MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0800	$1.5700	Weekly Change	- $.0550	$2.6900	Week Ending 02/03/24		
Barrels	+ $.0275	$1.5775	Weekly Average	- $.0280	$2.7440	Nat'l Plants	$1.2115	15,075,775
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	- $.0345	$1.6105	Dairy Market News	w/e 02/09/24	$.4650	Last Week Ending 01/27/24		
Barrels	+ $.0390	$1.5770	National Plants	w/e 02/03/24	$.4393	Nat'l Plants	$1.2124	16,315,765

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
Feb 9 Est	No Change	$20.55	$16.13	$20.05
Last Week	$19.59 - $20.09	$20.57	$16.27	$20.00

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
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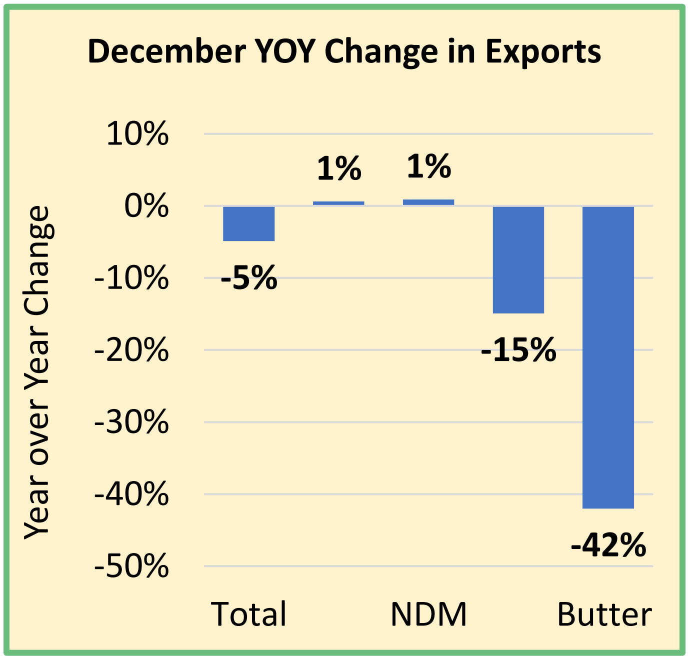
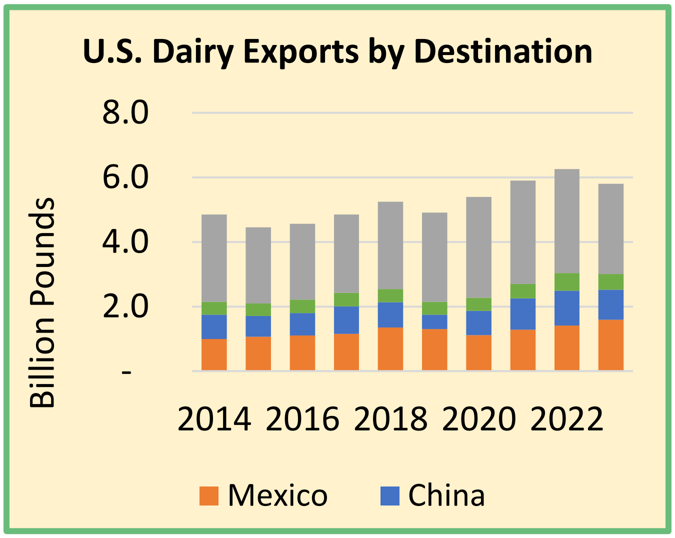
Milk & Dairy Markets

After a period of exuberance, the dairy markets ran into some resistance this week. Though milk supplies are far from plentiful, demand for spot milk has stabilized and combined with a lackluster demand picture, there has been little incentive over the last few days to push the markets further upward.



Slower export activity certainly cast some gloom across the markets. December export data landed this week and showed a continuation of many of the trends seen during the year. With the final tallies counted, U.S. exporters shipped 5.806 billion pounds of dairy products in 2023, valued at just over

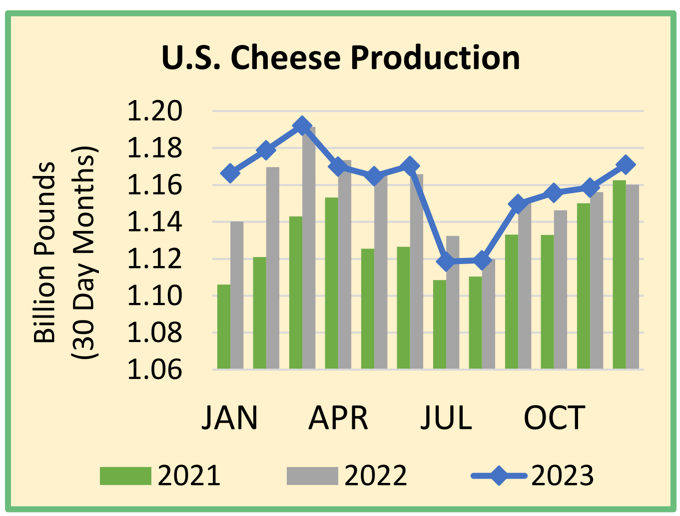


$8 billion dollars. While respectable by historical standards, this nevertheless represents a loss of 7.3% and 15.8% in volume and value terms, respectively, against 2022's record figures. But even as shipments to China and Canada fell relative to prior year levels, the news wasn't all bad. Exports to Mexico, the largest trade partner to the U.S., surged 12.8% to a new all-time high of 1.589 billion pounds.

Despite weak global demand and competition from alternative suppliers, some products were able to post a modest year-over-year gain in December. Cheese exports increased 0.6% to 80.5 million pounds, the highest volume ever seen in December, due to an especially strong appetite from Mexican buyers. Nonfat dry milk (NDM) exports also rose 0.9% compared to December 2022 as shipments to select destinations in Asia improved. Exports of other products continued to struggle under the weight of unfavorable international dynamics. U.S. exports of whey products slipped 14.9% year-over-year in December and butter exports recoiled by 42%.

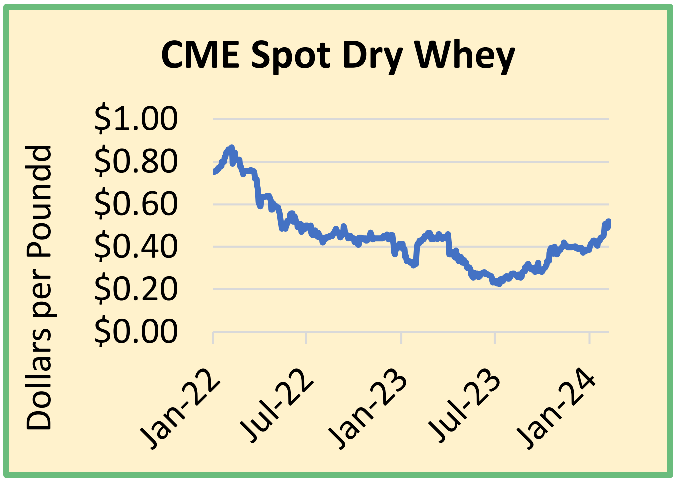
While the overall tone of global demand remains muted, there is reason to believe the situation could be firming up. At this week's Global Dairy Trade (GDT) auction, the GDT Price Index rose by 4.2% with price increases seen across nearly every product. This is the fifth consecutive auction during which the index increased, rising to levels not seen since late 2022. Fat prices saw particular appreciation with butter, whole milk powder, and anhydrous milkfat posting gains of 10.3%, 3.4%, and 3.3%, respectively, compared to the prior event.

Back at home, the fat markets retreated as the CME butter market continued to inch back from the highs achieved during the final weeks of January. A 2.5¢ increase on Tuesday was erased by losses of 2.5¢ and 5.5¢ on Thursday and Friday. Ultimately this pulled the price down to $2.69/lb. as 12 loads traded hands over the course of the week. Market participants report that churns are operating busy schedules. USDA's Dairy Products report, published earlier this week, shows that butter production rose 4.4% year over year in December to 196.3 million pounds. This was a surprisingly strong result given the 0.3% decline in milk production seen during the month and the strong pull from other manufacturers. Furthermore, that inventories declined substantially during a month when production impressed suggests that butter demand is robust.



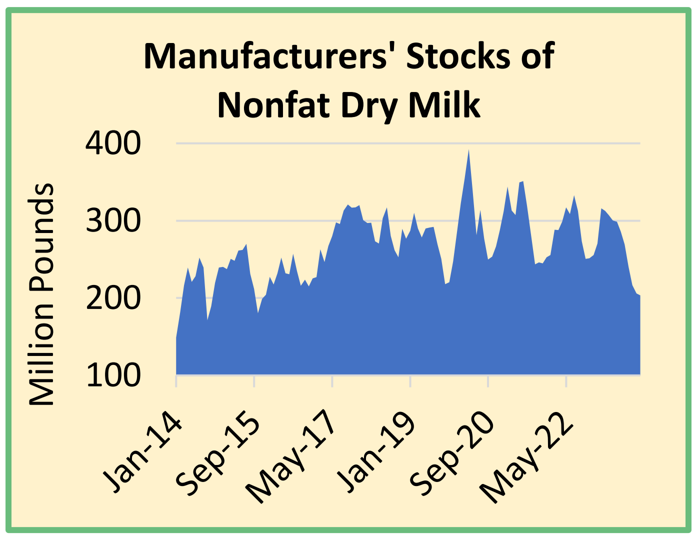
As butter production rose in December, so did cheese production. Cheesemakers manufactured 1.21 billion pounds of cheese during the month, up 0.9% compared to December 2022. Increased output was seen across both American and Italian varieties, up

0.5% and 0.3%, respectively, though Cheddar production fell by 2% year-over-year. Lower cheddar production may have lent some strength to the spot markets which bounced off lows seen late in December to climb relatively steadily through the first days of February. The market rally seemed to run out of steam this week, however, at least for blocks. Cheddar blocks saw prices fall on Tuesday, Thursday, and Friday, ultimately giving up 8¢ during the week to fall to $1.57/lb. Barrels added 2.75¢, rising to $1.5775/lb. on Friday's close, though prices remain lower than the highs achieved last week.



Bucking the trend seen by other products, the spot dry whey market moved up another 1.25¢ this week, continuing its push upward. Prices ended the week at 52¢ per pound, the highest price seen since mid-2022. Participants indicate that the market for dry whey has tightened up considerably. Part of this has been driven by improving domestic demand but lower production has contributed, as well. December dry whey production fell 9.2% year over year to 66.062 million pounds. Manufacturers continue to route the whey stream toward products with higher concentrations of proteins. This is placing upward pressure on whey prices and will help to support Class III prices.

Milk powder production also slipped in December with combined production of NDM and skim milk powder (SMP) falling 15.9% year-over-year to about 194.8 million pounds. NDM prices have remained stubbornly wedged in a narrow range with little indication that the market is willing to break these boundaries. After rising as high as $1.24/lb. on Tuesday, the spot price quickly backed off and following losses in the second half of the week, settled at $1.20/lb. at the conclusion of Friday's trade. With lower production, however, inventories have fallen significantly. At the end of December, manufacturer's stocks on NDM totaled 203.3 million pounds, a 20.5% decline compared to last year and the smallest stock level since 2015.



Grain Markets

USDA released its World Agricultural Supply and Demand Estimates report on Thursday with minimal changes to the domestic balance sheets. Corn ending stocks were increased by 10 million bushels to reflect lower domestic use, though the impact on the average farm price was moot. On the soybean balance sheet, a 35-million-bushel reduction in export expectations led the agency to reduce the average farm price by a nickel to $12.75/bu. USDA left its soybean meal balance sheet unchanged. On the international side, USDA reduced production expectations for both corn and soybeans in Brazil, a nod to some of the challenging weather the region has been facing. Despite these issues, feed prices are sitting at the lowest levels they have been in years.

A Very Significant Producer Review Board Meeting This Week

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Anyone following the California dairy producer community over the past number of years realizes that the issue of quota has been – and continues to be – a point of controversy. For the nearly 50 years that California operated a state milk marketing order, the impact of the quota system was not necessarily obvious to producers. How the revenues were collected that formed the basis for the announced quota and overbase milk prices was not well understood. Quota had been in place since the beginning of the system and people relied on it and made business decisions for their operations based on it. When Congress gave California producers the opportunity to come into the Federal Milk Marketing Order (FMMO) program and continue to recognize quota value, a new mechanism was needed to fund the quota program.

Back at the beginning of the State Order in 1969, quota was directly tied to Class 1 (fluid milk) revenue in the order. The quota differential changed from month to month with the movement of prices for all the classes of milk. But Class 1 revenue always belonged to the quota.

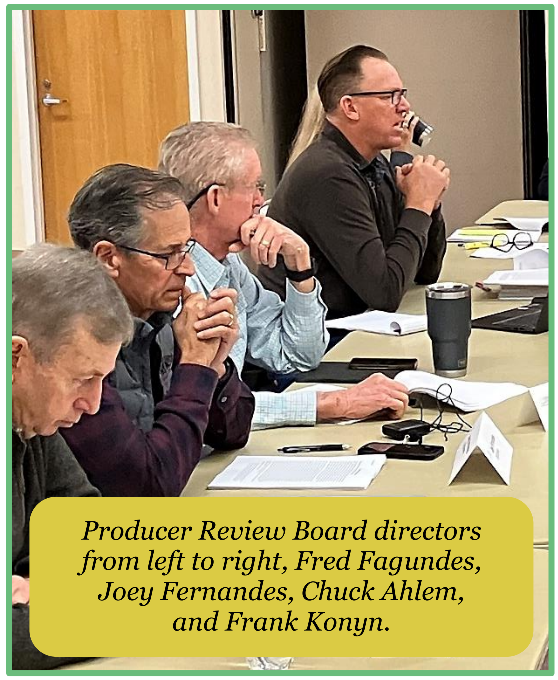
In the early 1990s there was unrest in the producer community over quota. By this time, a large amount of the growing California milk supply was not covered by quota. It took a few years, but a change was made in the system to fix the differential between quota and overbase at $1.70 per cwt., which had been the most recent average differential in the system. Fixing the quota differential at $1.70 per cwt. would enable Class 1 revenues in excess of what was needed to fund the $1.70 to be distributed to non-quota holders. When this change took place, the California Department of Food and Agriculture dramatically increased the Class 1 price in California with the goal to improve income for all producers. There was room to increase Class 1 prices because, relative to Class I prices in the FMMOs at the time, California prices were much lower. This did work as designed for a time, but higher Class 1 prices in California did encourage nearby out-of-state milk to seek to capture that Class 1 revenue.

Because California was prohibited from regulating out-of-state milk, this milk could receive the Class 1 price in California and keep that revenue from becoming part of the California state milk pool. The state responded to this challenge in a couple of ways. They adopted regulations for the out-of-state milk, for which they were sued by the out-of-state interests, and they began lowering the Class 1 price to diminish the incentive for out-of-state milk to come in. Eventually, the U.S. Supreme Court put an end to the attempt to control out-of-state milk by regulation and reducing Class 1 prices was about all that could be done (short of becoming a Federal Milk Marketing Order) to discourage out-of-state milk from taking the California Class 1 business. Meanwhile, the volume of Class 1 sales began a long-term decline.

In 2017, when the major California cooperatives decided to pursue the adoption of an FMMO, USDA made it clear that the federal government was not willing to operate a state quota program. USDA was willing to acknowledge a state program, but not run it as part of a California FMMO. The California Department of Food and Agriculture worked with the Producer Review Board (PRB) to develop the Quota Implementation Plan (QIP) that would operate if and when California became an FMMO. The program that was developed was to fund the $1.70 quota differential (the $1.70 is specifically established in California law) with an assessment on all California production as opposed to funding the quota differential before announcing the milk prices. When California became an FMMO in November of 2018, that quota assessment showed up on producers' milk checks, and for many producers the financial impact of the quota program became visible for the first time.

In the five years since California became an FMMO, as I testified at the national FMMO hearing in November, mailbox prices for California producers are up well over $1 per cwt. when compared to mailbox prices under the State Order. But the QIP assessment continues to be controversial, with organized efforts by some California producers to eliminate the program as well as organized efforts to defend the program.

All this background to get to the PRB meeting this week. Some months ago, PRB member Frank Konyn, a dairyman from San Diego County, shared with the PRB information on how much revenue is generated in the California FMMO from Class I sales. His method of calculation was to take the Class I differential applicable in the various regions of California and multiply that by the pounds of Class I milk accounted for in the California FMMO monthly pool report. Calculating Class I revenue that way reveals that in 2023, an average of $7,412,000 per month was generated into the California FMMO pool for a total of $88,944,000 in Class I revenue for the year. Quota payments under the QIP for 2023 averaged $11,852,000 per month for a total of $142,225,000. Frank proposed to the PRB in the meeting this week (you can read his presentation here) that it recommend to CDFA Secretary Karen Ross that CDFA provide assistance in moving in the direction of tying the quota differential to the Class I revenue and eliminating the differences in the quota differential caused by the Regional Quota Adjusters.


Producer Review Board directors from left to right, Fred Fagundes, Joey Fernandes, Chuck Ahlem, and Frank Konyn.

PRB board member Will Dyt from Riverside County had a different proposal. He acknowledged that because the FMMO already has a location differential embedded in the producer price, further adjusting quota pay prices by region should be eliminated. Will proposed making the -27 cents RQA that applies in Tulare, the RQA everywhere in the state. Will also had a different way than Frank to calculate Class I revenue, but at this week's meeting did not have detail on that alternative method. There was also discussion about the likely increase in Class I prices that may result from the recently concluded national FMMO hearing. But others observed that the same hearing was also likely to increase make allowances and therefore reduce Class III and IV prices by at least 50 cents per cwt. The proposed FMMO Class I increases were designed to help offset the negative impact to all producers of the increases in make allowances.

After a lot of robust discussion, a motion was made to move in the direction of changing the quota differential to be tied to California Class I revenue and eliminate the difference in quota prices caused by the RQAs. This motion passed with 9 yes votes and 3 no votes. Encouragement was given to Frank and Will to work together to understand the different approaches for calculating California Class I revenue and report back to a future meeting of the PRB. This motion represents significant concessions by both sides of the producer divide on quota. Quota holders acknowledge that quota payments should be tied to Class I revenue and non-quota producers on the PRB accepted that Class I revenue should go to quota holders. This represents a very significant step in hopefully finding a resolution to this issue which has so divided the California producer community.

Producer Review Board directors from left to right, Fred Fagundes (with back facing), Pete DeBoer, Arlin Van Groningen, Cal De Jager, and Jim Viera.

As for the rest of the meeting, Cal De Jager from Bakersfield and Jim Viera from Turlock were welcomed as new committee members. Art Van Beek of Tulare was re-elected chairman and Will Dyt was re-elected vice chairman. The minutes of past meetings were approved. CDFA staff gave a presentation on how they update and maintain a current producer list, which is done on a monthly basis using multiple information sources. The results of an audit of the QIP fund were reported. All the money from the beginning of the QIP in November of 2018, through June 30, 2021, was accounted for. They did find nearly $300,000 in outstanding checks some handlers had not cashed.

As for the question raised in prior meetings about what happened to the remaining money in the State Order Equalization Fund, it turns out that those funds were rolled into the QIP fund back in November of 2018 and had been there the whole time. There had been confusion about this, but all the money has been accounted for.

There were 10 hardship requests on the agenda. All of them were seeking relief from paying the QIP assessment, arguing that the actual language of the QIP has this definition: "'Hardship' means a challenge to the management and operation of a dairy due to the operation of this Plan." The requesting producers claimed that the financial condition of their farms was creating a hardship that justified a request to get relief from paying the QIP assessment. Under the Pooling Plan in the old state milk order, "hardship" was understood to involve various challenges producers might have with the quota ownership and transfer rules. The PRB narrowly passed a motion to defer a decision on these hardship requests and ask CDFA for more clarification of what a "hardship" means in the context to the QIP.

When the agenda for this meeting came out, it had the meeting start time at 10 a.m. and a note that there would be no lunch break. I packed a PB &J sandwich just in case. Good thing I did. The meeting went on for 5 hours and ended at 3 p.m.

Important Animal Health Updates & Practices

Courtesy of [University of California Agriculture and Natural Resources]

This English-Spanish edition of the Golden State Dairy Newsletter offers important information for producers on a variety of animal health issues. Read the entire newsletter here.

Disbudding and Dehorning Best Management Practices

Randi Black, UCCE Sonoma, Marin & Mendocino

Dehorned animals pose less threat of injury to herdmates, themselves, and handlers. They are also less dominant for important pen resources (feed, resting space, water), and require less feedbunk space. Some dehorning methods are preferable for welfare and performance compared to others and are presented below.

Dehorning vs. Disbudding

Disbudding removes horn-producing cells in calves before they attach to the frontal bone of the skull, typically before six weeks old. Dehorning cuts out horns and horn-producing tissue after attachment to the skull, typically after six weeks old. The American Veterinary Medicine Association recommends disbudding over dehorning and at the earliest age possible.

When to Disbud

Younger calves are more docile, easier to handle, and offer less chance for injury to the handler and calf itself. Younger calves also have smaller horn buds, allowing for more effective disbudding and less chance of scars or horn regrowth. Younger age = less pain and stress = faster bounce back in feeding and growth. When disbudding or dehorning calves, it may seem logical to combine this procedure with other management tasks, such as weaning, vaccinations, or regrouping. However, combined stressors weaken the calf's immune response and ability to heal or fight off disease, leading to illness, reduced feed intake, and reduced growth rate. Avoiding multiple stressors improves the calf's ability to effectively deal with each stressor separately with less impairment to her health and performance.

Continue reading here.

Scouring Calves: Treatment Starts with Fluids!

Rubia Lopes, VMTRC, Jennifer Heguy - UCCE Merced, Stanislaus and San Joaquin
Noelia Silva del Rio - UCCE Dairy Herd Health Specialist

In the US, scours are the most prevalent health disorder of pre-weaned dairy calves (25%) and are also the leading cause of mortality. Most scours occur after the gut lining is invaded by infectious agents (viruses, bacteria, or parasites) that destroy or impair function. Scouring calves lose water, key electrolytes (salt), and bicarbonate in their feces. Calves older than one week may have an overgrowth of gut E. Coli that ferments nutrients, causing an increase in lactic acid which may lead to increased cases of systemic acidosis. Most deaths associated with scours are attributed to dehydration and acidosis. Regardless of the infectious agent and the severity of the case, start treatment of scouring calves by restoring hydration, electrolytes and acid-base balance with FLUIDS. Based on a recent nationwide survey, antimicrobials are often used to treat scours (80% of affected calves are treated), but there is limited information on how often fluid therapy is provided to scouring calves.

Continue reading [here](#).

Are You Drying Cloth Udder Prep Towels with Heat? (February 2020)

Daniela Bruno - UCCE Fresno, Madera and Kings Counties

Cloth towels used during udder preparation can be a source of mastitis-causing bacteria. Incomplete laundering practices, specifically insufficient drying, may be the culprit. Recently, a mastitis investigation in a California dairy identified poor laundering practices led to an outbreak caused by environmental bacteria. The dairy was not drying towels and then using damp towels for udder prep. A recent study from the University of Minnesota evaluated the relationship between total bacteria count in cloth towels and udder health. They found that drying towels completely, with heat, decreased chances of a high coliform count. Inappropriate cloth towel management can lead to increased somatic cell counts, clinical mastitis cases, total bacteria counts, treatment costs, and reduced milk production. The milk check impact is less profit due to lost milk production and discarded milk costs. Bottom line: use of damp cloth towels can transmit mastitis-causing pathogens which in turn affects milk quality and jeopardizes milk premiums. Whether using a laundering service or washing the towels in-house, cloth udder prep towels should be clean, sanitized and most importantly dried with heat. Several labs are set up to culture udder prep towels. If you're having issues in the parlor, testing towels may be advisable.

Tips and Tricks for Managing and Preventing Calf Pneumonia (November 2020)

Betsy Karle – UCCE Northern Sacramento Valley
Dr. Sharif Aly – UC Davis School of Veterinary Medicine

After many years of research on dairies across California, our team has created a comprehensive risk assessment tool for bovine respiratory disease (BRD, aka pneumonia) in preweaned dairy calves. Along the way, we identified several risk factors and management practices that can significantly affect the prevalence of BRD. Here, we outline a few of the most significant factors. Implementing some or many of these practices may lead to fewer sick calves, reduced need for pharmaceuticals, and an improved bottom line.

Continue reading here.

NMPF Update: DMC Sign-Up; Big Drop in Farm Income

Courtesy of Gregg Doud, President & CEO
National Milk Producers Federation

DMC Sign-Up Expected to Open in March

While USDA has not yet opened the Dairy Margin Coverage program sign-up for 2024, we understand that sign-up is likely to begin in March. Any payments will be retroactive to the start of the year.

Our understanding is that USDA has needed additional time to implement the important change made in last year's farm bill extension, which permanently folded the Supplemental Dairy Margin Coverage program into the underlying DMC program. NMPF originally worked with Congress to enact Supplemental DMC in the Consolidated Appropriations Act of 2021 to make supplemental DMC payments to producers on 75 percent of the difference between their 2019 production and their original DMC production history established in 2014, on up to five million pounds of milk.

The language included in last year's extension made Supplemental DMC part of the overall program, ensuring that we will not need to extend it separately in the future. Because this represents a change to the structure of DMC, USDA's Farm Service Agency needs to develop and finalize a rule for publication in the Federal Register and update their program software. We will provide further updates as we learn additional information.

USDA Projects Big Drop in Farm Income

The Agriculture Department made a new case for why Congress can't be complacent about the next Farm Bill, as the USDA [announced Wednesday] that U.S. net cash farm income will drop nearly 25% this year compared to 2023. That reduction in net cash income would move that calculation below its 2003-22 averages (in inflation-adjusted dollars). USDA's report says net cash farm income reached a record $202.3 billion in 2022. After decreasing by $41.8 billion (20.7%) from 2022 to an anticipated $160.4 billion in 2023, net cash farm income is forecast to decrease an additional $38.7 billion (24.1%) to $121.7 billion in 2024.

Both leaders of the Senate Agriculture committee used the USDA forecast as a reminder about the need to bolster the farm safety net, but movement on the Farm Bill in both the Senate and House remains a work in progress. Republicans have been talking about reallocating funding from climate, conservation and nutrition programs to farm safety net programs at USDA, a strategic shift opposed by Democrats. In fact, House Democrats this week released [a new position paper] that flatly ruled out cutting nutrition assistance or reallocating Inflation Reduction Act funding to pay for increasing reference prices and other improvements to commodity programs.