MPC Weekly Friday Report

Date: March 3, 2023
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	+ $.0700	$1.9500
Barrels	+ $.0350	$1.5750
Weekly Average Cheddar Cheese		
Blocks	- $.0215	$1.9160
Barrels	- $.0050	$1.15675

Chicago AA Butter		
Weekly Change	- $.0850	$2.3450
Weekly Average	+ $.0015	$2.3940
Dry Whey		
Dairy Market News	w/e 03/03/23	$.4300
National Plants	w/e 02/25/22	$.4028

Non-Fat Dry Milk		
Week Ending 02/25/22		
Nat'l Plants	$1.2297	23,133,403
Last Week Ending 02/18/22		
Nat'l Plants	$1.2480	27,003,727

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
Mar 3 Est	$20.59 - $21.09	$19.28	$17.75	$18.51
Feb '23 Final	$22.38 - $22.88	$20.83	$17.78	$18.86

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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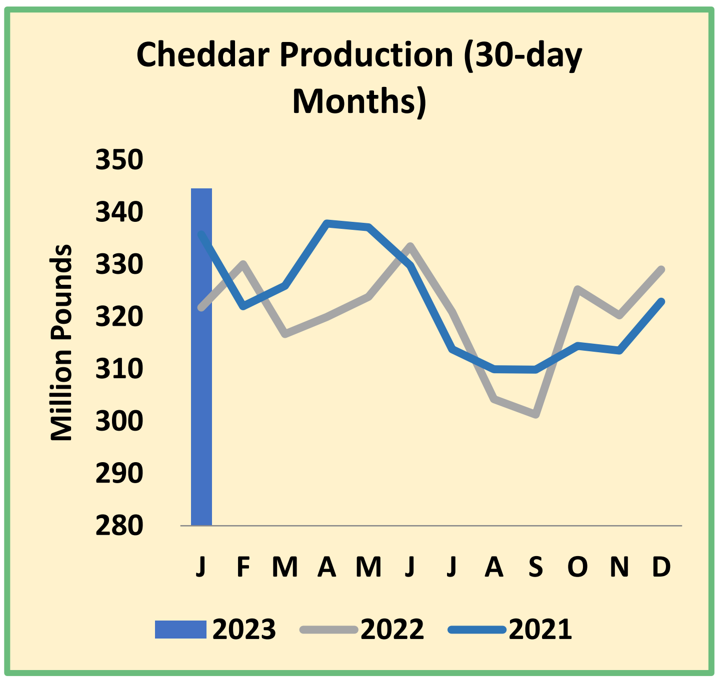
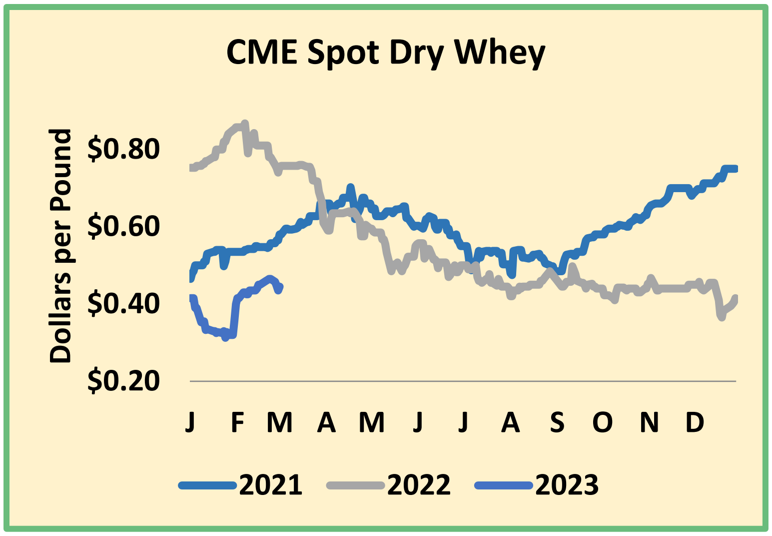
Milk & Dairy Markets

The dairy markets are reeling after a bruising week on LaSalle Street. March Class III milk eked out a 3¢ gain, and November and December Class IV added a few cents. Every other milk contract on the board finished in the red. May through July Class III and April through September Class IV contracts lost 30¢ or more. USDA announced the February Class III price at $17.78 per cwt., with Class IV at $18.86. The futures forecast more of the same, with Class III milk will below $18 and Class IV under $19 for another three months.

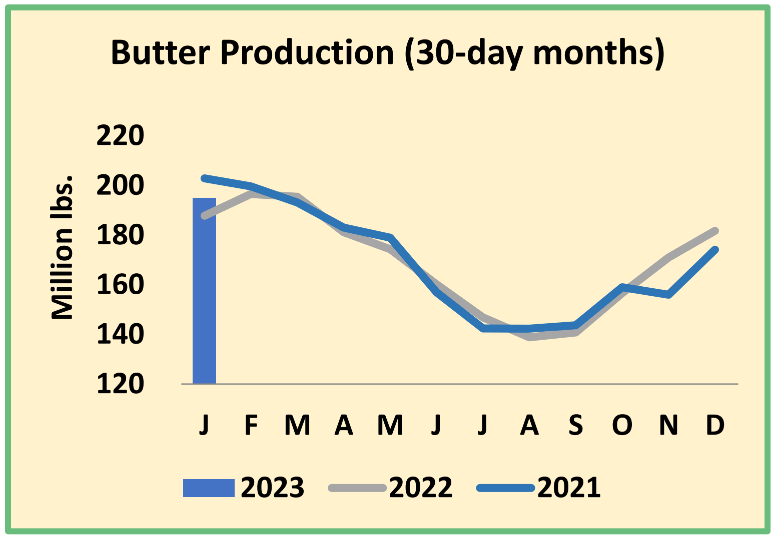


That's simply not enough to pay the bills. Cull rates are high, and there is a long list of dairies for

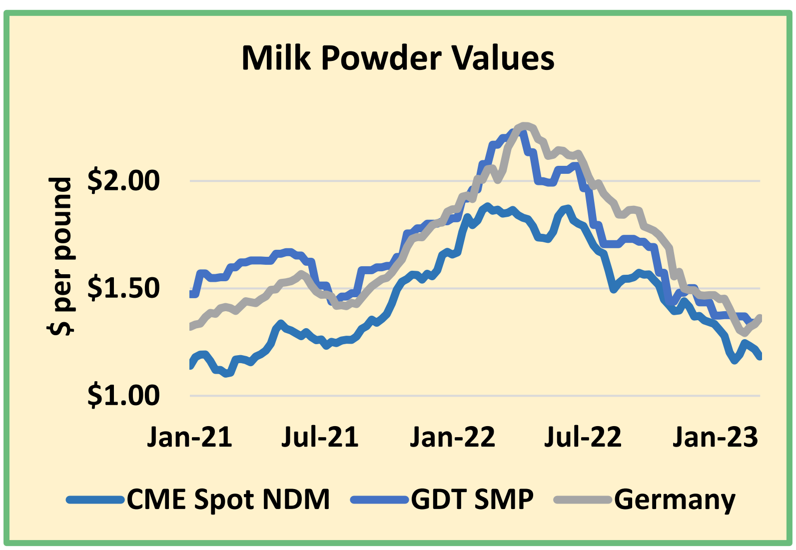


sale at the major auction houses. But it will take some time – perhaps six months or more – before this pain on the farm translates to less milk.

For now, there is milk aplenty. In the heart of the country, excess loads of milk sold for as much as $10 under class for the 10th straight week. Cheesemakers continue to run hard. January cheese output topped 1.2 billion pounds in January, up 3.2% from the year before. Cheddar production leapt 7.1%. The steep increase came as a surprise, especially after the recent Cold Storage report showed a decline in cheese stocks from December to January. Clearly, consumers are happy to buy cheese now that it's cheaper. Strong demand may explain why spot Cheddar values improved in Chicago this week. Spot blocks jumped 7¢ to $1.95 per pound. Barrels rallied 3.5¢ to $1.575.



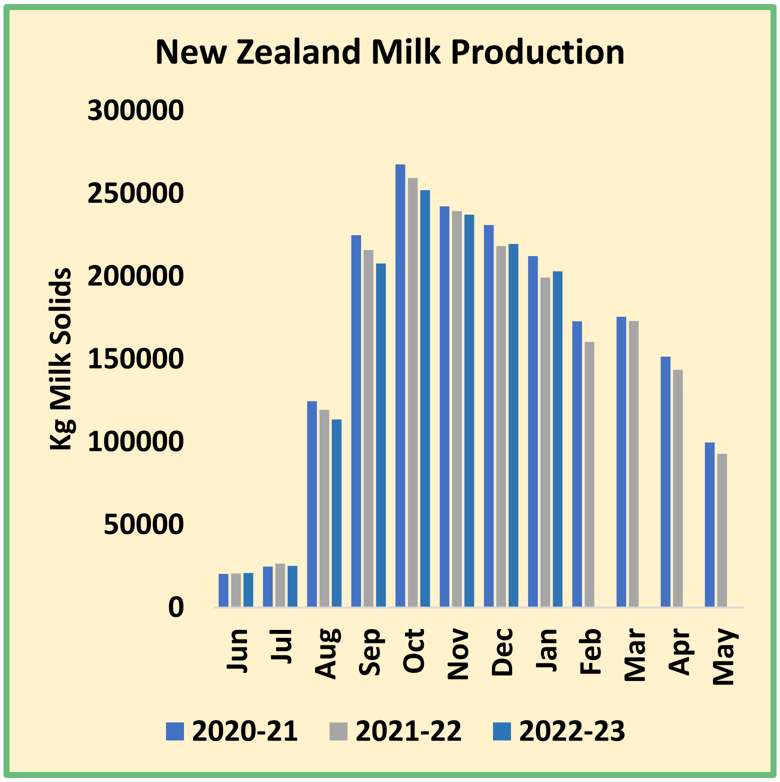
Whey output was curiously light in January. USDA reported dry whey production at 71.85 million pounds, down 7.7% from a year ago and the lowest January production since 2014. Output of whey protein concentrates and isolates was also well below year-ago levels. Dry whey stocks declined from December to January, but they were still 19.5% higher than the unusually low volumes of January 2022, when whey values reached all-time highs. This year, whey prices are well off the January lows and hovering in the 40 to 45¢ range. Spot whey closed today at 44.5¢, 2¢ lower than last Friday.



Butter makers churned out 201.4 million pounds of product in January. That was 3.8% more than the atypically small volumes of January 2022, but it was still lighter than January output in 2020 or 2021. After logging a new 2023 high last week, spot butter retreated 8.5¢. But it is still comfortably within the recent trading range.

Milk powder prices continue to lose ground. CME spot nonfat dry milk (NDM) closed today at $1.1775, down 3.75¢. Whole milk powder prices also slipped at this week's

Global Dairy Trade Pulse auction. However, benchmark skim milk powder (SMP) prices in Germany have climbed for three straight weeks, and USDA's Dairy Market News reported upticks in European and South American SMP over the past couple weeks. The market seems to be feeling around for a bottom. But further upside is likely limited in the short term. Milk powder prices are low enough to ensure healthy consumption, but buyers are aware that discounted milk is keeping driers full, and the milk surplus is likely to worsen throughout the spring flush. Importers and domestic users have slowed purchases, hoping for even cheaper opportunities down the road.



Driers ran at a healthy clip in January. Combined production of NDM and SMP reached 219.8 million pounds, up 2.8% from a year ago. Manufacturers' stocks of NDM climbed 16.5 million pounds from December to January, slightly ahead of historic average growth.

Oceania milk collections perked up a bit in January, with gains in New Zealand compensating for losses in Australia. Both nations will likely record a deficit in the 2022-23 season, with season-to-date collections down 6.6% in Australia and 2% in New Zealand. But the modest recovery in New Zealand in January likely means more competition in the global milk powder market. With milk output on the rise in New Zealand, Europe, and the United States to start the year, 2023 is shaping up to be much tougher than 2022.

Grain Markets

The selling continued in the grain pits this week. May wheat fell 13¢ and May corn dropped 9.5¢ to $6.3975 per bushel. It's been a while – three months, to be precise – since May corn futures dropped below $6.40, and last time around the stay was very brief. The market seems to be gearing up for a déjà vu, as the bulls finally returned late in the week. Global corn supplies remain tight, and the Argentine corn crop is withering in the heat. Thankfully, a massive Brazilian crop will help to fill in some of the shortfall to the south.

The soy complex was quiet. May soybeans closed at $15.1875, down a half-cent from last Friday. May soybean meal finished at $480 per ton, up $1.30 for the week.

Lower corn prices will offer some relief to dairy producers, who continue to struggle with hefty feed bills. But the selloff in grains will do nothing to reduce corn silage, forage, and protein costs, which remain frustratingly high.

DWR Makes Initial SGMA Determinations

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

Eight and a half years after the passage of the Sustainable Groundwater Management Act, the California Department of Water Resources this week released its recommendations for the status of Groundwater Sustainability Plans in Critically Overdrafted Subbasins. Six of those subbasins were deemed to be adequate and six subbasins received letters that their plans are inadequate. The inadequate subbasins are Kern, Tule, Kaweah, Tulare Lake, Chowchilla and Delta-Mendota.

Primary jurisdiction for these basins now transfers over to the State Water Resources Control Board. It is a little unclear at this point what this means. There is no immediate change in what the GSAs need to do. They are to continue to implement their plans, none of the grants they received from the state are jeopardized, no firm decisions have been made except that DWR has transferred jurisdiction over SGMA implementation for GSAs in these subbasins to the State Water Resources Control Board. The State Board has indicated that there is time over the next weeks and months for these subbasins to address the specific items that DWR has determined were inadequate in the GSAs plans. Early indications are that at least some of these issues can be addressed sooner rather than later by the GSAs working with the State Board. There is no precedent for this process because SGMA is new and no one, including the State Board, has ever been through this before.

It is certainly a disappointment to be in this situation. I have personally attended hundreds of meetings in these subbasins over the past four-plus years and know the people who have worked very hard and in good faith to meet the expectations of the SGMA law as they understood them. I do not think DWR has always been very clear about what their expectations were. Maybe because it was their first rodeo as well. But this certainly is not the end, or even the beginning of the end, for successful implementation of SGMA. It is a bump along the way and more time and effort will be expended seeking to find the secret sauce that will get folks over this bump and back on the right path.

I will close with a quote from a note sent late last night by a dedicated GSA manager to his GSA contact list.

> *"What we do know is that the process of coordinating and responding to DWR now shifts to the State Water Resources Control Board (SWRCB). We have already reached out to our contact person and have attempted to set up a meeting to determine the next steps and how to address any GSP concerns to get our subbasin approved.*
>
> *I am sure folks are wondering what is next. My current understanding is that the SWRCB would like to meet with us quickly and frequently to address the deficiencies in our GSP. I have heard on several occasions that the goal is to try and get us approved prior to needing to go to a Probation Hearing.*

If we do go to a Probation Hearing and are placed on Probation, the process of State Intervention will begin. At this point, in probation, the SWRCB will require wells to be registered and subject to fees (fees not clearly defined yet). The SWRCB will then collect data for a year and then begin the process of establishing an Interim Plan to oversee groundwater pumping in a subbasin. Once the SWRCB feels the subbasin is on a path of sustainability, they will turn the subbasin back to the GSA for local control.

I want to emphasize to folks that this Inadequate determination should not be seen or interpreted as failure. The Board of Directors, staff, consultants, and Advisory Committee worked hard on trying to address DWR's initial concerns in 2022 and I feel that we provided reasonable and acceptable answers. Furthermore, I believe that groundwater sustainability is measured by actions and not a plan. If you look at the difficult decisions and actions the GSA took last year, we have moved the needle in the right direction to achieve groundwater sustainability.

We are committed to this process and sustainability and will again rise to the occasion to meet the obstacles we encounter."

Central Valley Dairy Representative Monitoring Program Annual Membership Meeting 1 p.m. Monday, March 6

Courtesy of the Central Valley Dairy Representative Monitoring Program

The Central Valley Dairy Representative Monitoring Program (CVDRMP) recently mailed its annual newsletter to dairy and cattle members, which you can read here. The newsletter includes login information and an agenda for the Annual Membership Meeting scheduled for **1 p.m. Monday, March 6**, which will be held via Zoom. It also includes updates about activities related to Nitrate Management Zones, groundwater monitoring fees, and CVDRMP Board of Directors elections.

CVDRMP membership covers compliance for three Central Valley Water Board requirements for dairy and cattle operations: Groundwater monitoring, salt control, and local Nitrate Management Zone participation (if applicable).

Want to verify your membership standing in CVDRMP? Email your facility name and address to CVDRMP@gmail.com or call (916) 594-9450.

Letter from CVDRMP Chairman Scott Wickstrom

Since 2011, CVDRMP has managed a representative groundwater monitoring program on behalf of dairies. In 2020, we expanded to allow other bovine facilities such as heifer and calf ranches and feedlots to participate. Without this valuable program, installation of dedicated groundwater monitoring wells would be required on all dairies and other confined cattle operations. Instead, by efficiently monitoring a representative subset of our members' facilities, we've collectively saved our members more than $65 million since 2011. CVDRMP's Board of Directors – elected by you, the members – is committed to continuing efficiency going forward. Like you, each of our Board members is a dairy or cattle ranch operator, and we pay the same fees our members do.

Thanks to our continuous push for efficiency, we are offering another fee decrease this year. For dairy members in 2023, we'll reduce the annual monitoring coalition membership dues from $900 to $700, a 22 percent decrease from last year, and nearly 28 percent lower than the original fees set in 2011. (Important note: Even though we've lowered CVDRMP program fees, your dairy may be in a Nitrate Management Zone that is charging higher dues this year; if so, even with our discount, you could still end up paying a higher overall bill). For bovine members, dues will remain the same in 2023, and we are looking for ways to also lower those fees as that newer program matures.

Nitrate and Salt Program requirements made easy

About three years ago, Central Valley dairies and cattle operations (as well as other businesses with Water Board permits) came under two new regulations, the Salt Control Program and the Nitrate Control Program. CVDRMP did not create these regulations, but once they landed, we immediately went to work looking for ways to save our members money, time and paperwork.

Continue reading here.

California: Resiliency in a Changing Climate

By Dave Natzke, Editor
Progressive Dairy

Given its size, scope and geography, there are a range of issues facing the California dairy community. With attention spread across near-term financial challenges to longer-term environmental regulations, the state's dairy producers are apprehensive at the start of 2023. For them, adjusting and adapting is a way of life.

"While 2022 was a great year for milk prices, expenses skyrocketed not only for feed, but also for all of the other operating costs as well as interest rates," says **Geoff Vanden Heuvel**, California Milk Producers Council (MPC) director of regulatory and economic affairs. "With milk prices retreating and feed remaining stubbornly high and the higher operating costs pretty locked in, margins look tight for 2023. A collapse in milk prices would cause significant distress."

Milk production in California has been fairly steady in recent years, inching closer to about 42 billion pounds per year. Cow numbers have stabilized at about 1.72 million head, down about 60,000 from early last decade. With all the challenges ahead, any potential growth will be limited.

"I think the California herd is basically done growing except for increased productivity from our cows," Vanden Heuvel says. "We will do well to not shrink."

Beyond traditional differences related to herd size, other factors weigh on the economic trajectory of individual producers. Competition for water and acres adds to concerns.

"Things like growing a lot of your own feed compared to purchasing most of your feed makes a big difference today," Vanden Heuvel says. "Dairies with access to surface water compared to dairies in areas that are exclusively groundwater-dependent has become a big factor in the potential profitability of a dairy operation."

"2022 saw increased forage costs in California that were much higher than the increased forage costs in other parts of the West," he continues. "Grains imported from the middle part of the U.S. have significant transportation cost attached to them, and because of the distances higher fuel and labor costs in the transportation sector makes those inputs more expensive for California producers."

Water availability is probably the biggest factor impacting dairy and cow numbers, according to **Kevin Abernathy**, MPC general manager. After three very dry years, the wet weather to start off winter is providing some encouragement that there may be some relief in the short term. The impact is twofold.

Continue reading here.

PG&E Grilled in Legislature Over Energy Rates for Agriculture

Courtesy of Agri-Pulse.com

Many of California's farmers and rural residents are paying triple the national average for energy rates. Recent spikes at the gas pumps and on natural gas bills are in the spotlight as the Legislature kicks off a new session and explores policy options for reining in the costs.

Fending off a reputation for skyrocketing rates and for igniting catastrophic wildfires, Pacific Gas & Electric was on defense last week during an oversight hearing on energy affordability for the Assembly Utilities and Energy Committee.

Michael Boccadoro, executive director of the Agricultural Energy Consumers Association provides testimony to the Assembly Utilities & Energy Committee.

Michael Boccadoro, executive director of the Agricultural Energy Consumers Association, ran through a litany of complaints with the investor-owned utility that he racked up during his 30 years of lobbying on energy costs.

"If they're doing all these efforts to reduce costs, why are they proposing to increase rates in 2023 alone by 36%—to 9.1 cents a kilowatt hour?" asked Boccadoro, as he chastised PG&E for proposing increases through at least 2026. "It's a massive rate increase and it's just the beginning."