MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	+ $.0825	$2.1725
Barrels	+ $.0575	$2.2050
Weekly Average Cheddar Cheese		
Blocks	+ $.0615	$2.1590
Barrels	+ $.0151	$2.1795

Chicago AA Butter		
Weekly Change	+ $.0950	$3.0100
Weekly Average	+ $.0342	$2.9755
Dry Whey		
Dairy Market News	w/e 07/01/22	$.5550
National Plants	w/e 06/25/22	$.5975

Non-Fat Dry Milk		
Week Ending 06/25/22		
Nat'l Plants	$1.8389	19,600,745
Last Week Ending 06/18/22		
Nat'l Plants	$1.8204	17,414,537

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
JUL 1 Est	**$27.47 - $27.97**	**$26.67**	**$22.42**	**$25.68**
JUN '22 Final	**$27.47 - $27.97**	**$26.65**	**$24.33**	**$25.83**

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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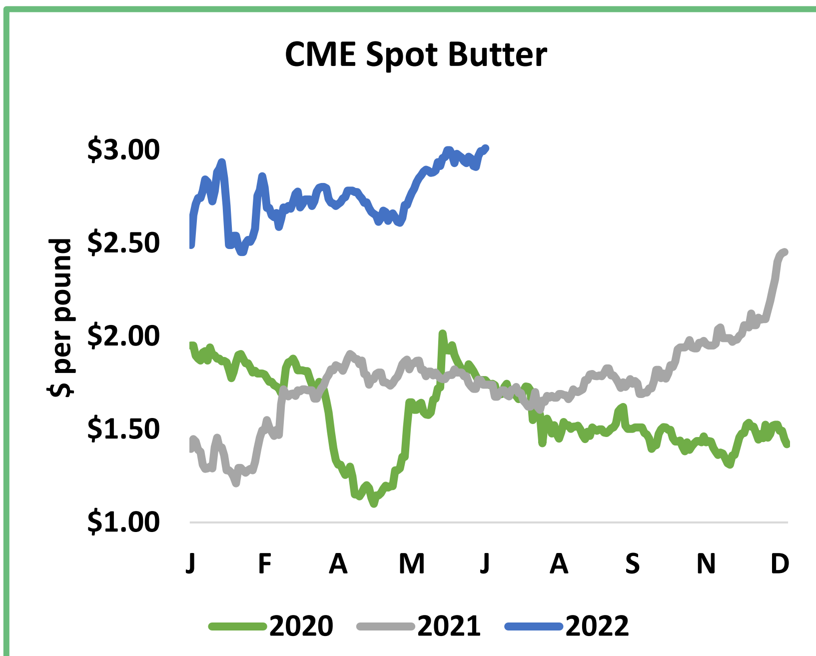
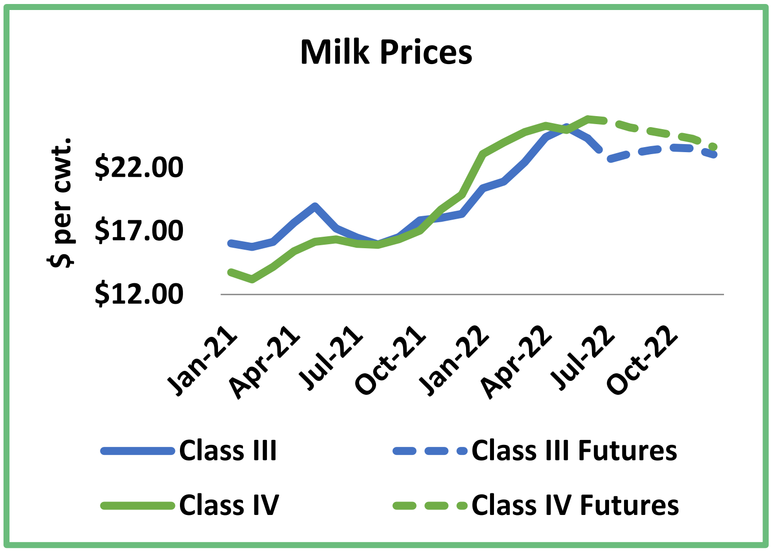
Milk & Dairy Markets

The spot markets sizzled in Chicago this week, but the futures fizzled. CME spot butter leapt 9.5¢ to $3.01 per pound. Cue the fireworks! That's the highest spot butter price since 2015. The other spot products also climbed, albeit with less cause for fanfare. Spot nonfat dry milk (NDM) rallied 1.25¢ to $1.8025. Cheddar blocks jumped 8.25¢ from last week's lows to $2.1725. Barrels added 5.75¢ and reached $2.205. Whey powder gained 2.5¢ and closed at 50¢.

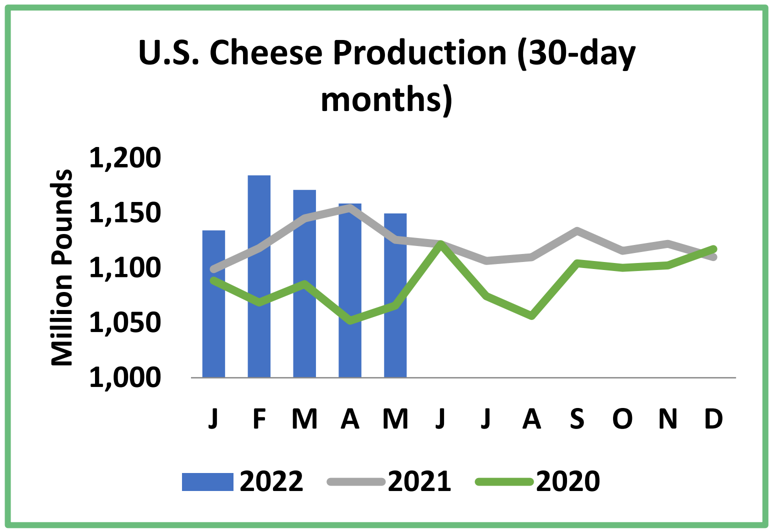


Nonetheless, milk futures struggled. Class III contracts closed deep in the red, led by a $1.08 drop in the August contract. October Class III managed to cling to the



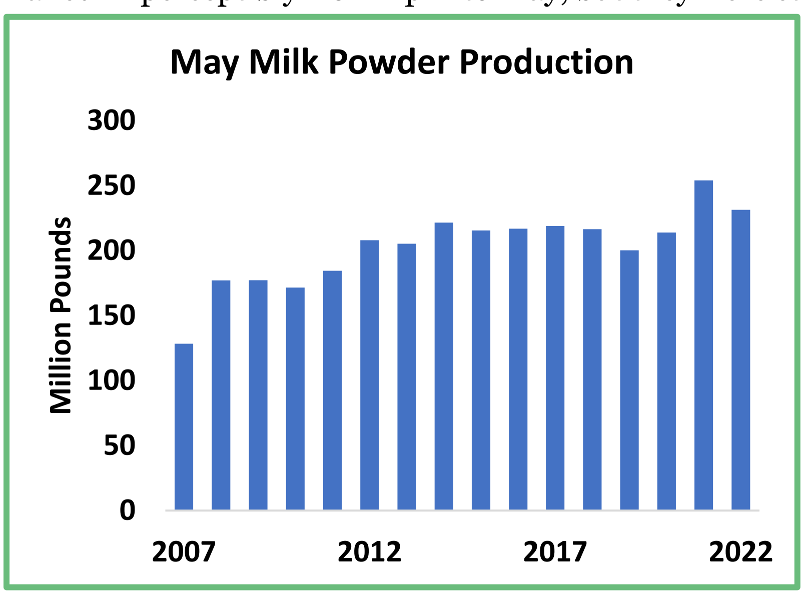
$23 mark, but all other Class III contracts fell short. USDA announced the June Class III milk price at $24.33, down 88¢ from the all-time high set in May but up $7.12 from June 2021. Those astoundingly high prices help to explain why Class III futures faltered despite the strength at the spot market. There is no shortage of cheese, and the futures simply got ahead of themselves.

U.S. cheese output tipped the scales at 1.19 billion pounds in May, up 2.1% from a year ago and an all-time high for the month. Mozzarella production jumped 4.6% from May 2021, suggesting that pizza demand and fresh cheese consumption was high in the final months of the school year. Cheddar output fell 3.7% below the all-time high set in May 2021 but was still robust compared to typical monthly production.



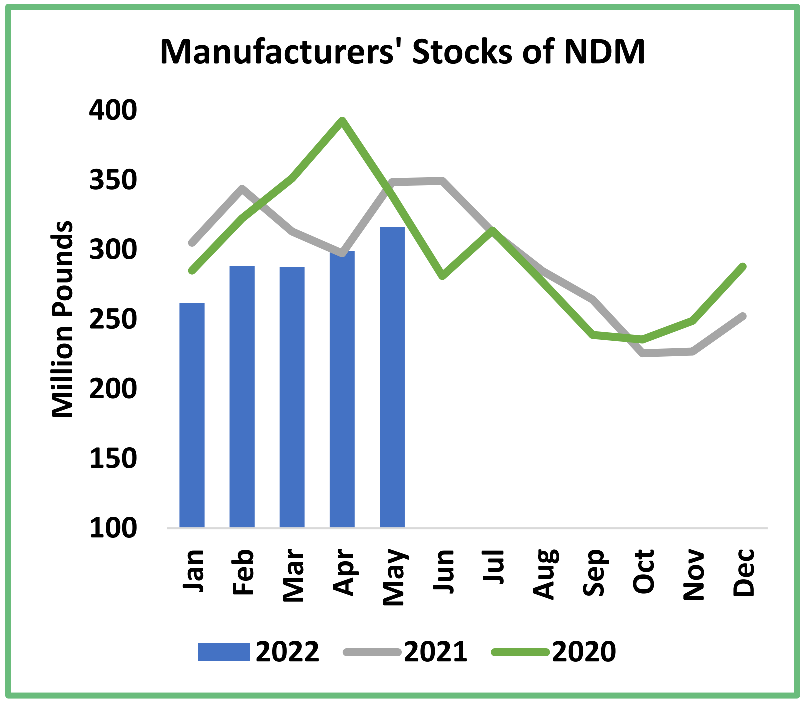
It's impressive to see a 2.1% year-over-year increase in cheese output when milk production was 0.7% lower than in May 2021. But in a world where freight is expensive and unreliable, it is unsurprising. Milk output grew in the cheese states in the Upper Midwest, even as it fell in the rest of the nation. Vats are full as cheesemakers in Wisconsin and Minnesota enjoy steep discounts on spot milk. In a typical year, much of the excess milk would move to Class IV balancing plants to the east, but this is not a typical year.

More cheese meant more whey. Production of dry whey and whey protein concentrates both climbed well above year-ago levels. Whey powder stocks waned imperceptibly from April to May, but they were still 7.5% higher than last year.



Butter churns and milk powder driers felt the brunt of the impact from the May milk production deficit. Butter output fell 0.7% from the prior year to 181.7 million pounds. Combined production of NDM and skim milk powder (SMP) fell 8.9% short of last year, to 231.3 million pounds. But, for both butter and powder, comparisons to last year are a bit misleading. Excluding May 2021, butter and NDM/SMP output posted the highest May volumes on record. Thankfully, demand has largely kept pace. Butter stocks grew at a typical rate in May. Manufacturers' stocks of NDM increased from April to May but are now 9.3% below year-ago levels. Still, stocks are not tight, and buyers are reportedly backing away whenever NDM approaches $1.80.

USDA announced the June Class IV milk price at an all-time high of $25.83 per cwt. No matter how their milk is used, dairy producers will be cashing some massive milk checks over the next month. Going forward, producers in Class IV areas will have an advantage. July Class IV futures climbed 38¢ this week to $25.68. The other Class IV contracts finished in the red, but losses were smaller, on average, than for Class III contracts, and third-quarter futures are holding well above $24. That's more than enough to offset sky-high feed costs, and dairy producers got a little relief on that front as well.



Grain Markets

The grain markets were routed this week. USDA confirmed that corn and soybean supplies on June 1 were quite a bit larger than last year, and slightly higher than the average crop analyst had expected ahead of Thursday's quarterly Grain Stocks report. Inventories are tight, to be sure, but old crop stocks are perhaps not scarce enough to justify $8 corn or $17 soybeans.

USDA also gave an update on the crop mix after surveying farmers for its much-anticipated Acreage report. In March, farmers told the agency that they planned to plant more soybeans than corn this year. But they changed their minds. Soaring grain prices overcame doubts about the cost and availability of fertilizer, and farmers switched to grains of all varieties. USDA now estimates that farmers planted 89.9 million acres of corn this year, up 40,000 acres from their March survey, just as the trade expected. USDA puts soybean area at 88.3 million acres, down 2.7 million acres from March intentions and much lower than crop analysts anticipated. Soybeans lost a little ground to corn, while cotton, small grains, and sunflowers accounted for the bulk of the decline. In Minnesota and the Dakotas, where the wet spring prolonged the planting season long past the ideal window for row crops, farmers planted 340,000 more acres to sunflowers than they did in 2021.

The crop markets headed into the long weekend with more certainty about which crops are in the ground and with a favorable forecast. It's been hot and mostly dry for a while, but the next two weeks look quite wet. In some areas, the June stress has done lasting damage, and crop yields will not reach their full potential. But July and August weather matter a lot more, and regular showers should revive thirsty crops as they march toward the crucial pollination period. If the rains fall as expected, the bears will remain charge of the grain pits.

September corn settled today at $6.1975 per bushel, down 73¢ this week to its lowest price since February. December corn futures, which project the cost of grain when the harvest arrives, plummeted 66.5¢ to $6.075. Despite the surprisingly steep drop in soybean acreage, soy futures lost ground too. August soybeans closed at $15.0975, down 28.5¢. But meal costs climbed. August soybean meal finished at $422.10 per ton, up nearly $11 this week.

Water Blueprint Hosts CDFA Secretary, State Water Resources Control Board, DWR Leaders; Outlines Need for Infrastructure Investments

Courtesy of [Water Blueprint for the San Joaquin Valley]

Report from Geoff Vanden Heuvel, MPC Director of Regulatory and Economic Affairs

State agricultural and water leaders Gosselin, Ross and Ekdahl participate in the Water Blueprint meeting at CSU, Fresno.

The Water Blueprint for the San Joaquin Valley serves as the united voice to champion water resource policies and projects to maximize accessible, affordable, and reliable supplies for sustainable and productive farms and ranches, healthy communities, and thriving ecosystems in the San Joaquin Valley. MPC has been involved with the Blueprint effort since its inception and I've had the pleasure of serving on the Board of Directors, working with a talented group of individuals across agriculture, water agencies and government.

Our work has included identifying potential surplus water supplies, along with initial evaluations of routes for conveyance facilities that would bring water to shortage areas in such a manner to assist rural communities and support environmentally valuable lands. The effort is complex, and solutions will potentially be very expensive. However, the cost of inaction is also expensive.

MPC's Geoff Vanden Heuvel provides a technical committee report from the Water Blueprint for the San Joaquin Valley.

On June 22, the Blueprint held its first Large Group meeting of 2022 with more than 100 stakeholders participating in a two-hour meeting at California State University, Fresno. Most notably, the group hosted state agriculture and water leaders, including **California Department of Food and Agriculture Secretary Karen Ross, Department of Water Resources Deputy Director of Sustainable Groundwater Management Paul Gosselin, and State Water Resources Control Board Deputy Director of the Division of Water Rights Erik Ekdahl.**

Several reports were given, including one by me on behalf of the Blueprint's Technical Committee. An overview of a much-needed implementation plan for strategic investments was also discussed. These near-term investments include:

Interregional Water Planning ($10 million)

- Continued collaborative region planning to ensure the development of a multi-beneficial water strategy for the Valley.
- Studies and pilot projects to identify best practices for diverting surplus flood water from the Delta.

Conveyance ($835 million)

- Allocate $585 million to the Department of Water Resources (DWR) for grants to repair Central Valley conveyance facilities impacted by subsidence.
- Apportion $250 million to DWR for grants to support local and regional water conveyance projects.

Regional Resilience and Sustainability ($1.5 billion)

- There have been 150 groundwater sustainability projects that have been identified to expedite that will capture local storm water, increase groundwater recharge, and build resiliency, along with incentivizing water recycling.

Multi-Benefit Land Repurposing ($1 billion)

- Allocate funds to groundwater sustainability agencies to acquire and repurpose land contributing to subsidence that affects infrastructure such as canals, drinking water wells and transition those areas to land trusts and other non-governmental organizations. These firms would acquire land for ecosystem restoration.

You can read more about the Blueprint's plan, including a letter sent to Governor Newsom, Senate President Pro Tem Toni Atkins, and Assembly Speaker Anthony Rendon, here.

NMPF Update: Rail Service Action Needed; Ag Shippers Bill Introduced

By Jim Mulhern, President & CEO
National Milk Producers Federation

NMPF Generates Support for Congressional Letter on Rail Service
Continued problems with rail delivery of key agricultural inputs have been yet another manifestation of the troubled supply chain. This week 50 members of Congress urged the Surface Transportation Board (STB) to help rectify the situation. Given the problems many dairy farmers have had with access to feed grains and fertilizers, NMPF worked to generate support among House members who signed the letter,

The letter to the STB notes that "the overall agricultural sector relies on rail to be consistent in pre-positioning fertilizer products ahead of busy seasons and in facilitating the continuous consumption of grain products. Therefore, the ability for the fertilizer and grain and feed industries to ship by rail is imperative for curbing the impending food shortages many parts of the world are facing." The letter went on to explain that "Class I rail carriers may run the risk of jeopardizing family run farms and increasing the cost of food for consumers" if they place onerous restrictions on shippers without customer consultation.

House Members Introduce Ag Shippers Bill
The need to improve timely movement of agricultural products is also the focus of new legislation this week from California Democrats John Garamendi and Jim Costa, who introduced a bill to improve the handling of U.S. ag exports. NMPF has endorsed the American Port Access Privileges Act, under which ships arriving at U.S. ports would be given preferential treatment for delivering their cargoes.

This new preferential berthing will reward ocean carriers that serve both importers and American exporters by moving those vessels to the front of the queue for unloading and loading. It will similarly incentivize ocean carriers to make second-leg voyages to ports like the Port of Oakland, which is critical for California's agricultural exporters. Their bill is a follow-on to the Ocean Shipping Reform Act that was recently signed by President Biden.


Happy
4th of July!