MPC Weekly Friday Report

Date: June 3, 2022
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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		
Blocks	*- $.0100*	$2.2700
Barrels	*- $.0500*	$2.2450
Weekly Average Cheddar Cheese		
Blocks	*- $.0629*	$2.2531
Barrels	*- $.0321*	$2.2794

Chicago AA Butter		
Weekly Change	*+ $.0375*	$2.9150
Weekly Average	*+ $.0225*	$2.9050
Dry Whey		
Dairy Market News	w/e 06/03/22	$.5900
National Plants	w/e 05/28/22	**$.6375**

Non-Fat Dry Milk		
Week Ending 05/28/22		
Nat'l Plants	**$1.7805**	26,444,658
Last Week Ending 05/21/22		
Nat'l Plants	$1.8168	19,204,212

California Federal Milk Marketing Order Price Projections

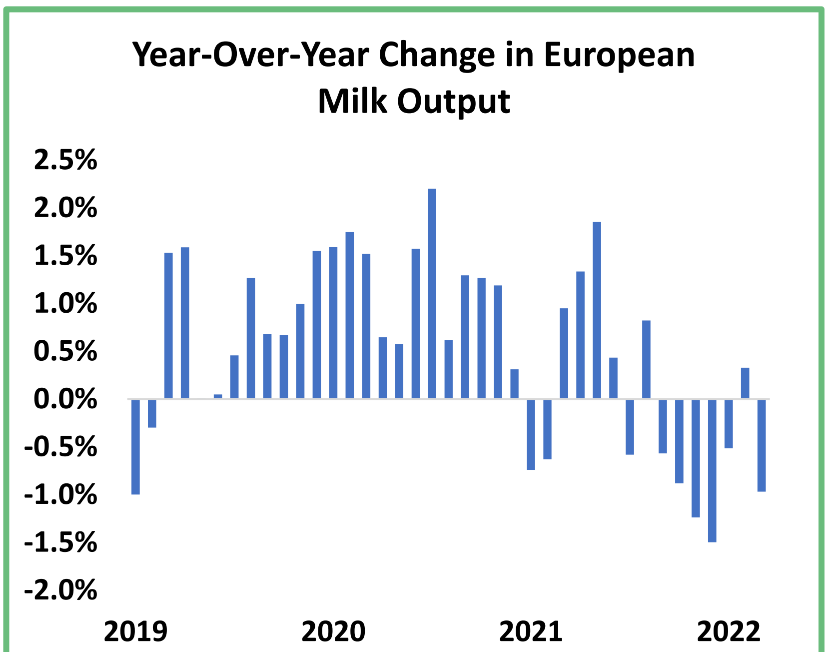
Price Projections	Class I Actual *(range based on location)*	Class II Projected	Class III Projected	Class IV Projected
JUN 3 Est	**$27.47 - $27.97**	**$26.53**	**$24.33**	**$25.76**
MAY '22 Final	**$27.05 - $27.55**	**$25.87**	**$25.21**	**$24.99**

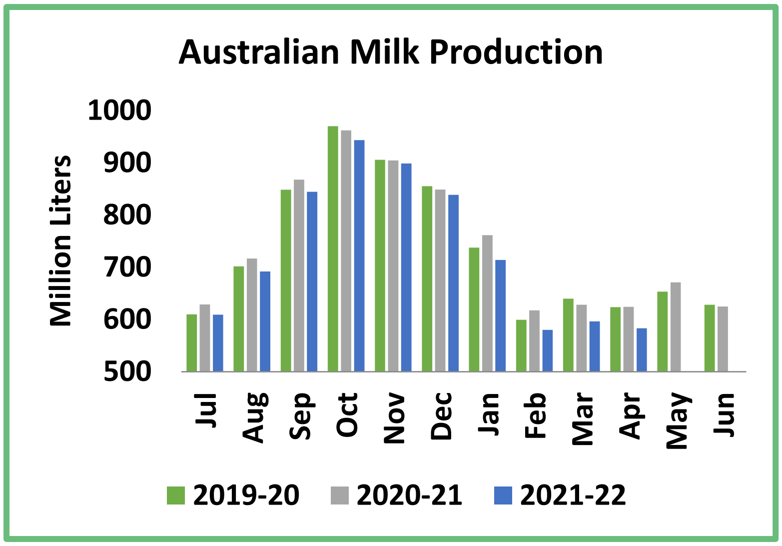
Milk, Dairy and Grain Market Commentary

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

Milk & Dairy Markets

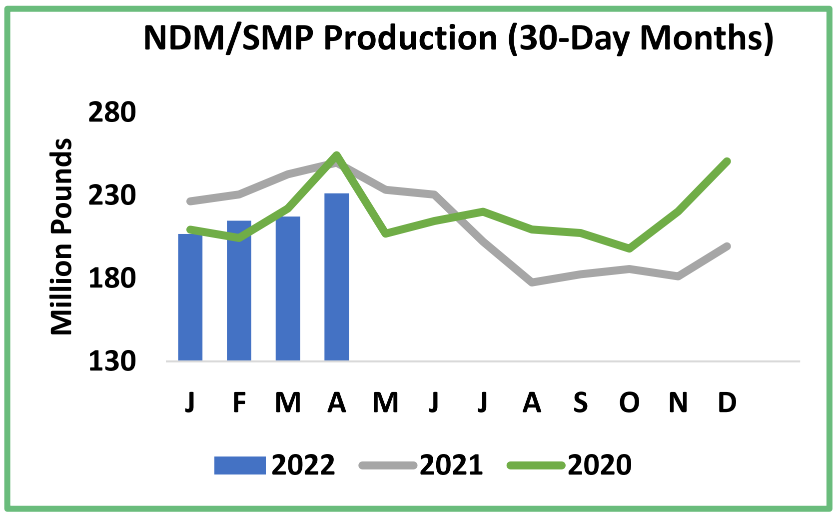
From Canberra to Chicago, and Wellington to Warsaw, milk output continues to underwhelm. After slight growth in February, European milk collections fell 1% from the prior year in March. Unofficial reports suggest that production remains below year-ago volumes in most of the bloc, although Poland, Italy, and Spain have managed to grow. High prices have not been sufficient to overcome political and structural barriers that impede investment. *Dairy Market News* reports, "The high costs of physical expansions, additional labor, replacement heifers, and feed costs, when coupled with market uncertainty, creates



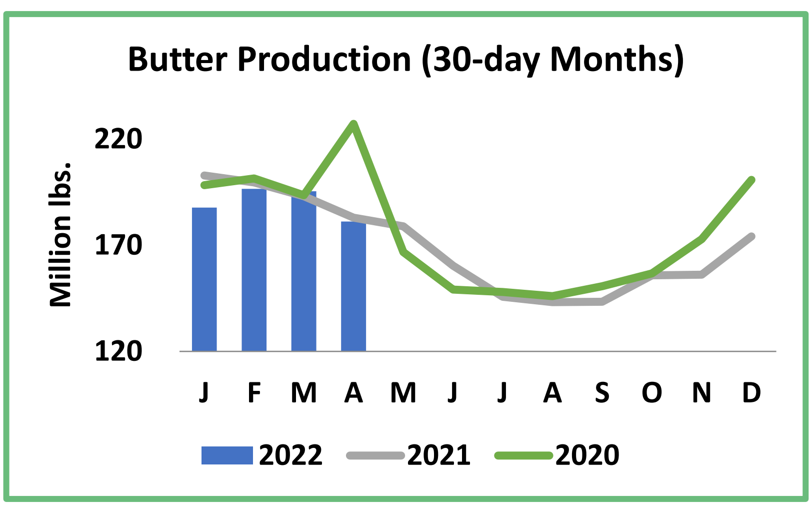


a risk level that prevents widespread expansion." The same factors are hampering milk output on this side of the Atlantic as well.

In Australia, labor is the main issue. The Aussies shut their borders for two years in an attempt to keep Covid-19 at bay. Now they are finally open, but there are fewer entry-level workers in the Land Down Under. The shortage is so acute that some dairy producers are winding down operations or devoting part of their paddocks to beef, which requires less day-to-day labor. After two years of good weather, feed is less expensive in Australia than the rest of the dairy world, and profit margins are stellar. Nonetheless, the industry is shrinking. Milk collections fell 6.6% from the prior year in April, bringing season-to-date collections down 3.5%. USDA forecasts a 4% decline for the full 2021-22 season. Dairy Australia does not expect a rebound in the upcoming 2022-23 dairy year.

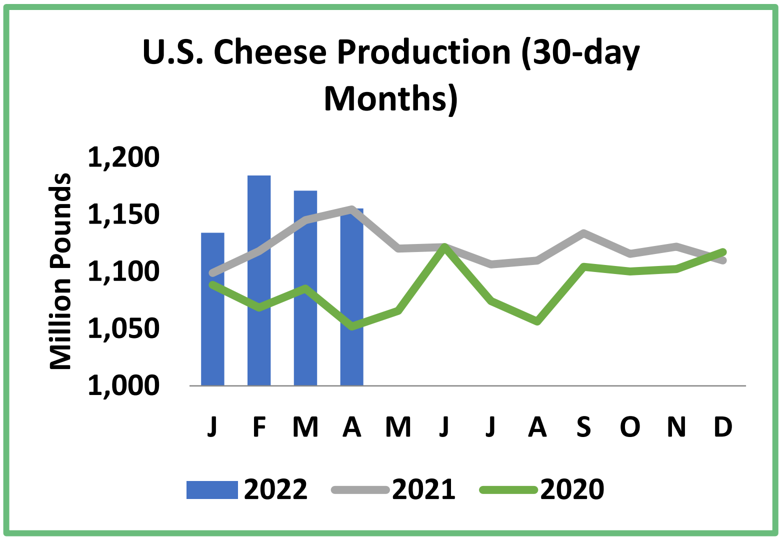


In the U.S., the spring flush is sputtering to an unimpressive finish. There is more than enough milk for Class III users, but Class IV balancing plants are not running as hard as they typically do in early June. According to *Dairy Market News*, milk powder demand "is outpacing supply. Recent production is moving out of the plant within a relatively short window, and loads produced earlier in the year are scarce." USDA reported this afternoon that milk powder output totaled just 231 million pounds in April, down 7.4% from a year ago. Milk powder inventories climbed seasonally from March to April. Manufacturers held just shy of 299 million pounds of nonfat dry milk (NDM) on April 30, up 0.4% from a year ago. At the spot market NDM inched up 0.25¢ to $1.8625 per pound.



Butter output dropped to 181 million pounds in April, down 1% from the prior year and the lowest April production since 2019. Slower churn rates have raised fears that butter supplies will be tight later this year. CME spot butter climbed even with the 2022 high yesterday, but it could not hold. It closed at $2.915, still up 3.75¢ for the week.

Cheese output totaled 1.156 billion pounds, up almost imperceptibly from April 2021. Cheddar production fell short of year-ago volumes, while Mozzarella output increased. Cheese prices moved lower this week amid relatively heavy supplies. CME spot Cheddar blocks slipped a penny to $2.27 per pound. Barrels dropped a nickel to $2.245.



More cheese meant more whey in April, as production of whey protein concentrates faltered. Commodity whey output jumped 6.8% year over year, and whey stocks ballooned to 72 million pounds, up 21.7% from April 2021. Burdensome inventories dragged the whey market down below 50¢ in May, but that was clearly low enough. Whey rebounded once again this week, rallying 3.5¢ to 55.75¢. That's an important advance for dairy producers who depend on Class III milk revenues. Every penny increase in the whey price adds 6¢ to Class III milk.

After a strong start, milk futures ran out of steam on Friday, highlighting concerns about demand. But, with supplies constrained, they remain well supported. June Class III futures lost a little ground this week, but July held steady and the other contracts continued to climb. Class IV futures marched relentlessly upward. The July contract topped $26 per cwt.

Grain Markets

Farmers remain frustrated in North Dakota, Minnesota, and Pennsylvania, as soggy fields continue to slow planting. But in most of the Corn Belt, the crop is going in on time. As of May 29, farmers had planted 86% of intended corn acreage and 66% of planned soy area, just one point behind the five-year average. With seed in the ground and a friendly mix of sunshine and rain on the horizon, the market sagged in relief. As it passed through one chart point after another, the selling accelerated. Putin's lackeys added fuel to the fire, promising once again that Russia would happily ship Ukrainian grain for "humanitarian" reasons if the West would just lift those pesky sanctions. That should not inspire much confidence that more grain from Ukraine is forthcoming, but the bears seemed willing to suspend disbelief once again. July corn plummeted more than 50¢ to $7.27 per bushel. December corn dropped 40¢ to $6.90. July soybean futures dropped 34.5¢ to a still-high $16.9775 per bushel. Nearby soybean meal futures retreated $28.40 to $407.90 per ton. Feed costs remain high, but they are considerably less onerous than they were when the week began.

New Air District Requirements for Spark-Ignited IC Engines

Courtesy of the San Joaquin Valley Air Pollution Control District

From Kevin Abernathy, General Manager

Below is an update from the San Joaquin Valley Air District regarding new emissions controls for stationary internal combustion engines rated greater than 50 horsepower. If you have questions about your engines after reading the following, please contact me at Kevin@MilkProducers.org.

On August 19, 2021, the San Joaquin Valley Air Pollution Control District amended District Rule 4702 for Internal Combustion Engines. The amendments reduced the limits for emissions of oxides of nitrogen (NO_X) and volatile organic compounds (VOCs) from non-emergency spark-ignited IC engines (e.g., engines fueled with natural gas, LPG/propane, or gasoline) rated greater than 50 brake horsepower (bhp). If you own or operate spark-ignited irrigation engines or other non-emergency spark-ignited IC engines rated greater than 50 bhp, the upcoming emission requirements may apply to your engines. Please note the following information about District Rule 4702.

- Rule 4702 does not apply to engines used to propel vehicles or implements of husbandry, only used to power wind machines to protect crops from cold weather, or used only to power mobile agricultural equipment.

- Engines rated 50 bhp and less are not subject to the emission requirements of Rule 4702 and are not affected by the amendments to the rule.

- For diesel-fueled IC engines, the amendments to Rule 4702 did not change any requirements.

- For **rich-burn IC engines** (spark-ignited engines with an exhaust oxygen concentration of less than 4%), Rule 4702 requires Emission Control Plans and Authority to Construct (ATC) applications to be submitted by **August 1, 2022**. These engines must comply with the applicable emission limits by **December 31, 2023**.

- For **lean-burn IC engines** (spark-ignited engines with an exhaust oxygen concentration of 4% or more), Rule 4702 does not require Emission Control Plans and ATC applications until **August 1, 2028**. These engines must comply with the applicable emission limits by **December 31, 2029 or 12 years after engine installation, whichever comes later.**

- Some existing EPA or CARB certified spark-ignited IC engines may already comply with the new Rule 4702 emission limits, but this will need to be verified with the Air District.

The Air District compliance assistance bulletin and application forms for Rule 4702 are available on the District website (www.valleyair.org) at the links below.

District Rule 4702 Compliance Assistance Bulletin
Authority to Construct Application Form
District Rule 4702 Supplemental Application Form - Ag IC Engines
District Rule 4702

Significant Lawsuit with California Dairy Implications Reaches U.S. Supreme Court

Courtesy of Dairy Producers of New Mexico Monthly Newsletter
Ryan Miltner, Attorney for Dairy Producers of New Mexico

It has been some time since I wrote an article that focused principally on a Supreme Court case. But in the past few weeks, the Court agreed to hear a challenge that has potentially far-reaching implications. I think it is worth the time to discuss it a bit.

The case is titled National Pork Producers Council v. Ross and will be argued this fall. NPPC and others challenged California's Proposition 12, a voter enacted law that bans the sale of pork, eggs, and veal in California if the food comes from animals housed in conditions that do not comply with California standards. Those California standards mandate the use of minimum space per animal for hogs, laying hens, and veal. These standards apply even if the animals were raised outside of California and the food products were processed entirely outside of California.

Credit: [Paul Sableman, Wikimedia Commons]

These standards were included in California's Health and Safety Code, relying on dubious assertions that the specific production practices required by the statute will improve the health and welfare of California consumers. Even if one were to accept California's basis for the statutes as minimally rational (which is the usual standard when examining economic regulations), California cannot escape the effects of its laws on interstate commerce. In essence, California has attempted to dictate the animal husbandry practices of farmers located throughout the United States.

Does this sound at all familiar? It might. In 1990, the federal government enacted standards for the composition of fluid milk. California already had different fluid milk standards, and the federal law allowed California to seek an exemption to allow for different standards. In 1996, a separate federal law permitted California to enforce its standards. Later litigation confirmed that California may apply its state standards to milk processed outside of California and sold in the state. Such a law was necessary because only the federal government can enact laws that restrict interstate commerce. This legal doctrine, known as the "dormant commerce clause," generally prohibits states from passing legislation that discriminates against or excessively burdens interstate commerce.

California is no stranger to attempting to use its state laws to impose its standards on the rest of the country or to insulate its agricultural industries from interstate competition. After California obtained its special designation for California fluid milk standards, it attempted to regulate the interstate movement of milk by requiring that milk shipped into California from Nevada and Arizona participate in the California state pooling and quota plan. Affected dairy farmers challenged the imposition of those regulations (and the millions of dollars imposed by California during the challenge), ultimately resulting in a decision that the mechanism which priced milk from out of state under the California pricing and pooling plan was unconstitutional.

And here we are again, with California attempting to impose its state standards on agricultural products produced in other states.

But what are the real implications of this legislation and this most current lawsuit? At the risk of oversimplifying the matter, let us suppose that California's Assembly or voters decided to pass a law that all dairy products sold in California must be produced from cows not raised on CAFOs, or that are only fed a grass-grazed diet, or that are milked not more than twice daily. What would that mean to the cheese produced at plants in New Mexico or the powder and butter made in Portales and Littlefield? It would render it nearly impossible for those products to be sold in the most populous state in the nation. It would prevent products from those plants from being sold in California, require separate product runs, or simply force the plants to source milk (currently produced in New Mexico) that was produced under the standard dictated by California.

These specific examples aside, the question is whether any individual state has the power to dictate how agricultural operations are managed in other states. While this lawsuit directly addresses pork production, the concepts could easily apply to any agricultural product, which is why agricultural organizations across the country are paying close attention to this case.

MPC has worked for years with the Dairy Producers of New Mexico, primarily through the Western States Dairy Producers Association. This article included significant information we thought our members would like to read and we appreciate the Dairy Producers of New Mexico sharing a copy with us to run in our newsletter. – Geoff Vanden Heuvel

USDA Appoints New California Order Market Administrator

Dana Coale, Deputy Administrator of the Dairy Program at USDA, announced yesterday that Peter Fredericks was appointed as the new Administrator of the California Milk Marketing Order. Mr. Fredericks had been serving as the Assistant Market Administrator for the Order since 2019 and has nearly 30 years of experience working with the USDA Dairy Program. MPC looks forward to working with Mr. Fredericks in his new role.

MPC also extends its thanks to Cary Hunter, who served as the Interim Market Administrator since the California Order was established in 2018. Congratulations to Cary for getting the California Order up and running and we appreciate his willingness and attention over the years to answer questions and work together. Best wishes to Cary!