MPC Weekly Friday Report

Date: December 1, 2023
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 11

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.0700	$1.5200	Weekly Change	+ $.1550	$2.6550	Week Ending 11/25/23		
Barrels	+ $.0800	$1.5200	Weekly Average	+ $.0842	$2.6000	Nat'l Plants	$1.2074	7,829,945
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 11/11/23		
Blocks	- $.0193	$1.5740	Dairy Market News	w/e 12/01/23	$.4100	Nat'l Plants	$1.1757	18,738,933
Barrels	+ $.0008	$1.4825	National Plants	w/e 11/25/23	$.4042			

California Federal Milk Marketing Order Price Projections

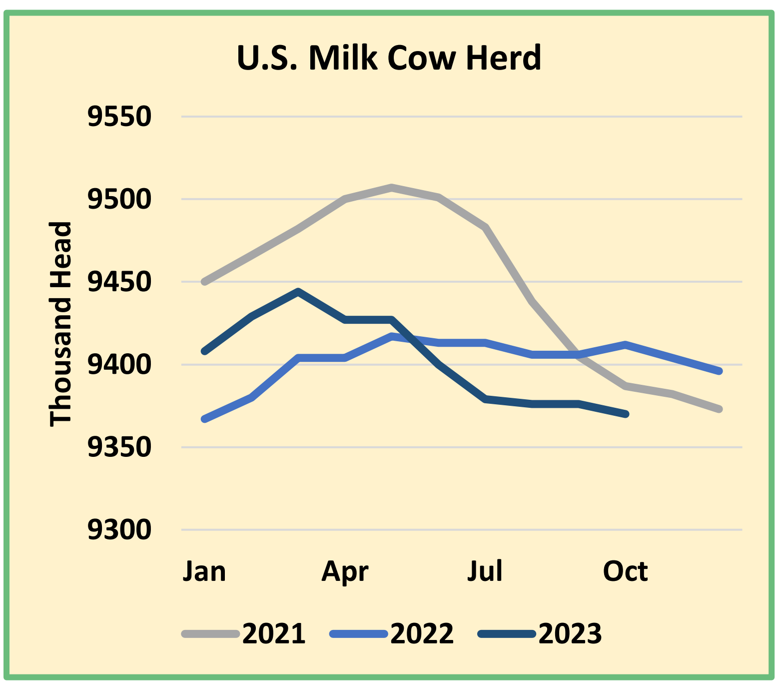
Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
Dec 1 Est	$21.36 - $21.86	$19.84	$16.12	$19.24
Nov '23 Final	$21.35 - $21.85	$21.21	$17.15	$20.87

Milk, Dairy and Grain Market Commentary

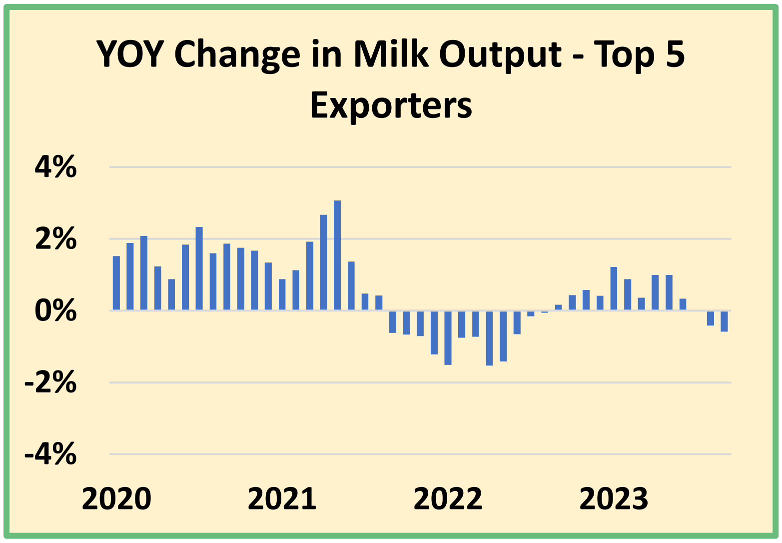
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

U.S. milk production slumped deeper into the red in October as poor margins and tight heifer supplies trimmed the dairy herd. Milk output totaled 18.71 billion pounds, 0.5% less than in October 2022. Production grew at a healthy clip in the Mideast, and the Midwest and Northeast contributed moderate growth. But output was down hard in the Northwest, Southwest, and California.

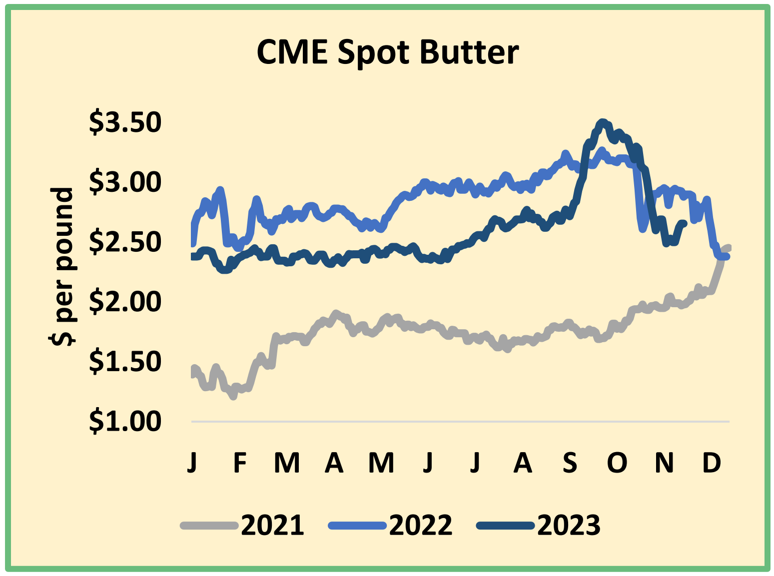


The pace of dairy sellouts slowed to a crawl this fall, reducing the volume of milk cows and heifers available at local auctions. Dairy producers had to look elsewhere for

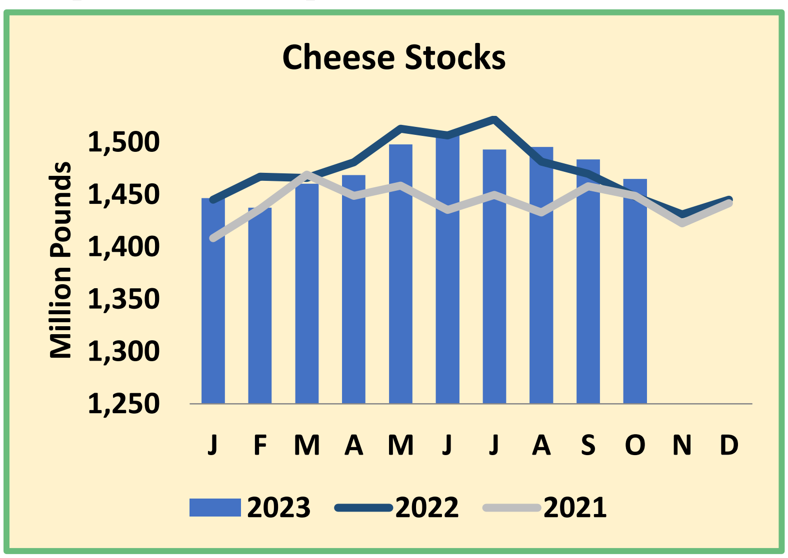


replacements, and the sudden lack of heifers for sale forced producers to clamp down on cull rates. Over the past 10 weeks, dairy cow slaughter ran about 8% below the five-year average. Nonetheless, the milk-cow herd shrunk once again in October, falling 6,000 head to 9.37 million. There were 42,000 fewer cows in U.S. milk parlors in October than there were a year ago.

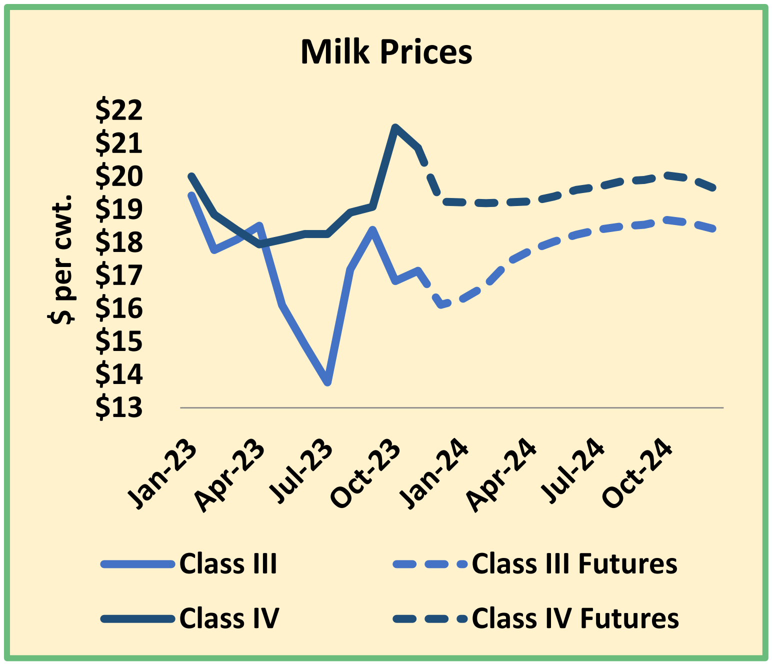
Milk production is also in decline across the Atlantic. EU and British milk output fell to roughly 27.8 billion pounds in September, down 0.8% from the year before. In New Zealand, fluid milk collections remain short of year-ago volumes, but, thanks to strong components, milk solids collections climbed 0.9% from a poor showing in October 2022. Similarly, Australia managed to make 0.5% more milk in September than the year before, clearing a very low bar. Australia's 2022-23 milk output was the lowest in decades. Meanwhile, poor crops cut into margins in Argentina and milk output deficits worsened in September and October. All told, milk output among the world's five largest dairy exporters was 0.6% smaller than a year ago in September, and the October numbers were likely worse.



Lower milk output has reduced milk powder production on both sides of the Atlantic, helping to whittle down inventories and shore up milk powder prices despite lackluster global demand. European skim milk powder (SMP) values are climbing. In the U.S., the market is basically holding steady. CME spot nonfat dry milk (NDM) closed today at $1.18 per pound, down a half-cent from last Wednesday.



Slower milk production has also tightened up cream supplies in the West, reducing butter output in a region responsible for more than half of U.S. production. Butter stocks dropped below the already tight volumes of last year. October 31 inventories slipped to 238.3 million pounds, down 0.6% from October 2022. Butter buyers are no longer rushing to stock up for the holidays, but the market has landed on its feet after its second annual pre-holiday stumble. CME spot butter has rallied 15.5¢ since Thanksgiving. It closed today at $2.655.



Cheese remains abundant. There were just shy of 1.47 billion pounds of cheese in cold storage warehouses at the end of October, 1.2% more than the year before. Milk output is now strong enough to require new supply management commitments in the cheese states, and U.S. cheese production capacity continues to grow. The trade remains concerned that the market will make more cheese than it can comfortably sell. Tighter supplies in Europe could provide more export opportunities early next year, but prices will have to stay low enough to attract new business. In Chicago, the cheese markets converged. This week spot Cheddar blocks fell 7¢ and barrels rallied 8¢. Both blocks and barrels settled at $1.52.

The whey market is well-supported at 40¢, up 0.25¢ since Thanksgiving. Strong domestic demand for whey protein concentrates continues to limit dry whey output. But whey stocks remain heavy, and exports are soft. In June through October, China imported 24% less U.S. whey than it did during the same period in 2022. The strong dollar, weak Chinese yuan, and red ink on Chinese hog farms all point to slow exports going forward.

USDA announced the November Class III price at $17.15 per cwt. That's 31¢ higher than the October price, but it's still too low to ensure prosperity. November Class IV clocked in at a more exciting $20.87, down 62¢ from October. The futures project that the wide spread between Class III and IV will persist. Most Class III contracts finished about a dime lower than where they began the week, and December through February are absolutely unpalatable in the $16s. Most Class IV futures gained ground, led by a 57¢ increase in the January contract, which now stands at $19.22. Class IV manufacturers will surely depool as much as possible, to the benefit of the minority of producers who ship to a co-op with butter or powder facilities and to the detriment of their neighbors, who enjoyed the opposite advantage when Class III manufacturers depooled in the recent past.

Grain Markets

Farmers in central Brazil and Argentina welcomed a few good rainstorms, which helped to alleviate fears that dry soils would delay sowing and ding yield prospects. The rains came later than hoped, but they arrived in time to stave off significant harm, and the feed markets retreated. March corn closed today at $4.8475 per bushel, down 3¢ for the week. January beans fell 11¢ to $13.455. January soybean meal took a big step back, falling nearly $25 to $412.70 per ton. Lower feed costs will help to reduce dairy producers' cost of milk production. But for many producers, the decline in Class III prices has had a bigger impact on the bottom line.

FMMO Hearing Restarts

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

After a six-week break, the Federal Milk Marketing Order hearing resumed in Carmel, Indiana this week. When the hearing had recessed on October 11, one of National Milk Producers Federation witnesses was in the middle of being cross-examined by one of the attorneys for the processors. The issue being considered is NMPF Proposal 19, which updates the Class I differentials in all 3100 counties of the continental US. Right on cue, as if no time had passed, that witness returned to the stand and the cross-examination resumed. After he finished several more NMPF witnesses testified about changes in their regions. This continued over the rest of Monday through Tuesday and into Wednesday. Each NMPF witness was questioned for hours by the processor attorney's probing the minutia of the various specifics of the NMPF proposal. No doubt there is a method to their madness, but for the most part, the point of this massive expenditure of valuable hearing time is missed on me. What I can discern is that processors don't want to pay more for milk. Surprise, surprise.

On Wednesday afternoon the American Farm Bureau representative testified. AFB is the author of Proposal 21 which is to increase the Class II differential from the current 70 cents per cwt. to 1.56 per cwt. Class II refers to soft dairy products like sour cream, ice cream and yogurt. These products can be made with fresh milk, but they can also be made by re-wetting nonfat dry milk. The Class II price differential needs to take that alternative source of solids into account and since the costs of drying milk have increased, necessitating an increase in the Class IV make allowance, AFB is proposing that the Class II differential should be increased as well to reflect the higher value of fresh milk that does not require the cost of re-wetting already dried nonfat solids. The rest of Wednesday was the cross-examination of Dr. Roger Cryan, the AFB witness.

I flew to Indianapolis and was present first thing Thursday morning. The USDA officials running the hearing, with the kind agreement from the other hearing participants, allowed me to give my testimony on behalf of MPC right away on Thursday. I read my testimony into the record and was cross-examined for an hour and half. After I was finished the cross-examination of Dr. Cryan resumed and that took the rest of the morning. In the afternoon Dr. Orin Capps from Texas A&M took the stand. Dr. Capps was testifying on behalf of the International Dairy Foods Association. He is an expert in price elasticity. IDFA had commissioned him to do research on Class I price elasticity. His testimony and cross-examination, this time by producer attorneys lasted the rest of Thursday and a good chunk of Friday morning. A couple of nuggets of info I didn't know.

According to Dr. Capps 76% of the volume of fluid milk is sold through retail outlets. 15 % is sold through food service and institutions and 8% is sold through schools. Dr. Capps research takes a unique approach by using weekly retail milk sales data as well as considering other beverages that compete with milk into his analysis. He finds that plant based "milks" are definitely competitors but so is bottled water, juices and sports drinks. The analysis Dr. Capps has done is that retail milk prices are elastic when evaluated on a weekly basis. That is, increases (or decreases) in price affect milk sales. Of course, FMMO Class I prices only change monthly, so differences in weekly retail milk prices are a store's choice and putting milk on special to stimulate sales is nothing new. Dr. Capps' conclusion is that raising Class I differentials will reduce sales, but he admitted it will put more income into producers' pockets.

It was good to actually attend the hearing. There are about 15 USDA employees in attendance in addition to Judge Clifton, who also did the California FMMO hearing in 2016 and the court reporter. NMPF has a full staff of folks including lead attorney Nichole Hancock, all of whom are doing terrific work on behalf of producers. Ryan Miltner is the attorney for Select Milk Producers and also contributes greatly to the producer cause as does Dr. Roger Cryan on behalf of the American Farm Bureau. The processors are ably represented as well.

This is a grinding process, but extremely important to the dairy industry. No one gets away with putting untested evidence into the record. The USDA team is incredibly thorough and perceptive. They have a huge task to wade through the evidence and make the determinations that will govern our industry for next several years. There is another full week of hearings next week and, if they do not finish, it will likely be late January before they pick it up again.

My Testimony at the Federal Milk Marketing Order Hearing

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

It was a privilege to testify for Milk Producers Council at the FMMO hearing this week. In addition to fully supporting the package of proposals submitted by National Milk Producers Federation, I had a few other points I wanted to emphasize at the hearing.

Geoff Vanden Heuvel is sworn-in at the Federal Milk Marketing Order hearing in Carmel, IN.

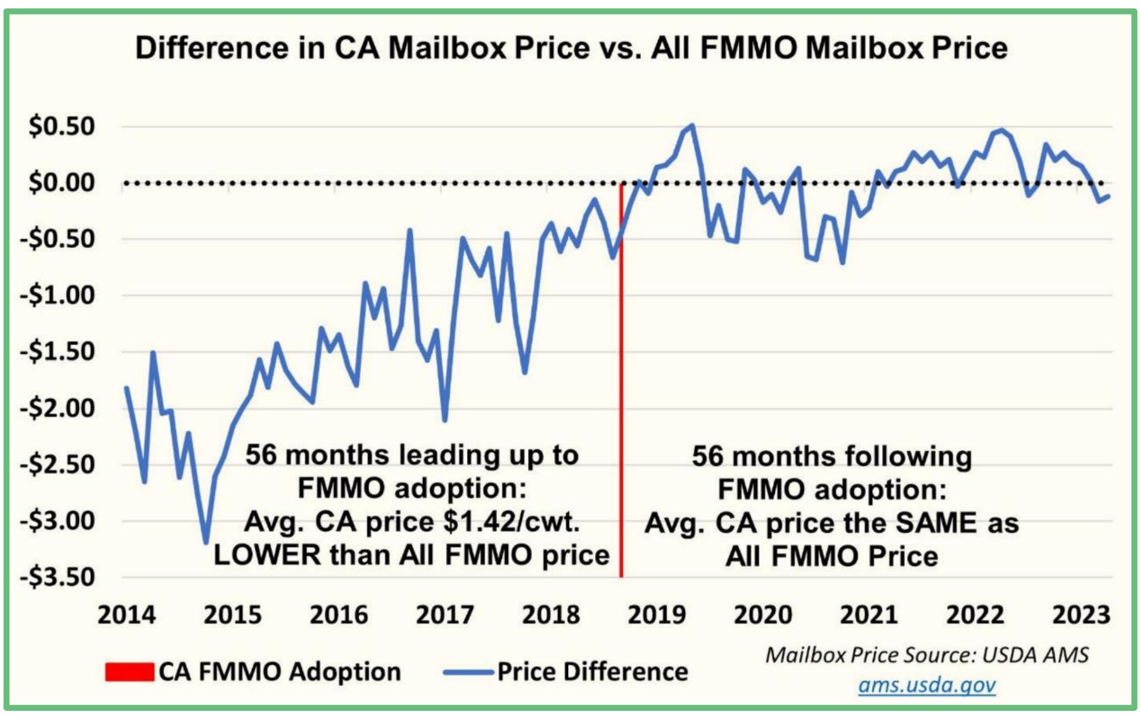
The role of the government in regulating milk prices is as a referee. Milk is a highly perishable product that long ago our country decided was an essential staple of our national diet. It requires lots of capital to produce, and a dairy farmer must sell that milk every day to a buyer that does not have to buy it every day. This fact makes milk unique and the FMMO system was devised over 85 years ago to undergird and support the structure of our industry. For government economic regulation to be successful it must be based on market principles or distortions will occur that will cause the system to fail.

I wrote the MPC testimony with the objective of setting the context for what this hearing is all about. I encourage you to read it and welcome any feedback.

2023 National Federal Milk Marketing Order Pricing Formula Hearing
Carmel, Indiana
Testimony of Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
Milk Producers Council – California

Milk Producers Council is a nonprofit organization representing dairy families throughout California. Since 1949, our board of directors and staff have worked on behalf of our members on local, state and national issues, with topics ranging from milk pricing policies to environmental regulations and any other regulatory and policy challenges facing dairy families today. My name is Geoff Vanden Heuvel, and I have been the Director of Regulatory and Economic Affairs for MPC since June of 2018. Prior to that I was a dairy farmer, operating for nearly 39 years in Southern California. I also served as a board member of MPC since the early 1990s and prior to that served on the board of another dairy farmer trade association. I was an active participant in the California State Milk Order, testifying at nearly every milk pricing hearing held by the California Department of Food and Agriculture since 1985. I testified at the Federal Order Reform formulation hearing in Alexandria, Virginia in May of 2000 as a witness for Select/Continental and Elite cooperatives and the Western States Dairy Producer Trade Association. My expertise was on the California pricing system, which utilized a product value formula to establish minimum pricing for the State Order. Since federal order reform was moving the FMMO system to a product value formula system in 2000, I was able to provide some knowledge and experience about how that system worked in California.

Before I get too far into this testimony, Milk Producers Council wants to thank USDA for responding positively to the California producer community's request to come under the jurisdiction of the FMMO program. The California FMMO hearing was long. It lasted nearly 40 days and required a significant investment of time, money and effort by all concerned. I am here to report that the California Federal Milk Marketing Order has had a significant impact on the mailbox price of California producers. The chart below is a visual demonstration of that impact.



Bottom line: Multiplying the $1 plus increase in average California producer mailbox prices that occurred after the establishment of the California FMMO in November of 2018 times the over 40 billion pounds of annual California milk production results in an increase of over $400 million in annual California producer income. In addition, and even more important, is the fact that California producers are now on a level policy playing field with our colleagues in the rest of the Federal Order system. That fact has benefits not only for California producers, but also supports the ability of USDA to sustain a national, coordinated dairy pricing policy and regulation. It took a tremendous amount of effort by many people in the industry and many people at USDA to get this result, and we are profoundly grateful.

Moving on to the subjects that are part of the call of this hearing. The government is involved in milk price regulation because long ago we decided as a nation that an ample supply of fresh and wholesome milk at prices that were affordable for consumers was in the public interest. The perishable nature of milk and the inherent imbalance in market power that that perishability creates is what leads to a role for the government to become the referee between milk processors and producers. In a normal business relationship, sellers do not have to sell, and buyers do not have to buy. A transaction occurs when a willing buyer and a willing seller agree to a price. When it comes to milk, because it is highly perishable, the producer cannot hold his product. The processor does not have to buy, at least not that day. And so, this leads to an imbalance in marketing power between producers and processors.

What we have today in the Federal Milk Marketing Order program is the result of over 85 years of the government playing the role of a referee amongst the various actors in the dairy industry. What has made this system work for so long has been the fact that the FMMO system discovers the value of milk – it does not bureaucratically establish that value. It then transmits that market value though the regulation to establish appropriate minimum prices for the various uses of milk.

The starting point for building a market-based regulatory system is finding a competitive value for milk. For decades the Minnesota-Wisconsin price series provided this price discovery. Dairy plants buying raw unregulated grade B milk in Minnesota and Wisconsin were surveyed and reported what they paid for milk in an unregulated market. There were no explicit make allowances or yields in the pricing series. Simply a hundredweight value and a components test. This milk price then became the building block for establishing regulated Grade A milk prices in the FMMO system. Eventually, there was not enough unregulated Grade B milk in Minnesota and Wisconsin to confidently use this price series to accurately determine the market value of raw milk. The alternative was to move one step away from raw milk and use basic products made from milk as the starting point, and then back into a milk value by adjusting for yields and conversion costs. This is the system we have today, and this hearing is about updating the various parts of the conversion formulas that are used to discover the competitive value of milk.

The understanding that we are trying to discover the value of milk, shapes our positions on the various proposals that are part of this hearing. There are a number of competing interests that have to be balanced as these adjustments are considered.

Continue reading here.

Agencies: Collaborative Efforts Result in Historic Reductions in Ag Emissions

Courtesy of the [Hanford Sentinel]

Note from Kevin Aberanthy, General Manager

San Joaquin Valley farmers and dairy families were celebrated on Wednesday at an event recognizing their efforts to clean the air in the Valley. With farmers participating in tractor and equipment incentive programs, more than 11 tons per day of NOx emissions have been reduced in the region. This isn't only big news for cleaner air. Thanks to our farmers efforts and investments, this also staves off promulgation of new tractor rules that were under consideration by CARB. Thank you to our farmers and partners for making this happen!

From the Hanford Sentinel

Wednesday, representatives from the San Joaquin Valley Air Pollution Control District (District), the California Air Resources Board (CARB), the Natural Resources Conservation Service (NRCS), and the United States Environmental Protection Agency Region 9 (US EPA) came together to sign a proclamation lauding the successful efforts to reduce agricultural-related air quality emissions in the San Joaquin Valley.

The proclamation stated, "that through the emissions reductions achieved by the District, CARB, and NRCS grant program partnerships, the agricultural industry has met their commitment to accelerate turnover of agricultural equipment in the San Joaquin Valley to cleaner equipment and achieved over 11 tons per day of NOx emission reductions in 2024."

To meet the emission reduction commitment, through the Carl Moyer, FARMER, DERA, TAG, and EQIP incentive programs, the agricultural industry turned over and destroyed over 12,800 pieces of older agricultural equipment in the San Joaquin Valley, of which over 7,300 were the oldest Tier 0 agricultural equipment with no emissions controls.

"The agricultural sector in the San Joaquin Valley is an economic powerhouse for the state. Moving towards the cleanest available technology in this sector continues to be critical to improving the air in the Valley," said Liane Randolph, Chair of the California Air Resources Board. "We all have a role to play in building a healthier, more sustainable California, and today's event shows what we can achieve when we work together."

Continue reading here.

CDQAP Update: Dairy Wellness Webinar; Importance of Water Records

Courtesy of the California Dairy Quality Assurance Program

The California Dairy Quality Assurance Program's (CDQAP) latest update is available in its entirety here. Read excerpts from the CDQAP update below.

Dairy Wellness Webinar Highlights Challenges and Resources

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

While field staff, veterinarians and other allied professionals may be the first to notice signs of stress, burnout and mental fatigue in producers or dairy employees, they may frequently feel uncertain about what to do next. On October 26th CMAB and CDQAP partnered with experts from Wisconsin, Colorado, California and Washington State to discuss the most current advice related to farmer wellness and mental fatigue. The webinar used a confidential format where participants' identity and submitted questions remained anonymous if they elected to.

It's OK to not be OK…by someone who lived it.

Perhaps the most poignant presentation came from Jeffrey Ditzenberger, a former dairy producer with a life-long career in Wisconsin agriculture and a Desert Storm veteran. In a fearlessly candid way Jeff detailed his own personal crisis, a story that would eventually be featured on HBO, A&E and the independent film *Greener Pastures*. Jeff 's experiences led him to found the farmer-to-farmer, non-profit TUGS Group. The organization works to destigmatize farmer emotional fatigue and dispel common fallacies, such as the misconception that talking to someone about suicide makes them more suicidal.

Ag wellness was already challenging; the pandemic made it worse.

The Western Regional Agriculture Stress Assistance Program or WRASAP is funded in part through USDA's National AgrAbility Project, and serves 13 western states and 4 territories. Don McMoran from Washington State University directs the program and briefed the audience on the scope of the problem. Farmers are 1.7 to 5 times more likely to die from suicide then the general population, which is even higher than military rates. Farmers don't typically take their own lives in the middle of a life emergency, but later on after they have had a chance to reflect on their situation. The most common stressors reported by farmers are time pressure, workload, unpredictable income, isolation, farm succession and interpersonal conflicts.

Continue reading here.

Water Records are Important!

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

Tracking water application to crops is important in wet and dry years alike. This information is helpful to determine if irrigation water is managed efficiently. Improving irrigation efficiency (amount of water applied compared with plant needs) may be important in the new year as Sustainable Groundwater Management Plans are more fully implemented. Keep in mind that water applied above crop needs leads to leaching and may move nitrate below root zones. Record keeping is also important as water application information is required for dairy water quality annual reports.

Regardless of where the dairy is in CA, producers will want to track water sources and quantities applied to fields. Your nutrient management consultant can provide forms or spreadsheets, or you can download record keeping templates from CDQAP.org. (Click the binders tab to find information specific to your region.)

The El Niño ahead may bring much rain. Documenting where water ends up will be important.

California Milk Advisory Board Meeting December 6-7 in Santa Barbara

Courtesy of the California Milk Advisory Board

Climate scientists and leaders across the globe, including Governor Newsom, have recognized that The California Milk Advisory Board (CMAB) will host its next Board of Directors Meeting on:

Wednesday, December 6, 2023 – 7:30 a.m.
Thursday, December 7, 2023 – 8 a.m.

Hilton Santa Barbara
633 E Cabrillo Boulevard
Santa Barbara, CA 93103

The CMAB Board meeting is open to any California dairy producer. If interested in attending, please RSVP to Tracy Garza at tgarza@cmab.net or 209-690-8252.

USMCA Dispute Settlement Panel Finds in Favor of Canadian Dairy Quotas

Courtesy of Jim Mulhern, President & CEO
National Milk Producers Federation

Our second attempt to curtail Canada's efforts to block U.S. dairy exports under the USMCA agreement was thwarted last Friday, when a three-judge dispute settlement panel ruled that Canada's administration of its import quotas is consistent with its USMCA commitments.

An earlier panel ruled in January 2022 that Canada had improperly restricted access to its market for U.S. dairy products. In response, Canada made minor changes to its dairy tariff rate quota (TRQ) system, resulting in an outcome that still fell far short of the market access the U.S. expected to receive under USMCA. To address that shortcoming, the U.S. government, at NMPF's and USDEC's urging, brought a second case to challenge the changes that Canada instituted. The panel's ruling announced last week means that Canada is not obligated to make further changes.

When first implemented in 2020, USMCA established 14 different TRQs, which essentially give exporters the ability to sell a limited quantity of products in Canada without paying significant tariffs. The TRQ system that Canada implemented under the USMCA awarded the vast majority of TRQ volumes to Canadian processors and granted very limited access to distributors – resulting in limited opportunities for U.S. exporters. Our objections to this exclusionary scheme, unfortunately, were not supported by the panel reviewing this second case brought by the U.S. government.

We appreciate the hard work on this case by the U.S. Trade Representative's office and will continue consulting with USTR and USDA to determine what additional options may be available to ensure that Canada complies with the letter and spirit of the USMCA agreement.