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	- $.0350	$1.4350	Weekly Change	- $.0900	$2.5750	Week Ending 12/30/23		
Barrels	+ $.0100	$1.4100	Weekly Average	+ $.0263	$2.6488	Nat'l Plants	$1.1657	21,917,279
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	+ $.0300	$1.4563	Dairy Market News	w/e 01/05/23	$.4400	Last Week Ending 12/23/23		
Barrels	- $.0113	$1.4200	National Plants	w/e 12/30/23	$.4105	Nat'l Plants	$1.1932	18,287,905

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 5 Est	$20.08 - $20.58	$19.92	$15.12	$19.29
Dec '23 Final	$21.36 - $21.86	$19.88	$16.04	$19.23

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
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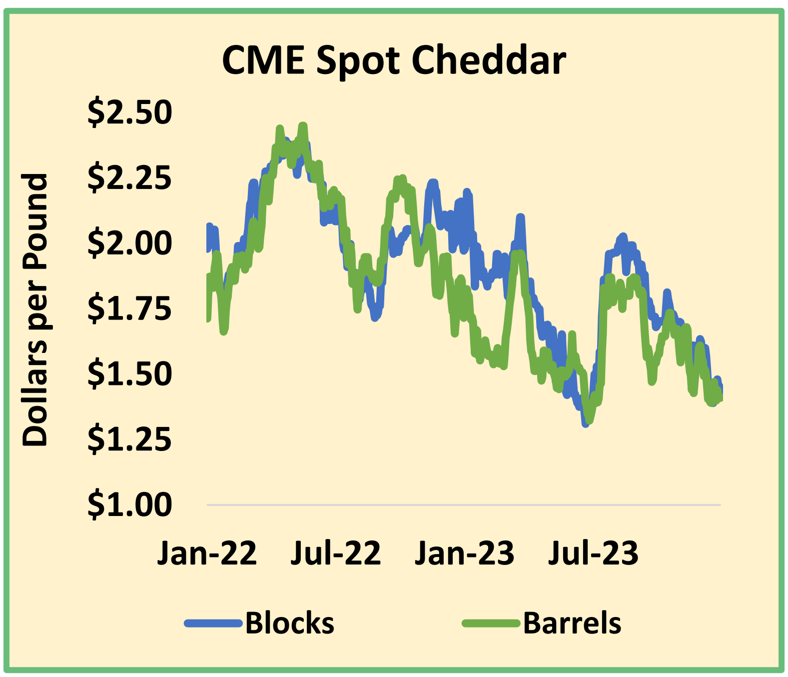
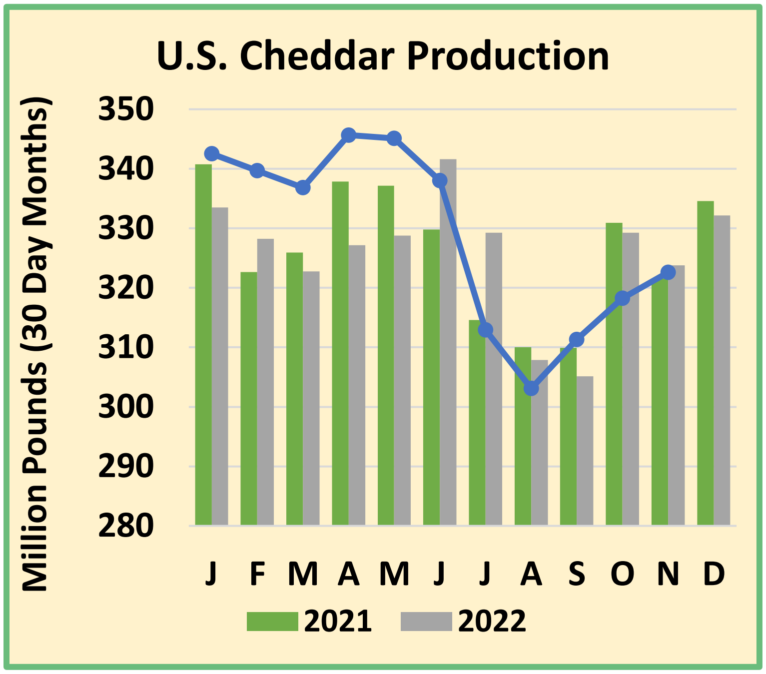


Milk & Dairy Markets

The new year has officially begun. But as Auld Lang Syne faded into the background, the dairy markets were unsettled in the first holiday-shortened trading week of 2024. Most products saw prices oscillate without much conviction as buyers and sellers jockeyed to set the tone early in the new year.

Mild winter conditions across most of the country have supported milk production though margins remain thin, especially for producers in the western U.S. Bottling demand has picked up as schools go back into session following the winter break. But



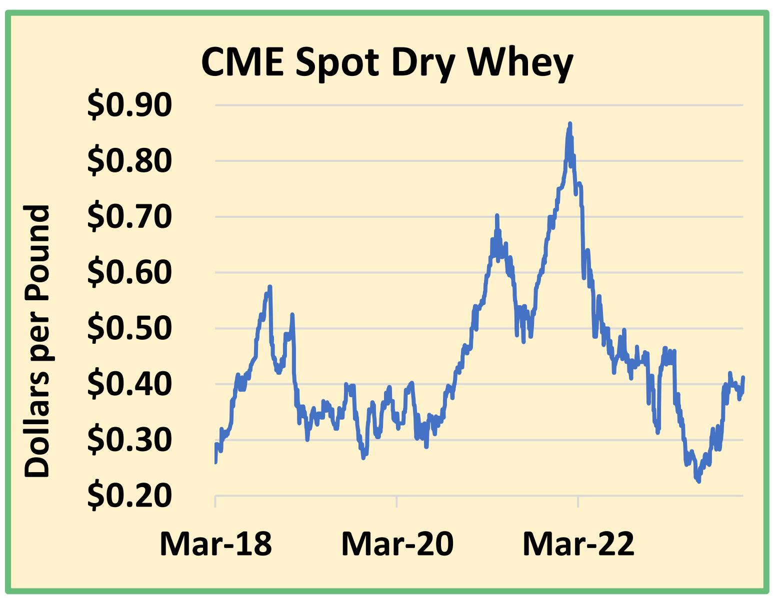
despite this pull, milk remains readily available for manufacturers. Spot loads of milk can reportedly be picked up for discounts as deep as $8 under Class III prices. While that feels like a big discount, it is less than the $10 discounts available last year at this time and which stretched through the first half of the year. *Dairy Market News* reports that, "most [contacts] expect milk prices to move nearer to Class III as the holidays grow more distant in the rearview mirror."

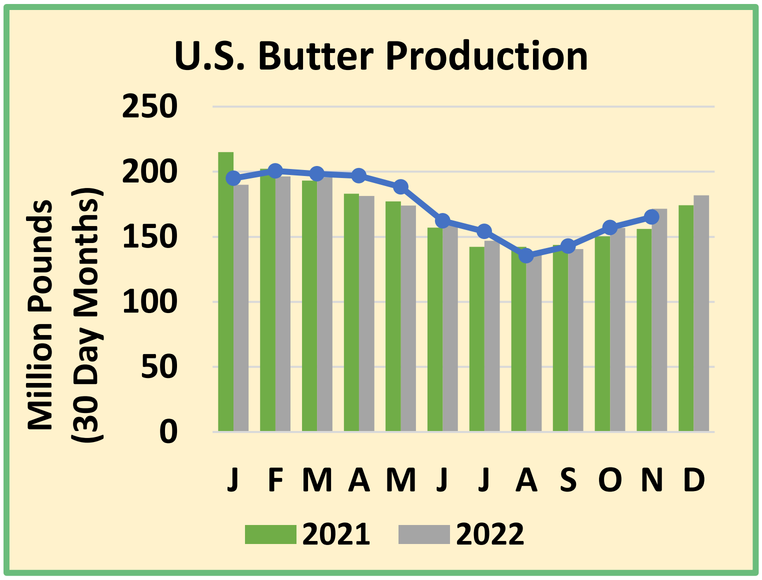
All in all, milk remains available to cheese processors should they choose to accept it. However, tepid demand is dampening their enthusiasm for moving additional milk volumes through their vats. Market participants indicate that cheese inventories are plentiful, and that retail demand is stable to weak. Some are optimistic that football season will encourage additional cheese usage through both foodservice and retail channels.

Cheese production was robust in November, rising 0.7% year over year to 1.163 billion pounds. The increase was particularly notable given the 0.6% decline of milk production during the month. Manufacturers increased production of American varieties at the expense of Italian types, however Cheddar production failed to impress, falling 0.4% year over year to 322.57 million pounds. Robust production of cream cheese, up 5.7% to 91.737 million pounds, helped to boost the overall cheese figure.

The CME spot Cheddar block market reflected the uncertainty of supply and demand, gaining a penny on the first trading day of the new year before giving up ground on Wednesday and Friday to end the week at $1.435/lb., down 3.5¢ from last week. Barrels followed a similar path but a 4¢ gain on Tuesday netted out to a 1¢ gain for the week as Friday's session finished at $1.41/lb. It was an active week for barrels as 26 load changed hands.

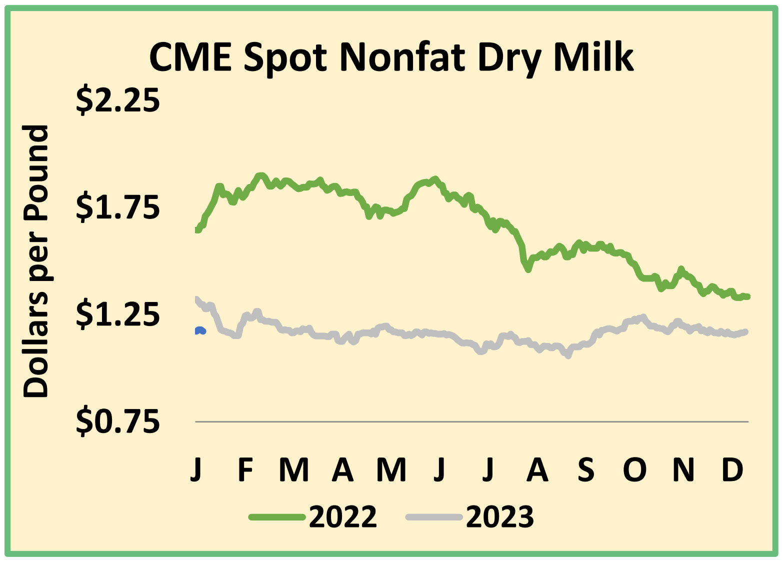
On the other side of the Class III complex, spot dry whey markets showed much more decisiveness, moving steadily upward over the course of the week. Friday's session ended at 41.25¢ per pound, an increase of 2.75¢ compared to last week. Domestic demand is steady and export demand appears to be improving, especially from Mexican buyers. Whey manufacturers continue to route the whey stream toward the production of high protein products, which is likely helping to put some support under dry whey prices. In





November, output of whey protein isolates and whey protein concentrates (WPC) with more than 50% protein rose by 16.4% and 7.5%, while production of dry whey and lower protein WPCs fell by 10.9% and 16.8%, respectively.

Strong cheese production pulled milk away from the manufacture of Class IV products late last year. Butter production declined during November as production fell 3.7% to 165.183 million pounds. Cream supplies are relatively plentiful as component values remain robust. Churns in many parts of the country are capitalizing on available supplies as operating schedules range from steady to active. Following the holidays, most butter market participants note that demand is understated. These dynamics were reflected at the CME as the spot butter market felt the biggest loss to start the year across all the commodities. A 2¢ increase on Tuesday was again wiped out by larger losses on Thursday and Friday. Butter prices fell to $2.575/lb. by the end of the week, a decline of 9¢ versus last week as 11 loads traded hands. Despite the decrease, butter prices remain almost 20¢ higher than a year ago.



Meanwhile the nonfat dry milk (NDM) market continues to move sideways. Modest gains early in the week were mostly eliminated by a decline on Friday that left the price at $1.1725/lb. up just a quarter cent compared to last week with 19 loads moving. The NDM market spent 2023 in a remarkably narrow range, trading between $1.0575/lb. and $1.3225/lb. the entire year. 2024 appears to have begun on the same note as the market looks for direction. Production remains weak as combined output of NDM and skim milk powder (SMP) totaled just 173.552 million pounds in November, a year over year decline of 17.3%. However, while NDM production tumbled by 28%, SMP production rose 17.8%, perhaps indicating that demand is perking up from export markets. On the demand side, domestic buyers are buying steadily. Participants are optimistic that the new year will bring additional interest from international buyers.

Grain Markets

The grain markets saw some modest losses over the course of the week as slower export activity and improving South American weather pushed markets down. MAR23 corn contracts settled on Friday at $4.6075/bu. while MAR23 soybean meal settled at $369.4/ton. Lower feed prices will be welcome news to producers, but margins remain tight at the hand of stubbornly low milk prices, particularly for those with high Class III exposure.

SGMA & Dairy. What Do You Want to Know?

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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A few days ago, I had an opportunity to chat with a dairy real estate professional who is a regular reader of the MPC Friday Report. I asked him what information would be useful for the California dairy industry with regards to the water situation. He said that there were two things that folks wanted to know. How much groundwater are they going to be able to pump in the future and, secondly for dairy farmers, how will they be able to handle their manure nutrients if access to groundwater is limited? These are two very good questions, and I will attempt to give you the best answers available right now.

While future allowable groundwater pumping is very location specific, in general, from Merced County south by the year 2040, and probably much sooner, you will be allowed to pump between 6 and 12 inches of groundwater per gross irrigated acre annually. The further South you are in the Valley the lower you are on that range. Most Groundwater Sustainability Agencies have, or will be implementing, groundwater allocations to landowners. As part of these regulations, there should be opportunities to bank groundwater in wet years and transfer at least some groundwater credits from neighbor to neighbor. Clearly these restrictions will lead to less ground being farmed, particularly in the dry years. It will be important for dairies to budget for the creation and maintenance of much larger forage inventories than we have historically thought was necessary. In above average water years there will likely be quite a bit of forage grown on former tree ground as the groundwater pumping limits will make permanent crops unviable on groundwater-only dependent land.

Mid-Kaweah Groundwater Sustainability Agency
Total Average ET by Crop Type in Water Year 2022

Crop	ET for Water Year 2022	Total Acres
Alfalfa	3.8 ft	9,156
Almonds	3.6 ft	9,261
Walnuts	3.6 ft	4,821
Pecans	3.4 ft	477
Cherries	3.2 ft	234
Pistachios	3.1 ft	8,402
Grapes	3.1 ft	502
Double Crop	3.0 ft	13,645
Citrus Fruits	2.7 ft	169
Bush Berries	2.7 ft	102
Cotton	2.4 ft	2,408
Sugar Beets	2.3 ft	125
Field Corn	2.3 ft	5,059
Wheat	1.5 ft	1,771
Native Pasture	1.2 ft	1,732
Oats	1.2 ft	227
Young Perennials	0.6 ft	853

The second question is about what to do with manure nutrients under restricted groundwater pumping conditions. This is a question that is receiving a lot of attention from the dairy industry and our partners in academia, government and even the nongovernmental organizational community. California Agriculture Secretary Karen Ross appointed the Manure Recycling and Innovative Products Task Force, which was co-chaired by J.P. Cativiela of Dairy Cares and Ryan Flaherty of Sustainable Conservation.

The task force did great work ascertaining the challenges of surplus nitrogen and identified many opportunities to address this critical issue. You can read the final report here.

I emailed J.P. last week to get an update on what progress has been made on this issue since the final report came out a year ago. Here was his response:

Hi, Geoff:

I think the biggest thing that has happened out of it is the Dairy Plus Program administered by CDFA and the California Dairy Research Foundation. A number of projects were funded in November and December through that process. These include vermifiltration projects on dairies with and without digesters, as well as weeping walls and advanced solids-liquid separation with flocculants or by other methods. Below are some links to the details of those. Those projects should start to give us a better idea of how some of these options might work for us. All of these have the capacity to improve our ability to manage nutrients, but there are differences among them, and some will be a better fit than others depending on the dairy.

There is still a lot of work to do. We not only need to study these recently funded projects closely as they roll out to understand the pros and cons in the real world, but we need to keep pushing policies that support wider funding for these. Also, we need to develop additional options, such as making composting easier to permit and building markets and demand for dairy-produced compost. We also need to push basic research to see what other options might be worth developing to the point where they can be practical and useful. The FYTO system for growing duckweed as a cattle feed while also taking up lots of nutrients and not lots of water looks promising. We need to track a number of these and give them a push as much as we can so we can sort out good ideas from bad ones. We've seen some promising research on new ways to denitrify manure using less energy and expect more work to be done in this area in the future.

The Manure Recycling and Innovative Products Task Force (MRIP) will meet again, hopefully in the first quarter of 2024, to keep the momentum and conversation going. We have recently been connecting with the Foundation for Food and Agriculture Research and there appears to be growing interest at USDA in upping the research investment in manure nutrient management. We are working on the agenda for the next MRIP meeting and I will keep you posted.

Happy to discuss further if you like. Hope that answers your question.

CDFA awarded 12 projects associated with the AMMP for the 2023 Dairy Plus Program, totaling $14.23 million in grant funding. The list of awarded projects is available.

CDFA awarded 3 projects associated with the DDRDP for the 2023 Dairy Plus Program, totaling $3.74 million in grant funding. The list of awarded projects is available.

I thank J.P. for his great work on this and also thank MPC Associate Member Marc Schuil of Schuil Ag Real Estate for the stimulating chat that prompted this article.

CARB's Clean Truck Check Gets Slight Extension

By Alex Keenan, FleetOwner

Note by Kevin Abernathy, MPC General Manager

The California Air Resources Board (CARB) extended the deadline to register and report heavy-duty diesel fleets under its Clean Truck Check Program (CTC). The new deadline is January 31, 2024. CTC requires testing twice per year, but agricultural trucks are required to be tested once per year. The reporting requirement includes a $30 per truck fee and be sure to specify that your business is an "Agricultural Business/Fleet" when you register your equipment at CleanTruckCheck.arb.ca.gov. ***MPC members – also keep your eye on your email inbox from a note from me with more information about CTC compliance and updates.***

CARB's Clean Truck Check Gets Slight Extension

Courtesy of FleetOwner

As some industry leaders ramped up concerns about overly stringent emissions regulations throughout 2023, fleets got a slight reprieve from the California Air Resources Board before the year ended. CARB extended the reporting deadline for its Clean Truck Check program to Jan. 31 for heavy-duty truck owners and operators.

The extension grants fleet owners and operators an additional month to enter their vehicles and personal information into the Clean Truck Check-Vehicle Inspection System (CTC-VIS) database, finalize initial reporting requirements, and pay compliance fees for 2023. This would complete Phase 2 of the Clean Truck program, initially approved by CARB in 2021. Phase 3 is set to begin in July 2024.

Despite the extra four weeks to prepare, Allen Schaeffer, executive director of the Engine Technology Forum, anticipates that the program's official implementation will be "barely a speed bump" for the fleets already operating in the Golden State.

"I think most of the fleets operating in California are familiar with the emissions inspection requirements that are the burden that they carry, to make sure that they're maintaining the vehicles properly," Schaeffer explained. "So I don't see [CARB's new Clean Check program] as being a problem at all."

In contrast, the executive director noted that CARB's July agreement with the Truck and Engine Manufacturers Association was the "most significant" change for the industry. The deal saw several prominent engine manufacturers, such as Cummins and Daimler Truck North America, agree to meet CARB's zero-emission and pollutant criteria, regardless of any challenges to those regulations. In return, CARB agreed to adhere to the Environmental Protection Agency's 2027 regulations for NOx emissions, including modifying its 2024 NOx emission regulations with any necessary manufacturer offsets to meet the state's emission targets.

Continue reading here.

More Protein, Better Policy: Welcome to 2024

Courtesy of Gregg Doud, President & CEO
National Milk Producers Federation

Happy New Year, and what a year 2024 promises to be. Within dairy and throughout agriculture, the refrain that will be often repeated is that this will be the year of protein. In fact, it may be the first of many — if you look out over the next decade, the supply of animal protein in the world – that's beef, pork, poultry, and dairy — comes nowhere near meeting the demand.

That means U.S. dairy's emphasis on exports and our international competitiveness will certainly be an area of focus. Dairy farmers and their cooperatives are extremely well positioned to do this: we're efficient, we can get high-quality products overseas competitively, and our processing capacity is expanding. Our innovation and technology in the dairy industry to expand international markets is second to none. NMPF can support these efforts by continuing our excellent partnership with the U.S. Dairy Export Council and by seeking sound policy that promotes the powerhouse potential of U.S. dairy. Our Cooperatives Working Together Program will soon be in a position to bring significantly greater resources to bear in supporting market growth for U.S. dairy worldwide – just as our main competitors in New Zealand and Europe take a step back in large part due to regulatory constraints we in the United States have been able to avoid.

We also have room to grow our industry by increasing protein demand at home. A focus on the next generation is critical to achieving this. Last month, the House of Representatives took an important step toward boosting the next generation of milk drinkers by passing the Whole Milk for Healthy Kids Act, which would get whole and 2% milk back on school lunch menus. The vote was 330-99, which gives us high hopes in the Senate next year. Meanwhile, we know that the science behind the health benefits of dairy in all its compositions is only becoming more compelling – and that puts us in a great position as the Dietary Guidelines for Americans Committee meets to craft new nutrition standards that guide federal programs.

More demand for dairy protein and better health, in America and worldwide. If that's not enough to get an industry excited for the future, I don't know what could be.

Another critical topic for this year is risk management. USDA's Federal Milk Marketing Order hearing has been painfully slow, but it's incredibly important for U.S. dairy producers. Our NMPF game plan and team effort has been outstanding thus far, and we will follow the hearing to its conclusion. We will be prepared to respond as needed to whatever USDA proposes and ensure that the path forward is what's best for dairy.

A new Farm Bill is also on tap. We're comfortable this time around with the fundamental structure of the dairy safety net, but there are always improvements to be made, and we'll be seeking opportunities for positive change whenever they become available.

Continue reading here.

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We appreciate your support!

We appreciate the support of our Associate Members! Along with our member dairy families, they help fund the work MPC does throughout the year – especially the weekly publishing of this report. We look forward to once again partnering with these companies and individuals in 2024. And if you're a business or individual that supports the California dairy community, we would appreciate your support in the New Year. You can complete an MPC Associate Membership application here or contact Kevin Abernathy at Kevin@MilkProducers.org to learn more.