MPC Weekly Friday Report

Date: December 2, 2022
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
Office@MilkProducers.org • www.MilkProducers.org • *Fax (909) 591-7328*

MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	- $.0500	$2.1000
Barrels	+ $.0800	$1.8975
Weekly Average Cheddar Cheese		
Blocks	- $.0873	$2.0960
Barrels	+ $.0243	$1.8460

Chicago AA Butter		
Weekly Change	- $.0475	$2.9000
Weekly Average	- $.0128	$2.9130
Dry Whey		
Dairy Market News	w/e 12/02/22	$.4800
National Plants	w/e 11/26/22	$.4644

Non-Fat Dry Milk		
Week Ending 11/26/22		
Nat'l Plants	$1.4933	13,668,274
Last Week Ending 11/19/22		
Nat'l Plants	$1.4855	19,997,344

California Federal Milk Marketing Order Price Projections

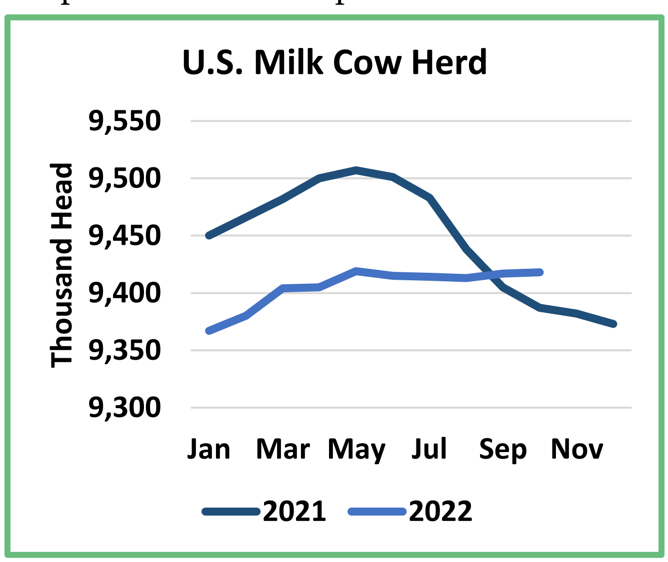
Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
Dec 2 Est	$24.18 - $24.68	$22.90	$20.28	$21.70
Nov '22 Final	$25.69 - $26.19	$24.67	$21.01	$23.30

Milk, Dairy and Grain Market Commentary

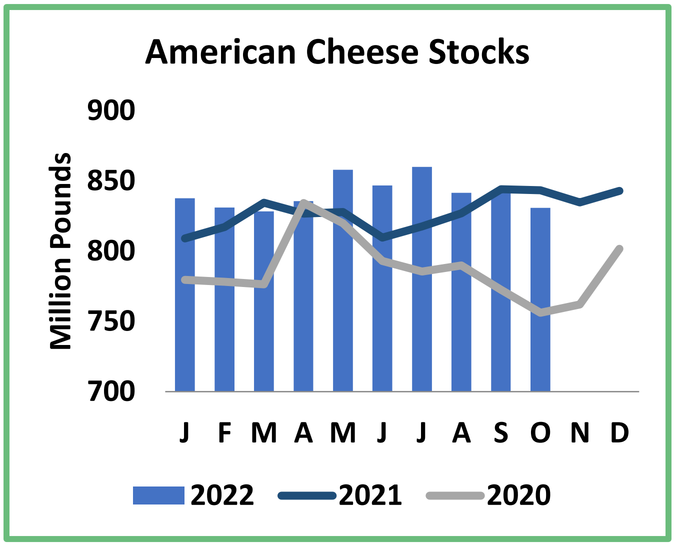
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

As befits the season, the dairy markets had a lot to digest over the past two weeks. They headed into the Thanksgiving weekend with a double portion of USDA reports and finished with a mountain of data to swallow from today's Dairy Products report. News of lower milk output in Australia and New Zealand made for appetizing side dishes. The whole meal was seasoned with the news that the Federal Reserve might increase interest rates at a trot rather than a gallop.

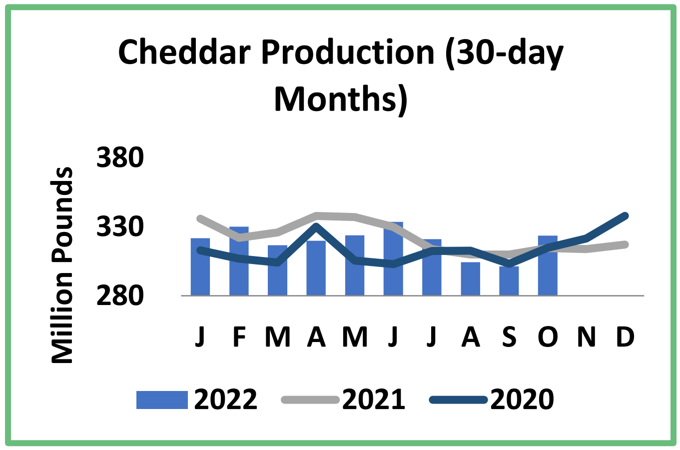


U.S. milk production totaled 18.85 billion pounds in October, up 1.2% from a year ago. Output remained strong in Texas, and production started to inch up in the Great Lakes states. However, the autumn heat wave and punishing feed costs forced California's milk production into a lower gear.



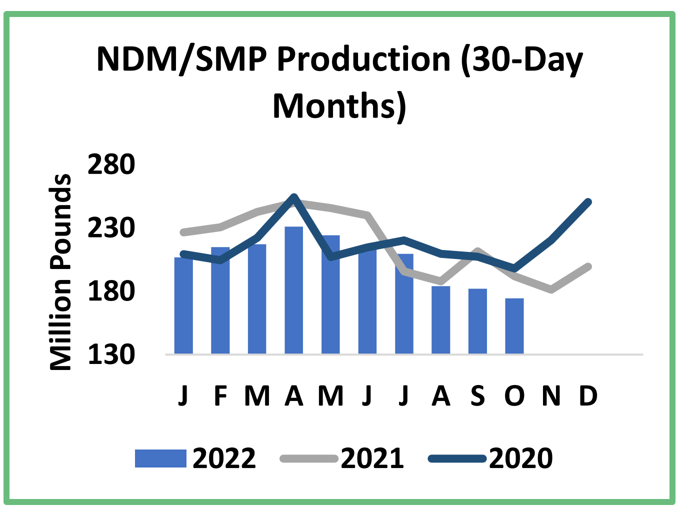
After initially showing a decline in the dairy herd this fall, USDA reversed course and now reports that dairy producers added 6,000 cows in September and another 1,000 head in October. The dairy herd reached 9.418 million cows in October. That's 31,000 head more than in October 2021, when milk prices were much lower and the industry was shrinking. The size of the U.S. milk-cow herd isn't likely to change much in the near term, but stagnation in cow numbers should add up to some growth in milk production in comparison to last year's light volumes.

There was more than enough milk for cheese production in October. Total cheese output was up 1.4% from a year ago, with sizable growth in both Mozzarella (+2.2%) and Cheddar (+2.9%) production. Nonetheless, last week's Cold Storage report showed a significant decline in cheese inventories in October, signaling firm demand this fall. Dairy Market News reports that demand is starting to soften now, as retailers have all the cheese they need to get through the holidays. And export orders are starting to slip as the gap between U.S. and international cheese values has narrowed.

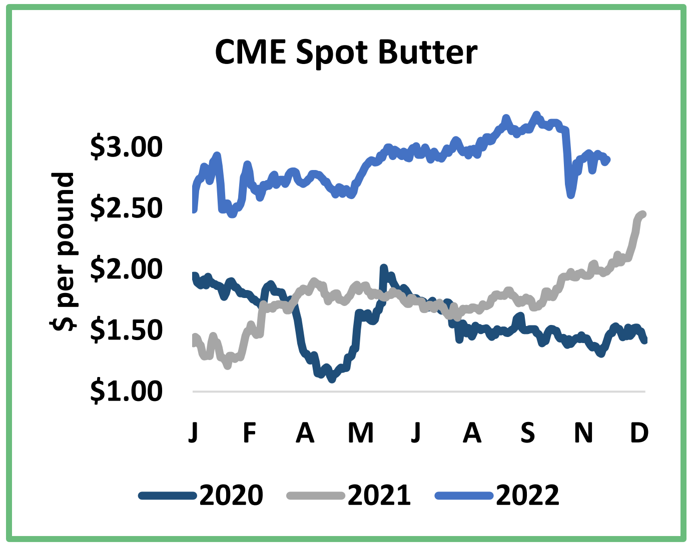


With more milk in the vats, there were fewer trucks bringing cream to butter churns or waiting in line at the dryer. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) slowed to 180.4 million pounds, down 9.1% from October 2021. Once again, SMP accounted for the bulk of the decline, which likely means manufacturers don't have a lot of export commitments on the books.

Milk powder inventories typically decline from September to October, and this year's drawdown was larger than most. Manufacturers' stocks of NDM fell to a 10-month low of 247.5 million pounds. Still, they're 12.5% larger than at the same point last year. Although inventories are far from burdensome, the trade remains concerned about demand, particularly from abroad.



Butter production dropped to 161 million pounds in October, down 2% from a year ago and the lowest October tally since 2018. Despite relatively low output, butter stocks didn't decline as much as they usually do in October. This suggests that either high prices, low inventories, or logistics issues slowed shipments from manufacturers to retailers ahead of the holidays. Grocers are still playing catch up. Butter makers tell Dairy Market News that orders from retailers have remained strong long after holiday orders typically dry up. Resilient demand and persistently light production explain why butter prices have stayed stubbornly high for so long. The spot butter market hovered right around the $2.90 mark throughout the past two weeks, and it closed there today, up 9¢ compared to the Friday before Thanksgiving.



CME spot Cheddar prices slipped last week and continued to slide for much of this week. But yesterday, blocks staged a tepid rebound and barrels made a convincing comeback. Blocks settled at $2.10 per pound, down 13.25¢ in two weeks. Barrels finished at $1.8975, down 3¢. Spot whey was characteristically quiet. It climbed a penny to 45¢. CME spot NDM touched a 14-month low yesterday and traded today at $1.36, down 6.75¢ in two weeks.

Lower cheese and powder prices weighed on milk values. December Class III fell $1.18 in the two-week period and settled at $20.29 per cwt. Deferred contracts finished mostly lower, although losses lessened down the board. December Class IV held steady at $21.70, but 2023 contracts dropped by double digits to just over $20. The futures project much lower milk revenue in 2023 than Class IV dairy producers enjoyed this year.

Grain Markets

The grain markets took a big step back over the past fortnight. Both corn and wheat broke down below the trading range that has served as firm support for more than three months. The trade remains anxious about the lack of rain and slow planting pace in Argentina, which is preventing a further collapse in corn and soybean values. In the long run, smaller crops in Argentina could boost demand for U.S. cargoes. But for now, demand has disappointed.

For the second time this year, Argentina issued a special exchange rate for soybean and soy product exports, and farmers are pushing last season's soybeans through the ports as quickly as possible. Meanwhile, low water levels on the Mississippi River continue to slow the flow of corn from the heartland to the Gulf. Expensive barge freight plus the strong dollar make U.S. corn too pricey for foreign buyers. U.S. corn export commitments are running well behind the expected pace.

The outlook for domestic demand for soybeans took a hit as well. The EPA made clear that, while biodiesel from soybean oil will be part of the mandated renewable energy mix next year, the agency is looking to other renewables as well, and is not as singularly focused on biodiesel production as the soy industry had hoped. Soybean and soybean oil futures plummeted, while soybean meal prices climbed on the assumption that a smaller crush would reduce soybean meal production. January soybean meal closed today at $424.10 per ton, up $18 in just two weeks. March corn closed at $6.4625 per bushel, down 23.75¢.

Producer Review Board to Meet Virtually on December 5, 2022, at 10 a.m. to discuss Five Year Survey

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

When the Quota Implementation Plan was adopted in 2018 in anticipation of California becoming a Federal Milk Marketing Order, Article 11, Section 1100 of the plan was included which called for "A producer survey shall be conducted by an independent party selected by the Producer Review Board at least every five (5) years. The survey shall evaluate the effectiveness of the plan."

At the Producer Review Board (PRB) meeting held October 3, 2022 the PRB discussed the process by which the required survey would take place. There was a desire expressed by individual PRB members that the board wanted input into the development of questions that the survey would ask.

A PRB meeting to discuss this issue has been called for Monday December 5 at 10 a.m. It will be a Zoom online meeting open to public participation, which is listed below. Access the PRB December 5 meeting agenda here.

CDFA has also produced a DRAFT Survey scope of work for consideration by the PRB. You can access that here.

10 a.m. December 5, 2022, Producer Review Board

Zoom Meeting Link
https://us02web.zoom.us/j/87669582262
Meeting ID: 876 6958 2262
Password: QaaUp2h&

Join By Phone
669.444.9171
Meeting ID: 876 6958 2262
Password: 61603588

MPC Looks Forward to Working with 118th U.S. Congress

By Kevin Abernathy, General Manager
Kevin@MilkProducers.org

With the 2022 mid-term elections behind us, attention now turns to governance, policy and action. As new legislation is proposed and existing laws and regulations are executed, a critical part of MPC's mission is to provide our dairy families a voice in Washington D.C. Building and maintaining good working relationships with our elected leaders is key to effectively accomplishing that mission.

We look forward to working with members of the 118 U.S. Congress, including representatives of the Central Valley delegation, **Josh Harder** (D-9), **Tom McClintock** (R-5), **Kevin McCarthy** (R-20), **Jim Costa** (D-21), and **David Valadao** (R-22). The race between **Democrat Adam Gray** and **Republican John Duarte** in the 13th Congressional District is still undecided.

Serious issues affecting our dairy families face the next Congress, including inflation, labor, trade, water policy and environmental regulations. MPC is ready to be a trusted resource of dairy-related information for Congressional members and their staffs, and pledges to work collaboratively to craft policy that's good for our family dairy farmers, our employees, our communities and our consumers.

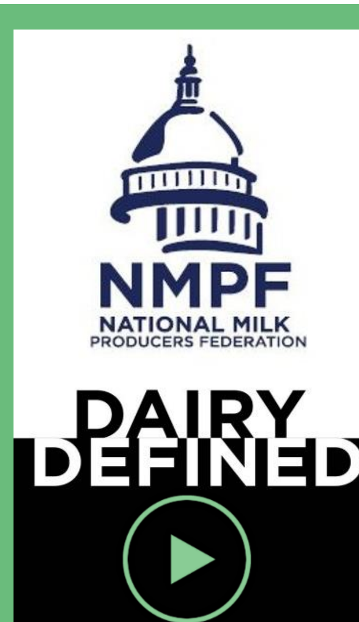
Summers Over, But Water Crisis Still Remains Top Concern for California Producers

Courtesy of Karen Bohnert
Dairy Herd Management

Water was once taken for granted in western states, like California. But now the tides have changed, and dairy farmers understand all too well the need for water is vital but also one that is not always guaranteed.

"As a dairy producer, this is an ever-growing challenge and is my top concern," Ryan Junio, owner of Four J Jerseys in Pixley, Calif says.

Geoff Vanden Heuvel, the director of regulatory and economic affairs with the California Milk Producer Council shared on a National Milk Producers Federation (NMPF) podcast that the California water issue is complex and long-standing, and the state was developed without any regulations on groundwater. He also states that between 85-90% of California's milk supply hails from the Central Valley.



Hear Geoff Vanden Heuvel, MPC Director of Regulatory & Economic Affairs, on NMPF's *Dairy Defined* podcast. Listen or read a transcript here.

"It's a vast groundwater basin, millions and millions of acre feet of water reside under the ground, and it was never regulated," he shares. "Dairyman found large tracks of ground that were available and as long as there was water underneath you, you could put wells in and construct the dairy and began to milk cows and grow feed around the dairy and all was well. California always depended on the Central Valley, a combination of groundwater and surface water."

Vanden Heuvel says that surface water mainly comes from the rain and snow that occurs in the Sierra Nevada mountains, which is directly to the east of the Central Valley.

Continue reading here.

Net-energy Metering Proposed Decision Released

Courtesy of Agricultural Energy Consumer Association

The California Public Utilities Commission recently released a new Proposed Decision (PD) for the Net Energy Metering Program (NEM), which they are now calling the "Net Billing Tariff." The 241 page document can be found here, but a summary of the crucial issues for non-residential classes, ag, commercial, industrial are outlined below.

True-up: The PD proposes an annual true-up.

- This is consistent with AECA testimony and crucial for customers with seasonal varied load.

Grandfathering: The PD proposes no changes to the NEM 1.0 or NEM 2.0 tariffs and customers will be able to remain on those tariffs for 20 years from their initial interconnection date. Existing projects cannot be significantly expanded.

Net Billing Tariff (NEM 3.0) start date: The PD is a little vague, but if a completed application (that does not have significant and substantial errors) is submitted within 120 days of the final decision, the project will be able to take service under the NEM 2.0 program.

Compensation Rate: The PD proposes for non-residential customers to get credited for excess power based on the "avoided cost calculator." This rate will be approximately between $0.06-$0.08/kWh.

- Projects that have an energy storage component, such as a battery, will get a higher compensation rate.

NEM Aggregation: The PD proposes no changes to the NEM-A program.

Adoption Date: It is likely that the CPUC will adopt a final decision before the end of 2022.

AECA submitted comments on the Proposed Decision as well as participated in Oral Testimony in the proceeding.