MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 5

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	- $.0550	$2.0900
Barrels	- $.0100	$2.1475
Weekly Average Cheddar Cheese		
Blocks	- $.0730	$2.0975
Barrels	- $.0151	$2.1644

Chicago AA Butter		
Weekly Change	- $.0250	$2.9150
Weekly Average	- $.0147	$2.9413
Dry Whey		
Dairy Market News	w/e 06/24/22	$.5750
National Plants	w/e 06/18/22	$.6145

Non-Fat Dry Milk		
Week Ending 06/18/22		
Nat'l Plants	$1.8204	17,414,537
Last Week Ending 06/11/22		
Nat'l Plants	$1.8197	19,283,214

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
JUN 23 Est	**$27.47 - $27.97**	**$26.61**	**$24.33**	**$25.85**
Last Week	**$27.47 - $27.97**	**$26.55**	**$24.30**	**$25.85**

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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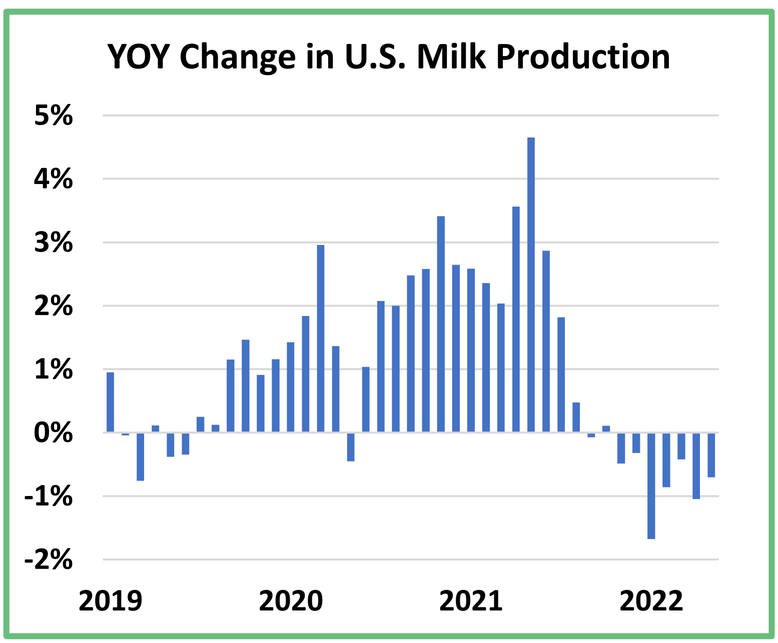
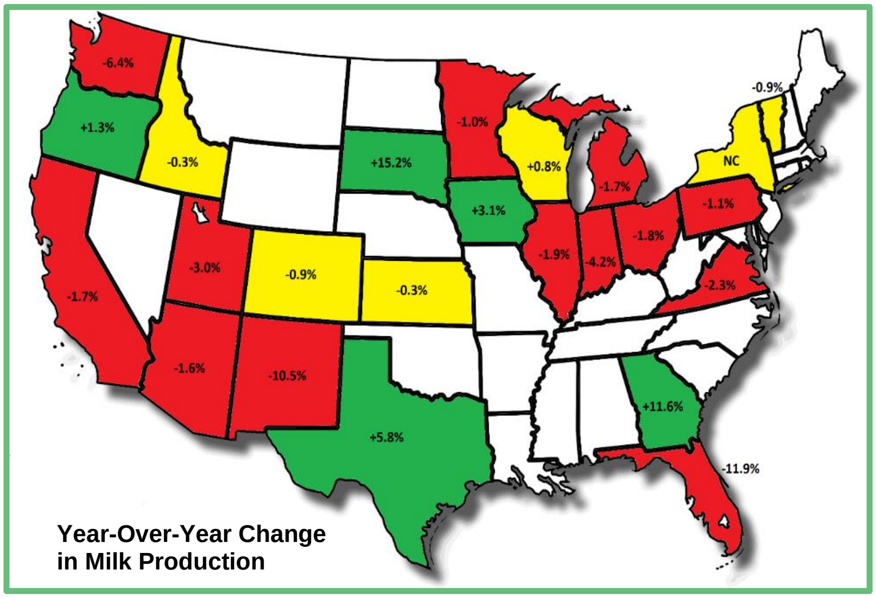
Milk & Dairy Markets

Red ink flowed on LaSalle Street this week as the trade reckoned with the fact that, although milk production continues to shrink, cheese abounds. Ongoing concerns about demand also pressured the markets. All dairy product prices moved lower at the CME spot market, led by a 3.25¢ drop in whey powder. The 6.4% decline pushed spot whey down to 47.5¢ per pound, a new low for the year. CME spot Cheddar blocks fell 5.5¢ to $2.09. Barrels slipped a penny to $2.1475. Butter dropped 2.5¢ to $2.915. Spot nonfat dry milk (NDM) lost a penny and closed at $1.79, tied for a one-month low. Class III futures moved lower once again, with losses weighted to the nearby months. July Class III fell 86¢ this week to $22.78 per cwt. Class IV

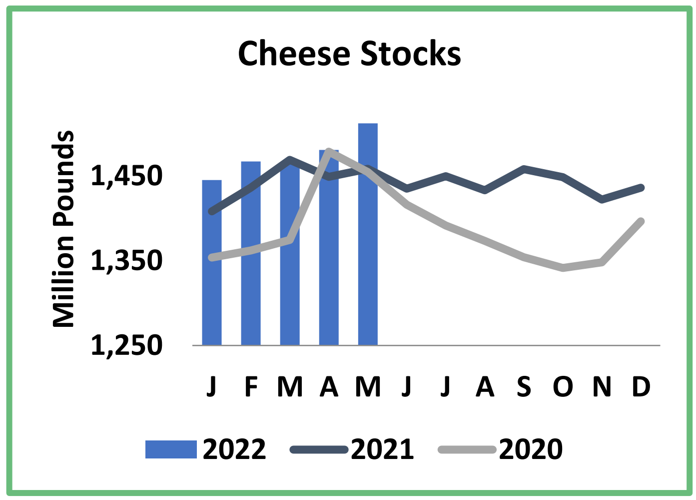




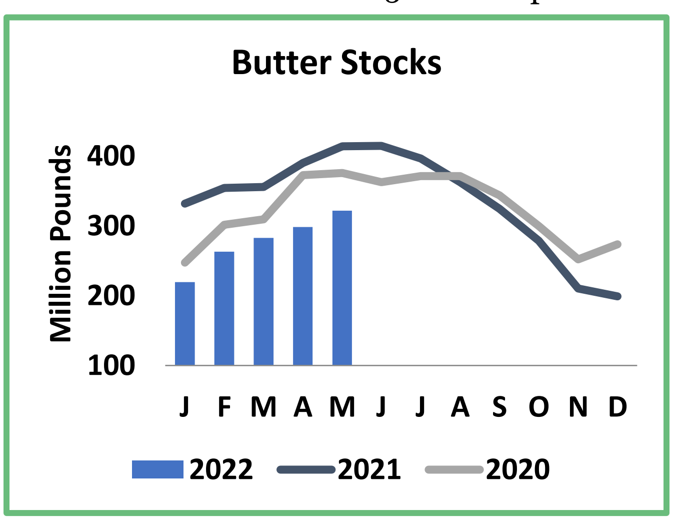
Year-Over-Year Change in Milk Production

futures were mixed, but most contracts lost a little ground. July Class IV settled at $25.30, down 20¢ from last Friday.

U.S. milk production totaled 19.7 billion pounds in May, down 0.7% from May 2021. That marks the seventh straight monthly deficit, the longest such streak since 2001. Production topped year-ago levels in just six of the 24 major dairy states, and the Northern Plains remains the only region where milk output is larger than it was in 2021. Dairy producers added a net of 2,000 cows in May. There were 9.405 million cows making the daily trek to the milk parlor last month, 102,000 fewer than when the dairy herd peaked in May 2021. That's the widest year-over-year deficit since May 2010. Low slaughter rates and high milk prices suggest that dairy producers could continue to add cows. However, amid high feed costs, supply management programs, and low heifer inventories, growth in the dairy herd will likely remain incremental.

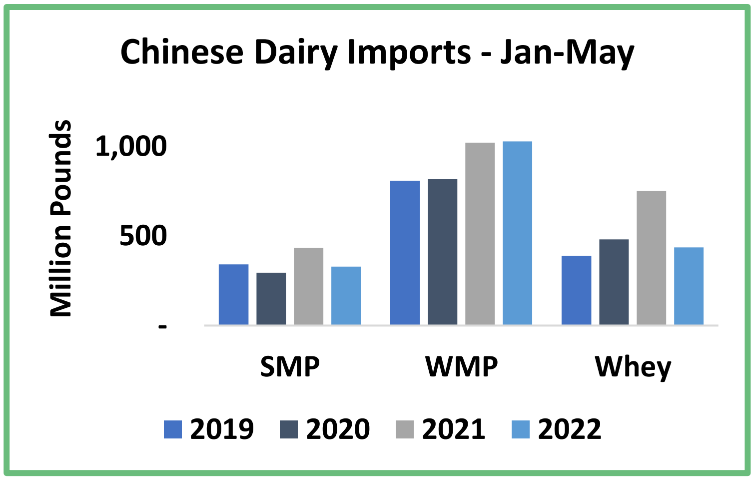


Nonetheless, there is plenty of cheese. USDA's *Dairy Market News* explains, "Although milk flows are trending lower in some areas, generous volumes continue to clear to Class III operations. Regional cheese output is ample [in the Northeast], resulting in plentiful liquid whey availability as well." Similarly, in the Central region, "Hotter temperatures throughout the region are seasonally pushing down milk output." However, as bottling demand slows, "cheesemakers are clearing a lot of milk and at heavy discounts." With less milk going to bottlers and driers, cheese vats remain full. So do warehouses. There were 1.51 billion pounds of cheese in cold storage on May 31, by far the largest volume on record. Stocks were 3.7% larger than the year before, hinting at softer demand.



Butter stocks climbed seasonally to 321.6 million pounds. Butter inventories remain significantly below comparable volumes in 2020 and 2021 but on par with 2019. As is often the case in late June, butter churns are not spinning full bore, although nearly $3 butter has prompted some manufacturers to run harder, provided they can find the staff. Ice cream output is ramping up and cream is pricey.

Strong cheese production means abundant whey, and inventories are starting to grow. Chinese demand for whey products remains much lower than it was in 2020 or 2021. Chinese whey imports fell 29% of year-ago levels in May. The United States accounted for 58% of Chinese whey imports, its largest share since the trade war began in 2018. Higher market share helped to put U.S. whey exports to China on par with year-ago levels last month. However, U.S. shipments to China are still down 21% for the year to date.



Chinese milk powder imports slowed in May. China imported 106 million pounds of whole milk powder (WMP) last month. Although that's the third-largest May volume on record, it fell 35% below year-ago levels. Still, Chinese WMP imports for January through May are 0.7% greater than last year's record-setting pace. China's skim milk powder (SMP) imports fell 39.6% from year-ago levels in May. For the year to date, they are 24.3% lower than the all-time high set in 2021 but still large compared to most years.

Concerns about Chinese demand weighed on WMP prices at the Global Dairy Trade auction on Tuesday. A 0.6% slide in the WMP price and sharply lower Cheddar and anhydrous milkfat prices dragged the GDT Index down 1.3%. Butter and SMP both advanced. GDT SMP traded at the rough equivalent of NDM at $2.07 per pound.

Global butter and milk powder production remains relatively suppressed, which is likely to put a firm bid under the Class IV market. But Class III prices seem vulnerable to further setbacks, especially if demand disappoints. On the other hand, robust cheese exports could provide an outlet for the U.S. surplus and forestall additional declines.

Grain Markets

Even by the standards of a rather rowdy year, it was an exceptionally wild week in the feed markets. The selloff that began last Friday accelerated Tuesday after USDA reported only slight declines in corn and soybean conditions despite a hot, dry week. The forecast also leaned bearish, with cooler temperatures and a bit more rain than meteorologists had called for heading into the weekend. Still, those improved circumstances are still several days away, and crops are looking a little parched after another sweltering week in the Corn Belt.

The change in the forecast matters to be sure, but it does not seem to be significant enough to justify the dramatic shift in the markets. New-crop December corn futures plummeted from a high of $7.4925 per bushel last Friday to a low of $6.455 yesterday. December corn closed today at $6.74, down 57¢ since last Friday's settlement. Old crop corn – the bushels that are still available between now and harvest – is much tighter, and the July futures contract dragged its feet as it followed the December contract downward. It closed today at $7.5025, down 34.25¢ from last week. Meanwhile, many grain vendors have raised their basis in order to entice farmers to bring what remains of last year's crop into town. In many areas, cash corn prices fell even less than the front-month futures, providing less relief on feed costs than dairy producers had hoped.

The bean markets traversed a similarly sensational path. July soybeans closed at $16.1075, down nearly a dollar for the week. After much back and forth, July soybean meal finished at $432.60 per ton, down $5.50.

Madera County GSA – A Split Decision on a Big Fee

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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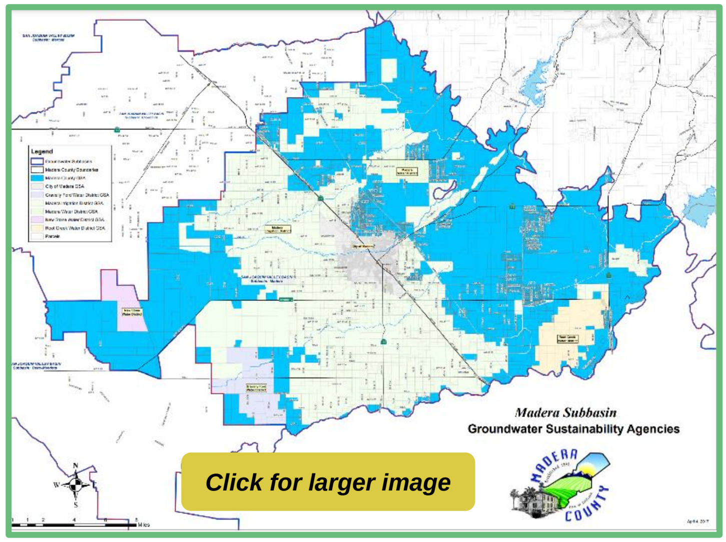
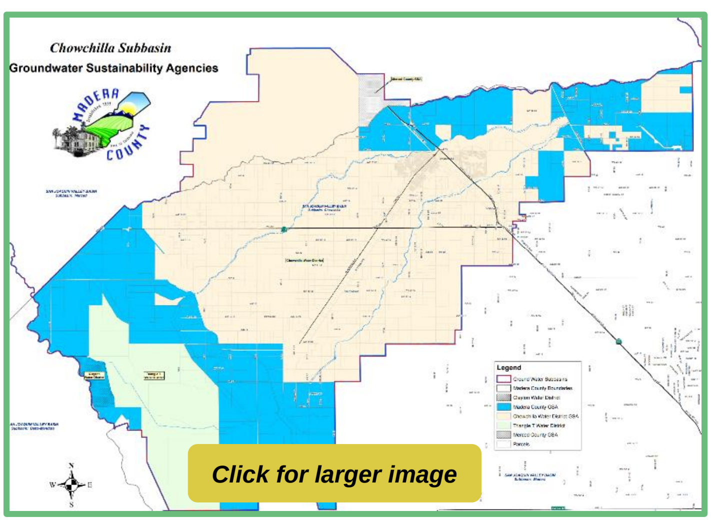
The Madera County Groundwater Sustainability Agency (GSA) represents the groundwater-only portion of two critically overdrafted subbasins in the Central Valley: the Madera Subbasin and the Chowchilla Subbasin, both of which have a significant number of dairies. The GSA has been working for a number of years on complying with the Sustainable Groundwater Management Act to put together a Groundwater Sustainability Plan that would essentially eliminate groundwater overdraft between now and the year 2040. Part of that plan included an annual per irrigated acre fee to fund projects and programs that would assist the area in increasing surface water supplies and paying for land fallowing programs.



The proposed fee for the Madera Subbasin portion of the GSA was $246 per acre per year and the proposed fee for the Chowchilla Subbasin portion was $203 per acre per year. The difference in fee amounts was due to differences in costs of the projects in the two subbasin areas. Each parcel in the GSA had a vote and if a majority of the parcels protested the fee, then the fee proposal would be defeated. There was a significant and organized effort to defeat the proposed fee in both subbasins. When the protest votes were tabulated this past Tuesday, the Madera Subbasin protest votes, while significant, were not over the 50% threshold, so the fee is adopted. In the Chowchilla subbasin portion, the protest votes were over 50% and the fee was not adopted.

The implications of this split vote are unclear at this point. Madera County GSA is for the most part dependent on groundwater only for a water supply. Because there is no funding to do projects in the Chowchilla Subbasin portion, the current plan will need to be adjusted. Given the significant protest in the Madera Subbasin portion, it seems that the Madera County Board of Supervisors might also want to look at whether to move forward with the $246 per acre fee there as well. Both the Madera Subbasin and the Chowchilla Subbasin have GSAs that do have surface water.



In the eyes of the state Department of Water Resources under the SGMA regulations, the adequacy of the Groundwater Sustainability Plan is judged on a subbasin level, not an individual GSA level. So, while the water districts in Madera and Chowchilla, which both created their own separate GSAs do have surface water and consider themselves to be mostly sustainable, they cannot ignore their groundwater only neighbors because the subbasin will be judged as a whole. There is certainly more to come on this whole issue. If you would like more information, feel free to reach out to me.

NMPF Update: House Holds Dairy Policy Hearing, Reviews Farmer Safety Net

By Jim Mulhern, President & CEO
National Milk Producers Federation

The House Agriculture Committee continued its work to develop the next Farm Bill by focusing this week on dairy policy. Pennsylvania dairy farmer Lolly Lesher, a DFA member and also one of our Dairy Voice Network spokespersons, addressed the committee on the importance of an effective safety net.

She recounted the continuous improvement in the Dairy Margin Coverage program over the past five years, and recommended enhancements to make it even more valuable after 2023. Lesher, whose family milks 240 cows in southeastern Pennsylvania, said in her written testimony Wednesday that the program "has provided important security to [her] family's farm." She urged the committee to make additional updates to better reflect current U.S. production, so the program remains a viable safety net in the next farm bill.

Scott Marlow, deputy administrator of farm programs for USDA's Farm Service Agency, told the ag committee that 17,583 operations have DMC contracts this year, even though farmers are not expected to receive any payments for 2022. That's down from 19,000 last year, when the program paid farmers $1.1 billion.

Lesher also highlighted the need for improvements to the Federal Milk Marketing Order (FMMO) system, as evidenced by the heavy revenue losses incurred by dairy farmers nationwide from a milk pricing change made in the previous farm bill. "The change made to the Class I mover combined with the government's heavy cheese purchases cost dairy farmers over $750 million in revenue in the last six months of 2020 alone," she said. The dairy industry, under NMPF's leadership, is seeking consensus on a range of FMMO improvements, including the Class I mover, that can be taken to USDA for consideration in a federal order hearing.