MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter		
Blocks	+ $.0125	$2.1350	Weekly Change	- $.0150	$2.3800
Barrels	+ $.0625	$1.8575	Weekly Average	- $.1490	$2.3800
Weekly Average Cheddar Cheese			**Dry Whey**		
Blocks	+ $.1068	$2.1513	Dairy Market News w/e 12/30/22		$.4400
Barrels	+ $.1298	$1.8588	National Plants w/e 12/24/22		$.4448

Non-Fat Dry Milk		
Week Ending 12/24/22		
Nat'l Plants	$1.4381	13,820,566
Last Week Ending 12/17/22		
Nat'l Plants	$1.4669	15,565,064

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 30 Est	$24.18 - $24.68	$23.19	$20.47	$22.22
Last Week	$24.18 - $24.68	$23.19	$20.53	$22.26

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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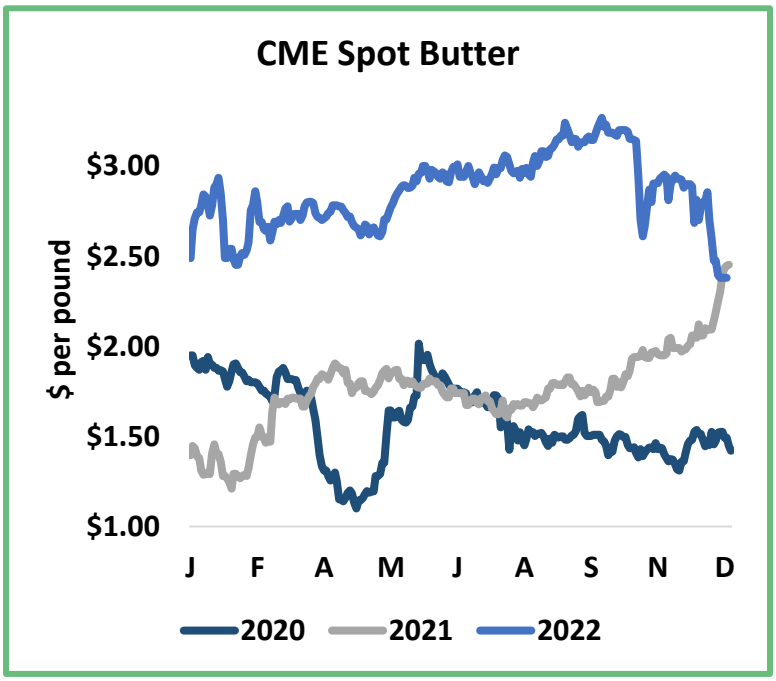
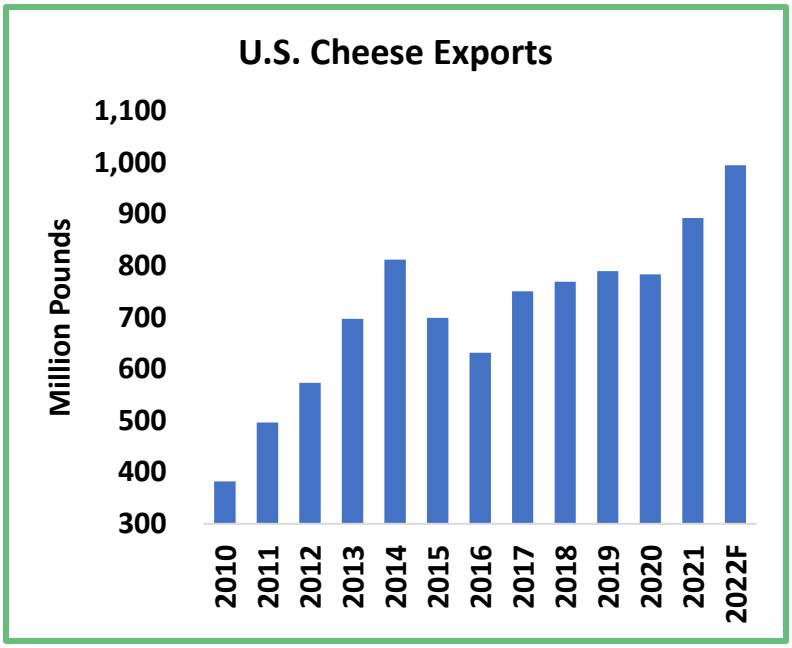
Milk & Dairy Markets

In a year full of drama, the butter market was a sensation all its own. It began the year at a relatively lofty height, suffered a few spectacular setbacks, and then climbed anew. It spent an unprecedented 57 trading sessions at $3 or above and set a new all-time high of $3.2675 per pound in early October. Subdued milk output, pricey cream, plant issues, and expensive freight all contributed to lower butter production this year. Decent domestic demand and robust exports whittled stocks to multi-year lows. As of October 31, there were 199.7 million pounds of butter in cold storage warehouses, 5.1% less than a year ago. But high prices are doing their

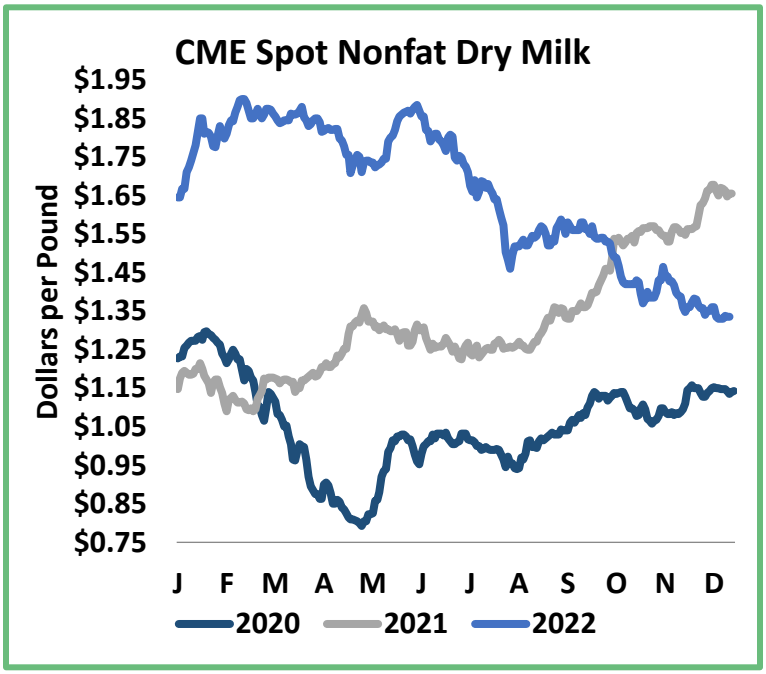


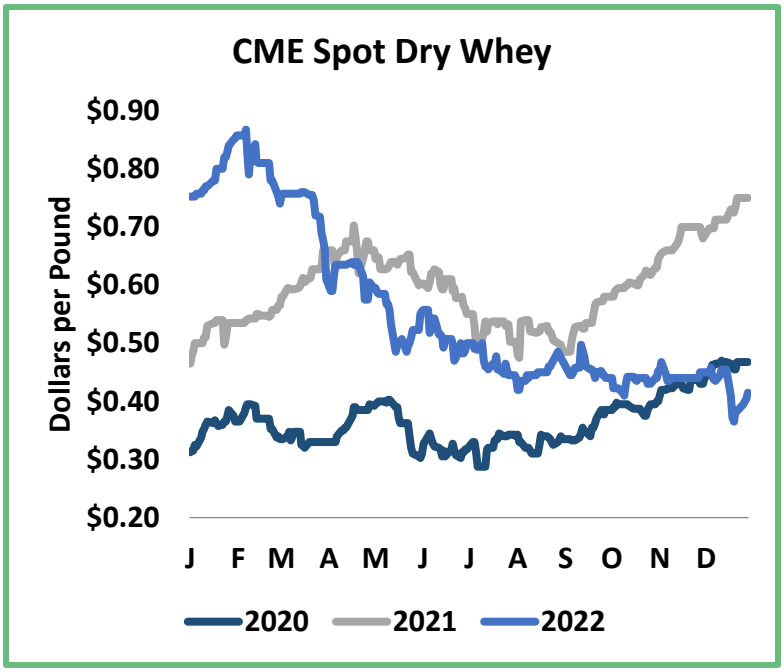
job. While butter stocks have declined seasonally since July, the August, September, and October drawdowns were all lighter than normal. When Americans were asked to pay $4 for butter, they chose to buy less. Slower demand weighed heavily on butter prices in December. CME spot butter closed today at $2.38, down 47.5¢ over the past two weeks. That's only 3% lower than where it finished 2021, but it's down 27% from the peak. The futures forecast that butter will hold in the $2.30s and $2.40s next year, but lower values are possible. USDA expects U.S. butter production will grow 4.5% in 2023.

Cheese output grew relentlessly this year. USDA expects that U.S. cheese production will reach nearly 14 billion pounds in 2022, up 2.1% from last year. The agency forecasts cheese output will increase another 1.2% in 2023, but greater growth is possible as another new plant will start pushing out product soon. Thankfully, exports are keeping pace. U.S. dairy exports through October were record high, up 11.2% from the previous record set last year. USDA has called for even greater cheese exports in 2023. But domestic demand is a little light as the holiday hangover sets in. Nonetheless, cheese prices gained ground in Chicago. CME spot Cheddar blocks finished at $2.135, up 15.75¢ in the past two weeks and up 8% for the year. Barrels rallied 11.75¢ over the holidays and closed at $1.8575, up 9% from where they began the year.



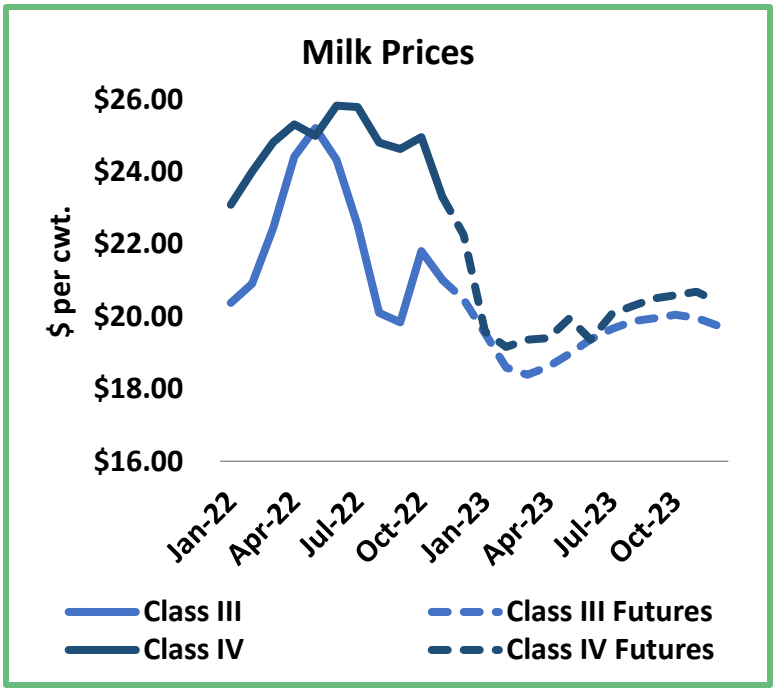
The powder markets started strong in 2022, propped up by voracious demand from China and unusually low global milk output. CME spot nonfat dry milk (NDM) spent the first half of the year trading from $1.65 to $1.90, values not seen since 2014. But U.S. and European milk output recovered in the final months of the year, and powder prices dropped. Robust milk output in China and massive stockpiles of whole milk powder (WMP) weighed on Chinese demand for foreign products. U.S. nonfat dry milk (NDM) exports are behind last year's record-shattering pace, but, with that exception, they are the largest ever. NDM stocks are not burdensome, but they are too large to stave off the weakness from abroad. At this week's Global Dairy Trade (GDT) auction, WMP values dropped 4% and the average price for skim milk powder (SMP) plummeted 4.8%. In Chicago, spot NDM closed out the year at $1.335, down 1.5¢ over the past two weeks and down 19% from the final day of 2021.





There was not a lot of Christmas cheer in the whey market. CME spot dry whey spent much of the holidays trading below 40¢ at two-year lows. It bounced back and closed at 41.5¢, still down 4¢ over the past two weeks. Of all the dairy commodities, whey endured the steepest declines in 2022. Today's price is down 45% for the year, and down 52% from the all-time high set in February. It's hard to predict where whey will go next year. Formidable cheese production suggests whey output will increase, but if China keeps buying U.S. whey, the market will likely recover from today's cheap valuations.

This was a historic year for the milk markets. Class III posted an all-time high of $25.21 per cwt. in May. Not to be outdone, Class IV reached $25.83 in June and $25.79 in July. Dairy producers deposited massive milk checks throughout the summer and into the fall. Producers whose incomes depend on Class IV fared especially well, partially making up for several years at a painful disadvantage. Class IV milk averaged an astounding $24.48 per cwt. in 2022. Prices will fall well short of this mark in 2023, but they're still forecast to be on the higher end of the typical trading range. The futures call for Class III milk in the $18s and $19s, with Class IV hovering just below $20.



Grain Markets

However, costs are up sharply this year, and they'll likely remain high in the year to come. Soybean meal is particularly pricey at around $475 per ton. March corn closed today at $6.78 per bushel, up 25¢ in just two weeks. With feed, fuel, and labor all raising the cost to make milk, there is little incentive to fit more cows in the barn or build new facilities. But American dairy producers will likely continue to expand output by getting more milk per cow. In November, U.S. milk output grew 1.3% to 18.25 billion pounds. Expect more of the same in the year to come. After unusually light growth of just 0.3% in 2022, USDA is calling for U.S. milk output to increase 1.1% next year. Modest growth in the United States and expectations for continued declines in Europe and Oceania suggest that 2023 could be a decent year for dairy producers, as long as high prices don't push consumers to eat significantly less cheese, butter, and creamy treats as they did this year.

It is Raining and Snowing!

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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As we end 2022, the weather has turned very wet throughout California. What a blessing. While having a wet winter will not by itself solve our long-term imbalance between the developed water supply and current water demands, it will buy us some breathing room.

The reality is that there is no Groundwater Sustainability Plan (GSP) anywhere that works if we don't get rain and snow in the winter. All the GSPs include some variation of groundwater replenishment in the wet years. Starting the implementation phase of the Sustainable Groundwater Management Act (SGMA) with three very dry years – 2020, 2021 and 2022 – has put a lot of pressure on the law because groundwater depletion during the past three years has been significantly higher than the "normal" groundwater drawdown that all the Groundwater Sustainability Agencies used in developing their plans. When you combine this reality in the Central Valley with the collapse of the Colorado River system, you have the elements of a water crisis. And in fact, that is what we are facing in the American southwest.

But it is in crisis that the seeds of a shift in attitude necessary to solve the problem are planted. For the last couple of decades, the predominate policy message coming out of our leaders was that we needed to conserve more. Water conservation was the buzzword. But water conservation alone will not solve the water crisis. There is going to have to be investments made in water infrastructure in combination with smarter water management in order to eliminate the gap between supply and demand.

Certainly, in the Central Valley, farmers have adopted a new paradigm. It will be very interesting to see how much flood water gets diverted onto farmland for on-farm recharge if this winter turns out to be wet. That will help. But ultimately the flood flows generated in Northern California – which for the most part are not captured, but sent out to the ocean – need to be modestly skimmed and sent south in order for significant recharge of the aquifers of the Central Valley to occur. Interestingly, Southern California has as much or more to gain as the Central Valley from slight increases of water diversions in wet years. In order to increase wet year water diversions from the Delta, a more environmentally friendly Delta diversion must be constructed. The export water needs to be separated from the fish because it is adverse fish impacts that restrict the ability of the water projects to fully utilize the pumping capacity that is already in place.

It is the desperate position Southern California finds itself in with all three of its water import sources, (the Los Angeles Aqueduct, the Colorado River Aqueduct, and the State Water Project) in serious trouble that creates the political opportunity to get something significant done. While it may be true that Sacramento doesn't care much about the Central Valley, it cannot ignore a real water crisis in Southern California. That is where the interests of the Central Valley and Southern California align. We both need more wet year water from Northern California for storage for the dry years and only the Central Valley aquifers have the capacity to store the amount of water that the southern part of the state will need to get through the extended droughts.

In essence, this is the substance of the Water Blueprint for the San Joaquin Valley. The plan calls for building fish friendly diversions in the Delta, essentially French drain style intakes under the bed of the water way, that take the water without disturbing the fish. That surplus water then gets delivered through the existing pumping facilities and aqueducts to places in the Central Valley where it can be stored underground to be pumped up in the dry years. Milk Producers Council is an active member of the Blueprint and there are lots of conversations occurring around the state that seem to be viewing this idea favorably. Time will tell how this all plays out, but I am hopeful that the circumstances this time will lead to real progress.

New California Overtime Rate in 2023 for Agricultural Employees Working for Employers who Employ 25 or Fewer Employees

Courtesy of the Department of Industrial Relations

California's overtime rate for agricultural employees working for employers who employ 25 or fewer employees will change starting January 1, 2023. Employers with 25 or fewer employees will be required to pay overtime for all hours after an agricultural employee works over nine hours in a workday or over 50 hours in a workweek.

In 2016, the Legislature passed Assembly Bill 1066, known as the "Phase-In Overtime for Agricultural Workers Act." The law provides overtime pay for all agricultural employees, with requirements gradually phased-in so that overtime protections for all agricultural workers will ultimately match those guaranteed to non-agricultural employees. For agricultural employees working for employers who employ 26 or more employees, this matches with generally applicable overtime requirements that took effect on January 1, 2022, with those workers entitled to overtime compensation for all hours worked in excess of eight hours in a workday or 40 hours in a workweek.

The new requirements that take effect on January 1, 2023 for agricultural employees working for employers who employ 25 or fewer employees – overtime pay for all work in excess of 9 hours in one day or 50 hours in one week – bring these workers closer to the end-goal of the phase-in. The chart below provides more details about the phase-in.

Schedule for Changes to Daily and Weekly Hours After Which Agricultural Workers Receive Overtime Pay

Effective date for employers with 26 or more employees:	Effective date for employers with 25 or fewer employees:	Overtime (1.5x regular rate of pay) required after the following hours per day/hour per workweek:
Jan. 1, 2019	Jan. 1, 2022	9.5 / 55
Jan. 1, 2020	**Jan. 1, 2023**	**9 / 50**
Jan. 1, 2021	Jan. 1, 2024	8.5 / 45
Jan. 1, 2022*	Jan. 1, 2025*	8 / 40
*Double the regular rate of pay required after 12 hours in a workday.		

Agricultural employees are also generally entitled to time and one-half pay for the first eight hours worked on the seventh consecutive day of work and double-time pay for all work performed in excess of eight hours on the seventh consecutive day of work. These protections apply regardless of employer size.

Non-agricultural employees employed by businesses that also employ agricultural employees are entitled to overtime after 8 hours in a workday or after 40 regular hours in a workweek, in addition to double time under the applicable wage order.

Save the Date: California Dairy Water Update

Courtesy of Dairy Cares

We invite you to mark your calendars for a **California Dairy Water Update** to take place on **Thursday, February 2, 2023**, from 1:30 to 3:30 p.m. at the Tulare Veterans Memorial District auditorium. Attendees will gain valuable insights about California's critical water supply issues and what opportunities exist to mitigate challenges.

Speakers will explain how the Sustainable Groundwater Management Act (SGMA) is being implemented in dairy communities across the Central Valley and will share findings from the recent economic assessment of SGMA's impacts on the state's dairy and cattle sectors. Finally, the event will highlight the latest efforts of the Water Blueprint for the San Joaquin Valley, a coalition working to advance common-sense water scarcity solutions.

Attendance will be free to all interested dairy and affiliate industry members. Speakers include **Geoff Vanden Heuvel** from MPC, **Dr. Michael McCollough** from Cal Poly, SLO, and **Dr. Scott Hamilton** from Hamilton Resource Economics. The event is co-hosted by Dairy Cares, the California Cattle Council, and the California Creamery Operators Association.

CDQAP 2022: Year in Review

By Dr. Michael Payne, UC Davis, School of Veterinary Medicine
Director, California Dairy Quality Assurance Program

This year is nearly over, and we can perhaps be forgiven for breathing a sigh of relief. Drought, uncertain regulatory future, and supply chain issues from the epidemic have lingered. In spite of this however, CDQAP and our industry, regulatory and law enforcement partners did make considerable headway on some historically stubborn issues this year.

- **Minimizing Fees Through Certification** – Currently 782 California dairies are certified through CDQAP's third party evaluation program and receive a 50% discount in water board

fees. Now working with two independent evaluators, the program continues to provide farm visits year-round for interested producers.

- **Region 1 & 2 Water Boards** – To assist North Coast and Bay Area producers in completing obligations under their annual reports, CDQAP partnered with the respective water boards and trade groups to offer in-person and online training.

- **New Water Regulations** – With draft requirements for a new Dairy General Order pending, the exact shape of future Central Valley water regulations is uncertain. Based on initial public discussions however, CDQAP has already engaged industry, regulators and UC Cooperative Extension to develop outreach. Offerings for 2023 will focus on how producers can determine their Whole Farm Balance for nitrogen, options to address a nitrate imbalance, and accessing financial support for facility improvement. In the coming years, matching funds will be available from several sources, including CDFA, USDA EQIP, and USDA Partnerships for Climate-Smart Commodities.

- **Alternative Manure Management** – CDQAP supported delivery of AMMP outreach, funded by a state grant to CDRF and UC Cooperative Extension. A comprehensive website includes videos describing various technologies and the experiences of producers who have used them. Included is data on expected methane reduction and installation costs.

- **Farm Security** – Most dairies have experienced some form of rural crime, including theft, trespass, vandalism, illegal dumping, clandestine drug labs, and even employee assault. To arm producers with the best preventative information, CDQAP teamed up with local, state, and federal law enforcement experts to deliver a comprehensive webinar. Highlights and a recording of the webinar are available.

Continue reading here.