# MPC Weekly Friday Report

**Date: June 10, 2022**
**To: Directors & Members**
**From: Kevin Abernathy, General Manager**
**Pages: 5**

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## MPC Friday Market Update

| Chicago Cheddar Cheese | | |
|---|---|---|
| Blocks | - $.0150 | $2.2730 |
| Barrels | - $.0025 | $2.2585 |
| **Weekly Average Cheddar Cheese** | | |
| Blocks | + $.0199 | $2.2730 |
| Barrels | - $.0209 | $2.2585 |

| Chicago AA Butter | | |
|---|---|---|
| Weekly Change | + $.0600 | $2.9750 |
| Weekly Average | + $.0740 | $2.9790 |
| **Dry Whey** | | |
| Dairy Market News | w/e 06/10/22 | $.5925 |
| National Plants | w/e 06/04/22 | $.6297 |

| Non-Fat Dry Milk | | |
|---|---|---|
| **Week Ending 06/04/22** | | |
| Nat'l Plants | $1.7904 | 25,113,560 |
| **Last Week Ending 05/28/22** | | |
| Nat'l Plants | $1.7805 | 26,444,658 |

## 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 |
|---|---|---|---|---|
| **JUN 10 Est** | **$27.47 - $27.97** | **$26.63** | **$24.34** | **$25.79** |
| **Last Week** | **$27.47 - $27.97** | **$26.53** | **$24.33** | **$25.76** |

## Milk, Dairy and Grain Market Commentary

*By Sarina Sharp, Daily Dairy Report*
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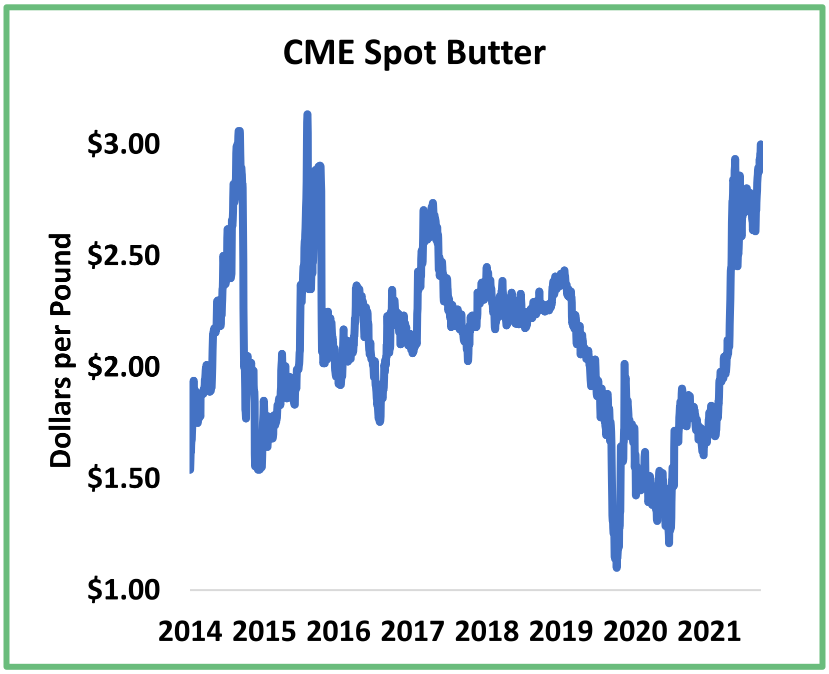
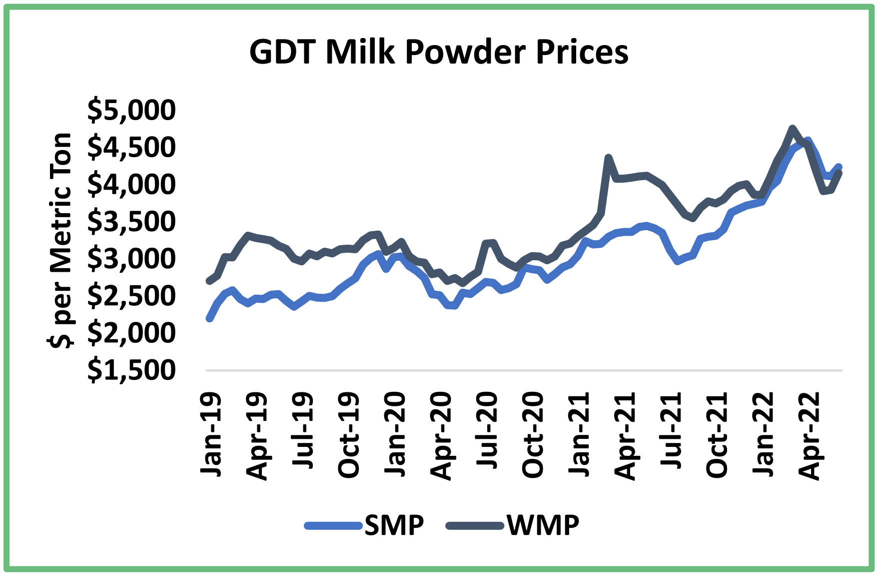
### *Milk & Dairy Markets*

The butter market sprinted uphill and reached $3 this week for the first time since 2015. Buyers bought 19 loads of butter in Chicago on Wednesday, including two at the $3 mark. But the bids dried up Thursday, and prices retreated Friday. Still, CME spot butter finished today at $2.975 per pound, 6¢ higher than last Friday.



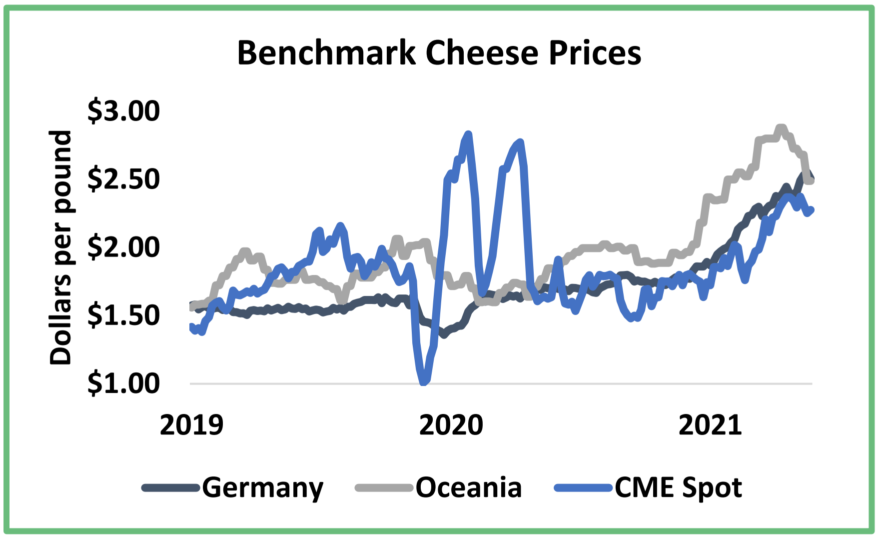

The butter market illustrates the conundrum that besets much of the dairy complex. Stocks are relatively low and production is falling seasonally. Milk and butter output are not rising anywhere that matters. U.S. butter is much cheaper than foreign product, so trade is further



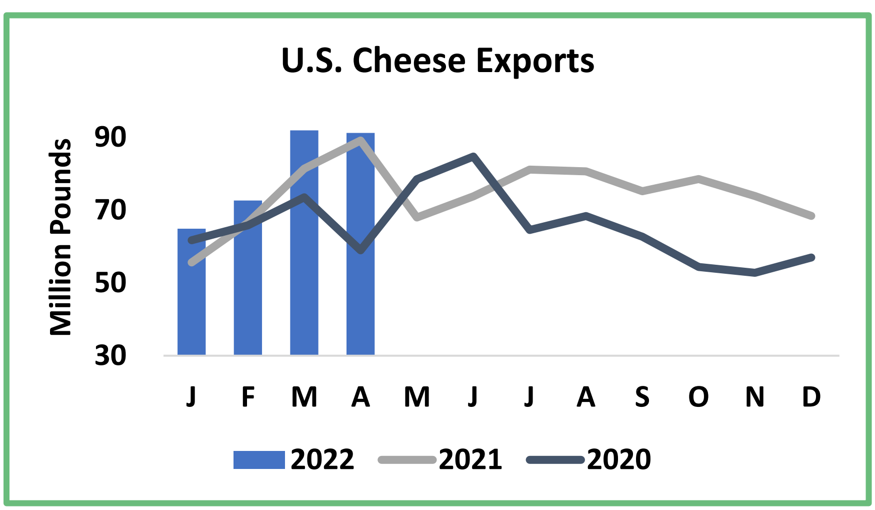

eroding supplies. But prices are already quite high, and demand is starting to slip. Consumers are feeling the strain of high gas prices and rising inflation. Economists warn that a recession could be around the corner. It's difficult to sustain $3 butter in that environment, so prices took a big step back today.

The other dairy markets followed a similar path, but the Friday setback overwhelmed early-week strength. CME spot Cheddar blocks fell 1.5¢ to $2.255. Barrels slipped 0.25¢ to $2.2425. Spot nonfat dry milk (NDM) dropped 0.75¢ to $1.855. Whey powder closed at 54.25¢, down 1.5¢ for the week.

Overseas markets gained ground. At Tuesday's Global Dairy Trade (GDT) auction all products except Cheddar moved higher, led by a 5.7% increase in the price of whole milk powder (WMP). Skim milk powder (SMP) rallied 3% to the rough equivalent of NDM at $1.92 per pound. GDT butter prices jumped 5.6%. Compared to goods from Europe and New Zealand, U.S. dairy products are competitively priced, despite the very strong dollar.




U.S. exporters navigated a shortage of containers, a lack of truck drivers, and a backlog at the ports and managed to send more dairy overseas in April than in any other April on record. U.S. exports of NDM/SMP were healthy, at 162 million pounds, but they fell 6% short of the unusually high volumes of April 2021, when shipments to the Middle East spiked. Cheese exports echoed the strong March showing and topped 91 million pounds, up 2% from a year ago to the greatest volume ever on a daily average basis. Butterfat exports remained strong, driven by a jump in anhydrous milk shipments. However, whey exports remained in the doldrums, weighed down by weak demand from China.

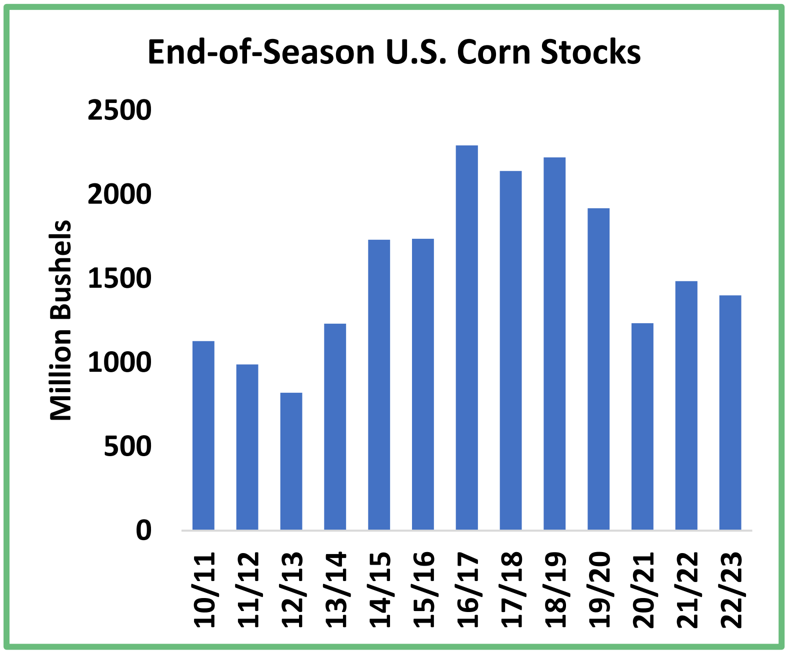



Although domestic demand remains a concern, exports are likely to remain strong, and foreign dairy markets are providing a firm floor under the U.S.

dairy complex. Meanwhile, the spring flush is limping to a close, and a heat wave looms in the Southwest and Midwest. Despite the setback in the spot markets, milk futures moved higher again this week. Second-half Class IV futures added 20¢, on average, and the July and August contracts topped $26 per cwt. Most Class III contracts also posted double-digit gains, and 2023 Class III futures scored life-of-contract highs.

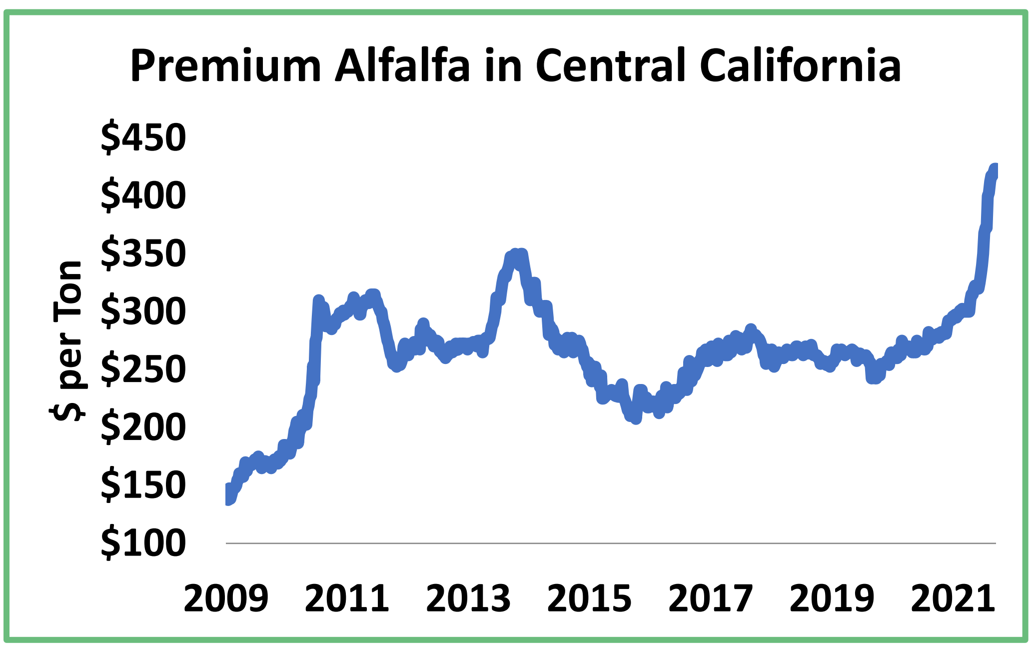
***Grain Markets***

After a big selloff last week, the feed markets zigged and zagged but ultimately finished much higher than last Friday. July soybeans reached life-of-contract highs Thursday. But palm oil futures dropped hard after Indonesia eased the way for more exports. Soybean oil followed palm oil lower and dragged soy futures down with them. July soybeans closed at a still-high $17.455 per bushel, up nearly 50¢ from last Friday. July soybean meal advanced nearly $22 to $429.10 per ton. July corn futures regained much of the ground they lost last week and settled at $7.7325, up 46.25¢. December corn added 30.5¢ and reached $7.205.




Outside of North Dakota and parts of Minnesota, crops are in the ground and enjoying a nice mix of sunshine and rain. But there is a lot of heat in the forecast and the trade is on edge. USDA's monthly update to its crop balance sheet confirmed that corn and soybean supplies are likely to remain tight, although the agency expects that there will be more corn in 2022 and 2023 than there was last year. Still, grain and oilseed prices are likely to remain high.

The cost of forages varies widely from region to region, but they are pricey too. In the West, lower acreage and severe drought have reduced hay supplies. The drought is a double whammy, because it also limits grazing and boosts hay demand. Central California is home to the greatest concentration of dairies in the country, and it's also the epicenter of the hay shortage. According to the *Hoyt Report*, premium alfalfa is regularly selling for $420 to $435 per ton, up from around $280 per ton a year ago. Dairy producers are cashing some very big milk checks, but feed costs are eating up a huge chunk of that revenue, especially in the West.



## Producer Review Board Update

*By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs*
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The Producer Review Board (PRB) met this week for the first time since August of 2020. There were a number of business items that needed action. In 2021, Frank Konyn from Escondido was appointed as a new board member, and Debbie Azevedo from Merced and Pete DeBoer from McFarland were appointed as alternate board members, but since there was not a PRB meeting in 2021, this was their first meeting. You can see the complete Board roster here. The board elected Art Van Beek as chairman and Will Dyt as vice-chairman. The minutes of the August 27, 2020 meeting were approved. Minutes from that meeting are interesting. You can read them here.

CDFA then gave some updates on the operations of the Quota Implementation Plan (QIP). The current quota assessment rate is generating more money than is necessary to fund the quota payments. The quota payment fund, (which I learned is held in a separate bank account) has accumulated more than $17 million and is projected to hit nearly $20 million by August. CDFA staff recommended reducing the assessment rate to draw down this balance.

After a lot of good discussion, the **PRB is recommending to the Secretary that the QIP assessment rate be dropped on August 1 to $0.274 per cwt. from the current $0.365 for seven months to bring the fund balance down and then establish an assessment rate going forward of $0.34 on March 1, 2023.**

There was some discussion about membership on the PRB. There are some terms that expired on December 1, 2021, but because no further appointments have been made, the current members continue to serve. There are also terms that end in December of 2022 that need attention. CDFA staff indicated that they hoped to send out nomination forms to producers soon to address these positions.

There was an update on a couple of pending lawsuits. Not much to report other than that the suits are not resolved yet. The PRB also discussed the petition process. The Department had received a number of petitions since the last PRB meeting and none of them were accepted by CDFA. You can see the petitions and the responses from CDFA here.

There were several items suggested for discussion at a future PRB meeting. Giving CDFA discretion to adjust assessment rates without needing a PRB meeting is one item and the other item is the need to respond to the requirement in Section 1100 of the QIP which says:

> *"Section 1100. A producer survey shall be conducted by an independent party selected by the Producer Review Board at least every five (5) years. The survey shall evaluate the effectiveness of the Plan. The results of the review will be provided to the Producer Review Board for its consideration, and recommendation to the Secretary."*

These items could be considered at the next PRB meeting, which the committee discussed having in early November 2022.

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## Water…It's Complicated

*By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs*
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In a dry year like this one, when there is not enough water to go around, who gets what and why is very complicated. The Friant division of the federal Central Valley Project (CVP) takes San Joaquin River water that originates in the Sierra Mountain range above Fresno and collects in Millerton Lake and diverts it into a 160-mile canal that runs south to Bakersfield. The natural flow path of the San Joaquin River is to head west and north eventually joining up with the Sacramento River that comes all the way down from the north before heading out to the San Francisco Bay.

Photo Credit: [Shannon1]

There are four water districts along the San Joaquin River that "exchanged" their water rights for water that comes from the north through the delta. These four districts are called the Exchange Contractors. However, they retain a commitment from the federal government that if they are not able to receive their full allotment of water from the delta, then the San Joaquin River water must be returned to them to make them whole. Exchange contractors are entitled to no less than 75% of their contracted water, even in the driest years.

The storms of this past winter took non-traditional paths over the watersheds of Northern California. The watershed that supplies Lake Shasta, the biggest federal CVP lake, received substantially less rain and snow than normal, leading to very low levels in the lake. But slightly south of Shasta, the winter storms and particularly two late April storms dumped significant moisture in the American River watershed, which feeds Folsom Reservoir, which is also a federal CVP facility and is nearly full. This fact has created an interesting situation. The low precipitation in the Sacramento River (Shasta) watershed triggered a serious reduction in water deliveries to Sacramento Valley water right holders, which has almost never happened in history. Hundreds of thousands of acres of Sacramento Valley agriculture land will not be planted this year. Many domestic wells in that region are also going dry.

As I wrote about a couple of months ago (read [here]), by court order, much of the water still stored in Lake Shasta must be conserved to preserve cold water for endangered salmon spawning in the Sacramento River tributaries. Meanwhile, Folsom Reservoir has water than can be released to meet the Exchange Contractor needs, thereby reducing their demand on San Joaquin River water. This in turn should allow the Friant water users to move up from their current class I allocation of 15% to maybe 30% or more.

It is a bad situation when getting 30% of your class I water is good news, but the other CVP contractors are at 0% supply, and even senior right holders in the Sacramento Valley are projected to get less than 20%. The State Water Project (SWP) contractors, whose water originates in the Feather River watershed and collects in Lake Oroville, are at 5% allocation right now. This is the second year of 5% allocation for the SWP. One half of the SWP is owned by the Metropolitan Water District of Southern California, which is now instituting strong water conservation dictates to their urban Southern California customers.