# MPC Weekly Friday Report

**Date: October 6, 2023**
**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 | - $.0175 | $1.7025 | Weekly Change | + $.2025 | $3.5025 | Week Ending 09/30/23 | | |
| Barrels | + $.0975 | $1.5775 | Weekly Average | + $.2045 | $3.4355 | Nat'l Plants | $1.0999 | 25,927,963 |
| Weekly Average Cheddar Cheese | | | Dry Whey | | | Last Week Ending 09/23/23 | | |
| Blocks | - $.0450 | $1.7015 | Dairy Market News | w/e 10/06/23 | $.3400 | | | |
| Barrels | + $.0345 | $1.5530 | National Plants | w/e 09/30/23 | $.3099 | Nat'l Plants | $1.1276 | 14,489,502 |

## California Federal Milk Marketing Order Price Projections

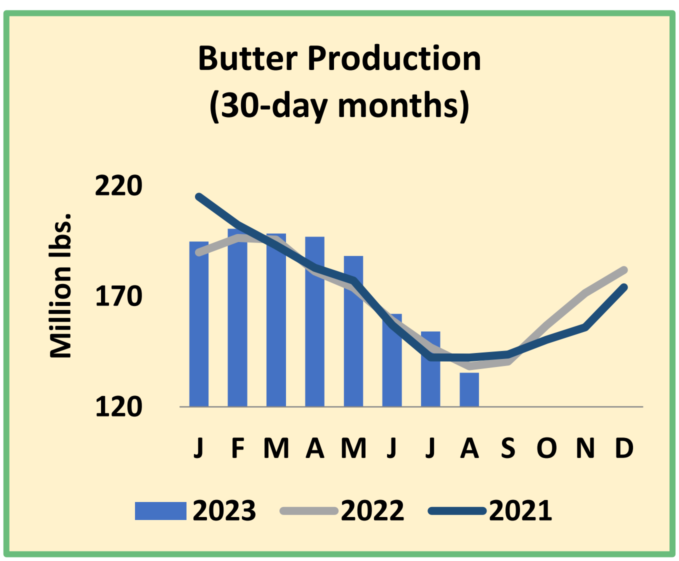
| Price Projections | Class I Actual (range based on location) | Class II Projected | Class III Projected | Class IV Projected |
|---|---|---|---|---|
| Oct 6 Est | $21.07 - $21.57 | $22.25 | $16.86 | $21.59 |
| Sept '23 Final | $20.50 - $21.00 | $19.98 | $18.39 | $19.09 |

## Milk, Dairy and Grain Market Commentary

*By Sarina Sharp, Daily Dairy Report*
*Sarina@DailyDairyReport.com*

### *Milk & Dairy Markets*

Like a mountaineer surveying Everest from K2, the butter market is exploring new heights. CME spot butter scaled a previously unconquered peak last week and it didn't stop there. This week it ascended another 20.25¢ to a fresh all-time high at $3.5025 per pound. U.S. butter output topped year-ago production by wide margins in January through July. But in August, the heat sapped milk production and Class II processors sucked up a lot of cream. Butter output slipped 2.1% below already scant August 2022 volumes, marking the lowest production for the month since 2018. Butter output has picked up seasonally, but churns are still running relatively light. Cream multiples are lofty and the futures curve is deterring production. Butter makers are not inclined to buy cream based on $3.50 butter when they face the prospect of selling it for $2.50 a

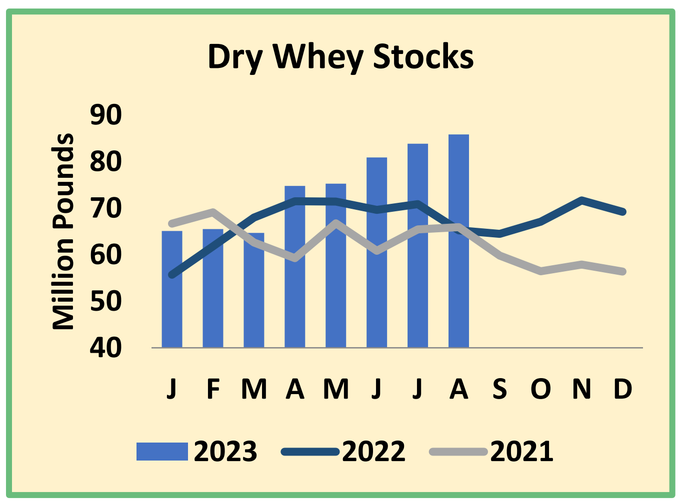


few months from now. Butter is showing no signs of altitude sickness so far, but at this elevation, it may be tough to keep a clear head and firm footing.

Cheese production also fell short of year-ago volumes in August. The price of spot milk in the Upper Midwest shifted from steep discounts to persistent premiums during the month, and cheesemakers responded accordingly. August cheese output fell short of last year in Iowa, Minnesota, and South Dakota, but Wisconsin cheesemakers kept their vats full. Cheese output also dropped hard in New Mexico, as large-scale dairy sellouts continued in the Land of Enchantment. Still, the U.S. cranked out 1.15 billion pounds of cheese in August, just 0.2% shy of the record-setting volumes of August 2022.

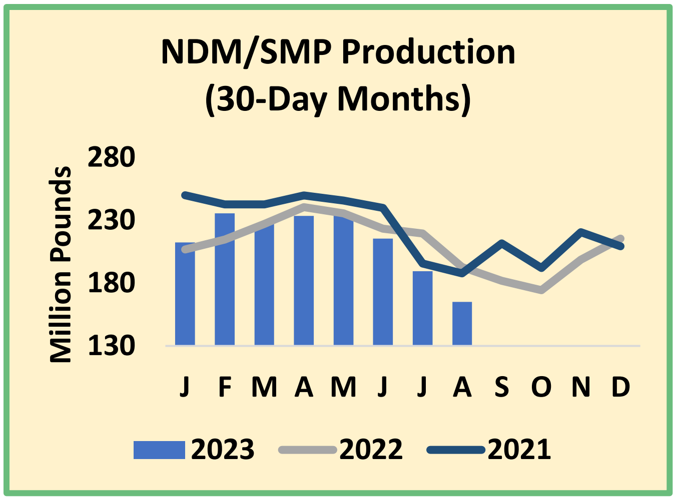

Meanwhile, exports continued to fall a little short of last year's record-high pace. The U.S. sent 79.45 million pounds of cheese abroad. That was 3% less than last August, but otherwise the greatest August volume ever. The U.S. has grown increasingly dependent on strong exports south of the border. Shipments to Mexico were record large, up 14.2% from August 2022. Year-to-date cheese exports to Mexico are 13% greater than last year. But that's not enough to support prices amid massive output. The cheese market is feeling around for a price that will allow for even better export volumes to keep cheese from piling up. This week CME spot Cheddar blocks slipped 1.75¢ to $1.7025. Barrels climbed 9.75¢ to $1.5775.

The whey market is heavy with product. Dry whey production topped year-ago levels by an astounding 13.4% in August. The increase is baffling given lower cheese output and stronger whey protein concentrate production. Exports disappointed once again. Dry whey shipments fell 37.6% from August 2022, bringing year-to-date exports down 16.8%. Stocks are high and rising, which explains why the whey market has had so much trouble getting up off the mat. CME spot whey powder added 0.75¢ this week, but, at 29.75¢ per pound, it remains historically cheap.

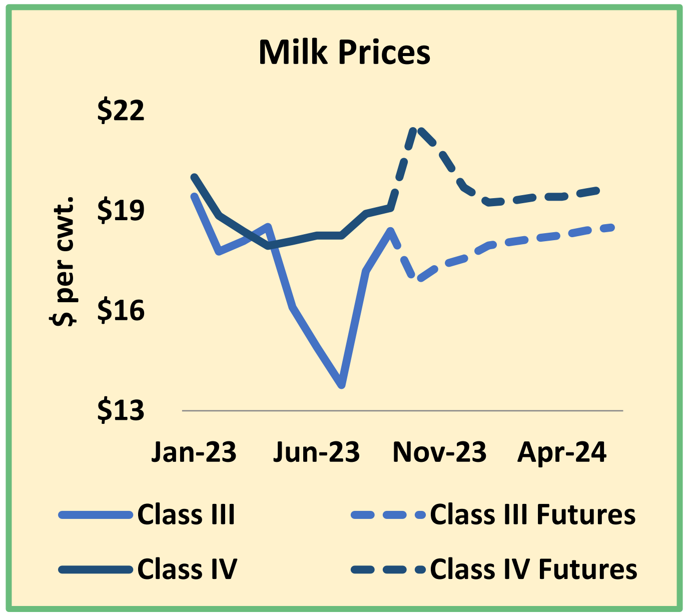



The U.S. milk powder market is holding near the recent peak, but it is not quite ready to climb to new heights. CME spot nonfat dry milk (NDM) slipped a half-cent this week to $1.18. Milk powder prices rallied at Tuesday's Global Dairy Trade (GDT) auction. Whole milk powder advanced 4.8% and skim milk powder (SMP) jumped 6.6% to the rough equivalent of NDM at $1.24 per pound. But the market had expected even greater gains, and spot NDM lost ground after the GDT.

U.S. milk powder production has slowed noticeably. In August, combined production of NDM and SMP sunk to 170.6 million pounds, down 14.4% from last year and the lowest daily average production since




2018. NDM exports were 5.5% larger than last year in August, helped by strong shipments to Mexico. Stocks are now 15% lower than they were a year ago. Tighter U.S. supplies have put a firm floor under the milk powder market, but further upside depends on robust export opportunities. Mexican demand remains formidable, but supply chain issues could ensnarl U.S. shipments in the future. In an effort to draw attention to the crisis at the border, the Texas Department of Public Safety has stepped up the number of inspections it is conducting in El Paso, forcing 10,000 trucks to wait to cross into Juarez, Mexico. The majority of U.S. NDM shipments to Mexico typically pass through El Paso. For now, exporters are redirecting these trucks to Laredo and Calexico to avoid the backlog, but the industry is watching carefully to see if politics will damage the U.S.'s status as Mexico's most reliable dairy supplier.




USDA announced the September Class III price at $18.39 per cwt., up $1.20 from August. At $19.09, September Class IV was 18¢ higher than the month before. Looking ahead, dairy producers can expect much better Class IV revenue. The October contract jumped 79¢ this week to $21.59. Class III prices are less exciting. The October contract slipped 2¢ to a disappointingly low $16.86. It's difficult to push Class III prices above dairy producers' breakevens when whey is cheap and cheese must be priced low enough to attract export orders. Cooler weather has added to the pressure, as milk yields are climbing. Meanwhile, slaughter volumes have slowed, which is also adding to milk supplies. Dairy cow slaughter fell below the historic average in each of the past three weeks. It's likely that dairy producers who culled hard through the summer had fewer unhealthy or low-production cows to send to the packer in September. And the hope of better milk prices probably diminished producers' appetite to keep cull rates high. Whatever the cause, the market assumes that slower slaughter means more milk, and Class III prices are struggling accordingly.

***Grain Markets***

The grain markets gained ground this week, as Russian attacks on Ukraine's ports dashed hopes that Ukraine would find ways to move its grain via sea routes. After plumbing two-year lows, December wheat futures leapt 26.75¢ and corn followed wheat higher. The corn market also got a boost from news of export sales to China and unseasonably strong demand from the ethanol sector. The December contract closed at $4.92 per bushel, up 15.25¢ this week. Despite projections for another year of tight stocks, soy product prices continued to drop. November soybeans settled at $12.66, down 9¢. December soybean meal dropped $9.10 to $372.10 per ton.

# Federal Milk Marketing Order Hearing Report – Week Seven

*By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs*
*[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)*

There are five "issues" encompassing 21 proposals that make up the substance of the "call" of this hearing into Federal Milk Marketing Order (FMMO) regulations. This week started with the finishing up of issue four, which consists of six competing proposals for how to set the base Class I price. What emerged was a huge effort to essentially reorient the purpose of the Federal Order program to facilitate hedging and risk management. This was particularly driven by Edge Cooperative and their consultant and spokesman who at one point said, "Build a new structure of Federal Orders; that is what we are here to do."

Huge amounts of hearing time were spent this week and last week on how to bend FMMOs to fit the demands of "risk management." In its rebuttal to this onslaught of testimony, Cal Covington, on behalf of NMPF, observed that risk management/hedging for the dairy industry has always been voluntary. Risk management and hedging tools were built to accommodate the realities of the regulation, not the other way around. On Tuesday, Edge Cooperative offered what they described as a compromise proposal to split Class I into a category for regular bottled milk that would stay with an advance priced "higher of" base price and a separate (from Edge testimony):

> *"sub-Class I-H (H for "hedgeable"). All milk processed as Extended Shelf Life or aseptic would be automatically classified to I-H, and others can elect it if they can demonstrate to market administrator's satisfaction that they are regularly offering their product on forward price basis, and are currently hedging, or wish to start utilizing hedging tools to manage their price exposure. The milk in Class I-H would be priced per proposal 16 – Class III Plus, with no advanced prices. To prevent adverse selection, the switch between sub-classes should be difficult to make, and with a very long lead time. We suggest a lead time of at least 24 months."*

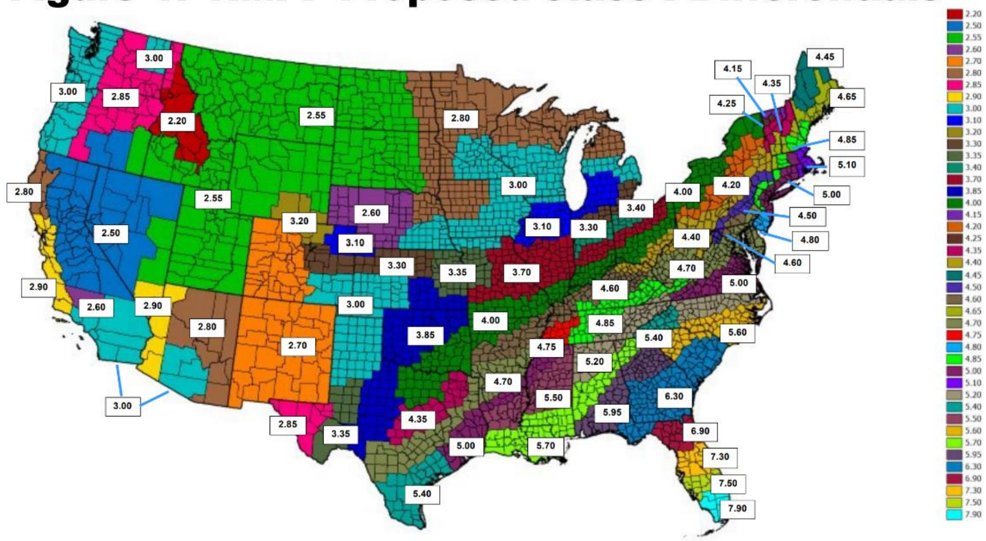
NMPF and USDA-AMS attorneys formally objected to this proposal being submitted into consideration for this hearing. The basis of the objection was that this proposal would involve changing a part of the Federal Order regulation that is not under consideration in this hearing. The Judge allowed Edge to read its testimony and then ruled that the proposal could not be considered by USDA because it was outside the call of the hearing.

The reality is that this hearing is NOT about building a new structure of Federal Orders. It is about updating factors in the FMMO formulas that have not been updated in many years.

On Wednesday afternoon, testimony regarding issue five, the updating of Class I differentials began. It is important to note that there are more than 3,000 counties in the continental United States, all of which have a Class I differential designated for milk received in that county.

The array of witnesses lined up by NMPF to address its proposal 19, from a macro/policy perspective,

**Figure 1. NMPF Proposed Class I Differentials**




all the way to local and regional perspectives, is impressive. No less than 17 witnesses are scheduled by NMPF alone on proposal 19. The main justification for raising Class I differentials is that over the past 23 years costs have gone up for getting Class I milk to the market and the Class I differentials need to be raised to reflect those costs.

Annoyingly for producers, while NMPF is putting great effort into raising Class I differentials, the Milk Innovation Group (MIG) representing a group of processors is going the opposite direction with its proposal 20, which is to LOWER all Class I differentials by $1.60. It will be interesting to hear their argument for why Class I should be cheaper than it already is. However, it will likely be quite some time before MIG gets to make its case because USDA let everyone know that the hearing will meet through next Wednesday, October 11. It will then go dark and resume on Monday, November 27 at 1 p.m. No, that is not a misprint. Clearly, the hearing is taking much longer than expected. The issues are important and the FMMO process allows unlimited cross-examination of witnesses to assure that the hearing record that USDA must depend on to make its final decision is thorough and tested. Hopefully this gets done before Christmas.

Today, two California dairy farmers testified. George te Velde from Escalon testified about the impacts of de-pooling on direct shippers to Class I plants. Fresno County dairyman Mark McAfee from the California Dairy Campaign also testified. He spoke about the need for more innovation by the processing sector. You can see his presentation here.

*California dairy farmers George te Velde (left) and Mark McAfee (right) provide testimony during the FMMO hearing.*

**View the hearing or, you may listen only, via cellular phone or landline**

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## The Producer Review Board Recommends Adjustment to QIP Assessment

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

The Producer Review Board (PRB) has been wrestling with the challenge of finding the correct assessment rate to fund payments to quota holders without collecting too much money in assessments. The Quota Assessment Fund had accumulated a large balance going into 2022, and in August of 2022 the assessment rate was lowered from 36.5 cents per cwt. to 27.4 cents per cwt. to draw down the accumulated surplus. By March of 2023 the fund balance had been reduced, and the PRB recommended the assessment go back up to 34 cents per cwt. The balance reversed course and began to grow so, the PRB recommended the rate be dropped to 28.7 cents starting in July of 2023.

California milk production for July and August of 2023 was down around 3% from the previous year, and with the lower assessment rate, the QIP fund balance fell enough for CDFA officials to be concerned. The PRB was shown the numbers and asked by CDFA to consider increasing the assessment rate starting in November. They agreed to do that and are recommending the rate be increased to 34.8 cents per cwt. starting on November 1.

The PRB did have questions about $5.5 million that was transferred into the QIP fund from the State Pooling Equalization Fund back in November of 2018. This $5.5 million has not been reported to the PRB over the past couple of years in status reports presented about QIP fund balances. There is a significant question about who this money belongs to. PRB board member Frank Konyn has done research on the origins of this money and made the case that this is producer money. CDFA committed to looking into the matter and reporting back to the PRB at their next meeting.

## Nomination Forms for Producer Review Board Mailed This Week

*Courtesy of the California Department of Food and Agriculture*

The California Department of Food and Agriculture (CDFA) this week mailed producers nomination notices and forms seeking nominations for positions on the Producer Review Board. Market milk producers interested in serving can nominate themselves. The deadline for CDFA to receive the nomination form is **November 30, 2023**.

## Quick Update on Farm Bill Expiration

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

I asked Chris Galen at the National Milk Producers Federation a question about when the current Farm Bill expires. Here was his answer:

"Most of the commodity safety nets, including Dairy Margin Coverage, are good until the end of the calendar year. So, while some of the farm bill did expire last week, nothing really of great consequence is included in that list. What will happen if nothing passes before December 31 is programs revert back to the 1940s-era parity levels, including the price support program. That's the so-called Dairy Cliff that will compel Congress to do some kind of an extension before we see that materialize."

Many thanks to Chris for this helpful explanation.

## San Diego Gears Up to Deal Water Across the West

*By MacKenzie Elmer*
*Voice of San Diego*

**Twenty years since San Diego bought Colorado River water from its farming neighbors, it seeks to attract investors in its other water assets.**

This October marks 20 years since San Diego cut a famous deal that protected it from drought but paved the way for putting a high price on otherwise free water from the Colorado River.

The hard-fought deal – called the Quantification Settlement Agreement, or QSA – dramatically lowered how much water California takes each year from this river that makes life possible in seven western U.S. states and northern Mexico. It ensured, for the first time, that California wouldn't use any more than its share. And it achieved that by putting a cap, for the first time, on how much water the farmers in Imperial Valley could take. Water officials would now meticulously count every gallon that once haphazardly emptied from farm fields into the Salton Sea. Today, that massive lake is in danger of becoming a massive public health and ecological disaster.

San Diegans now drink most of the water Imperial Valley farmers gave up. For the first time in California, a city would purchase water from a farming district, at very high rates. That's partly why San Diegans' water bills are now some of the highest in the country, so high that some of its own local buyers are running from the region.

Decades later, San Diego officials say it's a good deal. Such a good deal, in fact, San Diego now has plenty of water – enough that they think investors from across the American West could help ease the burden on San Diegan pocketbooks. They want to transform San Diego from a desperate city at the end of the water line beholden to forces much larger into a water distributor itself. They set expectations for how much conserving a drop of water on a farm is worth to an urbanite.

The QSA turned the San Diego County Water Authority and the Imperial Irrigation District and even the gigantic Los Angeles-based Metropolitan Water District of Southern California from adversaries into long-term partners. These agencies' leaders now see the deal as a success story and something other river users like Arizona should replicate.

They will need to do something. Trouble is on the horizon.

*Continue reading here.*