

MPC WEEKLY FRIDAY REPORT

DATE: DECEMBER 20, 2019
 TO: DIRECTORS & MEMBERS
 FROM: KEVIN ABERNATHY, GENERAL MANAGER
 PAGES: 9

P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
 2328 Jonathon Court, Escalon, CA 95320 • (209) 691-8139
Office@MilkProducers.org • www.MilkProducers.org • Fax (909) 591-7328



MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			CHICAGO AA BUTTER			NON-FAT DRY MILK	
Blocks	+ \$.0625	\$1.8600	WEEKLY CHANGE	+ \$.0450	\$2.0050	WEEK ENDING 12/14	
Barrels	-.0300	\$1.6650	WEEKLY AVERAGE	+ \$.0455	\$1.9925	NAT'L PLANTS	\$1.2122 20,722,168
WEEKLY AVERAGE CHEDDAR CHEESE			DRY WHEY			PRIOR WEEK ENDING 12/07	
Blocks	-.0920	\$1.8045	DAIRY MARKET NEWS	W/E 12/20/19	\$.3487	NAT'L PLANTS \$1.2062 16,616,544	
Barrels	-.2520	\$1.6170	NATIONAL PLANTS	W/E 12/14/19	\$.3345		

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 20 EST	\$20.93 - \$21.43	\$16.85	\$19.36	\$16.72
LAST WEEK	\$20.93 - \$21.43	\$16.91	\$19.40	\$16.73

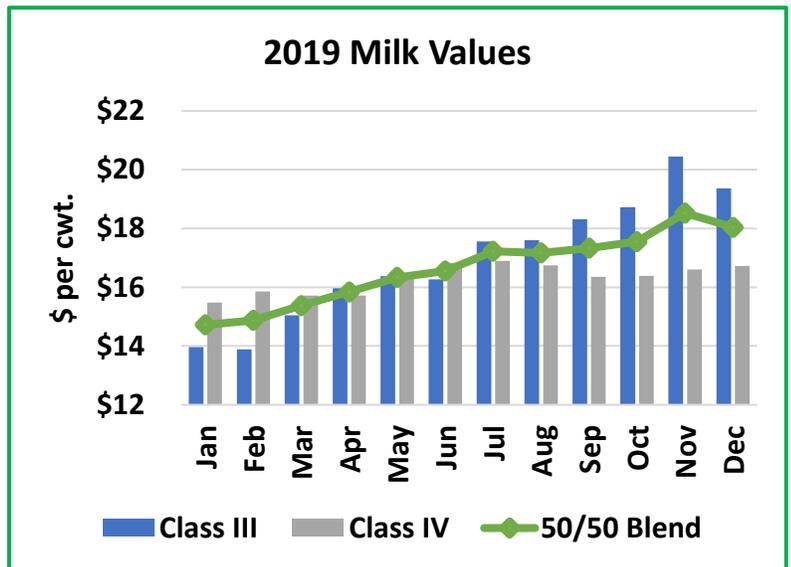


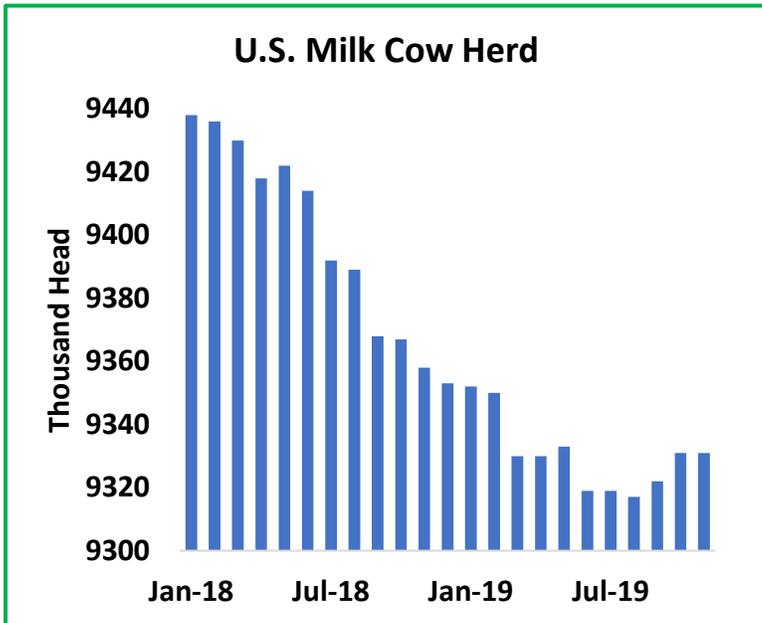
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

This year began with a whimper, but it will finish with a bang. Assuming a 50/50 blend of Class III and IV values, dairy producers pocketed just \$14.72 per cwt. for their milk in January, a woefully inadequate sum. Revenues improved throughout the year, finally peaking at a blended average of \$18.53 in November. December is likely to average \$18.04. Throw in an extra 75¢ on the Class I share of the milk check, and there will be enough to cover the month's expenses and some of the bills in arrears. That's not sufficient to undo years of financial distress, but it is the highest revenue dairy producers have seen since 2014, and it is worthy of celebration.



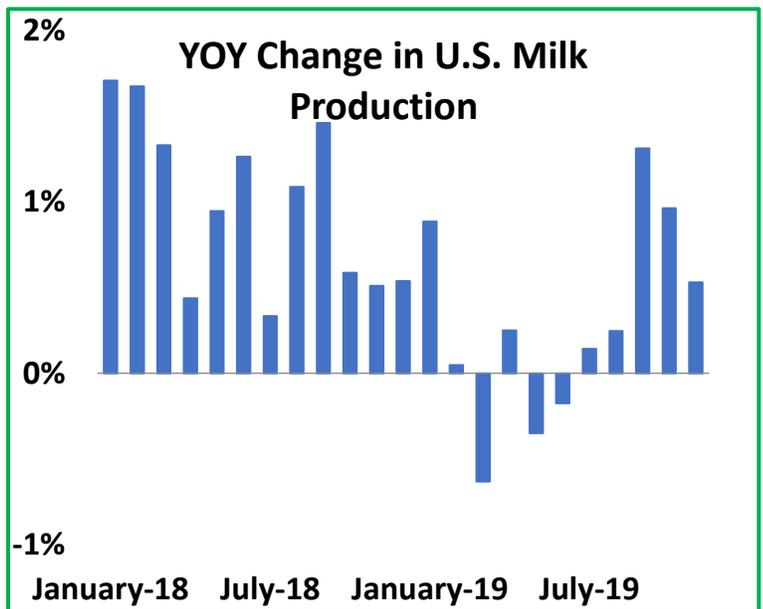


The latest Milk Production report highlights both the strains and the successes of 2019. According to USDA, dairy producers responded to the promise of higher milk prices by adding 5,000 cows in September and 9,000 head in October. But they paused in November, and the herd held steady at 9.331 million head. There are 27,000 fewer cows than there were in the national milking herd in November 2018, the narrowest year-over-year deficit since the middle of last year. The promise of better revenues enticed some dairy producers to fill their barns, but the appetite – and the capital – for significant expansion remains limited.

Milk output reached 17.4 billion pounds last month, up just 0.5% from a year ago. USDA

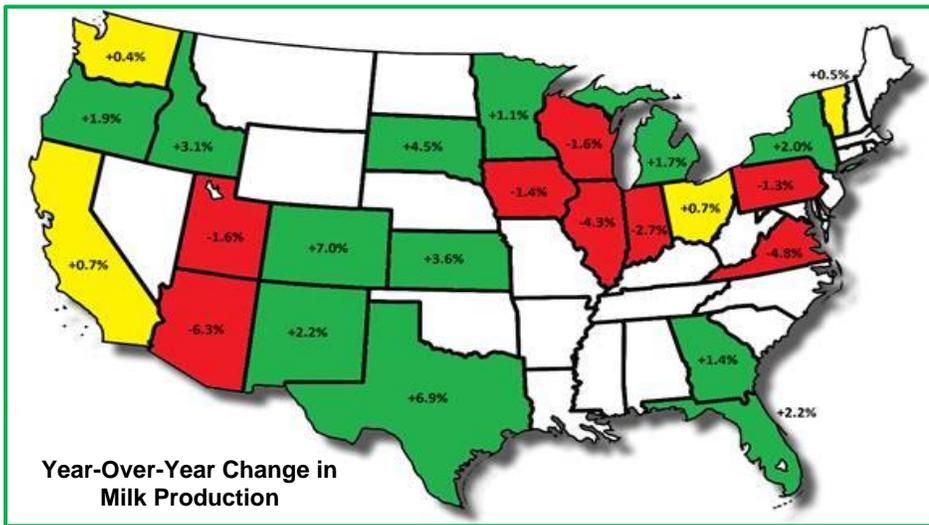
also revised downward its estimate of October milk production by 60 million pounds, which puts October milk output up 1% from a year ago, rather than the 1.3% increase the agency initially reported. In the first 11 months of the year, milk production topped 2018 by less than 0.3%.

In recent months, strong milk yields have driven growth in milk output. In November, milk production per cow once again exceeded last year, but the 0.8% year-over-year increase was the smallest since May. Milk yields were steady with last year in Idaho, Iowa, and Washington, and they fell below last year in Arizona and Wisconsin. In most of the other major dairy states, milk production per cow exceeded the prior year by a slimmer margin than in the preceding months.



Milk output in America’s Dairyland dropped 1.6% from a year ago, the steepest deficit since 2014. A harsh cold snap seems to have trimmed milk yields throughout the Midwest, but feed quality is likely also to blame. Farmers in Wisconsin have suffered their wettest year on record, and this year’s hay and corn silage harvests are much the worse for it. It’s likely that bad hay is just starting to impact milk production there, with many months of low-quality rations still in the offing. Wisconsin’s woes may be a harbinger for the entire region, as most of this year’s questionable corn silage is still on the feed slab. In 2020, as dairy producers add this year’s forages to their rations, milk yields could fall well short of potential in the Upper Midwest.

In October, milk output was up just 0.3% from last year in Europe and well below last year’s record-setting volumes in New Zealand. High debt loads and ever-stricter environmental regulations are likely

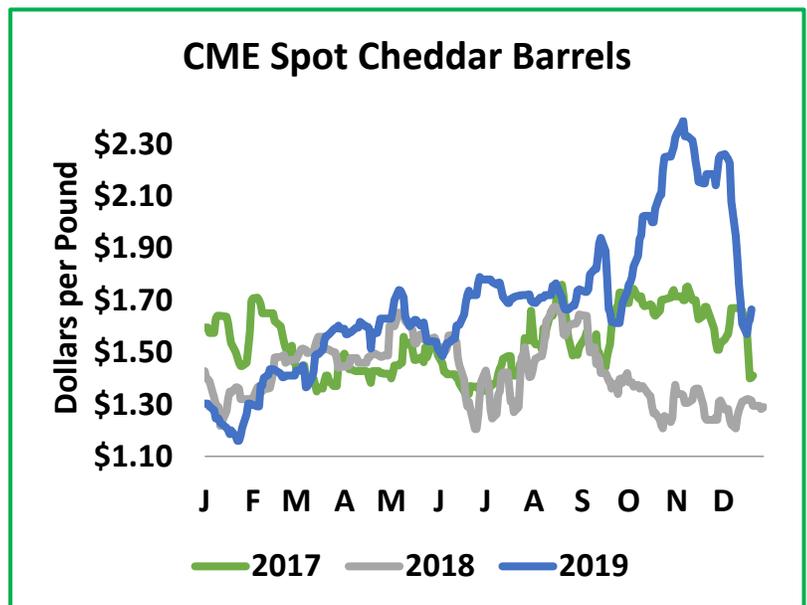


to keep expansions in check in both places. Demand for dairy is surely growing more quickly than global milk output.

This week New Zealand reported significantly higher export volumes for whole milk powder (WMP) and butterfat products in November, and a respectable year-over-year increase in cheese exports. However, New Zealand's skim milk powder (SMP) exports fell 12.1% from a year ago. On balance, New Zealand's trade data

signals that China remains hungry for imported dairy, which is likely to further reduce global dairy product inventories.

Milk powder and butter values moved lower at the Global Dairy Trade (GDT) auction on Tuesday, while Cheddar climbed 1.7% and anhydrous milkfat improved slightly. The GDT Index slumped 5.1%, dragged down by a 6.3% drop in the average price of SMP and a 6.7% slide in WMP values. Adjusted for protein, GDT SMP is equivalent to nonfat dry milk (NDM) at \$1.39 per pound. Like the CME spot Cheddar market, it looks like GDT milk powder may have run too far, too fast in November and early December. However, the milk powder stockpile is considerably smaller than it once was, and demand is healthy. This week's setback looks like a correction in a bull market rather than the start of a new downtrend.



At the CME spot market, a similar correction transpired. Spot NDM slipped 1.5¢ to \$1.25 per pound. Butter continued to rebound, climbing 4.5¢ this week to \$2.005. Class IV values barely budged.

The drama continued in the cheese markets. Barrels started this week just as they finished the last one, extending their precipitous and historic drop. But on Wednesday they reversed course, and they continued to gain ground as the week progressed. They closed today at \$1.665, down 3¢ from last Friday but nearly a dime higher than the Tuesday low. Blocks followed a similar pattern but compared to barrels their early-week losses were more modest and their late-week gains more decisive. Blocks finished at \$1.86, up 6.25¢. Spot whey fell 2.5¢ this week to 31.25¢. Nearby Class III values moved sharply lower. The January contract fell 67¢ to \$17.36. But March through July Class III posted double-digit gains, and most deferred contracts are only a dime or so below the recent highs. Both Class III and Class IV futures reflect the potential for a prosperous new year, characterized by modest growth in milk output and tighter dairy product inventories.

Grain Markets

The feed markets continued to gain ground, as demand prospects improved. Rising global vegetable oil prices pushed March soybeans up to \$9.3825 per bushel, 16.75¢ higher than last Friday. Soybean meal values were up only slightly. The March contract closed at \$302.20. March corn closed at \$3.8775, up 6.75¢. U.S. corn is the cheapest in the world, which suggests there is room for higher prices and bigger exports.



Year End Water Report

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

2019 turned out to be a good water year. Ample rain and snow fell on California both at the beginning of the year and in the past six weeks. So it looks like this winter will produce some moisture as well. Moving to the Central Valley from Southern California, where as a dry lot dairyman we did not like rain (muddy corrals), it has really been brought home to me how dependent agriculture in the Central Valley is to God's provision of precipitation. He has provided and we are grateful.

Policy wise, nearly the entire Central Valley has been deeply engaged in developing Groundwater Sustainability Plans (GSPs) as required by the Sustainable Groundwater Management Act (SGMA). Critically overdrafted basins, which encompass nearly the entire Central Valley south of Stockton (Turlock excepted) are required to submit their GSPs to the California Department of Water Resources by January 31, 2020. I am happy to report that as far as I can tell, everyone who is required to submit a plan in the areas I am covering for MPC is on track to do so. I believe everyone will "turn in their homework" so to speak. That being said, this first phase of SGMA implementation, while certainly a significant amount of work, is only the plan. The next phase will involve actually writing the rules and regulations to implement the plan and adopting the fees and taxes necessary to finance the administration, projects and management actions called for in the plans.

One note here I would ask everyone to keep in mind is that SGMA is a huge game changer in the Central Valley. Groundwater pumping has NEVER been regulated or controlled in the 150 years that have passed since irrigated agriculture emerged to create the marvelous bounty that we see today in the Central Valley. Groundwater pumping will now be regulated and that will have profound impacts on how things shape up in the future. Water is going to be more expensive and in some places there will not be enough to go around. Being proactive and engaged in your local GSA is very important. It is also important to work with your neighbors to participate in projects that will bring more water into your area and more efficiently utilize what water resources might be available. It will cost money to make things happen but remember that the only thing worse than costly water, is no water. In the short term, while SGMA implementation will cost you money, the GSPs are all taking a ramp down approach, that takes advantage of the 20 years the law gives GSAs to reach sustainability. This will give dairies in the impacted areas the time they need to make adjustments to live with the new reality.

In the meantime, the realization that SGMA will significantly impact groundwater resources has prompted the water community in the Central Valley to begin to organize together to look at what infrastructure improvements can be made that will increase the opportunity to capture those major surface water supplies that emerge in above average water years. This effort is called the San Joaquin Valley Blueprint. Milk Producers Council and the dairy industry is fully supporting and participating in creating this organization. The Blueprint has been able to put together a Valley wide document submission to Governor Newsom's Water Resiliency Portfolio that outlines the scope of the water

challenges facing the Central Valley and a menu of solutions. The second big Blueprint effort is to sponsor a socio-economic impact study of the impacts of SGMA on the Central Valley. Results from that study will help drive the discussions with policy makers about the economic and social impacts of SGMA and what needs to be done to mitigate those impacts. Initial study results should be out before the end of January just in time to help shape discussions over the development of a State water bond contemplated for 2020.

One other water issue impacting the dairy industry that is separate but related to SGMA is the impact of both water quality and water supply to Disadvantaged Communities (DACs). The DACs have a number of organizations that represent them. They have been quite active as the GSAs have been developing their plans. In particular the DACs are concerned about the impact of falling water levels on domestic wells and they are also concerned about drinking water quality. The water level concerns have been taken into account by GSAs but not always to the satisfaction of the DACs. On the drinking water quality issue, CV-SALTS, which was recently approved by the State Water Resources Control Board, makes providing clean drinking water for Disadvantaged Communities something that we as agriculture and the dairy industry are going to have to participate in as a requirement of our regulatory permits.

This will be a very significant issue in 2020 and beyond. Between Dairy Cares and the Central Valley Dairy Representative Monitoring Program (CVDRMP), the dairy industry is positioned to engage in assisting the industry's compliance with the new requirements. Our goal should be to solve the problem, that is, make sure our neighbors have clean water to drink and do it in a way that is efficient and affordable. One thing to keep in mind as Tom Barcellos, my good friend and dairyman from Tulare said in public comment at a recent GSA meeting, "When the creeks and channels are running with clean surface water, the water quality of shallow domestic wells improves dramatically." Tom's point is that bringing in more surface water not only benefits water supply, but it also has a very positive impact on water quality.

There are lots of challenges facing the industry, but there are solutions too. God is in control and he has given us the responsibility and the opportunity to be good stewards. So we move forward with confidence and optimism.

U.S. Dairy Industry Praises House Passage of USMCA, Urges Senate Action

Courtesy of National Milk Producers Federation

Milk Producers Council has long been an affiliate member of the National Milk Producers Federation (NMPPF), which develops and carries out policies that advance dairy producers and the cooperatives they own. – Kevin Abernathy, MPC General Manager

The U.S. Dairy Export Council (USDEC) and National Milk Producers Federation (NMPPF) praised the House of Representatives for yesterday's approval of legislation to implement the United States-Mexico-Canada Agreement (USMCA).

"USMCA will bring tangible benefits to the U.S. dairy industry by upgrading trade rules, opening the Canadian market to U.S. dairy exports and preserving our valuable market access in Mexico," said Tom Vilsack, president and CEO of USDEC. "Today's bipartisan vote is indicative of the need to immediately secure these benefits for dairy and all of agriculture."



“Today’s vote brings us one step closer to finalizing USMCA and securing a more certain future for America’s farmers and ranchers,” said Jim Mulhern, president and CEO of NMPF. “It is imperative that the Senate act now to finalize USMCA.”

Ambassador Robert Lighthizer worked diligently alongside members of Congress to address outstanding concerns and deliver an improved trade pact. The House passage of USMCA and its broad range of support is a testament to their efforts.

USMCA makes important changes to Canada's trade-distorting policies, reforms Canada's controversial dairy pricing system and provides exclusive access to the Canadian market for U.S. farmers and manufacturers. The trade deal also strengthens our relationship with Mexico and establishes new protections for common cheese names, using a combination of approaches to protect the continued use of a number of generic cheese terms, such as parmesan and feta.

The Senate Thursday voted to confirm Dr. Stephen Hahn as the next Food and Drug Administration Commissioner. We are looking forward to working with him and his senior staff to address the public health implications of the misuse of dairy terms on improperly-marketed, fake dairy foods. Hahn was chairman of the radiation oncology department at the University of Pennsylvania medical school for nine years until 2015, when he joined MD Anderson Cancer Center in Houston, where he was chosen chief medical executive last year.



MPC Meets with Consulate of Mexico Officials *By Kevin Abernathy, MPC General Manager*

Earlier this week as part of a broader agricultural coalition, I had the unique opportunity to meet with officials of the Mexican Consulate office in Fresno. Present were Mexican Ambassador Marcela Celorio Mancera, Consul Titular Adriana Gonzalez Carrillo, who recently served as a Senator in the Mexican Legislature, and

Maria Fernanda Camara Perez, director of consulate community affairs.

Topics of discussion included the United States-Mexico-Canada Agreement (USMCA), which won House approval yesterday, and how our two countries will benefit from the trade agreement. I also

learned about the many educational programs conducted by the Mexican Consulate office in Fresno, which have the potential to yield positive results for dairy families and Mexican immigrants seeking labor in the United States.



MPC General Manager Kevin Abernathy meets with Consulate of Mexico officials in Fresno

The entire experience was a real learning experience for me, and I believe there are future opportunities to develop a meaningful partnership with the consulate office.

Early Bird Registration for California Dairy Sustainability Summit Closes January 8

Courtesy of Dairy Cares

[Early bird registration](#) closes January 8 for the California Dairy Sustainability Summit taking place March 25-26, 2020, at Cal Expo in Sacramento. The Summit, cohosted by Dairy Cares, California Milk Advisory Board, Dairy Council of California, California Dairy Quality Assurance Program, and the California Dairy Research Foundation, will bring together hundreds of California dairy farmers, state officials, technology providers and other key stakeholders to promote dairy sustainability and develop new business opportunities.

The two-day event showcases California's world-leading achievements in planet-smart dairy farm practices and the role dairy plays in both the state's and global food systems. Through keynote presentations, panel discussion, breakout sessions, and a packed expo hall, attendees will gain insight into technologies, practices and policies that will improve operational efficiency, boost sustainability, further improve environmental performance and create new economic opportunities for dairy farmers.

"California's dairy families are proud to provide consumers with nutritious and affordable foods, while continually reducing our environmental footprint," said Charles "Chuck" Ahlem, a dairy farmer and board member for three of the hosting organizations. "We look forward to another opportunity to bring hundreds of dairy farmers together to share best practices, discuss challenges and develop proactive solutions."

The Summit is dedicated to promoting widespread development, investment and adoption of technologies and strategies to reduce greenhouse gas emissions, improve water conservation and protection, enhance air quality, and address rising labor and energy costs, all while optimizing cow health and comfort. The inaugural summit brought together more than 650 attendees, including 200 dairy farmers, solution providers, and California regulators and stakeholders. Cohosts and event partners look forward to expanding the event's impact in 2020.

Confirmed speakers for the Summit include:

- **Ermias Kebreab**, PhD, Professor and Sesnon Endowed Chair in Sustainable Animal Agriculture, University of California, Davis
- **Rick Smith**, Chief Executive Officer, Dairy Farmers of America
- **Ashley Rosales**, Program Director of Nutrition Sciences, Dairy Council of California
- **Phil Lempert**, Founder and CEO, The Lempert Report, Retail Dietitians Business Alliance
- **Brad Anderson**, Chief Operating Officer and Incoming President and CEO, California Dairies, Inc.
- **Gregory Miller**, PhD, Global Chief Science Officer, National Dairy Council
- **Karen Ross**, Secretary, California Department of Food and Agriculture
- **Frank Mitloehner**, PhD, Professor and Air Quality Specialist, University of California, Davis
- **Susan Eggman**, Assemblymember, California State Assembly



March 25–26, 2020 | Cal Expo | Sacramento, CA

EARLY BIRD REGISTRATION IS NOW OPEN



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The California Dairy Sustainability Summit would not be possible without the support of its sponsors. Confirmed sponsors include Aequion, California Bioenergy, Hilmar Cheese Company, Laird Manufacturing, Luhdorff & Scalmanini Consulting Engineers, DeLaval, Farm Credit, Modesto Dairy Solutions, California State Water Resources Control Board, Maas Energy Works, Save Our Planet, and US Farm Systems. Register [here](#).

Dairy's Future leaders College Student Writing Contest Deadline Extended to January 15

Courtesy of Dairy Cares



**Dairy's Future Leaders
College Student Writing Contest**

Extended Deadline: January 15

**Win a \$1,000 Scholarship and
speak at the California Dairy
Sustainability Summit.**

**Tell Us...
What does sustainability
mean to you?**

Click [here](#) to learn more.

**SUSTAIN-
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Thank You to Our MPC Associate Members

By Kevin Abernathy, MPC General Manager

MPC thanks the following Associate Members for their support in our work to represent and promote the interests of California dairy families.

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**Milk Producers Council Wishes You a Merry Christmas and a Happy New Year!
The Next MPC Friday Report Will Be Published on January 10, 2020.**

