

MPC WEEKLY FRIDAY REPORT

DATE: DECEMBER 23, 2021

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	-\$0.0150	\$1.8725	WEEKLY CHANGE	+\$0.1575	\$2.2500
Barrels	+\$0.0200	\$1.6500	WEEKLY AVERAGE	+\$0.0883	\$2.1688
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 12/18/21	
Blocks	-\$0.0567	\$1.8663	DAIRY MARKET NEWS	W/E 12/23/21	\$0.7162
Barrels	-\$0.0145	\$1.6375	NATIONAL PLANTS	W/E 12/18/21	\$0.6324
			LAST WEEK ENDING 12/11/21		
			NAT'L PLANTS		\$1.5521 13,136,481
			NAT'L PLANTS		\$1.5278 16,453,728

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 23 EST	\$20.77 - \$21.27	\$19.91	\$18.43	\$19.85
LAST WEEK	\$20.77 - \$21.27	\$19.88	\$18.48	\$19.78



Milk, Dairy and Grain Market Commentary

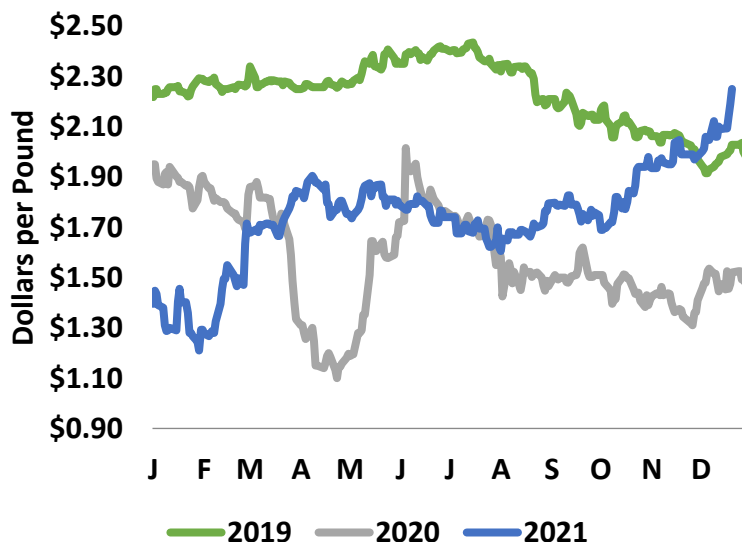
By Sarina Sharp, Daily Dairy Report

Sarina@DailyDairyReport.com

Milk & Dairy Markets

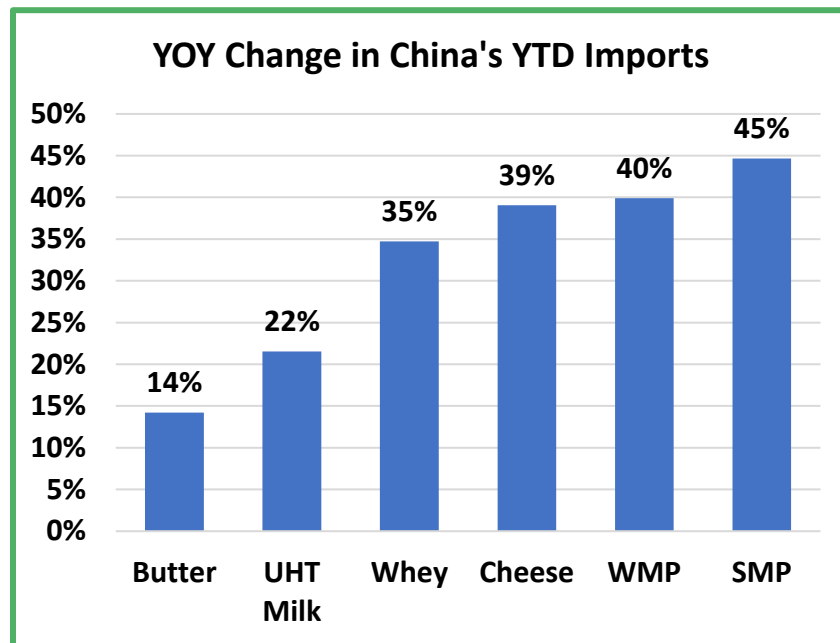
The dairy markets are full of Christmas cheer for producers, while dairy buyers are grunting "Bah! Humbug," into their egg nog. The milkfat market is especially festive, as befits the season. Cream is scarce around the world. Global milk production has faltered but cheese makers are still topping up their vats, leaving less milk and cream for other uses. At the Global Dairy Trade (GDT) auction on Tuesday, anhydrous milk fat and butter values both scored four-year highs. U.S. butterfat is the most affordable in the world, which is likely to keep U.S. imports to a minimum, further tightening the U.S. fat supply. Churns ran slow in November and manufacturers pulled

CME Spot Butter



butter from storage to satisfy orders last month. Stocks dropped below 212 million pounds, down 15.9% from a year ago. Butter prices rose accordingly. At the CME spot market this week butter shot straight up to \$2.25 per pound, up 15.75¢ in just four trading sessions.

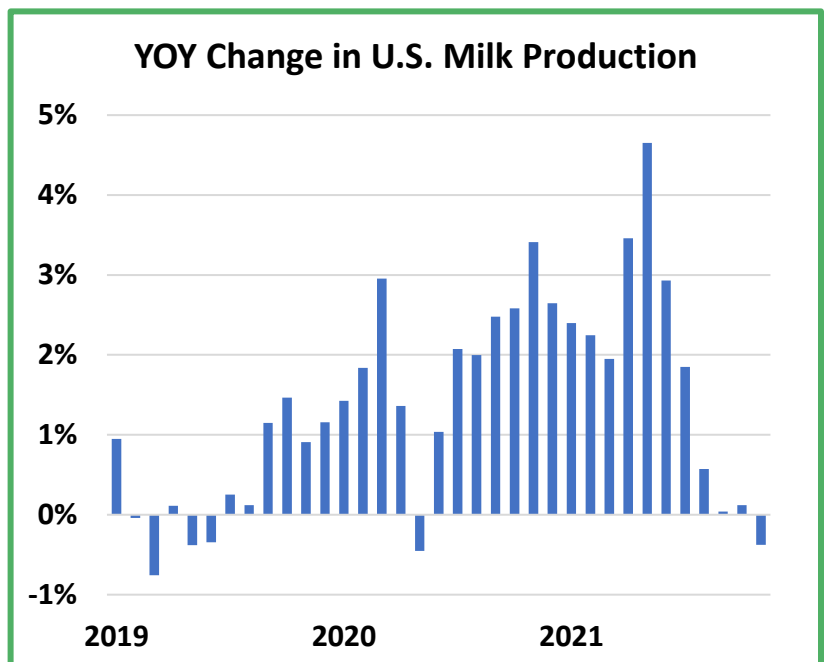
Global power prices are mixed. GDT skim milk powder (SMP) climbed 0.6% this week to a fresh seven-year high. But whole milk powder (WMP) slipped 3.3% due to concerns that China's appetite for milk powder will slow. CME spot nonfat dry milk (NDM) followed WMP lower. It dropped 0.75¢ to \$1.67 per pound. The market is extremely wary that the powder markets have overindulged in 2021 and that they will suffer a massive hangover in the new year, echoing the boom and bust of 2014 and 2015. But the facts are different this time.

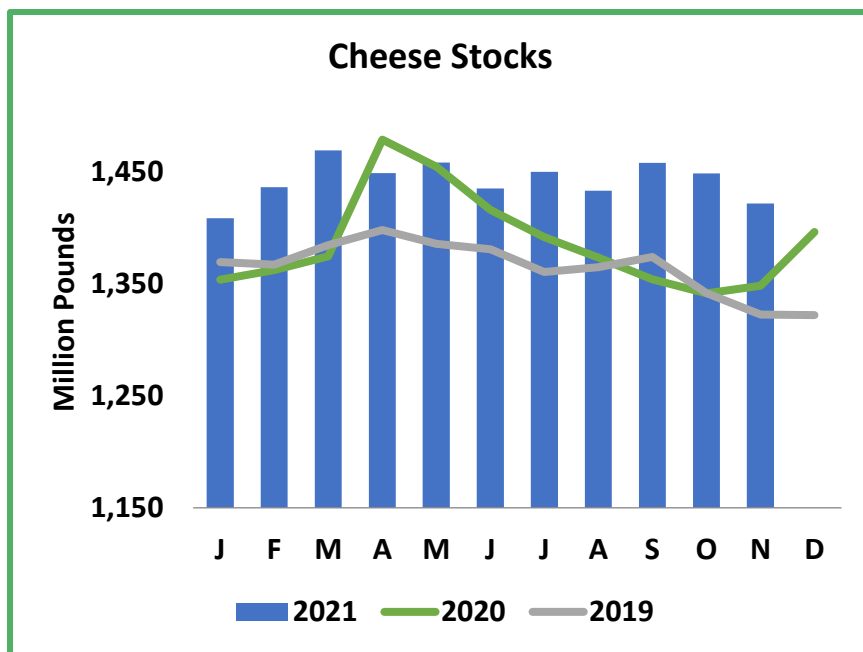


China remains hungry for foreign dairy products, and that is unlikely to change. The government has promoted dairy as a way to improve health and boost immunity to Covid-19, and consumers have responded. Chinese milk production is up 7% this year, but domestic milk consumption is up 18%. China is filling in the gap with imports, and shattering previous trade records. Chinese WMP and SMP imports remained strong in November, exceeding last year by 45% and 5.4%, respectively. In the coming months, it may be difficult for 2022 shipments to best the massive volumes of milk powder China bought in early 2021, especially as new trade agreements reduce the

incentive for Chinese importers to stock up on product early in the year. The trade will be easily spooked if Chinese purchases do start to slip in a given month. But in the aggregate, Chinese dairy imports are likely to remain formidable.

In 2014, China's insatiable appetite spurred the dairy markets to new heights and prompted a surge in global milk output. Dairy producers will surely respond to high prices once again, but they will likely be less nimble this time around. High feed costs are eating deeper into milk checks around the globe. In the United States, there are few regions where processors welcome new milk, and dairy producers are reticent to invest in new facilities without a ready buyer. Dairy producers are also taking an, "I'll believe it when I see it" stance to the futures market, as many have been scarred by depooling and steep discounts for nearly two years. In Europe and New Zealand, dairy





producers face even greater barriers to expansion. Their paddocks are already full, and there are stricter environmental regulations on the horizon. Milk output continues to disappoint in Europe and Oceania.

U.S. milk output did not fall short of year-ago volumes in October, according to USDA's revised estimates. But milk production did drop below last year in November. It slipped 0.4% to 18 billion pounds. The dairy herd continued to contract, albeit at a slower rate. U.S. dairy producers trimmed cow numbers by 45,000 head in August, 33,000 in September, 19,000 in October, and 10,000 in November.

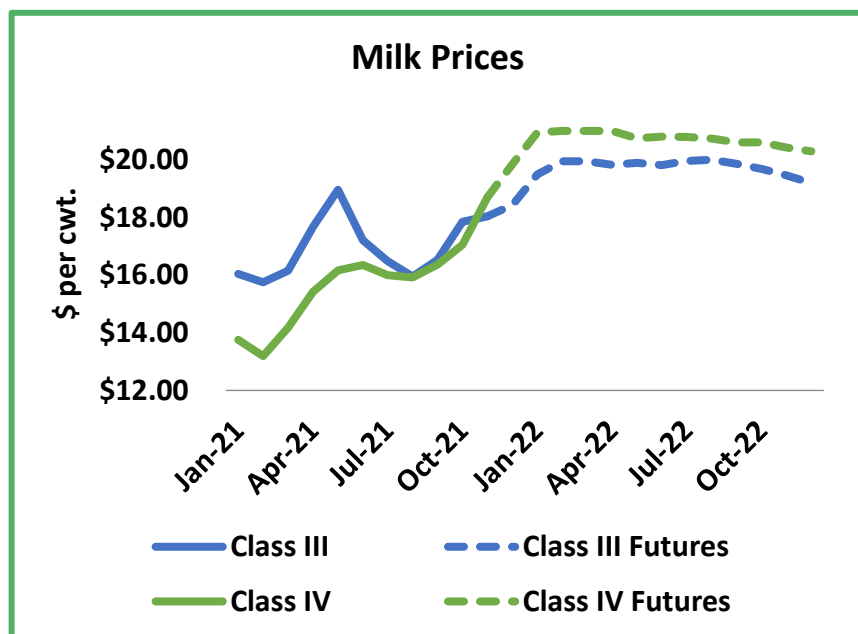
There are now 9.385 million cows giving milk in the U.S., down 47,000 from last year.

There is still plenty of milk for cheese vats. Thankfully, demand is strong. There were 1.42 billion pounds of cheese in cold storage warehouses at the end of November. That is 5.5% more than in November 2020, but it's better than the 8% year-over-year surplus in October. Consumers are loading up their grocery cart with cheese, but foodservice sales are less predictable as the omicron variant has deterred some would-be restaurant patrons. Exports are booming. The cheese markets seem comfortable in their recent trading range. Spot Cheddar blocks dropped 1.5¢ this week to \$1.8725. Barrels added 2¢ and reached \$1.65.

The whey market just keeps climbing. CME spot dry whey rallied 2¢ to a new high at 75¢. That helped Class III futures to continue their advance. January climbed 24¢ to \$19.49 per cwt. First-half contracts added between 3 and 25¢. Class IV futures were up again. The January contract leapt 50¢ to \$20.95. February, March and April rang the bell at \$21.

Grain Markets

There is no quit in the feed markets. Old crop corn futures pushed above \$6 and didn't look back. March corn settled at \$6.0575 per bushel, up 12.5¢ this week. January soybeans rallied more than 45¢ to \$13.32. Soybean meal surged \$26.60 to \$406.10 per ton. A dry forecast for southern Brazil and Argentina has exacerbated concerns about South American crop yields, and buyers are quick to jump in as inflation has the commodity markets on edge.





Thank the Lord for the Rain and Snow

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

One of the big realizations for me in relocating from Southern California to the Central Valley is how dependent Valley agriculture is on winter precipitation. Dairying in Southern California, which I did for 39 years, involves trucking in feed from somewhere else: Hay from Blythe and the Imperial Valley, corn, canola, and cottonseed from the Midwest and South, and by-products like almond hulls and millrun from the West. We didn't grow anything locally and rain meant muddy corrals. But in the Central Valley it is very different. Experiencing the drought of 2020 and 2021, particularly in the new Sustainable Groundwater Management Act (SGMA) era, is a very concerning experience.

Central Valley farmers have always turned to groundwater to provide irrigation water when surface supplies are not available. But the groundwater supply is diminishing and now regulated. For many in the Valley, there will be limits to how much can be pumped. How is the dairy industry going to cope?

When I sold my cows in 2018 and was looking for something productive to do, the Board of Milk Producers Council asked me to become the dairy industry's eyes, ears and advocate on water supply issues, particularly focusing on how SGMA was going to impact the industry. I have been wrestling with this issue ever since. The conventional wisdom is that dairy depends on row crops for feed and the tree farmers make a lot more money per acre. Therefore, in a competition for water, the row crop farmers lose.

I think there is validity to this position. However, the tree farmers have a significant vulnerability. Trees need water every year. You cannot fallow trees for a year or two when there is no access to irrigation water.

A significant portion of the lower part of the San Joaquin Valley is dependent almost exclusively on groundwater, and there is not enough groundwater to keep all the acres that are currently irrigated in production. There are thousands of acres of trees planted in areas that will eventually have access to less than 12 inches of groundwater per year. It seems likely that trees in those areas will be taken out of production at some point between now and 2040 when SGMA is fully implemented. What will become of that land? That is a question that has not been answered. But one answer might be that it will be available to grow feed crops in above average precipitation years. That is probably the best-case scenario for dairy.

We know that dairies established in other parts of the country with erratic weather – that is, very wet years and very dry years – must plan on accumulating large feed inventories in those good feed years to get through the dry years. In California we have not had to think that way because our feed inventory was essentially the groundwater beneath us. That will have to change. Accumulating and carrying large feed inventories is something that will likely need to be part of surviving in a post-SGMA world.

The other big impact to dairy that follows from restricted access to groundwater is what to do with the nutrients that are in the manure generated by our animals. All dairies are regulated by Regional Water Quality Control Board permits and must have nutrient management plans that are often dependent on using those nutrients as fertilizer in growing crops. Less groundwater leads to less crops grown which leads to less demand for nutrients, and therefore, surplus nutrients in need of another home. Surplus nitrogen on dairies was already identified by state water quality regulators as a challenge facing the

dairy industry before SGMA, which has only intensified the need to find cost effective solutions to this challenge. [As I reported a few months ago](#), California Department of Food and Agriculture Secretary Karen Ross appointed a high-level Manure Recycling task force that is busy at work seeking solutions.

If there is one fact that keeps me optimistic it is that even in the driest part of the Central Valley, there does seem to be enough groundwater to operate the cow portion of a dairy. While further research into the specifics of dairy facility water consumption is being done, best indications are that actual water consumption of the non-crop portion of a dairy facility is less than 12 inches per acre due to the major water recycling that occurs on most dairy operations. If you think of the Chino dairy model, that is, import all your feed and export all your manure, then you do not need that much water to operate. However, in the Central Valley, flushing alleys is necessary for both air quality regulations and for dairy operations that operate methane digesters. So significant challenges lie ahead.

Which leads me back to being reminded of what God told Noah after the flood recorded in Genesis.

“While earth remains, seedtime and harvest, cold and heat, summer and winter, day and night, shall not cease. And God blessed Noah and his sons and said to them, be fruitful and multiply and fill the earth.”

In agriculture we have the benefit of a front row seat in seeing how God provides for mankind. Man is made in God’s image and has the ability to discover and innovate. Tremendous progress has been made in productivity. But often we are reminded that it is not man who is in control but a loving God who expects us to love Him above all and our neighbor as ourselves. Merry Christmas to you all.

One-stop Truck and Bus Event – January 20, 2022

[Courtesy of the California Air Resources Board](#)

Virtual One-Stop Event

Free, informational event for medium- and heavy-duty vehicle owners and operators

The California Air Resources Board (CARB) invites you to a free Virtual One-Stop Trucking event on Thursday, January 20, 2022. Attendees can meet with exhibitors and hear presentations on regulatory compliance, financial assistance, and zero-emissions options.

Presentation topics for this online event will include:

- On-Road and Off-Road Regulations
- Common Truck and Bus Regulation Reporting Questions
- CARB’s Medium- and Heavy-Duty Zero-Emissions Programs
- Zero-Emissions Technology and How to Electrify a Fleet
- Heavy-Duty Inspection and Maintenance Program
- Vehicle and Engine Certification and Compliance Program
- CARB Enforcement Inspection Demonstration
- California Highway Patrol’s Basic Inspection of Terminals
- Heavy-Duty Pilot and Demonstration Projects
- Funding Opportunities

Exhibitors will be available after the presentations.

The final agenda will be shared before the event so you can plan your time around which presentations you wish to hear. This agenda and all additional information regarding the event will be hosted on the [TruckStop Training and Events page](#).

Date | January 20, 2022
Time | 8:15 a.m. to 4:15 p.m.
Location | [Virtual Webinar](#)

Port of L.A. to Test Manure-derived Hydrogen as Fuel for Trucks, Cranes

By Yuki Fukumoto
[Nikkei](#)

From Kevin Abernathy, MPC General Manager

Maas Energy Works, Inc. – a longtime MPC Associate Member, which failed to appear on last week's Associate Member list due to my oversight – is the intended dairy biogas supplier for this innovative project at the Port of Los Angeles. Congratulations to Daryl Maas and his entire team for continuing to advance the climate-smart farming footprint of California dairy families!

NAGOYA, Japan – A Toyota Motor group member will start a four-year test at one of the largest U.S. ports using cargo equipment powered by hydrogen derived from animal waste.

The pilot program will take place at the Port of Los Angeles from February through March 2026, Japanese commodity and equipment distributor Toyota Tsusho said Tuesday.



Over 1,000 machines work at the Port of Los Angeles, a key hub for trade between Asia and the U.S. © Reuters

It will involve seven pieces of machinery powered by fuel cells, including a crane, machines that offload containers, and trucks.

The hydrogen will come from renewable natural gas, or biomethane. Derived from manure produced at farms and improved to fuel-grade, this gas contributes to reducing carbon dioxide emissions.

The Port of Los Angeles aims to achieve zero greenhouse gas emissions from equipment use by 2035.

Electrifying the equipment presents a solution, but given the time it takes to recharge batteries, fast-fueling hydrogen is seen as an alternative.

Continue reading [here](#).

Thank You to Our MPC Associate Members!

By Kevin Abernathy, General Manager

Kevin@MilkProducers.org



2021 Milk Producers Council Associate Members

<i>AL Gilbert - Farmers Warehouse</i>	<i>Genske, Mulder & Co, LLP</i>
<i>California Bioenergy, LLC</i>	<i>Innovative Ag Services</i>
<i>CALM MGT</i>	<i>Jack & Bea Moons</i>
<i>Citizens Business Bank</i>	<i>Kellogg Supply Inc</i>
<i>Corona Cattle Inc</i>	<i>Laird Manufacturing - Isaac Isakow</i>
<i>Dairy Gross Margin, LLC</i>	<i>Maas Energy Works, Inc</i>
<i>Darling International</i>	<i>Model T Farms</i>
<i>D V O, Inc</i>	<i>Rico Trucking</i>
<i>Mrs. Englesma</i>	<i>O K Cattle - Sam Sousa</i>
<i>Farm Credit - West</i>	<i>Schull & Associates Real Estate</i>
<i>Frazer LLP</i>	<i>Stiles Animal Removal, Inc</i>

Interested in Becoming an MPC Associate Member?

*Contact MPC General Manager Kevin Abernathy
at Kevin@MilkProducers.org to learn more and sign up.*

Volunteer to Help the 'More Water Now' Ballot Initiative Today!



The petition process to qualify the [More Water Now](#) initiative for the November 2022 ballot is officially underway. **Signatures from 1.5 million registered voters must be gathered by April 15, 2022**, just five short months from now. This initiative provides an opportunity to make a substantial – and long overdue – investment in California's water supply infrastructure, with funding put in place until five million acre-feet of new water is developed. Learn more about volunteering at MoreWaterNow.Com/Volunteer.



The next MPC Friday Report will be published Friday, January 7, 2022

