

MPC WEEKLY FRIDAY REPORT

DATE: FEBRUARY 10, 2023
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 8



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	-\$.0025	\$1.8625	WEEKLY CHANGE	+\$.0375	\$2.4125
Barrels	-\$.0550	\$1.5750	WEEKLY AVERAGE	+\$.0535	\$2.3980
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		NAT'L PLANTS	
Blocks	-\$.0185	\$1.8585	DAIRY MARKET NEWS	W/E 02/10/23	\$.3800
Barrels	-\$.0145	\$1.5800	NATIONAL PLANTS	W/E 02/04/22	\$.4137
				LAST WEEK ENDING 01/28/22	
				NAT'L PLANTS \$1.2786 22,139,057	

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
FEB 10 EST	\$22.38 - \$22.88	\$20.85	\$17.94	\$18.95
LAST WEEK	\$22.38 - \$22.88	\$20.69	\$17.92	\$18.76



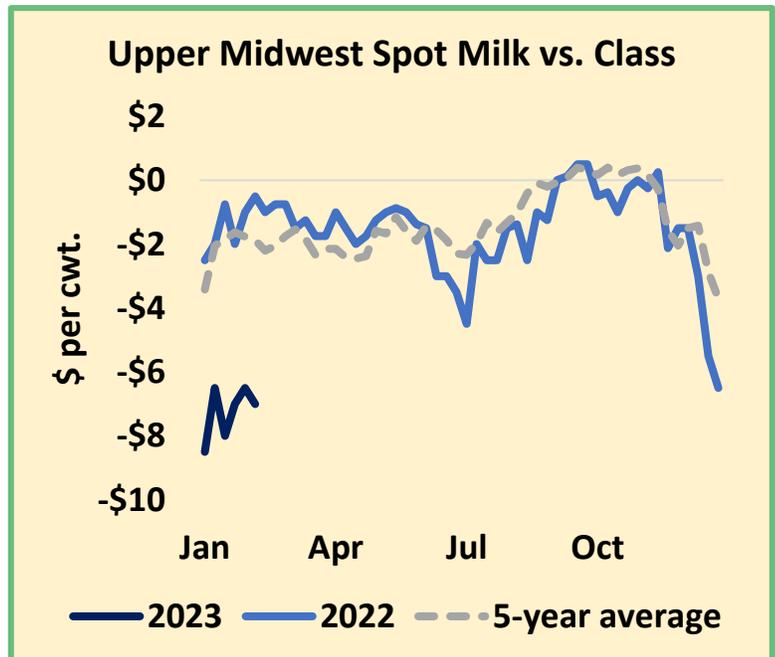
Milk, Dairy and Grain Market Commentary

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

Milk & Dairy Markets

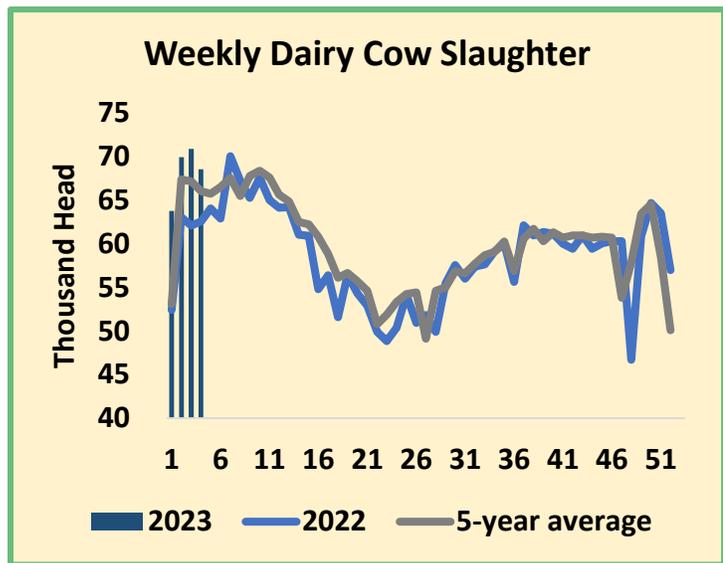
Milk is abundant and trading at steep discounts in the cheese states. For the seventh straight week, cheesemakers in the Upper Midwest purchased spot loads of milk at as much as \$10 per cwt. below class. Cheese processors have every incentive to run hard, and, by all accounts they are doing so. Formidable production and hefty stocks dragged barrel prices lower. They closed at \$1.575 per pound today, down 5.5¢ from last Friday. Blocks slipped 0.25¢ and finished the week at \$1.8625.

Typically, a fumble in the spot market and signs of surplus would weigh heavily on



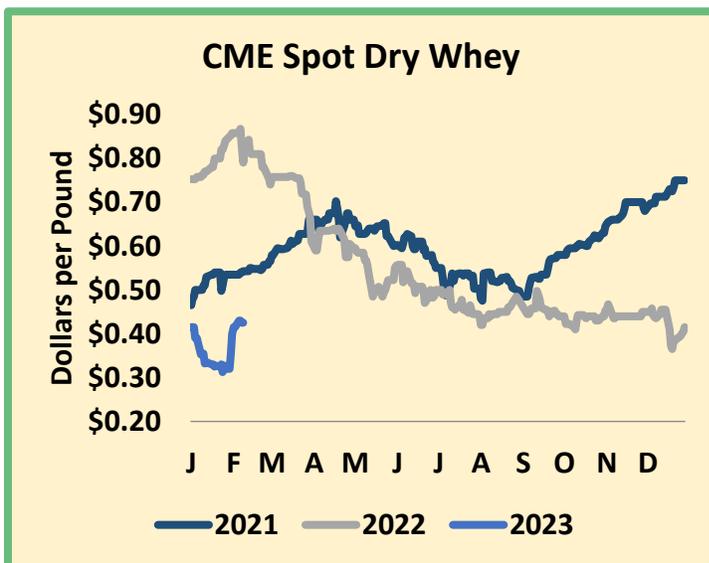
cheese and Class III futures. But the bulls reclaimed possession and shrugged off one tackle after another. For the second week in a row, Class III futures gained ground on the assumption that prices are sufficiently cheap for now. March Class III settled today at \$18.06 per cwt., up 33¢ this week. Deferred contracts ran up the score by a similar margin. The futures currently promise that Class III milk will be back over \$19 by June, with stronger prices in the second half of the year.

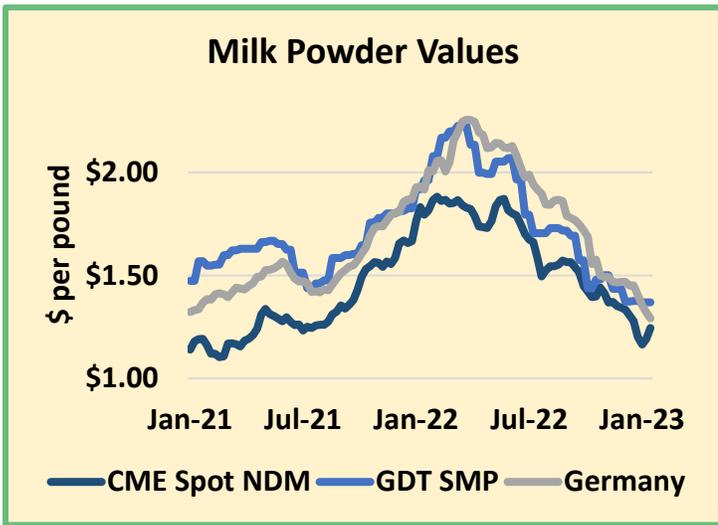
The bulls' argument – that prices have fallen far enough – is based on two central economic tenets. In the long run, low prices boost demand and restrict supply. On the first point, there is evidence that buyers view cheese as a bargain. USDA's *Dairy Market News* notes that retailers' orders have gone from "steady to strong," and it's going to be a big weekend for pizza sales as well. Dairy – and especially cheese – will feature heavily in football-themed feasts this Sunday. The Super Bowl ranks second only to Thanksgiving in America's food-focused holidays. But after the final field goal, there will be a seasonal lull until Easter.



There are also signs that prices are causing pain on the farm, which will eventually weigh on U.S. milk production. Livestock auctions have a growing line-up of dairy herds on the docket, and dairy cow slaughter volumes are lofty. For the week ending January 28, dairy producers sent 68,519 cows to packers, marking the highest slaughter tally for the final week of January since 1984. After four weeks, dairy cow slaughter is 8.5% ahead of the 2022 pace. The combination of high slaughter volumes and low heifer supplies could speed contraction in the milk cow herd, but the shift from today's surplus to tighter milk supplies will take some time. And if markets bounce back prematurely, the painful process will drag on even longer.

Butter and dairy powder prices inched up in Chicago this week. CME spot butter rallied 3.75¢ to \$2.4125. Spot whey added a penny and reached 42.5¢, logging a new high for 2023. CME spot nonfat dry milk (NDM) climbed 2.25¢ to \$1.265. Most dairy product values also moved higher at the Global Dairy Trade (GDT) auction on Tuesday. Butterfat products were especially strong, and whole milk powder jumped 3.8%. However, skim milk powder (SMP) prices slipped 0.5%. GDT SMP is now comparable to NDM at \$1.37 per pound. That's still higher than U.S. pricing, but the gap is narrowing. Any noise in global milk powder prices is likely to echo in Chicago. Higher spot prices and bullish momentum prompted a





steep rally in Class IV futures. March climbed 33¢ to \$19.13, and most deferred contracts gained at least 50¢.

If U.S. milk output continues to grow, or simply holds steady, America will need to maintain robust exports. But it's going to be difficult to sustain the 2022 pace. U.S. dairy exports were record-large in 2021, but the industry outdid itself once again in 2022. On a milk solids basis, U.S. dairy exports were 5% larger in 2022 than in 2021, and they added immense value to the industry. The United States sold more than \$9.5

billion in dairy products to foreign buyers, an astounding 25% increase from the year before. The U.S. sent more cheese and whey products abroad than ever, and U.S. exports of butter and NDM posted their second-highest year on record. Shipments of cheese, whey, and milk powder remained strong through December, but butter exports finally dropped due to extraordinarily high prices. *Dairy Market News* reports slower cheese sales so far this year, but Mexico remains hungry for U.S. milk powder. Whey exports are a bit harder to nail down. Asian interest in U.S. whey has been sporadic.



Grain Markets

USDA offered its latest assessment of the supply and demand for crops this week. The agency trimmed its estimate of domestic corn and soy demand at the margins, resulting in slightly higher end-of-season stocks for both crops. More importantly, USDA made sizeable cuts to Argentina's corn and soybean crops. USDA's top economists now officially peg Argentina's corn crop at 47 million metric tons (MMT), and they expect Argentina to harvest 41 MMT of soybeans this year. Those numbers are down significantly from USDA's January assessment, but they're still higher than the market consensus. Indeed, USDA's own on-the-ground staff in Argentina published lower expectations. The agency's attaché expects Argentina to harvest 45 MMT of corn. In late January, the attaché called for a soy harvest of just 36 MMT, which would mark the smallest soy crop in 15 years. Recent rains likely revived the crop and may prevent this disastrous scenario, but significant damage has been done. Concerns about South America boosted the soy complex once again this week. March soybeans closed a dime higher at \$15.425 per bushel. March soybean meal added another \$3 and reached \$499.40 per ton.

Meanwhile, reports of a new Russia offensive in Ukraine sent the wheat market soaring, and corn followed. March corn futures settled at \$6.805 per bushel, up 2.75¢. Grain and protein costs are high and rising, and forage prices have not fallen back. It's going to cost a lot to make milk for the foreseeable future.



Up to 800,000 Acre-feet of Stored Water Could be Lost to State-ordered Outflow Requirements

Courtesy of the Water Blueprint for the San Joaquin Valley

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

Atmospheric rivers dumped massive amounts of water in the north state in January, a huge shot in the arm for California's water picture. However, it was frustrating to watch hundreds of thousands of acre-feet of that water go uncaptured and flushed out to the ocean. That water is lost, and now we run the risk of losing even more water due to outdated state regulations, which you can read more about from the Water Blueprint folks below.

Now that atmospheric river systems and flooding conditions have given way to more recognizable weather patterns, there is a real danger looming that the federal and state government agencies and water project decision-makers will contribute to making water supply matters worse. Agreeing to release hundreds of thousands of acre feet of water from storage reservoirs to meet agency created outflow requirements, while simultaneously reducing pumping at both the federal and state delta pumping facilities, will likely equate to tremendous mismanagement of water supplies that contribute to another "regulatory created drought".

This comes after mother nature delivered, in the month of January, one of the wettest months ever recorded. However, the "first flush" restrictions stood in the way of maximizing pumping of much needed water supplies into storage.

So, just what exactly is about to happen?

As February develops, and hydrologic conditions continue to evolve, it appears now that the State Water Resources Control Board's 1999 regulation, D-1641, which, in part sets Bay-Delta outflow requirements will result in a loss of water stored during January's storms. As a result, Bay-Delta outflow requirements for February are going to be MASSIVE and impactful to the SWP and CVP. The bullet point below is our latest info.

- The D-1641 Delta Outflow requirement will cost approximately 350-500 TAF in additional releases, and some estimates are closer to 800 TAF from upstream storage and cuts to South-of-Delta exports. It is likely to impact the SWP more, but either way will have an impact on both projects.

We're still compiling the rationale for the 1990s SWRCB outflow requirements, but needless to say it is yet another antiquated calendar-based limit that isn't taking into account prior drought and storage conditions, the best science, real-time river conditions, and attempting to balance beneficial uses in real-time.

Arguably, the amount of water being lost in just a couple of months is enough to supply Los Angeles for an entire year.

California Dairy Water Update – February 2, 2023

By Joel Hastings
WaterWrights.net

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

[Dairy Cares](#) recently posted video of last week's California Dairy Water Update meeting held in Tulare. You can watch the entire meeting, which is broken into four segments by speaker, [here](#). Below is an article from [WaterWrights](#) recapping the event.



The impact of SGMA (Sustainable Groundwater Management Act) on California's dairy and cattle industries was the focus of a meeting held February 2nd in Tulare at the Veteran's Memorial Building. Presented for the first time was a study on the economic impacts of SGMA on the dairy and beef industries in the San Joaquin Valley. Speakers also provided background on how SGMA is being implemented in dairy communities across the Central Valley and how common-sense solutions to water scarcity might be implemented. Over 200 attended the session hosted by Dairy Cares and the California Cattle Council, the two groups that commissioned the study, along with the California Creamery Operators Association. The meeting was called to order right at 1:30 p.m. by **Michael Boccadoro**, executive director of Dairy Cares and the Creamery Association, who introduced the speakers and moderated the question and answer session at the end of the program.

Economic Impacts of SGMA

Dr. Michael McCollough, a professor at Cal Poly SLO, presented an overview of the study which he had led as an associate of ERA Economics based in Davis, Calif. He thanked his colleagues and his students as well as dairy producers who had worked with him. His first slide got right to the point asserting a loss of economic output and jobs in three sectors as SGMA is implemented by 2040. Milk and beef production will lose \$833 million in output and nearly 3,090 jobs; dairy feed production will lose \$218 million in output and 910 jobs; and milk and beef processing will lose \$1.12 billion in output and 3,530 jobs. There will be a nearly 130,000 head or ten percent reduction in dairy cattle numbers, with a resulting reduction of seven percent in fluid milk output and the same amount in gross output value. He did say that dairy productivity which has been increasing at one percent per year is estimated to continue, supporting a smaller but more profitable industry in the long run.

He said in contrast to some reporting, dairy feed is a high value input to milk production with a value similar to nut crops. The study estimates that if all the allocations from 78 GSAs are put into place,

there will be a total reduction of 1.5 million acre/feet of water by 2040. This will result in a 100,000 acre reduction in alfalfa, exceeded only by nut crops, with fewer acres across the spectrum of vegetables, silage crops, pasture and grain. All crop production losses will total \$1.742 billion with a reduction of 8,837 jobs, this in addition to the reductions described above in dairy and beef.

He documented current high costs of dairy farming, including an 80 percent increase in fuel costs and a 33 percent increase in feed costs just since 2020. He said cost increases from SGMA will be through higher feed and water costs. There will be less water for feed and nutrient management, more imported feed and higher water costs to pay for projects. He said the 22 percent of Valley dairies outside of water and irrigation districts will be impacted to a greater degree. Twenty-seven percent of silage and hay crops are grown in those “white areas.”

He concluded noting several additional considerations which the study acknowledges but does not try to quantify, including Colorado River cuts impacting western feed production, more stringent waste discharge requirements coming for Valley dairies, and impacts on related industries like transportation, cold storage, and real estate. There will also be impacts on state and local taxes.

SGMA: Game Changer?

Leading off was **Geoffrey Vanden Heuvel**, director of economic and regulatory affairs of the Milk Producers Council. He does as good a job as anyone we have heard providing an overview of California water issues. He opened with a quote from a writer from North Carolina who in 1855 traveled end to end in California to assess the new state.

“Balancing resource against defect and comparing territory with territory, California is the poorest state in the Union... the average or general surface of the country is incapable of sustaining a dense population.” - Hinton R. Helper, The Land of Gold

Vanden Heuvel continued, explaining how the linchpin of California’s growth in population and output, including today’s rank as the number one agricultural state in the U.S., has been due to the ability to move water from where it is, to where it’s needed. He explained how a series of private, state and federal investments in dams and canals allowed water to flow for the benefit of both cities and agricultural lands. He had a slide showing 14 dams on rivers in the state creating reservoirs with some dairy connection. He said that began to change in 1991, a drought year, with the passage of the Endangered Species Act. An increased flow of water out to sea through the San Francisco Bay Delta was required to preserve two fish species, the Delta smelt and the Pacific salmon.

Continue reading [here](#).



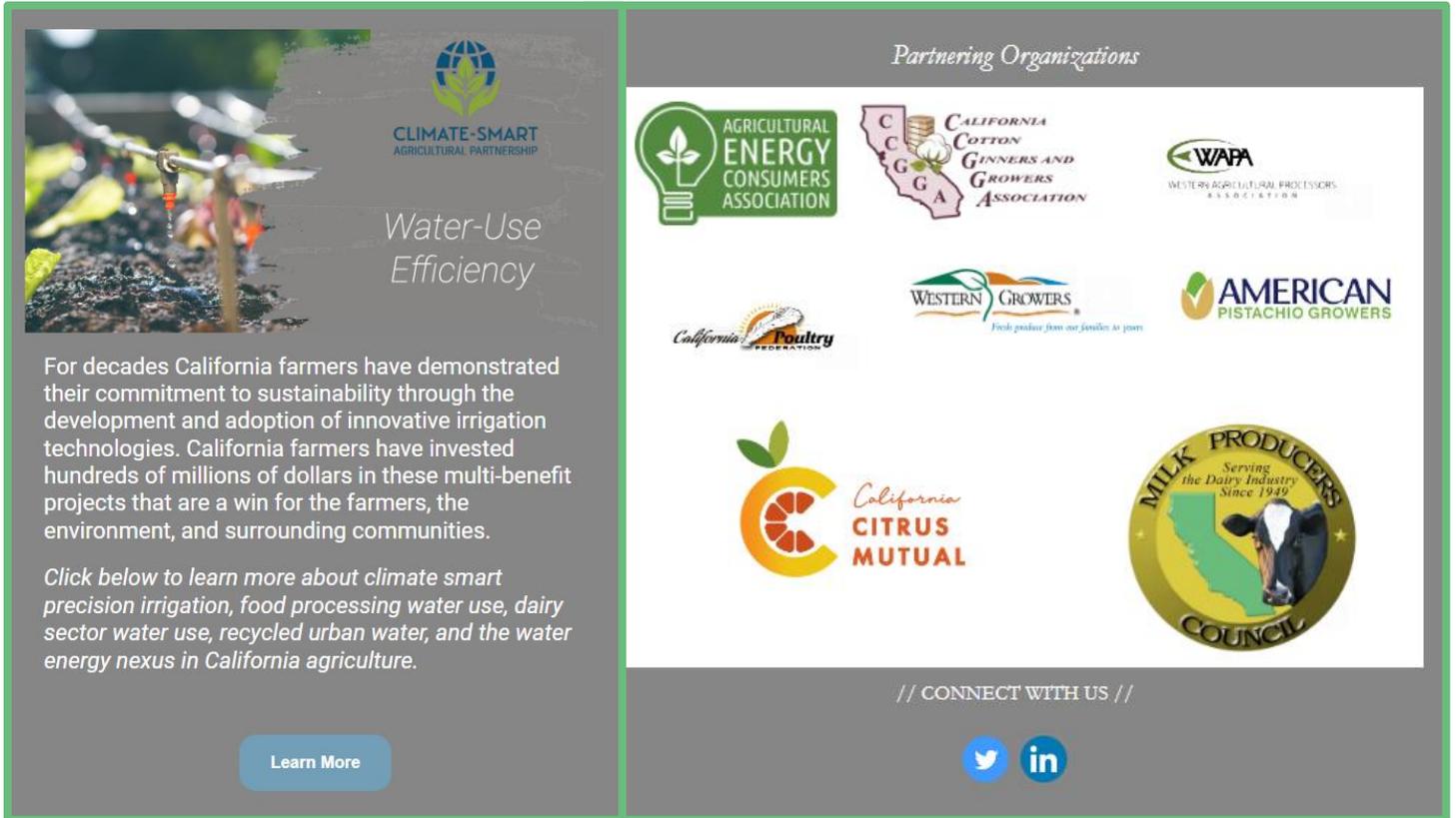
Speakers at the California Dairy Water Update from L to R: Dr. Scott Hamilton, Geoffrey Vanden Heuvel, Dr. Michael McCollough and Michael Boccadoro.
Credit: [Joel Hastings, Water Wrights](#)

MPC Partners with Climate-smart Agricultural Coalition

Courtesy of the [Climate-smart Agricultural Partnership](#)

Note from Kevin Abernathy, MPC General Manager

MPC has partnered with a diverse group of agricultural organizations to form the Climate-smart Agricultural Partnership. This group is educating the public and opinion leaders about the innovative agricultural practices that are necessary to feed the world and protect the planet.



Water-Use Efficiency

For decades California farmers have demonstrated their commitment to sustainability through the development and adoption of innovative irrigation technologies. California farmers have invested hundreds of millions of dollars in these multi-benefit projects that are a win for the farmers, the environment, and surrounding communities.

Click below to learn more about climate smart precision irrigation, food processing water use, dairy sector water use, recycled urban water, and the water energy nexus in California agriculture.

[Learn More](#)

Partnering Organizations

- AGRICULTURAL ENERGY CONSUMERS ASSOCIATION
- CALIFORNIA COTTON GINNERS AND GROWERS ASSOCIATION
- WAPA WESTERN AGRICULTURAL PROCESSORS ASSOCIATION
- WESTERN GROWERS
- AMERICAN PISTACHIO GROWERS
- California Poultry PRODUCTION
- California CITRUS MUTUAL
- MILK PRODUCERS COUNCIL

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NMPF Update: House Ag Committee Roster; Fake Milks; WIC Proposal

Courtesy of Jim Mulhern, President & CEO

[National Milk Producers Federation](#)

House Agriculture Committee Finalizes Roster, Subcommittee Leads

In preparation for the heavy lifting this year on the 2023 Farm Bill, House Agriculture Committee Chairman GT Thompson (R-PA) and Ranking Member David Scott (D-GA) convened the panel's organizational meeting this week. At the meeting, the committee approved its roster of 28 Republicans and 24 Democrats, as well as the heads of its various subcommittees.

The Livestock, Dairy, and Poultry Subcommittee, which covers the Dairy Margin Coverage program, risk management tools, and the Federal Milk Marketing Order system, will be led by Reps. Tracey Mann (R-KS) and Jim Costa (D-CA). Both have significant dairy production in their respective districts. The Nutrition, Foreign Agriculture, and Horticulture Subcommittee, which will include all trade programs and issues, will be led by Reps. Brad Finstad (R-MN) and Jahana Hayes (D-CT).

Finally, the Conservation, Research, and Biotechnology Subcommittee, which governs conservation and sustainability-related programs, will be led by Reps. Jim Baird (R-IN) and Abigail Spanberger (D-VA). NMPF has worked effectively with all of these members in recent years and looks forward to continued partnerships as work on the new farm bill gets underway.

Dairy Defined Column Highlights Misperception about Fake Milks

Mark Twain supposedly said that “It ain’t what you don’t know that gets you into trouble; it’s what you know for sure that just ain’t so.” That aphorism definitely applies to the popular misconception that fake milks continue to soar in popularity, to the chagrin and lost sales opportunities of real milk marketers. Our latest Dairy Defined [column](#) shines the light on the reality that many people just don’t know: that plant-based beverages are dropping in overall consumption and that the copycat products are not nutritionally superior to real milk. This second reality is a key point – and a nutrition myth – that none other than the New York Times [reported recently](#).

Despite these encouraging signs, the Food and Drug Administration remains passive about enforcing its own standards of identity. We in turn remain committed to challenging not just the misperceptions about fake dairy foods, but also the FDA inaction in defending the integrity in product labels.

Action Needed on USDA WIC Proposal

As the USDA considers slimming down the dairy portion of the WIC program, we need supporters in the dairy community to express their concerns about the Agriculture Department’s proposal. The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) enhances the quality of program participants’ diets and health, and dairy has always been a cornerstone of the WIC program because milk and dairy foods provide 13 essential nutrients.

In November 2022, USDA published a proposed rule intended to align the foods provided through WIC more closely with the current Dietary Guidelines for Americans (DGA). The proposed rule emphasized balancing food options, promoting nutrition security and equity, and program administration considerations.

Even though nearly 90% of Americans do not meet DGA dairy intake recommendations, and even though dairy’s nutrients are vital for the health and development of WIC participants during the life stages covered by the program, the rule proposed a reduction in the amount of foods in the “milk” category, which includes fluid milk, cheese, and yogurt.

USDA is currently accepting public comments on the proposed rule. **To make your voice heard, [use our website](#) to submit comments to USDA**, with the February 21 deadline quickly approaching.

