MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	+ $.0200	$1.5350
Barrels	+ $.0425	$1.5725
Weekly Average Cheddar Cheese		
Blocks	+ $.0915	$1.5470
Barrels	+ $.0985	$1.5620

Chicago AA Butter		
Weekly Change	- $.0200	$2.9200
Weekly Average	+ $.0205	$2.9365
Dry Whey		
Dairy Market News	w/e 04/12/24	$.4825
National Plants	w/e 04/06/24	$.4469

Non-Fat Dry Milk		
Week Ending 04/06/24		
Nat'l Plants	$1.1778	13,537,282
Last Week Ending 03/30/24		
Nat'l Plants	$1.1402	23,674,146

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
Apr 12 Est	No Change	No Change	$15.40	No Change
Last Week	$20.78 - $21.28	$21.18	$15.57	$20.06

March 2024 CA FMMO Statistical Uniform Price Announcement

Mar '24 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	$20.40 | Tulare $20.90 | L.A.	$21.12	$16.34	$20.09	$17.27 | Tulare $17.77 | L.A.	$16.922 | Tulare $17.422 | L.A.
Percent Pooled Milk	18.4%	5.1%	73.8%	2.8%	100% (2.06 billion lbs. pooled)	

**Quota rate of $0.348/cwt. as of November 2023 milk*

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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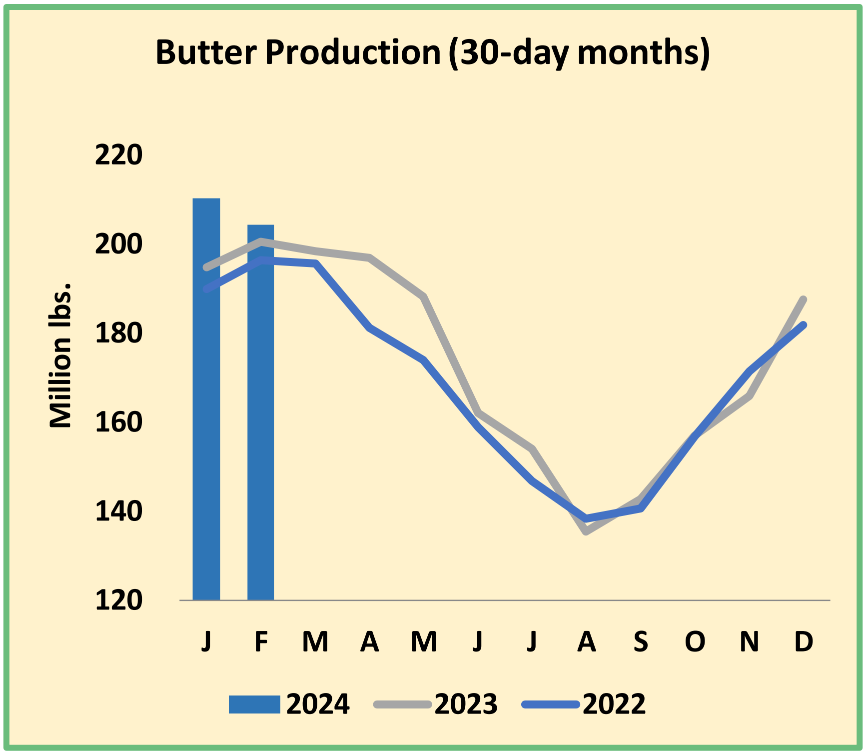
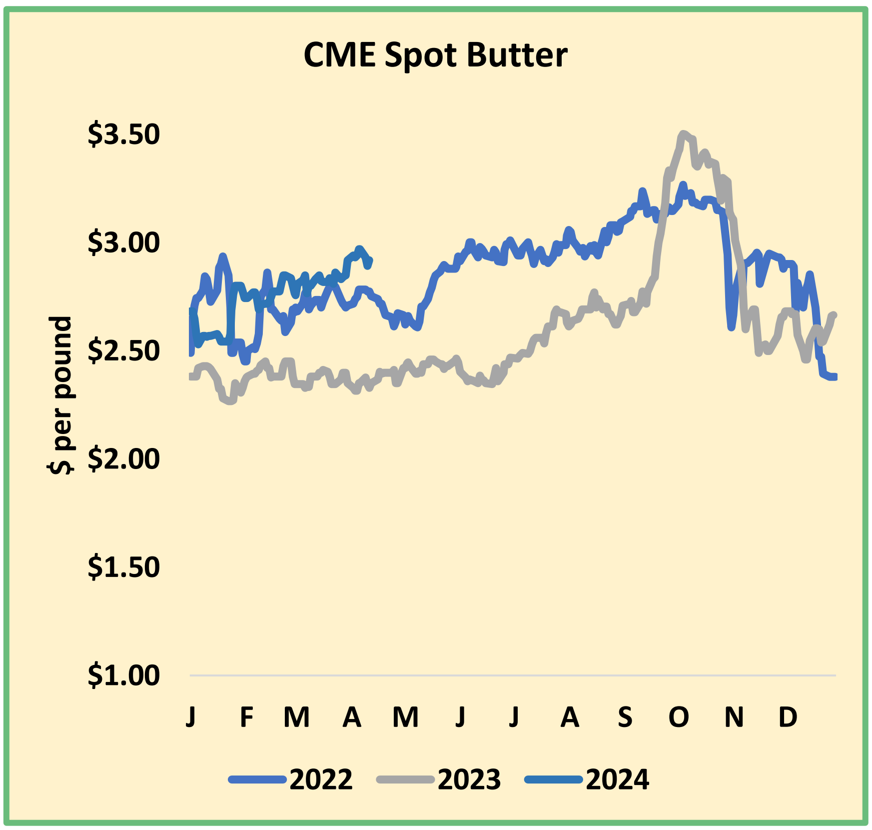
Milk & Dairy Markets

The dairy markets got off to a strong start this week, led by a historic move in butter. CME spot butter traded thrice at $2.97 per pound on Monday. That marks the highest spring butter price on record. Butter output is notably larger than it was in early 2022 or 2023, and cream multiples

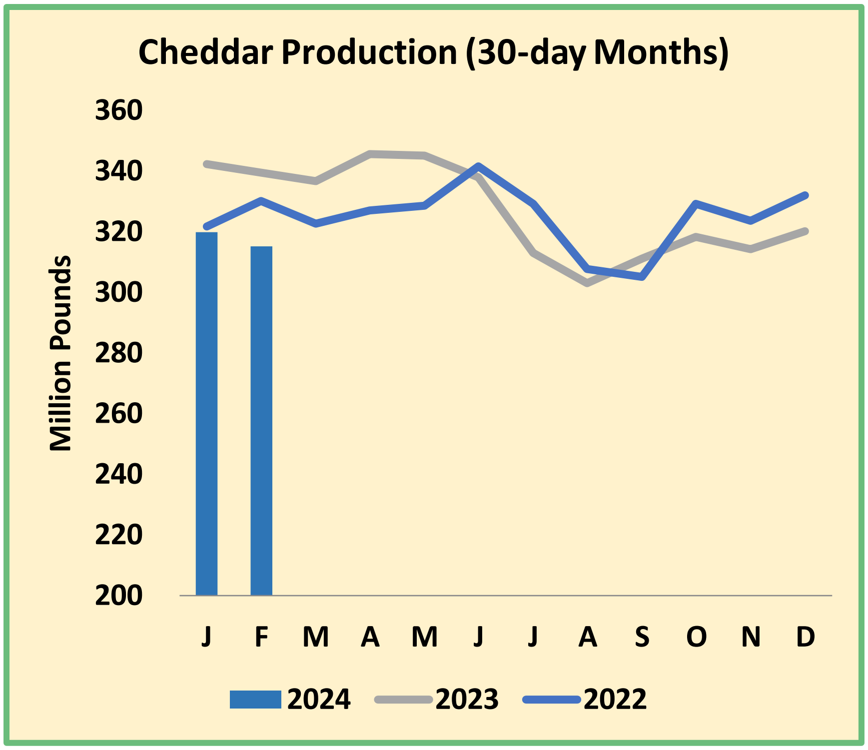


have slipped, which suggests churns will continue to run hard. But demand is formidable and butter buyers have been willing to pay up now to assure they don't pay sky-high prices ahead of the holiday baking season. But there are enough pages on the calendar between now and the holidays to allow for a little patience, and even the most anxious butter users decided not to push spot butter all the way up to $3 just yet. Spot butter finished well off the peak at a still lofty $2.92, down 2¢ from last Friday.

Spot Cheddar also came charging out of the gates. Blocks sprinted upward Monday and Tuesday, reaching a six-week high at $1.57. They finished a little below that mark at $1.535, up 2¢ for the week. Barrels showed a little more staying power. They closed today at $1.5725, up 4.25¢ from last Friday. Despite massive investments in cheese processing capacity, cheese output fell short of prior-year volumes in December through February, and Cheddar output lagged year-ago volumes for the past five months. That's likely because spot milk is not as egregiously cheap or plentiful as it was in early 2023, so cheese plants have less incentive to run overtime. Softer domestic demand is also a factor. According to *Daily Dairy Report* estimates, U.S. demand for American-style cheeses, including Cheddar, was nearly 6% lower in January and February than it was in the first two months of 2023. USDA's *Dairy Market News* reports that foodservice demand remains light. It seems that high restaurant prices, dissatisfying service, reduced access to food stamp benefits compared to the Covid era, and the prevalence of appetite-suppressing drugs like Ozempic have taken a toll on U.S. cheese consumption. Prices have slumped accordingly.

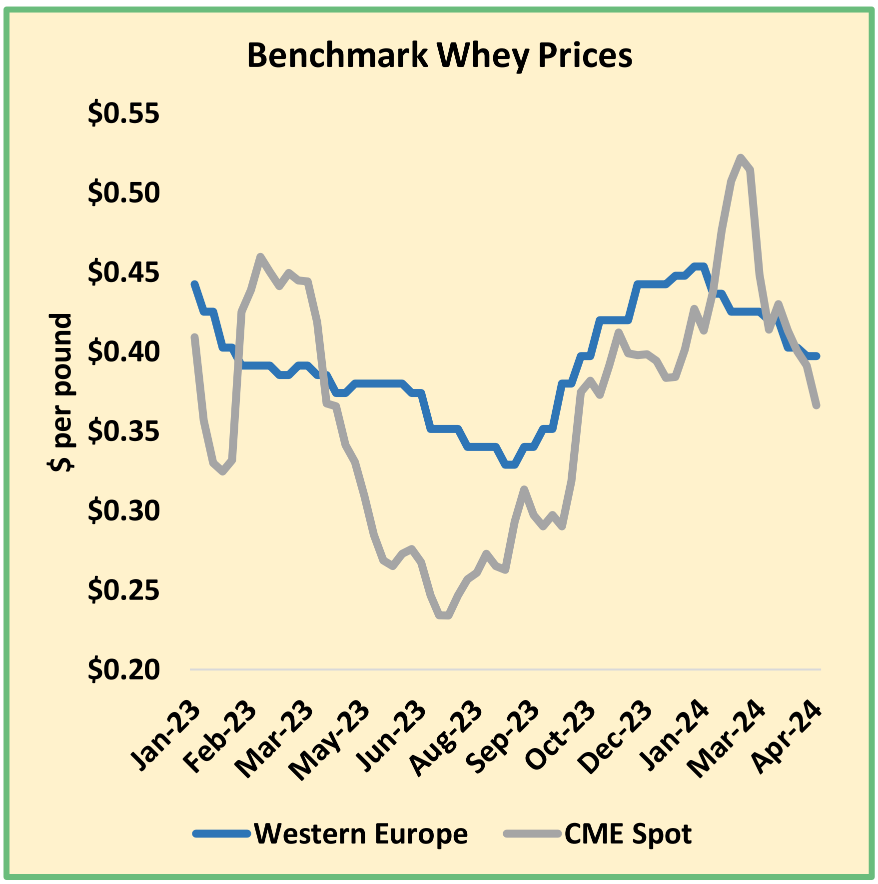


Whey prices slipped again. CME spot whey fell 3¢ this week to 36¢. *Dairy Market News* reports that



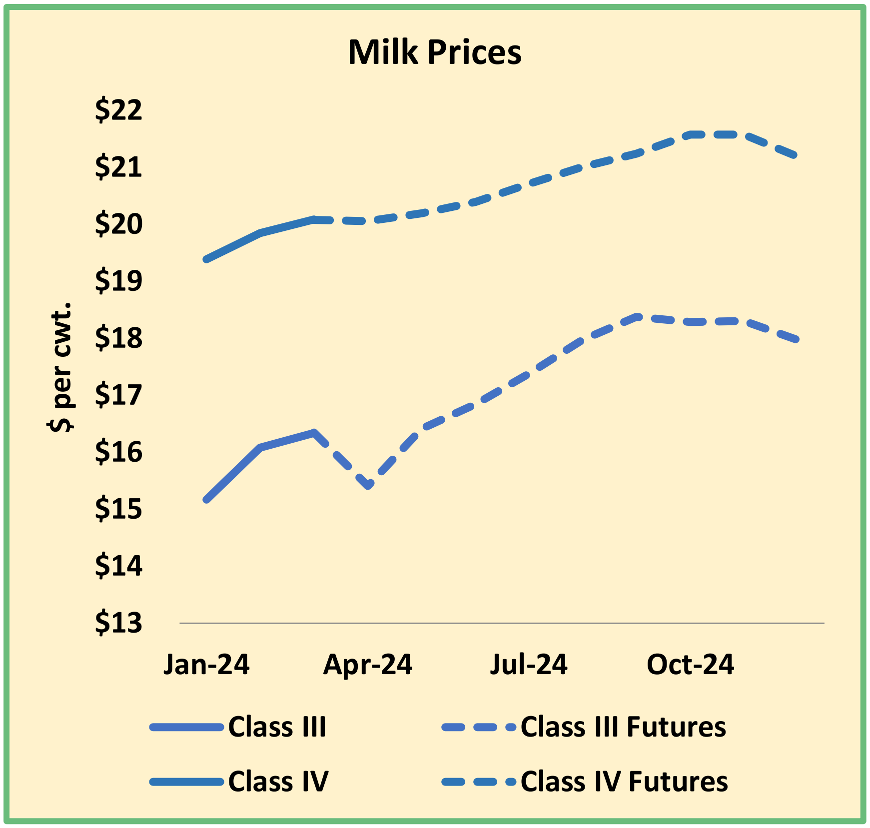
processors are offering loads at lower prices to compete with product from overseas. Indeed, European whey was cheaper than U.S. offerings through most of the first quarter, but the recent selloff should put U.S. whey products in contention once again.

Milk powder prices rallied at last week's Global Dairy Trade (GDT) auction, and they continued to climb at this week's pared down GDT Pulse auction. That gave a modest boost to U.S. nonfat dry milk (NDM) prices. They gained a penny and closed at $1.1425. The outlook for milk powder prices – and dairy prices in general – is cloudy. Lower milk output in the U.S. and Europe should eventually translate to tighter inventories and rising markets. But poor demand has kept would-be advances in check. Mexican imports of U.S. milk powder are healthy, but they have fallen short of the prior-year's record-setting pace in every month since October. Consumer spending on milk powder and other discretionary purchases remains soft in China and Southeast Asia. With milk production and cow numbers in decline, a more vibrant economic recovery in Asia could ignite a fierce rally in the dairy markets.



After a turbulent week, milk futures ended up not too far from where they began. According to preliminary settlements (CME Group now waits until midnight to report official settlements), May Class III closed at $16.41 per cwt., on par with last Friday. The April and June through August Class III contracts lost some ground this week, while most deferred contracts settled a little higher. For Class IV, May through August futures took a small step back, while deferred prices inched upward.

The wide spread between Class III and IV persists. Class III producers are bracing for another pitifully small milk check, with April Class III at just



$15.41 per cwt. The futures promise somewhat better times ahead, with Class III in the $16s, $17s, and $18s, but these are not enough to make up for months of heavy losses and steep discounts. In contrast, Class IV values offer prosperity for the minority of dairy producers who earn them. First-half Class IV contracts stand at $20 or higher, with most second-half contracts well north of $21.

The novel cow virus has a new name. The American Association of Bovine Practitioners has stopped calling it highly pathogenic avian influenza (HPAI). The veterinary organization proposed that Bovine Influenza A Virus is a more accurate title, because, while HPAI is often deadly for birds, it is not highly pathogenic for dairy cattle. The illness continues to spread among dairy herds here and there, but on most farms operations are normal, and any milk production impact has been masked by the seasonal increase in milk yields. There has not been a major consumer backlash against beef or dairy products, and the story has largely left the headlines. In the long run, though, an illness that saps milk production in some cows and increases cull rates is likely to exacerbate the heifer shortage and reduce U.S. milk production potential.

Grain Markets

The grain markets vacillated within their well-trod trading range. While a strong U.S. dollar argued against export prospects, news of bug infestations stunting some corn in Argentina helped to offset those concerns. USDA's updates to its monthly supply and demand balance sheets held no surprises for the corn market, and May corn closed at $4.3475 per bushel, within a penny of last Friday's close.

USDA's report offered a little more excitement for the soy complex. The agency trimmed its estimates of soybean exports and two less-followed categories of domestic demand, resulting in higher projected end-of-season soy stocks. That pressured soybean values, and the May contract dropped to $11.72, down 13¢ this week.

However, USDA did not change its estimate of the U.S. soybean crush from last month's figure. The trade had assumed that the industry would funnel any beans that were not exported into soy crushing facilities. While USDA projects that the 2023-24 soy crush – and soybean meal output – will be much higher than in previous years, they did not raise their estimate from their March assessment. That prompted a steep rally in soybean meal futures. They jumped more than $10 this week to $343.80 per ton.

State Board Probation Hearing for Tulare Lake Subbasin Coming Up

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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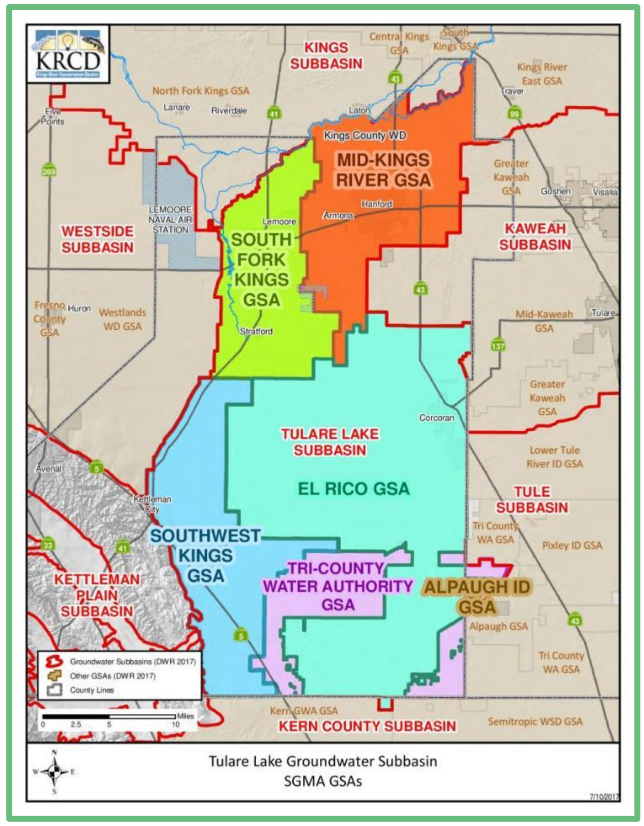
On Tuesday, April 16, 2024, the State Water Resources Control Board will conduct a hearing to consider putting the Tulare Lake Subbasin on "Probationary" status under the authority of the Sustainable Groundwater Management Act (SGMA) law. The hearing will start at 9:30 a.m. and can be watched online here. A meeting agenda is also available here.



The Tulare Lake Subbasin is located in the Southern San Joaquin Valley. There are a couple of pockets of dairy farms in the subbasin, but dairy is certainly not a dominant player in this area. What make this of interest to us is the fact that this Subbasin is the first to be considered for "Probation." There are five other subbasins in the San Joaquin Valley, some of which do have a lot of dairies in them, whose submitted Groundwater Sustainability Plans (GSPs) were deemed "inadequate" and are subject to this same State Board probationary consideration.

There are three main identified deficiencies in the Tulare Lake GSP that caused the Department of Water Resources to rate their plan as "inadequate." The Tulare Lake Groundwater Sustainability Agencies (GSAs) that wrote those plans have been actively working to adjust them to address the concerns of the State. They have proposed to significantly raise the "minimum thresholds" for groundwater levels from where they were in the original GSP. This was done to minimize the impact on shallow domestic wells. In addition, domestic well mitigation programs have been proposed to repair and replace domestic wells that go dry from dropping groundwater levels. Raising these minimum groundwater thresholds means that farmers will have to curtail groundwater pumping much sooner than was anticipated in the original GSP that was rejected by the State.

The other main issue is subsidence. Some parts of the Tulare Lake definitely experience subsidence which is caused almost exclusively by deep groundwater pumping under the Corcoran clay. SGMA requires that the GSPs be written to eliminate "undesirable results" which in the case of subsidence is having the ground surface level sink to a point that it damages critical infrastructure. Of course, defining critical infrastructure is a bit tricky. Some infrastructure, like major canals, levees that protect towns, railroads and roads are obvious. In the Tulare Lake, all of these things exist and coming up with a groundwater management plan that eventually eliminates subsidence is a very challenging problem. The geological nature of the Tulare Lake Subbasin is not uniform. Trying to get on the same page has been difficult for the GSAs and going into this hearing next week, the GSAs have not been able to agree on a common approach to the subsidence issue.

The third deficiency is water quality. The SGMA law does require GSAs to take water quality into consideration in their plans, but it recognizes that there are other state programs that have primary jurisdiction and enforcement authority on the water quality issue. The obligation on the GSPs is that they do not exacerbate water quality degradation in their groundwater pumping plans. Addressing the water quality obligations of the GSP can be accomplished.

Unfortunately, while a lot of progress has been made, no official unified GSP has been produced by the Tulare Lake Subbasin GSAs going into the hearing next week. The State Board staff report is recommending that the Board vote to place Tulare Lake Subbasin under "Probation." This would be an official takeover of the Subbasin by the state and brings with it certain requirements. The first is that meters will be required. The staff is recommending that any farmer that uses 500-acre feet per year or more must meter their groundwater pumping. Smaller farmers are encouraged to get meters but can use other measuring methods. An initial $20 per acre foot fee would be collected to fund the work of the State Board during probation. The stated goal in SGMA is that the probationary period is for the local GSAs to address the stated deficiencies and officially adopt updated GSPs that meet the SGMA standards. If this cannot be done within one year of a Subbasin going into probation, then the State Board has the authority to implement an "interim plan." Read more about probationary status from the State Water Board here.

The goal of the Tulare Lake subbasin and all of the inadequate subbasins in the San Joaquin Valley has been to avoid probation. Given the reality that there is not a fully adopted updated GSP that addresses the deficiencies outlined by the State, I think it is likely that the State Board votes to put the Tulare Lake Subbasin into probation. This is the first SGMA rodeo for everyone. While having the State intervene is not what the locals want, how the State uses the considerable power and discretion that the SGMA law gives them will play a big role in how this ultimately turns out.

This situation reminds me of my experience representing agriculture on the board of the Chino Basin Watermaster 25 years ago. Back then the Chino Basin, which operates under a groundwater management program called an adjudication, was under a court order to produce an Optimum Basin Management Plan to address certain water supply and quality concerns. The judge with jurisdiction of the Chino Basin stipulated that if the local officials operating the water systems in the Chino Basin did not put a satisfactory plan together to address the water quality and supply concerns, the court was going to turn over control of Chino Basin to the State Department of Water Resources. This was a powerful motivator, but there was one other factor that made a huge difference in the ultimate success of the Chino Basin. There had been a water bond passed by the state and in that bond, there were millions of dollars allocated to build water infrastructure in the Chino Basin specifically contingent on an enforceable agreement by the Chino Basin parties to fix the problems. We did produce, after much difficult negotiation and pain, and with the assistance of a facilitator and court appointed referee, what we called the Peace Agreement. Getting to an agreement to do hard things is very difficult, and time consuming, and expensive. But being successful also needs positive incentives, and not just negative consequences. In other words, there needs to be some carrots to go along with the sticks.

Manure Management = Big Decisions

By Deanne Meyer, Ph.D. Livestock Wast Management Specialist,
Department of Animal Science, UC Davis and UC ANR
Courtesy of the California Dairy Quality Assurance Program

Are you thinking about changing manure management to access a carbon market or improve nitrogen balance? If so, be sure to do your homework! There are many moving parts.

Here are a few things to think about for Central Valley dairy operators: What job do you need the technology to do? Does the technology operation require a contract? If you consider a multiyear contract, be sure to 1) have a lawyer familiar with the income generating markets review the contract, 2) fully understand implications to manure carbon, nitrogen, and salt management, 3) include partners and the next generation in the decision-making process, 4) answer the question why this technology versus something else, 5) evaluate impact to labor and other facility resources. If you're looking at a technology for carbon, how does that position your facility for nitrogen?

Continue reading here.

House Ag Committee to Vote on Farm Bill Next Month

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

This week, House Agriculture Committee Chair GT Thompson, R-PA, said he expects the committee will vote on a draft farm bill before Memorial Day. Thompson believes that one of the main sticking points – whether and how much money should be shifted from conservation funding into the commodity program – has been successfully resolved.

House Democrats don't want money provided by the Inflation Reduction Act for climate-smart farming practices to be spent instead on shoring up commodity safety nets, nor have they endorsed changes in nutrition funding. Thompson has indicated he has found a funding source outside of conservation or nutrition to boost the farm safety net. Democrats on the panel are reviewing Thompson's proposal but have consistently opposed new restrictions on how USDA goes about updating SNAP benefit levels.

The Senate has yet to announce any definitive timing for moving its version of the farm bill, but approval by the House Ag Committee will help advance the ball closer to the goal line.