

MPC WEEKLY FRIDAY REPORT

DATE: JULY 30, 2021
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 8



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MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE Blocks +\$.0075 \$1.6350 Barrels -\$.0275 \$1.3900 WEEKLY AVERAGE CHEDDAR CHEESE Blocks +\$.0635 \$1.6335 Barrels +\$.0065 \$1.4030		CHICAGO AA BUTTER WEEKLY CHANGE -\$0.0125 \$1.6425 WEEKLY AVERAGE -\$0.0720 \$1.6365 DRY WHEY DAIRY MARKET NEWS w/E 07/30/21 \$.5787 NATIONAL PLANTS w/E 07/24/21 \$.5748		NON-FAT DRY MILK WEEK ENDING 07/24/21 NAT'L PLANTS \$1.2672 29,851,666 PRIOR WEEK ENDING 07/17/21 NAT'L PLANTS \$1.2501 19,632,188	
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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 30 EST	\$19.02 - \$19.52	\$16.83	\$16.48	\$16.01
LAST WEEK	\$19.02 - \$19.52	\$16.82	\$16.59	\$15.96

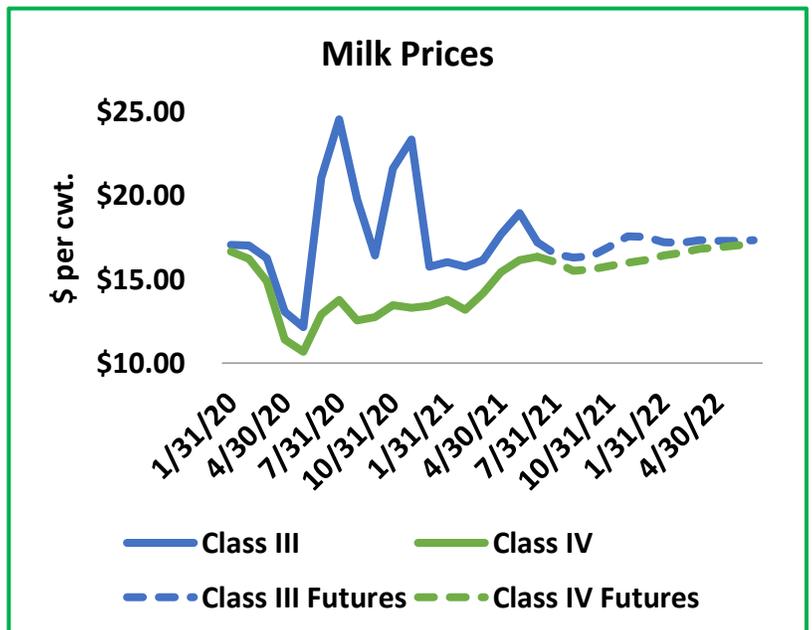


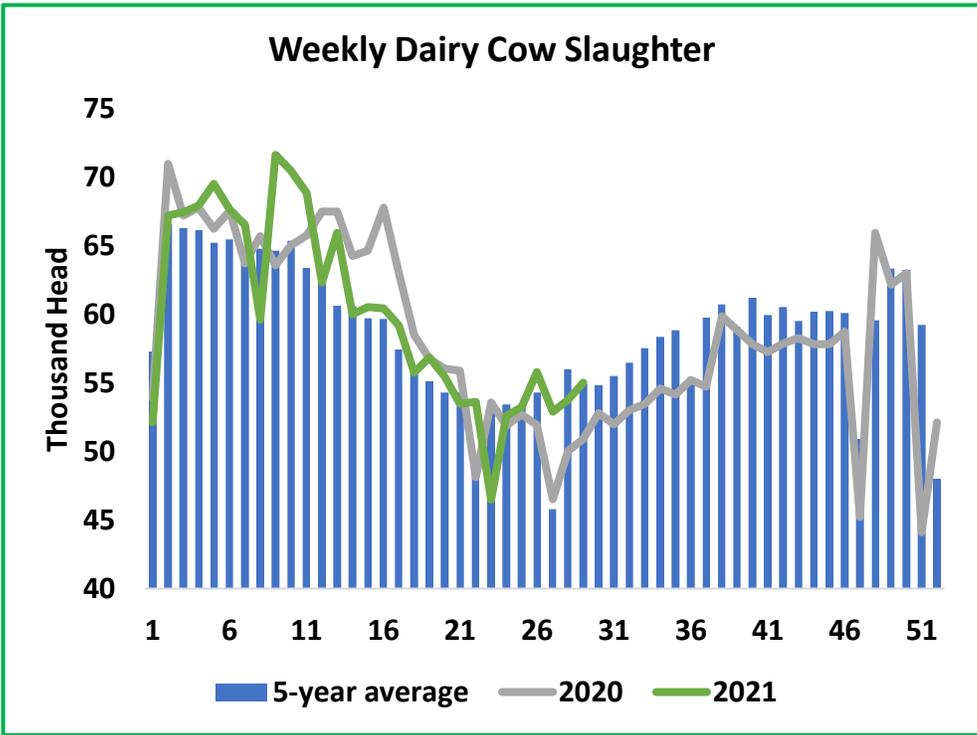
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

Like a balloon with a pinhole, the dairy markets are slowly deflating. The summer setback lacks the drama of July 2020, when – flush with government largesse – the cheese market balloon grew and grew and grew until it burst spectacularly. Although this year's losses have none of last year's frenzy, the ink is just as red. Both Class III and Class IV futures posted double-digit declines once again this week. September and October Class III settled below \$17 per cwt., at their lowest values so far in 2021. In Class IV, the September through November contracts plumbed life-of-contract lows in the \$15s. Given



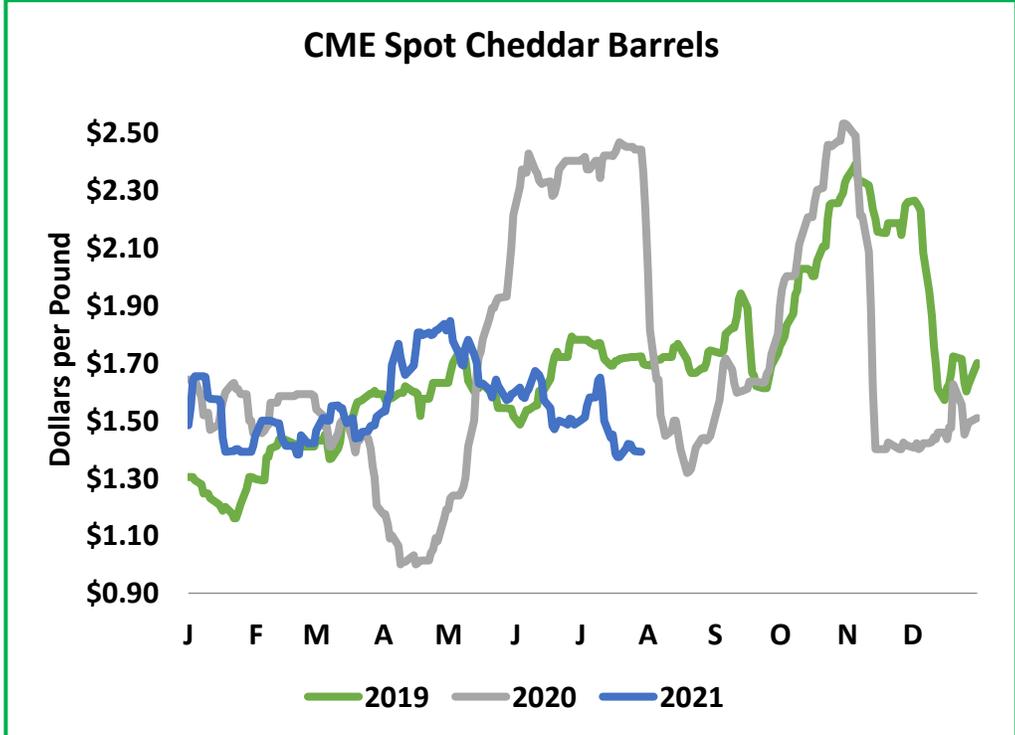


historically high costs for feed, fuel, freight, and labor, these values are extremely disappointing for dairy producers.

But it may be a while before lower prices translate to less milk. Dairy slaughter has accelerated relative to the 2020 pace. But as is always the case during the summer, the numbers aren't all that high. Although slaughter volumes have eclipsed the prior year for the past six weeks, year-to-date slaughter is still 0.2% behind the 2020 pace, and the dairy herd is 1.6% larger than it was a year ago. Dairy producers are clearly not

culling cows at the pace required to significantly shrink the herd. And, given how many cows we are milking, it will take significant slaughter to bring production back down to a level that necessitates higher prices. Low prices are the best cure for low prices, but the healing process is often painful and achingly slow.

USDA's *Dairy Market News* reports, "Milk volumes are plentiful enough for strong cheese production schedules." But packaging issues continue to shift some milk out of blocks and into barrels. The proof is in the prices. Cheddar blocks closed today at \$1.635 per pound, up a nickel this week and 8.25¢ higher than where they began the month. In contrast, barrels fell 1.25¢ this week to \$1.39. They are down 11.25¢ for the month and not far from the calendar-year lows. Demand is good, but output is strong.

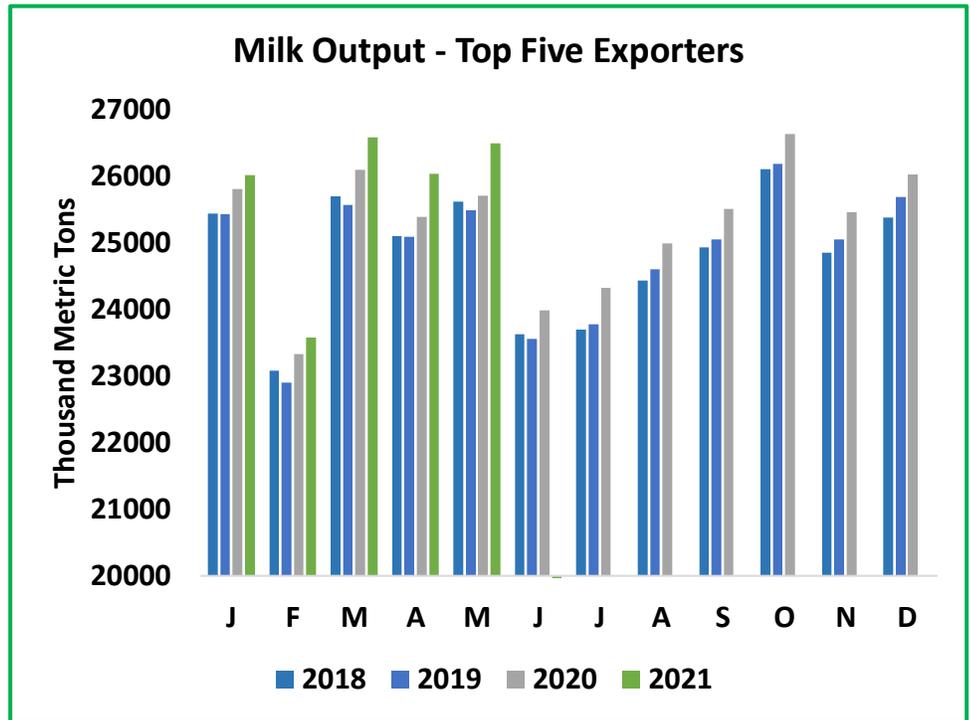


Heavy production continues to weigh on the whey market as well. CME spot whey powder fell 3.5¢ this week to 50.25¢. Spot dry whey finished July 5.75¢ lower than where it began, trimming roughly 35¢

from implied Class III values in the process. Demand for high-protein whey products remains impressive, but whey powder is piling up nonetheless.

Plentiful cream and well-stocked warehouses are dragging on butter values. This week CME spot butter probed five-month lows. It closed today at \$1.6425, down 5.25¢ from last Friday and nearly a dime lower than where it began the month.

Despite the summer heat, there is more than enough milk to keep driers busy. Demand is steady, but shipping issues are slowing the flow of product from manufacturers to end users at home and abroad. While foreign milk powder values took another step back this week, CME spot nonfat dry milk (NDM) rallied. It closed today at \$1.2675, up 1.5¢ this week and up just 0.75¢ for the month.



Milk powder values could come under further pressure in the months to come if global demand falters. *Dairy Market News* notes that some Southeast Asian countries likely ordered extra skim milk powder (SMP) in the first half of the year, hoping to avoid shortages caused by shipping delays. But now, “inventories may be building to the point where buyers are willing to wait before making more purchases.” If that’s the case, a slowdown in demand could collide with growing supplies. Global milk output is high and rising. In May, milk production among the four largest dairy exporters other than the United States outpaced the prior year by 2.5%. Throw the U.S. in the mix, and output among the big five was 3.1% greater than in May 2020. That’s the largest year-over-year increase since late 2017, which does not bode well for prices in the coming year.

Grain Markets

Back and forth and back and forth. The grain and oilseed markets traversed the same ground several times this week and ended up not far from where they started. September corn closed today at \$5.47 per bushel, down a quarter-cent from last Friday. December corn futures, the benchmark for new-crop corn, rallied 2.25¢ to \$5.4525. Soybean and soybean meal contracts were similarly steady. November soybeans closed at \$13.4925 per bushel, while September soybean meal finished at \$351.30 per ton.

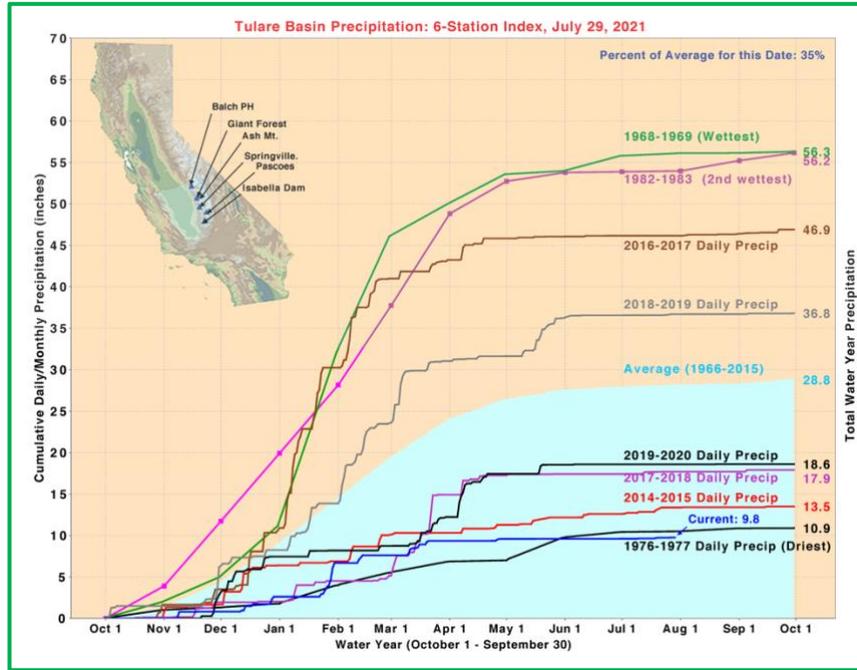
The corn crop has made it through the critical pollination phase in fine shape overall. USDA assessed 64% of the crop in good or excellent condition, although ratings lag considerably in Minnesota (38%), South Dakota (30%), and North Dakota (21%), where rain has been scarce. Much of the Northern Plains enjoyed a good soak today, but the Corn Belt forecast looks relatively dry for the next week. The market is marking time until fall, when it can be assured of a good crop. In the meantime, feed expenses remain relatively lofty



Water Tidbits

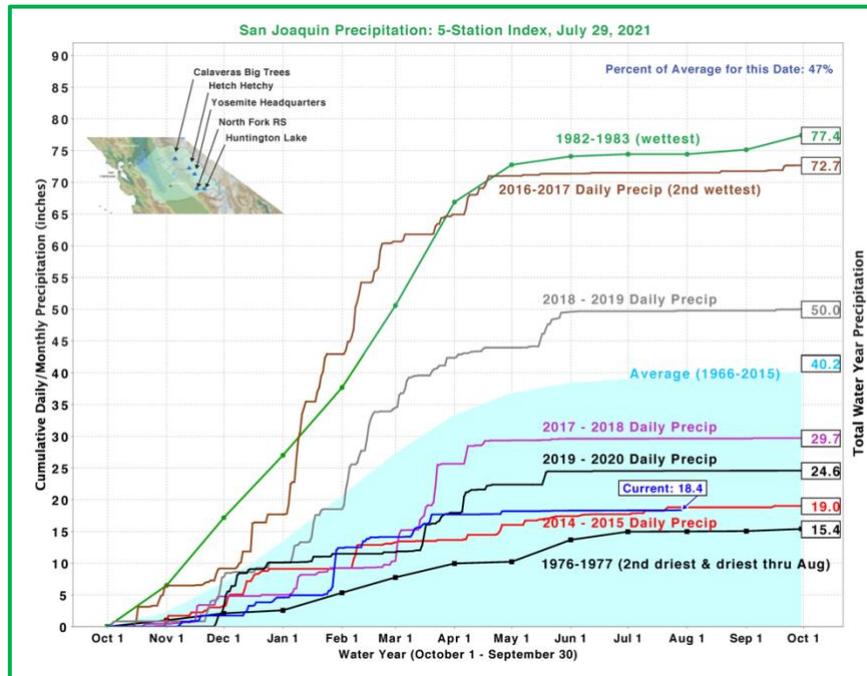
By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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How dry is it? Look at these three charts from the Department of Water Resources.



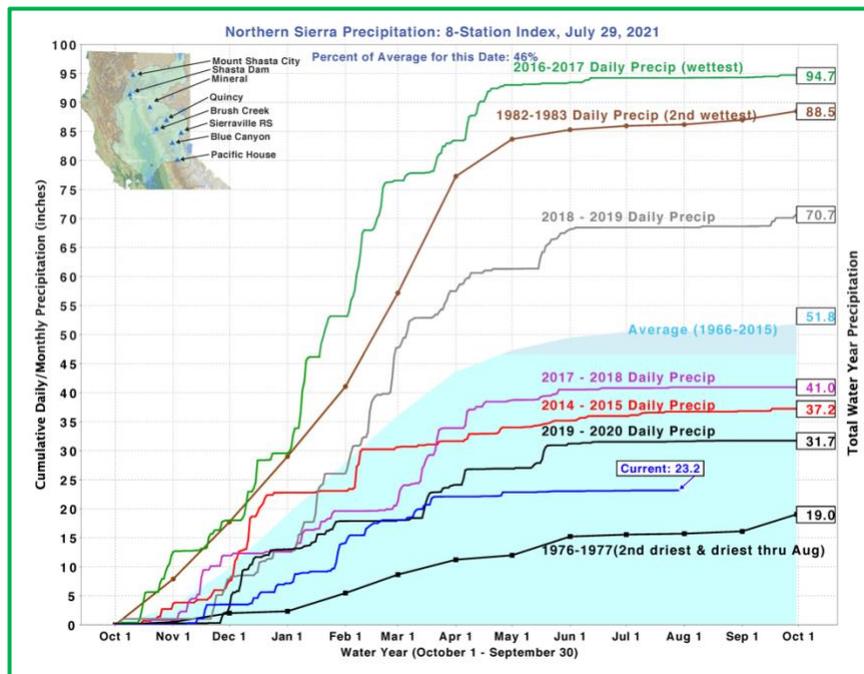
[Click to Enlarge](#)

This is the driest year on record in terms of precipitation in the Tulare Basin.



[Click to Enlarge](#)

In the San Joaquin Basin, it is a little better. It is the second driest year in terms of precipitation.



[Click to Enlarge](#)

In the Northern Sierra, it is also the second driest in history.

Evapotranspiration Results: One of the needs of a Groundwater Sustainability Agency in implementing their plans is to obtain water consumption data. Historically, water flow meters on individual wells have been the method by which groundwater extraction has been determined. However, water meters can tell you how much water was applied, but they do not tell you how much was consumed by the plant and how much returned to the ground. Over the past number of years remote sensing technology using satellite imagery has been improved to a point where the water consumed by plants can be accurately tracked by measuring the amount of evapotranspiration (Etc.) coming off the field. Once you know how much water the plant consumed, then you back out any surface water that was applied to the field and any precipitation that may have fallen and what you are left with is how much groundwater was consumed to grow that crop.

Pixley and Lower Tule Irrigation Districts did pioneering work on this technology with the IRTC program of Cal Poly for several years, even prior to the passage of SGMA. More recently these two districts hired Land IQ, a private company that has created an advanced commercial application of this technology to provide their districts with evapotranspiration derived water consumption data for all the acreage within their districts.

More information about Land IQ and remote sensing can be found [here](#).

Pixley and Lower Tule recently shared the 2020 water consumption results for various farming/cropping operations in their districts (graph is pictured below). This is very interesting data. If there is a field that is double cropped, then you need to add the two crops Etc.'s together to get the total water consumed off that acre during 2020. So, a wheat crop consumed 1.62-acre feet and that would add to the consumption of a corn crop at 2.57 for a total consumed by that double cropped acre of 4.19-acre feet. You might also notice the Etc. reading from the dairy footprint, both open lot and free stall. One point to remember about the Etc. coming off of the dairy footprint is that in addition to

groundwater supplies that are used on that dairy footprint, there is a lot of moisture that is imported to the dairy footprint in the feed that is delivered and consumed by the animals.

Combined Pixley/Lower Tule Districts	Total Acres	Gross District Water Usage Evapotranspiration by Acre Feet	Evapotranspiration by Crop Type in Acre Feet
Alfalfa and Alfalfa Mixtures	2,870	9,098.18	3.17
Almonds (all ages)*	11,728	30,728.59	2.62
Cherries	55	142.37	2.58
Citrus	172	382.46	2.22
Cole Crops	86	122.47	1.42
Corn, Sorghum and Sudan	19,226	49,409.62	2.57
Cotton	710	1,710.22	2.41
Dates	8	20.97	2.48
Grapes	2,017	5,204.29	2.58
Kiwis	34	105.46	3.11
Mixed Pasture	118	280.39	2.37
Olives	1	2.02	1.82
Pistachios (all ages)*	8,776	13,690.54	1.56
Plums, Prunes and Apricots	336	815.52	2.43
Pomegranates	4	6.35	1.55
Tomatoes	147	298.98	2.04
Unclassified Fallow	6,166	6,165.98	1
Walnuts	1,038	3,174.81	3.06
Wheat	4,602	7,455.84	1.62
Young Perennials	2,678	1,553.13	0.58
Safflower	311	183.55	0.59
Dairy - Open Corral	5,485	5,869.00	1.07
Dairy - Free Stall	3,389	3,152.00	0.93

* These totals include bearing and non bearing trees. Etc data from another district that separates the almond and the pistachio categories into bearing and non bearing, shows non bearing almonds consuming 2.16 acre feet per year and bearing almonds consuming 3.98 acre feet per year. For pistachios, the non bearing trees consume 1.38 acre feet and the bearing pistachio trees consume 3.12 acre feet.

This drought has attracted a lot of media and political attention. Clearly there are impacts to water levels and wells as farmers turn to groundwater to provide the irrigation needed to grow their crops. The State Water Resources Board made news this week by announcing their intention to issue curtailment orders to junior surface water right holders. The State Board has regulated surface water through a permit program for decades. Part of that program is enforcing the water rights system in times of shortage. Clearly there are concerns about how these orders will impact certain farmers, but there is not enough water to go around and there is a priority system to deal with this circumstance. It is not unusual for California to have dry years. Yes, this is a particularly dry year. Let us hope the public and politicians learn from this that you must prepare in the wet years for the inevitable dry years.

CDQAP Update: Inspections, CDQAP Receives Award, Drought Corner
Courtesy of California Dairy Quality Assurance Program

The California Dairy Quality Assurance Program (CDQAP) recently published its July 2021 Quality Assurance Update. Below are excerpts from the Update, which you can read in its entirety [here](#).



Inspections on the Uptick

By Dr. Michael Payne, UC Davis, School of Veterinary Medicine and Director, CDQAP

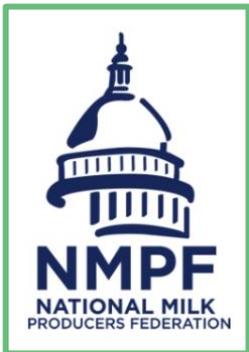
Summer means hot weather and more detailed inspections. After 15 months of modified inspections, Water Quality Control Board inspectors are expanding their process to include a thorough review of paperwork, sampling documentation, and record keeping. [Continue reading.](#)

CDQAP Receives Cooperative Extension Programing Award

We were pleased to learn that CDQAP has received the Western Extension Directors Association Award of Excellence. Representing seventeen states and territories, WEDA advances its members' wide-ranging Cooperative Extension efforts. [Continue reading.](#)

CDQAP's Drought Corner

The July issue of the UC-ANR's Golden State Dairy Newsletter is a Special Drought Edition. Topics in this special edition include making every drop count, sorghum and corn drought irrigation strategies, culling decisions, forage nitrate, and cow cooling. [Continue reading.](#)



National Milk Producers Federation Capitol Hill & Trade Policy Update

By Jim Mulhern, President & CEO
[National Milk Producers Federation](#)

House Adopts Ag-FDA Spending Bill with NMPF-led Amendments

As described in our member alert distributed yesterday, the House passed the Fiscal Year 2022 Agriculture-FDA Appropriations bill as part of a larger 'minibus' appropriations package numbered H.R. 4502. During floor consideration, NMPF secured approval of two bipartisan amendments.

One directs FDA to complete pending guidance to ensure labeling enforcement of dairy product standards of identity, and another provides \$5 million for FDA to enact a directive to seek approaches to reviewing animal feed additives that make environmental or health claims as foods rather than have them go through the new animal drug approval (NADA) process. This is designed to speed their arrival to market and help dairy producers reap their environmental benefits.

The bill also includes a number of other NMPF-backed provisions, including an extension of the provision we secured last year to allow schools to continue to offer low-fat flavored milk, as well as funding for programs including the Farm and Ranch Stress Assistance Network, the ReConnect broadband program, the Dairy Business Innovation Initiatives, and the Healthy Fluid Milk Incentives Program. The Senate Appropriations Committee is slated to move forward with its own measures this fall, setting the stage for final negotiations later this year.

Bipartisan Senators Reach Infrastructure Deal with White House

Earlier this week, a bipartisan group of ten senators led by Sens. Kyrsten Sinema (D-AZ) and Rob Portman (R-OH) reached an agreement with President Biden on an infrastructure package that will include \$550 billion of new spending. The agreement survived key test votes this week and is on a pathway toward Senate passage as soon as next week.

This legislation will focus on investments in highways, rail, transit, water, and broadband. In addition to this measure, Congress is also expected to craft a larger package this fall that may provide an opportunity to increase funding and incentives for climate-smart ag. However, the House and Senate

must first agree on a budget resolution to unlock the budget reconciliation process, which will be needed to move that larger package.

House Ag Advances Disaster Assistance

On Tuesday, the House Agriculture Committee unanimously approved a revised version of the 2020 WHIP+ Reauthorization Act (H.R. 267). The original measure included a reauthorization of the Wildfire and Hurricane Indemnity Program Plus (WHIP+), but NMPF worked directly with House Agriculture Committee Chairman David Scott (D-GA) and Ranking Member Glenn ‘GT’ Thompson (R-PA) to secure an extension of the WHIP-Milk Loss program for calendar years 2020 and 2021.

We believe it is beneficial to maintain this program in the event of weather-related disasters, which may leave producers with no option but to dispose of their milk, as was the case in Florida due to Hurricane Irma’s impact back in 2017 and in Texas earlier this year on account of the polar vortex. The revised legislation expands the original program to offer coverage options for events including derecho storms, deep freezes, power outages, and excessive heat. Finally, it makes dairy cooperatives eligible to receive and distribute program payments to producers in cases where that approach may be desirable.

NMPF provided a letter of support given the improvements made to the bill by the Ag Committee. We anticipate that the bipartisan measure will be incorporated into appropriations legislation to be enacted sometime later this year.

TRADE POLICY

Dairy in Trade Hearing Spotlight – Idaho dairy farmer and NMPF Executive Committee member **Allan Huttema** highlighted the importance of enforcing the U.S.-Mexico-Canada Agreement’s (USMCA) dairy provisions and pursuing additional market access opportunities for U.S. dairy products in [testimony](#) before the Senate Finance Committee on Tuesday, July 27. Huttema, who operates a 800-head dairy in Parma, Idaho and serves as chair of Darigold and Northwest Dairy Association boards.

NMPF staff worked closely with Huttema and Northwest Dairy Association/Darigold staff to help support the development of his testimony and ensure a robust focus on dairy trade issues in the hearing. During his remarks, Huttema thanked the committee members for their advocacy in support of the recent initiation of USMCA dispute settlement proceedings to address Canada’s dairy tariff rate quota (TRQ) allocations and stressed the importance of closely monitoring other brewing USMCA issues, namely the increase in milk protein exports out of Canada and a variety of nontariff barrier concerns percolating in Mexico.

While the USMCA sets a strong precedent for dairy market access and the protection of generic names, Huttema noted to the committee the critical need for additional market opportunities for U.S. dairy products.

