

MPC WEEKLY FRIDAY REPORT

DATE: JANUARY 13, 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	-\$0.0550	\$2.0000	WEEKLY CHANGE	+\$0.0425	\$2.4250
Barrels	-\$0.0175	\$1.7075	WEEKLY AVERAGE	+\$0.0464	\$2.4270
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		NAT'L PLANTS	
Blocks	+\$0.1287	\$2.1300	DAIRY MARKET NEWS	W/E 01/13/23	\$0.4350
Barrels	+\$0.0452	\$1.7715	NATIONAL PLANTS	W/E 01/07/22	\$0.4430
			LAST WEEK ENDING 12/31/22		
			NAT'L PLANTS		

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
JAN 13 EST	\$24.01 - \$24.51	\$21.42	\$19.46	\$19.75
LAST WEEK	\$24.01 - \$24.51	\$21.11	\$19.31	\$19.60

DECEMBER 2022 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

DEC '22 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT*
MINIMUM CLASS PRICE	\$24.18 TULARE \$24.68 L.A.	\$23.11	\$20.50	\$22.12	\$21.08 TULARE \$21.58 L.A.	\$20.806 TULARE \$21.306 L.A.
PERCENT POOLED MILK	20.3%	4.4%	70.4%	4.9%	100% (2.02 BILLION LBS. POOLED)	

*QUOTA RATE OF \$0.274/CWT. AS OF AUGUST 2022 MILK



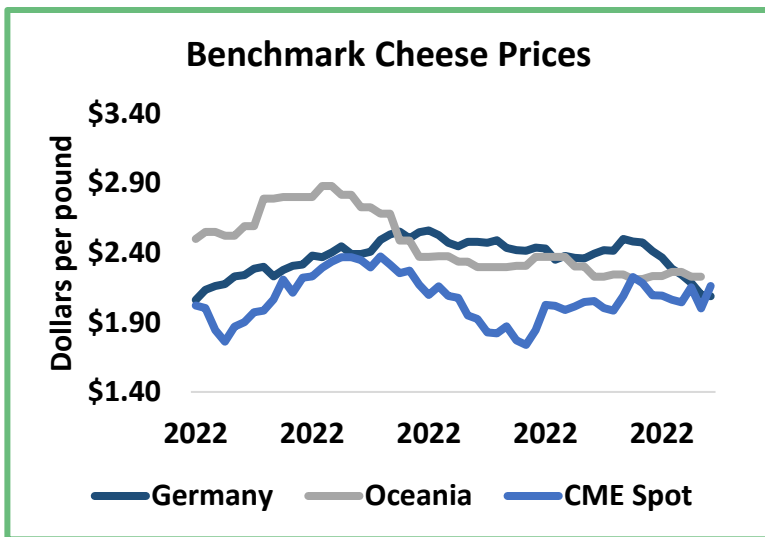
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report

Sarina@DailyDairyReport.com

Milk & Dairy Markets

The cheese markets came charging out of the gates on Monday. CME spot Cheddar blocks leapt 14.25¢, and barrels added a dime. The strong start left some market participants scratching their heads. Cheesemakers in the Midwest are still buying milk at steep discounts, and output is heavy.



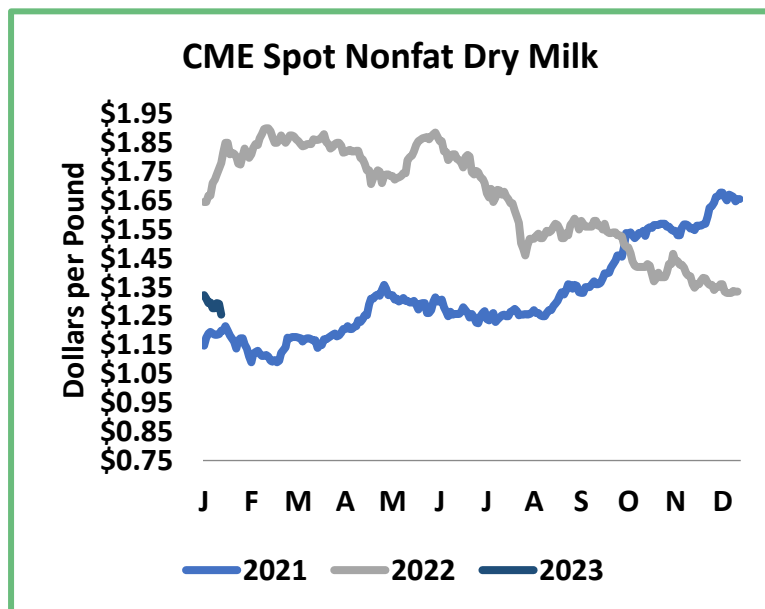
Domestic demand is respectable, but not formidable. Cheese exports are still strong, but they're likely to fade soon, as European pricing is more competitive by the day. Spot cheese buyers tell USDA's *Dairy Market News* that both blocks and barrels are readily available, but barrel inventories are "more excessive." None of that gave the cheese markets the energy they needed to maintain their early week sprint. They paused to catch their breath on Wednesday and then faltered, with big losses Thursday and Friday. Spot Cheddar blocks closed out the week deep in the red at

\$2.00 per pound, down 5.5¢ from last Friday. Barrels slipped 1.75¢ to \$1.7075.

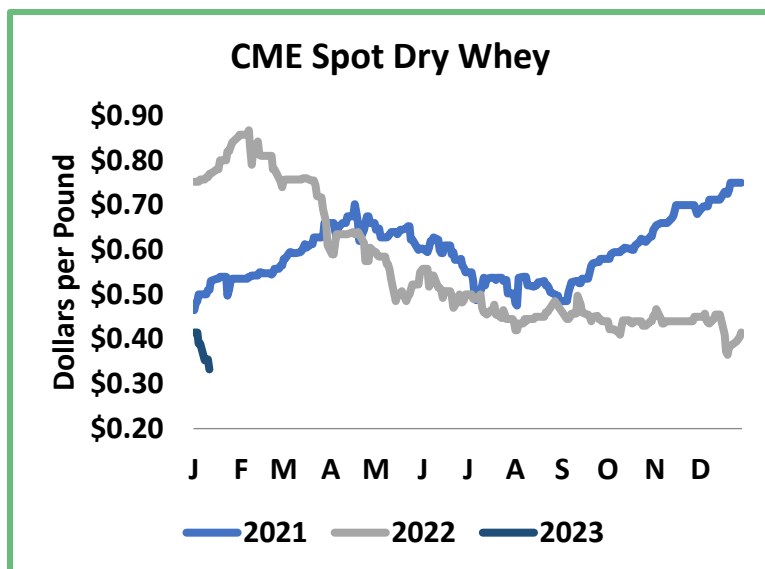
The butter market showed more stamina. It climbed Monday and gained a little more ground Tuesday. After a quiet mid-week, spot butter closed today at \$2.425, up 4.25¢ since last Friday. Cream is much less expensive than it was a year ago, particularly in the Central region. This suggests that churns will run at normal speeds, and butter makers will put away product to be used later in the year. Still, with painful memories of \$3 butter fresh in their minds, buyers seem more willing to take on big volumes at today's still lofty values.

The powders plummeted. CME spot nonfat dry milk (NDM) fell 4.25¢ to \$1.255, a 20-month low. Although U.S. milk powder output was well below year-ago volumes in August through November, buyers assume that growth in U.S. milk production will eventually translate into bigger powder supplies, and they're willing to wait for lower prices. Domestic orders are light, and NDM manufacturers had to drop prices to keep exports moving.

In the past, China has lapped up as much milk powder as possible in January and February, as Chinese buyers rushed to get their share of the annual zero-tariff allotments of New Zealand milk powder. That won't happen this year, because all Kiwi milk powder exports to China will be tariff-free under the latest phase of the two nations' free trade pact. Furthermore, Chinese milk output is growing at a heady clip, leaving less room for foreign product. Expect slower demand from China and stiff competition for milk powder exports in 2023.



The already weak whey market took another battering. Spot whey powder fell 5.75¢ to 33.25¢. That's a hefty 15% decline in just five trading sessions. Whey prices haven't been this low at the CME spot market



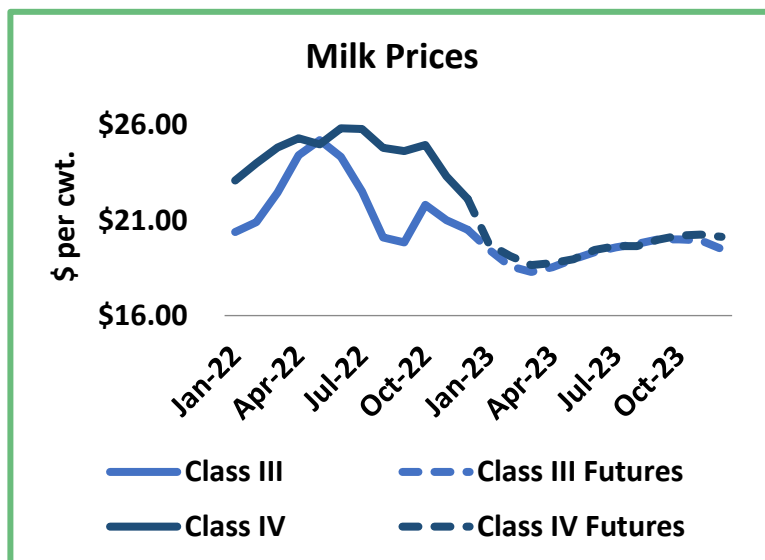
since August 2020. Every penny decline in whey adds up to a 6¢ haircut on Class III milk, so today's whey value will result in Class III prices that are about \$2.60 per cwt. lower than the unsustainably high prices seen in early 2022.

Heavy cheese output in the Central region has resulted in a lot of whey, and interest in most whey products has waned. *Dairy Market News* reports that the entire whey complex is under duress, "from condensed whey to higher protein compositions. Southeast Asian interests, or lack thereof, are also contributing

to the pressures." U.S. exporters hope that Chinese whey demand will pick up now that China is no longer under Covid lockdown, but it will take time for the Chinese population and the economy to recover. Eventually, a stronger Chinese economy will boost pork prices and give Chinese hog growers the incentive to add whey back to their rations. But the short-term outlook is a little less sunny. According to the U.S. Dairy Export Council, current hog prices "will likely start to soften demand moving forward... We may see continued growth in Chinese whey demand into 2023, but as we transition into Q2, expect lower pork prices to cap growth" in whey exports.

Early-week strength in cheese and butter prices allowed both January Class III and Class IV to rally 15¢ this week. February Class IV gained ground as well. But the other contracts finished in the red. Most Class IV futures finished near life-of-contract lows.

Dairy producers anticipate at least eight months of \$18 or \$19 milk. Although those are historically high prices, today they simply will not pay the bills. Throughout the West, milk production costs are \$3 to \$4 higher than they were just two years ago. Feed is the greatest expense, but higher labor and energy costs also play a role. After big milk checks throughout 2022, many dairy producers have a financial cushion, but if milk prices remain at these levels, the U.S. dairy herd could begin to contract in the second half of the year.

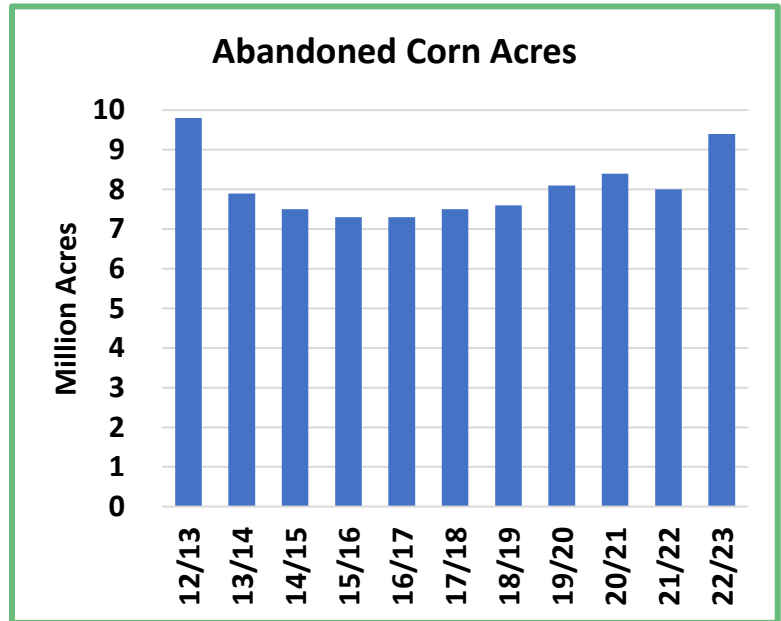


Grain Markets

There will be no relief on the feed front. USDA surprised the market on Thursday, trimming its estimate of U.S. corn acreage harvested for grain to 79.2 million acres, a 14-year low. Corn acres were already on the lighter side when the season began, as farmers planted other crops. But severe drought in the Southern Plains forced farmers there to either salvage what they could for silage or simply leave

withered crops in the field for grazing. Farmers planted 9.4 million acres of corn that were not harvested for grain, the highest abandoned acreage figure since the 2012 drought.

Without the worst of the corn crop counted in the national average, USDA raised its estimate of the corn yield slightly. The combination of lower acreage and a higher yield reduced corn production by 200 million bushels compared to last month's projection, but demand was smaller too. Similarly, USDA cut its estimate of soybean yields and trimmed its export demand forecast. For both crops, end-of-season stocks are now projected to be a little tighter than they were in December. Tighter stocks mean higher prices, and the markets jumped. March corn closed today at \$6.71 per bushel, up 17¢ this week. March soybean meal climbed to \$481.30 per ton, up \$3.70.



Water Update

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

Water was the dominate theme this week in California. After three very dry years, the winter of 2023 is starting to look wet. Everyone is grateful for that despite the great inconveniences and costs that accompany sloppy corrals, tired cows and milkers, and occasionally flooded roads, driveways and power outages.

The most frustrating news of the week was reading about massive flows of water running through the Delta and hearing that Delta pumps that are used to fill the two main aqueducts, the California Aqueduct and the Delta Mendota Canal, were being throttled back because of fish regulations.

Explainer: Cubic Feet Per Second (cfs) is the measurement of water volume moving through a pipe or waterway. Water flowing at 1 cfs for 24 hours (one day) will move 2 acre feet of water. So, a flow of 10 cfs for a day translates into 20 acre-feet of water moved for that day. By the way, one acre-foot of water is 326,000 gallons.

As this [article by the SJV Sun explains](#), over 100,000 cfs of water was moving through the Delta this week and 95% of it was flowing to the ocean. The reason more wasn't being captured and put into the aqueduct system is the frustrating part. It's complicated, but essentially it is environmental rules to protect Delta smelt that are controlling the process. There is a lot of questions about whether those rules are appropriate, but the bottom line is the people in charge are preventing the pumping, and the frustration and cost to the water supply is real. You wonder if the Governor couldn't fix all this under an Emergency Executive Order.

The potential impacts to fish by the major water projects California depends on for our water supply is why the San Joaquin Valley Water Blueprint is promoting a new environmentally friendly diversion approach. This proposal separates the diversion from the fish by essentially putting the intakes for the pumps under the bottom of the water column with a French drain style manifold of pipes that would extract the water slowly through the bottom of the water column such that the fish do not even notice the water being extracted. You can read more about this [here](#).

Meanwhile, the Sierra lakes that supply local water to the Central Valley are filling up.

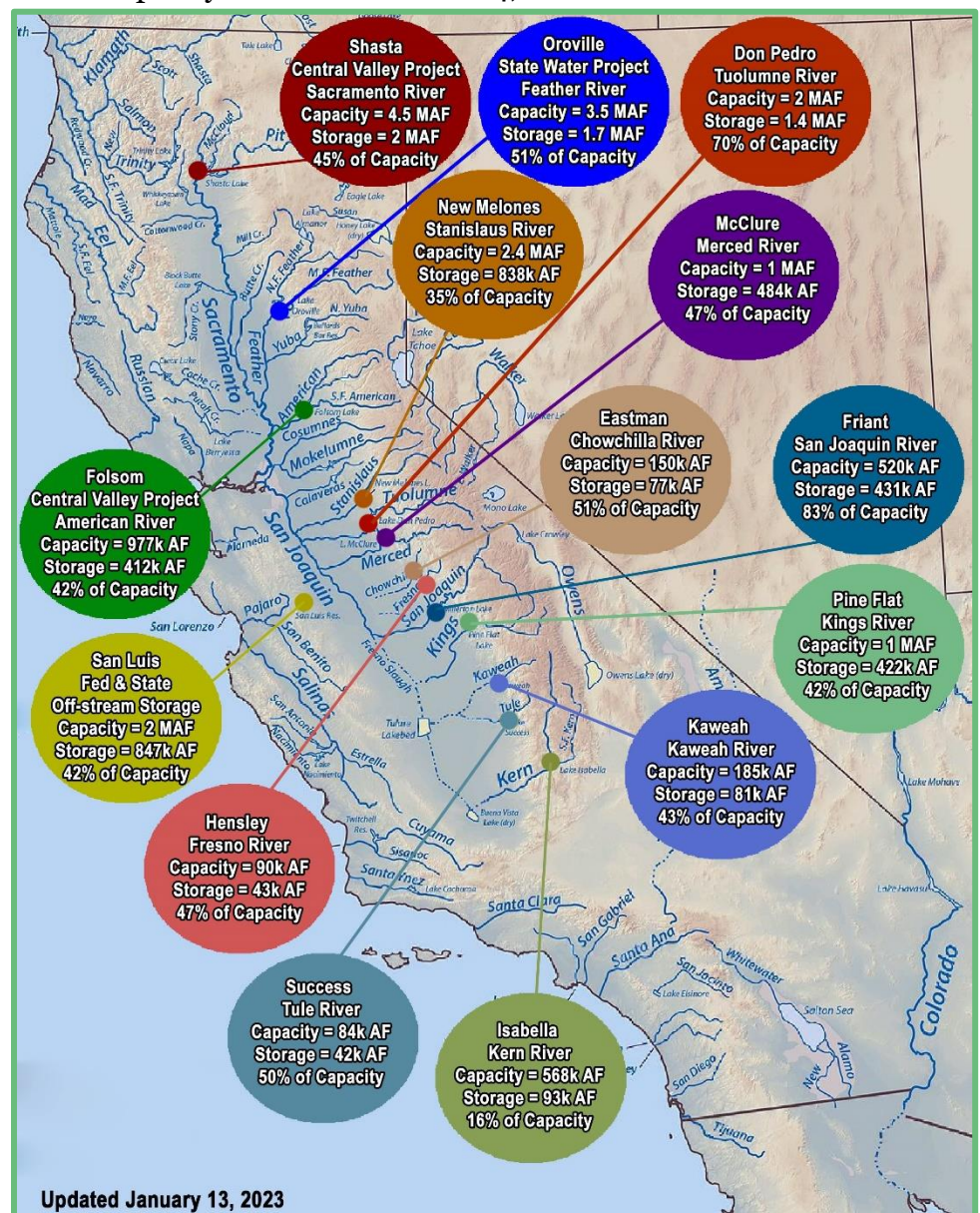
Lake Isabella on the Kern River is fully operational after a 15-year safety enhancement project that limited its holding capacity. The full storage capacity is 568,000 acre-feet, and as of today, there is 92,000 acre feet in the lake, but it's [climbing daily](#).

Lake Success on the Tule River is an 84,000-acre-foot lake. The spillway is currently under construction to enlarge the lake, so for this year the capacity will be less than 84,000 acre-feet. That means flood releases are occurring already, which is sending water down the Tule River. The Lower Tule River Irrigation District and neighboring districts will receive this water and hopefully be able to recharge a lot of it.

Lake Kaweah has a capacity of 186,000 acre-feet. There is about 82,000 acre-feet in the lake, and to preserve flood control space, 3,000 cfs is being released. This water too will hopefully be recharged.

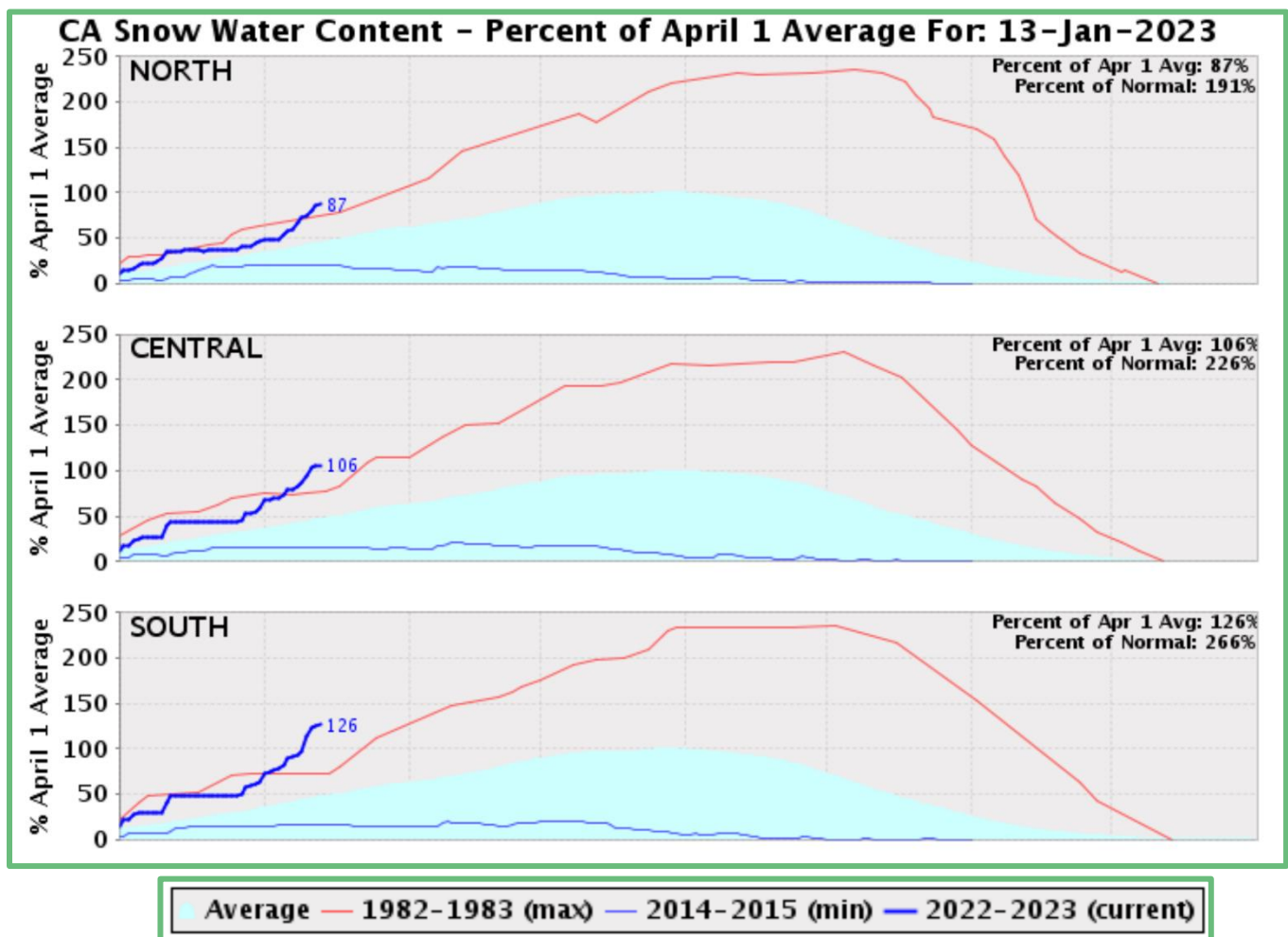
Pine Flat is on the Kings River and holds 1 million acre-feet of water. It started the rainy season relatively empty and has lots of storage space. There is 422,000 acre-feet of water in Pine Flat today. That is up over 100,000 acre-feet in the last 5 days. But so far there are not flood releases from Pine Flat.

Millerton Lake is on the San Joaquin River. It has a capacity



of 520,000 acre-feet. It started the season with quite a bit of water in it and it is a small reservoir compared to the large water producing area upstream of it. It currently has 431,000 acre-feet in the lake. The Friant Kern Canal (FKC) which can take nearly 4,000 cfs is shut down until February 1 because of the capacity correction construction. Even when the FKC is reopened, because of the subsidence in the canal near Porterville, the capacity of the canal South of that point is restricted to about 1,300 cfs. Currently, to preserve flood control space in the lake, 6,000 cfs is being released to the San Joaquin River. Unfortunately, much of that water will flow to the Delta and not be captured for recharge. Although ironically, because of the increased San Joaquin River flows to the Delta, there is less of a fish related restriction on pumping than otherwise would be the case if there was no San Joaquin River water showing up there.

North of Millerton, the lakes are all in pretty good shape. Lake Shasta and Folsom Lake are very important to the federal Central Valley Project. Both are off to great starts for the water year. Lake Oroville on the Feather River is the major supply for the State Water Project. It is also in good shape. The snowpack is off to a terrific start throughout the state with over 100% of the April 1 average already on the ground in two of the three regions (see below).



So, a lot to be thankful for. Also, a lot to be working on. We need to manage this year's abundant water prudently and we need to work diligently to put in place the infrastructure and policies that will enable us to store water in these abundant years for the dry years we know are coming.

Now Available for Farmers: 85% of Costs to Replace Ag Pump Engines

Courtesy of the [San Joaquin Valley Air Pollution Control District](#)



The Valley Air District is offering farmers 85% of eligible costs to replace existing agricultural pump engines with a newer and cleaner engine or motor. Get paid to replace your stationary or transportable agricultural pump engines and help reduce emissions in the Valley.

More information is available [here](#). Questions? Call 559.230.580 or email grants@valleyair.org. Members can also contact MPC General Manager Kevin Abernathy.

REQUIREMENTS

- » Existing engine must be 25 horsepower or greater
- » Must be in compliance with Rule 4702

INCENTIVE AMOUNTS

Diesel to Diesel Engine	85% of costs
Diesel/Natural Gas/Propane to Electric Motor	85% of Costs + 50% of line extension fees (if applicable)

Save the Date!

California Dairy Water Update



THURSDAY, FEBRUARY 2
1:30 - 3:30 PM

**TULARE VETERANS MEMORIAL
DISTRICT AUDITORIUM**

REGISTER

Event is FREE. Sign up: <https://CADairyWater.eventbrite.com>

SPEAKERS:

Dr. Michael McCollough
Professor of Agribusiness
Cal Poly, San Luis Obispo

Dr. Scott Hamilton
Technical Committee Chairman
Water Blueprint for the San Joaquin Valley

Geoffrey Vanden Heuvel
Director of Regulatory & Economic Affairs
Milk Producers Council

Co-Hosted By:



**CARB Online Course for Diesel Truck Rules:
Compliance Options, Reporting Requirements for 2023 and Beyond**
Courtesy of the [California Air Resources Board](#)

Do you own, operate, or dispatch heavy-duty diesel trucks in or to California? Then you need to know that the California Air Resources Board (CARB) enforces air pollution regulations affecting all types of heavy-duty diesel vehicles operating in the state. If your vehicles are not compliant, you need to know what the current and future requirements are. If your vehicles are compliant, you may need to report to remain compliant. This course gives you information about how to comply with CARB diesel regulations and how to report to continue operating legally in 2023 and beyond.

Date: January 19, 2023
Time: 1 p.m.
Link: [Zoom Registration](#)

NMPF Update: Farm Bill Work; USMCA Challenges
Courtesy of Jim Mulhern, President & CEO
[National Milk Producers Federation](#)

Congress Settles Down for Business, Including Work on Farm Bill

After last week's drama around the election of a new House Speaker was finally resolved just past midnight last Friday, Congress is now beginning to sort through its agenda for 2023. High on the list is the development of the 2023 Farm Bill, a major priority for NMPF as well. Both the Senate and House agriculture committees held regional listening sessions last year, and that process continues into 2023.

Earlier this afternoon, the new Chair of the House Agriculture Committee, Rep. GT Thompson (R-PA), hosted a congressional farm bill listening session at the 2023 Pennsylvania farm show. He was joined by a bipartisan handful of other members of the committee, and two NMPF staff also attended the meeting in Harrisburg. We are likewise gearing up to provide a specific set of policy recommendations for Congress to consider, a process that will involve oversight and input from our Economic Policy Committee and ultimately our Board of Directors in the coming months.

NMPF Joins with Ag Coalition on Raising USMCA Challenges

National Milk joined a coalition of 17 other U.S. farm groups this week on a [statement](#) seeking the resolution of challenges to trade between our nation and Canada and Mexico – particularly the latter's effort to block biotech corn exports. The letter was issued Monday as President Biden met in Mexico City with Canadian Prime Minister Justin Trudeau and Mexican President Andrés Manuel López Obrador to discuss immigration and trade.

Our statement, cosigned by USDEC, noted the progress made in agricultural trade in the past 25 years, and said the aftermath of the Covid pandemic-induced supply chain disruptions presents an “extraordinary opportunity” to strengthen North American trade. Trade in agricultural products in the USMCA bloc rose from \$7.7 billion dollars in 1994 to \$67.1 billion dollars in 2021, a 769.7% increase. NMPF also pushed for “expeditious resolution” of potential blockades to trade, such as Mexico's proposed ban on some uses of biotech corn, as well as Canada's ongoing efforts to choke off U.S. dairy exports.

