

MPC WEEKLY FRIDAY REPORT

DATE: JULY 21, 2023
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 8



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	+\$.3025	\$1.7825	WEEKLY CHANGE	+\$.0325	\$2.5825
Barrels	+\$.2625	\$1.6550	WEEKLY AVERAGE	+\$.0480	\$2.5595
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 07/15/23	
Blocks	+\$.1475	\$1.6335	DAIRY MARKET NEWS	W/E 07/21/23	\$.2700
Barrels	+\$.1135	\$1.5140	NATIONAL PLANTS	W/E 07/15/23	\$.2616
				LAST WEEK ENDING 07/08/23	
				NAT'L PLANTS	\$1.1674 18,999,125
				NAT'L PLANTS	\$1.1787 13,414,751

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 21 EST	No Change	\$19.11	\$13.81	\$18.28
LAST WEEK	\$18.92 - \$19.42	\$19.10	\$13.82	\$18.17



Milk, Dairy and Grain Market Commentary

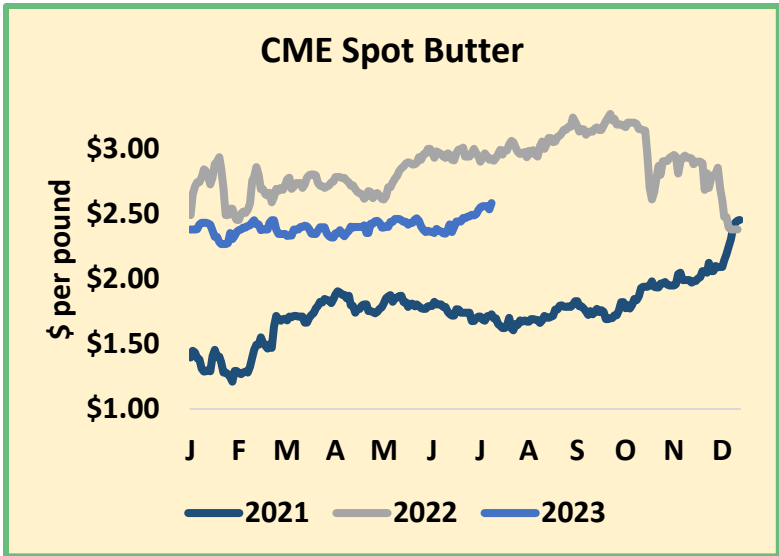
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Like the mercury in Phoenix, the dairy markets just kept climbing this week. The heat wave began in the most unlikely of places. CME spot Cheddar staged a torrid rally on Thursday and blazed higher on Friday as well. Cheddar blocks jumped 30.25¢ this week to \$1.7825 per pound. Barrels leapt 26.25¢ to \$1.655. While cheese sizzled, butter smoldered. CME spot butter climbed 3.25¢ to \$2.5825, a new 2023 high. The powders warmed up a little. Spot dry whey rallied a half-cent to 25.25¢. Spot nonfat dry milk (NDM) gained 1.5¢ this week and reached \$1.12.

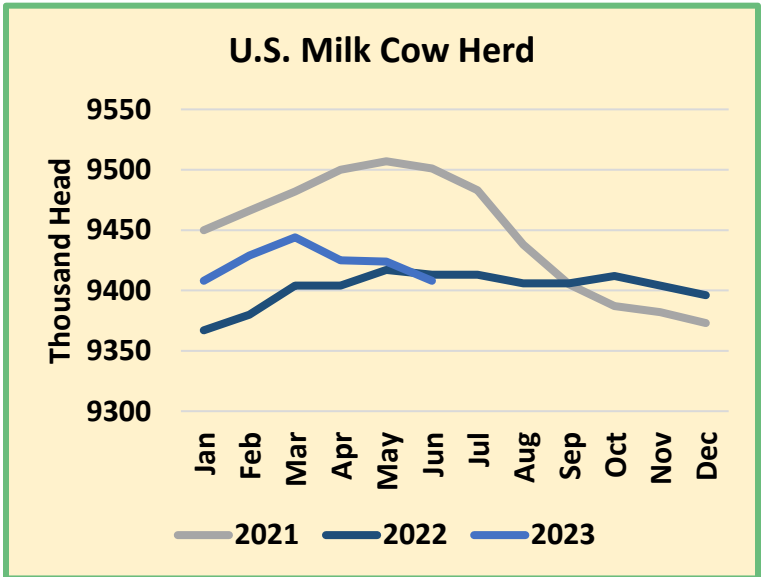
CME Spot Cheddar Blocks



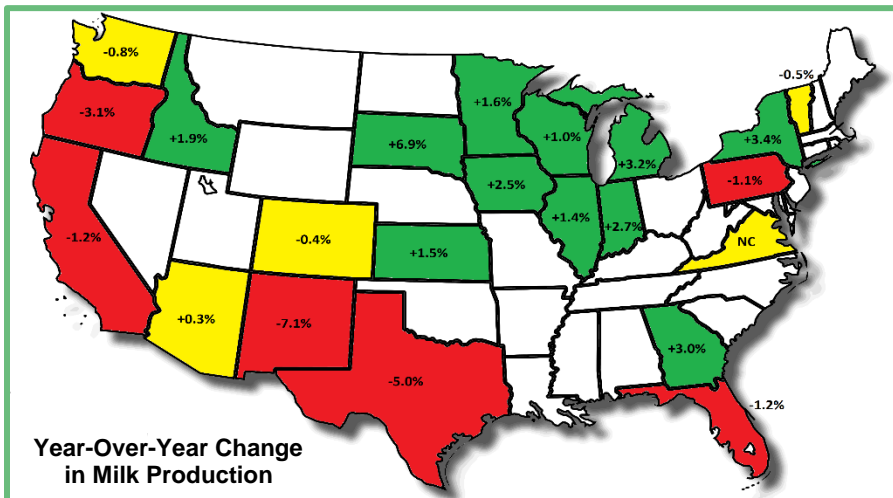


The feverish cheese market gave Class III prices a huge boost. While it was too late to help the pitiful July price, August and September Class III gained \$1.62 and \$1.75, respectively. Fourth-quarter futures also moved significantly higher. The futures now project a third-quarter Class III average of \$16.06 per cwt., with the fourth quarter at a more palatable \$18.36. Class IV prices advanced with considerably less drama. Most contracts finished about 30¢ higher than last week, pushing the third-quarter average up to \$18.43.

The dairy markets seem to be caught up in the enthusiasm from the bullish Milk Production report. USDA showed June milk output at 18.916 million pounds, down 4 million pounds from June 2022. The year-over-year difference is almost imperceptible, but it is a deficit, and that marks an important shift in trend. The trade had expected modest growth last month, and it is bracing itself for a steeper decline in milk output in July, as poor margins, high slaughter volumes, and sweltering temperatures continue to exact a hefty toll on U.S. milk production.



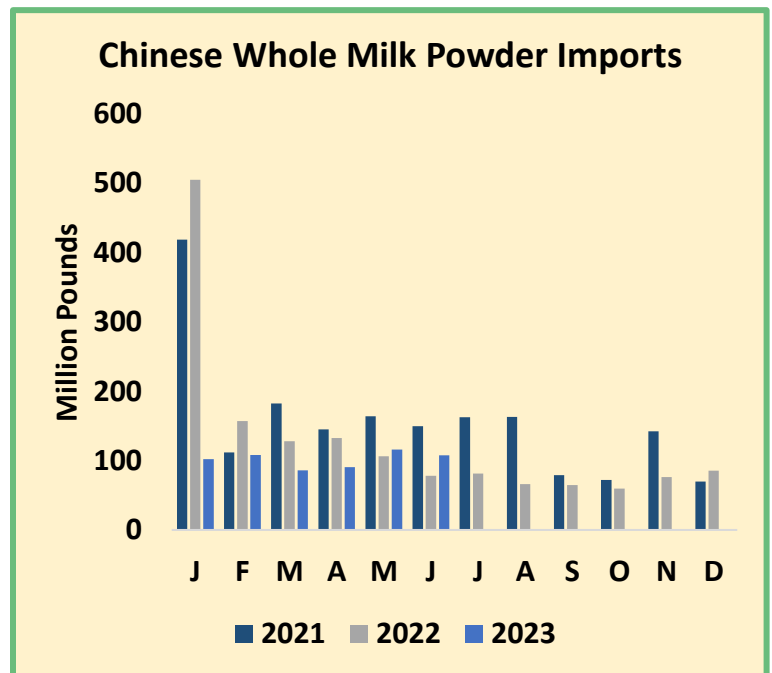
Dairy producers in the Southwest are suffering worst, both from the current heat wave and from several months of low milk prices and punishing feed costs. According to USDA's latest assessment, 15,000 cows left the states of Texas and New Mexico last month alone. The herd is also shrinking on the West Coast. There were 37,000 fewer cows in Washington, Oregon, California, New Mexico, and Texas last month than there were the year before.



Milk continues to gush in the northern dairy states. Steep declines in Southwestern milk output were nearly offset by 1.4% growth in the Northeast, 1.8% growth in the Midwest cheese states, and a strong 3.1% increase in aggregate milk output in the Mideast states of Michigan, Indiana, and Ohio. But

even in these areas, growth will likely slow in the second half of the year. Flooding has hampered milk output and disrupted milk haulers and processors in the Northeast. In the Midwest, the mild start to summer is long past, and sweltering temperatures will migrate northward by next week. Producers in the cheese states are exceedingly discouraged after cashing June milk checks that were watered down by the regional milk surplus. All these factors have finally put a halt to expansion in the Midwest. In fact, not a single major dairy state added cows in June. There are still a lot more cows in the heartland than there were a year ago, but growth in milk output will slow going forward now that the head count is no longer climbing. USDA estimates that the national dairy herd shrunk by 36,000 head in the second quarter, including a 16,000-cow drop last month. The dairy herd now stands at 9.408 million head, down 5,000 head from June 2022.

Slower milk output is already curtailing U.S. milk powder production in some areas, which should help to put a floor under the powder market. But there are still concerns about demand. While Chinese whole milk powder (WMP) imports bested year-ago volumes in June, they were still well off the pace necessary to relieve anxieties about China’s diminished appetite for foreign milk powder. Tuesday’s Global Dairy Trade (GDT) auction didn’t calm any fears. WMP prices dropped 1.5% at the GDT and SMP values slipped 0.6%. With China still largely on the sidelines, competition for global milk powder imports will be fierce as New Zealand milk output ramps up seasonally and Europe remains in growth mode. European milk output was 0.8% larger in May than the year before.



Closer to home, the bulls seem to be in charge after news of the June milk production deficit. But it will be a long time before there is a shortage of milk in the cheese states. That suggests that this week’s cheese market rally could flame out rather quickly. The strong recovery in Class III pricing offered a glimmer of hope for disheartened dairy producers. But amid heavy inventories and tepid global demand, it’s too soon to count on continued gains in 2023 prices. The only thing guaranteed is more volatility ahead.

Grain Markets

The grain markets were wild once again this week, led by violent moves in the wheat market. Russia failed to renew the agreement that would allow grain to leave safely from Ukrainian ports on the Black Sea. The Russians added injury to insult with attacks that destroyed both grain and the infrastructure required to move it. Wheat futures jumped sharply higher at midweek but then settled back. Corn followed wheat back and forth, and it got an additional boost from the forecast, which promises hot, dry weather next week. December corn settled at \$5.3625, up 22.5¢ from last Friday. November soybeans closed at \$14.0175, up 31¢. August soybean meal finished at \$442.80 per ton, up nearly \$20.



SGMA Inadequate Subbasins Update

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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There is intense activity going on right now in the Groundwater Sustainability Agencies (GSAs) whose plans were deemed “inadequate” by the Department of Water Resources (DWR) this past spring. Sustainable Groundwater Management Act (SGMA) enforcement for the six inadequate subbasins was transferred to the State Water Resources Control Board (SWRCB).

A SWRCB staff report to the State Board last month had this summary: “the six basins with inadequate GSPs, from north to south, are the **Chowchilla, Delta-Mendota, Kaweah, Tulare Lake, Tule, and Kern County** subbasins. Deficiencies DWR noted include, but are not limited to, insufficient sustainable management criteria, the potential for dewatering of drinking water wells, impacts of subsidence, and lack of coordination amongst GSAs.”

The SWRCB staff has put out a schedule for conducting a “probationary hearing” for each of the subbasins starting in **December of 2023 with the Tulare Lake Subbasin**, then the **Tule Subbasin in January 2024**, the **Kaweah Subbasin in March** and the **Kern Subbasin in April**, the **Delta Mendota Subbasin in May** and the **Chowchilla Subbasin in June 2024**. It is important to note that while there are multiple Groundwater Sustainability Agencies in each of these Subbasins, the State is treating each subbasin as a unit.

Here is what I am learning from the public meetings I attend about where these subbasins are in addressing the items identified by DWR.

Tulare Lake points out that their GSP set minimum thresholds (MTs) at groundwater levels that would be protective of domestic wells. DWR criticized them for not considering agriculture and industrial wells in setting minimum thresholds, but the Tulare Lake folks pointed out that the domestic wells were shallower so by protecting the domestic wells they are also protecting the deeper ag and industrial wells. The subsidence deficiency is much harder to address and given the public attention subsidence in Tulare Lake received over the past number of months, this issue will require significant work to address. It is pretty well known that subsidence is caused by pumping from below the Corcoran clay in the deep aquifer. There is and has been a lot of groundwater production from those deep wells. The Tulare Lake technical people have been given the task of understanding how much production is occurring below the clay for the purpose of eventually determining how much this production must be curtailed to slow down and eventually stop subsidence.

At the **Tule Subbasin**, most of the GSAs set very low MTs. However, one GSA in Tule set their MTs higher. This presents a coordination problem right off the bat. The GSA that set the higher MT has access to a lot of surface water; the other GSAs have less surface water. So, coordinating the MTs in the subbasin is job one. It is likely the MTs will have to be significantly raised to satisfy the SWRCB. This will likely have an impact on how much overdraft will be allowed in the transition period from now until 2040 when SGMA requires everyone to be sustainable. The subsidence issue is also a big deal in the

Tule Subbasin. The technical people are in the middle of trying to understand the amount of pumping below the Corcoran clay and devise a strategy to reduce that pumping and slow down the rate of subsidence with the goal of eventually eliminating it. One other wrinkle that could become an issue: The GSA with the good surface water supply had agreed to cover about 7,500 acres of irrigated land that was outside of their boundaries as part of their GSA on behalf of Tulare County. Two weeks ago, the GSA terminated that agreement and is no longer willing to cover those 7,500 acres. SGMA requires all land in the Subbasin to be covered by a GSA. If another GSA does not cover those 7,500 acres then the subbasin for that reason alone would be in probation.

The three GSAs in **Kaweah Subbasin** were not coordinated in their MTs. They have now brought in additional technical resources, and those engineering firms, with the managers, are working collaboratively to update their hydrologic modeling with the goal of being able to adjust MTs for water levels and subsidence that will allow them to come back into compliance. The modeling work is not completed. When it is, folks will have to see what adjustment to pumping plans will have to be made to comply with the new MTs for both water levels and subsidence. They are also working on implementing domestic well mitigation programs. Those are out for public comment right now.

The **Kern Subbasin** has about 19 GSAs and submitted at least five Groundwater Sustainability Plans (GSPs). They cover over 1 million acres and are not coordinated in their MTs. Kern is a complicated subbasin with access to significant local, state and federal surface water resources. They also have significant groundwater banking operations. A formal coordination committee has been established and is the vehicle for bringing all of the various parts of the subbasin together. There are several highly capable hydrologic engineering firms that are working collaboratively to develop a common approach for setting subbasin-wide MTs. The goal is to have the technical people start the process and propose options that the GSAs can evaluate for impacts to their specific area. The hope is that they will be able to find a unified approach that everyone can live with. While SGMA promotes local control, it requires coordination within a subbasin with your neighbors. Different GSAs are in very different positions with regards to their water supplies. Finding a common approach will require painful choices.

The **Delta Mendota Subbasin** has 19 GSAs and lack of coordination between their GSPs in addressing MTs was the major concern of DWR. The Delta Mendota Subbasin spokesman at the SWRCB meeting last month said that they were reorganizing and committing to put together a single GSP for the entire subbasin that will address the coordination issue as well as coming up with MTs that will meet the requirements. The State Board members were quite complementary of that direction, but of course it will take enormous effort to get everyone on the same page.

The **Chowchilla Subbasin** took a very aggressive approach. Chowchilla decided to adopt the **Merced Subbasin** approach which had been accepted by DWR and essentially raised their MTs to 2015 groundwater levels. This is a very ambitious MT level considering that current groundwater levels in much of Chowchilla are BELOW those MTs and will therefore need to be raised in order to meet the MT requirement. For this, Chowchilla proposes interim milestones that will require the raising of water levels over the next 17 years. The Chowchilla GSAs also made a commitment to slow the rate of subsidence over the transition period to essentially zero. A domestic well mitigation plan was also developed. All these changes were adopted by the Chowchilla GSAs very quickly and submitted to the

State Board staff for feedback. That feedback was as follows: The State Board was concerned about the ability of Chowchilla to actually raise their water levels in the interim. They wanted more explanation about how the GSA planned to slow the rate of subsidence and they really disliked the \$30,000 per well cap on spending to mitigate a dry domestic well. So, more work to do.

These subbasins find themselves in a very difficult position. Regulating groundwater under SGMA is a new process and so there are no historical precedents to reference. The State Board members ultimately hold the power to vote to put a subbasin under probation which would trigger a direct relationship between landowners and the state. There is not a lot of clarity about how this would work and there is great fear that going down this route will stop much of the very positive momentum toward sustainability that has been achieved already. My assessment is that everyone is genuinely working to reach sustainability. Unfortunately, these are very tough situations and as human beings we tend to try to avoid painful decisions. SGMA at its core is about allocating pain. The inadequate subbasins are living that reality right now. I continue to be impressed by the people engaged in this process. Folks are taking it seriously and making hard choices. I continue to be optimistic that in the end we will get where we need to be.

State Water Resources Control Board

Members of the State Water Resources Control Board are appointed by the Governor and confirmed by the State Senate to a four-year term. These five individuals by a majority vote have the authority to place the inadequate subbasins on probation.

Current Members

E. Joaquin Esquivel, Chair

Dorene D'Adamo, Vice Chair

Sean Maguire

Laurel Firestone

Nichole Morgan

Learn more about SWRCB members [here](#).

Timely Water Reading

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

For those interested in digging into other water news, I'm sharing these articles from the [Family Farm Alliance](#) and [California Policy Center](#).

Senate ENR Water and Power Subcommittee to Hear Testimony on Western Water Bills
[Courtesy of the Family Farm Alliance](#)

The Senate Energy and Natural Resources (ENR) Water and Power Subcommittee yesterday heard testimony on sixteen bills dealing with the impacts of drought across the West, including restoration of fish habitat and permitting new hydropower projects.

The Family Farm Alliance prior to the hearing submitted [written testimony](#) that addresses most of the bills that will be heard.

Legislation addressed in the Alliance testimony included:

- [S. 2161](#), the "Canal Conveyance Capacity Restoration Act," from Sen. Dianne Feinstein (D-CA), that would authorize \$653 million to restore three San Joaquin Valley canals impacted by subsidence and old age, and \$180 million for the restoration program on the San Joaquin River.
- [S. 2162](#), the "Support to Rehydrate the Environment, Agriculture and Municipalities (STREAM) Act," from Sen. Feinstein, which would increase water supply and modernize water infrastructure across the West.
- [S. 2202](#), the "Restore Aging Infrastructure Now Act," from Sen. Feinstein, would draw from \$3.2 billion appropriated to the Bureau of Reclamation in the bipartisan infrastructure law to help pay for upgrades to aging Reclamation-owned canals that provide for additional public benefits, including drinking water for disadvantaged communities.

Continue reading [here](#).

What's Current? [California's Water & Energy Future with Edward Ring](#)

[A New Way to Safely Harvest Water from the Sacramento-San Joaquin Delta](#)

The San Joaquin Valley Blueprint, a collaborative project involving water agencies and community leaders, has come up with a fascinating proposal. Cut channels in a few Delta islands and fill the beds with rocks that cover a huge number of French Drains. During storms, an estimated 30,000 acre feet per day can be harvested from 200 acres without pumps harming fish, and the water can be stored in the valley's capacious aquifers. A pilot project is being developed to further evaluate this concept.

[How Much Water Does California Agriculture Consume?](#)

A thought provoking new study from the California Farm Bureau offers a new perspective on water use by agriculture. Taking into account so-called "uncaptured water," which is typically not counted even though it benefits the environment, in an average year, agriculture in California only uses 15 percent, the urban share is only 4.5 percent, and all of the rest is reserved for the environment.

[How Do You Solve a Problem Like CEQA?](#)

Despite plenty of other environmental safeguards, the California Environmental Quality Act has morphed into a beast that stops more good projects than bad, making everything in California cost more, including energy, water, and housing. Want to get rid of CEQA? Here's one idea – a ballot initiative with brevity only matched by its power: "Section 1. Division 13 (commencing with Section 21000) of the Public Resources Code is repealed."

Continue reading [here](#).

Reminder: Producer Review Board Meeting July 31

Courtesy of the [California Department of Food and Agriculture](#)

The next meeting of the Producer Review Board will be held from **10 a.m. to noon on July 31, 2023** at the **Stanislaus County Ag Commissioner's Office, Harvest Hall – Room A, B & C, 3800 Cornucopia Way, Suite B, Modesto**. This meeting is in-person only; no teleconference option will be offered.

Representatives from the vendor conducting the QIP Survey (Research America Inc.) will attend the meeting to review the survey questions and details. A copy of the meeting agenda is available [here](#).

USDA Federal Milk Marketing Order Hearing Announcement to be Formally Published on Monday, July 24

Courtesy of the [United States Department of Agriculture](#)

USDA released the text of a notice that will formally be published in the Federal Register on Monday, July 24, 2023. The notice informs the public that a National Federal Milk Marketing Hearing will commence on August 23, 2023 in Carmel, Indiana (near Indianapolis). The notice identifies 22 proposals that will be considered. We will have more information next week. You can read the notice [here](#).

Energy (Un)Affordability: PG&E Rates Spike...Again!

Courtesy of the [Agricultural Energy Consumers Association](#)

As temperatures soar and Californians roast in a sweltering heat wave, PG&E is doing their part to maximize profits and maximize rate payer pain as air conditioners work overtime. PG&E's rates increased by another **\$1.2 billion** or **7.5%** on July 1, 2023.

Consider the following:

- PG&E will now be charging a full **1.6 cents** per kwh more
- Typical *residential* customers will now pay more than **37.6 cents** per kwh
- *Small business* customers will pay more than **35 cents** per kwh
- *Agricultural* customers will now pay more than **32 cents** per kwh, with some small farms paying more than **48 cents** per kwh
- PG&E *system average rates* are now nearing **31 cents** per kwh

Continue reading [here](#).

