MPC Weekly Friday Report

Date: July 16, 2021
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter		
Blocks	*- $.1100*	$1.6150	Weekly Change	*+ $.0025*	$1.6775
Barrels	*- $.1400*	$1.4400	Weekly Average	*- $.0115*	$1.6960
Weekly Average Cheddar Cheese			**Dry Whey**		
Blocks	*+ $.0051*	$1.6970	Dairy Market News	w/e 07/16/21	$.5825
Barrels	*+ $.0095*	$1.5645	National Plants	w/e 07/10/21	$.6287

Non-Fat Dry Milk		
Week Ending 07/10/21		
Nat'l Plants	$1.2557	15,042,354
Prior Week Ending 07/03/21		
Nat'l Plants	$1.2626	23,421,856

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
Jul 16 Est	$19.02 - $19.52	$16.83	$16.68	$15.93
Last Week	$19.02 - $19.52	$16.83	$16.85	$15.93

June 2021 CA FMMO Statistical Uniform Price Announcement

Jun '21 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	$19.89 (Tulare) $20.39 (L.A.)	$16.66	$17.21	$16.35	$16.80 (Tulare) $17.30 (L.A.)	$16.435 (Tulare) $16.935 (L.A.)
Percent Pooled Milk	19.1%	6.9%	3.4%	70.6%	100% (1.92 billion lbs. pooled)	

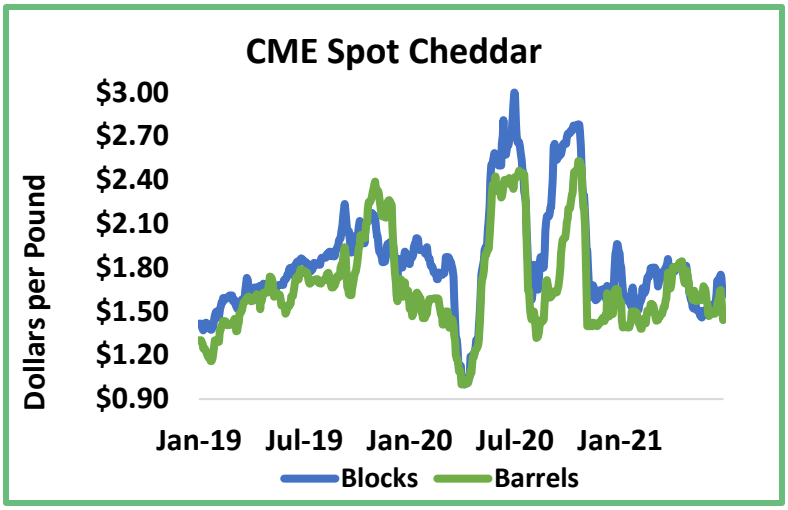
**Quota rate of $0.365/cwt. as of June 2020 milk*

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Daily Dairy Report
Monica@DailyDairyReport.com

Milk & Dairy Markets

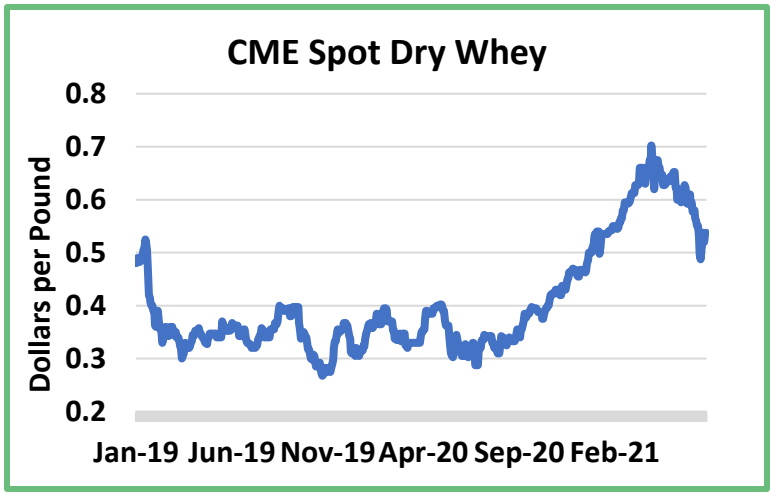
Following last week's rally, spot cheese markets buckled under the pressure of higher prices. After making one final upward effort on Tuesday, cheese prices deteriorated over the balance of the week, including a particularly precipitous loss on Thursday. Cheddar blocks ultimately gave up 11¢ versus last Friday to close the week at $1.615 per pound, with a



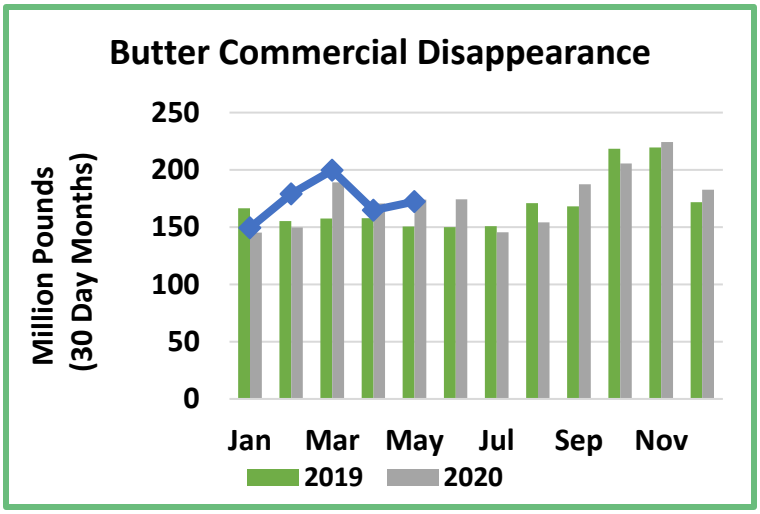
modest seven loads trading hands. Meanwhile, barrels sacrificed 14¢, ending the week at $1.44 per pound, a 17.5¢ discount to blocks and the lowest price since late March. The spot losses weighed heavily on Class III milk futures with some contracts moving limit down on Thursday.

Manufacturers report that cheese demand, especially for Italian varieties, is robust and that spot milk for manufacturing is available and affordable. According to USDA's Dairy Market News, spot milk for manufacturing uses can be procured for discounts as large as $6 per cwt to Class III prices. While cheese manufacturers would be keen to capitalize on the available milk, a plethora of issues are complicating operations and preventing additional output.

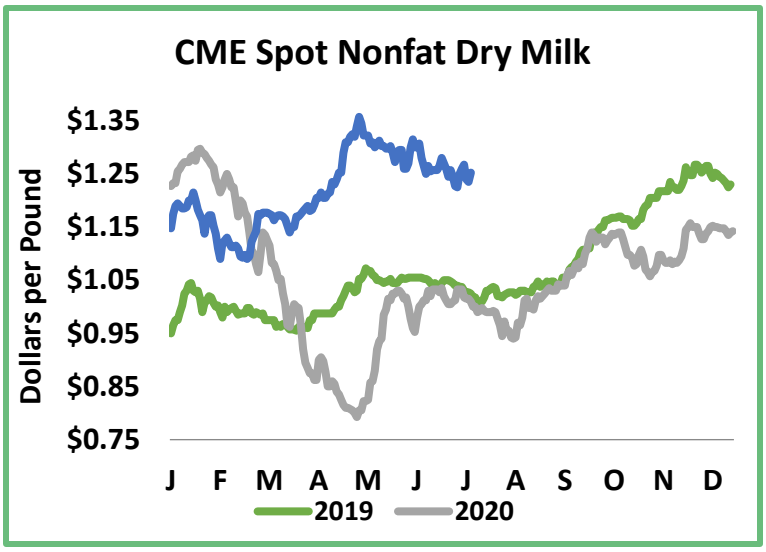
Firstly, continued scarcity of inputs, namely a lack of boxes for 640-lb. cheddar blocks are narrowing the production options for cheese manufacturers. Secondly, widespread labor shortages, affecting all corners of the dairy industry, are preventing cheese and other dairy product manufacturers from operating at full capacity. If processors are able to get product made, they are running into logistical issues including a dearth of truck drivers and port congestion. This has caused product to back up in warehouses, limiting storage space, and ultimately impinging on production schedules. These wrinkles will have to be ironed out before manufacturers can capitalize on the available milk supplies.



The tone in the whey markets was mixed this week. At the CME, spot dry whey resisted the weakness seen in the cheese market and despite a brief dip on Wednesday, stayed relatively strong, ending the week at 53.75¢ per pound, an increase of 3¢ versus last Friday. However, market participants report that prices are softening across the country as ample cheese manufacturing and diminishing export demand has created plenty of supply. Though higher protein products like whey protein concentrates and whey protein isolates continue to disproportionately attract the whey stream, dry whey production is reportedly sufficient to meet buyers' needs.

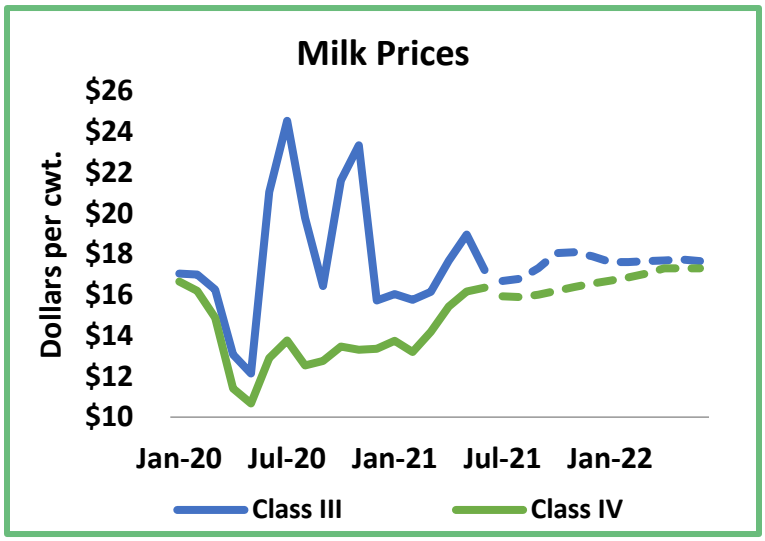


In the Class IV complex, spot butter prices found some strength early in the week before slipping once again on Thursday and Friday. CME spot butter closed the week at $1.6775 per pound, just a quarter cent higher than last



Friday. Cream supplies are lighter, particularly in Western states, but flat to slightly reduced demand has prevented tension from building in the market. Commercial disappearance of butter was higher in May than in April on an average daily basis, and remains elevated by historical standards, but sat 1% below the same month last year.

Even in the face of mounting inventories and slowing international interest, nonfat dry milk (NDM) markets continue to demonstrate surprising resilience. Condensed skim production is slowing seasonally with labor and transportation issues creating hiccups across the value chain. At the CME, spot NDM saw prices lose momentum over the majority of the week before finding renewed strength to rise 2.5¢ on Friday, closing the week at $1.2525 per pound, a quarter penny higher than last Friday.



Milk production is declining as seasonal fluctuations and heat related impacts weigh on output. Nevertheless, milk remains more than available to cover needs in most areas of the country. Class I sales are seasonally light though market participants are looking for the pull from educational institutions to perk up in the near future as the start of the new school year is around the corner. Heat related impacts on milk production have been felt heavily in many areas of the country, especially the Pacific Northwest, and though recent weeks have brought some respite, producers in the affected areas are once again bracing themselves for hot summer temperatures.

Grain Markets

USDA released their World Agricultural Supply and Demand Estimates (WASDE) report on Monday, including a 1.6 million acre increase in U.S. planted corn acres for the 2021/2022 crop year as outlined in the June 30th Acreage Report. Combined with an unchanged yield estimate, this translates to a 165 million bushel increase in corn production. Though an increase in exports and feed and residual use will eat up some of the difference, the forecast for ending stocks was raised by 75 million bushels and the average farm price was reduced by a dime to $5.60 per bushel.

The balance sheet for soybeans included in the WASDE report remained unchanged, though USDA did also decrease the average farm price by 15¢ to $13.70 per bushel for the 2021/2022 crop year. Global soybean projections were also left largely untouched.

Corn and soybean futures markets rallied early in the week, emboldened by the WASDE report and concerning weather forecasts. Despite relaxing on Thursday most nearby corn futures contracts settled the week at least 10¢ higher on Friday than on Monday, while each of the remaining 2021 soybean contracts saw gains above 40¢.

Fixing California: Achieving Water Abundance

By Edward Ring, California Policy Center

From Geoff Vanden Heuvel, MPC Director of Economics and Regulatory Affairs

This article, published last week, really caught my attention. We are in the midst of a very dry year in California. We are also in the early stages of implementing the Sustainable Groundwater Management Act (SGMA). From what I have seen so far, SGMA is about allocating pain – who has to cut water usage and when.

The article below outlines a different policy – a future for California that seeks to provide abundance instead of scarcity. The projects identified are real. The costs are large, but together they are affordable for California. What we need is the will to actually build things. Today's Californians are living on the vision and investments of previous generations. We inherited this place and what the future looks like is going to depend in large measure on what we do over the next few years. We need to be good stewards of the environment and we need to provide for human flourishing. This article is worth the time to read.

Excerpt of "Fixing California: Achieving Water Abundance" – *by Edward Ring*

Abundance means redundancy, diversity, resiliency. The case for water abundance in California is compelling not merely so California's residents can enjoy amenities that citizens of a developed, modern nation are entitled to expect. Water abundance also means Californians are better prepared for cataclysms.

This was well understood in the 1960s, when California's pragmatic Governor Pat Brown, and his successor Ronald Reagan, presided over the construction of the California Water Project, which remains the most impressive system of water engineering ever built. But starting in the 1970s, when Jerry Brown (Pat's son) first became governor of California, water infrastructure became less of a priority. For the last 40 years, apart from some investment in wastewater recycling, there has been no significant new project in California designed to *increase* the supply of water. Conservation, a commendable objective, bought Californians 40 years. In that time, the population has grown from 25 million to nearly 40 million, while the supply of fresh water for people and agriculture has remained fixed.

Coming up with projects to restore water abundance to California is relatively easy: Build a few more surface storage assets, most notably the proposed Sites and Temperance Flat reservoirs. Upgrade and increase the capacity of existing surface storage, such as the San Luis and Shasta reservoirs. Complete the transition to total wastewater recycling to potable standards in all of California's major urban areas, and supplement that, especially in Southern California, with additional coastline desalination plants. Repair existing aqueducts and upgrade the Delta levees—and *voilà*, you're done.

Even at California prices, this entire assortment of major civil engineering projects could be accomplished for around $50 billion. With some of the work financed through revenue bonds, the entire debt burden on the average California household would be under $100 per year.

Continue reading at California Policy Center.

Dairy Farmers Spotlight Ag Labor Reform Needs in Roundtable with Vilsack, Delgado

By National Milk Producers Federation

Dairy farmers urged the government to address dairy's acute labor shortages — and the need for the U.S. Senate to craft a counterpart to the House-passed bipartisan Farm Workforce Modernization Act – in meetings yesterday with Agriculture Secretary Tom Vilsack and Rep. Antonio Delgado (D-NY), culminating in a roundtable discussion at SUNY-Cobleskill in Cobleskill, New York.

Vilsack and Delgado will talk with farmers and farmworkers to address the unworkability of current farm-labor policies. Dairy faces special challenges as a year-round, around-the-clock agricultural sector because the current rules of the H-2A guestworker visa program limits its use to only the temporary and seasonal labor needs of agricultural employers.

"Unfortunately, the Department of Labor hasn't made available the current H-2A program for a commodity that 'harvests' its product multiple times a day, every day," said Jim Mulhern, president and CEO of the National Milk Producers Federation in a statement before the event. "We commend USDA and Rep. Delgado for supporting ag labor reform legislation and organizing this important discussion."

NMPF supports the Farm Workforce Modernization Act as a vehicle for additional policy improvements and to prod Senate legislation that can be reconciled into a final bill that can pass both houses of Congress. Delgado was an early cosponsor of the legislation, which passed the House of Representatives by a solid bipartisan margin in 2019 and again in March. To build momentum for a solution, Vilsack hosted a bipartisan roundtable last month with key Senate negotiators and agricultural stakeholders, including NMPF.

"Without Senate action, the hard-won progress lawmakers have made on ag-labor issues won't bring the solutions farmers need," he said. "We need this conversation to turn into action in congressional corridors so that farmers and farmworkers can benefit from a workable labor system."

Dairy Drought Statistics

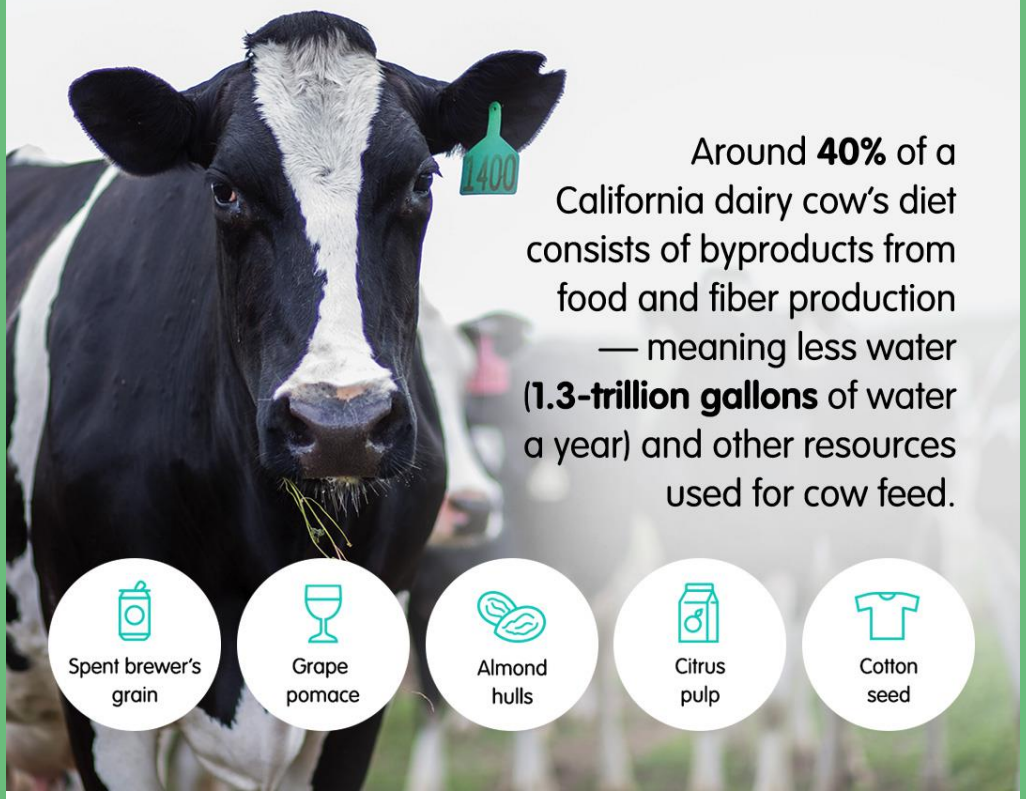
Courtesy of California Milk Advisory Board

From Kevin Abernathy, MPC General Manager

The California Milk Advisory Board (CMAB) created these handy infographics related to California and dairy water use (see next page). As drought conditions continue to worsen, it's no surprise we've seen an increase in interest from media and public officials about water use by California agriculture and dairy. We hope these statistics come in handy for our dairy families as they answer questions by friends, families and neighbors. Want share these on social media? Click on each image to download and save.

Cows that eat byproducts

HELP SAVE WATER



Around **40%** of a California dairy cow's diet consists of byproducts from food and fiber production — meaning less water (**1.3-trillion gallons** of water a year) and other resources used for cow feed.

The **amount of water** used to produce each gallon of California milk has decreased more than

↓88%

over the past 50-plus years, primarily due to:

- improved feed crop production
- use of byproducts as feed
- water use efficiency

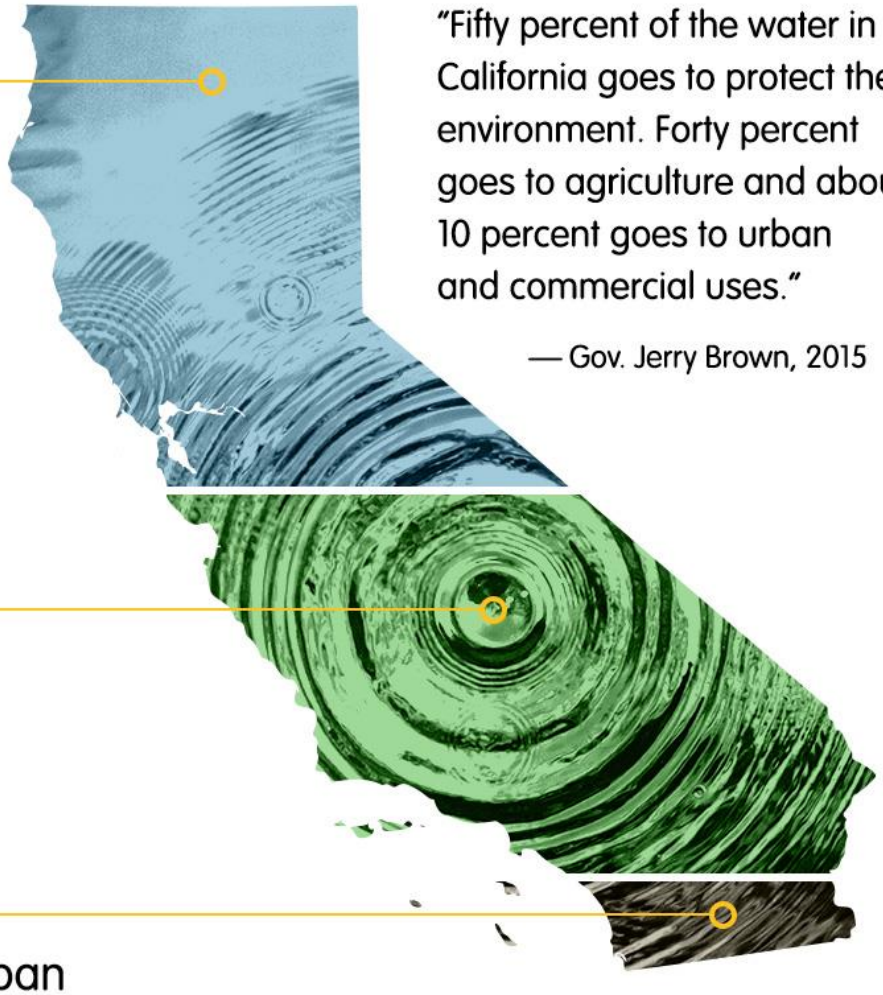
California's

WATER USAGE NUMBERS

50%

Environment

wild and scenic,
bay-delta outflow
and managed wetlands



"Fifty percent of the water in California goes to protect the environment. Forty percent goes to agriculture and about 10 percent goes to urban and commercial uses."

— Gov. Jerry Brown, 2015

40%

Agriculture

food and fiber production

10%

Urban and suburban

Source: Department of Water Resources