

MPC WEEKLY FRIDAY REPORT

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 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	-\$1.1250	\$1.8450	WEEKLY CHANGE	No CHANGE	\$3.0900
Barrels	-\$1.1000	\$1.9200	WEEKLY AVERAGE	+\$0.0023	\$3.0963
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 06/15/24	
Blocks	-\$0.0764	\$1.8681	DAIRY MARKET NEWS	W/E 06/21/24	\$4.600
Barrels	-\$0.0585	\$1.9475	NATIONAL PLANTS	W/E 06/15/24	\$4.186
				LAST WEEK ENDING 06/08/24	
				NAT'L PLANTS \$1.1750 18,088,665	
				NAT'L PLANTS \$1.1664 20,497,939	

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
JUN 21 EST	No Change	\$21.58	\$19.88	No Change
LAST WEEK	\$21.68 - \$22.18	\$21.56	\$19.89	\$21.15

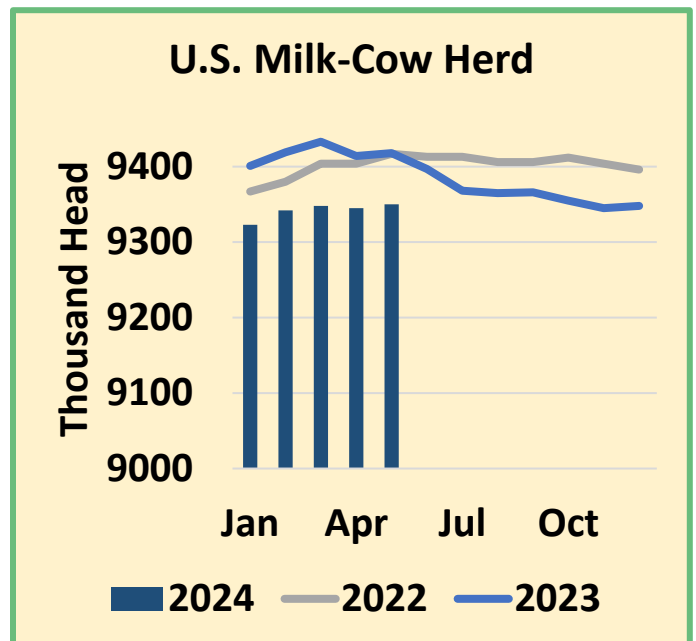


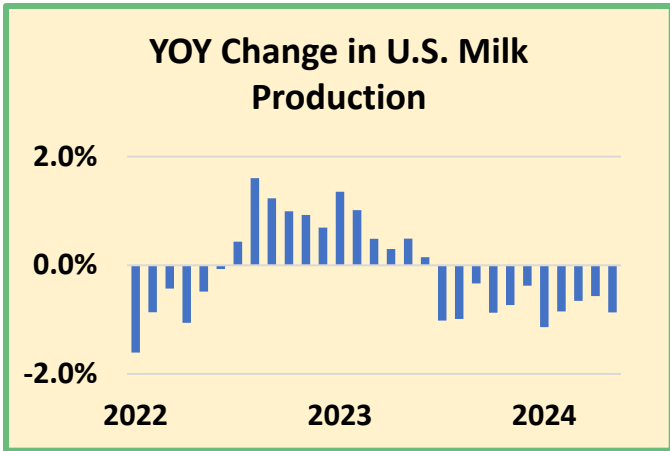
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Dairy producers did everything they could to keep their barns full last month after milk prices soared. They paid \$3,000 or more for springers, and – despite record-high beef prices – they lowered their standards on the milk yields required to keep a cow in her stall rather than sending her to the packer. Dairy cow slaughter dropped to just 216,100 head in May, an eight-year low. With cull rates in the basement, the herd started to grow. In today's Milk Production report, USDA raised its estimate of the April milk-cow herd by 5,000 head compared to its initial guess – although the report still shows a modest March-to-April decline – and the agency reported that the dairy herd expanded by 5,000

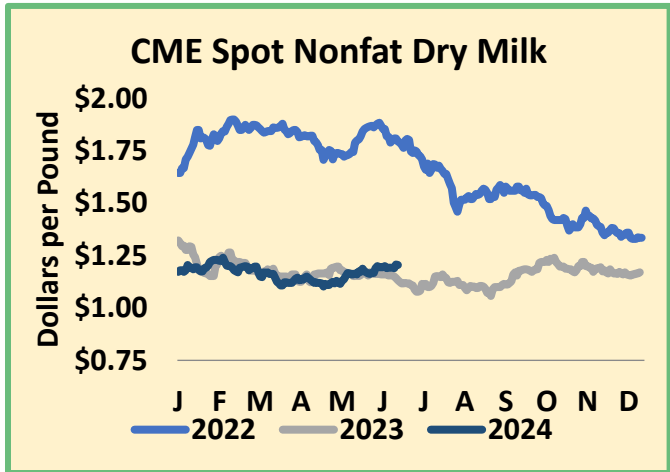




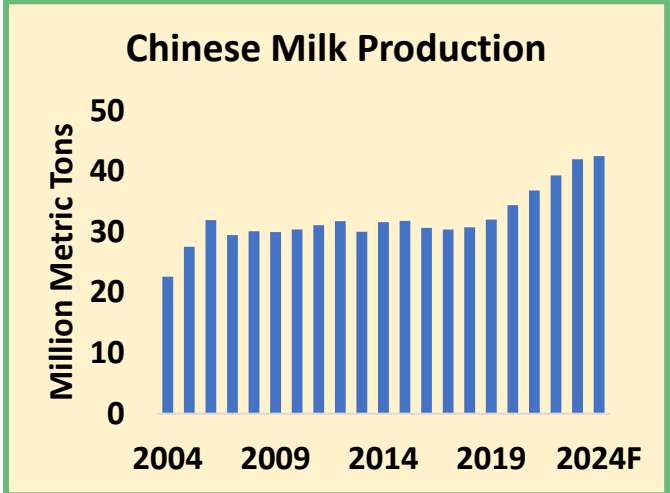
head in May. There were 9.35 million cows in U.S. milk parlors in May, the highest count in seven months but still 68,000 head fewer than in May 2023.

It's hard to meaningfully lift milk production when a growing share of the dairy herd is past its prime, a task made doubly difficult amid a heat wave and avian influenza. While producers in the mountain states and Pacific Northwest enjoyed a cool spring, May was unusually warm in California, the

Southwest, and throughout the eastern United States, with record-high overnight temperatures in Florida and much of the Northeast. While the weather wasn't a problem in Idaho in May, the bird flu clearly was. Milk output fell 0.6% year-over-year in the Gem State, a stark turnaround from a 0.3% gain in April. National average milk yields dipped below prior-year volumes, and overall milk output slipped to 19.68 billion pounds, down 0.9% from the year before. USDA also trimmed its estimate of April milk output, showing a 0.6% decline rather than the 0.4% deficit the agency reported a month ago.

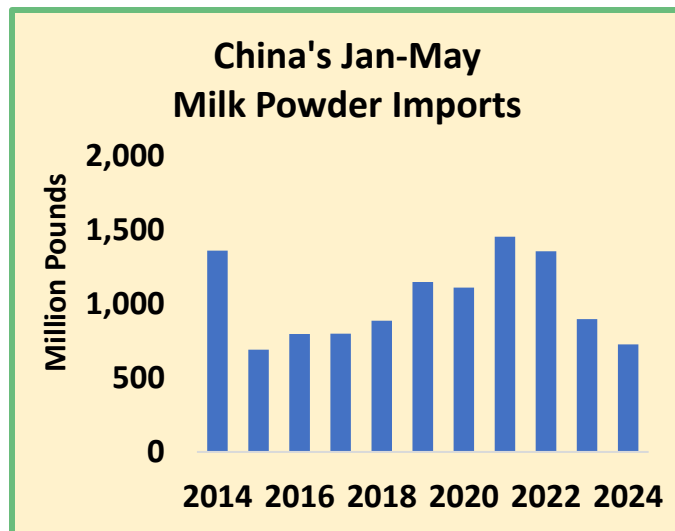


The conditions that weighed down milk yields in May have only worsened this month, with both the heat wave and the bird flu spreading to new areas. Avian influenza remains a problem in Idaho and Michigan and is now circulating in Colorado and the I-29 corridor as well. Despite dairy producers' best efforts, milk supplies could tighten considerably this summer, which is likely to further reduce milk powder production. That assumption helped to lift CME spot nonfat dry milk (NDM) to a four-month high. It closed today at \$1.205 per pound, up 1.25¢ from last Friday. U.S. NDM prices got a small boost from Tuesday's Global Dairy Trade (GDT) auction, where skim milk powder (SMP) prices climbed 0.7%. But whole milk powder (WMP) prices fell back, thanks to the conspicuous absence of the world's largest WMP buyer.



Over the past five years, China has boosted its domestic milk production by around 23 billion pounds, adding the equivalent of Texas and Idaho's combined annual milk output to its homegrown supplies. That seismic shift has displaced imports of all sorts, but especially fresh milk and milk powder. Last month, China imported 77.7 million pounds of WMP, down 33% from May 2023 and the lowest May tally since 2017. Chinese SMP imports plunged to 34 million pounds, down 52% year over year and the lightest volume for any month since 2016. China's

year-to-date milk powder imports are off to their slowest start in nine years. The steep setback in Chinese milk powder imports in 2023 and 2024 has pushed dairy processors around the world to make more cheese and less WMP and to compete more aggressively for a greater share of other key markets. Thus, China's stronger milk output has weighed heavily on global dairy product prices even as China remains a major dairy importer.



China doesn't make a lot of cheese, so its dramatic increase in milk production has not displaced whey imports. However, waning birth rates and red ink in the hog sector have reduced consumption of whey for infant formula or animal feed. Chinese whey imports fell 9.4% last month compared to May 2023. The U.S. accounted for more than half of Chinese whey product imports in March through May, but we've been winning a larger piece of a smaller pie. Chinese imports of U.S. whey products lagged prior-year volumes in 11 of the past 12 months.

While exports to China continue to disappoint, domestic demand for high-protein whey remains strong. That has helped to keep dry whey inventories in check and prices firm. CME spot dry whey held steady this week at 47¢.

The hot weather is boosting ice cream sales and tightening cream supplies. Butter churning has slowed. But demand remains strong and so do prices. GDT butter notched an all-time high after more than a decade at the auction. CME spot butter finished the week right where it started, at \$3.09.

Cheese bucked the trend this week, and prices moved decisively lower. CME spot Cheddar blocks plummeted 12.5¢ to \$1.845. Barrels fell a dime to \$1.92. Domestic cheese demand is excellent but new export sales are difficult to find with prices near the \$2 mark.

Weakness in cheese translated to lower Class III values in the third quarter. The June contract fell 81¢ to a still-high \$19.86 per cwt. Fourth-quarter contracts inched upward. Class IV futures didn't move much. They averaged an enticing \$21.43.

Grain Markets

Rain makes grain, as they say on LaSalle Street. A wet spring recharged soil moisture throughout the Corn Belt, and heavy rains continued this week west of the Mississippi River. But in many areas, this was clearly too much of a good thing. Some fields are fully underwater and there are flood warnings in Nebraska, Iowa, South Dakota, and Minnesota. To the east, it's been hot and mostly dry. Crops have been in excellent condition, but they're starting to show signs of stress, with more heat on tap for next week. A big crop is still likely, but this week's weather wasn't all that helpful. But the trade seems largely unconcerned. July corn futures dropped 13¢ to \$4.35 per bushel and the December contract – the best indicator of new-crop supplies – fell to a four-month low at \$4.53. Meanwhile, July soybean meal rallied a couple bucks to \$362.50 per ton.



SGMA Subbasin Round Up

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The implementation of the Sustainable Groundwater Management Act (SGMA) is a very local endeavor. Of course, the State plays a role, but the actions and decisions about what the policies and rules are for each individual area are determined by local Groundwater Sustainability Agencies (GSA) for their jurisdictions. Over 90% of California milk production occurs in the San Joaquin Valley and I try to keep up with all the SGMA developments in that area. What follows is an overview of SGMA progress starting in the south and moving northward.

Kern Subbasin encompasses over 1 million acres and has 20 individual GSAs. The Kern Subbasin is one of the six San Joaquin Valley subbasins whose Groundwater Sustainability Plans (GSP) were deemed “inadequate” by the Department of Water Resources. That means that these subbasins have come under the jurisdiction of the State Water Resources Control Board with the potential of being placed in “Probation.” The Kern GSAs have made remarkable progress in coordinating their individual GSPs and jointly submitted an updated GSP covering the entire Kern Subbasin to the State Board at the end of May. They also were successful in creating an umbrella GSA to provide SGMA coverage to the undistricted lands within the Kern Subbasin. They are awaiting a response from the State Board on this new GSP, but folks in Kern feel very good about their prospects of getting the new GSP accepted and moving back into a regular reporting relationship with the Department of Water Resources.



The **Tule Subbasin** is located just to the north of Kern and consists of six GSAs. The Tule Subbasin is also subject to a “probation” determination by the State Board, which has scheduled a hearing to consider probation for the Tule Subbasin in mid-September. The various GSAs have not yet come together on a resubmission of a GSP that would address the inadequacies identified by both DWR and the State Board staff. The most contentious issues focus on the impact of groundwater pumping on subsidence. The subsidence around the Friant-Kern Canal (FKC) and the policies and actions/inactions of the GSA directly adjacent to the FKC is one issue. In fact, two water districts that are part of the Eastern Tule GSA (ETGSA) have given notice that they wish to leave that GSA and form their own GSA in part over internal disagreements with the direction of ETGSA with regards to pumping rules along

the FKC. Another issue is a difference of opinion between Delano Earlimart GSA and their neighbors over allowable subsidence in the southern part of the Tule Subbasin. Then there is an ongoing dispute between two Tule GSAs over the effects on subsidence and groundwater levels that emanate from a well field that pumps water out of the Tule Subbasin and exports it to the Tulare Lake Subbasin. The Tule GSAs have brought in a facilitator to attempt to bring about resolution, but the likelihood of getting these difficult issues resolved in time to avoid a probation determination by the State Board at the hearing in September is looking increasingly doubtful.

The **Kaweah Subbasin**, just north of Tule has three GSAs who have been working in close cooperation to update their GSPs. The Kaweah Subbasin is also under threat of probation with an original November date for a State Board Hearing. Late last week the governing boards of the three GSAs held a joint meeting and collectively voted to submit an updated GSP to the State Board and the public for comment. The State Board this week informed the Kaweah Subbasin that their hearing date has been pushed back to January. Tremendous progress has been made by the Kaweah GSAs in addressing the inadequacies identified in their prior GSPs. The Kaweah folks are feeling very good about their prospects for avoiding probation.

Just to the west of Tule and Kaweah subbasins is the **Tulare Lake Subbasin**. The State Board held a probation hearing on April 16, 2024, and put the Tulare Lake Subbasin on probation. The Tulare Lake Subbasin has five GSAs. They were unable to submit an updated GSP before the April hearing but said at the hearing that they were about 90% finished with an updated plan and asked for a little more time to complete the work. The State Board did not grant them time and placed them in probation. The Probation designation requires every groundwater pumper producing more than 2 acre-feet per year to report their use to the State Board as well as pay a \$300 per well annual fee and \$20 per acre-foot of groundwater pumped to the State Board to cover the costs of probation. The makeup of the individual GSAs in Tulare Lake is quite different. There are three GSAs that are mostly made up of large landowners. There are two GSAs with a lot of domestic wells and smaller acreage farmers. The Mid-Kings River GSA (MKRGSA) encompasses the jurisdiction of the Kings County Water District and the City of Hanford and has a lot of smaller acreage farmers and domestic well users. This GSA was in the process of adopting fees to implement an updated GSP which they sought to submit to the State Board. The local community was concerned about the level of the fees and the manner in which the GSA board had proposed them, voting down the fees in the week following the State Board hearing. In addition, there was an organized petition drive asking the specific directors on the Mid-Kings River GSA board to resign. Instead, what happened was that the Kings County Water District, which provided three of the four Mid-Kings River board members and the staff for the MKRGSA, voted to withdraw from the GSA, leaving the GSA without a functioning board or staff and of course no fees or revenue to implement the GSP. Meanwhile the other GSAs in Tulare Lake are moving ahead with submitting their own individual GSPs and trying to put together a coordination agreement without a functioning MKRGSA. The other GSAs fully intend to make the case to the State Board that their GSAs are sustainable and should be excluded from probation as “good actors.” While the State Board no doubt believes they had to enforce their deadline, they now own the chaos in the Tulare Lake Subbasin. There is still time to pull things together, but local leadership will have to emerge with a plan to put the pieces together or the Tulare Subbasin will be under State Board jurisdiction for a long time to come.

To the north of Tulare Lake is the **Delta-Mendota Subbasin**. This subbasin is also on the “inadequate” list and subject to a State Board determination of probation. There are nearly 20 GSAs in the Delta Mendota subbasin. The GSAs have made excellent progress in pulling together and developing a joint updated GSP that meets the deficiencies identified by DWR. There is optimism that they will avoid probation.

The **Kings Subbasin** is north of Kaweah and the seven GSAs there were able to get their GSPs approved by DWR and have been in various stages of implementing their plans. Things are progressing well in the Kings subbasin. Different GSAs do have different approaches. The McMullin Area in the west part of the Subbasin is building more projects and developing a large water banking operation. The North Fork Kings is at the beginning stages of developing a groundwater allocation program as well as doing projects. The Kings River provides a lot of surface water capture opportunities, particularly in wet years, and the Kings Subbasin is in pretty good shape.

North of the Kings is the **Madera Subbasin**. There are five GSAs in this subbasin and while they missed the January 31, 2020, deadline for submitting their original GSP, they were able eventually to get their GSPs approved by DWR. This does not mean that there are no challenges in Madera. The Madera Irrigation District has a very good surface water supply and formed a GSA of just their district. The vast majority of the remaining nearly 200,000 acres of undistricted land ended up in the Madera County GSA (MCGSA) governed by the County Board of Supervisors. There have been a number of lawsuits in Madera, some over fees and some over groundwater pumping allocations. Some of these suits have been settled, some remain. The landowners had narrowly approved a \$243 per acre fee to pay for projects and management actions. A lawsuit against the fee was filed and a judge issued an injunction against the county collecting the fee. [Due to a recent Appeals Court decision on another SGMA fee lawsuit](#), where the court clearly stated that a legally imposed fee has to be paid by the landowner before they can challenge the fee in court, MCGSA is seeking to get the injunction on the fee lifted and the suit dismissed. Just this week, a Madera Superior Court judge refused to dismiss the case and in fact, allowed the landowners an additional opportunity to add language to their case addressing the County’s suit. MCGSA had indicated that it would reevaluate the fee and take public input before reimposing the fee, but with this ruling, next steps have not been announced. MCGSA does have an aggressive groundwater allocation policy in place that is ramping down allowable groundwater pumping by 2% per year for the first five years increasing to a 6% per year reduction for years 6-20, ending in 2040 with about 12 inches per acre of allowable groundwater pumping.

North of Madera is the **Chowchilla Subbasin**. This subbasin is also under State Board consideration for probation because their original GSP was deemed “inadequate” by DWR. The GSAs in the Chowchilla Subbasin acted very quickly after the DWR “inadequate” determination in early 2023 and submitted an updated GSP to the State Board within weeks. The State Board has taken their time but has indicated to Chowchilla that they are looking very favorably at the updated GSP. It is likely that Chowchilla will be able to avoid probation. The Chowchilla Water District has its own GSA but works very closely with the other GSAs in the Subbasin.

North of Chowchilla is the **Merced Subbasin**. The GSPs for the Merced Subbasin were approved by DWR. In Merced as well, the entity with the most surface water, the Merced Irrigation District (MID),

and the City of Merced formed a GSA of their district and city jurisdictions. Because they have a lot of surface water, managing groundwater is much easier. The other parts of the Merced Subbasin that are not covered by MID do have their challenges but are working aggressively to develop projects to capture and distribute wet year water for recharge. There will no doubt be groundwater allocations and fallowing, but they are making significant progress.

Turlock Subbasin is north of Merced. It was categorized as a medium priority basin by DWR and therefore was not required to submit a GSP until 2022. Turlock Subbasin is divided into two GSAs. The West Turlock area is dominated by Turlock Irrigation District, and they have very substantial surface water rights which put them in a good position to comply with groundwater regulations. The East Turlock GSA is more challenged and has long-term overdraft that will require a combination of new projects and land fallowing to bring the area into sustainability. DWR has sent back the original GSP as “incomplete.” Turlock Subbasin is now in the process of updating that GSP with the hope of getting an accepted plan and avoiding the State Board process.

Modesto Subbasin is also a medium priority basin only because there is a significant urban population there that depends on groundwater for its municipal supply. The Modesto Subbasin is blessed with significant surface water assets and a long history of leadership and governance of their water resources. Their original GSP was deemed “incomplete” and they are in the process of updating it. But the Modesto Subbasin certainly has the capacity to be able to get to an approved plan with a minimum amount of disruption to the status quo.

The **Eastern San Joaquin Subbasin** is made up of nearly 40 entities that are working together and submitted a single subbasin GSP that was approved by DWR. The numerous entities are in various stages of implementing the plan in their region. There is a lot of surface water in this subbasin. So, achieving sustainability by capturing more wet year surface water and recharging it back into the ground will go a long way, if not all the way, to providing long-term sustainability for this subbasin.

Where is the Milk Actually Coming From? Herd Sizes and Locations See Big Change

By [Taylor Leach](#)
[Dairy Herd Management](#)

Earlier this year, the USDA National Agricultural Statistics Service released the latest Census of Agriculture data. And without much surprise, the results showcased two main themes – more milk and more consolidation.

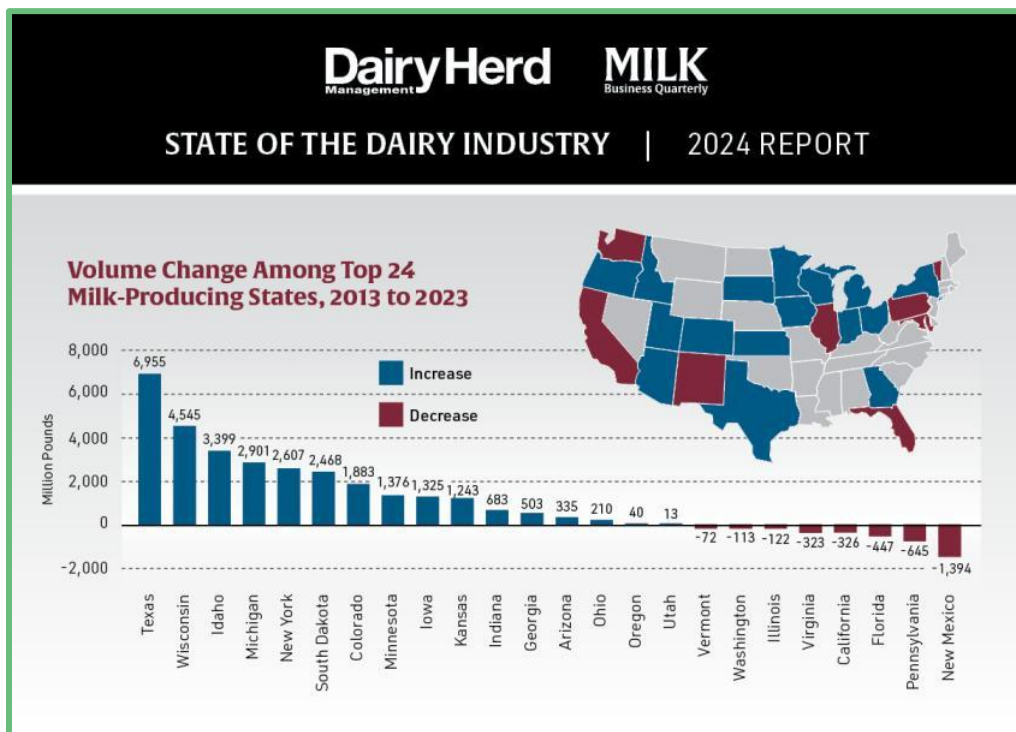
Over the span of a decade, the U.S. produced 25.3 billion lbs. more milk in 2023 than in 2013, all while keeping cow numbers relatively unchanged. However, where these animals lived and what size operations they resided on did see a significant change.

According to Lucas Fuess, senior dairy analyst at Rabobank, only 16 of the top 24 milk-producing states

increased milk production within the last 10 years. States who experienced a decline included:

- California
- Florida
- Illinois
- New Mexico
- Pennsylvania
- Vermont
- Virginia
- Washington

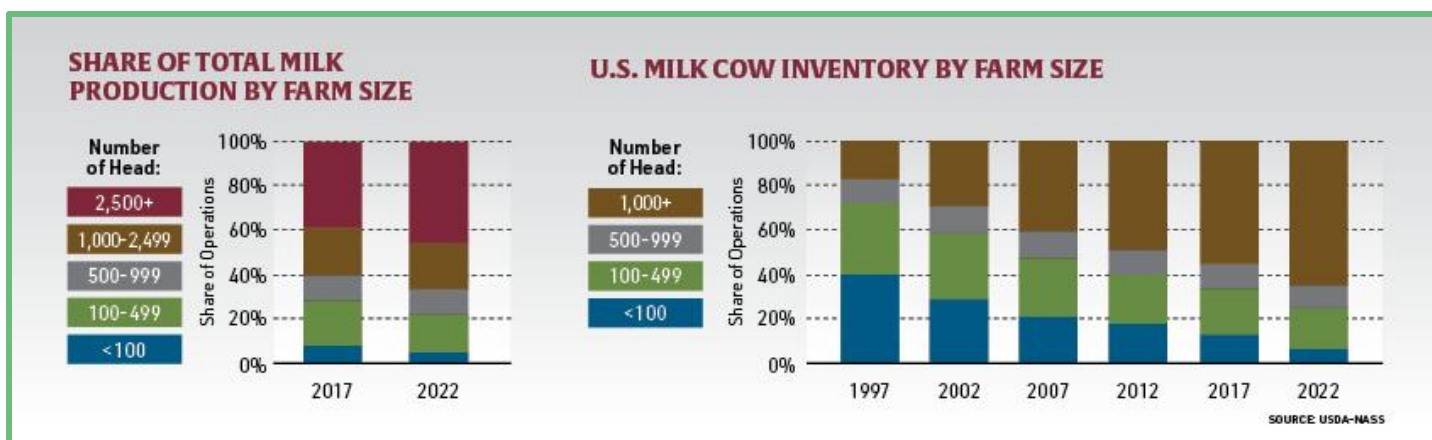
In contrast, states such as Texas, Wisconsin and Idaho saw significant growth, with Michigan, New York and South Dakota trailing not far behind.



“By a wide margin, the largest growth occurred in Texas, producing an additional 7 billion lbs. of milk from 195,000 more cows versus 10 years ago,” Fuess says. “New processing capacity, mainly in the Panhandle region, in a state welcoming to the industry drove the strong growth in Texas.”

The size of the farm that the majority of today’s herd lives on also saw a significant change.

According to Fuess, dairy operations with less than 500 cows makeup 80% of the nation’s dairy farms. However, the majority of cows within the nation’s herd reside on farms with 1,000 animals or more. The Census of Agriculture provides the following breakdown:



Continue reading [here](#).

