

# MPC WEEKLY FRIDAY REPORT

DATE: FEBRUARY 22, 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	\$1.5950	WEEKLY CHANGE	+ \$.0100	\$2.2600	WEEK ENDING 02/09/19		
Barrels	-.0300	\$1.4050	WEEKLY AVERAGE	+ \$.0019	\$2.2544	NAT'L PLANTS	\$0.9809	17,861,504
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 02/09/19		
Blocks	+ \$.0205	\$1.5950	DAIRY MARKET NEWS	W/E 02/22/19	\$ .4350	NAT'L PLANTS	\$0.9811	16,069,102
Barrels	-.0090	\$1.4150	NATIONAL PLANTS	W/E 02/16/19	\$ .4537			

## 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 22 ESTIMATE	\$16.90 - \$17.40	\$16.12	\$13.95	\$15.85
FEB 15 ESTIMATE	\$16.90 - \$17.40	\$16.11	\$13.97	\$15.85



### Milk, Dairy and Grain Market Commentary

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

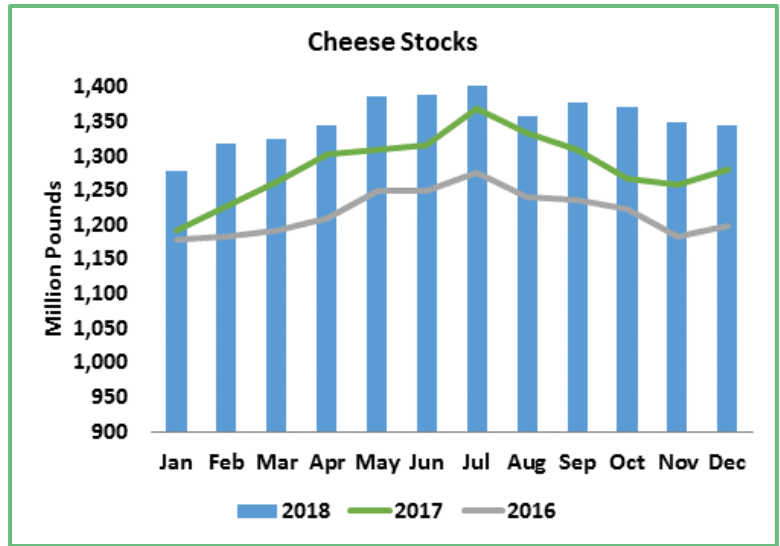
The dairy markets seemed to hibernate this week. CME spot butter remains comfortably holed up in the \$2.25 to \$2.30 range. It closed today at \$2.26 per pound, up a penny from last Friday. The milk powder market is similarly complacent near the dollar mark. Spot nonfat dry milk (NDM) finished a penny higher than last week at 99.75¢. At some point, a surprise – or simply the transition from winter to spring – will roust these markets from their caves. But for now they are in Goldilocks territory. Prices are not low enough to discourage butter churning and milk powder drying nor to entice buyers to step up purchases. But values are not sufficiently lofty to significantly boost production or to curtail demand. So here they sit.

The Class III products were also quite tranquil. CME spot Cheddar blocks added 1.5¢ and reached \$1.595. Barrels slipped 3¢ to \$1.405. Spot whey powder lost a half-cent and closed at 34.75¢.

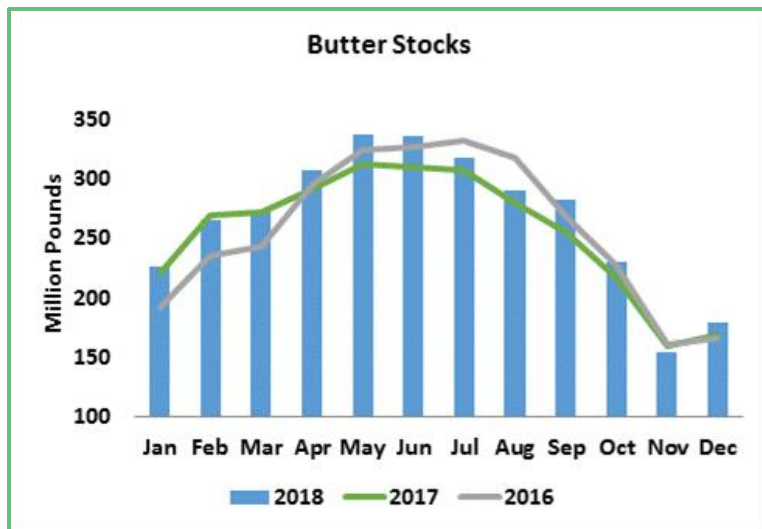
But the placid surface of the spot market belies the currents that roil beneath. Global and domestic dairy fundamentals remain dynamic. The futures markets, which by definition take a longer-range view

than the spot trade, moved decidedly higher this week. Most Class III contracts gained 20¢ to 40¢. Class IV futures settled mostly a nickel or a dime higher than last Friday.

USDA released the much-delayed Cold Storage report this afternoon, showing dairy product inventories on December 31. The data is far from fresh, but it packed a punch. USDA reported year-end cheese stocks at 1.34 billion pounds, up 5% from a year ago. The agency revised downward its estimate of cheese inventories at the end of November and reported a 4.6-million-pound decline in stocks from November to December, a period during which cheese inventories typically increase. Rock-bottom cheese prices in late December and early

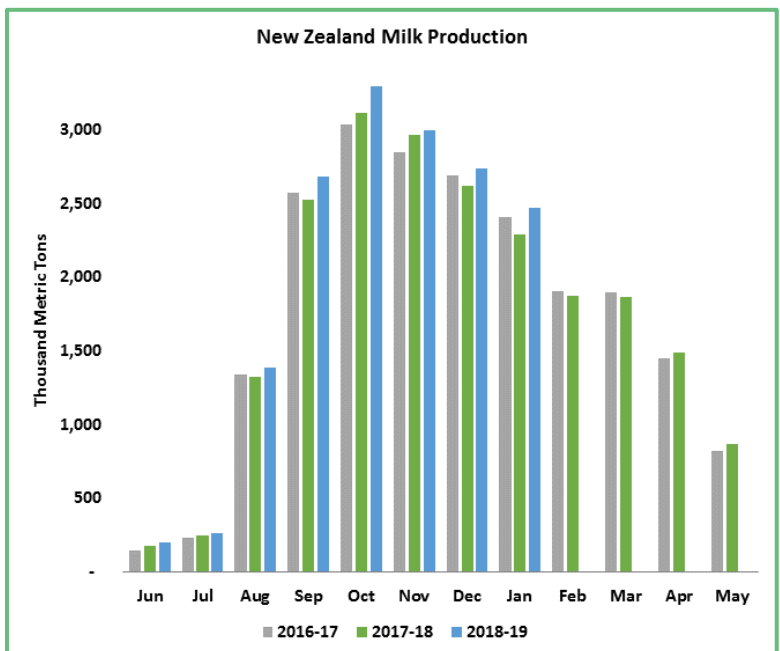


January did not suggest that cheese inventories were starting to tighten. But the markets have rebounded since then and may have already accounted for the shift.



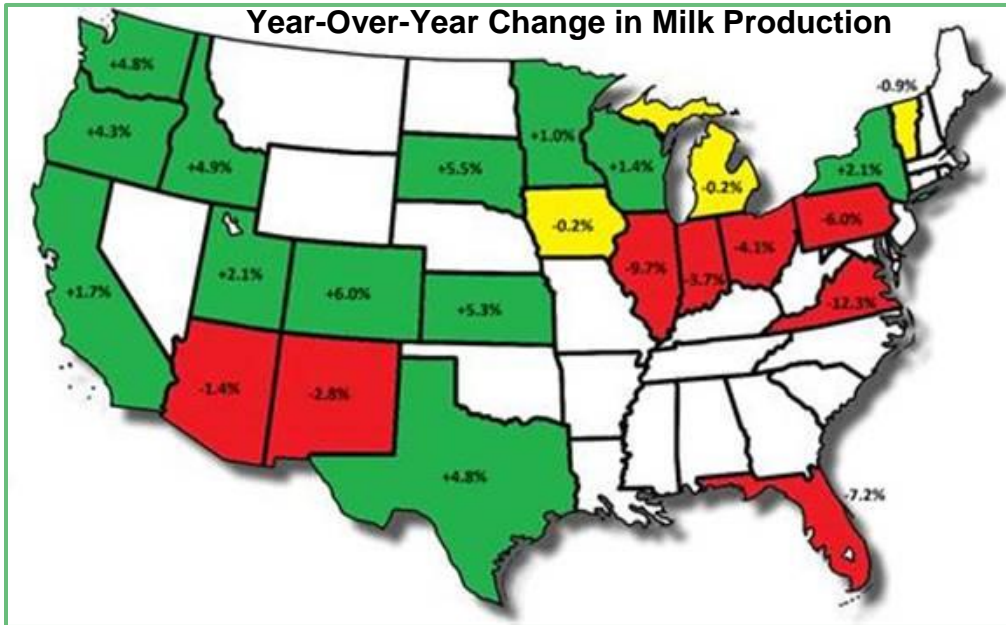
The butter figures offered a surprise of a different sort. Butter inventories on December 31 reached 179.3 million pounds, up 6.2% from a year ago and the highest year-end stocks figure since 1993. Butter stocks swelled 25.6 million pounds through the month, just shy of the largest November-to-December increase on record. Over the past five years, butter inventories have grown just 4.9 million pounds in the typical December.

Prices continued to climb at this week's Global Dairy Trade auction, and this time they did so on greater product volumes, signaling robust demand. Perhaps most impressive, product values rallied even after buyers learned that New Zealand's milk output in January topped the prior year by a whopping 7.7%. For the season to date, New Zealand milk solids collections are up 5.5% from the 2017-18 season. Nonetheless, GDT skim milk powder (SMP) prices jumped 2.8% to the equivalent of NDM at \$1.25 per pound, offering a resounding confirmation of growth in the world's appetite for milk powder.



While New Zealand output races upward, U.S. milk production trudges. In December, U.S. milk output totaled 18.2 billion pounds, up

0.5% from the prior year. USDA revised its estimates for October and November milk output downward by 0.2 percentage points. The new figures show that fourth quarter milk output was just 0.5% greater than in the final months of 2017, the smallest year-over-year growth for any quarter in five years. Slow growth in the U.S., combined with deficits in Europe and South America more than offset growth in New Zealand in the final months of 2018. Combined output from the major players fell below year-ago volumes in November and December for the first time since February 2017.



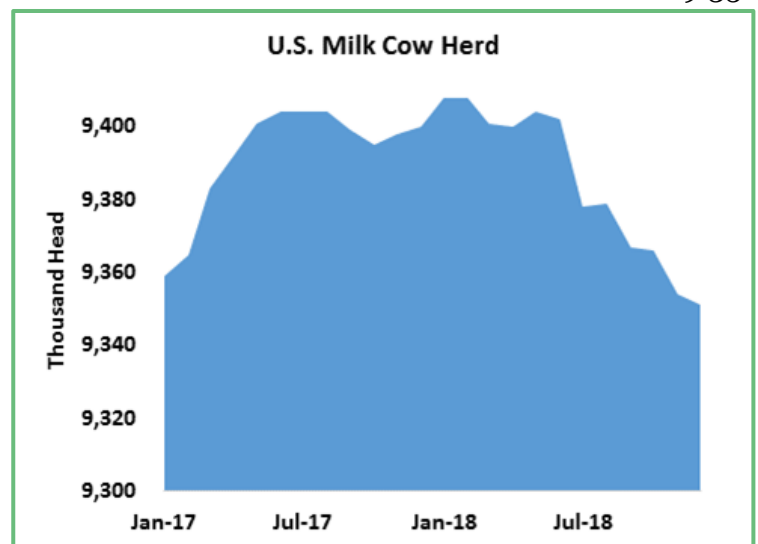
Once again, milk production was sharply lower up and down the East Coast, with the exception of New York. A poor showing in the Empire State in December 2017 – when output slumped 2.2% from the prior year – allowed for 2.1% year-over-year growth in December 2018. Lower milk output remained a problem in the Midwest, although losses moderated in the western reaches of the region. Compared to December 2017, output was down 12.3% in Virginia, 9.7% in

Illinois, 7.2% in Florida, and 6% in Pennsylvania. However, Wisconsin, and Minnesota managed moderate gains.

West of the Mississippi River, production surged. Only Arizona and New Mexico suffered year-over-year deficits. California reported a 1.7% increase despite having 11,000 fewer cows than the previous December. Production was formidable in Colorado (+6%), South Dakota (+5.5%), Kansas (+5.3%), Idaho, (+4.9%), Texas (+4.8%), Washington (+4.8%), and Oregon (+4.3%).

The dairy herd continued to shrink. USDA revised its estimate of the October and November milk cow herds downward and reported an additional 3,000-head decline from November to December. At 9.351 million head, the milk cow herd in December was the smallest since November 2016 and 49,000 head smaller than in December 2017.

Milk prices remain low, slaughter volumes high, and expenses debilitating. Sellouts are perhaps more frequent than they were late last year. The dairy herd has almost certainly contracted further. Meanwhile milk yields – which drove the modest gains in milk production in December – have likely taken a turn for the worse. Harsh winter weather battered dairy producers and livestock in January and February. Bouts of bitter cold temperatures and heavy snows have not helped matters in the



Midwest and Northeast. Heavy rains could slow gains in California and bludgeon dairy producers in the Southeast. Cattle in southern Washington and northern Oregon are in the worst shape after a ferocious blizzard and muddy thaw. The storm will likely reduce the region's cow numbers, conception rates, and milk yields for months. Growth in U.S. milk output plodded in December. In the months since, it has likely slowed to a crawl. Higher prices are on the horizon, particularly for dairy producers with a Class I or Class IV section in their milk checks, but they have been painfully slow to arrive.

### **Grain Markets**

The grain markets went nowhere at all during this holiday-shortened trading week. March corn settled at \$3.7525 per bushel, up a half-cent from last Friday. March soybeans closed at \$9.1025, up 2.75¢. U.S. and Chinese trade officials seem close to outlining the skeleton of a possible deal in Washington, D.C., but in Chicago traders are largely taking a wait-and-see approach until officials put some more meat on the bones of the pact. China promises to purchase more soybeans and has hinted at buying more U.S. grain. Big Chinese grain purchases could really move the market, but at the moment they are theoretical. As for soybeans, China keeps buying, but stocks remain massive.



### **Sustainable Groundwater Management Act (SGMA) Update**

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

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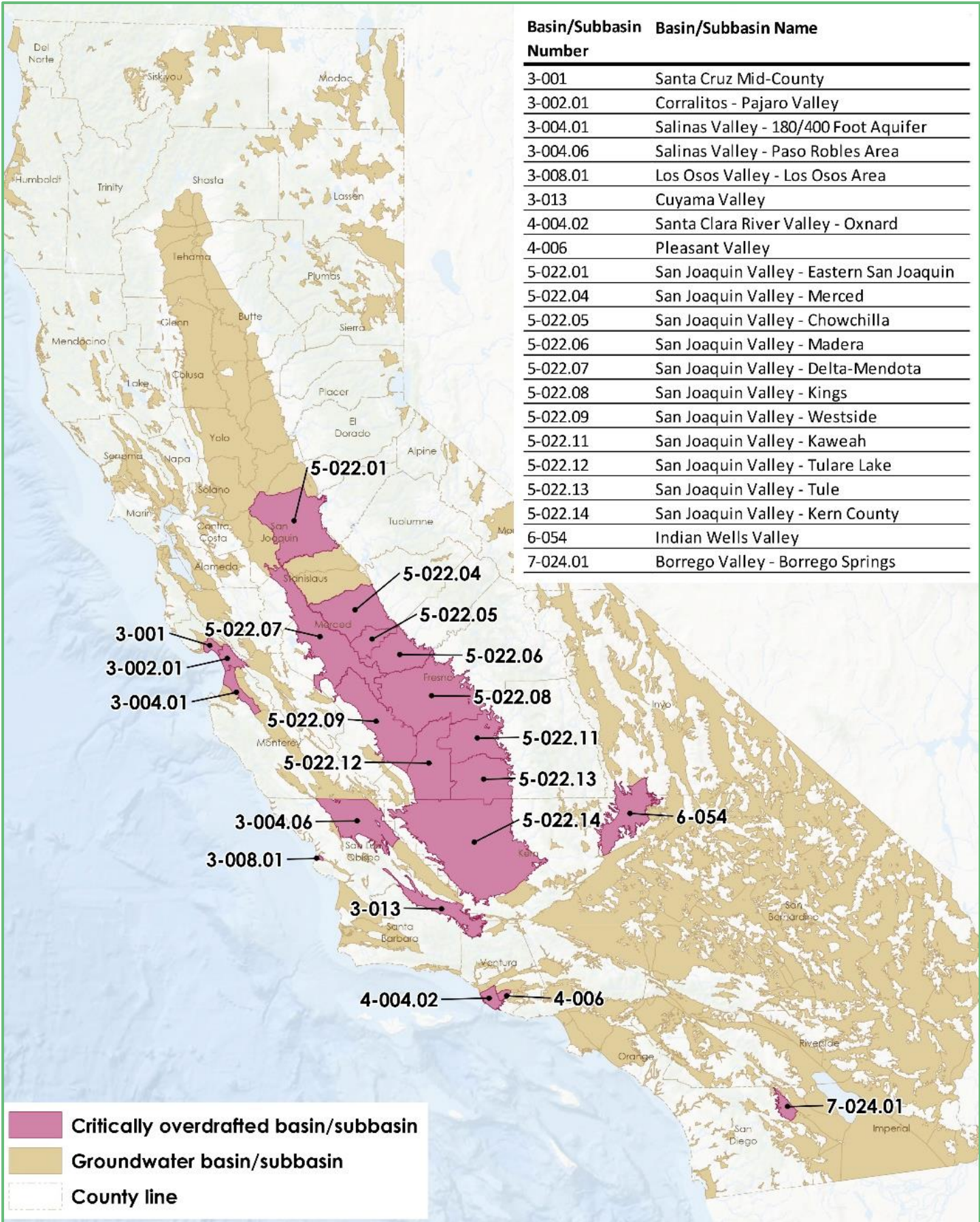
As most of you are aware, the implementation of the Sustainable Groundwater Management Act (SGMA) is in full swing. Most of the Central Valley dairy industry is located in groundwater subbasins the California Department of Water Resources (DWR) categorizes as “critically overdrafted” (see map on next page). This means that these areas are mandated by law to produce a Groundwater Management Plan (GSP) that identifies how the area will reach sustainability by 2040. The absolute deadline for submitting these plans is January 31, 2020. Since the SGMA law requires that the public be given at least 60 days to comment on these plans before they can be submitted to DWR, and because the Groundwater Sustainability Agencies (GSAs) must respond to those comments, in reality, drafts of these plans will be available within the next few months.

I have been actively following the progress of these plans in the subbasins stretching from Kern in the south to Merced and the Eastern San Joaquin Subbasin around Stockton in the north. The Sacramento Valley is not in critical overdraft. Neither is Southern California. In the critically overdrafted Central Valley, every area has its unique situation. There is a bit of a have, and have not, situation in each of these subbasins. Those landowners who are in irrigation districts or own significant private ditch company stock are in a much better position than those areas that have no access to surface water at all. But even among those who are part of irrigation districts, some districts have lots of senior water rights and others have very little. If you have not done so yet, you need to know your farm's situation. DWR has a very good mapping website where you can put in the address of your farm and it will tell you what GSA you are in and give you contact information for that GSA. Access DWR the site [here](#).

The plans that GSAs are coming up with must include a water budget for their area. The native groundwater available ranges from a low of about 4 inches per year per acre in the Kern Subbasin to as much as 18 inches in the subbasins further up the Valley. Some GSAs are contemplating allocating those amounts of water to their growers right now, but in addition, allowing more pumping even though it will perpetuate the overdraft condition. The reason for this is that implementing a hard restriction on pumping would be economically devastating. Also as a practical matter, the GSAs are too new to have figured out how to actually enforce whatever rules they put in place. But change is coming and dairy farmers need to be doing things now to be prepared.



Basin/Subbasin Number	Basin/Subbasin Name
3-001	Santa Cruz Mid-County
3-002.01	Corralitos - Pajaro Valley
3-004.01	Salinas Valley - 180/400 Foot Aquifer
3-004.06	Salinas Valley - Paso Robles Area
3-008.01	Los Osos Valley - Los Osos Area
3-013	Cuyama Valley
4-004.02	Santa Clara River Valley - Oxnard
4-006	Pleasant Valley
5-022.01	San Joaquin Valley - Eastern San Joaquin
5-022.04	San Joaquin Valley - Merced
5-022.05	San Joaquin Valley - Chowchilla
5-022.06	San Joaquin Valley - Madera
5-022.07	San Joaquin Valley - Delta-Mendota
5-022.08	San Joaquin Valley - Kings
5-022.09	San Joaquin Valley - Westside
5-022.11	San Joaquin Valley - Kaweah
5-022.12	San Joaquin Valley - Tulare Lake
5-022.13	San Joaquin Valley - Tule
5-022.14	San Joaquin Valley - Kern County
6-054	Indian Wells Valley
7-024.01	Borrego Valley - Borrego Springs



All dairy operations in the Central Valley operate under Waste Discharge Requirements issued by the Central Valley Regional Water Quality Control Board (Regional Board). These permits include a nutrient management plan, describing how a dairy operation manages its nutrients, including how they are utilized by the crops grown by the dairy. The nutrient management plans are usually pretty specific about how much farming must be done to keep the dairy in nutrient balance. Obviously it takes water in addition to the dairy's nutrient water to grow those crops. One question each dairy operation should attempt to calculate is how much water it needs to grow the crops required by your nutrient management plan. There is a very useful tool developed by Cal Poly that can give you the amount of water each crop will consume. The term used to describe what the crop consumes is *evapotranspiration* or ETo for short. You can access the Cal Poly ETo website [here](#). Crop ETo is the measurement many GSAs will be using to keep track of water consumption for agriculture in the subbasin. Since cropping decisions for a dairy also involve Regional Board permit requirements, knowing how much water you need could be important information for your GSA to know before they start imposing pumping restrictions on you. SGMA does give each area 20 years to reach sustainability. In this initial round it allows the local GSAs to set the rules. All the GSAs I am following are concerned about the economic health of their farming constituents, but reaching sustainability is a requirement that cannot be avoided – it can only be delayed. However, that delay may be critical in order to give the Subbasin an opportunity to find more surface water and come up with other alternatives that will take time to develop.

One other thing to mention is that over the next few weeks and months there may be opportunities to take advantage of flood waters running by your facilities. Very few GSAs actually have an accounting system set-up to give anyone credit for on-farm recharge. But I predict that in time most of them will. If you have a chance to grab some flood water and put it out on your land for recharge you should do it and make a good faith effort to measure and keep track of that water. If you have credible records on how much water you spread, particularly if you can match that with credible records of how much water you used on those field during the growing season, by using either ETo estimates or actual meters on your wells, you will have a good case to make someday to your local GSA that you should get some credit for the recharge activities you did this year and in the following years before they actually get their credit system up and running. Who knows, if we have a run of wet years and we can get the federal and state governments who control the big surface water projects to use some common sense, maybe we can stabilize our groundwater levels without the most severe restrictions being placed on us.

SGMA will be a tough deal for some of our producers. Getting knowledgeable about your local situation, doing your own water budgeting and tracking, and getting organized with your neighbors, particularly if you are in an area that does not have an irrigation district, are all things that that are worth doing.

The MPC Board of Directors decided early last year to make an investment in this issue. They thought that it was worth it to our members and the dairy industry to get actively involved in SGMA implementation. They gave me the privilege of carrying out that responsibility which I am honored to do. If you have any questions I can help you with, feel free to contact me at [Geoff@milkproducers.org](mailto:Geoff@milkproducers.org).

**National Milk Producers Federation “Road Map” Petition to FDA  
Outlines Next Steps in Dairy-Labeling Rules**  
*News Release via National Milk Producers Federation*

The National Milk Producers Federation today filed a citizen petition with the U.S. Food and Drug Administration, outlining a labeling solution to the use of dairy terms on non-dairy products as the agency considers public input from a recently concluded comment period.



The petition reinforces current FDA labeling regulations, with some additional clarification, to show how marketplace transparency can be enhanced and consumer harm from confusion over nutritional content can be reduced. It also addresses several specious arguments raised by marketers of vegan foods as part of the ongoing debate on dairy labeling, such as the false idea that creating consistent, clear labeling of non-dairy products would somehow limit the use of dairy terms on products that clearly aren't marketed as dairy substitutes, such as peanut butter.

Read the entire news release [here](#).

As reported in a previous Friday Report, MPC filed comments with the Food and Drug Administration on January 28, 2019 regarding the use of names of dairy foods in the labeling of plant-based products. Read MPC's comments [here](#).

## **Producer Review Board to Meet March 6 to Discuss Quota Implementation Plan Petition Process**

*Source: California Department of Food & Agriculture*

California Department of Food and Agriculture Secretary Karen Ross has convened the Producer Review Board to discuss the Quota Implementation Plan Petition Process. All Board meetings are open to the public and will afford the opportunity for all persons to provide comments on agenda items. See the meeting agenda [here](#).

### **Producer Review Board Meeting Details**

**10 a.m.  
Wednesday, March 6, 2019  
CDFA Auditorium  
1220 N Street  
Sacramento, CA**

