Milk & Dairy Markets
Cows in the Midwest got a brief break from the heat, but the mercury is going to climb once again over the holiday weekend. Midwestern dairy producers report that milk yields dropped hard last week and then recovered. They’re bracing for the next heat wave. Temperatures are projected to run 15° to 25° above normal in the Northern Plains starting today, with sweaty conditions moving eastward over the next few days.

The combination of high temperatures and high cull rates have noticeably reduced milk supplies in the region. Despite anticipated

Milk, Dairy and Grain Market Commentary
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com
slowdowns in dairy processing ahead of Labor Day, there was very little spot milk to be had this week. For the first time since 2021, every load of spot milk changed hands at a premium this week. Midwestern cheesemakers kept their vats full of cheap milk through the spring and most of the summer, but now they are slowing down. USDA’s Dairy Market News reports that persistent labor issues and an increase in bottling for school milk programs has slowed the flow of milk to cheese vats in the Northeast. Meanwhile, cheese output continues apace in the West.

Domestic cheese demand remains strong. The trade assumes that exporters are shipping cheese they committed to sell months ago, when prices were much lower. But fresh demand for exports is soft. Cheese prices perked up in Chicago, led by a 7¢ jump for Cheddar barrels. They closed today at $1.87 per pound, matching their highest price since March. Blocks stepped boldly toward the $2 mark and then backed away, but they still managed to gain a half-cent this week. They finished at $1.95.

Slower cheese output has tightened up whey supplies and, at long last, demand for whey protein products is perking up. Manufacturers are shifting more of the whey stream into concentrates, leaving less for the drier. Dairy Market News summed it up last week, “Limited milk availability for cheese processing, along with recently firming high protein blend markets, have created a slightly bullish safety net for a market that has been struggling to gain traction for a better part of the calendar year.” CME spot dry whey climbed 2.5¢ this week to 30.5¢, its highest mark since May. Dairy producers should be relieved to see some signs of life in a market that has been a drag on Class III values for so long.

USDA announced the August Class III milk price at $17.19 per cwt., up $3.42 from a horrendously low $13.77 in July but down $2.91 from August 2022. The July milk prices pushed income-over-feed margins to just $3.52 per cwt. of milk production, according to the Dairy Margin Coverage (DMC) program’s formula, the lowest showing for the index since 2012. Dairy producers with 5 million pounds of annual DMC coverage at the highest – and most popular - $9.50 tier should expect indemnity payments of nearly $25,000 in both June and July.

Going forward, prices look much better, but, as the Daily Dairy Report points out, “With milk prices hovering between $18 and $19, some dairy producers will continue to lose ground, while...
and butter makers are ramping up output. Ice cream production is winding down and, now that bottlers are working harder to satisfy school milk demand, they have more cream to sell. Demand remains strong. In the first half of the year, domestic butter consumption reached a new high, up 8.7% from the first six months of 2022.

Milk powder prices fell once again. CME spot nonfat dry milk (NDM) dropped 3¢ to $1.075, a new 2023 low. Tighter milk supplies have reduced drying activity from coast to coast. Dairy Market News reports that in California, “some balancing plants are not currently operating.” Nonetheless, milk powder prices just can’t get up off the mat. Supplies are fading, but demand continues to disappoint. Until Chinese whole milk powder imports improve, Kiwi and European merchants will sell milk powder at prices low enough to keep product moving. Closer to home, some cheesemakers are starting to fortify their vats with NDM now that spot milk has dried up. There are hints that low prices may finally be starting to cure low prices in the U.S. milk powder market.

Grain Markets
Feed values retreated. December corn closed today at $4.815 per bushel, down 6.5¢ from last Friday. November beans fell 18.5¢ to $13.6925. December soybean meal dropped $15.40 to $399.60 per ton. Much of the setback came Tuesday, on the heels of USDA’s weekly assessment of crop conditions. The agency reported modest declines in corn and soybean ratings, but the trade had expected worse after last week’s sky-high temperatures. The trade will be watching closely to see how the crops fare after what promises to be a scorching long weekend. Corn kernels and soy pods are drying quickly, which is likely to reduce yields as harvest nears.
There was a lot of hard work put in this week at the Federal Milk Marketing Order (FMMO) hearing in Carmel, Indiana.

Issue #1, the Milk Component change proposals, were for the most part completed. There are at least two different factors that generated conflicting testimony on Issue #1. These proposals would raise the skim value in Class I, and of course fluid milk buyers vigorously object to that.

The second factor generating conflict is that both proposals want to delay the implementation of the higher component levels by a year to minimize the impact of these proposals on risk management tools. By definition, risk management is about locking in future milk prices and if the FMMO affects these prices by changing the rules, then it creates significant uncertainty, which affects the functioning of the risk management tools. There were voices who wanted the delay to be longer, there were voices who wanted it to be shorter, and others who wanted no delay at all.

Interestingly, the National Milk Producers Federation’s (NMPF) proposal to change milk components seeks a delay in implementation. But in a separate proposal on make allowances, that would also impact Class III and IV prices, they want the changes implemented without a delay. When their witness was asked about this inconsistency, the response was that NMPF had to weigh the various factors, and on balance, this is where the group came out. While some might be critical of this apparent inconsistency, it does point out that the FMMO hearing process is about finding a balance between competing interests, and even within the producer community, there are competing interests that need to be balanced.

The week was not without its legal controversies. As I reported last week, two groups who had submitted proposals that USDA had not accepted for consideration at this hearing filed official objections to the exclusion of their proposals. On Tuesday, USDA gave their response to the objections. This then set off nearly an hour of legal argument about the merits of the exclusion and differing opinions on the administrative law judge’s authority to essentially order the Secretary of Agriculture to reopen the notice of hearing. The USDA attorney’s position is that the judge does not have that authority. The judge took all the argument under advisement, and we will get a ruling from him later.

Thursday saw another hour of legal wrangling as lawyers for the processors tried to put off the expert testimony of Dr. Kaiser from Cornell University, who is an expert in the economics field of price elasticity. The objecting lawyers argued that the NMPF attorney had not let them know the day before that Dr. Kaiser was going to be appearing the next day and so they claimed they were not prepared for cross examination of Dr. Kaiser. NMPF said that Dr. Kaiser’s written testimony had been posted on the USDA website for over a week and that there was no rule that required advanced notice. NMPF also noted that Dr. Kaiser was a professor who could only attend on Thursday, and that the failure to identify his appearance was simply an oversight and not intentional. After an hour of arguing, a compromise...
was worked out where Dr. Kaiser was allowed to testify, and the lunch hour was expanded to two hours to allow for the opposing attorneys to prepare. This compromise did not remove the formal objections of the processors’ attorneys, but the show did go on. Dr. Kaiser’s testimony was very helpful in understanding the price inelasticity of Class I fluid milk. Dr. Kaiser’s main contention is that the evidence shows that the decline in Class I milk sales over the past twenty years is not primarily due to price, but to other factors. If you have interest in this topic, you can read his testimony here.

Issue #2 for the hearing is Surveyed Commodity Products proposals. There is a proposal to add mozzarella cheese to the list of product prices surveyed for the Class III formula. Some of the questions about this proposal are around the fact that there is not an industry standard mozzarella product or package size. There is very limited price information for mozzarella, and there is no accepted yield standard or manufacturing cost data for mozzarella, and therefore to make this proposal a reality, a lot more information would have to be developed.

The big item in Issue #2 is the proposal by NMPF to eliminate barrel cheese from the surveyed prices. NMPF put on two cooperative cheese plant managers as witnesses who had extensive knowledge of the cheese business. Both made the case that in 2017 the cheddar barrel price relationship to the 40# block price began to diverge in a way that was creating great market instability, which continues to this day. This divergence was estimated to have reduced dairy producer Class III income by over $2 billion since 2017 from the depression in the Class III price caused by the inclusion of barrels in the formula. The chart below from the testimony of Darin Hanson, Foremost Farms, Middleton, Wisconsin, depicts the $2 billion impact to dairy producers.

<table>
<thead>
<tr>
<th>Year</th>
<th>Class III Annual Milk Pounds</th>
<th>Class I Annual Milk Pounds</th>
<th>Class I Pounds Driven by Class III</th>
<th>Class III Plus Class I</th>
<th>Converted to cwt</th>
<th>NDPSR Block Barrel Spread</th>
<th>Spread Minus $0.03/lb</th>
<th>Converted to cwt Impact</th>
<th>$ Impact to Dairy Producers</th>
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</thead>
<tbody>
<tr>
<td>2017</td>
<td>55,897,144,585</td>
<td>40,654,705,100</td>
<td>37,236,216,602</td>
<td>93,133,363,187</td>
<td>931,333,614</td>
<td>$0.07</td>
<td>$0.04</td>
<td>$0.17</td>
<td>158,500,097</td>
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<tr>
<td>2018</td>
<td>61,583,657,246</td>
<td>40,946,720,574</td>
<td>33,708,732,204</td>
<td>95,292,385,450</td>
<td>952,923,895</td>
<td>$0.12</td>
<td>$0.09</td>
<td>$0.42</td>
<td>397,608,766</td>
</tr>
<tr>
<td>2019</td>
<td>94,190,767,175</td>
<td>43,881,888,527</td>
<td>28,848,888,587</td>
<td>93,085,761,762</td>
<td>930,397,618</td>
<td>$0.08</td>
<td>$0.05</td>
<td>$0.24</td>
<td>218,844,406</td>
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<tr>
<td>2020</td>
<td>42,993,800,487</td>
<td>43,766,328,393</td>
<td>21,883,351,592</td>
<td>54,785,452,879</td>
<td>547,864,325</td>
<td>$0.27</td>
<td>$0.24</td>
<td>$1.35</td>
<td>632,801,428</td>
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<tr>
<td>2021</td>
<td>37,560,253,627</td>
<td>42,127,245,523</td>
<td>21,063,624,762</td>
<td>58,623,886,362</td>
<td>586,238,894</td>
<td>$0.14</td>
<td>$0.11</td>
<td>$0.51</td>
<td>297,472,559</td>
</tr>
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<td>2022</td>
<td>81,785,488,925</td>
<td>40,986,267,286</td>
<td>20,493,113,643</td>
<td>102,278,617,748</td>
<td>1,027,780,172</td>
<td>$0.01</td>
<td>$0.02</td>
<td>$0.10</td>
<td>(101,759,894)</td>
</tr>
<tr>
<td>2023</td>
<td>42,243,929,840</td>
<td>20,038,946,861</td>
<td>10,019,673,481</td>
<td>52,263,402,873</td>
<td>522,634,025</td>
<td>$0.19</td>
<td>$0.36</td>
<td>$0.78</td>
<td>408,939,822</td>
</tr>
</tbody>
</table>

*The table shows the impact on dairy producer revenue of actual block/barrel spread versus if the spread was $0.03/lb spread (as used in the Class III formula) during 2017-2023 (June). Calculations based on total Class III milk volume plus Class I volume impacted by the Class III price. Since 05/2019 this volume is half of the Class I volume. Prior to 05/2019, the volume included are the months where Class III was the 'higher of' price of the Class III and IV. Based on Class III pricing formulas, every year it was asserted that at least 75% and up to 90% of total cheese in the US is indexed off of the 40# block price and that the inclusion of the barrel price depresses not only Class III, but also Class I prices that include the depressed Class III in the base price.

The witnesses were asked why there has been a divergence since 2017. It seems to be related to the Chicago Mercantile Exchange influence on barrel prices and some of the CME rules which deal with quality and transportation requirements. There was also some discussion around the fact that the whey stream from a barrel operation is potentially of higher value than whey from a block operation, which might explain part of the divergence in the cheese price reported by the different operations. These witnesses provided significant insight into how the cheese markets work and made a strong case that barrel cheese can no longer be used to create a “synthetic 40# block cheese value” since blocks and barrels, which for decades had moved generally together in price, are now separate markets and move
in divergent directions. The current formula assumes identical yields and costs for cheddar blocks and barrels, and in the formula automatically adjusts moisture levels and adds three cents per pound to the barrel price as a proxy for the assumed lower packaging costs of barrel cheese.

Also on Friday, six dairy farmers were able to testify virtually, including MPC member Gerben Leyendekker, who testified in favor of the NMPF proposals.

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

To view the webinar: [https://www.zoomgov.com/j/1604805748](https://www.zoomgov.com/j/1604805748)
Or One tap mobile: +16468287666,,1604805748#
Or Telephone: +1 669 254 5252 Enter Webinar ID: 160 480 5748
If you have any technical difficulties, please email [FMMOHearing@usda.gov](mailto:FMMOHearing@usda.gov).

**Central Valley Water Board Postcards Mailed to Priority 2 Dairies, Bovine Operations**

*Courtesy of the Central Valley Dairy Representative Monitoring Program*

On August 14, the Central Valley Water Board mailed a postcard to water quality permit holders in so-called "Priority 2" areas as part of their Nitrate Control Program. The mailing to about 1,000 water quality permit holders included 412 dairies and 130 non-dairy cattle operations. The mailing covered an area that includes the groundwater sub-basins (not to be confused with cities or counties) known as Merced, Madera, Kern (Poso and Westside South subbasins), Tulare Lake, Eastern San Joaquin, and Delta Mendota. See Priority 2 areas on the [map](#), which are highlighted in orange.

The card notifies recipients that they "will be asked to choose between more stringent nitrate requirements or an option where neighboring dischargers will collaborate to reduce nitrates while providing replacement drinking water to local..."
residents whose wells are impacted by nitrates" and adds that the Central Valley Water Board "will be mailing out Priority 2 Notices to Comply with the new regulations starting in December 2023."

Dairies and bovine operations who received the postcard may have questions – here are a few key items:

1. The postcard requires no immediate action on their part and is only an informal notice that a formal "Notice to Comply" letter will be mailed in December.

2. Despite the text about being "asked to choose," dairies and full-coverage bovine operations will not need to make a choice. As members of the Central Valley Dairy Representative Monitoring Program, they will be automatically enrolled in their local Nitrate Management Zone.

3. There will be costs associated with participating in the Nitrate Management Zones (costs already being paid by dairies in Priority 1 areas). These costs have typically ranged from just over $100 annually for very small operations, to a few thousand dollars annually for the largest operations. CVDRMP will be contacting its member dairies and bovine operations with information as soon as it becomes available (likely not before early 2024).

Dairy operators with questions can contact MPC or CVDRMP (cvdrmp@gmail.com or 916-594-9450).

The California Dairy Quality Assurance Program released its latest update, which can be read in its entirety here.

Central Valley Water Board Highlights

Tips for Continued Compliance
By Denise Mullinax, Executive Director, California Dairy Research Foundation; Assistant Director, CDQAP

Central Valley producers have been operating under General Order requirements since 2007. Continued compliance includes ensuring attention to accurate reporting and prompt follow-up on all
issues that arise. Recent discussions with Water Board staff have highlighted a few areas that may warrant your attention to ensure your continued compliance.

**Notice of Violation (NOV) and Priority Reporting of Significant Event (PROSE) Reports**

Should your dairy receive an NOV or a PROSE Report request as a follow-up to an inspection, prompt WRITTEN follow-up is needed in addition to addressing any on-farm improvements that may have been identified.

**Accurate Cow Number Reporting**

Cow numbers reported in your Annual Report each year should reflect the current number of animals at the facility in each production category.

*Continue reading here.*

**Help CDRF and UCD Measure Dairy’s Sustainability Efforts**

*Take the Survey!*

To demonstrate to consumers that the dairy industry’s sustainability efforts are working, we need a baseline. That’s why the California Dairy Research Foundation (CDRF) is funding UC Cooperative Extension to collect benchmark data. The short survey will provide powerful information on how producers’ efforts are making a difference now and in the future on energy and water conservation and groundwater protection. The online survey only takes 10 minutes to complete and can be done anonymously.

To complete the short survey [click here.](#) Any questions can be directed to UCCE Dairy Advisor Jennifer Heguy at (209) 525-6800 or jmheguy@ucdavis.edu.

**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.
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.

Dairy farmers have the opportunity to provide feedback to lawmakers about the challenges of finding and maintaining their workforce. The House Agriculture Committee’s newly formed Agricultural Labor Working Group has released an online survey requesting input from the agricultural community about farm labor issues. Feedback from dairy farmers, employees and other stakeholders is requested to provide insight into dairy’s significant workforce challenges, including its exclusion from the H-2A farmworker program.

The brief survey includes mostly multiple-choice questions with several boxes where you can share more detailed experiences and opinions. Please contribute to the survey by Friday, September 15.