MPC Weekly Friday Report

Date: September 22, 2023
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	- $.1000	$1.7800
Barrels	- $.2100	$1.6000
Weekly Average Cheddar Cheese		
Blocks	- $.0790	$1.8220
Barrels	- $.1855	$1.6310

Chicago AA Butter		
Weekly Change	+ $.2825	$3.0000
Weekly Average	+ $.1480	$2.8750
Dry Whey		
Dairy Market News	w/e 09/22/23	$.3250
National Plants	w/e 09/16/23	$.2967

Non-Fat Dry Milk		
Week Ending 09/16/23		
Nat'l Plants	$1.1207	18,024,919
Last Week Ending 09/09/23		
Nat'l Plants	$1.1354	13,023,098

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
Sept 22 Est	No Change	$19.82	$18.41	$18.84
Last Week	$20.50 - $21.00	$19.66	$18.40	$18.70

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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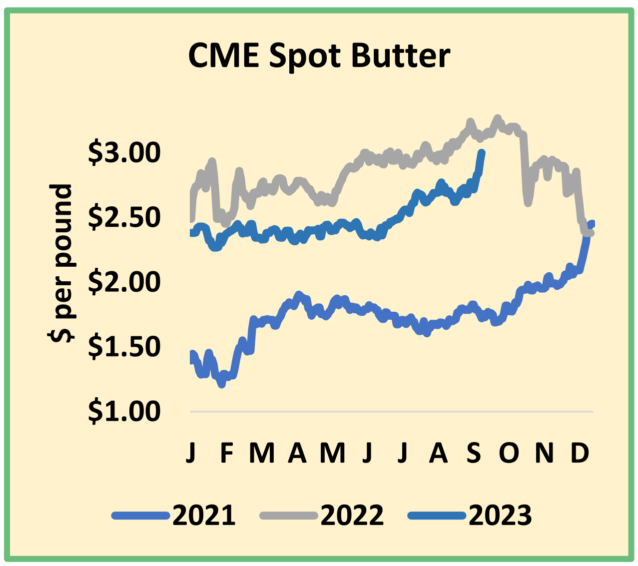
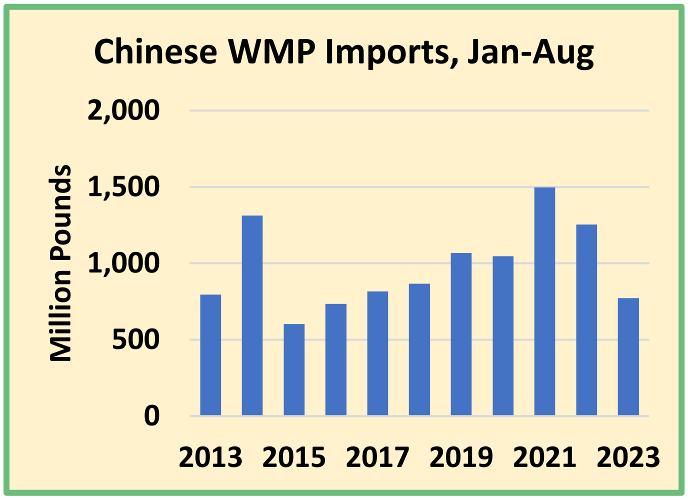
Milk & Dairy Markets

Three-dollar butter is back. CME spot butter soared an astounding 28.25¢ this week and closed right at the $3 mark. Exports are out of the question, but domestic demand is firm, and butter churns are running light. Cream supplies are tight thanks to lower milk output and fierce competition from cheese vats and makers of whips and dips. Butter buyers are anxious as baking season looms large. They fear a repeat of last year's persistently high prices and they're chasing the market upward. October and November futures jumped 7.5¢ today, the maximum gain allowed under the CME's daily trading limits.

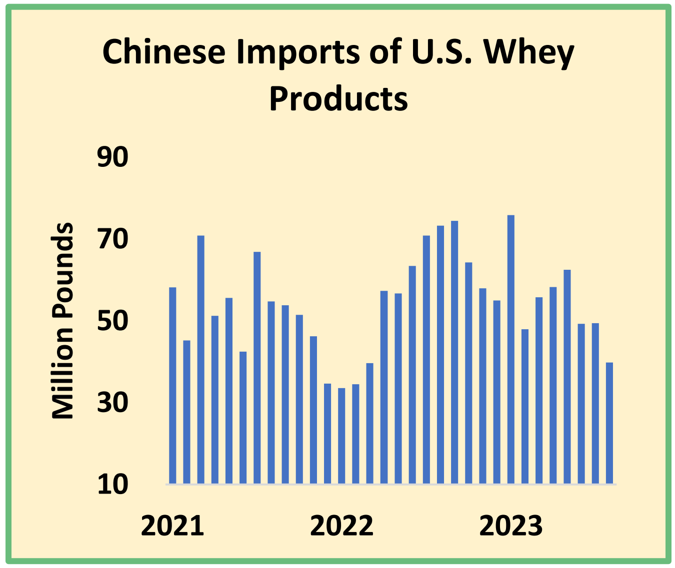


Milk powder prices also climbed, buoyed by a strong showing at the Global Dairy Trade (GDT) auction. Buyers in North Asia – which includes South Korea, Japan, and, most notably, China – snapped up

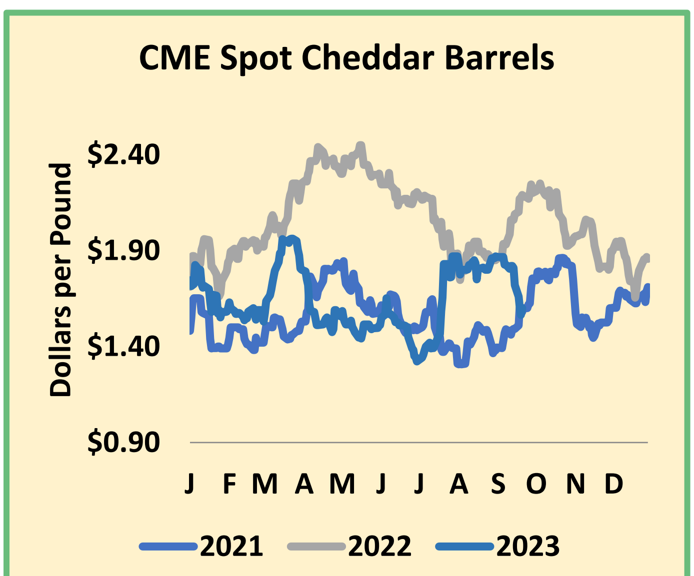


more milk powder at the GDT than they have in two years, and they pushed prices higher to boot. Both whole milk powder (WMP) prices and the GDT Index rallied 4.6%, their second straight positive performance. GDT skim milk powder (SMP) finally showed some signs of life as well. In Chicago, CME spot nonfat dry milk (NDM) leapt 5.75¢ to $1.17 per pound, matching its highest price since May.

Global milk powder production is slowing as milk output wanes and manufacturers direct milk to other uses. In Europe and the United Kingdom, milk collections topped year-ago volumes by just 0.2% in June and July, and driers ran light. New Zealand's new season is off to a poor start. August milk solids output fell 0.9% from the prior year to the lowest volume since 2017. U.S. milk production continues to shrink. USDA trimmed its estimate of July milk output and now reports mid-summer production down 0.7% from July 2022. But August milk output was larger than expected, down just 0.2% from last year.

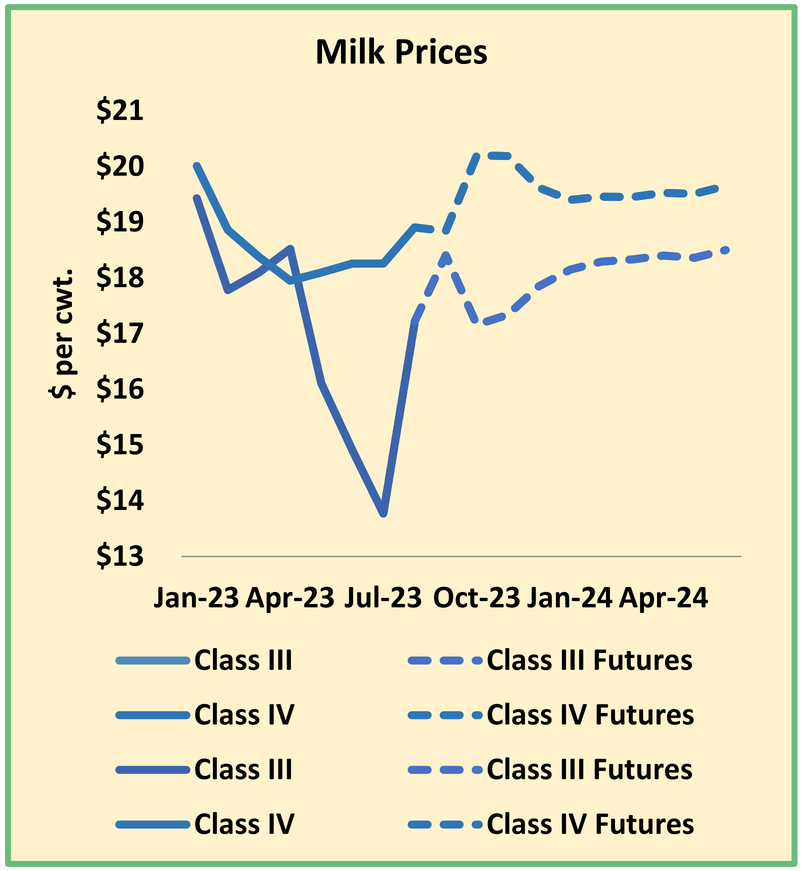


Lower milk production is obviously supportive of milk powder prices, but demand matters too. The market was relieved to see China getting more aggressive at the GDT, but it remains wary, and the latest round of trade data offered little fodder for the bulls. China imported less WMP last month than it has in any August since 2016. China's year-to-date WMP imports also stand at seven-year lows. And Chinese SMP imports, which had been going strong, fell 36% short of year-ago volumes last month. Despite disappointing trade from China, the U.S. milk powder market is as taut as a bowstring. It will shoot even higher at the first sign that China's appetite for foreign milk powder has recovered.



Whey powder followed NDM upward. CME spot dry whey gained a half-cent and reached 30.5¢. High-protein whey prices continue to climb, and manufacturers are sending more of the whey stream into concentrates, which is helping to tighten up supplies of whey powder. But the whey market is also capped by poor demand from China. Chinese imports of U.S. whey fell to a 17-month low in August.

Cheese bucked the trend and suffered huge losses this week. CME spot Cheddar blocks fell a dime to $1.78 per pound, a two-month low. Barrels were even worse. They plummeted 21¢ to $1.60, also the lowest price in two months. High prices this summer have stymied export opportunities this fall, and, now that the heat has abated, there is more fresh Cheddar making its way to Chicago. The trade expects cheese output to remain strong, as Midwestern milk output held firm in August despite the heat. There are also plenty of cows in the cheese states. Dairy slaughter volumes are not running quite as hot as they did this summer, and USDA reported no change in cow numbers from July to August. However, the agency did trim its assessment of the July milk-cow herd by 10,000 head, confirming the prevalence of sellouts and very high cull rates this summer.



The setback in the cheese markets took a heavy toll on Class III prices. October Class III fell 94¢ this week to an inadequate $17.16 per cwt. November was not much better. It dropped 99¢ to $17.34. Fourth quarter Class III futures now average just $17.45, which will not pay the bills. Dairy producers outside the cheese states will enjoy much better prices, although the share of their milk check derived from Class IV is likely falling as underutilized balancing plants represent an increasingly small share of the blend price. October Class IV jumped $1.24 this week and both October and November Class IV topped $20 for the first time since February. Dairy producers will certainly welcome these higher prices. This has been a tough year on the farm, and they have a lot of rebuilding to do.

Grain Markets

Choppers and combines are rolling through the Corn Belt. Yields are extremely variable, but most farmers have been pleasantly surprised at how well their corn has held up through strange and often unfavorable weather. There is plenty of corn, and prices are approaching two-year lows. December corn settled today at $4.7725 per bushel, up a penny from last week. Corn futures often notch their seasonal low in late September. This looks like an opportunity for dairy producers to lock in grain costs at relatively attractive levels.

Soybean supplies are much tighter, and the soy crop appears to have struggled a bit more than corn through the late-season heat and drought. Crop analysts warn that scarce soybean supplies could reduce the crush and limit soybean meal output over the next 12 months. Nonetheless, soybean and soybean meal prices continued to fade. November soybeans finished at $12.9625, down another 44¢ this week. December soybean meal settled at $385.80 per ton, down $6.30 from last Friday.

Federal Milk Marketing Order Hearing Report – Week Five

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The Federal Milk Marketing Order (FMMO) hearing in Carmel, Indiana only met three days this week because the venue where the hearing is held was not available on Thursday and Friday. On Monday, the processors, represented by the International Dairy Foods Association (IDFA), wrapped up their testimony on make allowances.

Later on Monday, Select Milk Producers cooperative submitted proposals 10, 11 and 12 into the hearing. Proposal 10 seeks to increase the butterfat recovery percentage in the Class III formula from the current 90% to 93%. Proposal 11 seeks to eliminate the farm to plant shrink factors in the current Class III and IV formulas and proposal 12 seeks to change the Class IV skim milk factor to account for the Class IV solids that end up in the buttermilk instead of nonfat dry milk. All three of these proposals would increase producer prices. Select submitted significant testimony and data from their own operations and experiences as well as expert testimony from an academic with significant cheese making expertise. The major opposition to Select came from California Dairies, Inc. and National Milk Producers Federation (NMPF) who, while acknowledging that Select had a point, stated that there is not enough verified data to make changes in yields and shrink factors at this time. They testified that this issue should be revisited once a mandatory and audited manufacturing plant survey was conducted in the future. Furthermore, they pointed out that the yield questions did cause NMPF to propose lower make allowance changes than the manufacturing cost summaries would suggest is necessary to cover the increased processing costs since the last make allowance adjustment in 2008.

NMPF on Tuesday introduced proposal 13 to revert the Class I base price back to the "higher of" Class III or IV instead of the current "average of Class III and IV plus $0.74". The NMPF witness spent considerable time explaining that because of the change to the "average of" in 2019, producers missed out on hundreds of millions of dollars of Class I revenue that would have been generated if the Class I formula had remained based on the "higher of." The cross examination on this issue was excruciating to listen to. The path to where we are is messy. Back in 2018, IDFA approached NMPF and asked for this change to make hedging of Class I milk easier. NMPF was willing to accommodate the IDFA request, provided that the impact to producers was revenue-neutral. It was calculated that adding 74 cents per cwt. to the "average of" price would equate to what the "higher of" formula would produce. No one could contemplate a situation where Class III and Class IV could be as much as $11 per cwt. different. But that is what happened during the pandemic and historically larger differences between Class III and Class IV have continued since the pandemic. During 2020-2021 when Class III and Class IV significantly diverged, NMPF and all of us on the producer side in the U.S. pleaded with IDFA to support asking USDA to make adjustments in the Class I formula to address this massive shortfall producers were experiencing. Many proposals were drafted and submitted to IDFA and all were rebuffed by them. So now, NMPF with overwhelming support from most of the producer side of the industry, wants to go back to the "higher of" and submitted a proposal to do that to USDA as part of their petition for an FMMO hearing earlier this year. After NMPF submitted their petition and USDA responded by asking the rest of the industry for proposals for a potential FMMO hearing, then IDFA submitted what is now proposal 14, which is very close to what NMPF proposed two years ago and IDFA rejected. On Wednesday morning, for an hour and 15 minutes, the IDFA attorney grilled the NMPF witness, by selectively going through this history. In the end the NMPF witness admitted that producers had changed their mind about having an "average of"-based Class I formula and pointed out that IDFA had changed their mind as well, with IDFA now proposing nearly exactly what they had rejected when producers were in need two years ago.

The hearing wrapped up for the week on Wednesday with testimony and cross examination of an industry marketing consultant about the mechanics and challenges of trying to hedge Class I milk, as well as a big question about how necessary it is to hedge Class I when the price for fluid milk is known in advance of the month and there is a long history of price change pass through to the retail price for fluid milk. No doubt, more to come on this issue.

The hearing resumes on Monday September 25. It should go for the full five days next week with IDFA making their Class I proposal 14, then Class I proposals from the Milk Innovation Group with proposal 15, Edge Dairy Cooperative with proposals 16 and 17 and the American Farm Bureau with proposal 18. The following week has a question mark on it due to the possibility that Congress does not pass a budget, in which case the federal government including USDA and this hearing would be suspended until Congress and the President get their act together.

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

To view the webinar: https://www.zoomgov.com/j/1604805748
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If you have any technical difficulties, please email FMMOHearing@usda.gov.

Producer Review Board Meeting on QIP Assessment Rate October 2; Petition for Referendum to Terminate QIP Meets Signature Threshold

Courtesy of the California Department of Food and Agriculture

The Producer Review Board will hold its next meeting on **October 2, 2023 at 10 a.m.** There will be no in-person option for this meeting and the meeting will be limited in scope to the QIP Assessment rate revision. The meeting agenda is available here. See the next page for meeting sign on details.

The California Department of Food and Agriculture (CDFA) notified Stop QIP that its petition for a referendum to immediately terminate the Quota program attained the necessary signatures required to conduct a review of the petition. See the letter CDFA issued here.

CDFA indicates there will be a meeting at the end of October to review the petition for a referendum to terminate the Quota program and review the responses from the recently completed 5-year survey of the QIP.

Meeting Link
https://us02web.zoom.us/j/86411281129?pwd=S1I3SzQwdzlwdFdxVHNUNVdoWXVHQT09
To join the meeting, please click on the link provided above.

Meeting ID: **864 1128 1129**

Password: **94uUs*du**
To join by Phone, dial **669 900 6833** and follow the instruction provided.
Meeting ID: **864 1128 1129**
Passcode: **86109464**

MPC in D.C. This Week: NMPF Meeting & Capitol Hill Visits

By Kevin Abernathy, General Manager
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This week, I traveled to Arlington, Virginia for the National Milk Producers Federation (NMPF) meeting. MPC is the only California dairy trade association that participates in NMPF, so we feel it's important to bring a California producer voice to the national discussion. Likewise, we get a lot of value for our members by keeping up on national news and initiatives. The topics were wide ranging, with a lot of discussion around trade, the Federal Order hearing and ag labor. Thank you to our NMPF partners for hosting the meeting and including MPC in the discussions.

While in the Washington, D.C. area, I was able to make a trip to Capitol Hill to visit our legislative leaders. I want to extend my thanks to the following members and their staffs for discussing important California dairy issues: Congressional members **Valadao, Costa, McCarthy, Harder, Panetta, La Malfa, Garamendi, Calvert, Torres, Rose, McClintock and Duarte.**

Kings River's 2022-23 Runoff Sets a Record

Courtesy of the Kings River Water Association

The 2023-24 water year still has a week to go but Kings River runoff has already established an all-time record as a result of the past winter's massive Sierra Nevada snowstorms and significant summer rainfall. The Kings River Water Association now expects that when the current water year concludes Saturday, September 30, the river's annual runoff will total approximately 4.5 million acre-feet.

Kings River Watermaster Steve Haugen said this year's total runoff eclipsed the river's 40-year-old water supply record on Sunday, September 17. That's when the 2022-23 total passed 4.4763 million acre-feet, the amount of unimpeded full calculated natural flow that occurred in another big central Sierra water year, 1982-83. Dropping to the Kings River's third place position was Water Year 1968-69. In that heavy snow-producing year, Kings River runoff reached 4.3862 million acre-feet. Now fourth on the list is Water Year 2016-17 at 4.0961 million acre-feet. Fifth is 1905-06, 3.8996 million acre-feet.

Continue reading here.