MPC Weekly Friday Report

Date: July 22, 2022
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 5

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0850	$1.9100	Weekly Change	- $.0225	$2.9075	Week Ending 07/16/22		
Barrels	- $.1500	$1.9200	Weekly Average	- $.0165	$2.9305	Nat'l Plants	$1.8269	18,660,375
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 07/09/22		
Blocks	- $.1275	$1.9490	Dairy Market News	w/e 07/22/22	$.5100	Nat'l Plants	$1.8423	10,318,218
Barrels	- $.1475	$1.9900	National Plants	w/e 07/16/22	$.5427			

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
JUL 22 Est	**$27.47 - $27.97**	**$26.71**	**$22.52**	**$25.86**
Last Week	**$27.47 - $27.97**	**$26.60**	**$22.52**	**$25.86**

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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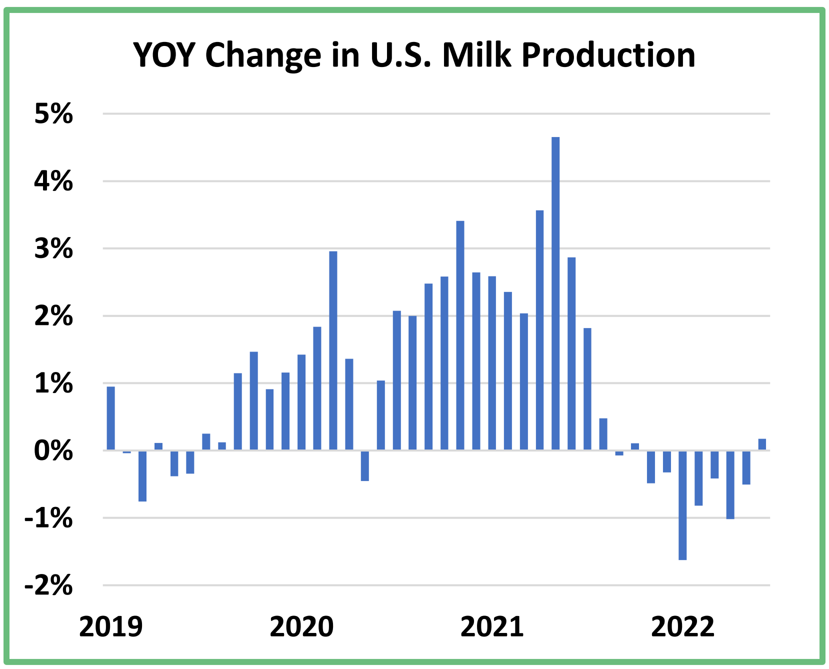
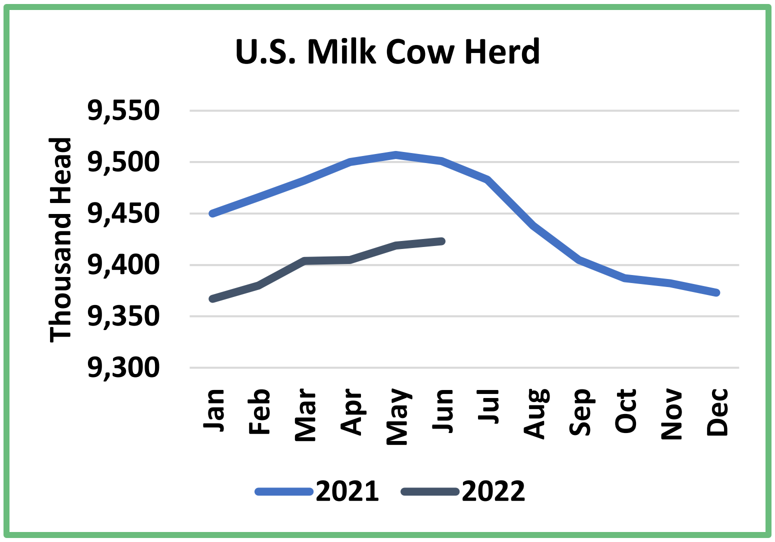
Milk & Dairy Markets

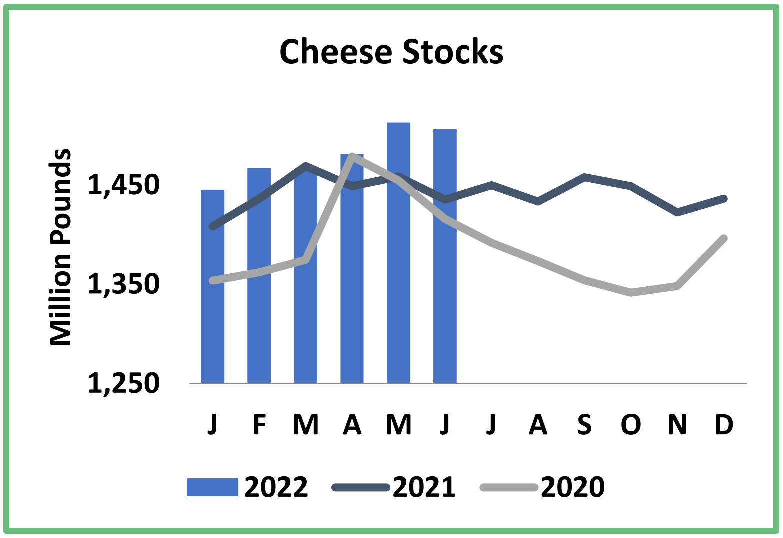
The streak is over. After seven months in the red, U.S. milk production exceeded year-ago volumes in June, topping June 2021 by 0.2%. In Thursday's Milk Production report, USDA also revised its estimates of January through May milk output, lifting the early months slightly and raising its May estimate enough to trim the year-over-year deficit from an initial assessment of -0.7% to a revised -0.5%. The agency also made modest revisions to its appraisal of the dairy herd in March and April and boosted its May headcount substantially, showing much faster growth than previously thought. According to the latest figures, dairy producers have added





56,000 cows since January, including 14,000 in May and 4,000 in June. At 9.423 million head, the dairy herd is still 78,000 head smaller than it was a year ago, but the gap is closing quickly.

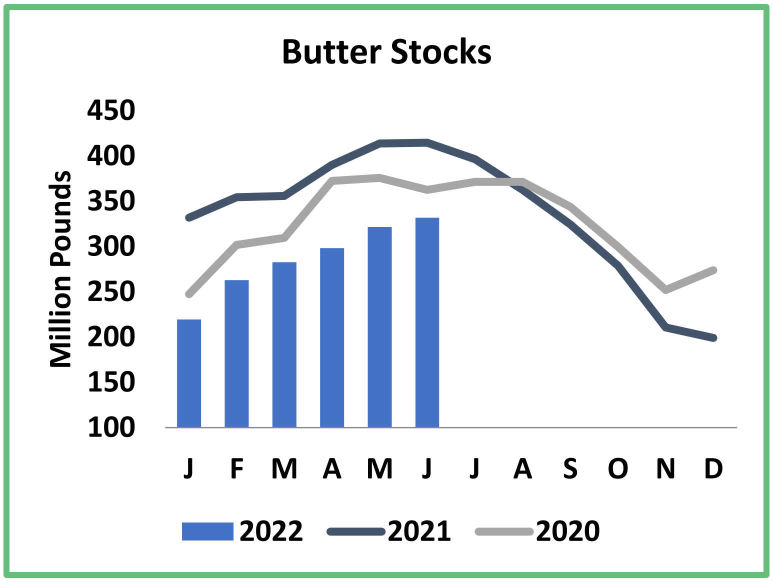
It's safe to assume that there was plenty of milk for formidable cheese and whey output last month. Nonetheless, cheese stocks declined 6.8 million pounds from May to June, implying that demand remained healthy. Still, there were just over 1.5 billion pounds of cheese in cold storage on June 30, 4.9% more than the prior year and only a little less than the all-time high set in May. Heavy inventories and concerns about demand have dragged down cheese prices over the past two months. This week, CME spot Cheddar barrels plummeted 15¢ to a five-month low at $1.92 per pound. Blocks fell 8.5¢ to $1.91. Those figures align with sour sentiment about demand, but the Cold Storage figures suggest that the market may have gotten a little too pessimistic about cheese consumption.



CME spot whey held steady this week at 45.5¢. That is tied with last Friday for the lowest spot whey value since 2020. Chinese whey imports fell short of year-ago volumes for the ninth straight month in June. However, in an otherwise gloomy trade update, there are some silver linings for U.S. whey exporters. While Chinese whey imports were 7% smaller than in June 2021, they did improve to a nine-month high. Red ink on Chinese hog farms has weighed on whey demand all year, but Reuters reports that the average Chinese hog grower was back in the black last month, which could bode well for demand going forward. And the U.S. is grabbing a big share of China's still hefty business. American whey accounted for more than half of Chinese whey imports throughout the second quarter, the U.S.'s highest market share since the U.S.-China trade war began in 2018. Still, European whey prices have fallen precipitously in the past few weeks, so the competition for exports may heat up.

Amid Covid lockdowns and economic disruptions, Chinese milk powder imports were better than feared in June. But they were still sharply lower than the record-setting volumes of last year. China imported 52.9 million pounds of skim milk powder (SMP) and 78.2 million pounds of whole milk powder (WMP) last month, down 30% and 48%, respectively, from the prior year. For the first half of the year, Chinese SMP imports are down 25% from 2021, while WMP imports are 5.5% lower.

Anxiety about global demand pushed prices downward at the Global Dairy Trade (GDT) auction on Tuesday. WMP values fell 5.1% from the previous auction and SMP dropped 8.6% to the rough equivalent of nonfat dry milk (NDM) at $1.80 per pound. CME spot NDM faltered after the GDT, but it bounced right back. It closed today at $1.685, up 2.5¢ since last Friday.



The butter market slipped once again this week. It fell 2.25¢ to $2.9075. Despite the setback, butter remains in its comfort zone. Throughout June and July, it has traded in a narrow range between $2.90 and $3.01. There are concerns about demand, of course, but butter buyers are also anxious to make sure they have enough stocks on hand to get through the holiday baking season. Butter stocks grew at the typical rate in June and reached nearly 332 million pounds. That is 20% lower than last year and 8.5% below June 2020.

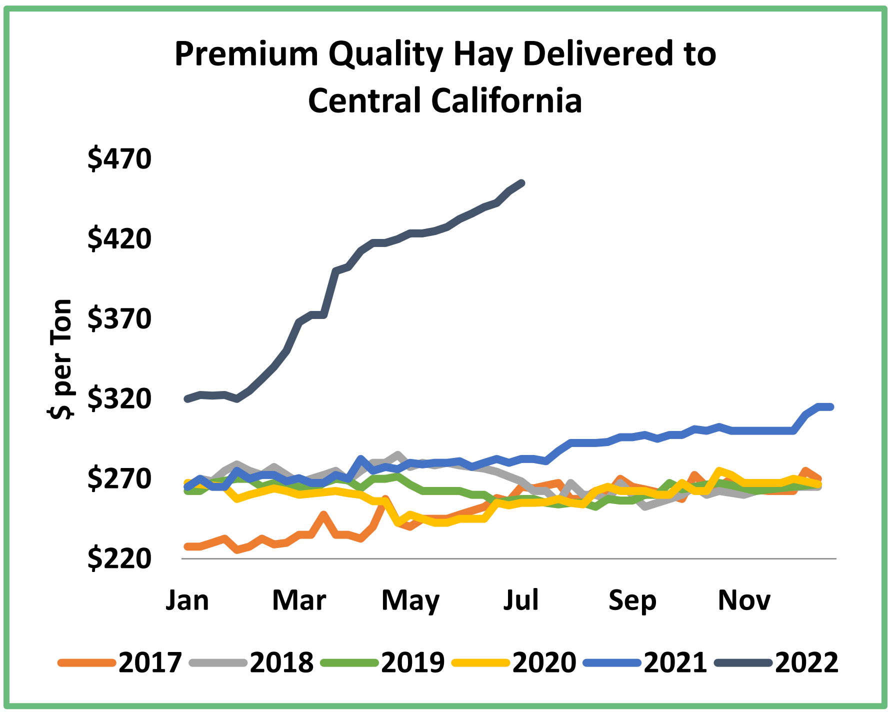
After a steep selloff last week, Class IV futures regained a little ground. The August contract climbed 18¢ to $24.47 per cwt. Surprisingly, nearby Class III futures also finished slightly higher than last Friday, but deferred contracts continued to drop. September Class III fell 30¢ to $19.89, marking the only close below $20 for any Class III contract since the very first days of the year. For many dairy producers, especially those in the West, that's not going to be enough to pay their sky-high feed bills.

Grain Markets

Thankfully, the grain markets took another step back. September corn closed at $5.6425 per bushel, down 40¢ from last Friday to the lowest price since January. Crops have struggled this week amid hot, dry conditions, particularly in the Plains. But next week looks cooler and wetter, which will help prevent further damage. Corn prices came under additional pressure from the wheat market. Wheat futures dropped hard on news that Ukraine and Russia had come to terms on a plan to export Ukrainian grains out of Black Sea ports. If Russia keeps its promises not to attack the port, and if Ukrainian ships are able to safely navigate the underwater mines near the port, Ukraine hopes that grain exports can return to pre-war volumes. Those are big ifs, but grain traders – and hungry people around the world – are relieved to see signs of progress.

Soybean futures bounced back from last week's selloff. The September contract jumped 75¢ to $14.345. Soybean meal futures barely moved once again. They closed at $431.50 per ton, up 50¢ from last week.

Lower grain prices will offer some relief on feed costs, but rations remain exceptionally expensive. And, amid drought in the West, forage costs continue to climb. According to the Hoyt Report, premium quality alfalfa delivered to dairies in California's Central Valley commanded an all-time high of $455 per ton last week, up from $282.50 a year ago.



MPC, Ag Organizations Host Elected Officials, Regulatory Agency Leadership for Farm Tours

By Kevin Abernathy, General Manager
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MPC – along with more than a dozen agricultural organizations and farmer trade groups – just wrapped up three days of farm tours with key policy and regulatory stakeholders. Bringing Sacramento leadership and staff to California farms is a welcomed opportunity. We can show policymakers exactly what happens on our farms, the environmental and sustainability progress we've made, and how regulatory decisions impact our ability to produce safe, affordable and nutritious food.

On Wednesday, the group toured MPC-member Bar 20 Dairy in Kerman, which is owned and operated by the Shehadey family. Bar 20 has graciously hosted many of these types of tours over the years – and it's a perfect stop to show government leaders, regulators and consumers what the future of dairying looks like. This farm of the future is here today, producing its own energy and exporting additional renewable, carbon-negative electricity to the power grid for electric vehicles. The dairy is eliminating more than 60 tons of greenhouse gas emissions from the atmosphere daily thanks to its covered lagoon digester and has reduced more than 80 percent of smog-forming emissions on the farm by using an electric feed mixer. With all the sustainability advancements made by the Shehadey family, they continue to look forward, including partnering with a hydrogen fuel company to deliver excess dairy biogas for use as a transportation fuel. As we've noted in previous MPC Friday Reports, Bar 20 was recently awarded a U.S. Dairy Sustainability Award, which you can read about here.

Most folks probably think a dairy just milks cows, unaware of the intricate, planned and balanced system designed for animal care, efficiency and environmental protection. Bar 20 – like other MPC members – continues to advance, and I personally enjoy educating policymakers that today's California dairy farms produce milk ***and*** renewable energy ***and*** transportation fuel ***and*** natural fertilizer for crops.

I personally want to thank the many leaders and staff who attended the tour, including California Air Resources Board (CARB) Chair **Liane Randolph**, Board Member **Dr. Tania Pacheco-Werner** as well as the many CARB branch chiefs; San Joaquin Valley Air Pollution Control District Executive Director/APCO **Samir Sheikh**, Deputy APCO **Sheraz Gill**, Supervising Air Quality Specialist **Aaron Tarango** and Air Quality Engineer **Ramon Norman**; USDA-NRCS California State Conservationist **Carlos Suarez** and Assistant State Conservationist **Johnnie Siliznoff**; and Fresno County Supervisor **Buddy Mendes**.

I also want to thank **Manuel Cunha, Jr.** of the Nisei Farmers League, who was a key organizer of the tour, which focused a great deal on air quality.

"We appreciate the continuous effort by the agricultural community to clean up the air and make it a better environment," Cunha, Jr. said. "The FARMER program has been a huge success and is part of a strategic partnership with CARB, EPA, the Valley Air District and USDA-NRCS in the removal of older tractors for the cleanest tier tractors. The program continues to make strides in lowering emissions and helping improve air quality in the Valley."

The FARMER Program provides funding through local air districts for agricultural harvesting equipment, heavy-duty trucks, agricultural pump engines, tractors, and other equipment used in agricultural operations. Since 2008, more than 13,500 old tractors have been eliminated and replaced with newer, cleaner tractors through a variety of incentive programs, such as FARMER. If any of our MPC members have questions about this program, please contact me or visit the CARB website here.

Incentives Available for Zero-Emission Agricultural Utility Terrain Vehicle Program

Courtesy of San Joaquin Valley Air Pollution Control District

The San Joaquin Valley Air Pollution Control District (District) is pleased to announce the relaunching of the Zero-Emission Agricultural Utility Terrain Vehicle (UTV) Program on **Monday, August 1, 2022**.

The Zero-Emission Agricultural UTV Voucher Program provides monetary incentives for the replacement of existing diesel or gasoline-powered UTVs and tractors with less than 25 horsepower with new, zero-emission UTVs to qualified individuals, businesses, educational institutions, and non-profit organizations involved in a California agricultural operation as defined by The California Air Resources Board. Funds are provided on a first come, first serve basis and applicants must obtain a signed voucher from the SJVAPCD prior to the purchase of new equipment.

Program materials, including the application and program guidelines will be available on the District's website on August 1, 2022 www.valleyair.org/grants/utv.htm. The incentive amount for the replacement of the existing unit to purchase a new zero-emission UTV is up to 75% of the eligible cost of new equipment, with a maximum eligible funding amount of $13,500.

Applications will not be accepted prior to Monday, August 1, 2022.