

# 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			NON-FAT DRY MILK		
Blocks	-\$0.0525	\$1.7675	WEEKLY CHANGE	-\$0.0450	\$1.7550	WEEK ENDING 02/15		
Barrels	+\$0.0050	\$1.5900	WEEKLY AVERAGE	-\$0.0340	\$1.7700	NAT'L PLANTS	\$1.2540	20,320,159
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 02/08		
Blocks	-\$0.0771	\$1.7969	DAIRY MARKET NEWS	W/E 02/21/20	\$0.3750	NAT'L PLANTS	\$1.2542	23,111,277
Barrels	+\$0.0313	\$1.5863	NATIONAL PLANTS	W/E 02/15/20	\$0.3654			

## 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
FEB 21 EST	\$19.15 - \$19.65	\$16.89	\$17.01	\$16.17
LAST WEEK	\$19.15 - \$19.65	\$16.99	\$16.99	\$16.28

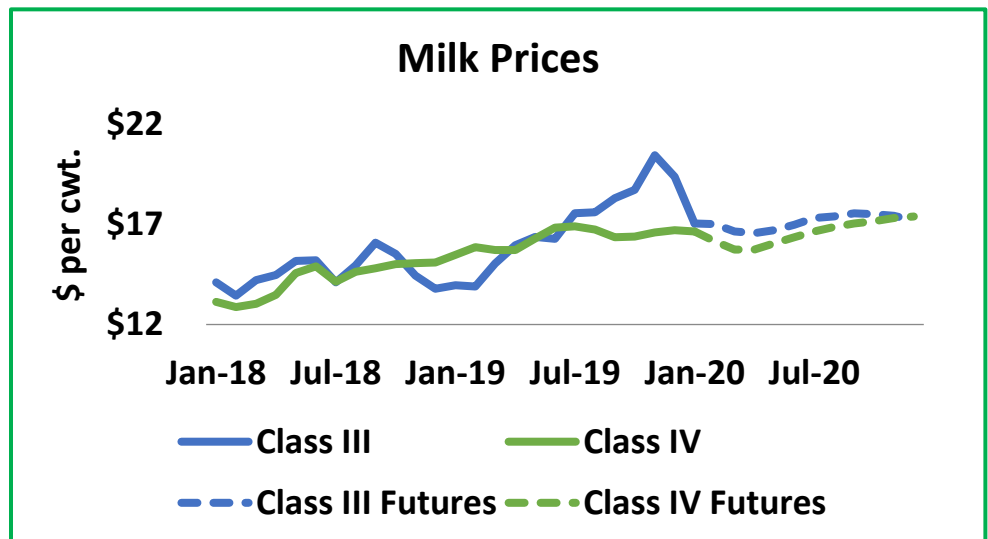


### Milk, dairy and grain market commentary

By Sarina Sharp, Daily Dairy Report  
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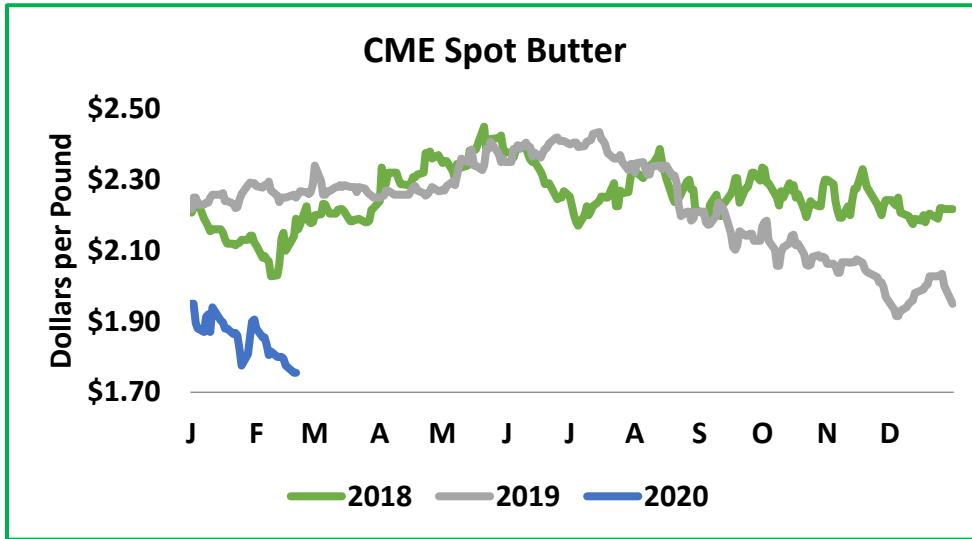
#### Milk & Dairy Markets

The dairy markets got off to a strong start Tuesday after a better-than-feared performance at the Global Dairy Trade (GDT) auction. Despite anxiety surrounding the coronavirus and a heavy volume of product on offer, both skim milk powder (SMP) and whole milk powder (WMP) values fell only 2.6%. Butterfat prices moved sharply lower, but Cheddar rallied a convincing 5.3%. At the CME, traders responded with enthusiasm, bidding up dairy product futures of all varieties across the board.



But it did not last. The markets were awash in red ink on Wednesday, and the selloff gathered speed as the week drew to a close. March through August Class III futures lost at least 30¢ this week and most contracts settled at their lowest values since the cheese market began to rally last fall. By the closing bell, Class IV futures floundered at life-of-contract lows. The futures promise a rough spring for dairy producers. March and April Class IV stand at an unbearable \$15.74 per cwt. In the same months, Class III futures slumped to \$16.64 and \$16.56, respectively. The second half looks much better, with a Class III average of \$17.39 and Class IV around \$17.07.

The cheese markets continue to narrow. Unfortunately, Cheddar blocks worked hardest to close the gap this week. They fell 4.25¢ to \$1.7675, a new low for the year. Barrels climbed a half-cent to \$1.59. CME spot whey was eerily quiet this week. It held steady at 37¢ and no product changed hands.

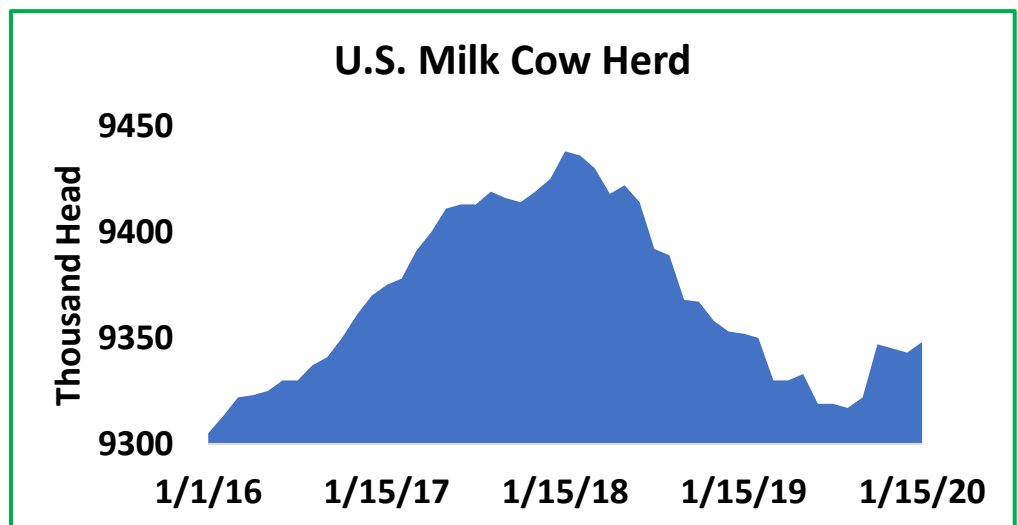


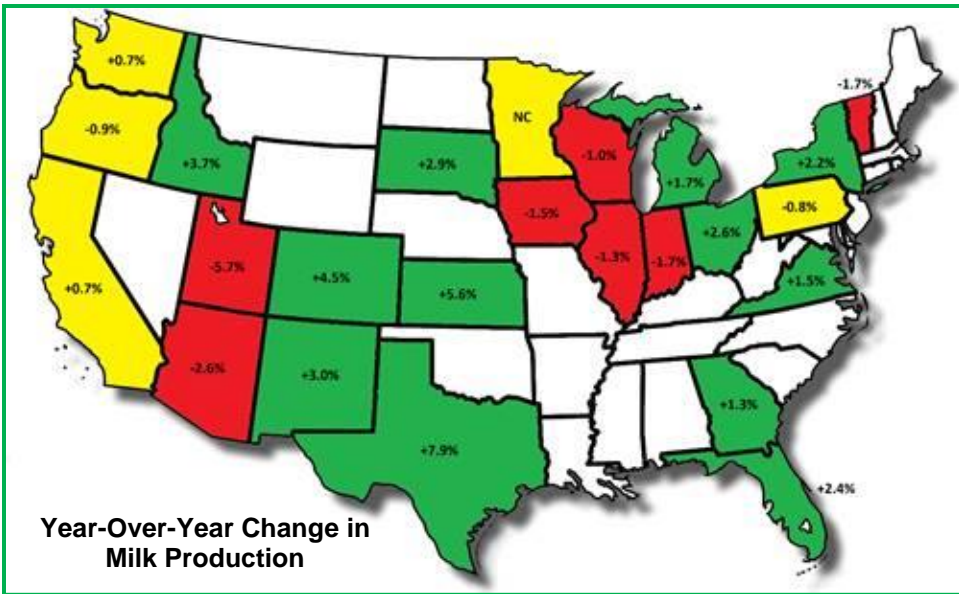
CME spot butter fell 4¢ this week to \$1.755 per pound, matching the lowest value in the spot market since April 2015. Spot butter is likely to feel a lot less pressure once March arrives and traders are no longer allowed to sell “old crop” butter produced before December 1, 2019. Brokers are likely rushing to dump older butter in Chicago while they still can. Once those sales dry up, the butter market is likely to regain at least some of the

ground it has lost recently. Still, cream is plentiful and cheap, and there is an abundance of fresh butter to be had.

Milk powder values remain respectably high, but they too lost ground this week, falling 3¢ to \$1.17. Global milk powder inventories are considerably lower than they were in recent years, but trade has slowed. With China largely on the sidelines, buyers can smell a bargain and they are waiting for the market to come to them.

Meanwhile, the weather is mild, and milk is sloshing around the country. Waning fluid milk sales and surprisingly robust milk production in the Southeast are keeping more milk close to home in the Northeast, Midwest and Southwest. Fluid milk sales in November – the latest data available – dropped 9.4% from the prior year, the worst year-over-





year decline for any month on record. Meanwhile, the spring flush is off to an early start and there are long lineups at the drier. Even in the Upper Midwest, where it's too early for the flush to begin in earnest, milk yields are rising and spot loads are commanding steep discounts, ranging from \$2 to \$6 under class.

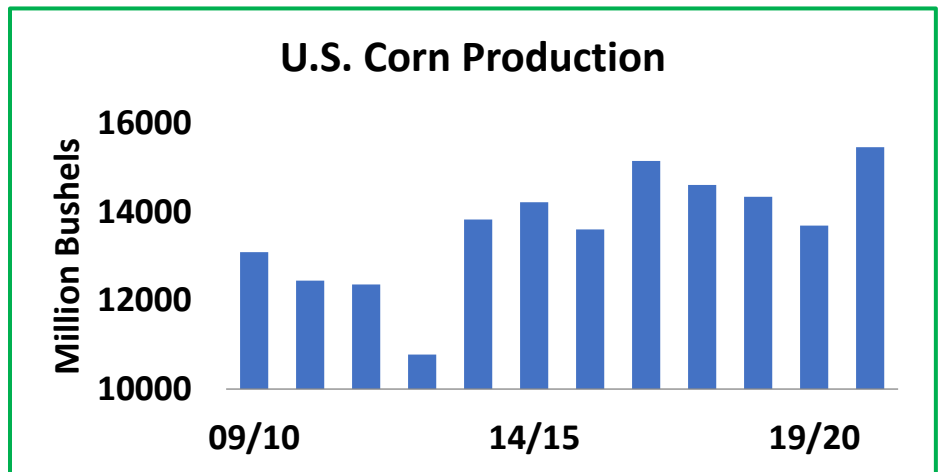
U.S. milk production totaled 18.8 billion pounds in January, up 0.9% from the prior year. Mild weather and a young herd helped to boost milk production

per cow, although feed issues continue to drag down milk yields in Wisconsin. Dairy producers are adding cows. After a more extensive quarterly survey, USDA revised upward its estimate of the milk cow herd in October, November, and December and reported the January herd at 9.348 million head, up another 5,000 from the revised December figure. After all that financial pain and loss there are just 6,000 fewer cows in U.S. milk parlors than there was the year before.

Fourth quarter milk prices gave dairy producers a welcome respite from the woes of the past four years, and that likely encouraged the recent wave of expansion. But today's prices are sending a very different signal. The industry lost 3,281 dairy herds in 2019, the highest in any year since 2004. If prices don't recover soon, the sellouts will likely continue.

### Grain Markets

The feed markets lost a little ground this week. March corn settled at \$3.77 per bushel, down a fraction of a cent from last Friday. March soybeans slipped 3.25¢ to \$8.905. Weather in Argentina and Brazil continues to favor crops in most areas. The strong dollar and feeble South American currencies are boosting demand for Southern Hemisphere crops at the expense of U.S. exports.



At the annual Outlook Forum, USDA projected that farmers would sow 94 million acres of corn this spring, up from 89.7 million in 2019. Assuming normal weather and trendline yields, there will be a bumper corn crop this year, making for big stocks and inexpensive grain in the fall. USDA expects soybean plantings to total 85 million acres, which would be much higher than last year's 76.1 million acres, but well below seedings in 2017 and 2018. USDA is counting on large exports to trim soybean stocks, but the market will need to see exports improve noticeably before prices rise.



## California water war on the verge of erupting

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs  
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There were big moves related to California water this week. I wish I could reassure you that everything is going to be okay – but I cannot.

### **The lay of the land**

The San Joaquin Valley is home to about 5 million acres of irrigated agriculture. Approximately 80 percent of this fertile farmland has access to surface water, ranging from some access to good amounts of this valuable resource. These surface water deliveries supplement groundwater farmers use to grow food, making farming in the Central Valley a viable proposition over the long-term. However, about one million acres of San Joaquin Valley farmland currently lacks access to enough surface water. This puts approximately one-fifth of perfectly good irrigated farmland in the Valley at risk should access to groundwater be restricted, which is the inevitable result of the implementation of the Sustainable Groundwater Management Act (SGMA). The answer to this imbalance is to either increase the supply of surface water available to these lands or permanently fallow them.

There is a lot of surface water in California. However, millions of acre-feet of fresh water has been sent to the Pacific Ocean over the past 20 years – not due to the lack of physical facilities to capture and deliver that water to people – but because of government rules imposed by agencies that are tasked with protecting two species of endangered fish. These conditions have prohibited any of that water from being pumped into the canals and aqueducts that transport surface water to the people and farms of California.

### **New science shows protecting fish and increasing water deliveries can coexist**

The stark reality of reduced water availability in the Central Valley and southern California prompted water agencies, along with the state and federal governments, to invest in science and research to determine if there were better methods for protecting fish other than simply sending millions of acre-feet of fresh water out to the ocean. The good news is that scientists learned a lot about how to better manage both the water supply and the habitat that supports healthy fisheries of critical species.

This process started under the Obama administration, and so much was learned then, that a “reconsultation” was initiated in 2016 by the agencies charged with protecting the Delta Smelt and the Winter Run Salmon to see if the rules could be modified. In 2018, President Trump took this process and assigned a deadline to produce a result, ordering the development of new biological opinions (BiOps) that consider the new science developed over the past decade. These new BiOps would not only govern the operation of the surface water delivery infrastructure but would also provide for several other measures that the science says will be effective in recovering the endangered fish populations. These measures include: increasing the floodplain habitat so juvenile salmon smolts have a safe place to get established; increasing the cold water available behind Shasta Dam, which could then be strategically released to help salmon in the Sacramento River; and building a fish hatchery to greatly increase the nearly extinct Delta Smelt population.

The federal officials who received this mandate from the President have worked with their counterparts in California’s state agencies to produce new biological opinions, which were released a few months ago for public review. These new BiOps do a lot for fish, but also include some flexibility in how the agencies in charge of the surface water projects operate the pumping plants in the Delta. Under the old BiOps, the rules severely restricted pumping operations between January and June, regardless of whether fish

would be endangered by that pumping. The new BiOps closely monitor the location of the endangered fish – and if they are not around the pumping stations – then some modest increased pumping can occur during the January to June timeframe.

Remember, the big surface water projects were created to take advantage of the high flows that occur in the Sacramento River so they could be delivered to people and farms in the central and southern parts of California. When is the most likely time of year that there are high flows in the Sacramento River? Probably in the spring when rain and melting snow combine to increase the water runoff from the Sierra Nevada mountains. If the pumping window is closed between January and June, then it becomes clear why so much fresh water went out to the Pacific Ocean instead of being used for people and to grow food for people.

Unfortunately, not everyone thinks it is a good idea to provide more water to people and farms of the Central Valley and southern California. Those folks have created politically powerful advocacy groups, which are a significant part of the Democratic coalition. The President is a Republican, and he too operates in a political environment, making news by holding a rally in Bakersfield on Wednesday to take credit for the new BiOps. Governor Newsom made his own news by filing a suit against the new BiOps on Thursday. We Californians are the rope in a tug of war between two political factions – and the rope is seriously fraying.

### **Where do we stand now?**

The Sustainable Groundwater Management Act is real, but it does allow 20 years for the eventual ramp down of groundwater pumping that will be required to reach sustainability. The surface water necessary to prevent the wholesale fallowing of a big chunk of the Central Valley is only available if there are reasonable rules governing the operations of the two main arteries that convey abundant water from Northern California to where it is needed in the central and southern parts of the state.

There also needs to be a significant investment in conveyance structures on the Valley floor as well as a significant increase in groundwater recharge facilities. These facts are the reason why new biological opinions are so critical. The system will not work if we are prevented by regulation from getting the surface water into the system in the first place. The new BiOps present a great hope that we might be able to create a sustainable future without the indiscriminate destruction of Central Valley economy. Somehow our leaders on both sides of the aisle must stop using this life sustaining resource as a political hammer to beat each other up. Time will tell if common sense wins over insanity.

### **Quota update**

*By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs*

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Late last Friday, California Department of Food and Agriculture (CDFA) Secretary Karen Ross's office responded to a letter containing the compromise quota termination proposal developed through the United Dairy Families (UDFC) process. That proposal, which was publicly presented on February 11 at a meeting held at the World Ag Expo in Tulare, calls for the termination of the Quota Implementation Plan (QIP) on March 1, 2025, five years from now. In her letter, the Secretary explained to the UDFC that for its proposal be considered, it will have to be submitted as a petition and signed by 25% of California's producers. Once the required signature threshold is met, it can be submitted to CDFA for initial consideration by the Producer Review Board.

This communication from the Secretary provides some clarity on what the process is going forward. As

I had mentioned in the [article last week](#) because it was likely, and is now for sure (more on this in a minute), there will be a hearing on the quota issue in the very near future. It is now clear that the UDFC proposal will need to follow the procedure laid out in the QIP rules for how changes can be made to the QIP.

Meanwhile, the STOP QIP group submitted a petition on January 29 that seeks a referendum on suspending Chapter 3.5 of the Food and Agricultural Code. CDFA yesterday announced that there are enough signatures to force a hearing on that petition and promised that a hearing will be scheduled in the very near future. It appears that that hearing will be narrowly focused on whether there should be a referendum to suspend Chapter 3.5.

As we have reported in the past, Chapter 3.5 is the law that grants CDFA the authority to collect an assessment on all California Grade A milk to fund the quota payments. If a referendum is called on Chapter 3.5, it will take a 51% majority of California producers voting yes to continue the program. Said another way, 49.1% of producers voting no would suspend Chapter 3.5 and render the quota program effectively terminated. As you may recall from prior articles, this lower vote threshold in Chapter 3.5 exists because Chapter 3.5 is the chapter that contained the authority for CDFA to operate a quota program with a fixed differential. When originally passed in 1993 it superseded Chapter 3.0 which contained the old floating differential. Since Chapter 3.5 was adopted without a 2/3 producer referendum vote back in 1994, the Chapter allowed producers to vote with a lower vote threshold to return to the old floating differential if they wanted. When the state was looking for the legal authority to assess producers for a stand-alone quota program in 2017, the Legislature put that legal authority in Chapter 3.5.

No doubt much of the testimony at the upcoming hearing on Chapter 3.5 will focus on whether a referendum to essentially terminate the quota program should be called under a provision that was originally designed to give producers a right to choose between two types of quota programs. As they say in the news business, this is a developing story and stayed tuned for further updates.

## The California Dairy Sustainability Summit is almost here

*Courtesy of Dairy Cares*



Register today for the California Dairy Sustainability Summit, taking place March 25-26, 2020, at Cal Expo in Sacramento. This event showcases world-leading achievements in planet-smart dairy farm practices and dairy's role in advancing California's sustainability objectives. Discover new ways for dairy farms to ensure economic and environmental sustainability, develop new business opportunities, and meet challenges with new technologies and practices. The inaugural event in 2018 drew more than 600

attendees, including 200 representatives from the state's family dairy farms. The California Dairy Sustainability Summit is co-hosted Dairy Cares, California Dairy Quality Assurance Program, California Dairy Research Foundation, Dairy Council of California, and California Milk Advisory Board. Register [here](#).

