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	- $.0275	$1.6925	Weekly Change	- $.0200	$2.6300	Week Ending 11/09/24		
Barrels	- $.0825	$1.6850	Weekly Average	- $.0470	$2.6205	Nat'l Plants	$1.3662	16,588,636
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 11/02/24		
Blocks	- $.0745	$1.6935	Dairy Market News	w/e 11/15/24	$.5950	Nat'l Plants	$1.3600	15,282,261
Barrels	- $.1315	$1.6820	National Plants	w/e 11/09/24	$.5817			

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
Nov 14 Est	No Change	$21.48	$19.90	$21.05
Last Week	$24.13 - $24.63	$21.06	$20.13	$21.06

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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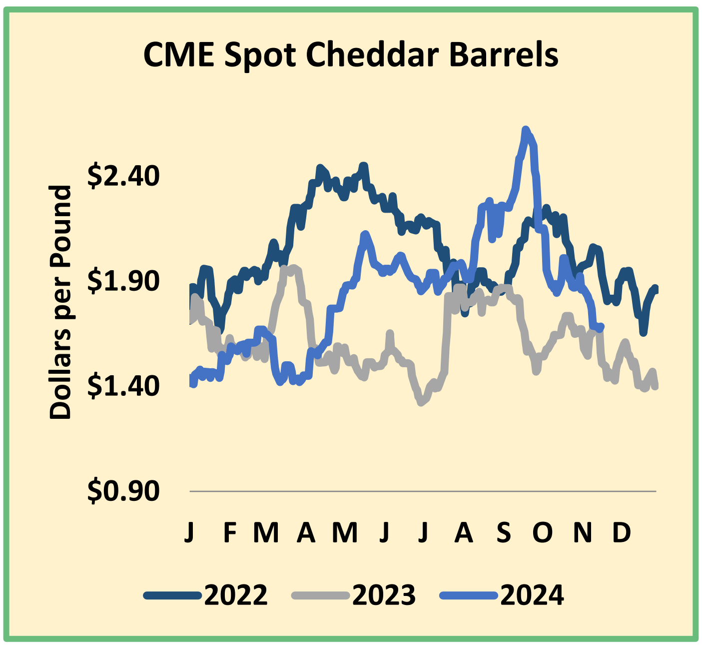
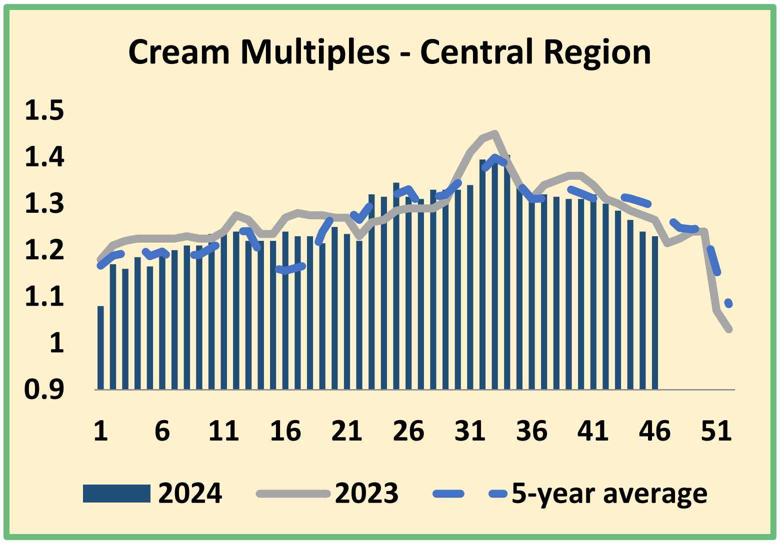
Milk & Dairy Markets

Soaring temperatures, summer shortages, and sky-high prices are out of season as the cheese and butter markets hunker down for the winter. So far, pre-holiday demand has not impressed. Butter makers tell USDA's Dairy Market News that orders are "steady to lighter." For cheese, foodservice sales are "slow," while purchases from retailers are "steady to stronger." Demand is simply not keeping pace with current production.

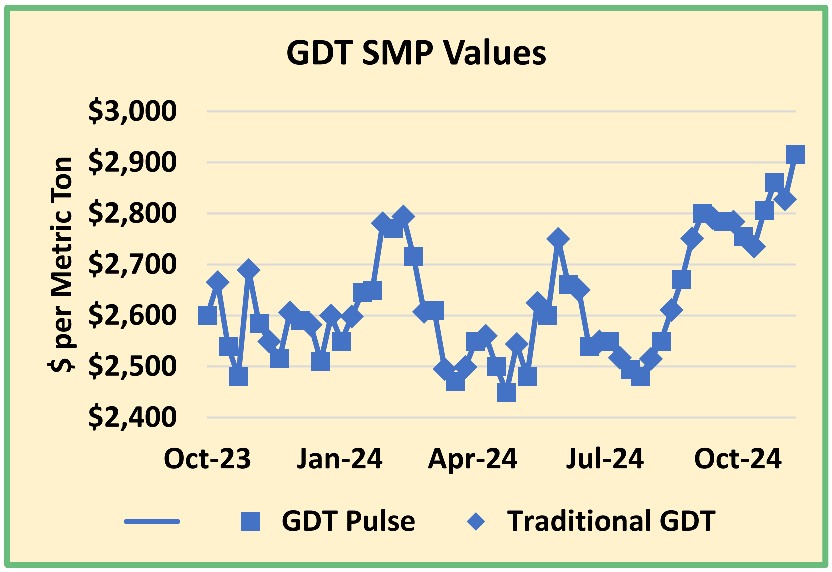


Milk tankers are queuing up outside the new cheese facility in Kansas, which is sure to boost U.S. cheese output well above year-ago levels after nine months

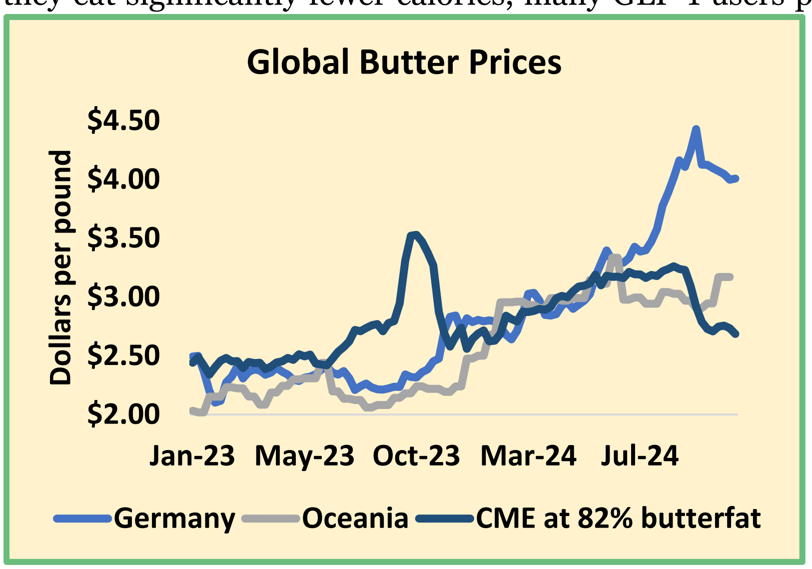


with very little growth. There are two other major expansions to U.S. cheese production capacity gearing up to fill their shiny new vats in the first half of 2025. The cheese and Class III markets have braced for impact, and they've taken several big steps downward. This week, spot Cheddar blocks and barrels both notched their lowest prices since April. After a modest rebound today, blocks closed at $1.6925 per pound, down 2.75¢ since last Friday. Barrels plummeted 8.25¢ to $1.685.

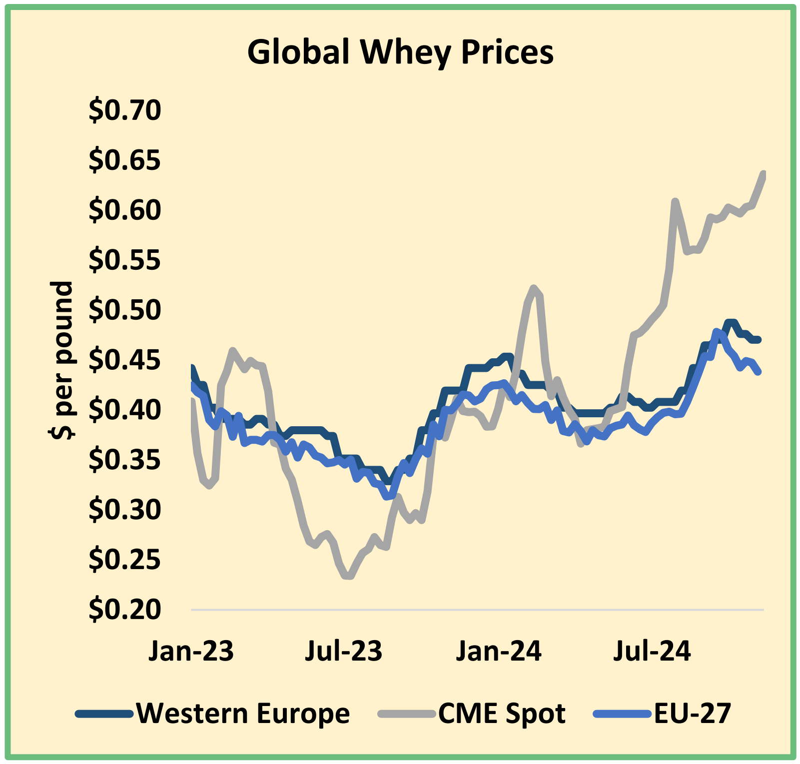
Cream is cheap and plentiful, particularly in the Midwest. Central region multiples, which determine the price that manufacturers pay for cream relative to butter values, ranged from 1.2 to 1.26, well below the five-year average of 1.294. Cheap cream should entice butter makers to churn more product, but processors tell Dairy Market News that they continue to turn away offers of surplus cream because they are "sated with current intakes." In the face of ample stocks and robust production, CME spot butter fell 2¢ to $2.63, its lowest price since January.



While consumers have all the cheese and butter they can stomach, they can't get enough dairy protein. Most adults are actively trying to consume more of it. Protein is especially vital for the roughly 15 million Americans taking glucagon-like peptide-1 (GLP-1) medications like Ozempic or Wegovy. As they eat significantly fewer calories, many GLP-1 users prioritize foods that pack a bigger nutritional punch. Highly concentrated whey powders, like whey protein isolates (WPIs), are becoming increasingly popular, in part because they're supplying a larger piece of GLP-1 users' smaller pie. Makers of WPIs and whey protein concentrates (WPCs) with at least 50% protein are using up as much whey as they can, leaving less for WPC-35 and whey powder. While demand for less concentrated whey products is steady, lower production of those products has



boosted prices significantly. This week CME spot whey powder jumped 2.5¢ to 65.5¢, its highest price since March 2022.



Nonfat dry milk (NDM) powder prices also climbed. This week they rallied 1.25¢ to $1.40, their highest price in nearly two years. Prices in Chicago got a boost from Oceania after skim milk powder (SMP) jumped 3.1% to its highest-ever price in its 13-month tenure at the Global Dairy Trade's (GDT) Pulse auction. Rising prices at the GDT signal that demand from Asian markets has been good enough to offset the impact of higher milk output in Australia and New Zealand. Closer to home, milk powder production will be limited as new cheese production capacity pulls more milk away from dryers.

A casual glance at dairy fundamentals suggests that whey and milk powder prices are likely to remain high while the butter and cheese markets are doomed to the doldrums. But the invisible hand is already turning the pressure release valve. Steep declines in U.S. butter and cheese markets have made American products extremely competitive to foreign buyers despite a strengthening dollar. Meanwhile, whey and NDM/SMP exporters are likely to lose some marketshare at today's prices.

Strength in the milk powder market helped to hold nearby Class IV prices steady around $21 per cwt. But the drop in butter prices weighed heavily on deferred contracts. April through June Class IV futures lost roughly 40¢ and dipped below the $21 mark. On the other side of the dairy complex, Class III futures finished in the red for the eighth straight week. Most contracts lost around 20¢. That puts Class III in the high-$18s and low $19s. Milk revenues should more than cover costs for most producers. But the November and December milk checks will be much lower than those that thrilled dairy producers for the past three months.

Grain Markets
The feed markets retreated from recent highs. A month of big rains in the Southern Plains revived the winter wheat crop, allowing for excellent growth ahead of winter dormancy. Wheat futures lost a lot of ground over the past two months. This week's wheat selloff was steep enough to drag corn down with it. December corn closed at $4.24 per bushel, down 7¢ since last Friday. January soybeans plummeted 33¢ to $9.98. December soybean meal dropped another $7 to $289.60 per ton. Grain and oilseeds are abundant, and U.S. prices must remain low enough to compete for exports. Dairy producers can expect to enjoy a relatively cheap ration.

Great Late-Breaking Water News!

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

The State Water Board is cancelling the January 7, 2025, probation hearing for the Kaweah Subbasin. It determined that the updated Kaweah Subbasin Groundwater Sustainability Plans cured previously identified deficiencies. The Water Board is ending its jurisdiction of the Kaweah Subbasin, sending it back to the Department of Water Resources. Congratulations to the Kaweah Subbasin Groundwater Sustainability Agencies, who worked very hard to get this outcome. Read more here.

USDA Issues Final FMMO Decision

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

This past week USDA released a draft of the final rule for modifying the milk pricing formulas in the Federal Milk Marketing Order program. The new regulation becomes official when they are formally published in the Federal Register, probably in the next week or two. Back in July, a recommended decision had been released which laid out what changes USDA believe needed to be made to the Class I, II, III and IV pricing formulas based on their hearing findings. Interested parties had 60 days to comment on that proposal. You can read my article on the substance of the recommended decision here.

USDA reviewed 128 comments and did make some adjustments in the final rule. One adjustment is to reduce the delay in the producer positive change to the component values in the Class III and IV formulas from 12 months to six months. MPC had requested the elimination of this delay. The other significant change was to actually increase the Class III and IV make allowances slightly by adding a marketing cost to the manufacturing allowance. This change will increase the make allowance by between 2-3 cents per cwt. In addition, USDA modified the calculation of costs in the make allowance for nonfat dry milk, which results in about another 9 cent increase in the Class IV make allowance. They also made modifications of Class I differentials, but not in California. The bottom line is Class I differentials are going up in California by 60-80 cents per cwt. Class III and IV prices are dropping by 85-90 cents per cwt. due to increases in the make allowance. Changing the base Class I price back to the “higher of” Class III or IV should be price positive to producers over time, as will the elimination of barrel cheese prices from the Class III formula. But the value of those changes for producers will vary from month to month and year to year.

I did make an attempt to calculate the California Order October Pool using the new pricing formulas. There was very little Class III milk pooled on the California order in October because Class III was $1.95 per cwt. higher than Class IV. Therefore, the October pool had 25% Class I and 60% Class IV. This is probably not a normal pool. Inserting into the formulas the higher Class I differentials, including the higher of base price, and using the lower butterfat, protein, other solids and nonfat solid prices that are a result of the increased make allowances in the final decision, would reduce the total producer revenue in the October pool by just under $10 million or $0.59 per cwt. of pooled producer milk. This is an initial attempt to come up with a price comparison. More analysis to come when the real economists start cranking numbers.

Raising the make allowance has always been something producers resist because of its impact on milk prices. But the make allowances in the FMMO formulas have not been changed since 2008 and if the system is going to remain viable it has to reflect real world conditions.

The fundamental value of having the government regulate milk prices is summed up in a couple paragraphs contained in the Final decision on page 247.

> *"FMMOs were established in the 1930s when the market contained many sellers and few buyers of milk. The highly perishable nature of raw milk resulted in producers engaging in pricing behavior that lowered farm prices as producers undercut one another in order to find a market outlet, a condition generally described as destructive competition. This unavoidable competitive behavior was among the reasons producers petitioned Congress to authorize a marketing order program to provide orderly marketing through known terms of trade and the pooling of market returns, which in turn provided a more equitable balance of power between buyers and sellers. While the record of this proceeding reveals continued consolidation on both the producer and processing sides of the market, it also contains evidence the fundamental elements that were the genesis of the FMMO program still exist. Raw milk remains a highly perishable product, produced every day, that cannot be stored for any significant length of time and incurs high costs when transported over long distances. No substantive evidence was presented to indicate there is no longer an imbalance of market power between buyers and sellers. Processors spoke of the abundance of milk produced as a reason Class I prices should not be increased. However, that reality also highlights how the dairy marketplace continues to place processors in a price setting role. As a price taker, the record reflects considerable testimony attesting to the difficulty dairy farmers have had and continue to have in obtaining and maintaining over-order premiums at levels sufficient to cover actual and/or opportunity costs.*

The role of USDA in operating the FMMO program is to be a referee between producers and processors. In order for this system to work it has to be fair and based on market realities. Producers will have a chance to vote yes or no on adopting these new rules. Cooperatives have the right to "block vote" on behalf of their members. January 2025 will be the month of record for the purpose of the vote. You can read the USDA press release here.

One-Stop Truck Event in Imperial November 20

Courtesy of the California Air Resources Board

The California Air Resources Board (CARB) is coming to a city near you. Next up is in Imperial, CA. Imperial is the next stop of a multi-stop roadshow throughout California. For a list of future One-Stop Truck Events dates and locations, visit *CARB One-Stop Truck Events.*

Join CARB, local agencies, and Air Districts as we provide insight, education, and resources on CARB's clean truck and diesel regulations, compliance, funding, and more. Each stop will provide an opportunity to listen to regulatory overview presentations, participate in one-on-one compliance discussions and meet CARB regulatory experts and incentive program staff.

Event Details
Informational event for medium- and heavy-duty vehicle owners, operators, fleets, and motorhomes; free admission & parking.

Date: November 20, 2024
Time: 9:00 a.m. - 1:00 p.m. (registration begins at 8:30 a.m.).
Location: Imperial Valley Fairgrounds, 200 E. 2nd St., Imperial, CA 92251
Registration is required for this event. Register here.

Golden State Dairy Management Conference November 18 in Modesto

Courtesy of the University of California Agriculture and Natural Resources

The **Golden State Dairy Management Conference** will share California research that addresses California dairy needs. The conference will take place **November 18, 2024**, at the **Stanislaus County Ag Center – Harvest Hall**, 3800 Cornucopia Way, Modesto from **11 a.m. – 3:30 p.m**.

The conference will welcome **Corey Geiger, Lead Dairy Economist of CoBank's Knowledge Exchange**, as its keynote speaker to discuss dairy's bright future. Scientific sessions will provide research updates from University of California Farm Advisors, Specialists and Faculty. Scan the QR code (or visit here) for conference details, including the full agenda, registration link and sponsorship opportunities. The UC Golden State Dairy Management Conference occurs every other year. Questions: jmheguy@ucdavis.edu or 209-525-6800.

Farm Bill Prospects Fade as Washington Prepares for New Leadership

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

Republicans have officially won a full trifecta of power in Washington, D.C., following GOP victories in several key House contests. Republicans will hold a majority next year in the House comparable to their current four-seat margin, although further results may slightly tweak that figure. On Wednesday, House Republicans renominated Rep. Mike Johnson, R-LA, to stand for election as Speaker on the House floor in January. They also re-elected Reps. Steve Scalise, R-LA, and Tom Emmer, R-MN, as Majority Leader and Majority Whip, respectively, and elected Rep. Lisa McClain, R-MI, to serve as Conference Chair. Reps. Emmer and McClain both represent major dairy farming footprints.

The Republicans will hold a 53-seat Senate majority, although the Pennsylvania race appears headed to a recount. Earlier this week, GOP Senators selected Sen. John Thune, R-SD, as the new Majority Leader. Prior to winning his first senate election in 2004, Thune briefly served as a consultant in Washington to NMPF, and we have maintained a strong relationship with him and his staff in the intervening two decades. Thune also has served on the Senate Agriculture Committee, giving him deep familiarity with farm policy.

Where the farm bill is concerned, while there's still a slight chance that a bill could pass during the lame duck session, the likelier outcome is that Congress will seek another one-year extension and allow House Ag Committee Chairman GT Thompson, R-PA, and incoming Senate Ag Committee Chairman John Boozman, R-AR, to lead the process of crafting a new bill next year, building on ideas that both have supported in the past year.