MPC Weekly Friday Report

Date: September 8, 2023
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*

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0250	$1.9250	Weekly Change	+ $.0200	$2.6800	Week Ending 09/02/23		
Barrels	- $.0425	$1.8275	Weekly Average	+ $.0670	$2.7100	Nat'l Plants	$1.1066	16,988,929
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	- $.0245	$1.9500	Dairy Market News	w/e 09/08/23	$.3300	Last Week Ending 08/26/23		
Barrels	+ $.0075	$1.8575	National Plants	w/e 09/02/23	$.2761	Nat'l Plants	$1.1365	13,615,183

California Federal Milk Marketing Order Price Projections

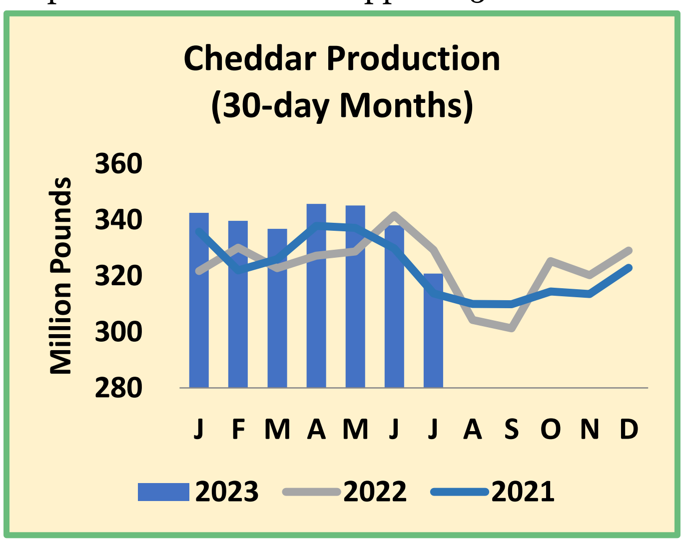
Price Projections	Class I Actual *(range based on location)*	Class II Projected	Class III Projected	Class IV Projected
Sept 8 Est	**No Change**	**$19.63**	**$18.48**	**$18.74**
Last Week	**$20.50 - $21.00**	**$19.59**	**$18.61**	**$18.59**

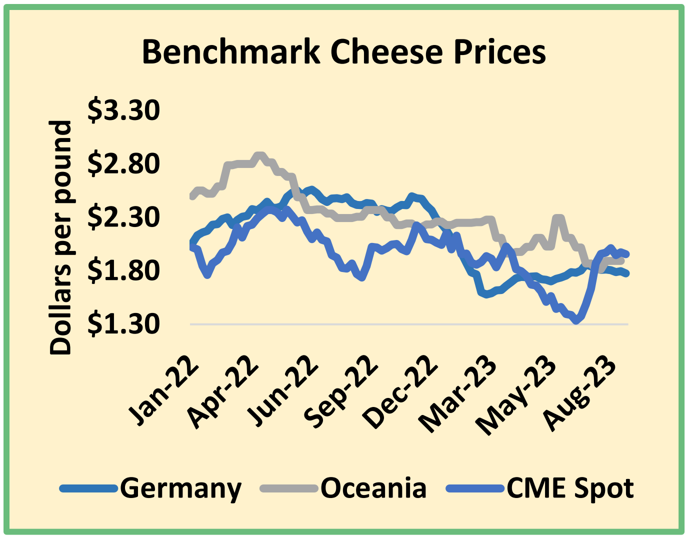
Milk, Dairy and Grain Market Commentary

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

Milk & Dairy Markets

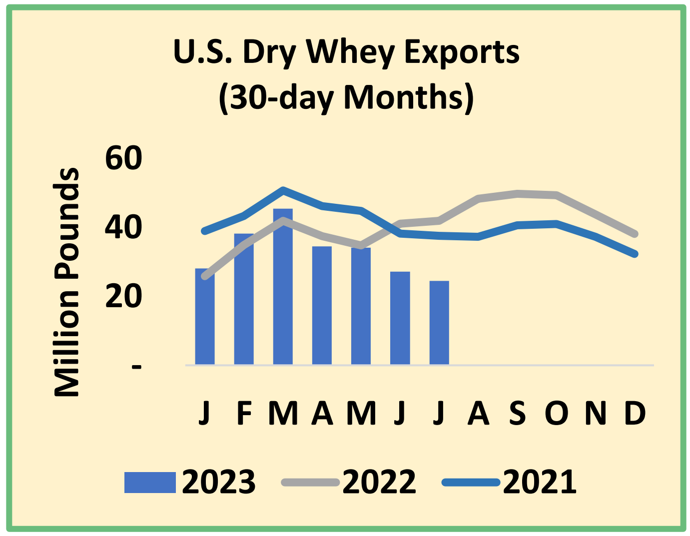
Higher temperatures fired up the dairy markets over the past few weeks, but now the mercury has fallen and so have cheese prices. CME spot Cheddar blocks slipped 2.5¢ this week to $1.925 per pound. Barrels retreated 4.25¢ to $1.8275. Cheese output waned in July to 1.16 million pounds. That was 0.7% less than July 2022, marking the steepest year-over-year drop in U.S. cheese production since August 2020. Cheesemakers scaled back Cheddar production, which helped to tighten up the supply of fresh cheese available in Chicago. But they also made less Mozzarella, signaling either slower U.S. pizza consumption or pessimism about export prospects. U.S. cheese exports fell 1.3% from year-ago volumes in July. At today's prices, U.S. exporters aren't booking a lot of new business, which



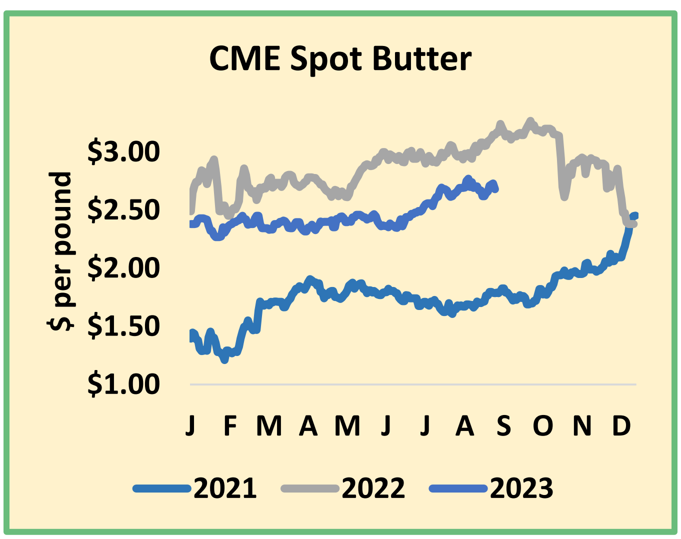


likely contributed to the late-week setback. But there are also hints that cheese output slowed further in August and September. Spot milk is trading at a premium in the cheese states, and processors in the Northeast complain of lower milk supplies and labor shortages.

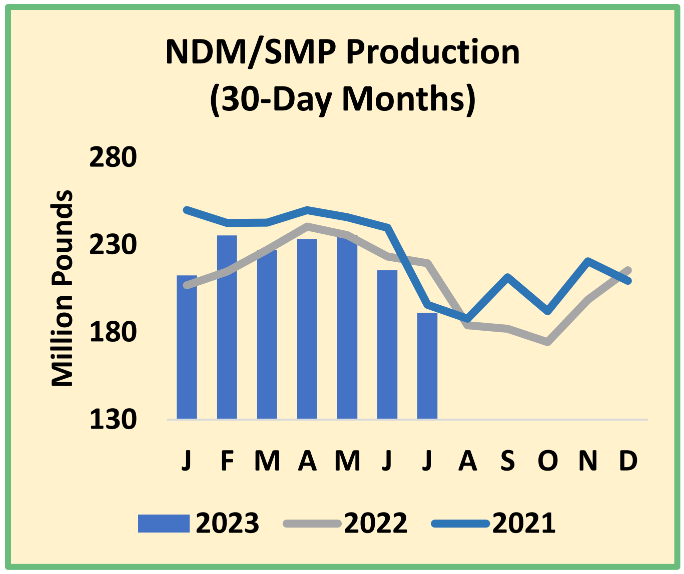
Whey processors continued to direct the whey stream to the drier in July, and whey powder production notched its highest level since January 2021, up 2.5% from last year. Production of whey protein concentrates (WPC) topped year-ago volumes, but whey protein isolates output continued to languish. Exports slumped to a nearly four-year low, with dry whey shipments down 41.6% compared to July 2022. Shipments to China and Southeast Asia were particularly soft, reflecting poor margins on Chinese hog operations and slowdowns in the regional economy. Disappointing demand from overseas pushed stocks upward and dragged CME spot whey to all-time lows this summer. But there are signs that the market is healing. Some manufacturers are switching WPC 34 into their ingredients mixes, and whey processors are making more concentrates, leaving less whey for the drier. CME spot whey rallied to a four-month high early this week, but it finished at 30.25¢, down a quarter-cent from last Friday.



Churns ran relatively hard in July. Butter output reached 157 million pounds, up 3.5% from a year ago to a new high for the month. U.S. butterfat is the most expensive in the world, and exports are largely out of reach. But domestic demand is strong, and prices remain firm. Butter buyers are setting their budgets for 2024, and they seem relieved to be paying less than $3 after stomaching record-breaking prices a year ago. CME spot butter climbed 2¢ this week to $2.68.



The milk powder market is caught between bearish signals from abroad and a more positive setup at home. The market was relieved to see whole milk powder (WMP) prices finally move higher at Tuesday's Global Dairy Trade (GDT) auction. But skim milk powder (SMP) prices continue to lose ground. With China buying less WMP, New Zealand's dairy processors have stepped up SMP production, and they are slashing prices to keep product moving. SMP prices dropped to the equivalent of nonfat dry milk (NDM) at $1.11 per pound at this week's GDT. European milk powder prices also lost some ground, and the strong dollar made U.S. product appear less competitive. U.S. milk powder exports topped year-ago volumes in July by a narrow margin, but while shipments moved at a trot in the first half of the year, they slowed to a jog in July. And exports to Mexico, our most important market, fell to an 11-month low. Nonetheless, U.S. milk powder supplies are tightening as slower milk output is keeping milk away from driers. Combined production of NDM and SMP fell to 197.4 million pounds in July, down 12.9% from a year ago. Manufacturers' stocks of NDM shrunk. Milk powder output remains in the doldrums and prices are on the rise. CME spot NDM jumped 2.5¢ this week to $1.10.



The dairy markets started strong this week, but they closed deep in the red today. For the most part, early-week gains outweighed the poor Friday finish. September Class III was the exception. It settled at $18.48 per cwt., down 15¢ for the week. The other Class III contracts logged modest gains and closed in the high $18s. Class IV futures finished notably higher, led by an 77¢ increase in the December contract.

Grain Markets

Weeks of extremely hot, dry weather took a toll on crops in the Northern Plains and western Corn Belt. According to USDA surveys, 53% of the corn crop is in good or excellent condition, down three points from last week. The national average good/excellent rating is just one point lower than last year, but furnace-like winds wilted crops in some key states. The good/excellent rating is down 24 points from last year for corn in Wisconsin, 23 points in Minnesota, 17 points in Iowa and 14 points in Illinois. In the eastern Corn Belt, where temperatures have been milder, crops look much better than they did last year. Corn condition ratings in Ohio are 22 points better than they were last year, and ratings are up 12 points year over year in Indiana.

Soybeans fared worse than corn. The national average soybean rating fell five points this week to 53% good and excellent. Concerns about the size of the crops kept a firm floor under the feed markets. However, the strong dollar, low Mississippi water levels, and projections for big Argentine crops in the 2023-24 season prompted the market to expect slower corn and soybean exports. The trade is also trying to position itself ahead of next week's monthly update to USDA's Supply and Demand balance sheets, and data from the Farm Service Agency hint that USDA may up its estimates of U.S. corn and soy acreage. These conflicting factors pushed prices back and forth, and they finished not far from where they started. December corn closed today at $4.8375 per bushel, up 2.25¢ from last week. November beans fell another 6.25¢ to $13.63. December soybean meal closed at $401.40 per ton, up $1.80.

Federal Milk Marketing Order Hearing Progress Report

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

This was the third week of the Federal Milk Marketing Order hearing in Carmel, Indiana. The week started out with rebuttal testimony on the National Milk Producers Federation (NMPF) proposal to eliminate barrel cheddar cheese from USDA's National Dairy Products Sales Report (NDPSR), which is the price discovery component of the FMMO minimum milk pricing formulas. There was quite a bit of opposition to removing cheddar barrels, the price of which began to significantly deviate from the 40-pound cheddar block price in 2017. NMPF estimates that the lower barrel price in the formulas cost producers about $2 billion in reduced income over the past six years (see last week's article for table). However, there was testimony that the market has begun to adjust with several barrel manufacturers putting in the equipment to switch to blocks and several new cheddar block plants in construction due to be commissioned in 2024/2025, making it a possibility that the future block/barrel prices might invert with barrel being higher.

On Wednesday, Dr. Marin Bozic, representing the Edge Cooperative in the Midwest, offered a modified proposal on the topic that he characterized as a "natural outgrowth" of the discussion held in the hearing on this issue. His testimony, which you can read here, outlines a compromise proposal that would keep the barrels in the formula but reduce their weight to a percentage that more closely aligns with the percentage of cheddar cheese that is barrels. Estimates of cheddar cheese production put the actual percentage of barrels in the total cheddar category at around 30%, but because a lot of the other cheddar is not reportable as part of the NDPSR (because it is in a bigger or smaller package, or aged etc.), the barrel weight in the formula is currently about 52%. The Edge proposal was politely received as no one has had a chance to evaluate it. But apparently a new proposal that is a "natural outgrowth" of hearing discussions on existing proposals can be considered.

There are proposals to add 640-pound blocks of cheddar cheese to the NDPSR. This was mostly opposed by witnesses. The proposal to add unsalted bulk butter to the NDPSR also attracted opposition. The proposal to add mozzarella cheese to the NDPSR was almost universally opposed, often because of the practical reality that there is no standard size or universally accepted manufacturing cost and yield data.

Late on Wednesday the hearing moved to issue #3, the make allowance. The NMPF economist laid out the changes to the current make allowances that NMPF is proposing. It amounts to about a 50-cent increase in the make allowances for both Class III and Class IV. Any increase in the make allowance is a corresponding decrease in the producer price. NMPF explained the procedure they used as an organization to balance the concerns of their members who own processing plants, which is most of them, and the producers who own the cooperatives. The attorney for the International Dairy Foods Association (IDFA) began his cross-examination of the NMPF witness by going through a list of factors where NMPF and IDFA agree with regards to make allowances. Both agree they need to be raised. Both agree there needs to be mandatory and audited manufacturing cost studies conducted by USDA in the future and that USDA currently lacks the legal authority to do that. Both agree that Congress should give USDA that authority in the upcoming Farm Bill. But despite this agreement there is a significant difference between IDFA and NMPF on what the level of the make allowance should be as a result of this hearing. IDFA wants to raise the make allowance in four annual increments with the initial increase being slightly higher than NMPF, but then having the make allowance automatically increase each year for the following three years to an end point where make allowances for Class III would increase in the range of $1.50 per cwt. and $1.35 for class IV. The testimony on make allowances should continue well into next week.

View the hearing or, you may listen only, via cellular phone or landline

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San Joaquin Valley Blueprint Engages in Delta Reconsultation Process

Courtesy of the Water Blueprint for the San Joaquin Valley

MPC has been active participant in the Water Blueprint for the San Joaquin Valley effort since its inception. Its mission is to foster collaboration and advocate for sustainable solutions that strike the appropriate balance between ecological preservation and the San Joaquin Valley's economic prosperity. The Blueprint yesterday released the following statement regarding its participation in an important Delta process, which will shape the future of water deliveries.

The Water Blueprint for the San Joaquin Valley will assist with efforts to protect more than **400,000 acre-feet**, on average, of water supplied by the federal Central Valley Project (CVP) and the State Water Project (SWP). In addition, the Blueprint will seek to further enhance water supply by proposing potential changes to restrictions imposed on operations of the CVP and SWP by Water Rights Decision 1641 (D-1641) based on what we have learned about how climate change and its impact on hydrologic patterns in California over the last three decades. The Blueprint will also suggest modifications to how measures imposed under the California Endangered Species Act on operations of the SWP to protect species are implemented with an eye to promoting SWP operational flexibility.

The CVP and SWP are critically important sources of water for the San Joaquin Valley (Valley). But over the last three decades, the ability of these projects to deliver water to areas south of the Delta has been greatly diminished. D-1641, which implemented the 1995 Water Quality Control Plan for the San Francisco Bay/Sacramento-San Joaquin Delta Estuary, reduced the south-of-Delta delivery capability of the CVP and SWP by approximately **one million acre-feet** annually. In 2008 and 2009, federal fishery agencies issued biological opinions for the coordinated long-term operations of the CVP and SWP, which further reduced the projects' south-of-Delta annual delivery capability by as much as **1.3 million acre-feet**, compared to operations under D-1641.

In 2019, the San Joaquin Valley, got some relief. The federal fishery agencies issued new biological opinions, which restored some operational flexibility for the CVP and SWP and, on average, more than 400,000 acre-feet of project water for areas south of the Delta. These 2019 biological opinions were the result of a process initiated in 2016, to incorporate lessons learned since the adoption of the 2008 and 2009 biological opinions, and to be based on the most current scientific analysis and review possible.

In 2021, the Bureau of Reclamation was directed to initiate **reconsultation** on long-term operations of the CVP and SWP to determine whether the 2019 biological opinions are adequately protective of aquatic species listed under the federal Endangered Species Act. The Blueprint would like to ensure that during the reconsultation process, the San Joaquin Valley perspectives are considered during critical stages of the process, which will help shape the future of the Valley's communities, economy, ecosystem, and a fundamental water supply.

Read more here.

REMINDER! Quota Implementation Program 5-Year Survey Due September 10

Courtesy of the California Department of Food & Agriculture

REMINDER! CDFA mailed a new survey to ALL Market Milk Producers in August. Please check your mail, and mail that may go to your dairy address, for this survey. Your opinion is important and we urge you to complete the survey as quickly as possible. If you have not received the letter by now, please contact: David Ko at David.ko@cdfa.ca.gov or 916-900-5012. The survey closes on **September 10.**

California Milk Advisory Board Meeting September 13-14 in Merced

Courtesy of the California Milk Advisory Board

The California Milk Advisory Board (CMAB) will host its next Board of Directors Meeting on:

Wednesday, September 13, 2023 – 7:30 a.m.
Thursday, September 14, 2023 – 8 a.m.

University of California, Merced – Conference Center
5200 Lake Road
Merced, CA

The CMAB Board meeting is open to any California dairy producer. If interested in attending, please RSVP to Tracy Garza at tgarza@cmab.net or 209-690-8252.