

MPC WEEKLY FRIDAY REPORT

DATE: NOVEMBER 20, 2020
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 8

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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		CHICAGO AA BUTTER		NON-FAT DRY MILK	
Blocks	- \$.2725 \$1.6450	WEEKLY CHANGE	- \$.0550 \$1.3450	WEEK ENDING 11/14/20	
Barrels	- \$.1875 \$1.4225	WEEKLY AVERAGE	- \$.0665 \$1.3665	NAT'L PLANTS	\$1.0836 16,667,503
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		PRIOR WEEK ENDING 11/07/20	
Blocks	- \$.4360 \$1.7145	DAIRY MARKET NEWS	w/E 11/20/20 \$1.4100	NAT'L PLANTS	\$1.0945 14,416,495
Barrels	- \$.5985 \$1.4045	NATIONAL PLANTS	w/E 11/14/20 \$1.3802		

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
NOV 20 EST	\$19.64 - \$20.14	\$13.88	\$23.14	\$13.34
LAST WEEK	\$19.64 - \$20.14	\$13.95	\$23.13	\$13.43

OCTOBER 2020 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

OCT '20 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT*
MINIMUM CLASS PRICE	\$16.80 (TULARE) \$17.30 (L.A.)	\$13.63	\$21.61	\$13.47	\$13.38 (TULARE) \$13.88 (L.A.)	\$13.015 (TULARE) \$13.515 (L.A.)
PERCENT POOLED MILK	24.2%	7.1%	0.8%	68.0%	100% (1.808 BILLION LBS. POOLED)	

*QUOTA RATE OF \$0.365/CWT. AS OF JUNE 2020 MILK



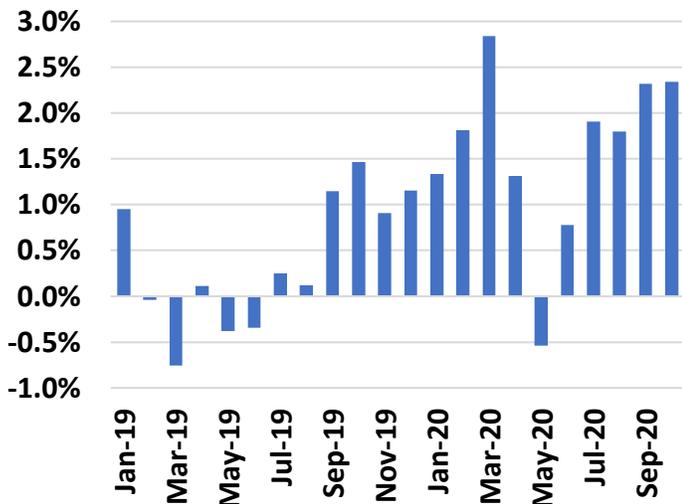
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Coronavirus infections are rising relentlessly, and they threaten to swamp the economic recovery. That's likely to stifle demand for dairy. More students are learning remotely and businesses and families are sizing down their holiday festivities. Concerns about worsening demand are colliding with rising supplies as milk floods the market.

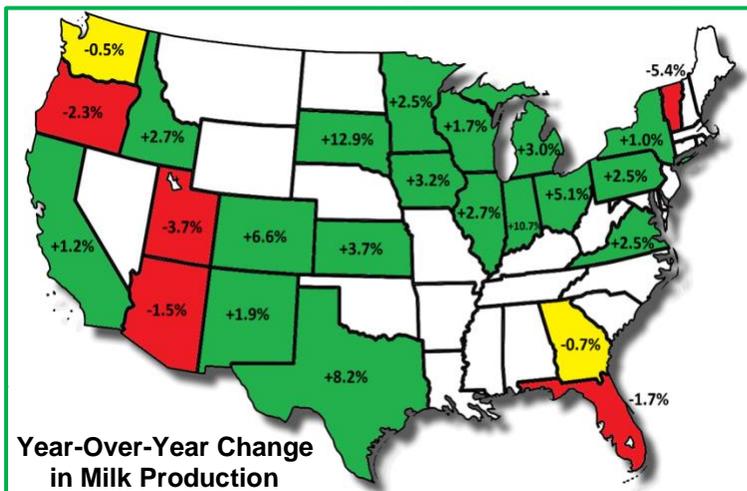
YOY Change in U.S. Milk Production



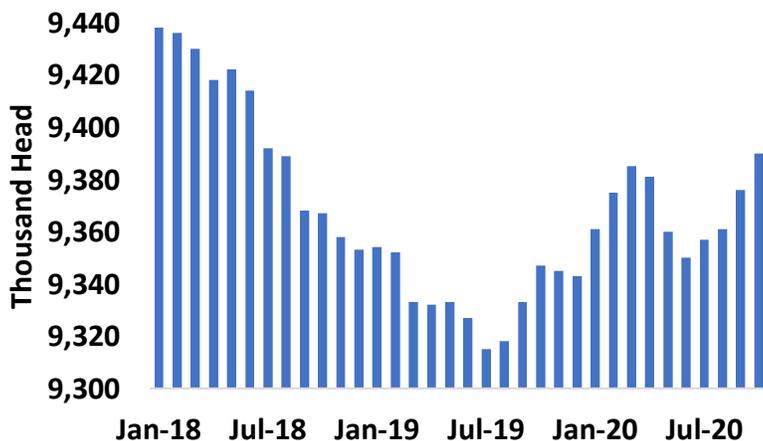
U.S. milk output totaled 18.6 billion pounds last month, up 2.3% from October 2019, and on par with the strong year-over-year gain reported in September. Dairy producers continue to achieve impressive advances in milk production per cow, with milk yields up 1.9% from a year ago. Since July, U.S. milk output per cow has grown at the fastest rate since early 2017. This suggests that the primary drivers are investments in better facilities and accelerating progress in genetics and breeding technologies, rather than more temporary factors like favorable weather. Given the long-term impact of these practices, the industry should expect that milk yields will continue to outpace the prior year by a wide margin unless they are held down by supply management programs in the spring.

The dairy herd is growing too. According to USDA's latest estimates, dairy producers added 15,000 cows in September and another 14,000 in October. The milk-cow herd averaged 9.39 million head last month, which is 62,000 head larger than it was in October 2019. The dairy herd hasn't been this big since July 2018. Persistently low slaughter volumes suggest that the herd is getting larger by the day.

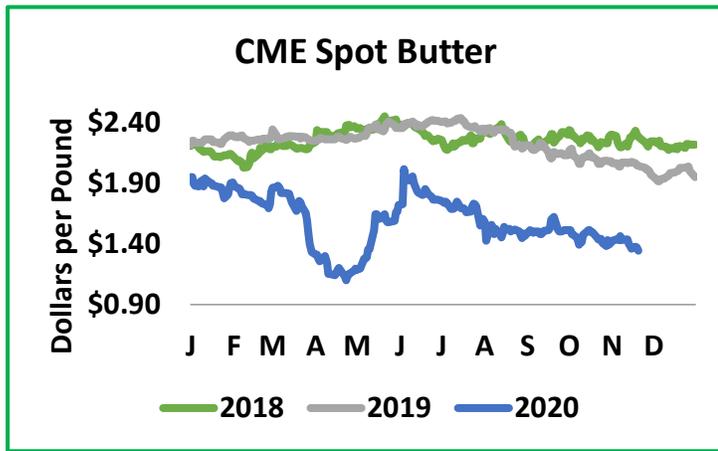
Foreign milk production is also climbing. Collections in Europe and the United Kingdom topped the prior year by a respectable 1.4% in September. New Zealand reported a 1.7% increase in September, while Aussie output jumped 2%. Argentine milk output climbed 3.6% in September. In October, milk production in Mexico, our top export market, advanced 1.6%.



U.S. Milk Cow Herd



If the U.S. dairy industry is going to expand at this rate, we will need to step up exports, but that will be difficult with our competitors growing too. The weak dollar and relatively low dairy product prices should help, but the industry continues to cede ground on the policy front. This week 15 Asia-Pacific nations signed the Regional Comprehensive Economic Partnership (RCEP), the world's largest free trade agreement. Signatories include dairy exporters Australia and New Zealand, and key importers like China, South Korea, the Philippines and Vietnam. Although the



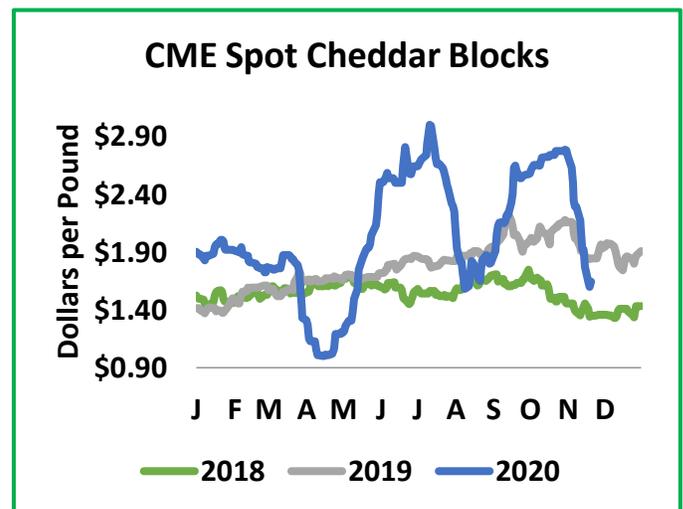
RCEP may not do much to change the already advantageous accessibility dairy products from New Zealand and Australia enjoy in much of the region, it signals that U.S. allies view China as a key trading partner. In the past few years these nations have forged ahead with an alphabet soup of deals, including the CPTPP, and Europe has inked several major pacts as well. The U.S. has done little more than swap NAFTA for the USMCA. The U.S. is a reliable supplier of affordable, high-quality dairy products. It would be a shame to let them pile up due to policy inertia.

Heavy milk output continues to weigh on dairy product prices, although the powders have proven resilient. CME spot dry whey gained 0.75¢ this week and reached 43.75¢ per pound, a fresh 22-month high. Milk powder prices moved higher at the Global Dairy Trade auction but lower in Chicago. CME spot nonfat dry milk (NDM) slipped 0.25¢ this week to \$1.085. Decent exports have helped to keep whey and NDM inventories in check.

CME spot butter fell 5.5¢ this week to \$1.345, its lowest value since the spring panic and more than 70¢ below where it stood a year ago. Butter is moving quickly at retail, but at-home bakers are going to have to be very ambitious to make up for lost foodservice orders.

The spot cheese markets moved higher today for the first time in three weeks, suggesting that the selloff may be running out of steam. But a one-day rally was not enough to undo the damage wrought by their early-week battering. Cheddar blocks plummeted 27.25¢ from Friday to Friday and closed at \$1.645, within a few cents of the August lows. Barrels plunged 18.75¢ to \$1.4225. Cheese output is heavy, and stocks are likely building as foodservice and government orders fade.

The spot cheese markets dragged nearby Class III futures down with them. The December contract settled today at \$15.98 per cwt. That's \$1.73 lower than last Friday and more than \$5 below the late-October high. January Class III also moved lower, but deferred contracts gained ground in hopes that lower pricing in the coming months will discourage growth in milk output and perhaps stimulate demand. Most Class IV contracts settled 20¢ to 30¢ in the red, which puts November through February Class IV south of \$14. Those numbers simply don't work for dairy producers, especially with feed costs on the rise.



Grain Markets

December corn closed today at \$4.2325 per bushel, up nearly 13¢ from last Friday. January soybeans set a fresh life-of-contract high and settled at \$11.81, up 33¢. December soybean meal climbed \$6.60 this week to \$394.70 per ton. The bulls are eating exactly the same ration as they did last week, digesting concerns about dry weather in South America and the U.S. Plains and feasting on another big week for U.S. corn and soybean exports.



Water Update

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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Water availability is a big deal to a dairy. Without an accessible and relatively clean water supply, dairy farming is not possible. Much of California enjoys a Mediterranean-style climate, where precipitation is not a year around expectation. And yet California is home to the largest dairy industry in the United States. Part of my responsibilities for Milk Producers Council is to be the dairy industry's eyes, ears and advocate on water supply issues. As you might imagine, California has lots of water issues. So how are we doing?

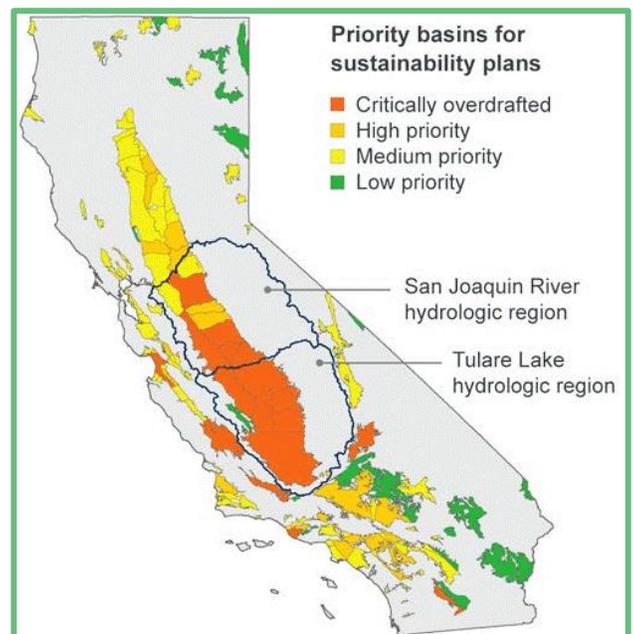
Almost all dairies in California rely on groundwater to operate. The areas in Southern California that contain milk sheds have groundwater management plans that were implemented some time ago. The Chino Basin, the San Jacinto-Hemet area and the Mojave area all have functioning groundwater management plans, that for the most part, provide adequate water for the dairies still in operation.

For the Central Valley, groundwater regulation is in the process of being implemented. While Southern California dairies import a vast majority of the feed consumed by cows, in Central California, there are extensive farming operations associated with the milking facilities. It is the growing of local crops for cows that requires significant amounts of irrigation water to sustain these family dairy farms. A measurable percentage of the Central Valley dairy industry is in areas where the irrigation water supplies come exclusively from groundwater.

Groundwater law strives for balance

The Sustainable Groundwater Management Act (SGMA) became law in 2014. It requires every part of California that has groundwater to bring that land under the jurisdiction of a new local agency called a Groundwater Sustainability Agency (GSA). These GSAs have the responsibility and legal authority to create and enforce a plan that will eliminate “undesirable results” from the overdrafting of groundwater. “Critically Overdrafted” basins were identified by the state (see map at right). These areas of California are required to eliminate “undesirable results” by 2040.

Essentially, taking more water out of the groundwater basin than is recharged over a period of time is considered overdraft and an undesirable result. All the Critically Overdrafted Basins have now submitted their plans to the California Department of Water Resources and are in the process of implementing them. From the northern half of Kern County into Tulare County, the GSAs have created groundwater budgets for their landowners and have created groundwater allocations and measuring systems, along with fees for usage, that dairy families and other farmers must comply with in those areas. A similar system is now close to implementation in parts of Madera County where we have dairies. All these systems allow for landowners to use more groundwater now – during this transition period – than will be allowed after 2040. Northern Tulare County, Fresno County and Kings County GSAs have not yet implemented allocation programs, but are putting in place the measuring and tracking systems that are necessary prerequisites for an allocation system in the

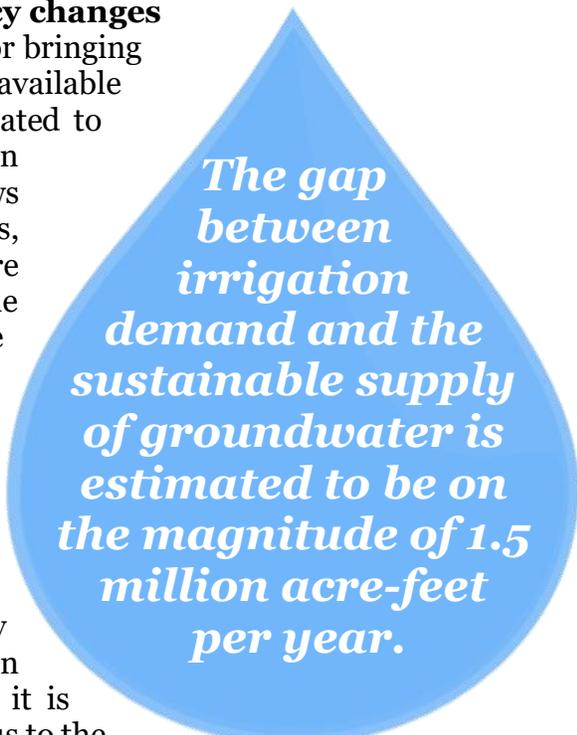


future. Parts of Madera and Merced County GSAs are also working on groundwater measuring programs, but actual allocation systems are probably farther off. When you get north of Merced, there is much more surface water available for groundwater recharge and the shortage of groundwater is not as acute.

SGMA shines light on much needed surface water policy changes

Capturing more surface water for groundwater recharge is key for bringing balance to the usage of groundwater in the Central Valley. All available regularly occurring surface water in the state is already allocated to existing surface water rights holders. It is in the big precipitation years that occur two or three years out 10, where flood flows emerge in California's water ways that, under current scenarios, are allowed to flow out to the ocean. Those are the flows that are available for capture that can be redirected to places where the water can be percolated down into the ground. Increasing the capture of flood water will require a significant investment in conveyance infrastructure, in combination with the development of significant recharge areas. Recharging those flood flows on farm ground shows great promise and can be accomplished at a modest cost if the conveyance structures can be created to disperse those flows out to the farmland.

The gap between irrigation demand and the sustainable supply of groundwater is estimated to be on the magnitude of 1.5 million acre-feet per year. While this shortage seems overwhelming, it is estimated that flows to the ocean in wet years – which are surplus to the environmental needs in the Delta and when averaged over all years – amount to about 10 million acre-feet per year. Clearly there is a supply of surplus surface water available in those wet years, but it needs to be captured and moved to the shortage areas at an affordable cost.



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There are other constituencies in the Central Valley besides agriculture that are also facing a stressful future as a result of SGMA. There are many rural communities that have significant water supply and quality problems now, and are facing significant impacts from job losses if nothing is done to address the impacts that will come from SGMA. There are also environmentally sensitive lands and potential riparian corridors that could benefit greatly if the surplus flows that now go out to the ocean were diverted to the Valley.

MPC, Valley stakeholders work together for solutions

To identify these needs and opportunities, it will take an organized effort of all the various interests in the Central Valley. Milk Producers Council is involved with the Water Blueprint for the San Joaquin Valley, which is an effort to coordinate the entire Central Valley community to address the subsequent water, economic, environmental and sociological challenges exposed by SGMA. It is early, but potential surplus water supplies are being identified, along with initial evaluations of routes for conveyance facilities that would bring water to shortage areas in such a manner to assist rural communities and support environmentally valuable lands. The effort is complex, and solutions will potentially be very expensive. However, the cost of inaction is also expensive.

One of the first actions of the Blueprint was to commission an economic impact study. Dr. David Sunding, a respected economist from UC Berkley, evaluated the economic impact of using land fallowing as the primary SGMA compliance strategy. **The study documented that SGMA**

implementation, accomplished solely by means of land fallowing, will result in \$7.2 BILLION in lost farm income, a loss of 85,000 direct and indirect statewide jobs, as well as loss to local and state governments of \$535 MILLION in annual tax revenue. Facing this type of a future should propel all of us to support measures that will lessen that impact. You can learn more about the Blueprint [here](#).

Meanwhile, there are several threats to existing surface water delivery systems that are ongoing. The Friant Kern Canal delivers water from Millerton Lake above Fresno all the way down the east side of the San Joaquin Valley to Kern County. The capacity of the canal has been impacted by localized subsidence in the Porterville area, restricting the carrying capacity of the canal by about half. The engineering and planning for the fix is nearly completed and partial funding has been identified. More money will be needed to fully restore the canal to its design capacity.

Another threat to surface water supply is a proceeding of the State Water Resources Control Board to restrict irrigation water diversions from the Mokelumne, Stanislaus, Tuolumne and Merced rivers that are tributary to the San Joaquin River as it flows through the Delta out to the ocean. The myriad of communities impacted by this proceeding have attempted, through negotiations, to come to “Voluntary Agreements” that would meet the environmental goals desired by State Board in a less costly and more environmentally efficient way. While there have been some indications of progress, success in these negotiations continues to appear just out of reach.

The other big impact to surface water involves the Delta. It is through the Delta that the State Water Project and the federally owned Central Valley Project get the water to move to central and southern California. There are endangered fish populations in the Delta. These two large water supply projects are controlled by operating permits and protocols that are designed to limit damage to fish. The Federal agencies did produce and implement an updated plan and protocol that is designed to be better for fish as well as providing increased opportunity for water supply in very wet years. One of the things the new plan calls for is the development of a Delta Smelt hatchery to greatly enhance the population of that endangered species. Unfortunately, the whole decision, which was years in the making and developed by scientific experts in the field, got caught up by the politics of the California vs. Trump feud that seems to influence everything the California government does today. It’s worth noting that this entire process started under the Obama administration, which then initiated a re-consultation process with the goal of modifying the rules based on the scientific findings.

The bottom line is that there are lots of challenges in California water. Having wet years helps to ease the pressure, but those above average water years are few and far between as well as unpredictable. We need to be prepared to make the most of them when they occur.

I moderated a panel discussion on SGMA at the Dairy Sustainability Summit (see below). It was an informative panel and runs just short of an hour, which you can view [here](#).



SGMA STRATEGIES: HOW DAIRIES CAN BEST MANAGE FAST-APPROACHING IMPLICATIONS OF THE SUSTAINABLE GROUNDWATER MANAGEMENT ACT



Geoffrey Vanden Heuvel
Director of Regulatory & Economic Affairs
Milk Producers Council
Moderator



Taryn Ravazzini
Deputy Director
California Department of Water Resources
Panelist



Jason Gianquinto
General Manager
Semitropic Water Storage District
Panelist



Scott Peterson
Water Policy Director
San Luis and Delta-Mendota Water Authority
Panelist



Joey Airoso
Dairy Farmer
Circle A Dairy
Pixley, CA
Panelist



California Issues Limited Stay at Home Order; Be Sure Your Employees Have an "Essential Business" Letter

By Kevin Abernathy, General Manager
Kevin@MilkProducers.org

Governor Gavin Newsom yesterday announced a [limited Stay at Home Order](#), which prohibits "non-essential" businesses and personal gatherings between 10 p.m. and 5 p.m. The order goes into effect tomorrow, November 21 and remains in effect until December 21.

What does this mean for our dairy families? Since agriculture was deemed "essential" at the start of the pandemic, dairy owners, workers and service providers can still travel for work-related reasons during the hours prohibited by the order. However, be certain your employees and service providers have an "essential business" letter signed by you should they be stopped by law enforcement from 10 p.m. to 5 a.m. as they travel to and from the dairy. You might remember the cautionary tale we shared back in March about a milk tester who was on his way to a dairy when he was stopped by the California Highway Patrol. The milk tester wasn't carrying a copy of the letter documenting his employment in an "essential business" and was therefore issued a \$700 fix-it ticket. The milk tester was able to get the issue resolved without paying a fine by presenting a copy of his "essential business" letter to the Tulare Police Department.

Earlier this year, we emailed our members a document (in English and Spanish) that explains to their employees the need for such a letter. We also emailed a letter template (in English and Spanish) employers can customize with their company logo, business name and employee's name.

Need these documents again? Download them [here](#).

NMPF Offers Webinar On 2021 Dairy Economy as DMC Deadline Approaches

Courtesy of the National Milk Producers Federation (NMPF)

With deadlines for the Dairy Margin Coverage program and Coronavirus Food Assistance Program signups approaching on Dec. 11, the National Milk Producers Federation is offering dairy farmers, cooperative members and state dairy associations a free webinar Dec. 2 to help them develop effective risk management plans that can protect them in what's predicted to be a volatile year in 2021.

NMPF Chief Economist Peter Vitaliano, creator of the monthly [Dairy Market Report](#) released earlier today, will be discussing the dairy price outlook for next year, and the value of risk management tools including Dairy Margin Coverage, in a [webinar](#) moderated by Chris Galen, NMPF's Senior Vice President for Member Services, at 1:30 p.m. EST on Wednesday, Dec. 2. Participants will be able to ask questions about the year ahead and learn more about how farmers can manage their risk through expected turbulence.

The webinar will examine the milk and feed price forecast, forecast margins, and analyze how the Dairy Margin Coverage program will offer farmers protection against price volatility. To register, click [here](#).

Current USDA calculations predict that the DMC, adopted with NMPF's leadership in the 2018 farm bill, will offer payments averaging \$1.05 per cwt in the first eight months of next year for those at the maximum \$9.50 coverage level. That vastly outstrips program premiums, making coverage for a farm's first 5 million pounds of milk production a no-brainer, Vitaliano said. The DMC also offers affordable

protection to all producers against price catastrophes and can be used in tandem with other risk management tools, such as the Dairy-Revenue Protection and the Livestock Gross Margin programs. To determine the appropriate level of DMC coverage for a specific dairy operation, producers can use the recently updated online [dairy decision tool](#) offered through the USDA's DMC informational page. Dairy producers can also visit NMPF's page on [risk management](#) to learn more about DMC, CFAP and other tools to promote financial security for dairy operations.

MPC, Broad Ag Coalition Supports Appointment of Jim Costa to House Agriculture Committee Chairmanship

*By Kevin Abernathy, General Manager
Kevin@MilkProducers.org*

Last week, MPC along with 69 agriculture-related organizations delivered a letter to House Speaker Nancy Pelosi to express support for the appointment of Congressman Jim Costa as the Chair of the House Agriculture Committee. Congressman Costa has been an incredible advocate for California dairy families and MPC enjoys a very positive and productive working relationship with him. Below is an excerpt from that letter.

Dear Madam Speaker:

The undersigned organizations write to you today to express our strong support for Congressman Jim Costa as the Chair of the House Agriculture Committee for the 117th Congress. The loss of Chairman Collin Peterson is felt by the food and agriculture sectors, and his leadership will be greatly missed. As a 16-year veteran of Congress and third-generation farmer, we believe that Congressman Costa possesses the experience and leadership adeptness needed to carry the Committee and its important work forward.

These have not been easy times for our nation or industry. The COVID-19 pandemic demonstrated many frailties within our society, not least among them the challenges that our food system faces. The House Agriculture Committee will not only play a vital role in the needs of producers who grow our food but also how we maximize access to it. We are confident that Congressman Costa will lead on these issues to the benefit of American farmers, ranchers, communities, and families.

Congressman Costa represents the 16th Congressional District of California, which is a microcosm of the American food system and is also one of its linchpins. The 16th Congressional District encompasses parts of Fresno, Madera and Merced counties, which, combined, produced over \$12 billion in farm gate value in 2018 and would place those three counties as the eighth largest agricultural producing state in the nation. At the same time, Congressman Costa also represents many small and medium sized towns that are emblematic of rural towns across America and face distinct challenges of their own. All these factors combine to give Congressman Costa a particularly unique perspective on how we can harness the great strengths of our agricultural system to both grow and nourish our communities.

Continue reading [here](#).



The next MPC Friday Report will be published on December 4, 2020