MPC Weekly Friday Report

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To: Directors & Members
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.1175	$1.4450	Weekly Change	- $.0225	$2.5450	Week Ending 01/13/24		
Barrels	+ $.0225	$1.4675	Weekly Average	+ $.0049	$2.5644	Nat'l Plants	$1.2071	15,800,373
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	- $.0455	$1.4825	Dairy Market News	w/e 01/19/24	$.4400	Last Week Ending 01/06/24		
Barrels	+ $.0013	$1.4613	National Plants	w/e 01/13/24	$.4309	Nat'l Plants	$1.2144	10,201,403

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 19 Est	No Change	No Change	$15.18	No Change
Last Week	$20.08 - $20.58	$20.00	$15.15	$19.28

December 2023 CA FMMO Statistical Uniform Price Announcement

Dec '23 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	$21.36 | Tulare $21.86 | L.A.	$19.88	$16.04	$19.23	$17.05 | Tulare $17.55 | L.A.	$16.702 | Tulare $17.202 | L.A.
Percent Pooled Milk	20.1%	4.3%	72.6%	3%	100% (1.99 billion lbs. pooled)	

**Quota rate of $0.348/cwt. as of November 2023 milk*

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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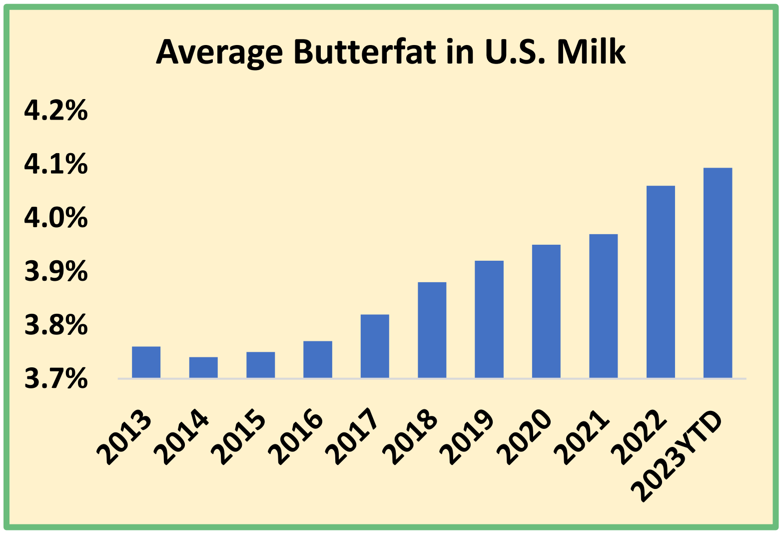
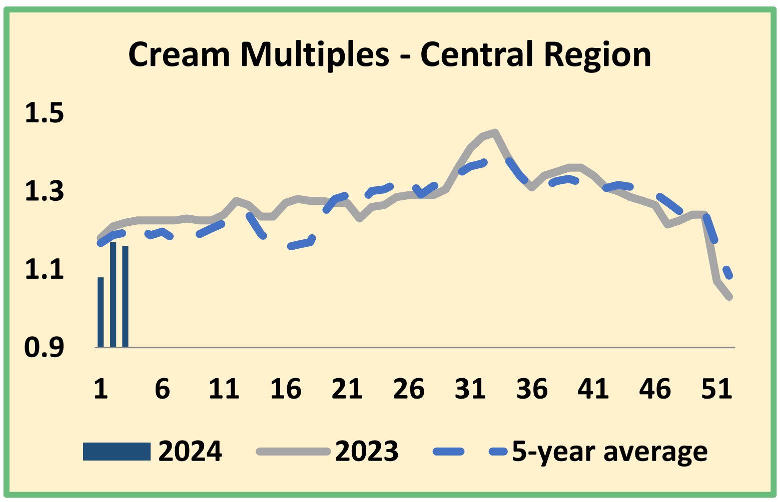
Milk & Dairy Markets

Most Americans are irate about an unwelcome invasion across our unprotected border. I'm talking, of course, about the blast of cold air from Canada, which reached as far south as Texas this week. The weather closed schools, froze pipes, sidelined milk trucks, and disrupted dairy processing. Consumers stocked up on milk, eggs, and bread before they hunkered down, which helped to offset slower demand for milk from school meal programs. Grocery sales likely jumped, but dairy demand from foodservice plummeted along with the temperature.

As bottlers work to refill the dairy case, they're pulling a little milk away from other processors. And the perils of hauling milk on icy roads marginally reduces the volume of milk arriving at cheese, butter, and milk powder plants in much of the nation. Still, we're making more than enough cheese. Thankfully, low prices are starting to attract more exports. That helped to lift barrel prices this week. They rallied 2.25¢ to $1.4675 per pound. CME spot Cheddar blocks moved in the opposite direction. They plunged 11.75¢ to $1.445.

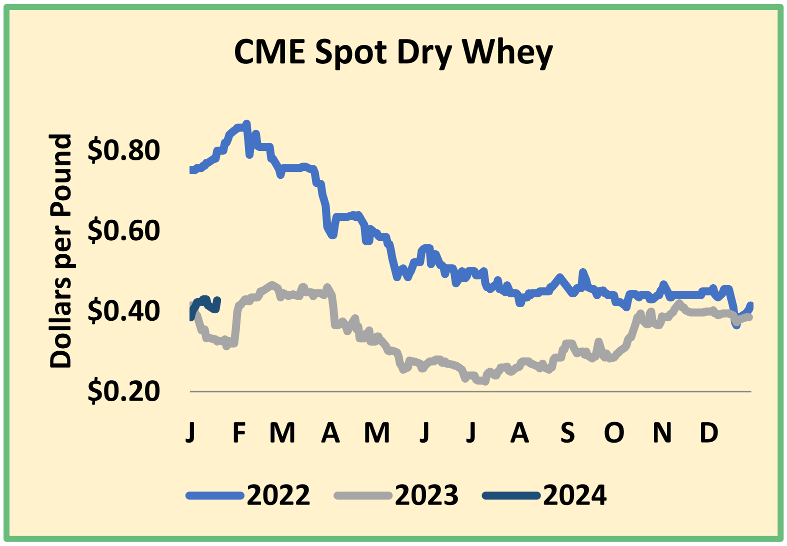


After several years of high butter prices, dairy producers have boosted components noticeably. The average butterfat in U.S. milk reached an all-time high of 4.28% in November. Despite a 0.6% setback in November milk output, the nation's milk cows made 1.6% more cream than they did in November 2022. And it shows. With cheesemakers slowing down a little for the weather, USDA's *Dairy Market News* reports that cream supplies in the Midwest are "somewhere between abundant and copious." Butter makers are churning hard and "still turning down offers." Elevated churn rates could help to build inventories and reduce the potential for holiday shortages and sky-high prices later this year. But, despite the increase in U.S. cream output, the nation continues to eat more butterfat than it makes, so a steep selloff in the butter market seems unlikely. CME spot butter slipped 2.25¢ this week to $2.545.

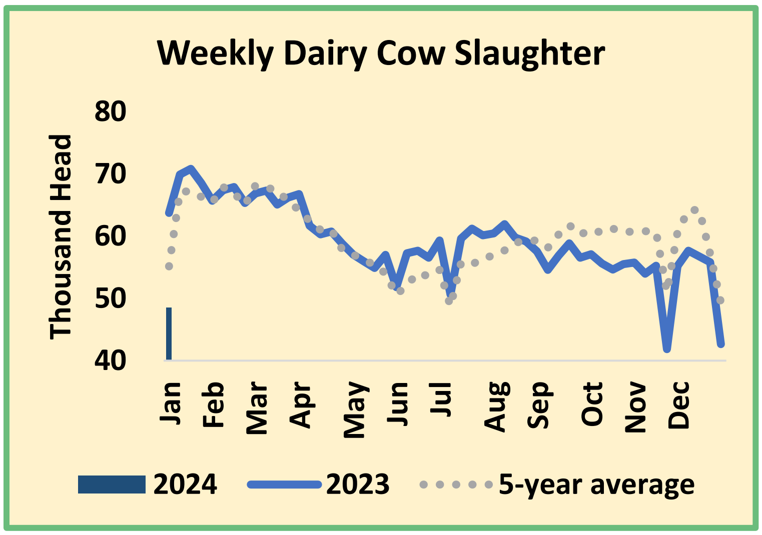


Prices moved upward nearly across the board at the Global Dairy Trade (GDT) auction on Tuesday. The GDT Index leapt 2.3% to its highest level in nearly a year. Whole milk powder prices rallied 1.7% and skim milk powder values gained 1.2%. Demand remained lackluster, and Chinese buyers were coy once again. But global milk powder output continues to drop and stockpiles are shrinking, raising hopes that it will be difficult to push milk powder prices sharply lower. If demand perks up, the milk powder market could soar. But for now, it continues to languish. Despite the gains at the GDT, CME spot nonfat dry milk lost a penny this week and closed at $1.175.

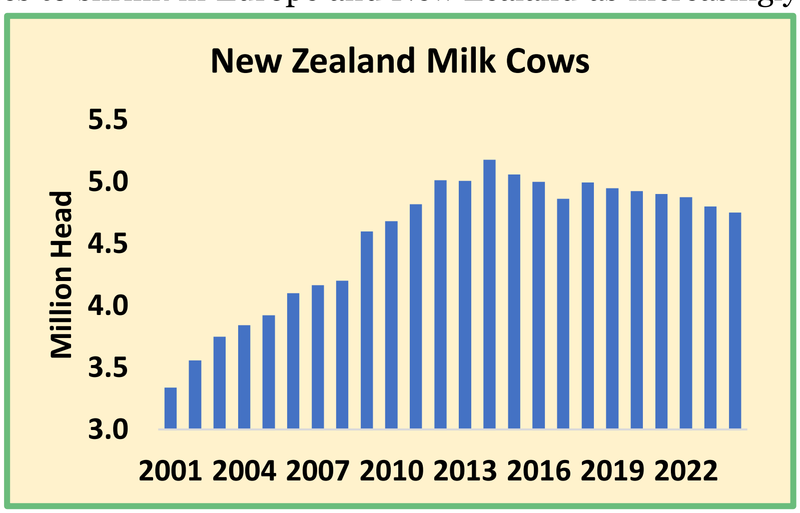
The whey market is holding firm thanks to strong demand for high-protein concentrates. Export prospects remain dim due to sluggish growth in the Chinese economy. CME spot whey inched down a quarter-cent this week to 42.75¢.



The steep decline in the block market dragged most Class III futures lower this week. The February contract fell 11¢ to a paltry $15.79 per cwt. March through May contracts lost about 25¢. Class IV futures were mixed, with modest losses in March through June and slight gains in the second half of the year. With most contracts at $19 or higher, Class IV futures promise workable margins for producers who live in the right region and belong to the right co-op. But many dairy producers earn little or no Class IV revenue, and they are really struggling.



Despite the pain on the farm, dairy cow slaughter volumes remain unusually light. Dairy producers sent just 48,498 milk cows to slaughter in the first week of the year, 24% less than in early 2023. This represents the lowest early-January slaughter volume since 2008, when dairy producers were extremely profitable. That's not the case today. Instead, tight heifer inventories are clearly keeping a lid on cull rates. Should milk prices improve enough to stoke an appetite for expansion, the heifer shortage will also prevent rapid growth in U.S. milk output. There's no sign that milk output will jump overseas either. The dairy herd continues to shrink in Europe and New Zealand as increasingly strict regulations discourage investment in the industry. Waning milk output will likely prevent milk and dairy product prices from falling appreciably and set the stage for a strong recovery if global demand improves.



Grain Markets

Grain prices continued to retreat as the trade considered the implications of the record-large U.S. corn crop. South American weather also weighed on prices, although the forecast looks less ideal going forward. March corn closed today at $4.455 per bushel, down 1.5¢ for the week. March soybeans closed at $12.1325, down 11¢. Soybean meal dropped another $12 to $356.50 per ton.

Federal Milk Marketing Order Hearing Week 11

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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The National Federal Milk Marketing Order (FMMO) hearing that started back in late summer resumed for week 11 on Tuesday. Most of the witnesses were testifying on behalf of the Milk Innovation Group (MIG) represented by well-known dairy attorney Chip English. MIG's membership includes about a dozen dairy processors including Producers Dairy and Crystal Creamery located here in California. Fairlife, Danone and HP Hood are also members of MIG, along with a number of smaller regional dairy companies.

Hearing Proposal #20 by MIG is to **lower** the Class I differential in all 3,108 counties of the United States by $1.60 per cwt. The dozen or so witnesses representing MIG this week all had the same talking points. Back in 2000, USDA in a hearing finding described how they got to a $1.60 per cwt. as the base or minimum level for Class I differentials in the entire system by referring to three different costs associated with serving the Class I market. First was the cost to producers for maintaining Grade A status, which is required for fluid milk. Second, is to cover the cost of balancing supplies for the fluid market, and third is to cover part of the cost to move milk to fluid plants. MIG witnesses attacked all three reasons. They repeatedly made the point that virtually all the milk in the country is Grade A already, so nothing should be paid for that. As for the moving milk and balancing costs, they claimed, to quote Sally Keefe, the MIG economist, "the presumption that a pool-wide 'incentive' is necessary to attract milk for fluid use from manufacturing use no longer holds in today's marketplace." And as for the costs of moving milk, they argued that cost should be negotiated between the producers and the processors.

MIG had made a proposal last year, for some part of that $1.60 to be paid directly to the producers who supply the Class I plants instead of part of the regulated price paid to the pool. That proposal was rejected by USDA for consideration at this hearing. But another MIG proposal, to drop all Class I differentials in the country by $1.60 was allowed to be heard and that is Proposal 20. The bottom line for these processors is that they want to control who they pay and how much they pay for Class I milk. The FMMO system forces them to pay more than they want to the market-wide pool of dairy farmers, and they would prefer not to do it that way. Surprise, surprise.

The government in the FMMO system is the referee. Its purpose is to supervise the relationship between producers, who because of its perishability, have to sell milk every day, to a processor who does not have to buy milk every day. That inherent imbalance in the market power of producers vs. processors is why the FMMO system was created. Properly designed, FMMOs level the playing field for both producers and processors. The FMMOs have been constructed using a classified pricing system. Class I is unique for a variety of reasons, one being that of advanced pricing, processors know the price of milk they have to pay **before** they have to price it to their customers. This protects the processor's margins. Because all the fluid processors are subject to the same FMMO pricing rules, there is a level playing field among processors on price. This is critical to maintain equal raw product costs among competing processors. How USDA sets the actual levels of the Class I differentials is definitely a topic that is open to debate and has been in this hearing. MIG's proposal would essentially wipe out the entire

Class I differential in the parts of the country where a lot of milk is produced and significantly reduces it in the rest of the country. Proposal 20 would reduce Class I pool revenue nationwide by about $660 million per year. But more importantly, it would almost certainly undermine the attraction of the FMMO program and I believe lead to the deregulation of the dairy industry. I suspect this might be part of the processors' motivation. Again, surprise, surprise.

What really was a surprise was Dr. Mark Stephenson deciding to cap his more than 40-year career as a respected dairy academic economist testifying in favor of MIG's proposal. Dr. Stephenson repeated the standard MIG talking points on the $1.60 differential and then asserted that *"being above the market clearing price is a cardinal sin in minimum price regulation—which means it governs milk price regulation, too."* Dr. Stephenson goes on to say. *"It is better to err on a too-low price than one that is too high—especially for fluid plants which cannot opt out of regulation."*

This might be true if all milk were required to be pooled and pay the minimum prices. That situation existed in the old California state order, and we saw how low prices had to be to follow the policy preference of Dr. Stephenson. But FMMOs have a different way of allowing the market to clear. Only Class I must pay the minimum price and be pooled. All other classes have the option to participate or not. And we know because the weekly published USDA Dairy Market News reports what the discounted price of spot loads of surplus milk are sold for when the market is oversupplied and must be cleared. **There is no reason in the FMMO system for the minimum prices to be set at market clearing levels.** The system already has a relief valve and there is no reason to reduce prices all year around to accommodate the need for prices to be lower when the market needs to cleared.

MIG witnesses also claim that fluid milk is no longer price inelastic. There are dozens of peer reviewed academic studies that have all consistently found that changes in fluid milk prices have limited impact on fluid milk sales. There was testimony earlier in the hearing from an economist who had recently done another study on fluid milk price elasticity, this time using **weekly** sales information. He found that weekly changes in price did impact sales and therefore concluded that fluid milk prices are now elastic. I wonder if this is news. Grocery stores put milk on special this week – they sell more; next week the special goes away – they sell less. But over a month or a quarter or a year, are those weekly price changes impacting the total sale of milk? I wonder. Furthermore, FMMO Class I prices only change once per month, so producers have no control over how stores decide to price milk from week to week.

There is no denying that Class I sales are in a long-term decline. Ryan Miltner, the attorney for Select Milk Producers wrote an article for the Dairy Producers of New Mexico newsletter last month where he showed a graph taken from Dr. Stephenson's testimony earlier in the hearing that showed the U.S. Fluid Milk Sales from 2001 to 2017.

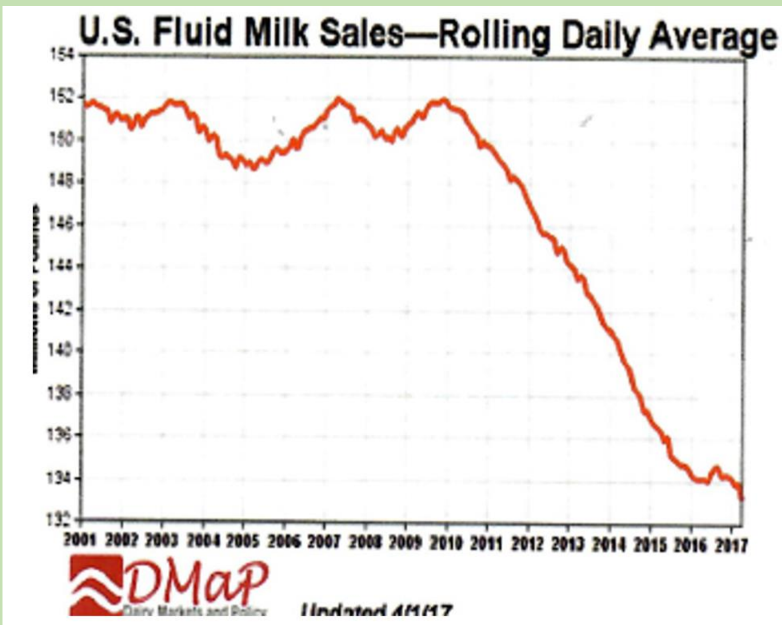
Miltner writes:

> I saw this graph and another similar one that continued past 2017 and began trying to figure out what happened in the 2010-2012 period to turn the curve from one with a slight downward slope to one significantly negative. The answer was a Congressional action to improve the health and diets of children. We know Americans generally eat too much

sugar and fat. And so, on one level, reducing the sugar and fat in school lunches would help childhood obesity. So, the Health, Hunger-Free Kids Act of 2010 ("HHFKA") eliminated whole and 2% white milk from school lunches and required that flavored milk be fat-free.

The downward consumption trend in 2010 follows a historical pattern. The failure of consumption to turn upward at any point afterward coincides precisely with the HHFKA. Let's be honest; whole milk tastes way better than 1%, and nonfat chocolate milk isn't that great, either. Further, kids offered only mediocre milk at lunch are less likely to seek out milk at other opportunities. Your industry has lost an entire K-12 group of milk lovers.

Was that the intent of HHFKA? I firmly believe that it was not. School lunches should be well-balanced, include fresh fruit and vegetables, be low in sodium and added sugar, and include appropriate fat levels. Recent dietary research has documented that full-fat dairy does not contribute to obesity and has more comprehensive health benefits. Accordingly, I was thrilled to read that the U.S. House of Representatives will vote on the Whole Milk for Healthy Kids Act the week of December 11. The act would allow schools to offer whole and 2% white flavored milk once again. If enacted, this would be an unqualified victory for dairy farmers. It might even help raise fluid milk consumption.



The good news is that the Whole Milk for Healthy Kids did pass the House of Representatives in December by a vote of 330-99, and is now in the Senate awaiting a vote. There are other reasons besides price for why fluid milk sales are down. Reducing producer prices and destroying the FMMO system are not solutions producers should accept.

Finally, I want to acknowledge that right now producers are hurting big time. I talked to a banker friend this week who told me this is as bad, or even worse than 2009. That comment prompted me to remember the testimony of my good friend, dairyman Rein Doornenbal of Escalon, during the

California FMMO hearing. Rein gave his extensive testimony on November 6, 2015 and you can read the transcript today on the USDA website here. Incidentally, I also testified that same day, and my testimony follows Rein's.

Rein's testimony begins at page 150 of 271 of that day's transcript. Rein made a lot of good points, but starting on page 176 he brings up the massive losses producers incurred in 2009. He gives specifics about his dairy, but then talks about the following years where the shortfall to California producers due to the regulatory "California Discount" that existed in the state order actually exceeded the 2009 losses in the following years. His point was that in 2009 it was bad for the entire national dairy industry and because of that the market would eventually recover. But because California producers were not on a level playing field with the FMMO, the shortfalls we experienced from 2010-2015 exceeded the losses incurred in 2009. That has now changed with California being in the FMMO. Our fellow producers in the rest of the country are hurting now too. We do not know how long this will last, but markets do recover and this one will, too. And when it does, we will benefit from those higher prices because we are now on a level playing field.

The hearing will resume on Monday, January 29 and will finish according to USDA officials by that Friday, February 2, Groundhog Day.

Dairy Farmers Innovating for a Cooler Climate, Cleaner Air, and Overall Sustainability

Courtesy of Dairy Cares

Continuous innovation is allowing California's dairy farmers to make a big difference for the planet. Climate scientists and leaders across the globe, including Governor Newsom, have recognized that tackling methane emissions is key to quickly reducing climate warming. Dairy farmers' actions here in California are achieving significant success—reducing more than 2.3 million metric tons of greenhouse gases (CO_2e) and counting. The state's dairy farmers are on track to achieve climate neutrality by as soon as 2027, and this success has even broader positive implications for people and the planet.

California's world-leading dairy methane reduction programs have achieved tremendous results and continue to be over-subscribed. More than 300 methane reduction projects have been installed on California dairy farms. The California Department of Food and Agriculture (CDFA)'s Dairy Digester Research and Development Program (DDRDP) has been matched by private funds (about two to one) and is the state's most cost-effective climate program, costing only $9 per ton of CO_2e reduced. Projects supported by the Alternative Manure Management Program (AMMP) are also reducing methane and helping improve the utilization of manure as a non-fossil, organic fertilizer resource.

Click to learn more about California's dairy digesters.

Continue reading here.

NMPF Update: Short-Term Government Funding; Farm Bill Process

Courtesy of Gregg Doud, President & CEO
National Milk Producers Federation

House, Senate Approve Another Short-Term Government Funding Package

Several federal agencies, including the USDA and FDA, were set to run out of funds tonight if a stop-gap appropriations bill was not signed into law by midnight. House and Senate leaders spent most of this week much as they did last November, when faced with a similar deadline – negotiating over the terms of a politically-acceptable interim deal, if only to keep the lights on for another handful of weeks.

Ultimately, House Speaker Mike Johnson, R-LA, muscled through another short-term bill yesterday to keep the government funded until March. The bill, which also passed the Senate on Thursday, contains another laddered resolution that extends government funding until two different dates in early spring. USDA and FDA, with a few other agencies, are funded through March 1, while the majority of agencies will be funded until March 8. Yet another vote in late February on final funding for Fiscal Year 2024 will be necessary and may impact the timing of the 2024 Farm Bill (see next story).

The funding extension does not contain funding for, and does nothing to resolve, the challenges within each party over how to handle the southern border crisis or funding for the conflicts in Ukraine and Israel, meaning those hard decisions still will need to be made in the coming weeks. Those issues may move forward in a separate supplemental package.

Farm Bill Process Dogged by Spending Disputes

Earlier this week, Senate Agriculture Committee Chairwoman Debbie Stabenow, D-MI, announced her priorities for improving farm bill policy in a letter to Senate colleagues. Her letter focused on using crop insurance to strengthen the safety net, but it expressed openness to higher commodity program reference prices, a major priority for Senate Agriculture Committee Ranking Member John Boozman, R-AR, and other Republicans.

The letter also calls for "improving marketing loans," but otherwise didn't contain many details, or anything specific to the farm bill dairy safety net. Similarly, committee Republicans this week announced that they are working on their own framework for next farm bill that they'll use as the basis for negotiations with Stabenow and committee Democrats.

Meanwhile, on the other side of Capitol Hill, House Agriculture Committee Chairman Glenn "GT" Thompson, R-PA, said this week that his chairman's draft of the farm bill should be delivered next month. He has been in talks with Speaker Johnson about lining up floor time this spring in the House to vote on the measure.