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		
Blocks	- $.0575	$1.4775
Barrels	+ $.0200	$1.4900
Weekly Average Cheddar Cheese		
Blocks	+ $.0555	$1.5655
Barrels	+ $.0490	$1.5070

Chicago AA Butter		
Weekly Change	- $.0300	$2.4300
Weekly Average	- $.0165	$2.4345
Dry Whey		
Dairy Market News	w/e 05/26/23	$.3650
National Plants	w/e 05/20/23	$.3801

Non-Fat Dry Milk		
Week Ending 05/20/23		
Nat'l Plants	$1.1494	24,344,181
Last Week Ending 05/13/23		
Nat'l Plants	$1.1519	28,363,134

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
May 26 Est	**$21.17 - $21.67**	**$19.07**	**$16.16**	**$18.10**
Last Week	**$21.17 - $21.67**	**$19.07**	**$16.19**	**$18.10**

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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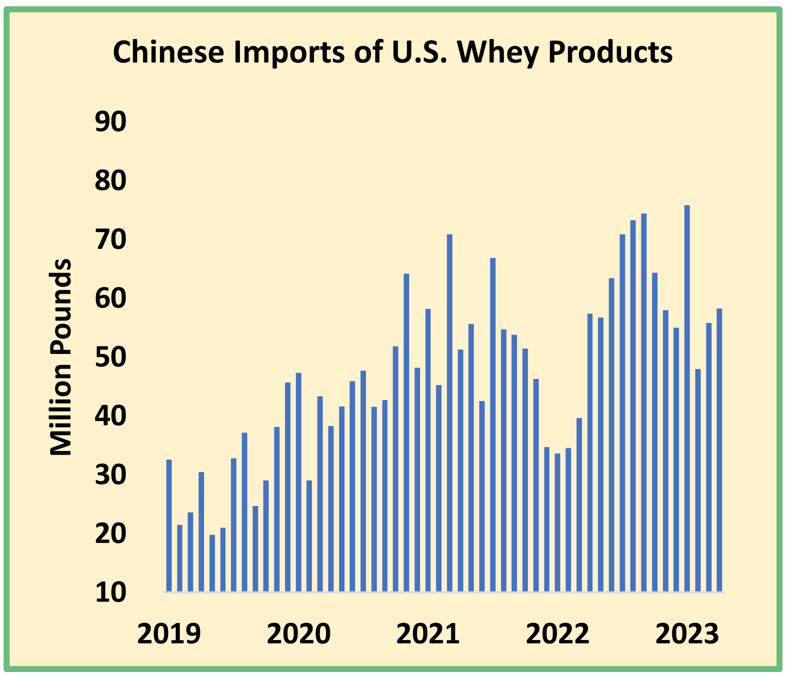
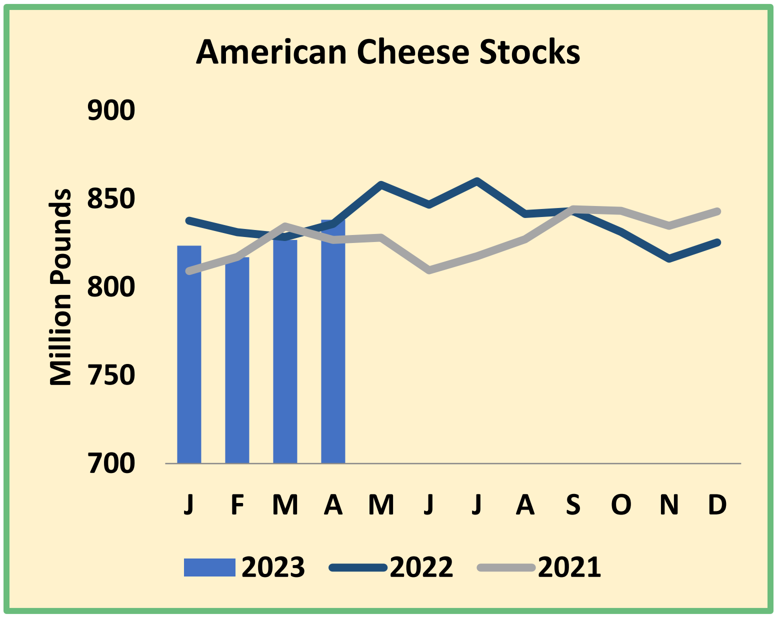
Milk & Dairy Markets

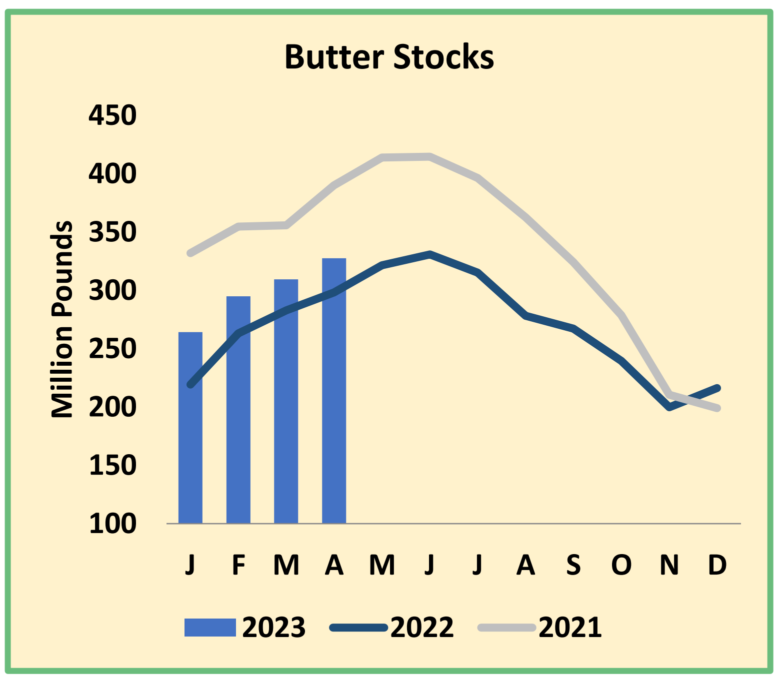
The Class III markets have tumbled for nearly six months. But there are signs that they have finally reached the valley floor. CME spot whey powder touched a record low on Monday, trading below 26¢ for the first time in its five-year tenure at the spot market. But it perked up from there, finishing today at 27.5¢. That's still cheap, but it's a penny higher than last Friday. Traders tell USDA's *Dairy Market News* that whey sold in Chicago is moving abroad. Chinese trade data confirmed healthy demand for whey powder. Although Chinese whey imports fell short of the record-setting volumes of 2021, they exceeded last



year's healthy volumes by 44% in the first four months of the year. The U.S. supplied nearly half of China's whey purchases. Closer to home, demand has been soft, as there are plenty of inexpensive dairy proteins and carbohydrates, and buyers with flexibility are switching back and forth between lactose and permeates, reducing demand for commodity whey. However, "prices are at a point that some say they cannot ignore," according to *Dairy Market News*. There is a lot of whey to be had, but at least the market has found a price that will keep it moving.

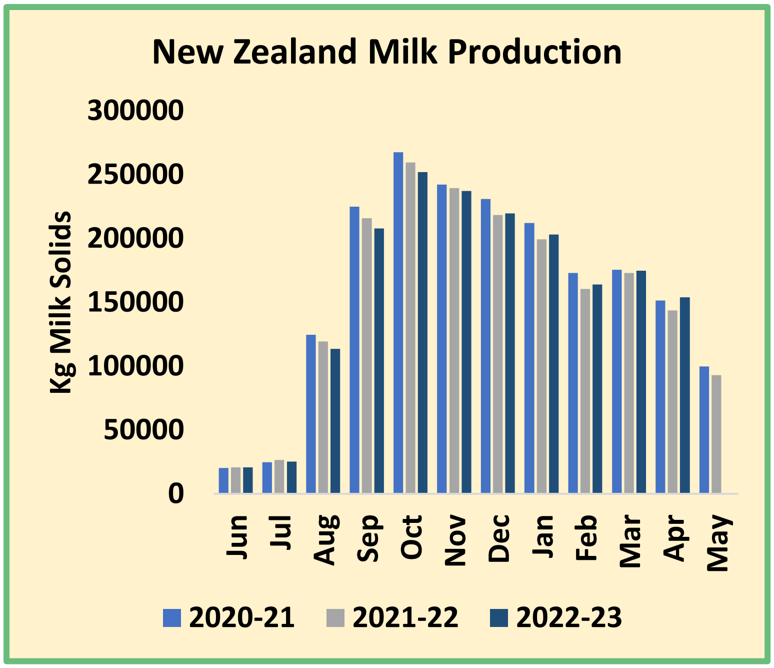


USDA created some fireworks in the cheese market this week, but the excitement quickly fizzled. The agency announced it would solicit bids for up to 47.6 million pounds of cheese to donate to food banks. But it has not yet specified when it would purchase this cheese, which made it difficult for the market to price in the impact, and a selloff at the spot market on Wednesday doused the bulls' initial enthusiasm. Spot cheese values sunk further on Thursday, on the heels of the Cold Storage report, quelling hopes that the new data might have offered a little support to the beleaguered cheese market. USDA reported that cheese stocks grew just 3 million pounds in April, an unusually light stock build for the spring. Total cheese stocks were 1.2% smaller than they were a year ago. However, inventories of American-style cheeses – including the fresh Cheddar that trades in Chicago – grew from March to April and topped prior-year volumes by 0.3%, representing the first year-over-year increase in American cheese supplies in six months. CME spot Cheddar blocks plummeted 5.75¢ to $1.4775, stopping just above a two-year low. But barrels climbed 2¢ to $1.49. Lower prices are reportedly enticing some customers who had reduced their orders to pick up the pace, which could slow the flow of cheese to Chicago. However, production has likely accelerated as well. Several cheesemakers that were down for maintenance are back to full strength.



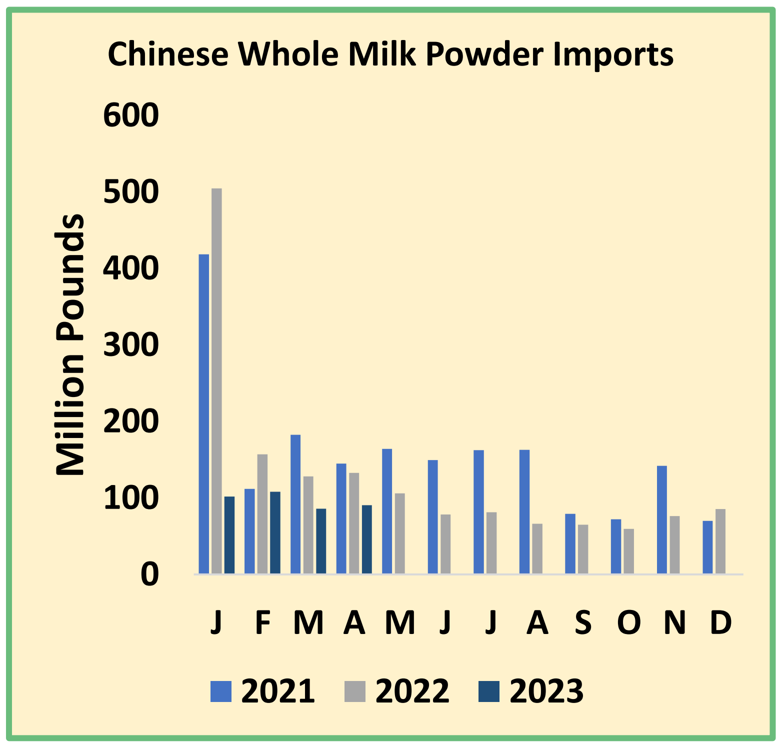
Cheap spot cheese and whey continued to drag down nearby Class III prices. June Class III logged a life-of-contract low today and settled at $15.88 per cwt., down 18¢ for the week. The July and August contracts posted modest losses. But September through December rebounded, and November Class III finished at a more palatable $19.

The Class IV products continue to trade within their well-trod range, and Class IV futures



held steady at around $18 nearby and $19 down the board. CME spot butter slipped 3¢ this week to $2.43. USDA had initially reported a puzzlingly low estimate of March butter inventories, but it revised that figure upward in this week's Cold Storage report. The agency also reported a seasonal increase in butter stocks in April. At the end of last month, there were 327.7 million pounds of butter in U.S. warehouses, 9.8% more than last year but considerably less than in 2021.

Spot nonfat dry milk (NDM) rallied 1.75¢ to $1.17. The heat has helped to knock back milk production just a bit, but there is still plenty to go around, especially as bottlers face slower orders during summer vacation. Driers are running hard, and skim milk is widely available. Mexico continues to buy NDM at a steady clip, but the U.S. faces stiff competition in other markets. Europe has an abundance of skim milk powder (SMP), and so does New Zealand. After a poor start to the season, Kiwi milk collections have topped the prior year in every month since December, including a very strong showing in April. And, thanks to slower demand for whole milk powder (WMP) from China, New Zealand will be turning more of that milk into SMP and dumping the excess cream onto the global market in the form of cheap anhydrous milkfat. Through April, China bought SMP at an impressive pace. But Chinese imports of WMP continued to lag. Last month they fell 32% below April 2022.



Grain Markets

Rain in the Southern Plains is slowly helping to relieve the severe drought there. It's too late to save much of the winter wheat crop, but the showers will help to replenish stock ponds, improve pasture conditions, and restore soil moisture for recent seedings. In the rest of the Farm Belt, the forecast is warm and dry. The trade has stopped worrying about the planting pace and started worrying about thirsty crops. That pushed July corn futures back over $6 for the first time in a month. They settled at $6.04 per bushel, up 49.5¢ in a single week. Soybeans also finished sharply higher, with the July contract at $13.3725, 30¢ higher than last Friday. July soybean meal closed at $402.20 per ton, down another $6.90.

The Producer Review Board had a Meeting

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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On May 25, ten members of the Producer Review Board (PRB) got together with California Department of Food and Agriculture (CDFA) staff and interested members of the public to have an in-person meeting at the Stanislaus County Ag Commissioner's office in Modesto. The Board worked through a full agenda. These days, even approving minutes generates discussion. The minutes from a meeting last June had not yet been approved because of concerns by a PRB member about how discussions then were characterized in the original department staff-generated version of those minutes. Subsequent offers of suggested changes were not yet acceptable and for this meeting, the approval of the June 2022 minutes was not on the agenda. Furthermore, the date of the October 2022, PRB meeting was wrong on the agenda, so those minutes couldn't be approved either. Fortunately, the date on the agenda of the December 5, 2022, minutes was correct and those minutes were passed.

The financial update of the Quota Implementation Plan (QIP) operations was presented. CDFA staff has been auditing and finding that, other than very minor clerical type issues, the collections of the QIP funds from processors has been going on without a hitch. The other major report was on the legacy funds left over from the Dairy Marketing and Milk Pooling branches under the old program. There is approximately $3.5 million in left over from the Milk Marketing Branch, and $3.2 million left over from the Milk Pooling Branch administrative fund. Apparently, it will take legislation to dispose of these funds. The PRB passed a motion asking the CDFA Secretary to solicit suggestions from the dairy industry on how these funds should be directed back to the industry.

On the issue of the 5-year QIP Plan Survey of producers, a formal Request for Proposals (RFP) is currently active. The deadline is June 6 for companies with expertise in this area to submit proposals for how they would conduct this producer survey and how much it would cost. The PRB has scheduled a zoom meeting for June 12 to review those RFP's and make a recommendation to the Secretary. A follow up in-person PRB meeting in July is expected where they would review the questions, methodology and budget of the survey with the firm that is awarded the contract.

There was a legal report that covered a number of lawsuits involving CDFA regarding the QIP. One that was filed by STOP QIP was dismissed by the Appeals Court in April. Another with a processor/producer that did not pay a QIP assessment was decided by the court in the favor of CDFA and the QIP program. It involves $363,000 in assessments, and collection efforts are on-going. The third case was filed last October and involves a claim that the QIP assessment is unconstitutional. That case is in process with a court hearing scheduled for August 4, 2023.

There were six hardship requests generated by the fact that the QIP assessment had collected significantly more money than was needed for the monthly quota payments to producers. The PRB had recommended that this excess be reduced by lowering the assessment rate for a period of time to draw down the nearly $20 million excess. This has happened, but these six producers were unable to fully benefit from the reduction in the assessment either because they were no longer in business or because their herds were much smaller now than when the excess assessments were collected. CDFA denied the requests from the four dairies that are no longer in business in California on the grounds that a hardship request can only be made by an existing producer. The PRB, after a robust discussion, voted to deny the other two requests.

A new discussion was then held on what the assessment rate should be going forward. The amount in the fund was drawn down from over $20 million in July of 2022 to $4.3 million in February of 2023 when the assessment rate was raised back up. The fund creeped back up to $5.7 million in April, so the current rate is again collecting too much money. CDFA staff recommended lowering the assessment to .034 per pound of solids or 29.6 cents per cwt. But the PRB after a long discussion voted to recommend an assessment of .033 per pound of solids or 28.7 cents per cwt. More to come on this subject in future meetings.

Finally, the PRB turned their attention to a presentation from PRB board member Frank Konyn titled, "Does Class I Fund Cover Quota Payments." The main point of the presentation is that the fixed differential of $1.70 per cwt. was set in 1994, which approximated the historical relationship between quota payments and overbase payments. Prior to the fixed differential, quota payments were exclusively based on having Class I and the other higher class milk revenues allocated to quota holders. The fixed differential severed that direct relationship. Since 1994, Class I revenues have dropped steadily and significantly. The presentation by Frank Konyn shows how much Class I revenue is being collected by the FMMO for the benefit of producers in the California federal order since the FMMO started in late 2018 and compares it to the payouts to the quota holders during that same time frame. It varies by month and year, but Class I clearly is generating a lot less revenue to producers than the quota payments. The PRB took no action but seemed quite interested in digesting the information.

Public Comment Meeting for CDFA's Manure Recycling and Innovative Products Task Force to be Held June 7

Courtesy of the California Department of Food and Agriculture

The CDFA's Manure Recycling and Innovative Products Task Force will hold a public meeting on June 7th, 2023 (Wednesday) from 1:30 p.m. to 4:30 p.m. to discuss the latest developments in California's efforts to develop innovative solutions for manure management that foster environmental benefits and economic opportunities.

The meeting is open to all and will take place at the CDFA Auditorium at 1220 N Street, Sacramento. There will be also an option to attend via teleconference.

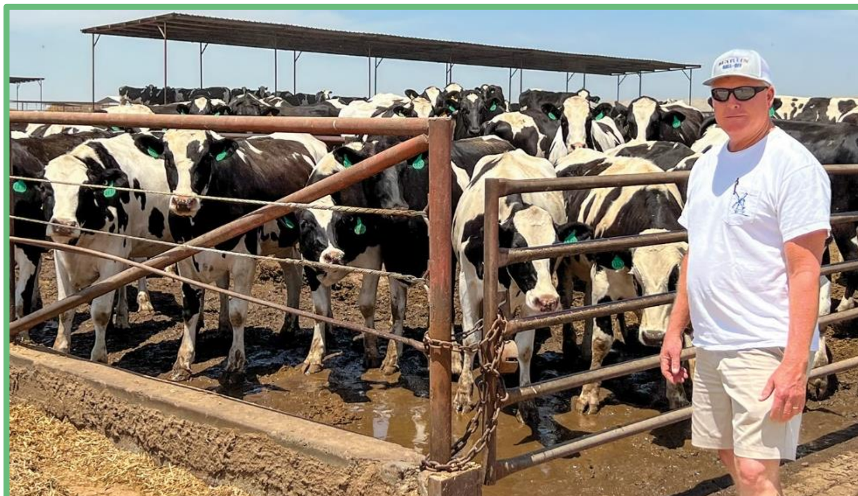
California Secretary of Agriculture Karen Ross, who convened the Task Force in late 2021, will provide opening remarks. During the forum, the Task Force will summarize its recommendations from a report issued earlier this year, while discussing how MRIP plans to continue moving forward with the mission to support the creation of a circular economy based on renewable manure products. In addition, there will be presentations on the latest funding programs and opportunities for innovative environmental projects on dairies. A variety of speakers from the research community and private sector will discuss the latest news and recent advances and the status of various innovative strategies.

Please save the date! A final agenda is being developed and will be posted before the meeting. If you would like to receive notices about this and/or future MRIP Task Force meetings, please signup for CDFA notifications and visit our MRIP website.

Dairies are Returning to Work After Floods

By Lisa McEwen
AgAlert

Dairy operators in Tulare and Kings counties say they are thankful to return to the normal rhythms of feeding, milking and calving after historic flooding in March burst levees and forced dairies to rapidly evacuate their cows.



Peter de Jong, owner of Cloverdale Dairy in Hanford, stands with a herd that returned to the property after more than 5,000 animals were evacuated amid heavy rains and flooding in March. Employees furloughed following the storms are returning to work. Photo: Lisa McEwen

The resumption of dairy activities is welcome news in two neighboring counties where milk and milk products are top commodities. Tulare County is the state's leading milk and milk products producer. Kings County ranks fourth.

Peter de Jong, owner of Cloverdale Dairy in Hanford, evacuated 5,000 cattle over two days in pouring rain in March, a feat he and his staff say they never want to repeat. After spending most of April fortifying the Kings County dairy with 1.5 miles of elevated permanent berms, de Jong has slowly brought his livestock back. He said he expects his remaining 350 cattle to return soon from a relative's dairy.

With the waters of the resurgent Tulare Lake lapping a shoreline a few miles from his dairy, de Jong is cautious when speaking about the epic Sierra Nevada snowmelt. Some of that will flow into Cross Creek not far from his dairy. It is expected to peak in June and July.

"I just don't know what's going to happen," he said. "But at least this time we will have more time to react. Our berms will keep the water away. It all just depends on how fast the lake fills."

De Jong is a 10th-generation dairy farmer who moved from Southern California with his wife, Ingrid, in 1995. He recalls the Tulare Lake bed refilling in 1998. But he said, "I've never seen anything like this."

Although electric pumps continued removing water from low-lying land in front of the dairy, the regular tasks of running a dairy were on full display last week. Wheat silage and oat hay, planted late but growing on land that was not flooded, was being harvested. Six of the eight workers who had been laid off were back on payroll.

“We are farming, we are dairying,” deJong said. He said he anticipates being back at full staff once the last heifers arrive.

About 1,000 acres are still too wet for planting. Additionally, he lost 2,200 acres of wheat that was being grown for silage when the fields flooded in March. During that time, he and his staff relocated 240 truckloads of hay to a neighboring dairy.

Manager George Wilgenburg was directing trucks at the entrance.

“We had cattle and feed trucks coming in and out in heavy rain,” Wilgenburg said. “It was a total logjam of traffic. But fortunately, we didn’t lose any cattle due to flooding.”

To the southeast in Tulare County, dairy farmer Joseph Goni of Tulare was forced to evacuate his cows after Lake Success exceeded its capacity and a levee burst on the Tule River in the middle of the night. Now he is focused on recovery.

“It’s been a roller coaster,” said Goni, owner of Lerda-Goni Farms. “But we’re getting there. The cows are back. Production is back somewhat. The cows are happy to be home. I’m happy to be home. All things considered, we’re fighting one day at a time.”

Goni, a fourth-generation dairy farmer, said he is navigating government assistance programs to try to recoup some of his losses amid harvesting wheat, paying bills for cattle hauling, repairing fences and fixing roads.

Geoff Vanden Heuvel, director of regulatory and economic affairs at the Milk Producers Council, a nonprofit organization representing dairy families throughout California, said while some challenges remain for impacted dairies and a few have ceased operations due to flooding, the rest of the industry continues to operate as normal.

“We are learning a lot from this wet year, and those lessons will be very valuable to all of us in the future,” he said, adding that canal maintenance is a critical component of managing floodwaters and needs to be addressed.

Continue reading here.

Supreme Court Sinks Broad Waters of the U.S. Rule

Courtesy of Jim Mulhern, President & CEO
National Milk Producers Federation

The U.S. Supreme Court yesterday ruled against an expansive legal interpretation of how the Environmental Protection Agency regulates waterways under the Clean Water Act. At issue is the

Obama Administration's Waters of the U.S. regulation, which outlined how the EPA was to use its authority to regulate a variety of waters and streams, including ephemeral and seasonal water sources.

Environmental advocates had asked the court to support the government's authority to regulate waterways that significantly affect downstream water quality, while many farm groups expressed concern that the EPA's power was being expanded beyond just navigable waters, such as rivers and lakes. NMPF had filed comments multiple times with the agency, stressing the need for a narrower interpretation of the scope of EPA's water regulations.

In a 5-4 decision Thursday, the high court said the EPA's interpretation of its powers through the WOTUS regulation went too far and should be narrower. In all likelihood, EPA will now have to start over with developing a new interpretation of WOTUS that is consistent with the Clean Water Act and this week's court ruling.