese in May. While this was down compared to April and especially March's record large 91.9 million pounds of exports, it nevertheless represents an increase of 31% year over year.

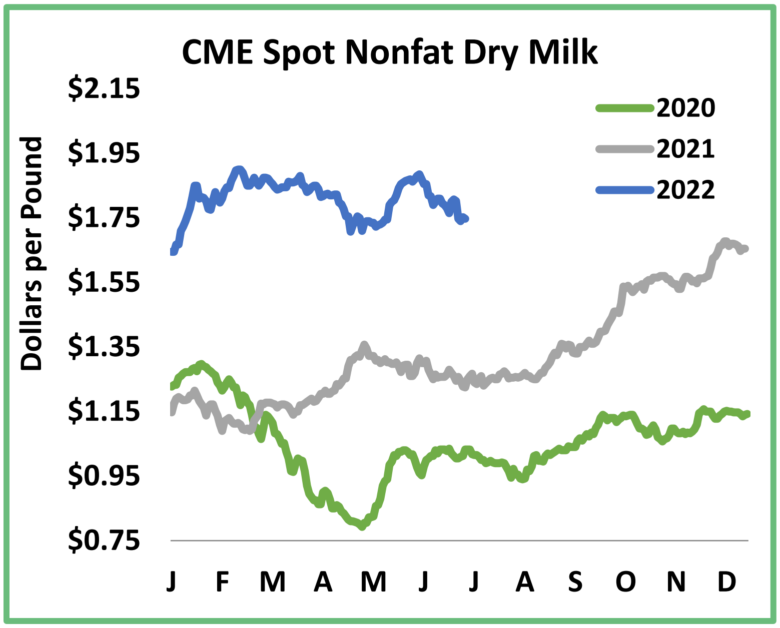


U.S. exports of whey products also grew during May. Total whey exports rose 5.6% year over year to 126.9 million pounds. China accounted for 43.1% of U.S. whey exports and grew year over year for the first time since last September. At 34.8 million pounds, shipments of whey protein concentrate were strong, up 51.1% year over year, and nearly eclipsed dry whey exports, which fell 23.4% year over year to 35.9 million pounds.

Sufficiently strong cheese production has kept a steady whey stream available for whey manufacturers. Market stakeholders indicate that the market is largely in balance while stocks, particularly of dry whey, are comfortable if not abundant. Spot dry whey gave up a penny on Wednesday before holding steady at 49¢/lb. over the remainder of the week.

Butter market tones are mixed. The availability of cream varies dramatically from region to region though logistical complications are sometimes preventing spot loads from finding their way to the churns that want them. Cream availability picked up following last week's holiday but as summer wears on, the prevalence of spot loads is anticipated to fall. Processors and retailers are skittish about demand as consumers feel the pressure of inflation on their household budgets. Yet, despite these concerns, butter prices have managed to stay at historically strong levels.

After breaching the $3/lb. mark last Friday, the highest price since 2015, spot butter prices tumbled by 7¢ on Tuesday at the CME. They held constant at $2.94 for three days before adding 3¢ during today's session as 22 loads traded hands. Ultimately CME spot butter ended the week at $2.97/lb. a decline of 4¢ compared to last Friday.



Nonfat dry milk (NDM) markets also came under pressure this week, losing 5.5¢ to end today's trade at $1.7475/lb. Dryers remain busy but market stakeholders indicate that they are waiting for cues from the international market to see how much further global powder prices may fall. U.S. NDM exports slipped by 9.4% year over year in May, falling to 177.3 million pounds. Lower demand from Mexico weighed on overall powder exports, while NDM shipments to Asia were mixed depending on destination.

The weakness in the spot markets bled into the futures markets for milk. Class III futures markets lost ground on Tuesday and Wednesday before improving on Thursday. In today's settlements, AUG22 through DEC22 Class III contracts finished an average of 60¢ below last Friday. Class IV markets charted a similar course. As summer advances, milk production is declining seasonally in most areas. Weather complications exist but have been isolated, with intensifying heat and humidity weighing on production in parts of the country.

Grain Markets
Volatility ruled in the grain markets this week. A decline across the commodity complex on Tuesday pulled prices for corn and soybeans down dramatically. However, improvements over the remainder of the week, and especially on Friday, erased those losses and delivered nearby futures contracts to levels above last week. Today DEC22 corn futures settled at $6.2350/bu., up 16¢, compared to last week. Meanwhile DEC22 soybean meal settled at $403.7/ton, an increase of $14.5 relative to last week.

USDA's Crop Progress report, released Tuesday, supported higher prices as it downgraded the condition of both the corn and soybean crop. Furthermore, a derecho in the Upper Midwest created concerns for crop development in that part of the country.

MPC Provides Testimony on Dairy Safety Net Programs, Federal Milk Marketing Orders at Farm Bill Listening Session

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

Yesterday, Representative Jim Costa (D-16) hosted a listening session entitled "A 2022 Review of the Farm Bill: Perspectives from the Field" at California State University, Fresno. I provided testimony at the session, which was designed to gather input from farmers, agricultural businesses and consumers as lawmakers prepare to draft a new Farm Bill.

Below are my prepared remarks submitted to the Committee. You can also watch my remarks here.

U.S. House Agriculture Committee Listening Session
July 7, 2022, Fresno, CA
Remarks of Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
Milk Producers Council

Representative Jim Costa (D-16) hosts a Farm Bill Listening Session at CSU, Fresno on July 7.

Chairman Costa and Members of the Committee.

Thank you for the opportunity to participate in this Farm Bill listening session. My name is Geoff Vanden Heuvel. I am the Director of Regulatory and Economic Affairs for Milk Producers Council, a California dairy farmer trade association founded in 1949. Prior to taking this position I was an active dairy farmer in Southern California for 39 years.

Given the limited time available I want to focus on two things in particular that are relevant to the upcoming farm bill discussions.

Safety Net Programs

The Dairy Margin Coverage (DMC) program is a very good safety net tool but the vast majority of the benefit of the program is concentrated on the first 5 million pounds of milk a dairy farmer produces annually. 5 million pounds is about what 250 cows produce annually. Dairy farms in California are much larger than that on average, and so while they receive coverage for a small part of their production through this program, the DMC fails as a safety net for most California dairy farms. We understand the financial and political constraints of raising the benefit level significantly higher than the 5 million pounds. We accept the DMC at 5 million pounds and oppose raising it any further.

The Dairy Revenue Protection (DRP) program, a subsidized crop insurance program overseen by USDA-Risk Management Agency is a dairy safety net program that is not size discriminatory. I believe this program provides the best return for the government dollar in providing risk management for dairy producers. The program has been quite successful in its initial roll out. It is a crop insurance product where the premiums are set by an actuarial sound formula and the government subsidizes the premium with producers paying the majority of the costs. The subsidy level for 90% and 95% coverage is 44% of the premium is paid by the Risk Management Agency. Those premiums have become larger in the last

2 years and if additional funds could be found, increasing the premium subsidy by 5-10% would likely increase dairy farmer participation in the DRP. Assuming our goal was to get 70% of U.S. production covered in the DRP, it would cost about $154 million to increase the premium subsidy by 10 cents per cwt. of covered milk. *See Note #1.*

Federal Milk Marketing Orders

I am a huge supporter of the Federal Milk Marking Order program (FMMO). Dairy farmers need to sell their milk every day to a buyer that does not have to buy it every day. This fundamental imbalance in market power means there needs to be a referee. We are very appreciative of Congressman Costa's vital assistance in facilitating the adoption of an FMMO in California. This has made a meaningful difference in California producer income. *See Note #2.*

Geoff Vanden Heuvel discusses changes in milk pricing systems at the Farm Bill Listening Session.

The FMMO system has been around for over 80 years. In my view it is one of the most successful government market regulatory programs in our country. It has allowed the dairy industry to innovate and grow. Over the decades, many regions have been able to exploit comparative advantages to build their dairy industries. The main reason for the success of the FMMO program is that it does not pick winners and losers. It does not dictate milk prices; it discovers the value of milk from prices established in the free market and then converts those prices into a pricing structure that is used for pricing producer milk. And just as important, for all uses of milk, except Class I beverage milk, the enforcement of those milk prices is voluntary. As the dairy industry continues to grow, which is a sign of health of the industry, it is true that the percentage of milk formally covered by the Federal Orders is decreasing, but this is not a sign of failure. In fact, the prices established by the FMMO for the various classes of milk are vital benchmarks used by the industry to establish contracts and pricing relationships between producers and processors even for milk that is not regulated by the FMMO.

The FMMO system is probably due for a little updating, but not reforming. The basic structure of pricing milk based on its ultimate usage is still a valid concept. Class I beverage milk, which is formally regulated by the FMMO system, while declining in market share, is still a huge usage of milk in America. The Class I formula would benefit from some thoughtful examination by USDA and the industry. The formal USDA hearing process is the best place for that to occur. As for the other classes of milk, the longstanding USDA policy of having a single national price surface for milk used in manufactured products is very important. We have a national and international market for manufactured dairy products and the government should not put themselves in a position of picking winners and losers in the regional competition for market share.

There is a need for better data so that USDA can carry out their function of updating the pricing formulas. Currently USDA does not have the legal authority to mandate access to manufacturing cost data. The manufacturing cost studies that USDA has commissioned lack credibility because participation is voluntary. ***We would support Congress giving USDA authority to access manufacturing plants cost data. And we would support providing funding for USDA to regularly conduct and update studies which would track the product yields and***

manufacturing costs from plants that participate in the mandatory dairy product price reporting program.

The final point we want to emphasis is that while getting accurate data is critical, the purpose of that data is to inform policy, not dictate it. For over 80 years USDA has had the job of balancing the interests of the producers, the processors, and the public. They do this through an open hearing process where all interested parties can participate. While the amount of time it takes to do a hearing can be frustrating, we have found through the decades that the results of this process are a regulatory program that is stable and accepted by the industry. That stability allows the industry participants to plan and the market to work.

Thank you for the opportunity to participate in this important process.

Geoff Vanden Heuvel – geoff@milkproducers.org
Tulare, CA

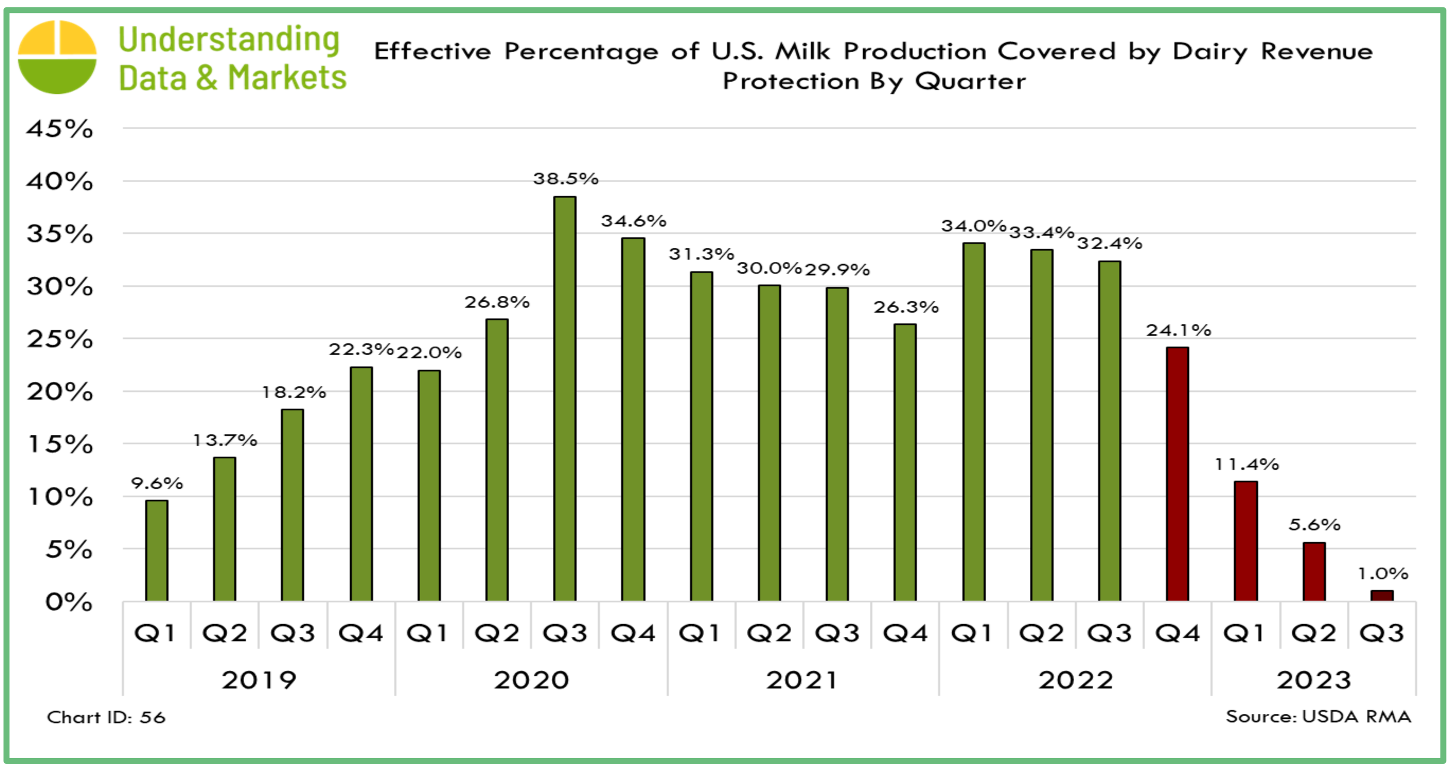
Note #1

Cost to increase Dairy Revenue Protection crop insurance premium subsidy by 10 cents per cwt.

220 billion pounds of annual US milk production = 2.2 billion cwts.

A 10 cents per cwt. increase in the premium subsidy on 70% of that volume =

(2.2 billion x.70) x 10 cents= $154,000,000



Note #2

California became a Federal Milk Marketing Order as of November 1, 2018.

USDA has published the Mailbox Milk Price for individual states and a composite All FMMO monthly number for many years.

The California Mailbox price for the 40 months since November 2018 averages $17.93

The average All FMMO Mailbox price for that same time period is $17.99 a difference of 6 cents per cwt.

The California Mailbox price for the 40 months PRECEDING November 2018 averaged $15.41
The average All FMMO Mailbox price for the 40 months preceding the start of the CA FMMO is $16.48 a difference of $1.07 per cwt.

CONCLUSION: The CA FMMO increased mailbox prices for California producers by an average of $1 per cwt.

Free Regulatory Webinar Training for Large Spark Ignition Fleet Regulation

Courtesy of the California Air Resources Board

Do you own or operate fork lifts in California? CARB is providing a unique training opportunity for fleets to learn about the requirements of the Large Spark Ignition (LSI) Fleet Regulation. The topics covered will include: reporting requirements, labeling requirements, and 2016 program amendments. Owners of off-road vehicles with LSI engines are strongly encouraged to attend.

Date: **July 14, 2022**
Time: **1:00 p.m.**
Webinar: **Register**