MPC Weekly Friday Report

Date: December 22, 2023
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 5

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.1300	$1.3900	Weekly Change	+ $.0500	$2.5400	Week Ending 12/16/23		
Barrels	- $.0575	$1.3925	Weekly Average	+ $.0825	$2.5795	Nat'l Plants	$1.1996	11,996,000
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 12/09/23		
Blocks	- $.1460	$1.4280	Dairy Market News	w/e 12/22/23	$.4350	Nat'l Plants	$1.2129	17,424,848
Barrels	- $.1030	$1.3980	National Plants	w/e 12/16/23	$.4185			

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
Dec 22 Est	No Change	$19.84	$16.09	$19.14
Last Week	$21.36 - $21.86	$19.71	$16.15	$19.08

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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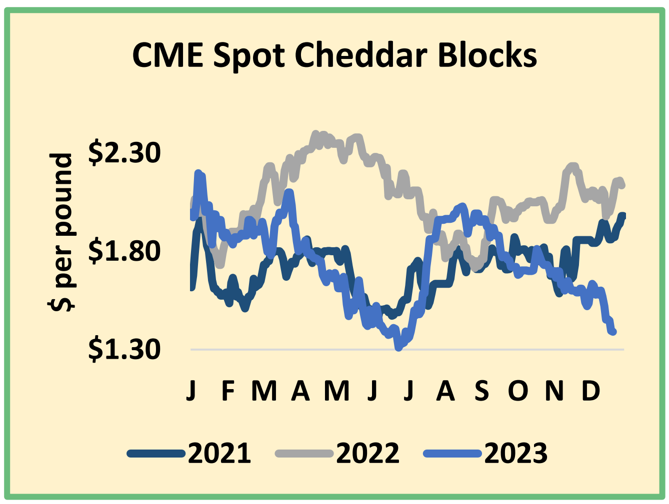
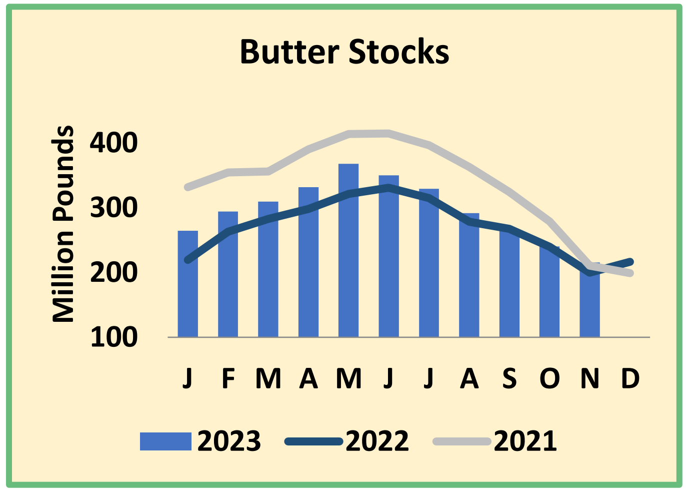
Milk & Dairy Markets

There was a decided lack of Christmas cheer in the Class III markets this week. The January through April contracts scored life-of-contract lows. December Class III settled at $16.09 per cwt., promising Scrooge-like margins on the farm. January and February Class III looked even worse. This week January tumbled 47¢ to $15.43 and February plummeted 54¢ to $15.60. The futures curve slopes upward, promising better revenues as the year goes on. But there will be a lot of red ink this winter.



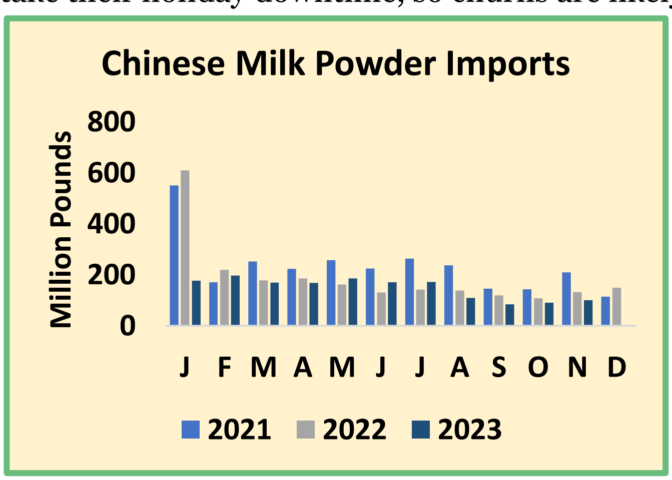
'Tis the season to gift cheese boxes and serve charcuterie. And it seems that helped demand this fall. Cheese stocks declined 25 million pounds in both October and November, outpacing typical seasonal drawdowns. Cheese inventories tallied 1.43 billion pounds on November 30, just 0.2% more than the year before. Inventories of American-style cheeses, including Cheddar bound for the CME spot market, tipped the scales at 826 million pounds, up 1.2% from last year but below November 2021. Although the trends are a bit friendlier, the market is still heavy with cheese. CME spot Cheddar blocks plunged 13¢ this week to $1.39 per pound. Barrels dropped 5.75¢ to $1.3925. Both blocks and barrels stand at their lowest levels since July. Cheap cheese in June and July attracted enough export orders to boost prices in August and into September. But, with cheese vats full in both the U.S. and Europe, the bounce was short-lived. This time around, less-aggressive marketing from European exporters could make more room for U.S. cheese, allowing for a more sustainable recovery. However, that will require better cheese demand from key markets like South Korea and Japan.

Whey prices also retreated. CME spot whey powder slipped 1.5¢ to 38¢. After a very strong fourth quarter, whey processors are less certain about demand for whey protein concentrates in early 2024. And, of course, there is a flood of whey to process thanks to relentless growth in cheese production. International demand remains soft. Chinese whey imports were 4% greater than year-ago volumes in November. However, for the fifth straight month, Chinese imports of U.S. whey fell short, down 2.9% from November 2022.



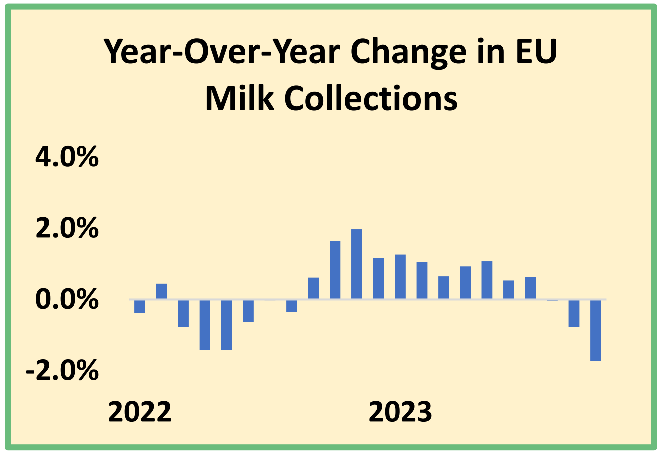
Class IV felt a bit more festive. The December contract rallied 6¢ to $19.14. First quarter futures climbed to the high-$18s, and mid-2024 contracts held in the $19s. A few late 2024 contracts topped the $20 mark this week. That's great news for the minority of dairy producers who will enjoy the full benefit of higher Class IV revenues.

Butter prices bounced back this week. CME spot butter jumped a nickel to $2.54. Butter buyers clearly did their best to stock up early this year. Butter inventories declined at a faster than normal rate in June through September, but October and November drawdowns were lighter than historical norms. There were 215.5 million pounds of butter in cold storage warehouses at the end of last month, 7.8% more than the scant volumes of November 2022. Cream is cheap and plentiful as many manufacturers take their holiday downtime, so churns are likely to run hard for a few weeks. But the long-run outlook suggests lower butter production, as cheese plants lap up more of the nation's cream.

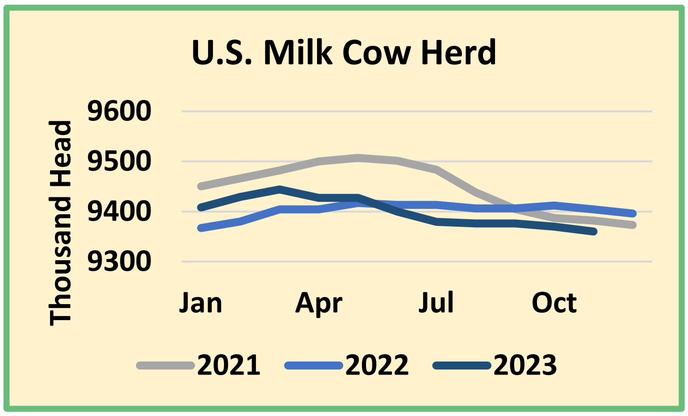


CME spot nonfat dry milk (NDM) finished the week right where it began, at $1.16. Milk powder values were mixed at Tuesday's Global Dairy Trade (GDT) auction. Whole milk powder (WMP) prices leapt another 2.9% to their highest level since May. But skim milk powder (SMP) slipped 1.3%. China was notably absent from the auction.

Chinese milk powder imports were weak once again in November. China brought in just 100.6 million pounds of SMP and WMP last month, 23.6% less than the already low volumes of the prior year. After 11 months, Chinese WMP imports are 37.8% lower than 2022 volumes, but SMP imports are up 7.2%.



Dairy demand continues to disappoint, but the supply side offers a thrill of hope. European and British milk collections fell 1.7% below year-ago volumes in October, the steepest year-over-year decline since December 2016, when the government paid producers to rein in production. Closer to home, U.S. milk production was lower in October than USDA had previously reported, and November milk output was 0.6% below year-ago levels, the fifth straight month in the red. More importantly, the dairy herd continued to shrink. Dairy producers milked 9.36 million cows last month, 10,000 fewer than October and 44,000 fewer than November 2022. There are simply not enough dairy heifers available to keep head counts steady despite a pronounced slowdown in cull rates in both October and November.



Milk output among the world's five largest dairy exporters has been in the red since August, and the deficit is growing. The shrinking dairy herd, tight heifer supplies, and dishearteningly low Class III prices all but assure that U.S. milk output will remain depressed, and European milk output is also likely to stay soft. All this bad news offers a perverse thrill of hope for the industry. Global dairy stocks are waning, and prices are low enough to deter growth and attract buyers. If demand perks up, prices could rebound quickly.

Grain Markets

The feed markets retreated. Regular rains have helped crops in South America, and rail closures at two out of six tracks on the U.S.-Mexico border have slowed agricultural exports to our most reliable market. Mexico typically purchases more U.S. corn than any other foreign buyer, and it is the second-largest outlet for U.S. soybeans and soybean meal. As un unprecedented wave of immigrants surged across the border, officials from Customs and Border Patrol redirected staff away from railroad crossings at Eagle Pass and El Paso, Texas, effectively shutting down rail service there. Trains have been stalled since Sunday, and the Association of American Railroads says there is no indication when they will be reopened. Thousands of rail cars are waiting, and Union Pacific estimates that these closures cost the American economy $200 million every day.

With export prospects dimming, March corn futures settled today at $4.73 per bushel, down a dime from last Friday and toward the low end of the recent trading range. March soybeans closed at $13.0625, down 25.25¢. March soybean meal futures finished at $391.10 per ton, down $5.50 from last Friday.

CDFA Secretary Disqualifies STOP QIP Petition

Courtesy of the California Department of Food and Agriculture

On December 16, CDFA Secretary Karen Ross released a decision regarding a petition submitted by STOP QIP, which seeks a referendum to terminate the Quota Implementation Plan. In her written decision, the Secretary states, ***"…I am compelled to deem Petition No. 5 disqualified."*** Below is an excerpt from her letter explaining her decision. You can read the full letter here.

From Secretary Karen Ross' December 16 letter

"As a matter of principle, my inclination is to support recommendations made by the PRB, and also to allow for a fair petition process which would allow producers to present and address concerns. However, in making the most appropriate determination, I must consider unforeseen circumstances and/or reasons that may have been unknown to the PRB or CDFA.

Recently, information has come to my attention that Petition No. 5 was one of six alternative petitions which, in 2021, had been simultaneously prepared, disseminated and signed, for later periodic submission. I regard such an approach as inconsistent with the objectives regarding petitions and referenda, and an abuse of the process. The use of pre-printed dates, in Petition No. 5 and other submitted petitions, had been of concern, and identified as a potential reason for disqualification by CDFA in response to earlier submitted petitions. This is now exacerbated by evidence that the pre-printed "June 1, 2023" appearing on each submitted petition, is not only inaccurate, but could actually be a date that is off by a measure of approximately 18-23 months from the times when the petitions may have been actually signed.

Accordingly, contrary to the PRB's recommendation, I am compelled to deem Petition No. 5 disqualified. I advise members of the industry that the best practice is to refrain from including preprinted signatures, in order to allow CDFA to more clearly determine the authenticity and reliability of each submitted petition. Prospective authors of petitions are further advised to consider drafting or circulating one petition at a time, rather than packets of multiple alternatives, in order to avoid creating confusion and uncertainty within the California dairy industry."

CDQAP 2023 Year in Review:
Compliance Assistance, Producer Funding & More

By Dr. Michael Payne, UC Davis, School of Veterinary Medicine and Director,
California Dairy Quality Assurance Program

Despite 2023's significant challenges, including historic flooding and persistent supply chain issues, CDQAP and our partners made considerable headway on some stubborn issues.

Minimizing Fees Through Certification

Currently 786 California dairies are certified through CDQAP's third-party evaluation program and receive a 50% discount in Water Board fees. The program continues to provide on-farm evaluations year-round for interested producers.

Response to Historic Flooding

In 2023 producers, particularly in the south valley, faced an unrelenting series of atmospheric rivers, followed by flooding due to snow melt. Coordinating with our regulatory & trade association partners, CDQAP's outreach on flooding lasted into the summer. Topics covered included emergency actions that could be taken in between storms, livestock evacuations, a checklist for repopulating a dairy, staying in regulatory compliance during flooding, and state and federal relief programs.

Funding for Dairy Plus Program

CDRF, CDFA and industry worked collaboratively, successfully competing for USDA's Climate Smart Commodities funding. For producers seeking support to improve manure management and reduce GHG emissions, funding continues to be available from the Dairy Plus + program.

Emergency Mortality Disposal

CDQAP and CDRF successfully partnered in obtaining a grant to examine environmental impacts of dairy mortality composting. Ultimately, the research will pave the way to allow carcass composting during emergencies and when rendering is not available.

New 2024 Classes for Expected Water Regs

With draft requirements for a new General Order still pending, the exact shape of future Central Valley water regulations remains uncertain. Being pro-active with the goal of providing producers with information as soon as possible, in 2023 CDQAP organized an industry-UCD academic workgroup which formulated a draft curriculum addressing whole farm nitrogen balance and nitrogen management options. Classes will be available in early 2024.

Continue reading here.

The next MPC Friday Report will be published on January 5, 2024.