MPC Weekly Friday Report

Date: January 26, 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		
Blocks	+ $.0925	$1.5375	Weekly Change	+ $.2150	$2.7600
Barrels	+ $.0025	$1.4700	Weekly Average	+ $.0586	$2.6230
Weekly Average Cheddar Cheese			**Dry Whey**		
Blocks	+ $.0295	$1.5120	Dairy Market News	w/e 01/26/24	$.4500
Barrels	- $.0023	$1.4590	National Plants	w/e 01/20/24	$.4388

Non-Fat Dry Milk		
Week Ending 01/20/24		
Nat'l Plants	$1.2118	15,646,202
Last Week Ending 01/13/24		
Nat'l Plants	$1.2071	15,800,373

California Federal Milk Marketing Order Price Projections

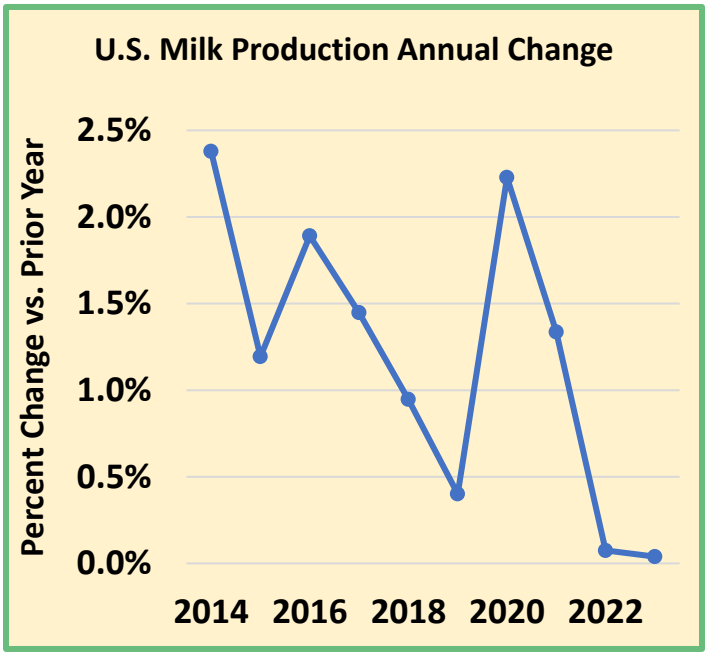
Price Projections	Class I Actual *(range based on location)*	Class II Projected	Class III Projected	Class IV Projected
Jan 26 Est	No Change	$20.02	$15.20	$19.25
Last Week	$20.08 - $20.58	$20.00	$15.18	$19.28

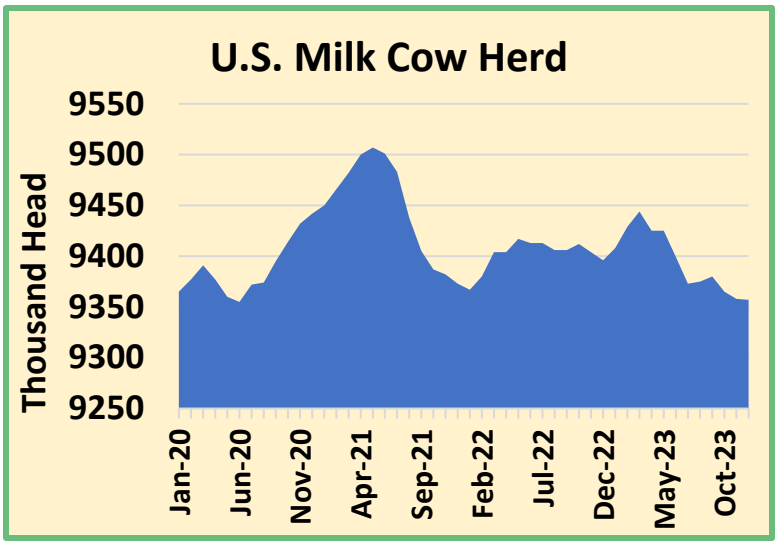
Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
Monica.Ganley@QuarterraGlobal.com

Milk & Dairy Markets

Milk production growth in the U.S. sputtered at the end of 2023, leaving the full year result nearly unchanged from the year prior. After expanding during the first half of the year, volumes contracted between July and December as milk prices remained under pressure. December milk production totaled 18.843 billion pounds, a decrease of 0.3% compared to the same month last year, with notable declines seen in the western states. A shrinking national dairy herd has driven the production drop as December's herd size rang in at 9.357 million cows. This is 39,000 head less than at the same time last year and represents the smallest herd size since June 2020.

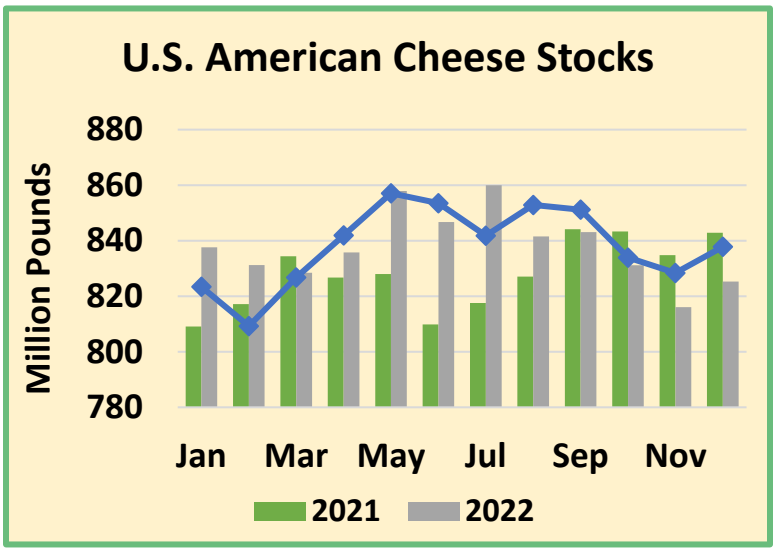




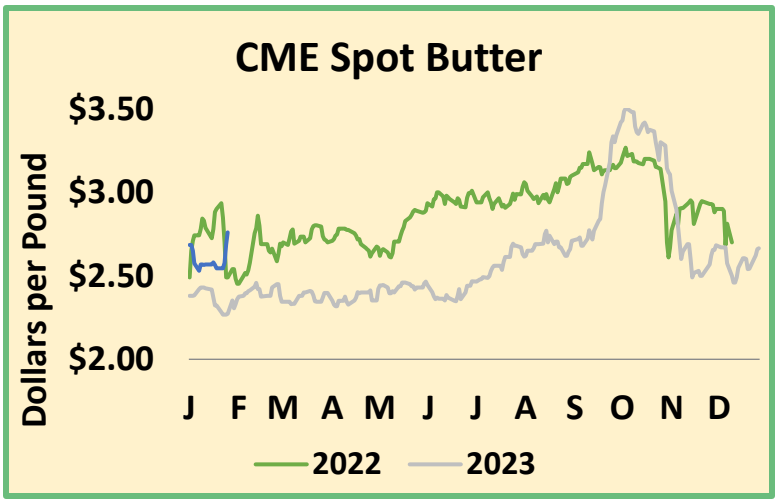
The U.S. is not the only global supplier seeing milk supplies fall. European production has been trending downward with volumes in the European Union and United Kingdom falling by an estimated 2.5% year over year in November. Many of the bloc's largest milk producers, including Germany, France, and the Netherlands saw pronounced declines in November output. Strict environmental regulations in many European countries are likely to interfere with milk production recovery and have sparked high profile protests in the region. In South America, volumes in Argentina recoiled by 7.7% in December as producers confront deep economic and political uncertainty. Oceania, however, is expanding with Australia and New Zealand both posting gains in the most recent month for which data is available.

As global milk supplies flag, international demand is also limping along. This week, China released December import statistics, finalizing a disappointing year for the world's largest dairy importer. Whole milk powder, China's most important import in volume terms, had an incredibly weak year with cumulative shipments for 2023 down 38.4% to the lowest volume since 2016. UHT milk, butter, and whey imports were also down on an annual basis while skim milk powder eked out an annual gain despite falling 36.9% year over year in December. Cheese, however, had a standout year as a record 392.8 million pounds were imported, 22.5% more than in 2022.

The CME spot market boasted a week of gains, but prices for most dairy commodities remain weak. Lower prices in the U.S. should help to encourage additional export sales that will help to clear domestic volumes, though his dynamic has been slow to materialize. Cheese is readily available as cheesemakers have maintained upbeat production schedules. In the *Cold Storage* report published this week, USDA indicated that total cheese stocks were 0.4% higher at the end of December than at the end of November. While total cheese inventories were actually down 0.2% at the end of 2023 compared to the prior year, most of the decline was driven by other cheese varieties, including Italian types. Stocks of American style cheeses, including Cheddar, were up 1.5% year over year, totaling 837.795 million pounds.

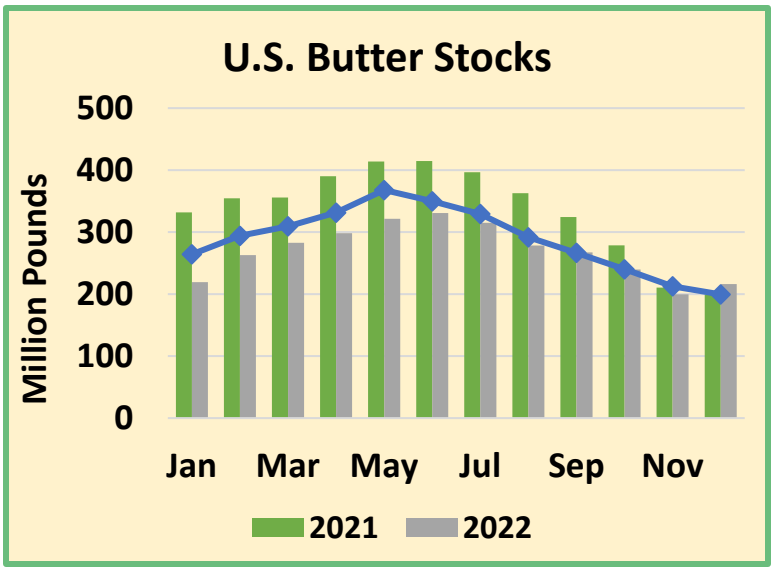


While plentiful stocks are likely to prevent dramatic appreciation in the Cheddar spot markets, the block price did manage to post an increase this week. Gains on Monday, Thursday, and Friday lifted the price by 9.25¢ to $1.5375/lb. Meanwhile barrels fluctuated but ultimately moved mostly sideways adding



a quarter cent and bringing the price to $1.47/lb. at Friday's close. The exchange was active as 19 loads of blocks and 12 loads of barrels moved during the week.

The big mover was butter, which added 21.5¢ during the second half of the week, bringing the price to $2.76/lb. on Friday, the highest price since early November when the market was coming off its record peak. Only two loads traded. Even though cream supplies have reportedly been available, and churns have been busy, there are indications that the market is tightening up. At the end of December, butter stocks totaled just 199.531 million pounds, a 7.8% decline compared to the same point in time last year. Between November and December, butter inventories dropped by 13.1 million pounds, the greatest drawdown seen over this period in 20 years, in absolute terms.



On the other side of the Class IV complex, nonfat dry milk (NDM) markets also found some inspiration. After remaining unchanged on Monday, the market made modest gains over the balance of the week. Ultimately the spot NDM price added 4.5¢, rising to $1.22/lb. as ten loads changed hands. Market tones are mixed from both manufacturers and buyers.

Even as upbeat cheese production spins off a plentiful whey stream, dry whey prices have continued to move steadily upward. Market stakeholders indicate that dry whey demand from both domestic and international sources is steady. Meanwhile, a preference for the manufacture of higher protein products continues to keep some tension in the dry whey markets. Riding these market signals, the dry whey spot market added .75¢ on both Tuesday and Wednesday, quietly lifting the price by a penny and a half to 44.25¢ per pound, the highest price since last April.

Grain Markets

The grain markets found traction early in the week on additional, unexpected export sales and concerns about dry weather in South America. The MAR24 corn contract rose as high as $4.5225/bu. on Wednesday before retreating over the remainder of the week and ultimately settling at $4.4625 on Friday. Soybean meal followed a similar pattern, with the MAR24 contract finding a high of $363.30/ton on Wednesday before ending the week at $349/ton in today's settlements. Market observers are paying close attention to the weather in Brazil and Argentina where a spell of hot temperatures in the coming weeks could negatively impact crop development.

Producer Review Board Meeting: 10 a.m. Monday, February 5 in Modesto

Courtesy of the California Department of Food and Agriculture

The next Producer Review Board (PRB) meeting will be held at **10 a.m. Monday, February 5 at the Stanislaus County Ag Commissioner's Office, Harvest Hall – Room D & E, 3800 Cornucopia Way, Suite B, Modesto.** This will be an in-person meeting only; no teleconference option will be available. A copy of the full agenda is available here.

CDQAP Update: Dairy Plus Program; Sustainability Survey; World Ag Expo Seminars; Vesicular Stomatitis

Courtesy of the California Dairy Quality Assurance Program

The California Dairy Quality Assurance Program (CDQAP) recently published its monthly update, which is available in its entirety here.

Is Dairy Plus for Me?

By Deanne Meyer, Ph.D. Livestock Waste Management Specialist, Department of Animal Science, UC Davis and UC ANR

Dairy Plus is part of Partnerships for Climate Smart Commodities grant from USDA. A total of 15 projects ($17.97M) from the first solicitation round are in the process of being awarded to California Dairy Operators. The purpose of these projects is to reduce greenhouse gas emissions AND improve nitrogen management on farms. The program is open to all producers, including those who have previously implemented improved manure management through Alternative Manure Management Program (AMMP) or installed an anaerobic digester to capture biogas. Hence the name Dairy Plus…going beyond AMMP and digesters.

Dairy operators in Priority 1 or Priority 2 nitrate management zones may want to consider the Dairy Plus program as a possible means to improve nitrogen balance while reducing methane emissions. Important in the application process is understanding where your facility stands with respect to nitrogen management. Consider manure management in 5 years should your facility have water use limitations due to Sustainable Groundwater Management Act implementation. You can analyze your annual report submitted to the Regional Water Quality Control Board to get an idea of nitrogen balance at your facility. Soon, a spreadsheet will be available to aid in this process.

Continue reading here.

Help CDRF and UC Measure Dairy's Sustainability Efforts: Take the Survey!

To demonstrate to consumers that the dairy industry's sustainability efforts are working, we need a baseline. That's why the California Dairy Research Foundation (CDRF) is funding UC Cooperative

Extension to collect benchmark data. The short survey will provide powerful information on how producers' efforts are making a difference now and in the future on energy and water conservation and groundwater protection. The online survey only takes 10 minutes to complete and can be done anonymously. To complete the short survey click here. Any questions can be directed to UCCE Dairy Advisor Jennifer Heguy at (209) 525-6800 or jmheguy@ucdavis.edu.

2024 World Ag Expo Seminars

Dairy Sustainability

Tuesday, February 13, 1:00 - 1:55 PM

UC Cooperative Extension will provide research updates from projects related to sustainability topics on California dairies, including Dairy Plus program updates, benchmarking sustainability metrics and soil and water conservation.

CDFA Climate Smart Agriculture Incentive Programs Update

Thursday, February 15, 12:30 - 1:25 PM

CDFA staff will showcase the Alternative Manure Management Program (AMMP), Dairy Digester Research and Development Program (DDRDP), Dairy Plus, Healthy Soils Program (HSP), and State Water Efficiency and Enhancement Program (SWEEP).

What is Vesicular Stomatitis and Why Do I Care?

This viral disease, that has been present in California for several months, isn't the end of the world for the dairies, but it could certainly cause some headache.

By Dr. Michael Payne, UC Davis, School of Veterinary Medicine, and Director, CDQAP

What is Vesicular Stomatitis?

Vesicular Stomatitis is a viral infection caused by Vesicular Stomatitis Virus (VSV) that can cause disease in a wide variety of livestock species, but most commonly affects horses and cattle. The virus can be transmitted by direct contact from animal-to-animal, via contaminated equipment, and by biting insect vectors. There is no vaccine available to prevent infection and no specific treatment.

How bad is the disease?

Only rarely does infection result in animal death, but blisters and ulcers on the mouth, teats and feet can cause dramatic reduction in production. Animals typically recover fully within two weeks with supportive care. The disease in ruminants can be indistinguishable from Foot and Mouth Disease (FMD), which is why VSV is a reportable disease requiring regulatory control and investigation.

What kind of farms are involved?

Since May of last year, 316 premises have been affected in nineteen California counties. The vast majority of those premises were horse facilities; only nine of them were cattle operations. Cattle infections have been identified in Fresno, San Diego, Santa Barbara, and Mariposa Counties.

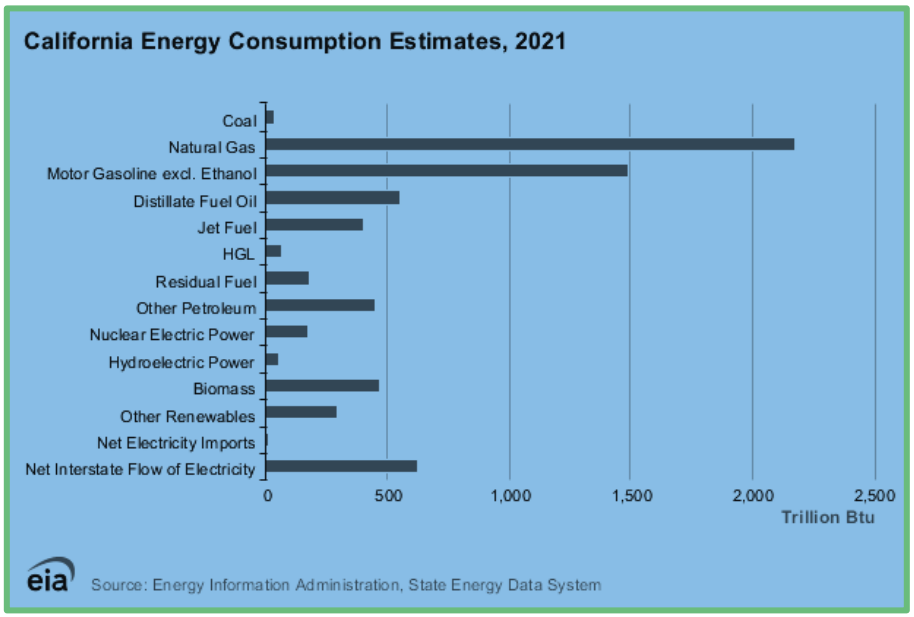
Continue reading here.

What's Current? California's Water & Energy Future with Edward Ring

Courtesy of the California Policy Center

Here's a reality check that ought to keep politicians up at night in California. Despite being a sunny, solar friendly state, with ample areas blessed with high wind, California still derives 50 percent of its total energy from crude oil. Another 34 percent comes from natural gas. This fossil fuel total for California energy, 84 percent, actually *exceeds* the world average for 2022, which – including coal – came in at 82 percent.

These figures come from the U.S. Energy Information Administration report "California Energy Consumption Estimates – Consumption by Source" for 2021, which is the most recent year for which data is posted.



To verify this data, which was mildly surprising, I turned to a separate EIA report, produced in conjunction with Lawrence Livermore National Laboratory, "California Energy Consumption in 2021." To digress, this flowchart yields fascinating insights, because it shows fuel inputs on the left, then, moving from left to right, shows which inputs are directed towards electricity generation, then shows how these inputs all flow into the four primary sectors of California's economy – residential, commercial, industrial, and transportation – and finally, on the right, depicts how much of the energy going into each sector is consumed in the form of actual energy services (traction, heating, cooling, pumping, powering, etc.) and how much is "rejected energy" lost to heat and friction. Grok that chart and you're on your way.

To digress even more, for those who actually click on this revealing chart, you must note that the "non-thermal energy inputs" on the chart are artificially inflated. The reason for this is explained in the lengthy footnote, where about halfway through you will read that "EIA reports consumption of renewable resources (i.e., hydro, wind, geothermal and solar) for electricity in BTU-equivalent values by assuming a typical fossil fuel plant heat rate."

In plain English, this means whatever is reported as an input from these renewable sources is 2.5 times what they actually generated, based on the assumption these renewables are displacing that quantity of thermal fuel which on average only converts into energy services at a rate of 40 percent. Yes. They really do this. It's standard practice. Absent a nuanced interpretation it overstates the contribution of renewables to California's energy supply and can be misleading.

Continue reading here.

NMPF Update: Capitol Hill Focus; Feed Additive Legislation; Whole Milk

Courtesy of Gregg Doud, President & CEO
National Milk Producers Federation

Capitol Hill Focused This Week on Border, Taxes

Now that lawmakers have bought themselves some time on the annual budget front, with last week's passage of a stop-gap funding measure through February, the focus this past week was on several other high-profile issues. In the Senate, several lawmakers have been negotiating since last fall on the text of a deal to secure the southern U.S. border, which is likely to be paired with additional authorization for military aid to Ukraine as well as support for Israel and Taiwan. The prospects of House passage of that deal are especially shaky because of the looming presidential campaign pressures that are already being felt inside the Beltway.

Meanwhile, the House has been taking the lead on development of a tax package that includes increased limits on the Section 179 expensing provision, a temporary restoration of 100% bonus depreciation and expansion of the child tax credit. The package doesn't yet have broad bipartisan appeal in the Senate, and even some Republicans in the House are opposed. As this transpires, the House Ag Committee continues to work behind the scenes on the next farm bill, which could debut in March or April.

NMPF Continues Campaign for Feed Additive Legislation

Also on Capitol Hill, we're continuing to pursue the passage in the House and Senate of the Innovative FEED Act (H.R. 6687, S. 1842), which would enable the Food and Drug Administration to expeditiously review and approve animal feed ingredients that can reduce enteric methane emissions. This legislation is critical to speeding FDA approval, using the agency's Food Additive Petition process, of Elanco's 3-NOP (Bovaer) and similar future products.

In addition to the legislation I mentioned in the first story, Congress is also hoping to complete work on a broad health care package in early March. We are hoping that that package will incorporate the Innovative FEED Act. The Senate HELP Committee has already approved the bill on a strong 19-2 vote, but we continue to work to secure additional support in the House. We'll be working with our member cooperatives and other organizations to build momentum in the House so that the FEED Act can advance in this Congress. Stay tuned for an advocacy alert that you can use to contact your House members!

Battle for Whole Milk Continues on Capitol Hill, Dietary Guidelines

NMPF is pursuing a two-front campaign to bolster the consumption of whole milk, and 2024 will be a critical year in that effort, according to our latest *Dairy Defined* podcast featuring NMPF's Head of Nutrition Policy Claudia Larson, and Regulatory Affairs Director Miquela Hanselman. Now that the House has passed the Whole Milk for Healthy Kids Act, our effort shifts to the Senate, where we hope a companion bill receives a vote this year. At the same time, we are also asking the government's Dietary Guidelines review committee to examine the latest nutrition science that provides a stronger rationale for the return of 2% and whole milk in the nation's dietary guidance. You can use this form at our website to urge senators to support the Whole Milk for Healthy Kids Act.