

MPC WEEKLY FRIDAY REPORT

DATE: DECEMBER 3, 2021
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE Blocks N.C. \$1.8575 Barrels +\$0.0775 \$1.6025 WEEKLY AVERAGE CHEDDAR CHEESE Blocks N.C. \$1.8575 Barrels +\$0.0680 \$1.5880			CHICAGO AA BUTTER WEEKLY CHANGE +\$0.0125 \$2.0025 WEEKLY AVERAGE -\$0.0050 \$1.9850 DRY WHEY DAIRY MARKET NEWS w/E 12/03/21 \$0.6450 NATIONAL PLANTS w/E 11/27/21 \$0.6090			NON-FAT DRY MILK WEEK ENDING 11/27/21 NAT'L PLANTS \$1.5104 10,319,633 LAST REPORTED WEEK ENDING 11/13/21 NAT'L PLANTS \$1.4873 16,375,037		
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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 3 EST	\$20.77 - \$21.27	\$18.79	\$18.60	\$19.34
Nov `21 FINAL	\$19.58 - \$20.08	\$18.40	\$18.03	\$18.79



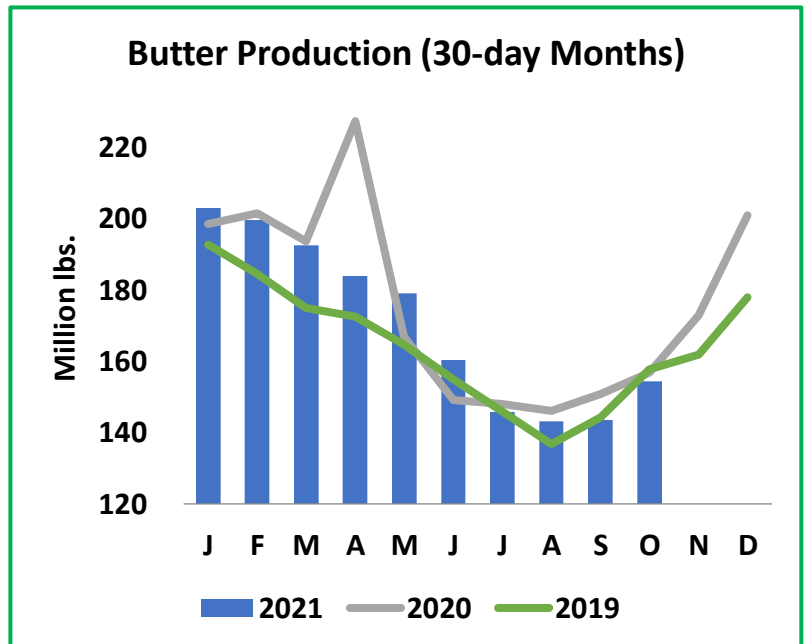
Milk, Dairy and Grain Market Commentary

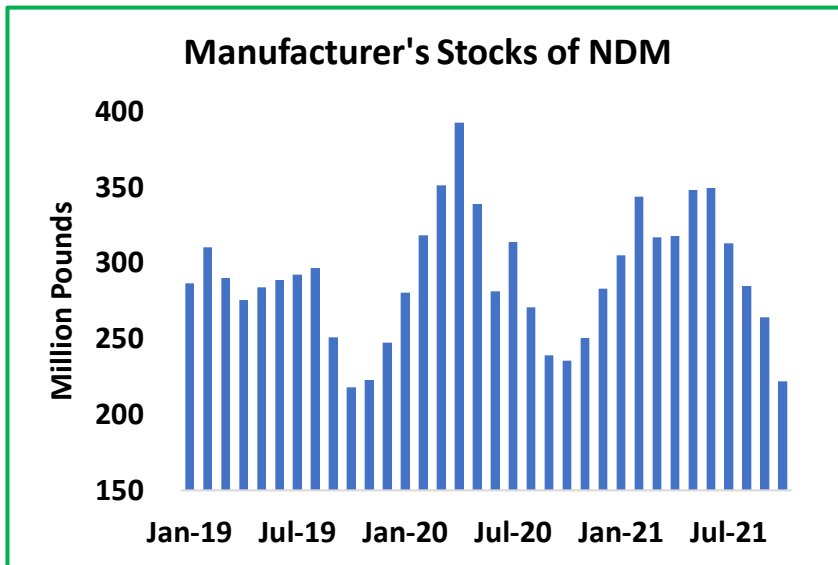
By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Less milk means less butter. Churns made just 159.4 million pounds of butter in October, down 1.6% from a year ago. Stiff competition for cream and supply chain tangles likely kept a lid on output in November as well. USDA's *Dairy Market News* notes that in the East, "widespread logistical issues, including driver shortages and delivery delays, pose a greater hindrance to cream-based operations than tighter cream availability does." Butter stocks are falling seasonally, and prices are on the rise. CME spot butter climbed back over the \$2 mark today and closed at \$2.0025 per pound, up 1.25¢ for the week.

Butter Production (30-day Months)





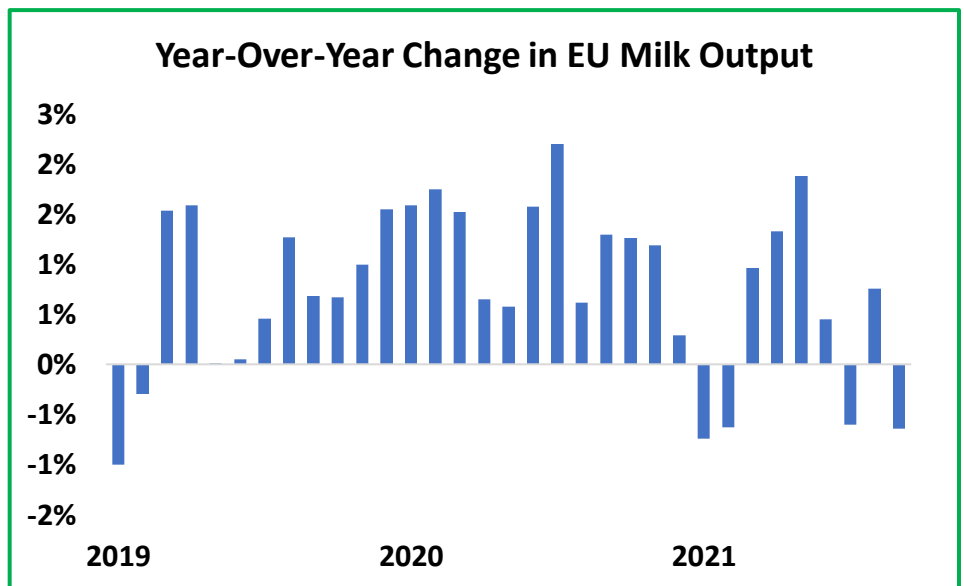
Driers also ran lighter in October. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) totaled 183 million pounds, down 10.5% from October 2020. Despite all the headaches required to get goods from here to there, manufacturers kept product moving. Stocks waned for the fourth consecutive month, dropping to 221.7 million pounds on October 31, down 5.9% from last year. This summer, manufacturers' stocks of NDM bordered on burdensome. Now, they stand at two-year lows.

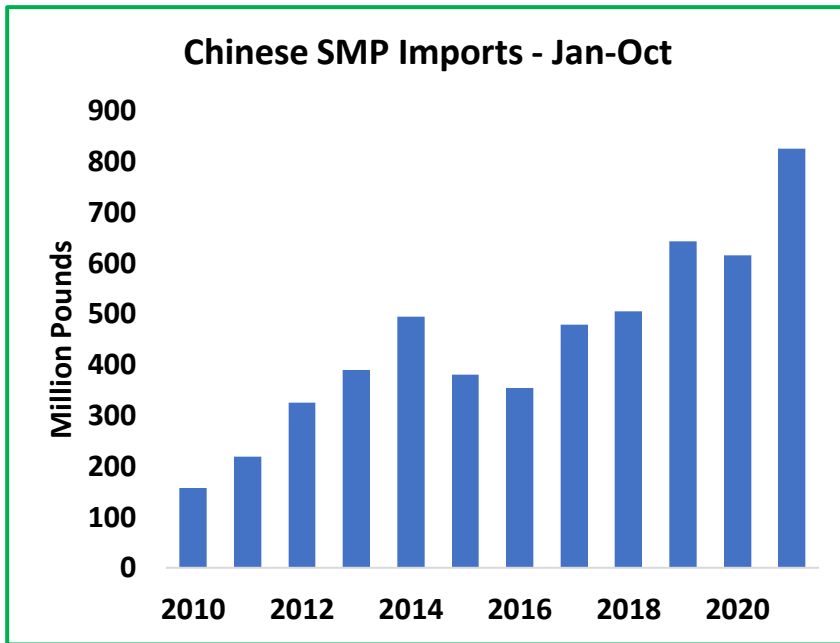
Some processors are concerned that high prices will deter milk powder buyers, but those who need the product don't have many other places to turn. October milk collections were down 2.1% year over year in Australia and down 3.1% in New Zealand. European milk output fell 0.6% from year-ago volumes in September and was flat in the third quarter. Just like their peers in the United States, European manufacturers are keeping cheese vats full, while churns and driers do without. Compared to the first nine months of last year, European cheese production is up 2.3%, while SMP output is down 3.6% and butter lags last year by 1.3%.

Meanwhile, global demand for milk powder remains firm. *Dairy Market News* reports that North African buyers are trying to nail down 2022 contracts with European processors, but merchants in Europe are holding back, uncertain that they'll have enough milk to meet big commitments. SMP supplies are also "tighter than desired" in Oceania as China just keeps buying. China imported another 72 million pounds of SMP in October, bringing year-to-date imports to a record-smashing total, up 34% from a year ago.

Global SMP prices are high and holding. In Chicago, CME spot NDM held steady this week at \$1.5625. The futures rallied. With both butter and milk powder futures on the rise, most Class IV contracts for 2022 climbed by double digits. The futures project that Class IV milk will average \$19.50 per cwt. next year.

CME spot Cheddar blocks didn't move at all this week. They sat at \$1.8575. Meanwhile, barrels leapt 7.75¢ to \$1.6025. Cheese production remains heavy, but Cheddar output slipped 1.4% from the very high volumes of a year ago. U.S. cheese production reached 1.15 billion pounds in October, up 0.9% from last year. Italian-style cheese output jumped 3.5% year over year.





Whey product output surged in October. Output of whey protein concentrates (WPCs) was 13.8% greater than a year ago, and production of whey protein isolates (WPIs) grew 5.3%. Over the past six months, high WPC and WPI output has kept commodity whey production in check. But dry whey output was also strong in October, up 3.9% from last year. Nonetheless, whey stocks fell from already low levels. Spot whey slipped a fraction of a cent this week to 69.75¢. This year, high whey prices have added more than \$1.30 per cwt. to the Class III price, compared to 2020 whey values. Class III futures rebounded this week, with most contracts gaining roughly 20¢. The December contract stands at

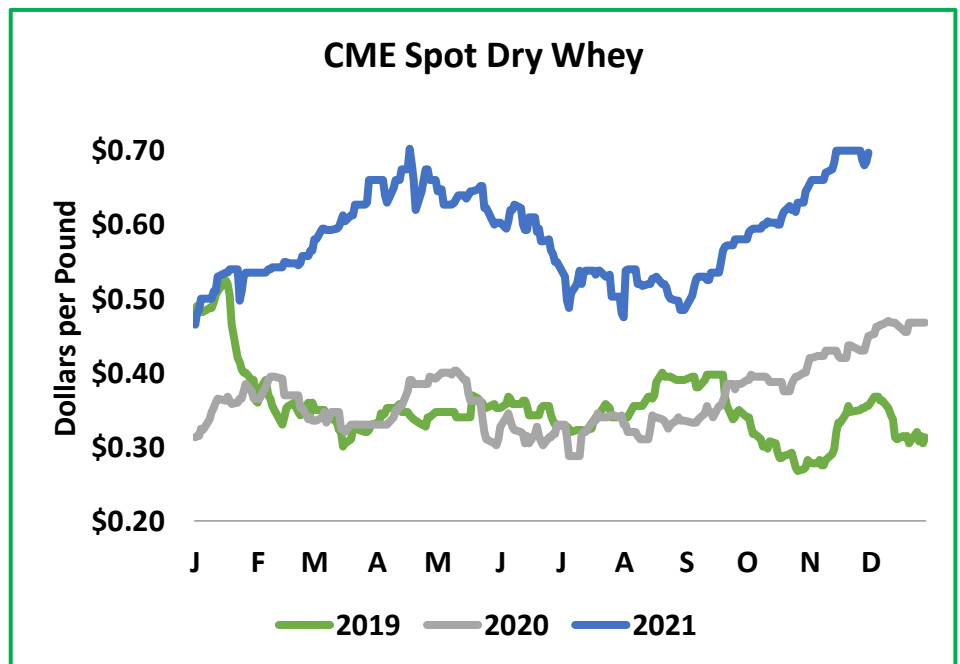
\$18.60, and the futures call for Class III to average \$18.99 in 2022.

Grain Markets

The grain markets plummeted early in the week but came roaring back. March corn futures settled at \$5.84 per bushel, down 7.75¢ from the extremely high close last Friday. January beans closed today at \$12.6725, up 14.5¢. January soybean meal finished at \$358.60 per ton, up \$9.20

Crops in central Brazil continue to thrive, thanks to regular rains. But southern Brazil and Argentina are trending dry, which is causing concerns about crop conditions there. Some of the crop isn't even in the ground yet,

so it's a bit early to declare disaster. Indeed, Argentina's statistics agency reports that just 31% of corn acreage is planted so far, and it describes excellent conditions for the corn already in the ground. But it's a La Niña year, and the market seems inclined to price in a lot of weather risk until it is proven wrong.



The weather is also wreaking havoc in the soybean meal market. Flooding in Canada tangled up the already strained rail system, slowing canola deliveries. Feed buyers in the West and in Canada who typically depend on canola are looking for substitutes, which has lifted demand for soybean meal. Between the basis, freight markups, and irregular deliveries, the futures vastly understate the true increase in the cost to keep the cows fed.



SGMA Starts to Bite

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

The Sustainable Groundwater Management Act (SGMA) was passed in 2014 and is designed to eliminate the “undesirable results” of taking more water out of the ground than can be sustainably replenished. The law required the creation of local Groundwater Sustainability Agencies (GSAs), which were then granted significant powers to regulate groundwater extraction. Allowing each local agency the right to design and implement its own plan does open up the possibility that there will be different rules and fees in different locations – and that is in fact what is happening. Below are recent examples of how two different local GSAs are implementing their plans.

Madera County GSA

The Madera County Groundwater Sustainability Agency (MCGSA) covers most of the irrigated land in Madera County that is not part of a water district. The governing board of MCGSA is the Madera County Board of Supervisors. MCGSA encompasses land in both the Madera and Chowchilla Subbasins and is almost entirely dependent on groundwater for irrigation. MCGSA adopted a Groundwater Sustainability Plan (GSP) in January of 2020 that lays out several projects and management actions that are designed to eliminate the “undesirable results” identified by SGMA by the year 2040.

A couple of years ago, MCGSA imposed a per acre fee to pay for the administration of the MCGSA. Earlier this year MCGSA adopted a per acre groundwater extraction limit. This farm unit water budget dictates how much each landowner can use in an individual year. What is under consideration now is a fee to pay for the projects and management actions that were identified in the GSP.

The major projects in the plan include:

- The construction of recharge basins and other sites to capture surplus flood flows.
- An investment in a surface water supply from the proposed Sites Reservoir in the Sacramento Valley.

Management actions included in the plan:

- A domestic well mitigation program.
- A Sustainable Agricultural Land Conservation (SALC) program to pay landowners a fee to fallow their ground.
- A program to provide owners of land never irrigated a payment to keep those lands unirrigated.

The new proposed fee is to pay for these costs. The proposed fee is based on a per acre charge and **NOT** a per acre foot of water used charge. These assessments are subject to what is called a Proposition 218 process, whereby the Board of Supervisors adopt them subject to a process where the landowners who will have to pay them will have an opportunity to protest those fees. The risk is that if the landowners are not willing to pay the fees, the GSP likely fails, which would trigger the State Water Resources Control Board coming in and taking control over of the area.

MCGSA is proposing a different fee structure for lands in the Madera Subbasin than for the lands in the Chowchilla portion of the GSA. That is because Proposition 218 requires that fees be based on benefits, and the costs and benefits are different in the two areas. Proposition 218 also only allows fees to be set for five years, which means the fee can be continued after five years, but at a rate no higher than the

rate for year five. To increase the rates after year five, another rate study and opportunity for protest must be given.

The chart below shows the proposed rate per acre and the allocated water per acre in inches of Evapotranspiration (ETc), which is how water extraction is measured in the MCGSA.

Here are the proposed rates:

Year	Madera Subbasin Fee Per Acre	Madera Subbasin Allocation in Inches of ETc
2022	\$145	28 inches
2023	\$160	27.7 inches
2024	\$190	27.4 inches
2025	\$230	27.1 inches
2026	\$265	25.5* inches
Year	Chowchilla Subbasin Fee per acre	Chowchilla Subbasin Allocation in Inches of ETc
2022	\$165	26.3 inches
2023	\$170	25.9 inches
2024	\$185	25.5 inches
2025	\$195	25.1 inches
2026	\$210	23.6* inches

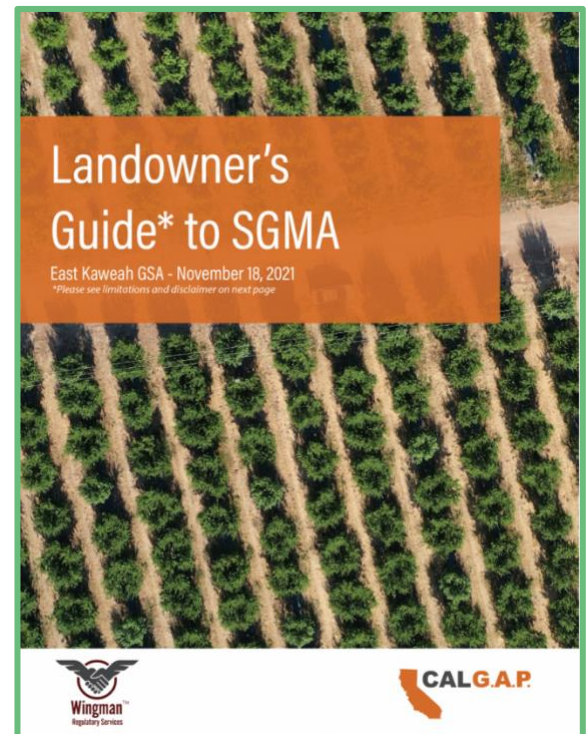
**Note the allocation reduces at a rate of 2% per year until 2026 when it reduces 6% per year.*

MCGSA hosted a public workshop to update stakeholders on preliminary fees and cost projections. You can read the entire presentation [here](#).

East Kaweah GSA

Another GSA that is in the middle of implementation is the East Kaweah GSA (EKGSA). This agency encompasses lands that are located near the foothills of the Sierras where the groundwater aquifer is relatively shallow. Much of this GSA has access to surface water, but about 25% of it is groundwater-only dependent. The drought of the last two years has caused a significant drop in groundwater levels in this area and the EKGSA 11-member board, 10 of whom are farmers, are imposing an emergency groundwater extraction cap on their landowners immediately. The amount of allowable extraction will be capped at 1.65 acre-feet per acre measured by ETc, with 0.85 of the 1.65 available at no charge and the remaining 0.8-acre feet charged a fee.

The EKGSA in this first year will allow transfers so that landowners can purchase allocation from other landowners who are willing to sell. There likely will be sellers since EKGSA allocated groundwater extraction credits to all acres in its jurisdiction, irrigated or not. There are some landowners who do not pump groundwater that have been given allocation that



they can turn into cash by selling. There was a very informative public workshop on all this which was recorded, and you can see [here](#).

You can also view copies of the presentations from the EKGSA [here](#).

Greater Kaweah GSA and Mid Kaweah GSA are also in the process of imposing groundwater extraction limitations. I will share more about this in the future.

California Dairy Quality Assurance Program Update: Avoiding Injuries, AMMP Video Series, Sustainability Summit Save the Date *Courtesy of [CDQAP](#)*

CDQAP recently released its latest Quality Assurance Update. Read the entire update [here](#).

Avoiding Injuries Caused by Dairy Livestock

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

Producers were recently provided valuable insight into the most common dairy employee injuries, those involving animal contact. On November 16, CDQAP, partnering with the Zenith Insurance Company, New Mexico State University, Texas A&M and the NMPF's FARM program, offered a webinar titled, "Preventing Dairy Worker Animal Contact Injuries". *Continue reading [here](#).*

Video Series: How to Use AMMP Funding to Improve Manure Management

CDQAP partnered with CDFA and CDRF to develop a series of 30-minute webinars and 5-minute videos, showcasing individual California dairy producer experiences with the Alternative Manure Management Program (AMMP). *Continue reading [here](#).*

Save the Date: California Dairy Sustainability Summit Virtual Event - April 12-14, 2022

The next virtual California Dairy Sustainability Summit will take place online on April 12-14. The summit host important and timely discussions, as dairy farmers and organizations around the world partner to reduce climate emissions and improve overall sustainability. Speakers will highlight innovative technologies, partnerships, and projects on California's family dairy farms and other global efforts that are driving progress. *Continue reading [here](#).*

Cows Powering Electric Cars with Next Generation Technology *Courtesy of Dairy Cares*

Clean energy and air quality experts, government officials, and dairy industry leaders recently gathered to celebrate the launch of a next generation, climate-smart dairy technology. The digester at Bar 20 Dairy in Fresno County is now capturing methane from manure to fuel Bloom Energy Servers, generating renewable electricity without combustion. The 100 percent carbon-neutral electricity is then transmitted via the grid to power BMW electric cars. *Continue reading [here](#).*



NMPF President's Update

By Jim Mulhern, President & Chief Executive Officer, National Milk Producers Federation

Gillibrand Introduces Bill To Revise FMMO Pricing – Senator Kirsten Gillibrand (D-NY) introduced a bill this week to prompt USDA to convene Federal Milk Marketing Order hearings to reevaluate Class I pricing, although the legislation doesn't specify any particular outcome or change to milk marketing regulations. This new bill, called the Dairy Pricing Opportunity Act, results in part from a hearing the Senate Agriculture's Dairy Subcommittee held in September on milk pricing, particularly the pandemic-driven volatility in farm-level prices we witnessed in 2020 and earlier this year. As we noted in a [statement](#), the legislation – cosponsored by Sens. Patrick Leahy (D-VT) and Susan Collins (R-ME) – lends momentum to NMPF's member-driven efforts to devise the best approach to remedying deficiencies in the Class I mover formula and other needed FMMO reforms.

Volunteer to Help the 'More Water Now' Ballot Initiative Today!



The petition process to qualify the [More Water Now](#) initiative for the November 2022 ballot is officially underway. **Signatures from 1.5 million registered voters must be gathered by April 15, 2022**, just five short months from now. This initiative provides an opportunity to make a substantial – and long overdue – investment in California's water supply infrastructure, with funding put in place until five million acre-feet of new water is developed.

Learn more about volunteering at MoreWaterNow.Com/Volunteer.

