MPC Weekly Friday Report

Date: January 27, 2023
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	+ $.1250	$1.9600	Weekly Change	- $.0500	$2.2725	Week Ending 01/21/22		
Barrels	- $.0275	$1.5525	Weekly Average	- $.0866	$2.2715	Nat'l Plants	$1.3981	18,857,523
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 01/14/22		
Blocks	+ $.0061	$1.9630	Dairy Market News	w/e 01/27/23	$.4050			
Barrels	- $.0481	$1.6100	National Plants	w/e 01/21/22	$.4259	Nat'l Plants	$1.3974	18,749,499

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 27 Est	$24.01 - $24.51	$21.59	$19.48	$20.16
Last Week	$24.01 - $24.51	$21.50	$19.49	$19.81

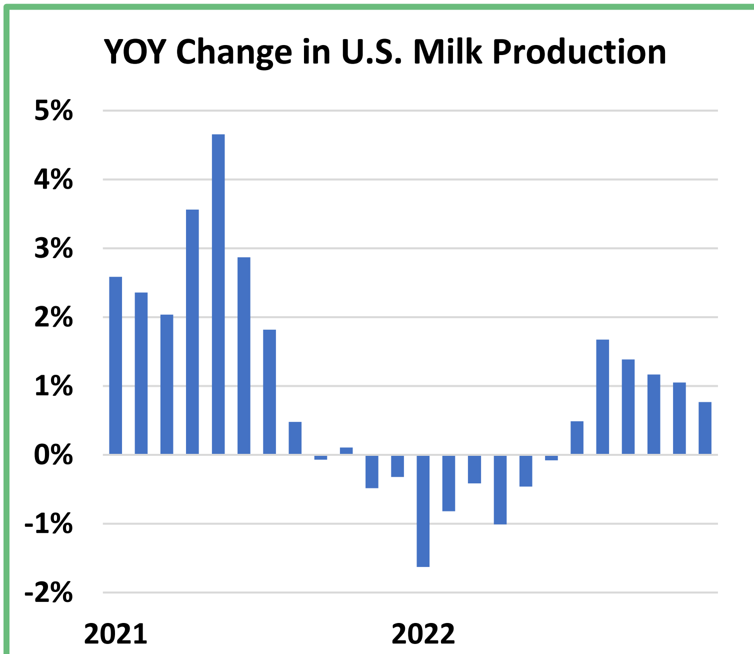
Milk, Dairy and Grain Market Commentary

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

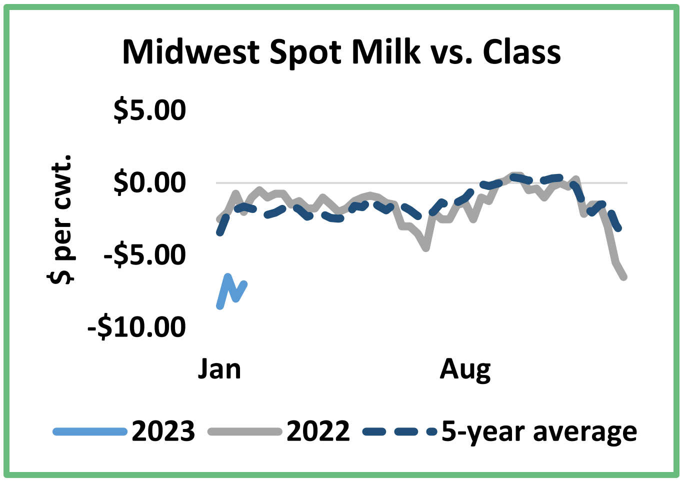
Milk & Dairy Markets

U.S. milk output was not as strong as anticipated in December. Clocking in at 18.9 billion pounds, it was just 0.8% higher than December 2021. USDA also trimmed its estimate of November milk output. The agency now shows November milk production was 1% higher than the prior year, down from the 1.3% increase reported a month ago. Topping year-ago levels is a low bar to clear, as U.S. milk output was already in deficit in the final months of 2021. And yet, the industry didn't surpass those volumes by a very wide margin.

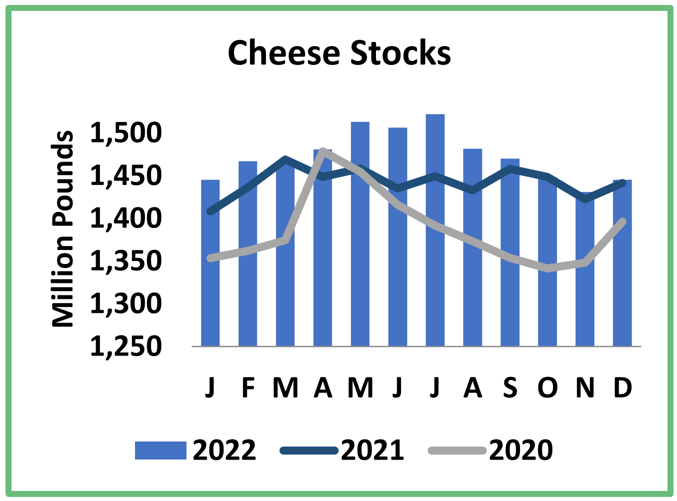
Perhaps more importantly, the dairy herd is smaller than previously thought, and it's



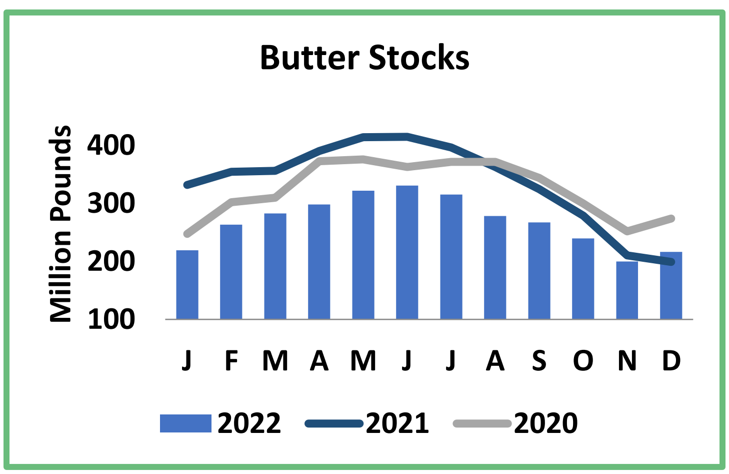
getting smaller by the month. USDA's latest estimate put the December milk-cow herd at 9.4 million head, down 8,000 head from November and down 20,000 head from USDA's initial assessment of the November herd. There are 27,000 more cows in U.S. milk parlors than there were at the end of 2021, but the trend is downward. The new numbers make clear that, despite sky-high milk prices, some dairy producers began scaling back in the final months of last year. Now that milk prices are much lower, punitively pricey feed is likely to prompt further consolidation.



And yet, there is more than enough milk. Output in California is variable as cows slog through the mud. But milk is plentiful in the mountain states and the Pacific Northwest. The Midwest is drowning in milk. Excess loads are trading at discounts commensurate with holiday hangovers or the worst of the spring flush. For the sixth week in a row, Midwest cheesemakers purchased at least some milk at $10 below Class III. Labor issues have prevented some cheesemakers from running as hard as they'd like, but with this much milk sloshing around in the cheese states, product must be piling up.



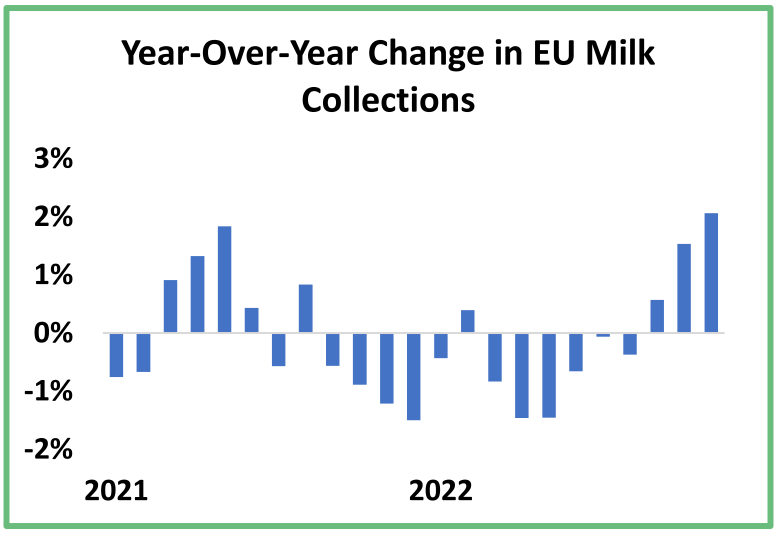
Barrels are especially abundant. Burdensome supplies pushed CME spot Cheddar barrels to a fresh 14-month low on Wednesday. Until this week, buyers had been confident that prices could get even cheaper, and they were content to wait. But on the heels of the bullish Milk Production report, some clearly began to worry that the cheese markets may be close to bottoming out. Wednesday's Cold Storage report offered a little support as well, showing modest seasonal growth in cheese inventories and a slow build in American cheese stocks in December. With that in mind, traders snapped up 22 loads of barrels Thursday and another seven cars today. Still, prices slipped 2.75¢ this week to $1.5525 per pound. Blocks fared much better. They jumped 12.5¢ this week to $1.96.



The fundamentals of the butter market look nothing like they did in most of 2022. Cream is inexpensive and churns are humming along. Butter stocks grew at a pretty good clip in December, and year-end inventories were 8.7% larger than they were on December 31, 2021, marking the first year-over-year increase in 17 months. Meanwhile, last year's high prices continue to weigh on demand. USDA's *Dairy Market News* reports that retail demand is steady, but orders from foodservice are "notably subdued." Spot butter prices slipped a nickel this week to $2.2725.

The dairy trade remains anxious about China's appetite for imported dairy this year. But the latest numbers likely prompted a cautious sigh of relief. China imported notably more milk powder, whey, and butter in December 2022 than they did the year before. For the year, Chinese dairy product imports fell well short of the record-shattering volumes of 2021, but they were healthy compared to all other annual tallies. One month of decent data won't be enough to assuage the trade's concerns. China's economy is not firing on all cylinders, and Chinese milk production is formidable. USDA estimates that Chinese milk output grew 6.4% in 2022 and it is projected to grow another 4.3% this year, which will crowd out some demand for imported dairy in 2023.

Any support that the Chinese trade data might have offered to U.S. milk and whey powder prices was undermined by other news from abroad. European and British milk output grew 2.1% in November, and New Zealand milk solids collections improved unexpectedly, up 0.6% year-over-year in December. Dairy product prices are in decline in both Europe and Oceania, adding pressure to already feeble U.S. markets. CME spot nonfat dry milk (NDM) slipped 2.25¢ this week to $1.1525, the lowest price in nearly two years. Spot whey powder logged a fresh multi-year low, but it bounced back today to 32.75¢ up 0.25¢ from last Friday.



After much back and forth, the milk markets finished pretty close to where they started. Most Class III futures contracts settled a little lower than last Friday, but the March contract managed to add 2¢. February through June futures range from $18.01 to $18.87 per cwt., while second-half contracts are better than $19. January Class IV jumped 35¢ this week to $20.16, and other nearby contracts gained a little ground. Most milk futures are holding a little above $18. That's not enough to stave off red ink.

Grain Markets

It's raining in Argentina and there are more showers in the near-term forecast. But the market was already counting on these rains, and the deferred forecast is a little drier. The rains helped to stave off disastrous crop yields, but some damage is already done, and Argentina will need a lot more rain to break the drought. Sub-par yields are assured. To the north, conditions remain excellent in most of Brazil, and farmers will harvest record-breaking volumes of corn and soybeans. But the world is short of grain and oilseeds, so the market will continue to move with the whims of the weather in Argentina. This week, that meant higher prices. An uptick in U.S. soybean exports also leant support. March soybeans settled at $15.095 per bushel, up 3¢ this week. Soybean meal was notably stronger, up nearly $10 to $473.50 per ton. March corn closed at $6.83 per bushel, up 6.75¢.

USDA's Pandemic Market Volatility Assistance Program Announces Second Round of Payment for Dairy Farmers

Courtesy of the United States Department of Agriculture

Note from Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

USDA's Pandemic Market Volatility Assistance Program (PMVAP) originally paid eligible producers 80% of the revenue difference per month based on an annual production of up to ***5 million pounds*** *of milk marketed and on fluid sales from July through December 2020. USDA announced on Monday that it will be expanding the cap to* ***9 million pounds*** *for the same period. So if you already received a PMVAP payment from your milk handler, expect to receive an additional payment that's about 80% of the previous payment.*

Pandemic Market Volatility Assistance Program

PMVAP assists producers who received a lower value due to market abnormalities caused by the pandemic and ensuing Federal policies. As a result of the production cap increase, USDA's Agricultural Marketing Service (AMS) will make PMVAP payments to eligible dairy farmers for fluid milk sales between 5 million and 9 million pounds from July through December 2020. This level of production was not eligible for payment under the first round of the PMVAP. Payment rates will be identical to the first round of payments, 80 percent of the revenue difference per month, on fluid milk sales from 5 million to 9 million pounds from July through December 2020. USDA will again distribute monies through agreements with independent handlers and cooperatives, with reimbursement to handlers for allowed administrative costs. USDA will contact handlers with eligible producers to notify them of the opportunity to participate.

As part of the first round, PMVAP paid eligible dairy farmers on up to 5 million pounds of fluid milk sales from July through December 2020. The first round of payments distributed over $250 million in payments to over 25,000 eligible dairy farmers. These dairy farmers received the full allowable reimbursement on fluid milk sales up to 5 million pounds.

More information about the PMVAP production cap increase is available at www.ams.usda.gov/pmvap.

How Do Farmers Capitalize on Carbon Markets?

Courtesy of Innovative Ag Services

Note from Geoff Vanden Heuvel, MPC Director of Regulatory and Economic Affairs
Nathan Heeringa at Innovative Ag Services recently published a white paper about carbon markets in agriculture, which is excerpted below. We thank Nathan and his team for sharing this paper with MPC and allowing us to reprint a significant portion of it.

How Do Farmers Capitalize on Carbon Markets?

In recent years, the scientific community has increased its warnings on the effects of global warming, and the looming disasters that will occur if individuals, businesses, and governments do not act. Consumers are responding with changes to their consumption habits, and the agricultural industry will need to respond to meet these markets.

Trends in Today's Society

When grocery shopping, consumers have historically looked for the best available product at the best price. While saving money is generally a primary goal, shoppers are increasingly willing to spend more for a product that they perceive to be better in some way. These improved items are considered "value-added" products. Usually, the increase in value is derived from an intangible quality, not an improvement in quality or nutritional value. As value-added products become increasingly popular, a store will often devote less space to selling the original base commodity, and the more profitable value-added products take precedence. For example, a grocery store that once sold eggs produced by conventional, inexpensive methods, may only start offering "organic, cage-free" eggs in response to market demands. These eggs are more expensive to produce but have a value-added property that consumer's demand. If that standard becomes the only option, either the agricultural industry is forced to supply them at a loss, or the consumer will be forced to spend more on eggs.

Many agriculture markets and producers are addressing carbon emissions and global warming through a voluntary system. With this model, the producer voluntary implements the added environmental value in anticipation of the customer paying more for the value-added products, just as the consumer pays for the added cost of an organic egg. However, some states, like California, have decided that voluntary efforts are not moving quickly enough, and have begun to implement regulations to mandate the State's priorities and values upon agricultural producers. California now requires laying hens to be housed in a cage free design, for all eggs sold in the state of California, even those produced in other states. This has removed consumer choice from stores and resulted in rising egg prices.

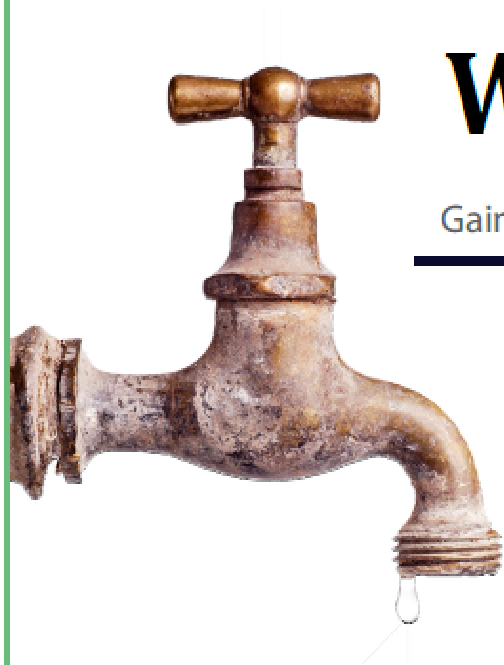
Reducing Global Warming

The State of California has been aggressive in addressing global warming in agriculture. The California dairy industry is now required by the state, to reduce their greenhouse gas emissions by 40% by 2030 under Senate Bill 1383. The dairy industry is investing millions of dollars to comply with these regulations, but not receiving an increase in price as a result. When a localized law and cost is incurred, it is very difficult to pass this cost to the market.

International corporations have been leading the way in private sector investment to address climate change. They usually are the first to be regulated by federal and state laws, and efforts to quantify and reduce their greenhouse gas emissions prior to heavy regulations have been occurring for several years. Many private sector companies have chosen to pledge carbon neutrality voluntarily, both to be compliant with impending regulations and to create a value-added product or service. This allows them to market the product while its value can be maximized before it becomes a regulatory standard. Carbon neutral products are a hot topic, and to meet these goals, most large companies have focused on reducing their own emissions before buying voluntary carbon credits.

Continue reading here.

California Dairy Water Update



Gain insights on water supply issues and mitigation:

- Find out how the Sustainable Groundwater Management Act (SGMA) is being implemented in dairy communities.
- Hear findings from the recent economic assessment of SGMA's impacts on the state's dairy and cattle sectors.
- Learn the latest from the Water Blueprint for the San Joaquin Valley, a coalition working to advance common-sense water scarcity solutions.

THURSDAY, FEBRUARY 2
1:30 - 3:30 PM

TULARE VETERANS MEMORIAL DISTRICT AUDITORIUM

1771 E Tulare Ave, Tulare, CA 93274

PLEASE CLICK HERE TO REGISTER.

https://CADairyWater.eventbrite.com

Registration is FREE to all dairy farmers, industry members, students, and allied industry professionals.

Questions? Contact Jennifer Bingham at 916-717-9456 or jbingham@westcoastadvisors.com

SPEAKERS:

Dr. Michael McCollough
Professor of Agribusiness
Cal Poly, San Luis Obispo

Dr. Scott Hamilton
Technical Committee Chairman
Water Blueprint for the San Joaquin Valley

Geoffrey Vanden Heuvel
Dir. of Regulatory & Economic Affairs
Milk Producers Council

Co-Hosted By:

CALIFORNIA CATTLE COUNCIL

DAIRY CARES

CALIFORNIA CREAMERY OPERATORS ASSOCIATION

California's 'Planet-Smart Dairy' Picks Up Momentum

Courtesy of [Dairy Cares]

More investments in research and incentives are coming soon to further advance the development of planet-smart dairy farm practices.

California is advancing planet-smart dairy farming in a big way. Dairy methane reduction projects on 400-plus farms are eliminating or capturing more than 2.5 million tons of methane emissions annually (CO_2e). In just the past five years, the public and private sectors have made unparalleled investments. As another wave of funding adds momentum, California dairy farmers are on track to meet ambitious climate targets, while enhancing regenerative and water-smart practices.

California's Dairy Digester Research and Development Program (DDRDP) and the Alternative Manure Management Program (AMMP) account for the majority of dairy methane reduction projects. These programs are making a large impact and stand out within the state's overall climate investment portfolio. The DDRDP has proven to be the state's most cost-effective climate investment and the most effective program for overall emission reductions. The renewable energy and fuels being created are helping to power the state's low-carbon future while improving air quality.

Continue reading here.

Bar 20 Dairy Named 2023 Innovative Dairy Farmer of the Year

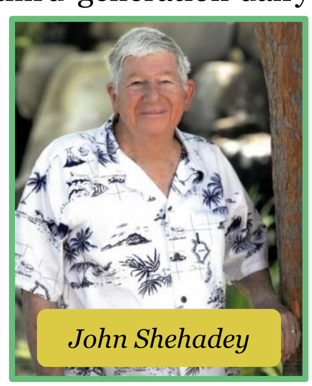
Courtesy of Dairy Herd Management and International Dairy Foods Association

Note from Kevin Abernathy, MPC General Manager

Congratulations to the Shehadey family and Bar 20 Dairy on yet another national award for their pioneering on-farm fuel cell technology! Our thoughts and prayers also continue for Steve Shehadey and his family as they mourn the loss of his father, John.

Bar 20 Dairy of Kerman, Calif., was recognized January 25 as the 2023 Innovative Dairy Farmer of the Year at the International Dairy Foods Association's (IDFA) Dairy Forum. The award is presented each year by IDFA and Dairy Herd Management magazine. Bar 20 Dairy, owned by third-generation dairy farmer Steve Shehadey along with seven other family members, is a 7,000-cow dairy that also farms 5,000 acres in the San Joaquin Valley.

Continue reading here.



John Shehadey

A funeral service for John Shehadey will be held at 11 a.m. Monday, January 30 at New Covenant Community Church, 1744 E. Nees Avenue, Fresno. More information here.