

MPC WEEKLY FRIDAY REPORT

DATE: MARCH 8, 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	- \$.0900	\$1.4600	WEEKLY CHANGE	+.0450	\$2.8025
Barrels	-\$1.1625	\$1.4875	WEEKLY AVERAGE	+.0100	\$2.8115
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 03/02/24	
Blocks	-\$1.1020	\$1.4920	DAIRY MARKET NEWS	W/E 03/08/24	\$5000
Barrels	-\$0.0760	\$1.5860	NATIONAL PLANTS	W/E 03/02/24	\$4907
				LAST WEEK ENDING 02/24/24	
				NAT'L PLANTS	\$1.2031 20,761,669
				NAT'L PLANTS	\$1.2021 20,890,232

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
MAR 8 EST	No Change	\$20.94	\$16.57	\$19.98
LAST WEEK	\$20.40 - \$20.90	\$20.93	\$16.77	\$19.99

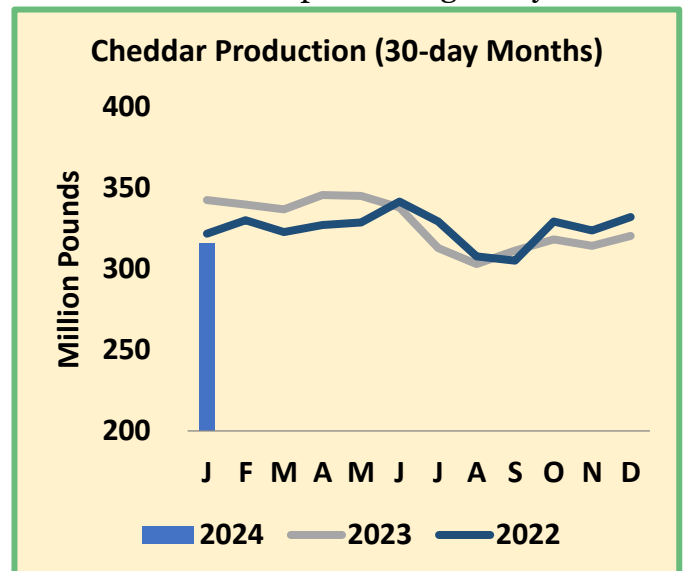


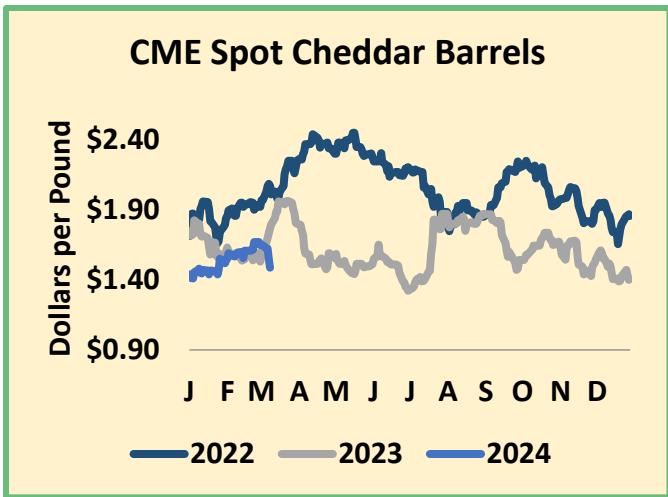
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

The dairy markets are feeling around for a bottom. April through July Class III futures notched life-of-contract lows this week. But the bulls are not wallowing in despair. These are prices that will continue to spur contraction in the industry, reducing milk production and dairy product output. Indeed, despite massive investments in U.S. cheese production capacity, cheese output fell 1.2% below prior-year volumes in January. Cheddar production, an important factor for the price in Chicago, fell 7.9% year over year in January. And inexpensive U.S. cheese attracted foreign buyers. Exporters sent nearly 85 million pounds of cheese abroad in January, the highest January total on record and 12.9% more than in the first month of



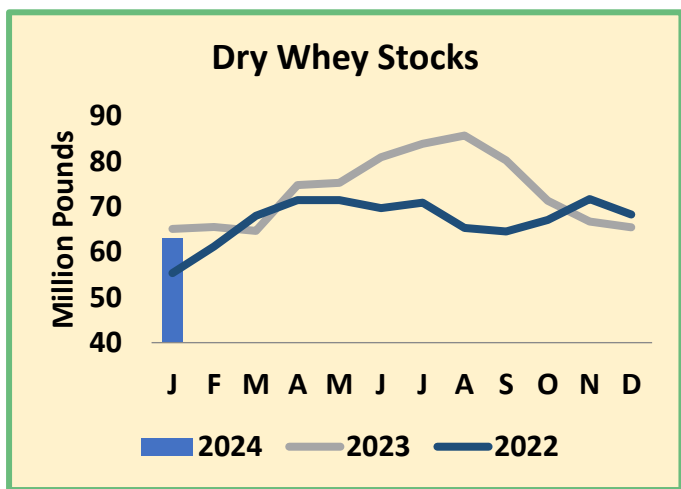


2023. That was not enough to prevent additional declines in spot cheese prices. CME spot Cheddar blocks fell 9¢ this week to \$1.46 per pound. Barrels plummeted 16.25¢ to \$1.4875. Class III futures followed cheese lower, but by Friday the trade was simply unwilling to retreat any further. Spot cheese dropped hard on Friday, but Class III futures shrugged it off and staged a small rally.

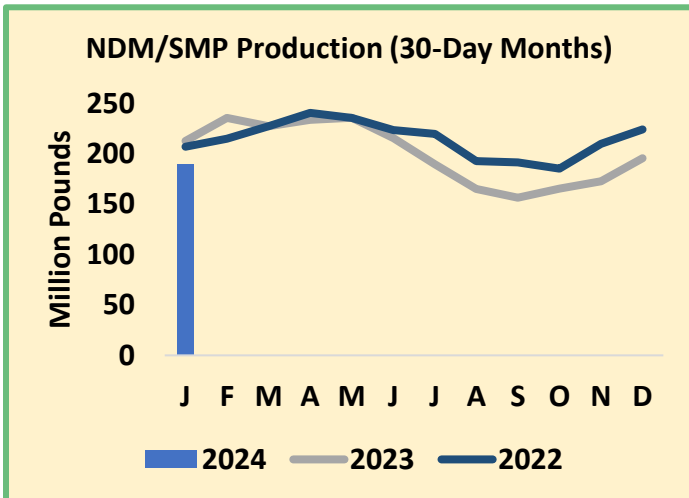
products in January, but there was enough left over to allow for a modest year-over-year increase in whey powder output. Stocks inched down slightly, and they stood well below the burdensome volumes that prevailed throughout most of 2022 and all of 2023. Nonetheless, whey prices are on the defensive as foreign demand remains tepid. U.S. whey powder exports were 2.9% greater than the modest volumes sent abroad in January 2023, but they look light in comparison to typical monthly volumes over the past few years. USDA’s *Dairy Market News* characterizes the whey market as “bearish to uncertain.”

CME spot whey powder also lost some ground, slipping 1.5¢ this week to 41¢. Processors continued to direct more of the whey stream to high-protein

U.S. milk powder output remains in the doldrums thanks to the milk production deficit. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) fell 6.6% in 2023. January NDM/SMP output was down 10.7% from the same month in 2023. And manufacturers stepped up SMP production to kick off the year, which signals optimism about export prospects in the months to come. But January exports did not impress. They fell 14% from year-ago volumes as the pace of Mexican imports slowed to a brisk jog after last year’s full-out sprint. The industry expects that lower milk production could translate to sharply higher milk powder prices. But for now, poor global demand is once again weighing on the market. SMP and whole milk powder



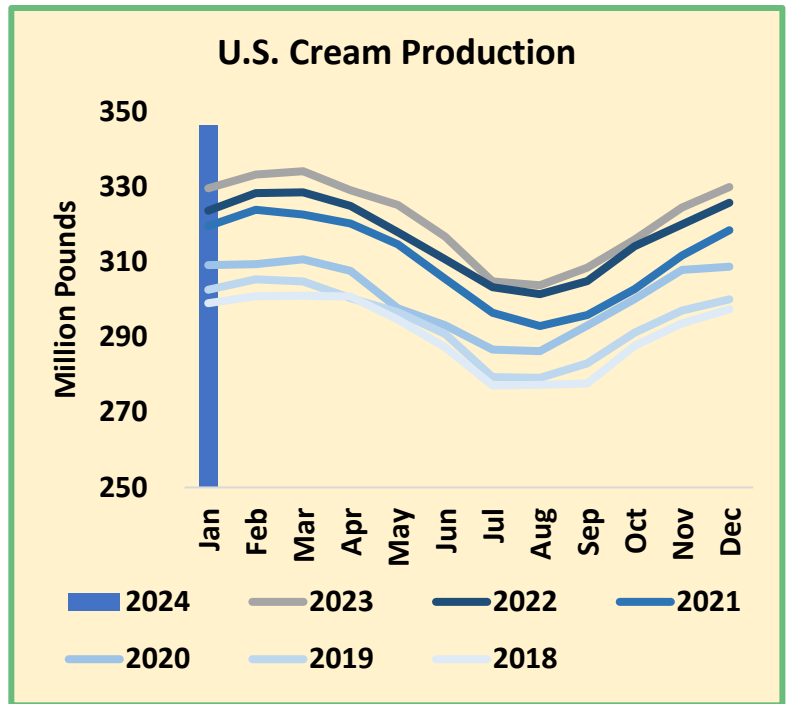
prices turned south at the Global Dairy Trade auction, losing 5.2% and 2.8%, respectively. That was enough to drag CME spot NDM down 2.75¢ this week to \$1.17 per pound.



Once again, butter bucked the trend. CME spot butter rallied 4.5¢ to \$2.8025, toward the high end of the recent trading range. The relentless increase in butterfat in U.S. milk has produced more than enough cream to supply all the new cheese vats with plenty left over for Class II manufacturers and butter churns. In January, U.S. milk output fell 1.1%

from the prior year, but cream production leapt 1.7% as the average fat test in U.S. milk reached 4.35%. At the same time, production of protein and milk solids was steady or lower as those components did not climb enough to offset the decline in milk production. Relatively inexpensive cream allowed churns to run hard, and butter output jumped 6.4% from January 2023. Nonetheless, prices remain firm thanks to Americans' formidable appetite for butter and dairy fats.

Although the markets recovered somewhat on Friday, milk futures finished the week lower than where they began it. April Class III traded in the \$15s on Wednesday, Thursday, and Friday, at prices that are sure to depress dairy producers. It ultimately settled at \$16.08 per cwt., down 67¢ for the week. Across the board, Class III contracts lost 40¢ on average. The trade hopes that Friday's momentum will carry into next week, spurring a further recovery to more palatable milk prices.



Class IV futures also took a big step back, albeit from a much higher starting point. The April contract settled at \$19.80, off 8¢. May through December Class IV lost an average of 27¢. The wide spread between Class III and IV milk will continue to prop up milk checks for the minority of U.S. dairy producers who benefit from Class IV depooling. But most producers will struggle with low Class III milk prices and steep discounts. Inadequate prices are likely to stick around until international demand perks up. But when it does, tight stocks and slow milk output could prompt a steep increase in dairy product prices, lifting dairy producers' spirits and their incomes.

Grain Markets

After plumbing three-year lows, feed prices bounced back last week and kept climbing this week. May corn settled today at \$4.3975, up 15¢ since last Friday. May soybeans closed at \$11.84, up 32.75¢. May soybean meal finished at \$341.40 per ton, up \$9.10. The funds have been holding a huge net short position, and they began to buy back some contracts last week in order to bank their profits. The fund trading was large enough to spur futures higher and prompt additional short-covering as corn and soybean prices busted through key points on the charts. Investors covered more shorts ahead of today's USDA crop reports.

The agency made no changes to U.S. corn and soy balance sheets, and it trimmed South American soy production only slightly. The weaker dollar and a relatively dry forecast in central Brazil suggest that crop prices may have fallen far enough for now, but further upside is likely limited barring additional weather issues in Brazil in the near term or in the U.S. later this year. The world has plenty of grain, and feed costs are likely to move lower in the long run.



Water Muddle

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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It has been a while since I wrote something on water for the Friday Report. That is not because there is nothing happening, but rather a lot of what is going on in water right now lacks clarity or certainty about where it is headed.

Let's first talk about the winter precipitation. There has obviously been significant precipitation in various parts of California, but from the reports I get at the meetings I attend, it is still not clear what the implications are for this coming year's water supply. The State Water Project just [raised their allocation to 15% from 10%](#), which is likely to go up some more, but is certainly way below last year's 100% allocation. The [Central Valley Project allocation](#) is more complicated and ranges depending on priority from 100% for very senior water right holders down to 15% for South of Delta contract holders and 0% for Friant class II contractors. These amounts also are very likely to go up as the winter progresses.

On other water issues, the Federal government this week took another step to support an agreement to [reduce water demand on the Colorado River](#). The reason this matters to dairy is that a lot of feed is grown with Colorado River water and reducing water demand there will likely impact alfalfa prices over the long-term.

In the San Joaquin Valley, there are challenges everywhere. Not much news on the Kern River lawsuit where a judge required water to stay in the Kern River to support the fish. Affected parties seem to be negotiating a path forward. All 18 Kern Groundwater Sustainability Agencies (GSAs) appear to be working together satisfactorily to revise their Groundwater Sustainability Plans (GSPs) to hopefully meet the requirements of SGMA and avoid being placed in probation by the State Board.

The Tule Subbasin GSAs are also working together to address their GSP inadequacies, but the Friant Water Authority recently sued the Eastern Tule GSA for an alleged breach of a contract agreement which requires ETGSA to provide up to \$200 million to partially cover the costs of repairing the Friant Kern Canal which was [severely damaged by subsidence](#). In addition, on Thursday the State Board announced a September 17, 2024, probationary hearing for the Tule Subbasin and issued a 181-page staff report that recommends placing the Tule Subbasin on probation.

Ahead of the hearing, two public meetings are scheduled. The first is an on-line public meeting on Friday, April 5 from 11 a.m.-1:30 p.m. Zoom link: <https://kearnswest.zoom.us/j/84005853021>. In addition, there will be an in-person public meeting on Monday, April 8 at the Porterville Veterans Memorial Building, 1900 West Olive Avenue, Porterville, from 5:30-8:30pm.

The Tulare Lake Subbasin is facing an April 16 hearing by the State Water Board to consider placing this subbasin in probation. There are 5 GSAs in this subbasin and while they decided to submit a single GSP, the GSAs are very different in their makeup. They range from a geographically large GSA that has just a few dominant landowners with a few dairies in it, to a couple of GSAs that include a lot of smaller

farmers and significant urban populations and then there are two GSAs that have very few acres or wells in the subbasin. Three of these GSAs are now implementing groundwater allocations, including fees. For many farmers in this area, SGMA is just now becoming real. There is no certainty about how this will all play out.

The three GSAs in the Kaweah Subbasin are working hard and making good progress in addressing the inadequacies in their GSPs. The surface water entities in Kaweah, which include the Tulare Irrigation District and a number of private ditch companies, were able to recharge significant amounts of surface water last year which is helping groundwater levels to increase. Trading systems are being designed that will hopefully enable lands without rights to surface water to purchase surplus water from those who have extra.

Going north from Visalia, the water situation is complex and challenging, but GSAs in Kings, Chowchilla, Madera, Merced and further north all seem to be making progress in carrying out their SGMA plans.

The Water Blueprint for the San Joaquin Valley continues to advance as well. The Blueprint is engaged in a number of important efforts. SGMA will require a significant reduction in annual groundwater pumping, often estimated to be at least 2 million-acre feet per year. The Blueprint has made a preliminary estimate that over 900,000 acre-feet of additional surface water could be captured from the Sierra watersheds if we build the conveyance and recharge capacities to handle that much water. Recharging that much water from the watersheds directly to east of the Valley would go nearly halfway to closing the SGMA gap. To advance this effort, the Blueprint is the recipient of a \$1 million U.S. Bureau of Reclamation grant with Fresno State Water Institute to develop a Unified Water Plan for the San Joaquin Valley. This planning effort will combine all of the various projects being proposed by GSAs and water districts and other local governments in the Valley and unify them into a comprehensive Valley-wide water plan. This formal report is then presented to Congress and forms the basis for the Bureau of Reclamation investments in water projects in the future. Read the Unified Water Plan [here](#).

The other source of wet year water is Northern California. The infrastructure to move Northern California water to the Central Valley and Southern California already exists, but there are significant constraints that have been placed on those systems which limit the amount of water they can deliver. The water agencies with rights to that water have spent millions of dollars over the past decade on science for the purpose of learning how to improve the health of fish, wildlife and the environment that are impacted by these water projects. Right now, the major environmental regulations which govern the operations of these facilities are being reviewed by the state and federal agencies. The Blueprint has hired a highly qualified consulting team to coordinate with all of the water agencies and government regulators to add the Blueprint voice and the needs of the people and environments of the San Joaquin Valley to the decision-making process. The Blueprint has also identified major additional groundwater banking opportunities in the Valley. The Blueprint is in discussions with urban water agencies who are looking for partners to bank water in wet years for use in the urban areas in dry years. These partnerships have already been successfully developed in Kern County and more opportunities exist. The Blueprint has also begun a deliberate and structured farmer-to-farmer conversation with farmers from the Delta region. For too long there has been conflict between regions. Early indications from

these discussions are that there is common ground and a great opportunity for collaboration and potentially great support for mutually beneficial projects.

Milk Producers Council is a founding member of the Water Blueprint of the San Joaquin Valley and I serve on the board and was recently elected board Vice Chair. You can learn more about the Blueprint [here](#).

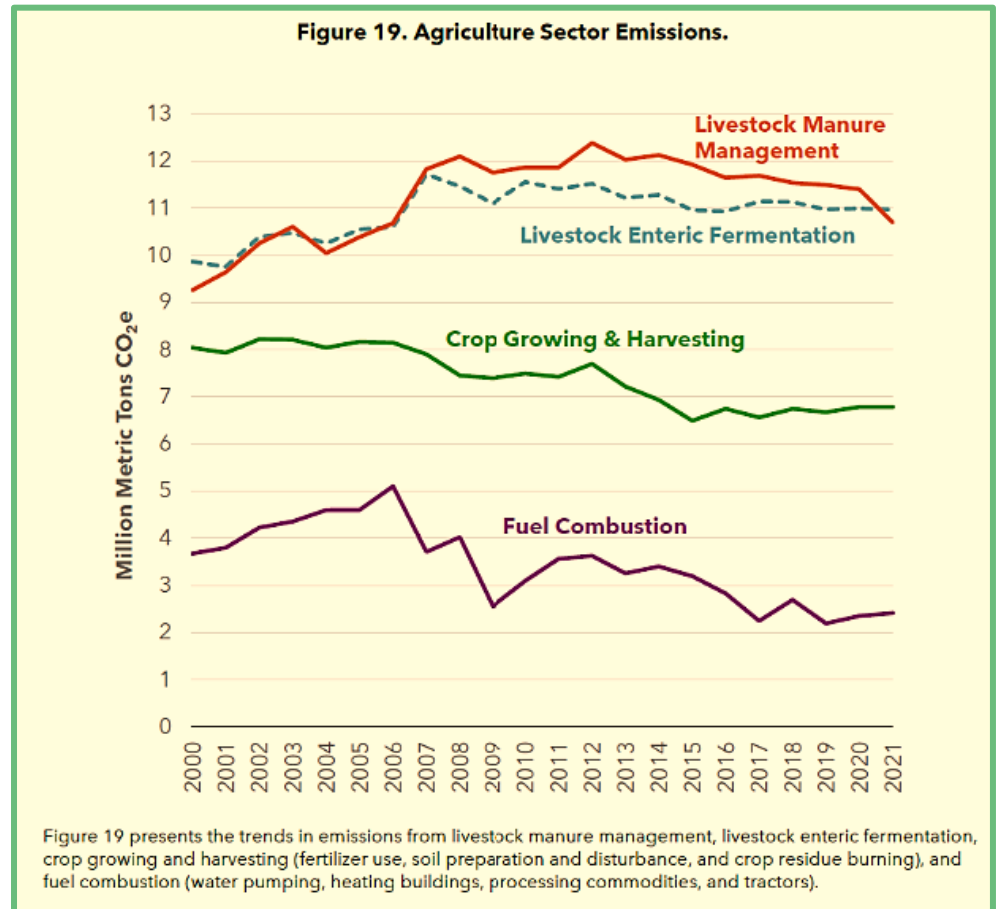
Dairy Climate Efforts Making a Difference

Courtesy of [Dairy Cares](#)

Agricultural emissions are one of few bright spots in the California Air Resources Board (CARB's) recently released [Greenhouse Gas \(GHG\) Emission Inventory](#)—a tool to track progress toward statewide climate targets. The latest edition of the GHG Inventory includes emissions released from the 2021 calendar year. Agriculture sector emissions accounted for 8.1% of California's total GHG emissions and decreased 0.7 million metric tons of CO₂ equivalent (MMTCo₂e) or 2.1% in that time period, mostly due to reductions in livestock methane emissions.

The inventory affirms other [reports](#) and [studies](#) showing that significant reductions are being achieved through the state's dairy methane reduction efforts. This is the first time that reductions achieved through implementing dairy digesters have been accounted for in the inventory. As of 2021, more than 60 digesters were operational and managed at least 8.9% of the statewide dairy population's manure. Currently, 120 [digesters are operating](#) on California dairy farms. As more projects are funded and implemented, these reductions will continue to expand. Additionally, more than 139 [alternative manure management projects](#) have also been reducing emissions, not yet accounted for within the inventory.

Continue reading [here](#).



Reminder: Dairy Margin Coverage Program Open Now Through April 29

Courtesy of the [United States Department of Agriculture](#)

The enrollment period for the 2024 Dairy Margin Coverage (DMC) Program year began **February 28, 2024**, and ends **April 29, 2024**. For those who signed up for 2024 DMC coverage, payments may have started as early as March 4, 2024, for any payments that triggered in January 2024. Learn more [here](#).

California Dairy Sustainability Summit March 26 in Davis

Courtesy of [Dairy Cares](#)



**California Dairy
Sustainability
Summit**

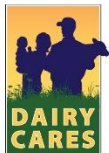
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