

# MPC WEEKLY FRIDAY REPORT

DATE: JANUARY 28, 2022  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 7



P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018  
[Office@MilkProducers.org](mailto:Office@MilkProducers.org) • [www.MilkProducers.org](http://www.MilkProducers.org) • Fax (909) 591-7328

## MPC FRIDAY MARKET UPDATE

<b>CHICAGO CHEDDAR CHEESE</b>		<b>CHICAGO AA BUTTER</b>		<b>NON-FAT DRY MILK</b>	
Blocks	-\$0.0175 \$1.7900	WEEKLY CHANGE	-\$0.3950 \$2.5400	<b>WEEK ENDING 01/22/22</b>	
Barrels	-\$0.0700 \$1.7425	WEEKLY AVERAGE	-\$0.2609 \$2.6135	NAT'L PLANTS <b>\$1.6655</b> 18,252,158	
<b>WEEKLY AVERAGE CHEDDAR CHEESE</b>		<b>DRY WHEY</b>		<b>LAST WEEK ENDING 01/15/22</b>	
Blocks	-\$0.0834 \$1.7610	DAIRY MARKET NEWS	W/E 01/28/22 <b>\$0.7650</b>	NAT'L PLANTS \$1.6319 13,682,722	
Barrels	-\$0.1600 \$1.7125	NATIONAL PLANTS	W/E 01/22/22 <b>\$0.7225</b>		

## 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 28 EST	\$21.31 - \$21.81	\$22.83	\$20.36	\$22.90
LAST WEEK	\$21.31 - \$21.81	\$22.83	\$20.29	\$22.80



### Milk, Dairy and Grain Market Commentary

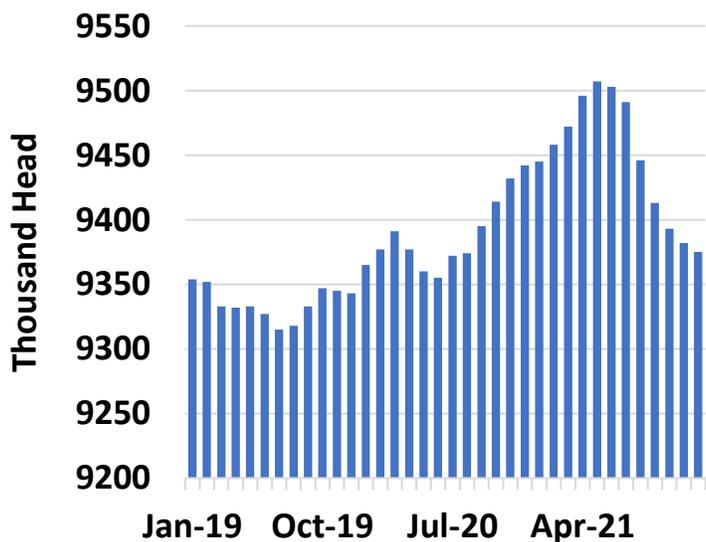
By Monica Ganley, Quarterra

[Monica.Ganley@QuarterraGlobal.com](mailto:Monica.Ganley@QuarterraGlobal.com)

#### Milk & Dairy Markets

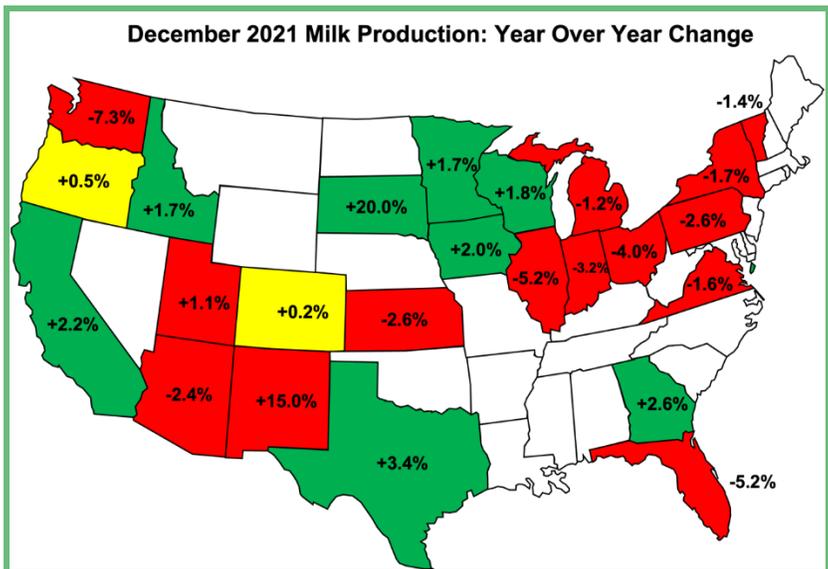
Milk production continues to trail prior year levels according to USDA's Milk Production report, released on Monday. December output totaled 18.825 billion pounds, a decrease of 0.1% compared to the same month last year. A declining national herd continues to drive the contraction in milk supplies with cow numbers falling by 7,000 head between November and December. U.S. cow numbers have been shrinking since May. Totalling 9.375 million head for the month, December marked the smallest herd since August 2020. The evolution in milk supplies has been uneven across the country with major dairy states such as California, Wisconsin, Idaho, and

#### U.S. Dairy Herd

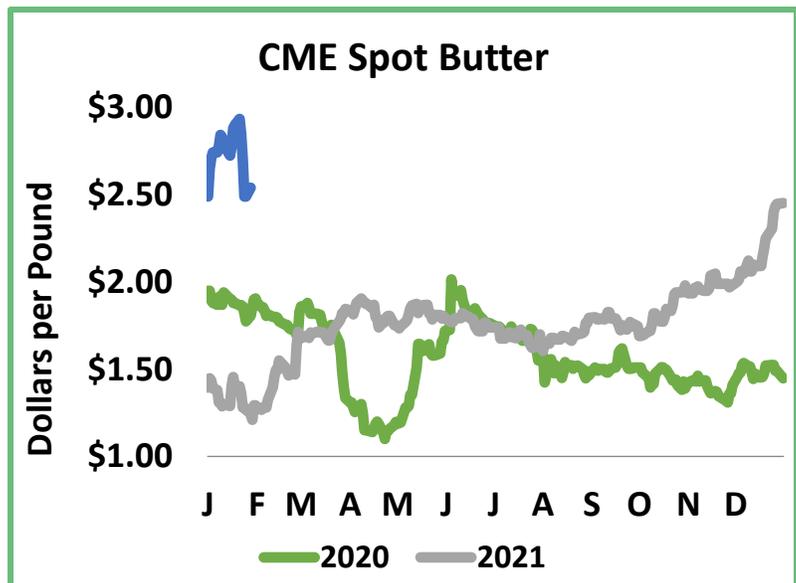


Texas seeing volumes grow year over year in December, while supply restrictions in other states, such as New Mexico, have stymied output.

The decline in U.S. milk production mirrors the contraction seen in other global dairy supply regions. European production is trailing prior year levels with some of the greatest losses seen in major dairy nations like Germany and France. In the Southern Hemisphere, the New Zealand milk production season continues to disappoint with December output down 5% compared to prior year. Argentina is still posting strong production figures, but the volumes are modest and logistical challenges are preventing the resulting dairy products from making a dent in global demand. As such, global milk supplies are lacking and are generally expected to support prices at higher than historical levels over the coming months.



Back at home, despite lagging supply, volatility has reigned in the dairy markets. Nearly every product lost ground at the CME as market participants challenged the high product prices seen in recent weeks. However, the butter markets really stole the show. After hitting a multi-year high last Friday, butter more than erased last week's gains by plummeting 44.5¢ between Monday and Wednesday. A modest recovery on Friday brought the price up to \$2.54/lb., still 39.5¢ lower than last week's price. 24 loads of butter moved over the course of the week.



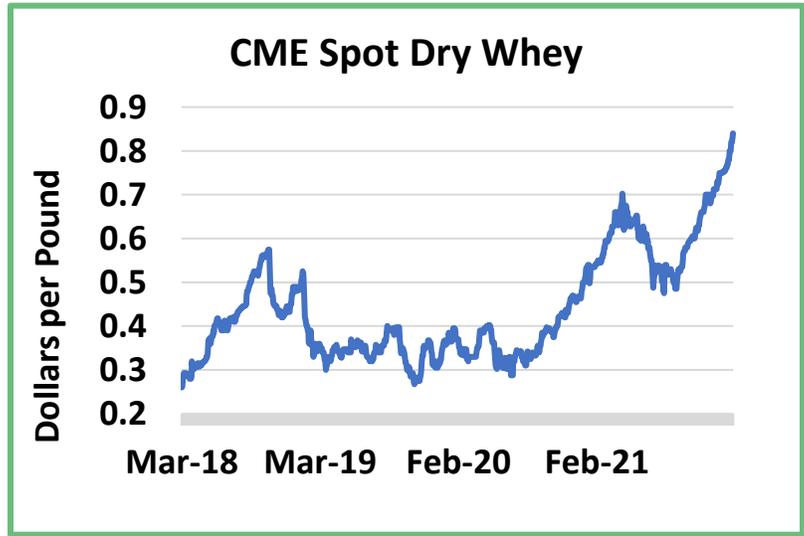
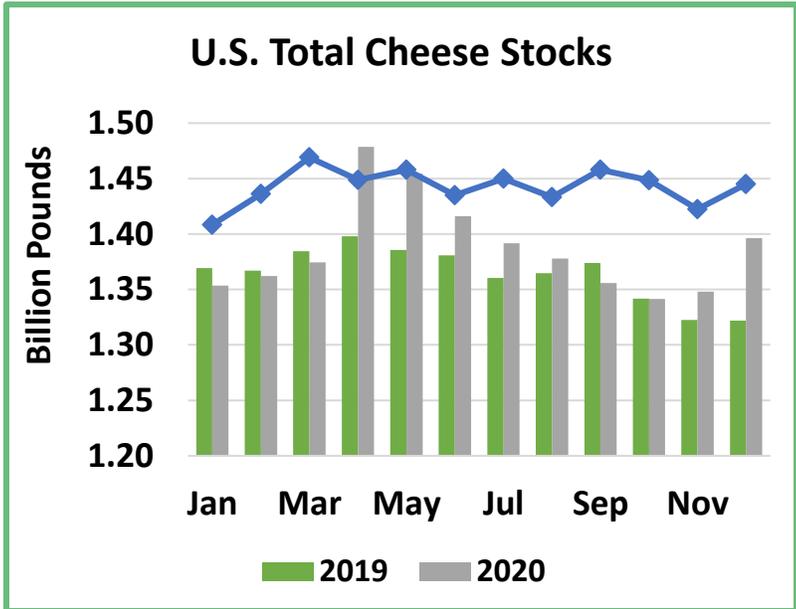
November and reversing the typical seasonal trend. This is the first time in two years that butter stocks have dipped below 200 million pounds. While cream availability has eased somewhat, shortages of plant operators and truck drivers are preventing churns from running as hard as they might like.

On the other side of the Class IV complex, nonfat dry milk (NDM) markets also lost some ground over the week, though the dips were modest next to those of the butter market. Echoing the concerns of butter manufacturers, dryers report that condensed skim loads can be found, but transporting them remains a challenge. The CME price for NDM retreated between Monday and Thursday before perking up on Friday. NDM prices finished the week at \$1.8050/lb. a decrease of a penny versus prior week. The deterioration of the spot values for butter and NDM weighed on Class IV futures prices.

Nevertheless, they remain strong by historical standard with JAN22 through MAY22 contracts settling on Friday at a minimum of \$23/cwt., more than \$1.50 above their Class III counterparts.

The cheese markets continued their slide this week though the degree of movement was less dramatic than last week. Cheddar blocks lost ground early on before moving up by 6¢ during Friday's trade. Blocks closed the week at \$1.79/lb., a 1.75¢ loss compared to last Friday. Barrels saw more pressure, giving up 7¢ over the course of the week to close today's trade at \$1.7425/lb. Volumes were modest with five loads each of blocks and barrels changing hands.

Cheese demand has softened somewhat, particularly from the foodservice channel. This has led cheese inventories to accumulate. At the end of December, total cheese stocks reached 1.445 billion pounds, an increase of 1.6%, or 22.8 million pounds, compared to a month earlier. The inventory build was particularly pronounced for American varieties, which saw stocks increase by 11.5 million pounds between November and December. Exporters report that international demand has remained healthy and should play a role in clearing volumes.



Dry whey was the exception this week, with prices continuing to rise seemingly unabated. Dry whey prices set another record on Friday at 84¢/lb. after adding 4¢ over the course of the week. The whey price rally has now bested the prior record set in April 2021 by 13.75¢. USDA's Dairy Market News reports that the dry whey markets have 'bullish undertones' as demand continues to outpace supplies. Even once reticent buyers have stepped in to purchase product at prevailing price levels. Other whey products, such as whey protein concentrates, are also seeing tight markets and higher prices.

**Grain Markets**

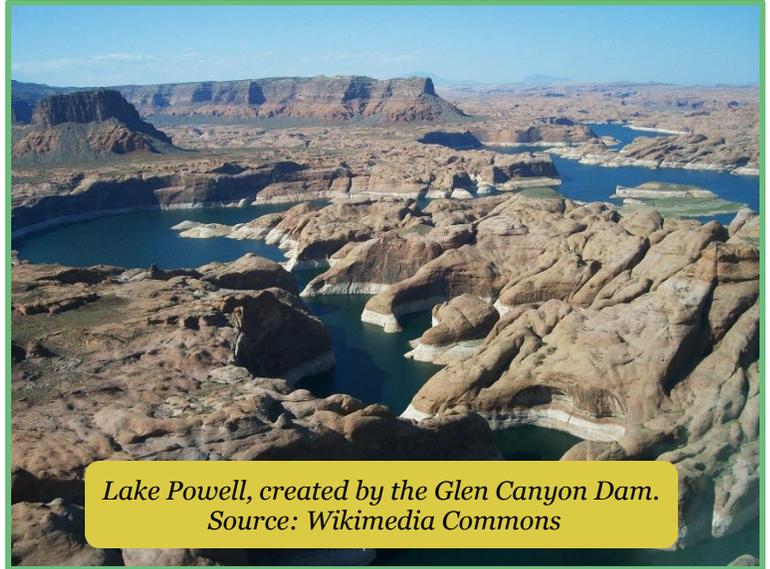
The grain markets appreciated this week as geopolitical conflicts, monetary policy, and persistent concerns over South American weather drove price volatility. Despite a dip on Thursday, the MAR22, MAY22, and JUL22 corn contracts all settled on Friday above \$6.25/bu. with the March contract reaching \$6.36, nearly 20¢ higher than last week. Futures prices for soybeans also rose with the nearby contracts settling in excess of \$14.40/bu. High feed prices are poised to continue challenging producer margins during the coming year.



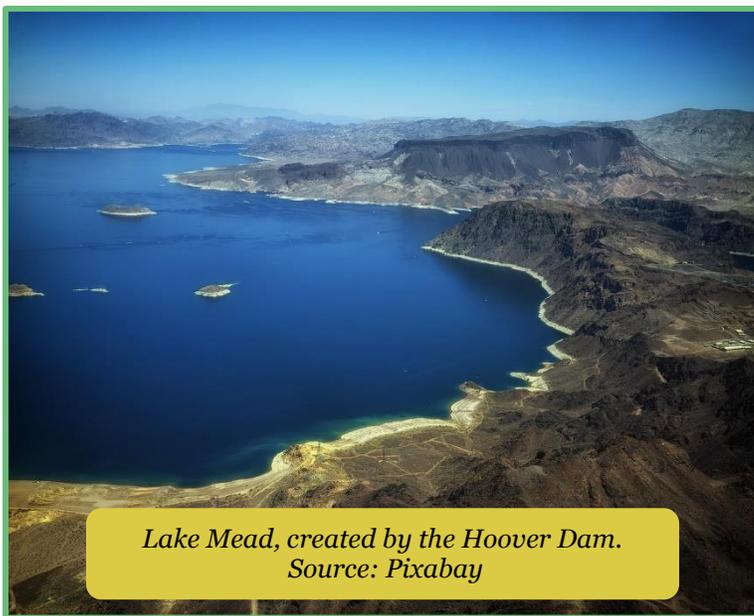
## Keep an Eye on the Colorado River

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

While a lot of focus has been on the drought and its impact on water supplies in the Central Valley, there is another major water source that supports the California dairy industry that deserves some attention. Water from the Colorado River irrigates huge acreages of alfalfa hay in the desert Southwest. The Colorado River watershed has been significantly impacted by a long-term dry period. The two major reservoirs along the Colorado River are [Lake Powell](#) and [Lake Mead](#). They have a storage capacity of 24.3 million acre-feet and 25.9 acre-feet, respectively. What that means is when those two reservoirs are full, they contain about 50 million acre-feet of water. The last time they were full was 1999.



Lake Powell, created by the Glen Canyon Dam.  
Source: Wikimedia Commons



Lake Mead, created by the Hoover Dam.  
Source: Pixabay

By contrast, Lake Shasta, the major source for the Central Valley Project (CVP), has a capacity of 4.5 million acre-feet and is the largest lake located completely in the State of California. Lake Oroville, the major source for the State Water Project (SWP), has a capacity of about 3.5 million acre-feet. When you compare the two systems you notice that the Colorado River system, which is designed to deliver about 15 million acre-feet per year, has a storage capacity that is about three times its annual delivery requirement. The CVP and SWP together are designed to normally deliver a little over 11 million acre-feet per year and they have a combined storage capacity that is less than a year worth of deliveries. This partially explains why deliveries on the CVP and SWP are severely curtailed in dry years.

And it also explains why building more water storage in California is such a priority.

Back to the Colorado River, you can see from these comparisons that the Colorado system has a huge reserve. However, over the 20 years since they were last full, the storage in Lake Mead and Lake Powell has declined to a point where various shortage rules are beginning to kick in. Right now, Lake Mead is less than 35% full and Lake Powell is 26% full.

The Colorado River has a water rights priority system that was [established almost a century ago](#). The States of Nevada, California and Arizona make up the Lower Basin states and are entitled to 7.5 million

acre-feet per year. Mexico is entitled to 1.5 million acre-feet per year. The other states with rights to the Colorado River are Utah, Colorado, New Mexico and Wyoming. The 7.5 million allocated to the Lower Basin States is further allocated, with Nevada entitled to 300,000 acre-feet per year, California at 4.4 million acre-feet per year and Arizona entitled to 2.8 million acre-feet per year.

The California allocation is further divided according to a priority system, with districts lined up in this order: The Palo Verde Irrigation District (PVID), the Yuma Project (California portion), the Imperial Irrigation District (IID), the Coachella Valley Water District, and the Metropolitan Water District of Southern California (MWD). The way the priority system works is each entity in line gets to take the water they are entitled to and then the next in line gets their water until all of the 4.4 million acre-feet of California's allocation is used up. With MWD last in line, it has been very active over the past 30 years in negotiating with the agriculture entities ahead of it to get those entities to use less water.

### MWD built the Colorado River Aqueduct

to transport their allocation from the river to Southern California. The Aqueduct can carry about 1.3 million acre-feet per year, but MWD only has rights to about 550,000 acre-feet in the fifth priority. You can understand why it is important for MWD to get the agricultural districts ahead of them to use less water, which would leave more water within California's 4.4 million acre-feet allocation for MWD. Some of the programs MWD has implemented to



accomplish this goal are a Palo Verde Land Fallowing program, which pays farmers to fallow land. In addition, MWD has purchased almost 25% of the land in PVID outright. They continue to lease it to farmers for agriculture production, but there is no assurance that will continue indefinitely. MWD and San Diego also have executed a substantial water transfer agreement with IID, which moves 200,000 acre-feet of IID water to urban use and quantifies and caps the amount of water IID can use.

All this was going on before the shortages in Lake Mead and Lake Powell became an issue. That shortage now impacts Arizona. The reason Arizona gets cut first is that when Congress passed the Colorado River Basin Act of 1968, which authorized the construction of the Central Arizona Project (CAP), the aqueduct that brings Colorado River supplies to Phoenix and Tucson, the law made Arizona's CAP water supply subordinate to California's 4.4 million acre-feet annual share of the Colorado River. As you can imagine, Arizona was not happy with this law, but had to swallow it to get the CAP built. Water interests on the Colorado, particularly MWD and Arizona, have been working very hard to prevent hitting a shortage determination in Lake Mead because of its impact on Arizona and the fact that MWD is fifth priority for the California portion as well. What was recently announced was the [500+ plan](#), which aims to cut water demand from the Lower Basin States by 500,000 acre-feet per year for the next two years.

Why does this matter to the California dairy industry? When you read of agriculture land fallowing in the Colorado River watershed that means less hay. Dairy is not the only industry that needs hay. There are 700,000 horses in California as well that all eat hay. In fact, there are probably more horses than beef cows in California. Less water means less hay and scarcity. While we contemplate what less water means for dairy in the Central Valley, it is important to keep an eye on the Colorado River dependent areas as well. Historically we have been able to supplement forage supplies from the Southwest region to make up for lost hay acres in the Central Valley. That assumption can no longer be taken for granted.

## Department of Water Resources: Some SGMA Plans “Incomplete”

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

The Sustainable Groundwater Management Act (SGMA) was passed in 2014 and required every area of California that was located over groundwater to become part of a public Groundwater Sustainability Agency (GSA). GSAs in Critically Overdrafted Basins, which is most of the Central Valley, had until January 31, 2020 to produce a Groundwater Sustainability Plan (GSP) to outline how each would reach sustainability by the year 2040. All of the GSAs that were required to do that, accomplished it. The Department of Water Resources (DWR) then had two years to evaluate those plans and give an assessment of them.

Today eight subbasins received their assessments and they were judged to be "incomplete." This is not a surprise. There has been communication from DWR over the past few months that this was coming. The individual GSAs have all geared up to respond to the DWR assessments. They have 180 days to address the concerns and there is no reason to believe that the issues raised by DWR cannot be satisfactorily addressed by the GSAs during that time frame. No doubt there will be scary headlines in the general press this weekend about this, but there is no reason to panic.

## Sign Up: Ag Export Supply Chain Crisis Webinar January 31

*Courtesy of Agri-Pulse*

Agriculture Secretary Tom Vilsack has confirmed that he will speak at the Jan. 31 webinar, “Digging into the ag export supply chain crisis and how to fix it.” The event starts at 1 p.m. ET.

Krysta Harden, president and CEO, U.S. Dairy Export Council (USDEC) will moderate a panel that will include Agriculture Secretary Tom Vilsack, along with White House Ports Czar John Porcari, Reps. John Garamendi, D-Calif., and Dusty Johnson, R-S.D.

REGISTER TODAY

A webinar:  
Digging into the  
ag export  
supply chain  
crisis and how  
to fix it

Jan. 31 at 1 p.m. ET

Presented by:

Agri-Pulse NMPF U.S. Dairy Export Council

Jaime Castaneda, executive vice president of policy development and strategy, National Milk Producer Federation (NMPF) will moderate the industry supply chain panel. Participants include:

- Mike Durkin, president and CEO, Leprino Foods
- Andrew Hwang, manager of business development and international marketing, Port of Oakland
- Jon Eisen, director of the Intermodal Motor Carriers Conference, American Trucking Association

The event is sponsored by the National Milk Producers Federation (NMPF) and U.S. Dairy Export Council (USDEC).

Register [here](#).



## Air Resources Board Rejects Petition to Prohibit Biomethane from Manure from Low Carbon Fuel Standard Program

By Kevin Abernathy, General Manager

[Kevin@MilkProducers.org](mailto:Kevin@MilkProducers.org)

California dairy families who have built, are in the process of building or thinking about building a dairy digester received some good news this week. Richard Corey, Executive Officer of the California Air Resources Board (CARB), informed environmental activist groups that their petition to exclude all fuels derived from biomethane from dairy and swine manure from the Low Carbon Fuel Standard (LCFS) Program had been rejected. You can read the letter from CARB denying the petition [here](#).

The LCFS Program is a crucial tool for California in meeting its ambitious greenhouse gas goals as well as for dairy families who produce biogas used as transportation fuel. The program seeks to reduce the carbon intensity of transportation fuel used in California by encouraging the use of low-carbon alternative fuels and incentivizing the production of those fuels. Dairy biogas is one of the lowest carbon-intense fuels available, making it a sought-after replacement for diesel. Thanks to the LCFS, the climate and dairy families succeed.

We applaud CARB's decision and look forward to working with the agency through Dairy Cares to build on the success of this innovative program by harnessing the power of clean, renewable dairy biogas.

## February 2 Webinar: Compost Bedded Pack Barn Installation, Management

Dr. Michel Payne,

[California Dairy Quality Assurance Program](#)

Dairy producers have successfully reduced manure flow to lagoons by installing and managing compost bedded pack barns. Join us for an introduction to, and overview of, compost bedded pack barn installation and management on dairies. View a case study and ask questions of dairy producers who have utilized this management practice with Alternative Manure Management Practice funds.



The webinar is from 4-4:30 p.m. Wednesday, February 2. Registration is \$10 and available [here](#).



April 12-14, 2022  
Virtual Event

