MPC WEEKLY FRIDAY REPORT

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TO: DIRECTORS & MEMBERS
FROM: KEVIN ABERNATHY, GENERAL MANAGER
PAGES: 7

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	+ $.1075	$1.9575	WEEKLY CHANGE	- $.0075	$3.0975	WEEK ENDING 08/03/24		
Barrels	+ $.0750	$2.0050	WEEKLY AVERAGE	- $.0090	$3.1010	NAT'L PLANTS	$1.2156	13,660,090
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY					
Blocks	+ $.0095	$1.9220	DAIRY MARKET NEWS	W/E 08/09/24	$.5000	LAST WEEK ENDING 07/27/24		
Barrels	- $.0165	$1.9470	NATIONAL PLANTS	W/E 08/03/24	$.4672	NAT'L PLANTS	$1.1866	19,800,815

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
AUG 9 EST	No Change	$22.10	$20.41	No Change
LAST WEEK	$22.92 - $23.42	$22.07	$20.40	$21.57

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
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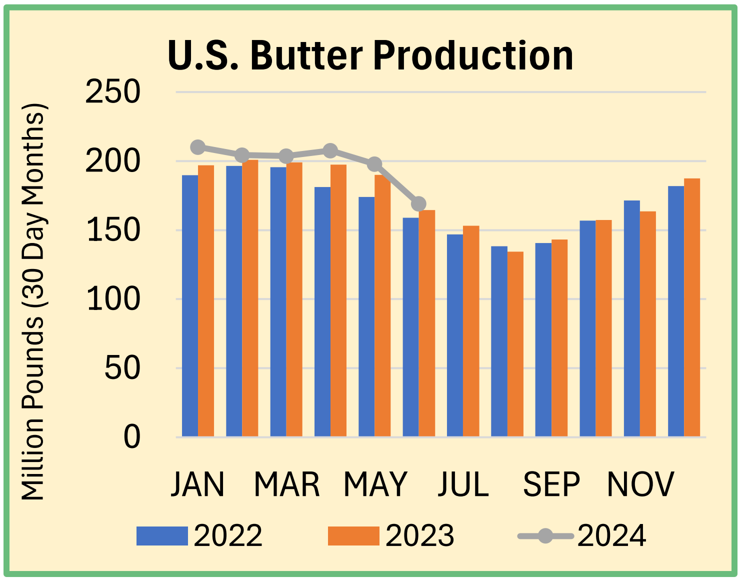
Milk & Dairy Markets

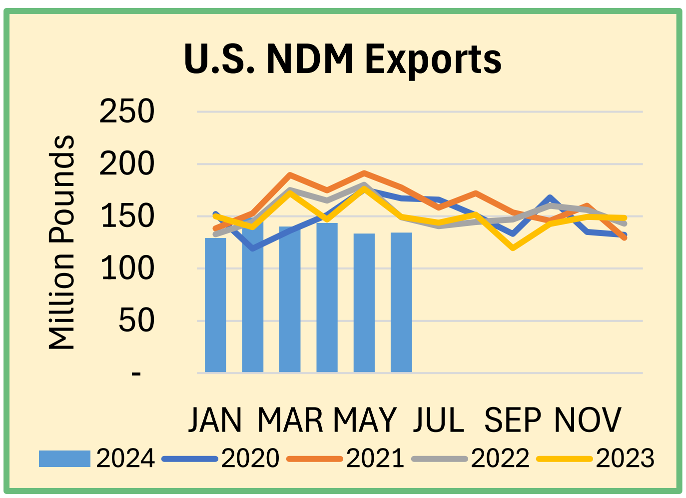
As summer enters its final stretch, milk production conditions have mostly returned to seasonal norms. Hot temperatures continue to challenge output in some areas, but the suffocating heat and humidity seen in recent weeks has largely subsided. Even so, spot milk remains tight, and manufacturers are paying a premium to get their hands on extra loads. *Dairy Market News* reported this week that in the Central U.S., spot premiums averaged $1.25 over Class III prices, up a quarter from last year. Additional pressure on the market is coming from bottling operations which are expected to increase activity in the coming weeks to prepare for the beginning of the school year.



Summer conditions have kept cream supplies relatively snug, even as the butterfat content of the milk supply continues to rise. Higher component levels helped to propel butter production in June up 2.8% year over year to 169.2 million pounds. Even so, butter makers in most parts of the country report that they would happily take on additional cream loads, if they could find them. Instead, stakeholders are increasingly employing strategies such as micro fixing to fulfill their commercial obligations. Despite the seasonal slowdown in production, the butter market defended its position at the CME this week with the spot price giving up just 0.75¢ during the week to finish Friday's session at $3.0975 as 11 loads moved, all of them on Thursday.

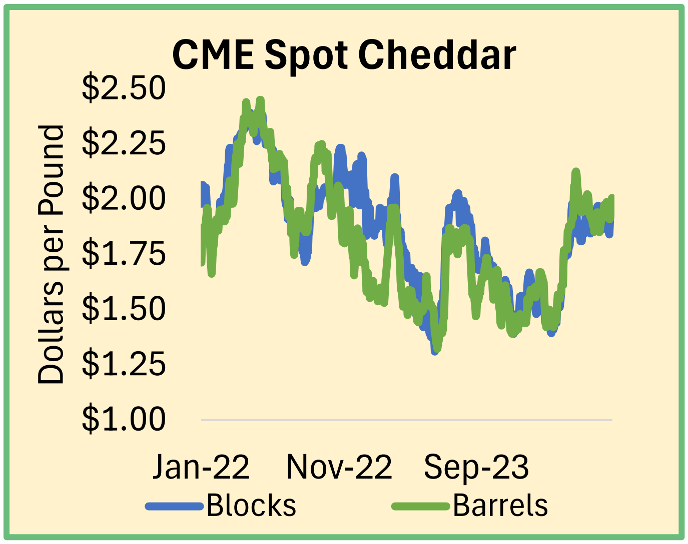
While the butter price remains mostly stable, doubts about demand persist. For the moment, demand has been steady but retail activities for the upcoming baking and holiday season have not yet ramped up. As fall approaches, the market will be watching closely to see how well retailers are stocked and whether they will need to come to the spot market to pick up additional product. Export demand for fat was surprisingly strong in June with exports of both butter and anhydrous milkfat rising. Butter exports increased to 6.8 million pounds in June, up 31.8% year over year due especially to a pop in demand from Canada.

As butter exports rose, shipments of nonfat dry milk (NDM) continued to lag. During June, U.S. exporters sent 134.4 million pounds of NDM abroad, 10% less than in the same month last year and the lowest June volume since 2019. Milk powder shipments have struggled so far this year. Over the first half of 2024 exports were 11.6% less than last year. However, there are some points of optimism as exports in June were up 4% versus prior month on an average daily basis and shipments improved to several destinations in Southeast Asia.



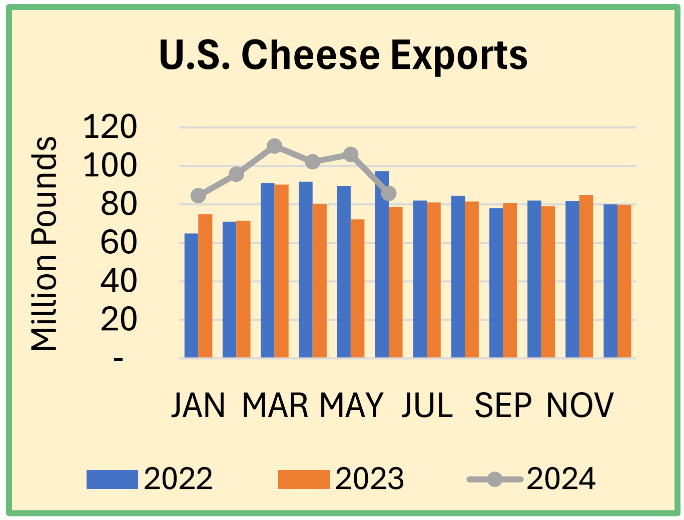
Demand for NDM is indeed weak, but so is supply. Combined production of NDM and skim milk powder totaled just 188.3 million pounds in June, 15.1% less than in the same month last year. The collision of underwhelming supply and demand has kept the spot price for NDM rangebound. After last week's attempt at a rally, the NDM spot price lost value on four of five trading days, giving up 4¢ on the week as it retreated to $1.20/lb. During the week, 27 loads of powder traded hands, including 17 on Tuesday, the one day that the price did not change. Manufacturer's stocks of NDM remain light and could provide fuel to the market if demand takes off.

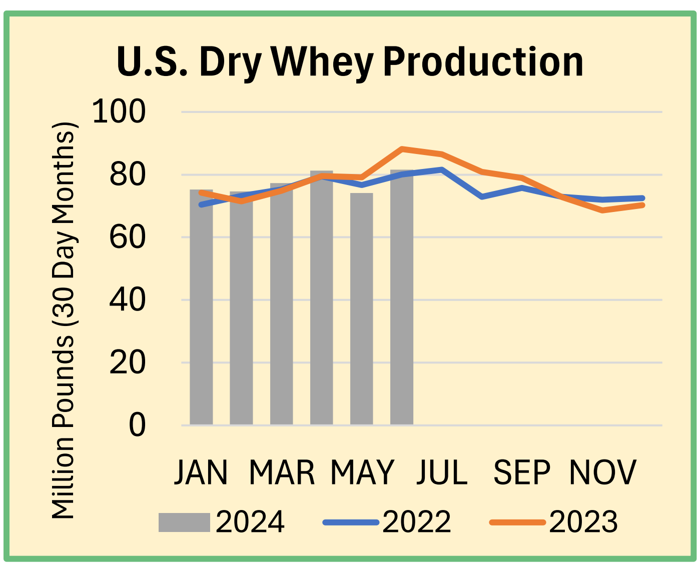
In sharp contrast to NDM, the cheese markets found the traction to bounce back this week. Amid the meltdown in the global equities markets, the Cheddar block price sank to $1.84/lb. on Monday, the lowest price seen since May. The decline was short lived however, as gains later in the week ultimately lifted the spot price for Cheddar blocks to $1.9575/lb. on Friday, up 10.75¢ from prior week. Barrels also appreciated following a dip on Monday, rising to $2.005/lb., an increase of 7.5¢ compared to last Friday. A total of 17 loads of blocks and 7 loads of barrels changed hands during the week.



Cheese has demonstrated staying power at current price levels, even as higher prices threaten to crimp demand. Exports of cheese began to slow in June, likely reflecting the increase in prices seen a couple months earlier when this product was booked. U.S. exporters sent 85.7 million pounds of cheese abroad. While this figure is still up 9.1% year over year, it is markedly lower than the record highs seen in recent months. Mirroring the overall trend, cheese exports to Mexico remained upbeat by historical standards at 31.6 million pounds, but also fell relative to the all-time high of 40.4 million pounds shipped in May. Tighter milk supplies have put pressure on cheese production, which fell 1.4% year over year in June to 1.161 billion pounds. The bulk of the decline was borne by American types of cheese, and especially Cheddar, while Italian varieties fared better.

The dry whey market retreated from the multi-year highs reached last week as the spot price lost ground every day between Tuesday and Friday. When the dust settled, the price came down to 56.25¢ per pound, a 4.75¢ decrease from last Friday. Despite the decline, tension remains in the whey market as slower cheese production has reduced the whey stream. Furthermore, manufacturers continue to favor the production of high protein products. In June, output of whey protein isolates rose 34% year over year while dry whey production fell 7.5%. Export demand for whey was also strong in June, as recovering pork prices in China are once again encouraging hog breeding and increasing the demand for dry whey and permeate for piglet feed.





Grain Markets

The market chaos on Monday ushered money into grain futures as corn and soybeans both settled higher on the day. The rally was short lived however, as both commodities lost value over the balance of the week. DEC24 corn futures settled on Thursday at $3.97/bu., down about a nickel from last Friday's close. In the soybean markets, Thursday's settlement of $10.0825/bu. was nearly 20¢ lower than last Friday. Moderated grain and feed prices should help to prop up producer margins in the coming weeks and months.

Public Forums on Quota Differential Change Wrap Up

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The California Department of Food and Agriculture (CDFA) held three public forums in the past 10 days to explain the upcoming producer referendum to change the quota payouts and assessments.

As I have explained in prior articles here and here, the Producer Review Board (PRB) after a lot of discussion voted to recommend changing the fixed quota payout from $1.70 per cwt. of standardized milk to $1.00 per cwt. The proposal also removes the Regional Quota Adjuster deductions which currently modify the quota payout depending on the county in which the dairy is located, thereby equalizing the quota payment everywhere in the state. Lowering the differential to $1.00 will reduce the amount of the quota assessment charged to all California producer milk from the current approximately 35 cents per cwt. to around 21 cents per cwt. The other issue that is part of this referendum is approval of language clarifying what a "hardship" is in the context of the Quota Implementation Plan.

At the forums, information about the proposal was explained, as well as the referendum process. After a formal presentation was made by CDFA staff, questions and public comment were received. I only attended the Tulare forum, but from reports, I understand that the other two meetings had modest attendance from producers. The comments ranged from objections to lowering the differential to wanting the quota system to be eliminated. Frank Konyn, the member of the Producer Review Board who spearheaded the effort to have this change considered, did attend all three forums, and was able to speak to his motivation and sincere desire to find a middle ground that "takes the edge off" the divisive nature of the quota issue among the California producer community. Frank also explained the justification for setting the new differential at $1.00, which is to approximate what the current contribution of Class I revenue to California producers is. Frank's efforts to bring this potential solution forward were acknowledged and appreciated by several speakers.

CDFA did postpone the scheduled August 15 virtual "hearing" where the final documents and language that will be voted on will be considered. They mentioned two issues that came up in these forums that they wanted to consider before going final. One issue is the suggestion by some forum commenters to have separate votes on changing the differential and the hardship language change. CDFA said they would consider this; there was also objection to separating the two issues expressed by forum participants. The other issue that came up in the forums that CDFA wants a little time to consider is how to address advisory language that was in the PRB proposal that talked about analyzing California Class I revenue as compared to quota payouts in conjunction with the five-year review of the QIP. The department indicated that they thought this delay would only be a couple of weeks and still plan to hold the referendum around the first of October.

Once the ballots are mailed to producers to start the referendum, the voting will continue for 90 days. Each producer will receive a ballot that will state the name of the dairy and the authorized owners, as well as how much milk was produced by that entity in the recent month. At least 51% of the producers will need to vote to have a valid referendum. Then of those who vote, 65% of the producers who produce at least 51% of the voting milk must vote yes, or 51% of the producers who produce at least 65% of the voting milk must vote yes for the referendum to pass.

The ballot will have a postage paid return envelope that voters are encouraged to use. After a producer has mailed their ballot in, the department, if asked, will confirm receipt of the ballot for the producer, but the ballots will not be opened until the 90 day voting period is over. The department will not publicly announce during the voting period how many votes have been cast. They indicated that the counting of the votes will be subject to audit by other staff of CDFA that is not connected to the dairy program. They said that the results of the voting would be announced within 30 days of the close of the referendum voting period. If the referendum is successful, then implementation of the new rules would take place between 30-45 days later.

Achieving Water Abundance: A New Approach Based on Positive, Common Sense Ideas

Courtesy of the California Policy Center

Note by Geoff Vanden Heuvel

Ed Ring is a very thoughtful observer of water and energy policy in California. He just published a whitepaper, "Achieving Water Abundance: A New Approach Based on Positive, Common Sense Ideas." I would highly recommend reading this paper. It turns out that water scarcity is a choice we make as a people. Our political representatives need to be challenged to look at things in a different way. This is not a partisan issue, this is a quality of life issue, not just for people, but also for the environment.

There is a lot of talk in this election about democracy. That talk implies that we as citizens should have something to say about how our laws and regulations are made. We can be very thankful that previous generations of Californians made the choice of building water infrastructure projects that enabled us to build the economy and society that has made California the powerhouse it is today. But about 40 years ago, a mindset of scarcity and limits began to take root, and decisions were made to curtail the use of water for people. Certainly, the health of the environment needed to be addressed, but much of what has been done has not yielded environmental benefits and has created scarcity. Is that the only choice we have? As we look to the future, Ed Ring argues that it is not and lays out the path in a commonsense way to an abundant water future.

Read the full policy paper here.

Water Blueprint for the San Joaquin Valley Featured on ‘We Grow California’ Podcast

Courtesy of [We Grow California]

Jason Phillips, Chief Executive Officer of Friant Water Authority, and Water Blueprint for the San Joaquin Valley Blueprint Board Member joins the “We Grow California” podcast for an interesting and thought-provoking conversation. Jason covers what the Blueprint is, who is part of it, why it is needed, new partnerships, and top priorities. He also explains how the Blueprint works with the Central Valley’s Groundwater Sustainability Agencies.

Listen to the episode here.

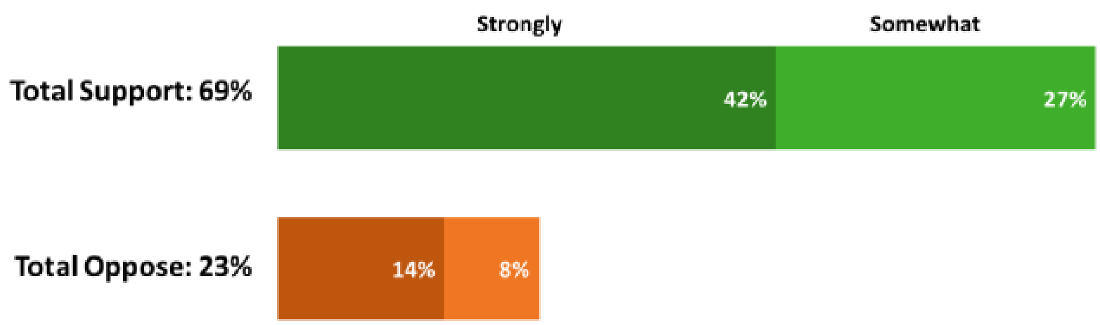
Voters Strongly Support State’s Dairy Methane Reduction Efforts

Courtesy of Dairy Cares

Recent statewide and San Joaquin Valley voter research demonstrates that California’s current incentive-based programs to reduce livestock methane are broadly supported. This means voters share the views of state and local elected leaders who support the incentive-based approach.

As shown below, the current incentive programs provided by the state to California’s dairy farmers for reducing greenhouse gas emissions and producing renewable natural gas are strongly supported.

Figure 1 – Statewide support for/opposition to climate incentives for CA dairy farms



The current programs are supported by **69% of voters statewide with 42% of voters “strongly” in support**. Support is strongest among democrats (**80%**) and independent voters (**73%**).

Voters also recognize farming and food production as essential to the state’s economy with **86%** of voters describing the industry as “very important,” leading all industries by a wide margin.

California has implemented a highly successful incentive-based approach to dairy methane reduction. Support for these incentives is clear and unmistakable. Two-thirds of voters (**65%**) statewide and three-quarters (**72%**) in the San Joaquin Valley oppose having the state directly regulate dairy farms and eliminate current incentive programs.

Opposition to other direct regulatory schemes is also widely unpopular:

- **79% oppose having government directly limit meat and dairy consumption**
- **74% oppose placing a new tax on meat and dairy products**
- **63% oppose limiting the number of dairy cows farmers can milk**
- **58% oppose limiting the expansion of dairy farms**

Finally, **64%** of statewide voters believe their food prices would increase if incentives are eliminated. **Concern about the cost of food is even higher among voters in the San Joaquin Valley, with 77% describing it as a crisis or very serious problem.**