

MPC WEEKLY FRIDAY REPORT

DATE: DECEMBER 10, 2021

TO: DIRECTORS & MEMBERS

FROM: KEVIN ABERNATHY, GENERAL MANAGER

PAGES: 5

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	+\$.0075	\$1.8650	WEEKLY CHANGE	+\$.1200	\$2.1225
Barrels	+\$.0775	\$1.6800	WEEKLY AVERAGE	+\$.0750	\$2.0600
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 12/04/21	
Blocks	-\$.0090	\$1.8485	DAIRY MARKET NEWS	W/E 12/10/21	\$.6650
Barrels	+\$.0865	\$1.6745	NATIONAL PLANTS	W/E 12/04/21	\$.6270
				LAST WEEK ENDING 11/27/21	
				NAT'L PLANTS	\$1.5104 10,319,633

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
DEC 10 EST	\$20.77 - \$21.27	\$19.87	\$18.60	\$19.78
LAST WEEK	\$20.77 - \$21.27	\$19.58	\$18.60	\$19.34



Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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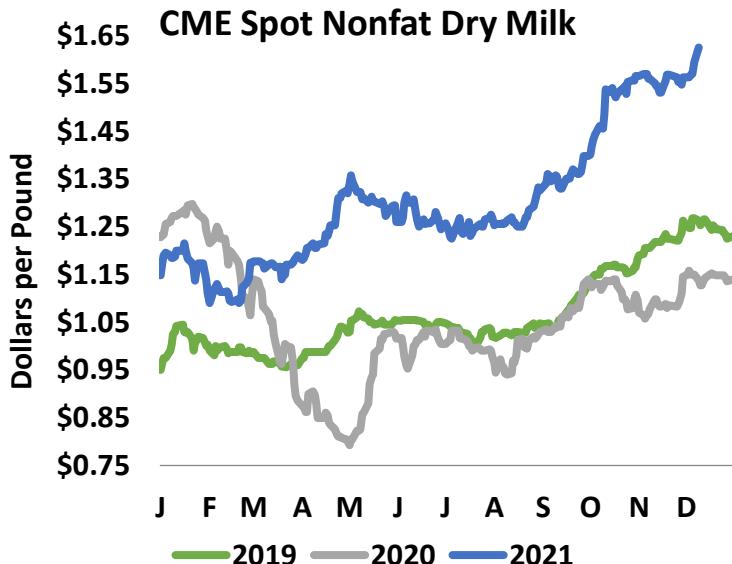
Milk & Dairy Markets

Someone left the gate open on LaSalle Street, and the bulls ran unchecked in the dairy pits. Their bellows echoed around Chicago at news of slowing milk production and waning dairy product inventories.

Meanwhile, from the darkest corners of the Board of Trade building, the bears whispered their concerns about the health of the global economy and accelerating inflation. One bear told another, "Consumers are feeling the pinch of high prices. Will they buy less dairy?" The second added, "And have you seen the size of the Chinese milk powder stockpile?

GDT SMP Prices



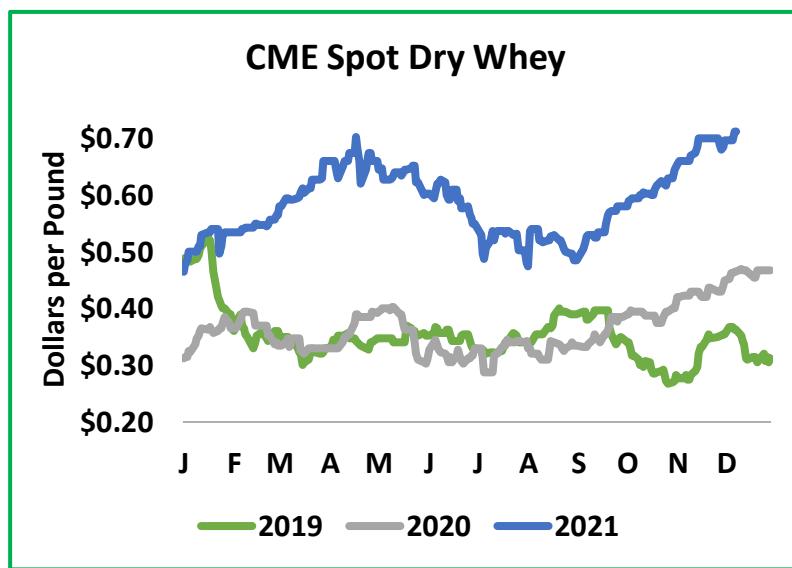


They'll surely import less next year!" But their warnings were drowned out by the stamping of hooves as the markets shot enthusiastically upward.

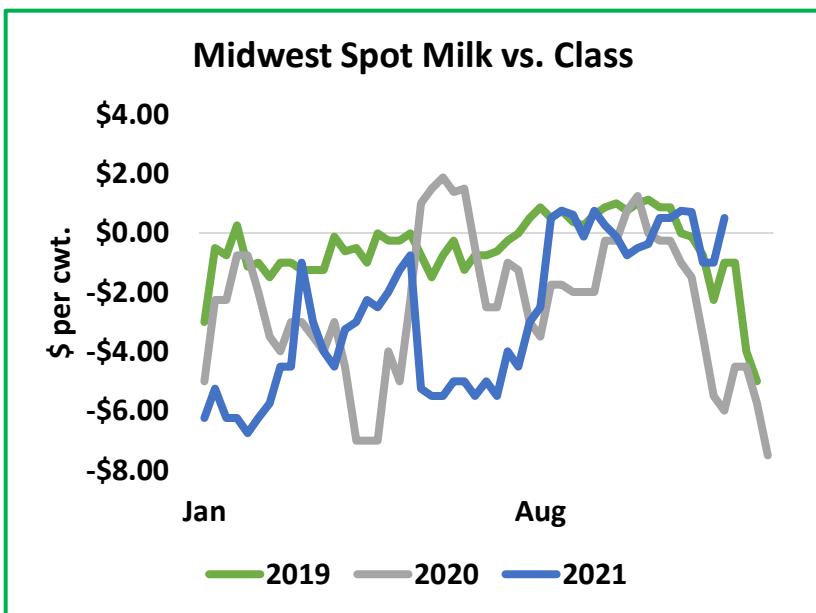
Prices rose across the board at the Global Dairy Trade (GDT) auction on Tuesday, led by a 4.6% gain in butter values. The GDT Index climbed 1.4%, its fourth straight advance. GDT skim milk powder (SMP) rallied 1.3% to a seven-year high. The average winning price for SMP at the GDT was equivalent to nonfat dry milk (NDM) at \$1.80 per pound, providing plenty of room for U.S. milk powder markets to keep climbing. Right on cue, NDM leapt 6.25¢ at the spot market this week, and also logged a seven-year high.

Firm demand for protein powders helped spot whey powder add another 1.5¢ this week. It reached 71.25¢, its highest price in its three-year run on the CME spot market. Other indications of dry whey prices, like the National Dairy Products Sales Report average, advanced to their highest value since 2014. USDA's *Dairy Market News* notes that commodity whey production remains "stunted" as processors continue to focus on high-protein blends, and dry whey inventories are low. Tight stocks and high prices have added a lot of value to the Class III market. Every penny increase in whey adds 6¢ to Class III milk.

The cheese markets helped to boost Class III prices too. CME spot Cheddar blocks inched up 0.75¢ to \$1.865. Barrels jumped 7.75¢ to \$1.68. Cheesemakers are able to find all the milk they need to run at normal rates, but very little extra. In the Upper Midwest, spot milk is selling at Class III to \$1 over, a far cry from the \$4 to \$8 discounts offered at this time last year. Tighter milk supplies will impact Class IV manufacturers more significantly than cheesemakers, but the combination of pricier spot milk and a tight labor market suggests that cheese plants won't be working overtime.



While the bulls frolicked everywhere, they were especially frisky in the butter market. CME spot butter surged 12¢ this week to \$2.1225, the highest price since October 2019. *Dairy Market News* reports that butter demand is "potent" and inventories are "very tight." Although U.S. prices are much higher than they were, U.S. butter is still a bargain compared to product from overseas. As a result, the U.S. is exporting butter and milkfat at the fastest rate since 2014. Exports are still slightly lower than imports, but, in stark contrast to the preceding five years, imports are adding almost nothing to the U.S. butter supply. As the *Daily Dairy Report* notes,



U.S. butter inventories are not tight by any means. “Formidable output boosted stocks to burdensome levels early this summer. The U.S. butter stockpile topped 400 million pounds in May and June, when cold storage warehouses contained the largest U.S. butter inventories since 1993.” But manufacturers moved 133 million pounds of butter out of cold storage from July through October, the fastest drawdown for that period since 2013. Judging by the price of butter in Europe and Oceania, U.S. butter exports are likely to remain strong, which may contribute to further declines in U.S. butter stocks.

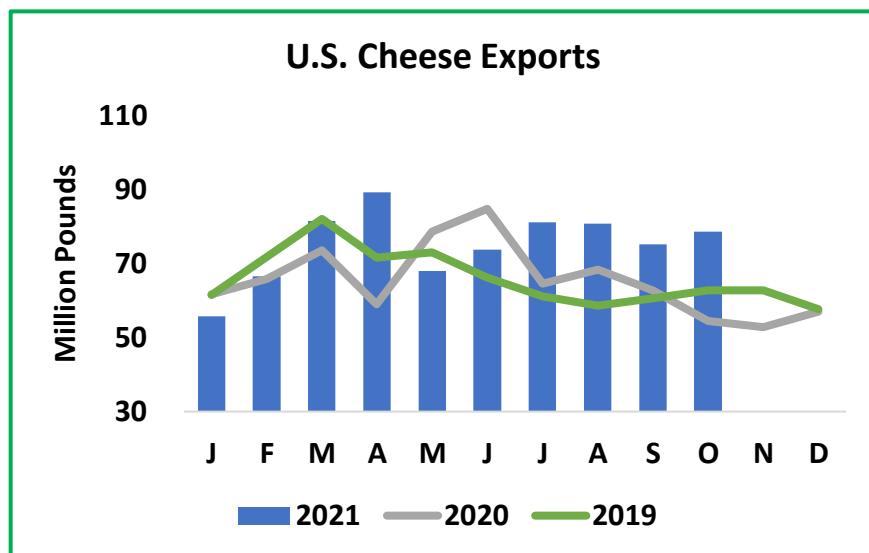
U.S. dairy exports kept up their rapid pace in October, although shipments of NDM and whey fell short of the unusually high volumes of October 2020. Cheese exports held firm, providing a vital outlet for heavy U.S. cheese production. As long as global demand persists, U.S. exports are likely to remain strong. U.S. dairy products are competitively priced and our peers are running out of product. In Oceania, disappointing milk production at the peak of the season will likely force processors to focus on existing customers and eschew new business. *Dairy Market News* report that New Zealand’s milk processors “have sales commitments to maintain, and lower milk production complicates maintaining good contractual relationships.” In Europe, “the primary focus is the EU internal market. Exports are an afterthought.”

Slow growth in U.S. milk production and strong demand lifted the futures sharply higher this week. January and February Class III added more than a dollar, and settled at \$19.82 and \$19.96 per cwt., respectively. First-half Class IV futures gained an average of 80¢ and closed at an average of \$20.39.

Grain Markets

The feed markets moved higher as well, albeit with less fervor. March corn climbed 6¢ this week to \$5.90 per bushel. January beans added 7¢ and reached \$12.7425. Meal gained \$8.20 and closed at \$366.80 per ton.

USDA updated its monthly crop balance sheets but made no changes to U.S. corn and soybean supply and demand estimates. The agency will likely tweak its production estimates in January, but by then, all eyes will be on the South American crop. The forecast holds plentiful rains for crops in central Brazil, and lighter totals in southern Brazil and much of Argentina. The market has factored in a huge weather risk premium already, but December and January rains will be crucial for South American crops and global feed prices.





Next Week: Sign Up for 2022 Dairy Margin Coverage Program

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

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USDA announced some improvements in the Dairy Margin Coverage (DMC) program, which is the dairy safety net program that provides excellent risk management coverage on the first five million pounds of each dairy's annual production. The biggest improvement is to the alfalfa hay component of the feed cost calculation, which will now be 100% based on the price for premium hay as opposed to using a 50/50 blend of premium prices and average quality hay.

[Calculations published by Dave Natzke in Progressive Dairy](#) estimate that this change in the hay calculation would have increased the hay cost factor in the DMC feed calculation by \$14.50 per ton in 2020 and \$15.60 per ton in the first 10 months of 2021. USDA is going to issue supplemental payments for 2020 and 2021 based on these higher alfalfa cost numbers to those enrolled in the DMC. If you signed up for the \$9.50 margin coverage for the full 5 million pounds eligible, this supplemental payment could be in the \$12,000-plus range. This demonstrates once again that the DMC program is the gift that keeps on giving. While it can be irritating that it is only available on the first five million pounds you produce, you definitely do not want to miss these benefits by failing to sign up. DMC signups for 2022 start on Monday, December 13 and run through February 18, 2022 at your local [USDA-FSA office](#).

East Kaweah GSA Update

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

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The board of East Kaweah GSA meet last Friday and adopted an emergency allocation resolution. Here is what they adopted:

- Each assessed acre in the GSA will be allocated 1.65 acre feet of groundwater consumption tracked by Evapotranspiration with no charge.
- Allocations can be transferred anywhere in the GSA for this year only.
- Extraction above the 1.65 acre feet will be penalized \$500 per acre foot.
- The start date for calculating consumption is retroactive to October 1, 2021.

A couple of factors to consider:

- There are about 95,000 assessed acres in EKGSA, but when you take out driveways, shops and equipment yards there are about 85,000 irrigated acres.
- About 75% of the EKGSA does have some access to surface water. Some of these districts have stored water underground that they can recover this year.
- The EKGSA board was warned by their attorney that establishing this allocation with penalty fees retroactively could run into legal trouble.

The bottom line is EKGSA is located near the foothills of the Sierras in Tulare County where the groundwater aquifer is quite shallow. There has been significant groundwater extraction in their area because of the drought in the last two years. The board clearly believes it must take this action to protect its part of the Kaweah Subbasin. This a game changer for farmers in this area.

Hear This: Geoff Vanden Heuvel Discusses 'More Water Now' Initiative

Courtesy of the "Seen & Herd" podcast

MPC's Geoff Vanden Heuvel was a recent guest on Western United Dairies' "Seen & Herd" podcast, where he discussed the history of California's water supply needs, delivery systems and challenges.

He also emphasized the pressing need for the solutions contained in the "More Water Now" initiative to put the Golden State back on track related to water supply management.

Go to the [5:45-minute mark to hear Geoff's interview.](#)

Volunteer to Help the 'More Water Now' Ballot Initiative Today!



MORE WATER NOW

The petition process to qualify the [More Water Now](#) initiative for the November 2022 ballot is officially underway. **Signatures from 1.5 million registered voters must be gathered by April 15, 2022**, just five short months from now. Learn more about volunteering at [MoreWaterNow.Com/Volunteer](#).

Storm to Bring Month's Worth of Rain to California, Yards Of Snow

Courtesy of AccuWeather



A long-duration storm has the potential to unload a month's worth of rain in a few days and deliver blockbuster snow to the mountains of the West Coast from this weekend to next week, AccuWeather meteorologists warn.

Heavy rain and snow will be beneficial for drought relief, but it can lead to major problems for travel and pose risks to lives and property.

The storm with eyes for the United States' West Coast moved from the Bering Sea between Alaska and Russia on Thursday to Pacific Ocean waters south of Alaska on Friday. Winds from the [jet stream](#) will steer the storm southeastward along the Pacific coast of North America into next week. The storm may even stall for a time or slow down significantly as it nears California, which could enhance precipitation further. Rain totals could climb as high as several inches in central and northern parts of California as the slow-moving storm may deposit yards of snow in the Sierra Nevada.

"As the storm slides from north to south along the West Coast, a firehose effect of moisture, known as an [atmospheric river](#), may lead to rainfall rates close to 1-2 inches per hour for a time and snowfall rates of 2-4 inches per hour over the mountains," AccuWeather Senior Meteorologist Tyler Roys said.

Read more [here](#).

