# MPC Weekly Friday Report

**Date: September 13, 2024**
**To: Directors & Members**
**From: Kevin Abernathy, General Manager**
**Pages: 7**

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## MPC Friday Market Update

| Chicago Cheddar Cheese | | | Chicago AA Butter | | | Non-Fat Dry Milk | | |
|---|---|---|---|---|---|---|---|---|
| Blocks | + $.0050 | $2.2750 | Weekly Change | - $.0450 | $3.1300 | Week Ending 09/07/24 | | |
| Barrels | + $.2100 | $2.4850 | Weekly Average | - $.0084 | $3.1510 | Nat'l Plants | $1.2639 | 15,911,718 |
| Weekly Average Cheddar Cheese | | | Dry Whey | | | Last Week Ending 08/31/24 | | |
| Blocks | + $.0527 | $2.2890 | Dairy Market News | w/e 09/13/24 | $.5575 | Nat'l Plants | $1.2359 | 16,700,844 |
| Barrels | + $.1272 | $2.23860 | National Plants | w/e 09/07/24 | $.5177 | | | |

## 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 12 Est | No Change | $22.39 | $23.18 | No Change |
| Last Week | $23.20 - $23.70 | $22.45 | $22.61 | $22.34 |

## August 2024 CA FMMO Statistical Uniform Price Announcement

| Aug '24 Final | Class I | Class II | Class III | Class IV | Statistical Uniform Price (Blended Price) | Net Price After Quota Assessment* |
|---|---|---|---|---|---|---|
| Minimum Class Price | $22.92 \| Tulare<br>$23.42 \| L.A. | $22.05 | $20.66 | $21.58 | $21.00 \| Tulare<br>$21.50 \| L.A. | $20.652 \| Tulare<br>$21.152 \| L.A. |
| Percent Pooled Milk | 18% | 4.6% | 69.3% | 8.1% | 100% (2.21 billion lbs. pooled) | |

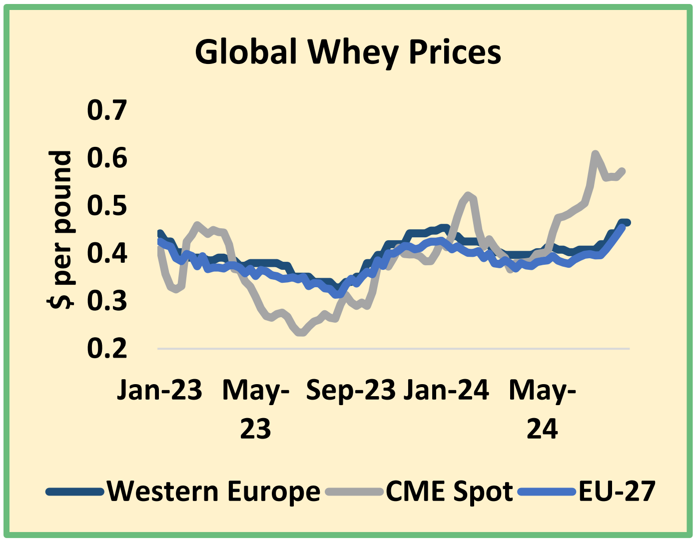
**Quota rate of $0.348/cwt. as of November 2023*

## Milk, Dairy and Grain Market Commentary

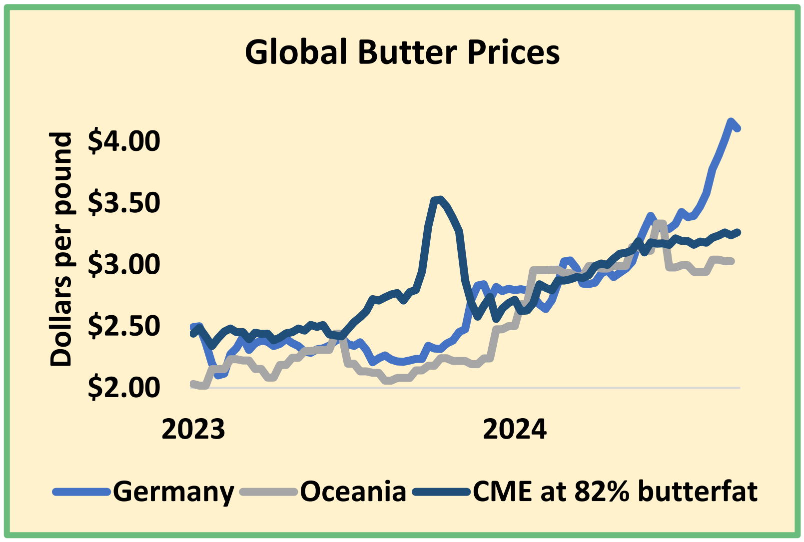
*By Sarina Sharp, Daily Dairy Report*
*Sarina@DailyDairyReport.com*

### *Milk & Dairy Markets*

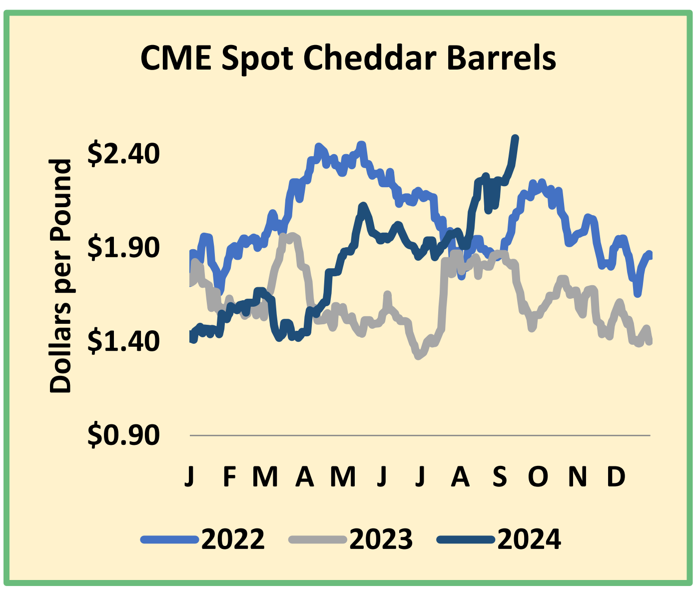
The dairy markets moved higher again as the trade grappled with structural barriers to expansion throughout the Northern Hemisphere. In the United States, limits to growth are well known. The heifer shortage and avian influenza are stymying producers' efforts to pump out more milk.



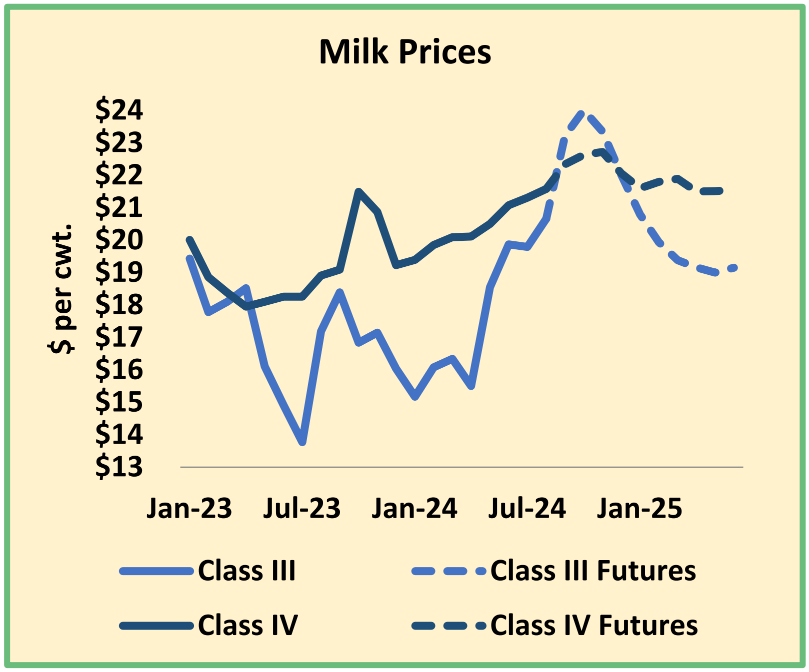

Relatively high interest rates have delayed the types of investments required to produce significant long-term growth. In Europe, USDA's Dairy Market News reports that "the spread of bluetongue disease is having a marked impact on milk output… Infected dairy cows suffer health and fertility issues that lead to reduced milk production" sometimes lasting up to three months. Some dairy producers are culling livestock rather than waiting for them to recover. The disease has infected cattle and sheep in the United Kingdom, France, Belgium, the Netherlands, and Germany. While vaccines have helped to limit the impact of the disease for sheep, they have been less effective for cattle. Farmers are hoping that a cold winter will kill the midge that spreads the disease, which suggests that bluetongue will continue to circulate for several more months.




Meanwhile, after years of government investment and rapid growth in milk output, the Chinese government has reversed course. Chinese milk prices plummeted to multi-year lows amid robust output and feeble consumer demand. In late July, the Ministry of Agriculture announced plans to prevent prices from falling further. While the edict is light on details, the ministry spokesman said that Beijing wants to "optimize and adjust the herd structure, moderately eliminate old and low-yielding cows, and better match" milk output and the dairy product mix with consumer demand. In other words, they hope to size down the herd and rein in excess milk output. Rabobank forecasts that Chinese milk production will be lower in 2025 than it was in 2024.



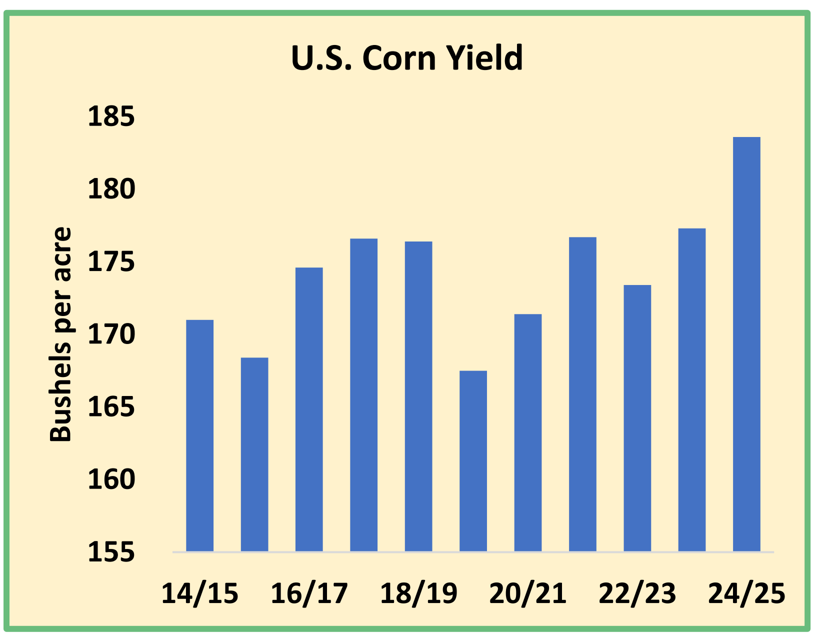

As poor margins cut deeper into China's dairy industry, growth in Chinese milk output slowed from a gallop to a walk in late 2023, and it fell below year-ago volumes in June and July. After years of conspicuously small purchases at the Global Dairy Trade (GDT) auction, Chinese importers bought healthy – but not hefty – volumes of milk powder at the August and September events. Hints of a modest recovery in China's appetite for dairy imports helped to boost global milk powder prices, but the trade remains concerned about the slowing pace of growth in the Chinese economy. Questions continue to swirl around Chinese consumers' ability and inclination to spend on dairy, but the plateau in Chinese milk output has given a small boost to the global milk powder market.




The sudden setback in European milk output has had a more explosive impact on prices. European Emmental cheese costs 5.7% more than it did a month ago. During the same period, whey prices in Western Europe jumped 10.8%, according to USDA's Dairy Market News, to their highest level since late 2022. German skim milk powder prices leapt 10.3%. For butter, the shortage of milk and the decline in milkfat components sparked a meteoric rally. German butter stands at an all-time high of more than $4 per pound. Western European butter prices are up 13.8% from where they stood a month ago.

In Chicago, butter prices may have climbed high enough for now. CME spot butter fell 4.5¢ this week to $3.13 per pound. The other markets moved higher nearly in lockstep with the European benchmarks. CME spot Cheddar blocks added a nickel and closed at $2.275, a new 2024 high. Barrels soared 21¢ to $2.485, their highest price since November 2020. Spot nonfat dry milk advanced 2.75¢ to $1.3925, its loftiest perch since late 2022. And CME spot whey powder added 1.75¢. It closed at 60.5¢.

Milk futures moved violently back and forth as they parsed the certainty of lower milk supplies and the unknown impact that sticker shock might have on demand. But most contracts finished much higher than where they began the week. That was especially true for nearby Class III futures. The October contract jumped $1.17 to $24.01 per cwt. Most Class IV futures gained about 20¢ this week, but the decline in spot butter dragged October Class IV a little lower. It closed at $22.63. Notably, that's almost $1.40 below the October Class III contract. The tables have turned once again to favor depooling for Class III processors.




***Grain Markets***

At prices like these, dairy producers will enjoy excellent margins, especially if feed costs stay low. USDA delivered mixed news on that front in its monthly update to the World Agricultural Supply and Demand

Estimates report. USDA took samples from corn fields in 10 states. It found ears that were more abundant and heavier than it expected, prompting its statisticians to raise their estimate of the national average corn yield to a record-shattering 183.6 bushels per acre, up a half-bushel from the August figure. That spurred a quick drop in corn futures back below the $4 mark. But the retreat didn't last. USDA also acknowledged that lower prices have boosted demand for soy crushing, corn distilled for ethanol, and corn sold for export. The modest increases in demand more than offset the impact of the higher yield. The agency called for end-of-season corn and soybean stockpiles that were slightly smaller than they projected a month ago. It seems that $4 corn and $10 soybeans are cheap enough for now. At the closing bell, December corn was $4.1375 per bushel, up 7.5¢. November soybeans were $10.065, up 4¢. December soybean meal was $323, a dollar lower on the week.

## Breaking News! Kings County Judge Rules Against State Water Board in High-Stakes Groundwater Case

*By Lois Henry, Lisa McEwen, Monserrat Solis*

***Note from Geoff Vanden Heuvel, MPC Director of Regulatory and Economic Affairs***

*This is a huge deal. There have been serious questions about how the State Water Board and its staff have handled this issue. This preliminary injunction shows that even big and powerful government bureaucracies can be held accountable.*

***From San Joaquin Valley Water***

The State Water Resources Control Board exceeded its authority, operated under a web of "underground regulations" and made unlawful demands of Kings County water managers, according to a preliminary injunction that is a near total repudiation of state actions in its attempt to reign in excessive groundwater pumping.

"Clearly, the actions of this state agency have not been transparent, are only known to SWB, and there has been no review, analysis or ability to challenge their conduct," Kings County Superior Court Judge Kathy Ciuffini wrote in the injunction issued Friday.

The ruling is part of a lawsuit brought by the Kings County Farm Bureau against the Water Board after the board placed the region, known as the Tulare Lake subbasin, on probation at an April 16 hearing. "Today's ruling highlights the validity of our claims and showcases our likelihood to win in court in the future," Dusty Ference, executive director of the Farm Bureau, said in a statement.

**Reprieve**

It also means a significant financial reprieve for Kings County farmers.

Probation would have meant farmers pumping 500 acre feet or more a year would have had to meter and register their wells at $300 each, report extractions and pay $20 per acre foot pumped. That is on top of what farmers already pay their water districts and groundwater sustainability agencies.

If deficiencies noted in the region's groundwater plan couldn't be fixed to the Water Board's satisfaction within a year, the state would establish its own pumping limits.

Those requirements are now all paused under the injunction until the trial is concluded. The next hearing is set for Jan. 10, 2025.

Edward Ortiz, a spokesman for the Water Board wrote in an email that the board disagreed with Friday's ruling, "which prevents the Board from taking action stemming from the probationary designation of the critically overdrafted Tulare Lake Subbasin."

Though Ortiz noted this ruling only applies to the Tulare Lake subbasin, water managers in other San Joaquin Valley subbasins facing probationary hearings are paying close attention.

The neighboring Tule subbasin comes before the Water Board on Tuesday. The Kaweah subbasin's hearing is scheduled for Jan. 7, 2025, then the Kern subbasin goes to the board on Feb. 20, 2025. The Delta-Mendota and Chowchilla subbasins will face probation hearings some time later in 2025.

*Continue reading here.*

## MPC's Geoff Vanden Heuvel Talks Water on the California Insider

*Courtesy of California Insider*

Geoff Vanden Heuvel appeared on an episode of the *California Insider* this week to discuss California water issues, including the Fall X2 regulation. Geoff provides a comprehensive overview of the Golden State's water infrastructure and the many challenges it faces.

Watch the full episode here.


## Formal CDFA Hearing Held on QIP Change Proposal

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

On September 9, there was a formal hearing held by the California Department of Food and Agriculture (CDFA) to receive information and testimony from the public on the changes to the Quota Implementation Plan (QIP), which were recommended by the Producer Review Board (PRB). In short, the PRB recommends adjusting the quota differential from the current $1.70 per cwt. to $1 per cwt. to more closely reflect today's California Class I revenue. This change would reduce the producer QIP assessment from the current 35 cents per cwt. to about 22 cents per cwt. Secondly, the proposal eliminates the Regional Quota Adjuster (RQA) which would make the differential identical in all regions of the state. And third, the proposal clarifies what a QIP hardship is by bringing back the historical hardship definition language that existed in the quota system as it existed in the State Order.

The first witness at the hearing was a CDFA staff person who formally entered a long list of relevant documents into the hearing record. While there was an opportunity for the public to ask this person questions about these documents, no questions were asked.

The first public witness to be sworn in and testify was dairyman Frank Konyn who is also a member of the PRB. Frank was instrumental in bringing this proposal to the Producer Review Board for their consideration. His testimony, which you can read here, lays out the reasons and justification for making this change. In a nutshell, quota came into being at the beginning of the milk pooling program in 1969 as a Class I revenue program. It was modified in 1994, becoming a $1.70 fixed differential that approximated what class I revenue generated at that time. And now 30 years later, the dollars generated from Class I have deteriorated to a point where fairness dictates that an adjustment be made in the differential.

The second witness was Craig Gordon, who has been the leader of the STOP QIP group. Craig outlined his opinion that there are many reasons not to trust CDFA with this referendum decision. Obviously, there is a long history of conflict here, but Craig did urge producers to vote for the referendum to change the differential.

The only other member of the public to speak up was dairyman Alex De Jager who had asked for the consideration of dividing the three different items being considered in the referendum into three separate votes. CDFA responded that they did consider separating the items but stated that the PRB in passing the recommendation has discussed that this proposal is a compromise and that all three items (the change to a $1 differential, the elimination of RQAs and the definition of hardship) needed to be considered and voted on together. Therefore, CDFA concluded that separating the items would depart too far from the PRB recommendation.

The hearing then concluded an hour and 15 minutes after it started. At most, I saw 44 people online participating. The hearing officer announced that a formal hearing finding from the Department could be expected within 30 days. It is likely that the hearing finding will result in a formal order from the Secretary initiating a producer referendum.

## FYTO Demonstration Day in Tulare

*By Kevin Abernathy, General Manager*
*Kevin@MilkProducers.org*

On Monday, FYTO hosted a demonstration of its ReCover technology at MPC Board Chairman Cornell Kasbergen's dairy. The system uses digestate effluent to grow the world's fastest growing crop, lemna, also known as duckweed. The lemna is grown in 18-inch-deep lined containers, which yields 10,000 lbs. of harvested wet material daily. That material is then dried and is intended for use as a cattle feed. Trials are currently underway to test the feed's effect on cow health and milk quality.

FYTO reports that the system recycles over three times more nitrogen than corn-wheat double cropping and yields over five times more protein than alfalfa. In his remarks, MPC Chairman Kasbergen noted that he was intrigued by the technology for its purported water savings, especially in light of reduced water availability due to SGMA. We'll keep you updated on progress of this trial, and you can learn more about the technology here. You can also see a short video here.

## Reminder: One-Stop Truck Event in Tulare September 17

*Courtesy of the California Air Resources Board*

**Event Details**

Informational event for medium- and heavy-duty vehicle owners, operators, fleets, and motorhomes; free admission & parking.

**September 17, 2024**

9:00 a.m. - 1:00 p.m. (registration begins at 8:30 a.m.).

International Agri-Center

4500 South Laspina Street, Tulare, CA 93274

**Registration is required for this event. Register here.**

**Event Highlights**

One-on-One Compliance Assistance

Overview Presentations of Clean Truck Check, Advanced Clean Fleets, and the Off-Road Regulation Enforcement Overview

Incentive Funding Opportunities