

MPC WEEKLY FRIDAY REPORT

DATE: APRIL 5, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 7



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK		
Blocks	+ \$.0150	\$1.6600	WEEKLY CHANGE	+ \$.0150	\$2.2700	WEEK ENDING 03/30/19		
Barrels	-.0275	\$1.5750	WEEKLY AVERAGE	-.0115	\$2.2555	NAT'L PLANTS	\$0.9515	28,005,546
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 03/23/19		
Blocks	-.0305	\$1.6540	DAIRY MARKET NEWS	W/E 04/05/19	\$.3837	NAT'L PLANTS	\$0.9573	26,015,731
Barrels	-.0100	\$1.5790	NATIONAL PLANTS	W/E 03/30/19	\$.4020			

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
APRIL 5 EST	\$17.36 - \$17.86	\$16.45	\$15.85	\$15.90
MARCH '19 FINAL	\$17.58 - \$18.08	\$16.61	\$15.04	\$15.71



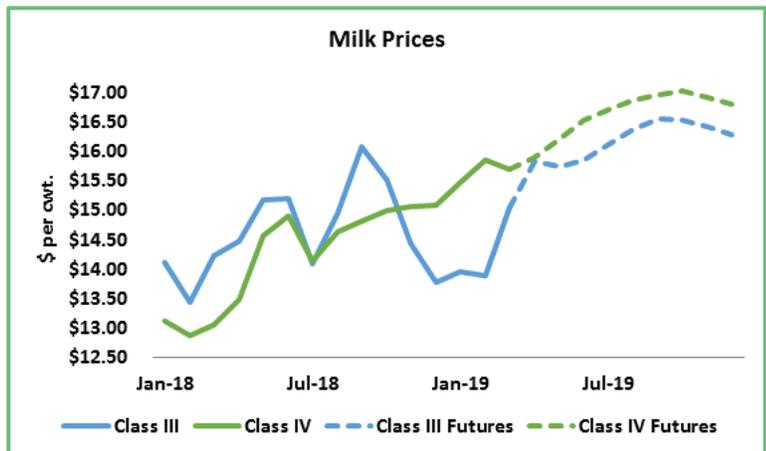
Milk, Dairy and Grain Market Commentary

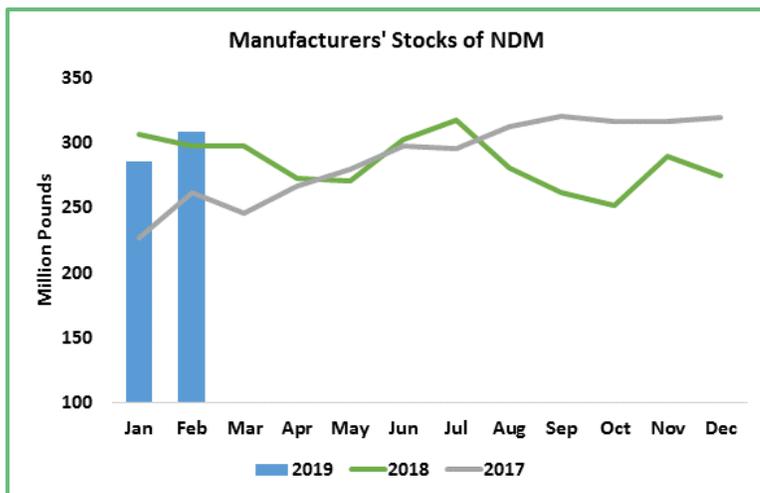
By Sarina Sharp, Daily Dairy Report

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Milk & Dairy Markets

The U.S. dairy cow herd has been contracting for more than a year, and foreign milk production has fallen flat. At long last, that is translating into higher milk pricing. USDA announced the March Class III price at \$15.04 per cwt., up \$1.15 from February and up 82¢ from a year ago. At \$15.71, the March Class IV price was down 15¢ from February but up \$2.67 from March 2018. There is also notably less surplus milk seeking to attract a buyer through steep discounts. That is helping to stop the multi-year slide in milk premiums and the accumulation of hauling and other deductions. Both the milk price and the basis are improving. Dairy producers across the country will be seeing much better milk checks than those they have cashed in recent months.





The futures are looking up as well. Compared to last Friday, both Class III and Class IV prices are sharply higher. Nearby Class III futures climbed 20¢ to 30¢, while deferred contracts added a nickel or a dime. The April contract spent much of February and March below \$15, but it settled today at \$15.85. Class IV futures also posted double-digit gains, but here the rally was strongest in the deferred months. October Class IV climbed over the \$17 mark.

Spot dairy products moved mostly higher. Cheddar barrels slipped 2.75¢ from the very

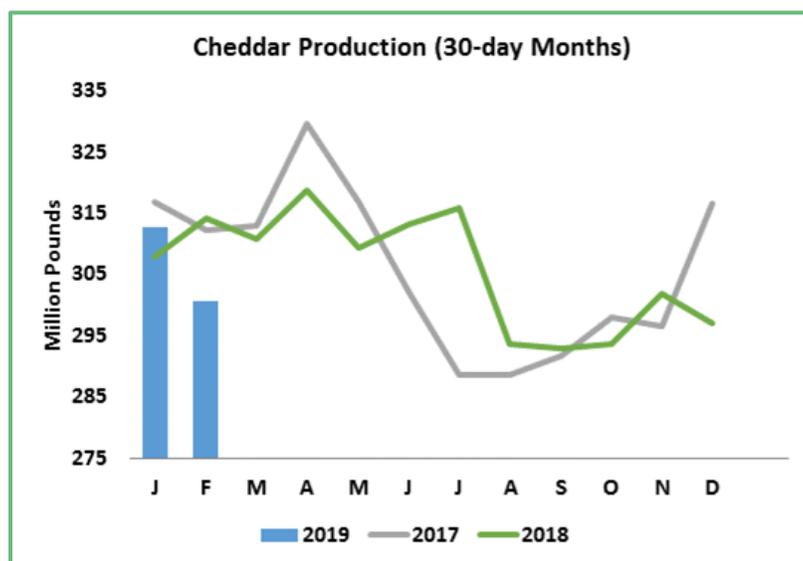
high values of last week to a still-lofty \$1.575 per pound. Blocks climbed 1.5¢ to \$1.66. Spot whey powder jumped 2.25¢ to 34.5¢. Nonfat dry milk (NDM) rallied 2.5¢ to 98.75¢. Butter added 1.5¢ and reached \$2.27.

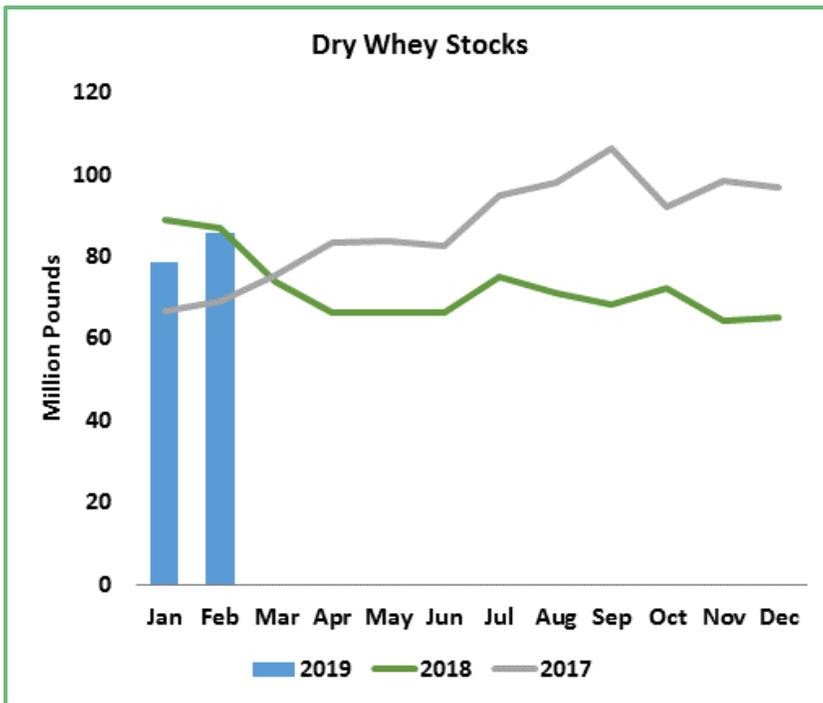
Prices moved mostly higher at the Global Dairy Trade (GDT) auction on Tuesday. Lactose (-5.3%) and whole milk powder (WMP; -1.3%) were the exceptions to the trend. But those losses were more than offset by increases in the other products. Compared to the previous auction, butter jumped 5.8%, anhydrous milkfat rallied 3.7%, and Cheddar climbed 3.2%. Skim milk powder (SMP) gained 1.8% and reached the equivalent of NDM at \$1.19 per pound.

Strength at the GDT helped to lift U.S. milk powder pricing despite indications that demand has softened. USDA's Dairy Products report showed a 3% year-over-year decline in milk powder output in February; tighter milk in some regions has slowed driers. Nonetheless, manufacturers' stocks of NDM climbed 22.6 million pounds from January to February, likely reflecting a setback in export sales as U.S. milk powder prices neared \$1 per pound. At 308.9 million pounds, manufacturers' inventories of NDM were 3.5% greater than at the same point a year ago. According to USDA's *Dairy Market News*, some NDM buyers "are still confused" by the strength in NDM pricing given rising stocks. They argue that "prices should dip soon, especially during the spring flush." The strong dollar also suggests that U.S. NDM pricing may face some headwinds. But GDT provided a countervailing breeze.

There was less milk for butter churns in February. U.S. butter output dropped to 165.2 million pounds, down 2.9% from a year ago. Cream demand is picking up, as befits the season, which is likely slowing churning further. *Dairy Market News* offered a succinct summary of butter pricing: "Butter markets remain interminably steady."

Cheese output grew modestly in February. Cheese production of all varieties reached 991.4 million pounds, up 0.5% from February 2018. Production of American-style cheese fell 0.9% from the prior year in February, and Cheddar production



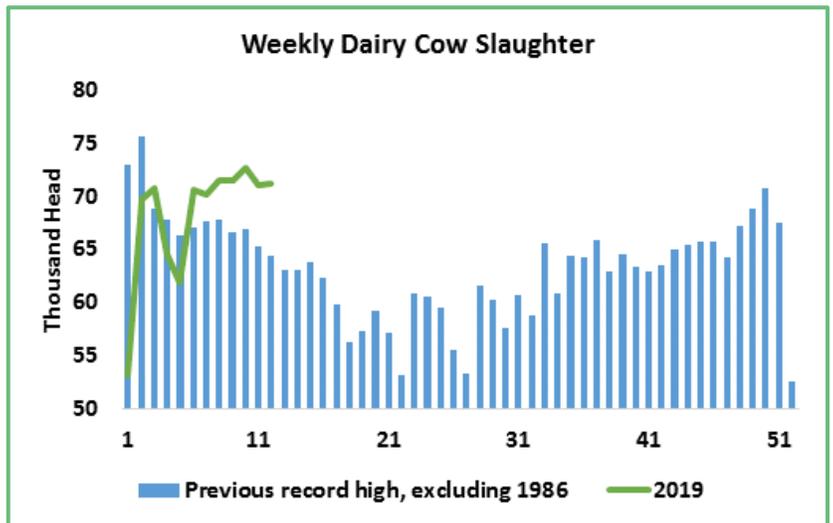


dropped 4.3%. Cheesemakers shifted milk to mozzarella and other Italian-style cheeses, which allowed for a slowdown in production of Cheddar barrels and a steep rally in the spot Cheddar markets. There is some concern that mozzarella orders could slow, which would likely result in greater Cheddar production. However, now that there is some breathing room between milk production and processing capacity, there are other opportunities to use milk beyond pushing as much of it as possible into barrel Cheddar.

Whey product output moved sharply lower in February. The 17.1% year-over-year decline in production of dry whey for human consumption was perplexing in light of continued growth in cheese

output. Dry whey inventories climbed, reflecting slow demand. Whey values remain a drag on the Class III market.

The promise of more adequate incomes has yet to reduce pain on the farm, as revealed by another week of eye-popping slaughter volumes. Before this year, dairy cow slaughter had never topped 70,000 outside of the 1986 cow-kill program and pent-up weeks close to the holidays. In the week ending March 23, dairy cow slaughter was 71,253 head, up 13.7% from the same week a year ago. That marks the seventh consecutive week of slaughter over the 70,000 mark. These figures grow increasingly impressive as the U.S. dairy herd shrinks and as spring ushers in a season when slaughter is typically much lower. For the year to date, slaughter is up 5.3% from the multi-decade high pace set in 2018. Compared to last year, culling is up 5.6% in the Eastern states, up 8.4% in the Midwest and Northern Plains, and up 3.6% in the West. The industry is cutting deeper into a dwindling heifer supply, which suggests that there will be a ceiling on expansion in the years to come. That bodes well for milk prices and dairy cow values.



Grain Markets

The grain markets returned to a rather ho-hum trade after last week's fireworks. May corn climbed 6¢ to \$3.625 per bushel. May soybeans added almost 15¢ and reached \$8.99. The feed markets are in a holding pattern as they await the advent of planting season and the details of U.S.-Chinese trade negotiations.



CDFA Finalizes Quota Implementation Plan Petition Procedures; Petition Seeking Referendum to End Quota Filed

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

This week California Department of Food and Agriculture Secretary Karen Ross released the official "Department Procedures for Handling Petitions Requesting Changes to or Termination of the Quota Implementation Plan."

This document was developed by the Producer Review Board starting with a meeting last December and continuing with a meeting on March 6 where this document was further refined. This week Secretary Ross finalized the document, which you can read [here](#).

Also today, CDFA posted on its website a cover letter from an attorney representing a "coalition of dairymen" who submitted a petition seeking a referendum to terminate the Quota Implementation Plan. You can read the letter [here](#).



Regional Water Quality Control Board Members Tour MPC-member Dairy; Get Firsthand Look at On-farm Practices, Technology for Protecting Groundwater

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

A unique and important educational experience occurred yesterday at Philip Verwey Farms in Hanford, California. Water quality regulators were treated to a first-hand look at manure handling and groundwater protection practices on a working dairy. All seven members of the Central Valley Regional Water Quality Control Board (Regional Board), Executive Officer Patrick Pulupa and Regional Board dairy program staff were in attendance for a tour hosted by the Verweys, Dairy Cares, MPC and others.

The chance to host regulators on a dairy – especially the entire Regional Board and its staff – provided a tremendous opportunity to showcase the practices dairy families take daily to handle manure and grow forage crops in a responsible manner that protects groundwater quality. It also highlights the significant economic investments dairy families make to protect groundwater, by collecting, moving, storing and applying manure in a system designed to work practically, economically and environmentally.

After visiting with those on the tour, it was clear to me that members of the Regional Board appreciated the experience and the work that went into organizing the day. MPC extends its thanks to all those involved in making yesterday's event a success, including Philip and Shelley Verwey, Frank and Kathryn Cardoza of DairyWorks LLC, Juan Castellanos



Central Valley Regional Water Quality Control Board members and staff tour Philip Verwey Farms in Hanford, California on April 4, 2019.

and the entire Verwey dairy staff, Dairy Cares, Dairy Farmers of America, 4Creeks, Inc., Innovative Ag Services, the Kings County Sheriff's Department and the MPC staff. We especially thank the Regional Board and its staff for taking the time to tour the Verwey dairy and discuss a collaborative approach to the challenges and opportunities ahead of us.

The morning dairy tour provided a perfect segue for the Regional Board's afternoon meeting held later in the day in Fresno. Among the agenda items for discussion included a presentation by the Central Valley Dairy Representative Monitoring Program (CVDRMP), which provided an overview of recommendations for improving nutrient management practices and achieving whole-farm nitrogen balance.



David DeGroot of 4Creeks, Inc. and MPC General Manager Kevin Abernathy discuss the manure digester project at Verwey Farms.

For the last several years, CVDRMP's board of directors – made up of 11 elected dairy operators elected from among CVDRMP's 1,100 member dairies – and its staff have been reviewing scientific data collected by its groundwater monitoring network and other special studies. They deliberated over what recommendations to

propose to the Regional Board, as required by the Dairy General Order. Those recommendations were submitted to the Regional Board on April 2.

Simply put, CVDRMP's goal is credible, science-based and practical recommendations for improving dairy practices in a way that will improve groundwater quality while minimizing costs for dairy farmers. CVDRMP Administrator J.P. Cativiela walked the Regional Board through the highlights of CVDRMP's 118-page recommendations report. Also in attendance were CVDRMP board members Rodney Kamper and Jeff Troost.



Dairy farmer and CVDRMP Board Treasurer Rodney Kamper addresses the Central Valley Regional Water Quality Control Board.

I would characterize the Regional Board's initial reaction to CVDRMP's report as positive and appreciative. Executive Officer Patrick Pulupa noted that he appreciated CVDRMP's candor in laying out the issues, how the report was organized and how it underscored the economic impacts that changes to dairy regulation will have for milk producers. Regional Board Chairman Karl Longley noted that issues have to be understood and additional research may be needed before solutions can be identified, and that CVDRMP has met the challenge of outlining the issues that must be addressed.

MPC will continue its work with CVDRMP and the Dairy Cares coalition, providing future updates in the MPC Friday Report as groundwater quality management practices and regulations evolve.

Regional Water Board investigating whether lagoons intersect water table

By Kevin Abernathy, General Manager
Kevin@MilkProducers.org

Central Valley Regional Water Quality Control Board (Regional Board) officials confirmed Thursday that they are in the process of contacting about 70 dairies to investigate whether their manure retention ponds are in direct contact with groundwater.

Some dairies have already reported receiving the letters, which order them to submit technical reports to help determine whether their ponds intersect the water table.

Regional Board officials said the effort is focused in an area of the northern San Joaquin Valley known for historically shallow water tables, near communities like Hilmar, Turlock and Merced. The targeted area appears to include parts of Stanislaus, Merced and San Joaquin Counties.

Initial reports indicate that the Regional Board is giving dairies until July 31 to respond to their request for information determining whether the dairy's pond intersects. The letters require affected dairies to have a licensed civil engineer or land surveyor prepare a "Groundwater Separation Study," which would include the elevation of the land surface near the lagoon, the lowest part of the top embankment, depth of groundwater below ground surface, "highest anticipated groundwater," and a comparison of the elevation of the bottom of the lagoon to highest anticipated groundwater.

If the ponds intersect groundwater or highest anticipated groundwater, the Regional Board is asking dairies to respond by October 31 with a "remedial workplan" including a time schedule for "elimination of the threats to groundwater associated with this condition." The October 31 deadline appears to be for submitting the plan, and the letters do not state a specific deadline for when affected dairies would have to fully implement the remedial workplan. However, they would have to propose a time schedule for doing so.

MPC has requested additional information and is closely monitoring the situation; we will provide updates as developments warrant. Any dairies receiving letters should contact me at Kevin@MilkProducers.org or 209-678-0666.

Deadline Extended: 2019 Agricultural Tractor and Mobile Equipment Survey

Courtesy of the California Air Resources Board

The deadline for completing the Agricultural Tractor and Mobile Equipment Survey has been extended by at least one more month. Participation in the survey is important since it helps characterize agricultural equipment emissions in California. Results from the previous survey helped determine allocations for millions of dollars in equipment turnover programs across California, from federal and air district incentive programs.

Take the survey [here](#).

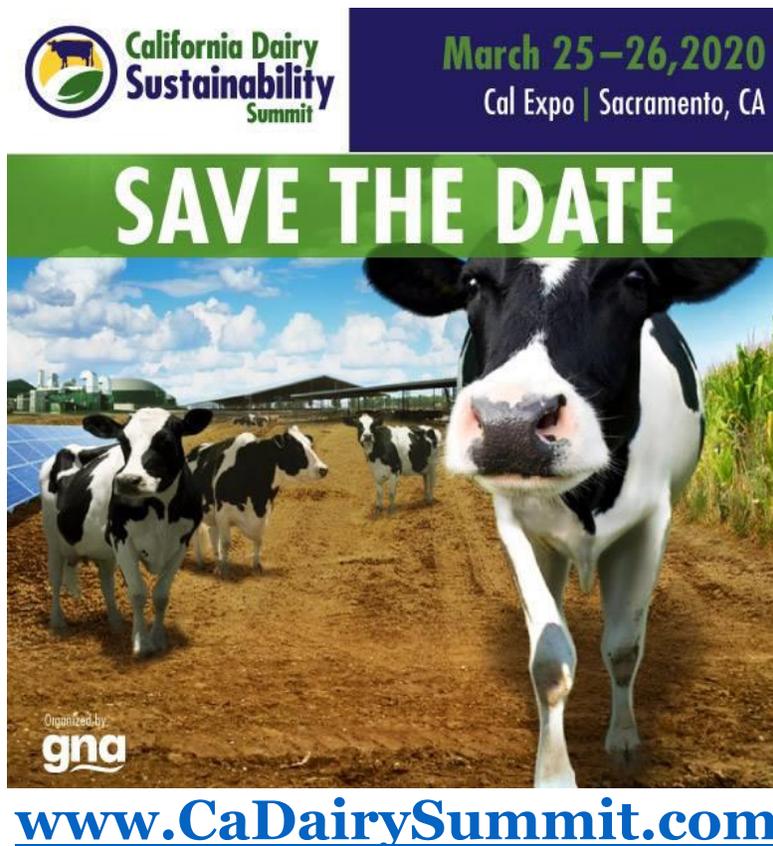
If you are a farmer or agricultural operator, or first processor, and you have not taken the 2019 agricultural equipment survey, the California Air Resources Board (CARB) may not be accurately representing agricultural equipment from your region of the state.

CARB, with the support of the California agricultural community, requests your participation in a 2019 agricultural equipment survey. Please take just a few minutes to participate and represent your region.

CARB contracted with Cal Poly, San Luis Obispo to handle and completely anonymize all survey data, which includes removal of all identifying information. Cal Poly is administering a web-based [survey](#) that can be completed on a computer or phone in just a few minutes.

The 2019 agricultural survey, similar to one from 2008, covers all mobile agricultural equipment, including tractors, combines, balers, agricultural use ATVs and forklifts, and many more. The survey is intended for the agricultural sector, including producers in the field, custom operators, and first processing facilities, and covers equipment using any type of fuel or electricity, of any horsepower.

Survey



The poster features the California Dairy Sustainability Summit logo on the left, which includes a cow icon and the text "California Dairy Sustainability Summit". To the right, a dark blue box contains the dates "March 25-26, 2020" and the location "Cal Expo | Sacramento, CA". A large green banner across the middle reads "SAVE THE DATE" in white. Below the banner is a photograph of several black and white cows in a dirt field with a farm building and solar panels in the background. The "gna" logo is visible in the bottom left corner of the photo. At the bottom of the poster, the website www.CaDairySummit.com is written in blue.

