

# MPC WEEKLY FRIDAY REPORT

DATE: SEPTEMBER 11, 2020  
 TO: DIRECTORS & MEMBERS  
 FROM: KEVIN ABERNATHY, GENERAL MANAGER  
 PAGES: 7

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## MPC FRIDAY MARKET UPDATE

<b>CHICAGO CHEDDAR CHEESE</b> Blocks <b>+\$0.0400</b> \$2.1650 Barrels <b>-\$0.1050</b> \$1.5950 <b>WEEKLY AVERAGE CHEDDAR CHEESE</b> Blocks <b>+\$0.2188</b> \$2.1563 Barrels <b>+\$0.0963</b> \$1.6538		<b>CHICAGO AA BUTTER</b> WEEKLY CHANGE <b>-\$0.0125</b> \$1.4800 WEEKLY AVERAGE <b>-\$0.0004</b> \$1.4906 <b>DRY WHEY</b> DAIRY MARKET NEWS w/E 09/11/20 <b>\$3.400</b> NATIONAL PLANTS w/E 09/05/20 <b>\$3.3103</b>		<b>NON-FAT DRY MILK</b> <b>WEEK ENDING 09/05/20</b> NAT'L PLANTS <b>\$0.9723</b> 20,506,139 <b>PRIOR WEEK ENDING 08/29/20</b> NAT'L PLANTS \$0.9464 26,903,276	
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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
SEPT 11 EST	\$20.04 - \$20.54	\$13.14	\$16.48	\$12.68
LAST WEEK	\$20.04 - \$20.54	\$13.29	\$17.06	\$12.82



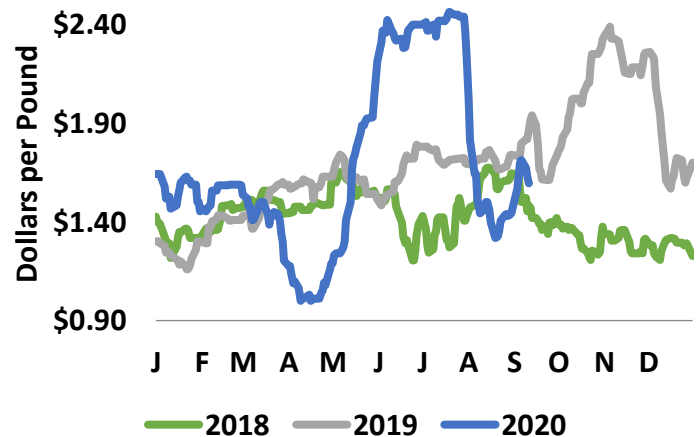
### Milk, dairy and grain market commentary

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

Cheddar blocks strengthened this week while barrels sputtered. CME spot blocks climbed to \$2.165 per pound, up 4¢ from last Friday. Barrels rallied to a one-month high on Tuesday, but quickly fell back. They closed today at \$1.595, down 10.5¢ for the week. The early-week strength pushed this week's average price upward for both blocks and barrels, giving a 32¢ boost to October Class III futures, which settled today at an impressive \$19.21 per cwt. Most other Class III contracts finished a little higher as well. However, the September contract fell 58¢ from last week's euphoric highs.

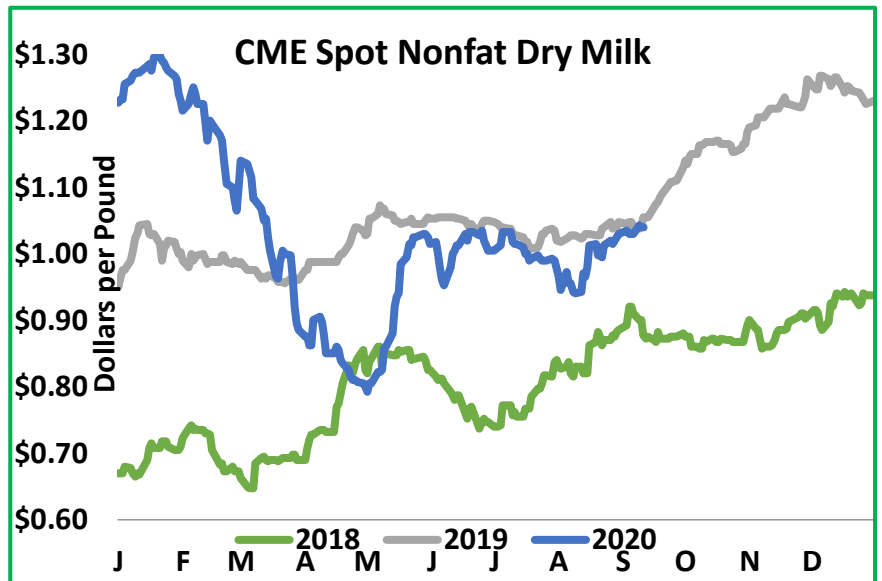
#### CME Spot Cheddar Barrels



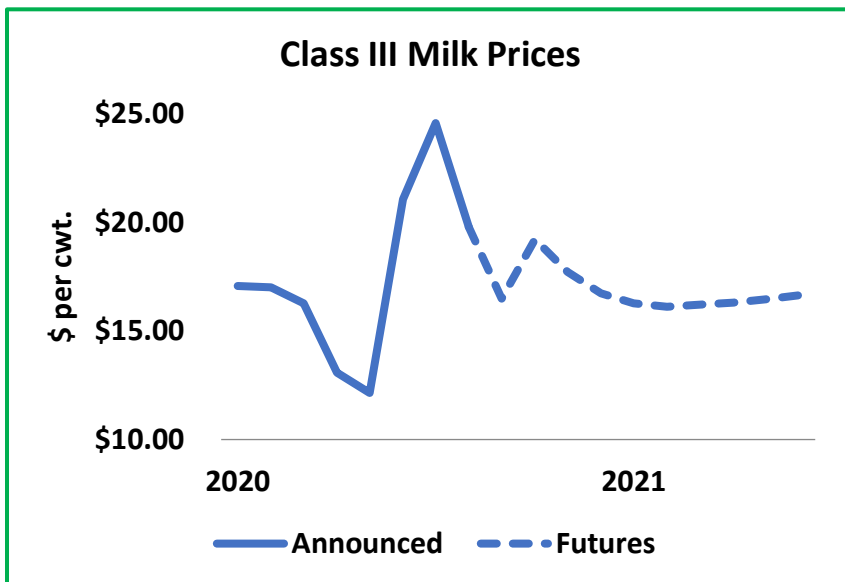
Cheesemakers are going strong, and they report that cheese is moving apace. Italian-style cheese demand is robust, thanks to booming sales for takeout and frozen pizza. There is some chatter among processors that exports are on the rise now that barrel prices are more competitive.

The butter market continues to struggle as many Americans dine out less frequently or not at all. Restaurant traffic has improved a bit, but it remains well below pre-pandemic levels. Retail orders are creeping higher as the fall baking season ramps up. U.S.

butter is competitively priced, but manufacturers report that demand from foreign customers is holding steady. In Chicago, spot butter slipped 1.25¢ to \$1.48.



The powders climbed this week. CME spot dry whey climbed 2.25¢ to 35.5¢, the highest spot whey value since May. Nonfat dry milk (NDM) added a penny and reached \$1.04, its loftiest perch since March. The futures shrugged off the improvement in the spot market and retreated, dragging Class IV values along for the ride.



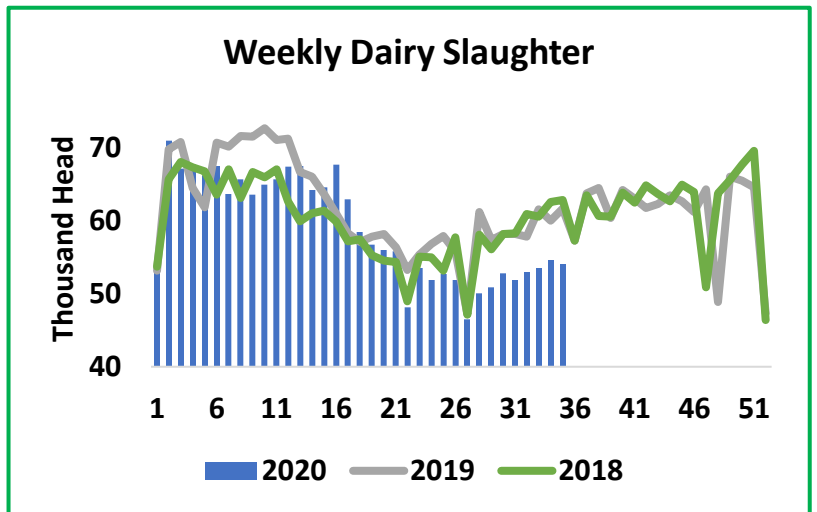
USDA’s *Dairy Market News* reports that domestic sales of NDM are “lively” and manufacturers have cleaned up their inventories. U.S. milk powder is a bargain on the global market, which is likely to keep product moving abroad and lend further support to U.S. NDM values.

The government is doing all it can to provide food aid for those in need and many others. Last week, USDA announced it would extend this summer’s free school meal program through December. While the plethora of government programs has clearly had

a positive impact on dairy demand, USDA remains disappointed that many families who are forced to educate their children at home often can’t find the time to pick up free meals at school dispersal sites. The Brookings Institution estimates that only about 15% of low-income households who typically qualify for free or low-cost school meals have been able to access them, which is likely a drag on cheese and milk consumption. Concerns about the chronic pandemic, the uneven economic recovery, and their impact on demand are clearly weighing on dairy values, as reflected in painfully low Class IV prices and the steep decline in Class III values after October.

Dairy producers are doing their best to top up the bulk tank while the futures promise decent Class III values. Dairy slaughter volumes have mostly ranged between 50,000 and 54,000 head, the lowest dairy

cow kill for this time of year since 2011. In the weeks since Independence Day, dairy slaughter has averaged more than 10% lower than during the same period in 2019, pushing year-to-date slaughter down 4.7% from the 2019 pace. That's likely adding up to more cows and more milk. However, conditions in the West are not helping milk yields. As California burns, the air in the Golden State is hardly fit to breath for man or beast, which is surely a detriment to herd health. The smoky haze is trapping heat and humidity in the Central Valley, although the forecast looks less sweltering than the extremely sweaty conditions of recent weeks. Milk production remains strong in the mountain states, but punitive supply management programs will continue to keep expansion in check. There aren't a lot of places where dairy producers are welcome to build new facilities, but low slaughter volumes suggest they are adding cows here and there. Milk output is likely to rise slowly but surely, while demand prospects remain fickle.

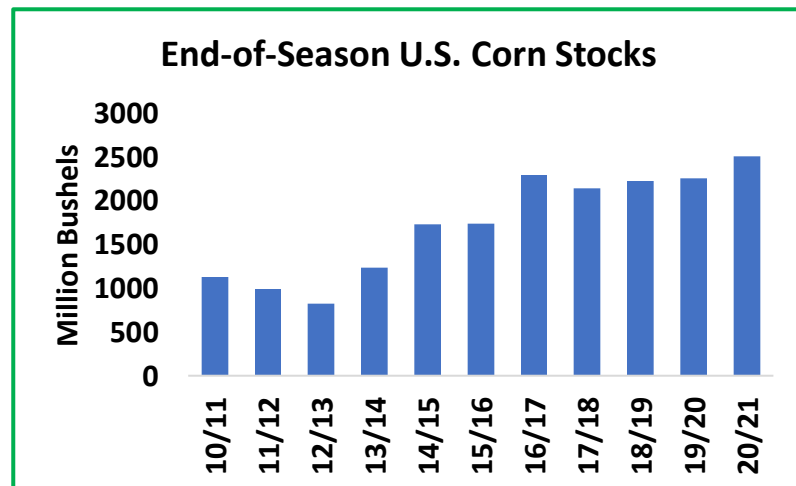


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### Grain Markets

With scant rains in August, drought spread across the Southwest and into Iowa and Illinois, the nation's top corn and soybean states. USDA estimates that approximately 29% of the corn crop and 21% of soybeans are in areas experiencing drought. Parched soils took the top off the national average row crop yields, and the crops are likely to be much smaller than was expected a month ago. In today's Crop Production report, USDA lowered its estimate of the national average corn yield to 178.5 bushels per acre, down from its August projection of 181.8. USDA also assessed the impact of the derecho, lowering its estimate of harvested corn area in Iowa by 550,000 acres, a 4% decline. USDA trimmed its estimate of the national average soybean yield from 53.3 bushels last month to 51.9 bushels.

Although U.S. row crops will fall short of their summer potential, they will still be bumper crops by any other metric. If USDA's projections are correct, this year's corn crop will have the highest national average yield on record, and soybeans will match the record-high yield set in the 2016-17 crop year. The robust harvest is likely to push end-of-season corn inventories to 2.5 billion bushels, the highest total since 1988. A rebound in exports is likely to trim soybean stocks relative to the previous season, but, at 460 million bushels, they will still be historically large. Nonetheless, crop prices are rising as export prospects improve. China's farmers have faced several setbacks this year and rising industrial and feed demand has pushed Chinese corn prices to five-year highs, opening the door for a significant increase in grain imports in the year to come. The U.S. is also likely to supply a greater share of China's soybean imports due to lower inventories in South America. December corn futures settled today at \$3.685 per bushel, up 10.5¢ from last Friday. November beans closed at a two-year high of \$9.96, up 28¢. December soybean meal surged \$7.40 to \$324.60 per ton.



## STOP QIP files a Verified Petition for Writ of Mandate and Complaint for Declaratory Relief and/or Other Extraordinary Relief

As is their right under California law, STOP QIP filed an action in the Sacramento Superior Court which challenges the Secretary's August 17 denial of its Chapter 3.5 petition for a referendum and requests that the court order a referendum. The 232-page filing can be accessed [here](#).

## Vote No on Prop 15 Ballot Initiative



This November, California voters will be asked to consider Proposition 15. Deceptively titled “California Schools and Local Community Funding Act of 2020,” Prop. 15 undermines California’s existing property tax assessment system by removing the protections of Proposition 13 for commercial and agricultural properties.

The measure exempts agricultural land, but improvements to land such as mature trees or irrigation systems are not exempt. Commercial property including farm and dairy structures, processing facilities, truck yards, and packinghouses would also be subject to property tax reassessment at fair market value no less frequently than every three years. It’s clear that Prop. 15 will have significant impacts to the dairy industry, processing and allied industries. Therefore, MPC is supporting an opposition campaign organized by the [Alliance of California’s Farmers and Ranchers](#) to help defeat this costly ballot measure.

Contributions can be made online at [Noonprop15.ag](#). With agriculture and the broader business community coming together, we are confident that a strong campaign can defeat this costly proposition.

## CDFA announces public hearing to consider continuation of the California Milk Advisory Board

*Courtesy of the California Department of Food and Agriculture*

The California Department of Food and Agriculture (Department) has scheduled a public hearing to receive comments from the California milk industry and the general public on whether the Marketing Order for Research, Education and Promotion of Milk and Dairy Products in California (California Milk Advisory board or CMAB) should be continued. The Department is required to conduct such a hearing every five years to determine if the CMAB is fulfilling the purposes of the California Marketing Act (Chapter 1 of Part 2, Division 21 of the Food and Agricultural Code), under which the CMAB was created. The last public hearing held to consider the continuation of the CMAB was conducted in 2015. Read the complete Notice of Public Hearing [here](#)

### **Date and Time:**

Wednesday, September 16, 2020 at 10 a.m.

### **Webinar/Teleconference Info:**

Join Zoom Meeting: <https://us02web.zoom.us/j/89081843815>

Passcode: 742385

Telephone: 1-669-900-6833

Meeting ID: 890 8184 3815

Passcode: 742385



## How should native water be allocated? Getting into the Weeds

By Geoff Vanden Heuvel, Director of Regulator and Economic Affairs

[Geoff@MilkProducers.org](mailto:Geoff@MilkProducers.org)

As the various Groundwater Sustainability Agencies (GSAs) grapple with implementation of their Sustainability Plans, one of the more challenging issues they face is how to set up a groundwater allocation policy. The Sustainable Groundwater Management Act (SGMA) specifically states that laws governing California water rights were not changed by the Act. When it comes to groundwater, the primary water right that landowners have is called an “overlying” water right. An overlying right is attached to the land and allows a landowner to use the water under his property for beneficial use on that property. The challenge for the GSAs in critically overdrafted basins is that the amount of water extracted from the ground exceeds the amount of water that is returned to the ground, meaning that groundwater is essentially being mined. The depletion of groundwater in this fashion has been described as an “undesirable result,” which the GSAs are required to stop.

GSAs have done studies to determine how much water can be sustainably extracted from the aquifer and many of them are now in the process of deciding how to allocate that volume of water. Obviously, there is not enough water to allow everyone to pump what they want. So, who gets access to the available supply? This is where the GSAs have been struggling.

Last week Mike Linden, the attorney for the Madera County GSA, gave a very helpful presentation on this issue to their Advisory Committee. The presentation outlined the difference between the legal overlying right to use water and the GSAs right to establish extraction allocations and allow the transfer of those allocations within the basin. The Madera County GSAs share of the Madera Subbasin native yield is 90,000-acre feet per year. They have 170,000 acres in the GSA, of which 85,000 acres are irrigated. If they spread the 90,000-acre feet equally over the whole 170,000 acres, it amounts to a little over 6 inches of water per year per acre. On the other hand, if they allocate the 90,000-acre feet to just the irrigated acres, it would be a little over 1-acre foot per acre. Attorney Linden made the following points regarding the legal framework that the Madera County GSA was going to use to tackle the question of how the native sustainable yield is going to be allocated.

- His first point was that overlying groundwater rights will be protected.
- Secondly, he defined a water right as the permission to use a reasonable amount of water for a beneficial purpose. The right is to use the water – not the water itself.
- Thirdly, he defined that overlying groundwater rights arise solely from property ownership, not determined by history or frequency of use. If the use is not active, the right is dormant.

He then went on to define reasonable, beneficial use on the land.

- Reasonable: Overdraft is unreasonable; there is no right to pump more than the sustainable yield of the basin.
- Beneficial: Types of beneficial uses include domestic, irrigation, municipal, industrial and fish and wildlife protection.
- On the land: Overlying rights belong to the land, and thus the use must be on the land itself. The right is not transferable.

Overlying rights are correlative. That means that similarly situated property owners generally share an equal priority to use groundwater.

- Correlative rights change over time due to changing circumstances.
  - When the basin is not overdrafted, there is no limit so long as the use is reasonable and beneficial.
  - When water is insufficient to meet the needs of all, the right is limited to a reasonable share of the water within the basin.
  - The exercise of the right should not deny other rights holders their reasonable share of the basin's safe yield.

Therefore:

- There is no overlying groundwater right other than reasonable, beneficial use on the land.
- It does not include the right to sell the water you would otherwise use.
- It does not include the right to obtain credit for use on other lands.

On the other hand, what SGMA allows GSAs to do is create an allocation policy which is **not** the same as an overlying right.

- SGMA allows GSAs to establish extraction allocations and to authorize transfers of allocations within a subbasin.
- This is different than an overlying right, which belongs to the land.
- SGMA allows a GSA to manage overdraft over a 20-year period.
- To this end, a GSA may allocate more water than the owner has an overlying right to.
- This is the 20 year "glide path" to sustainability that SGMA allows GSAs to use.

Therefore:

- A full allocation to all non-irrigated land is not necessary to protect the overlying right.
- The right is in the use of water, and non-irrigated land has no current use.
- However, the right can change based on changed circumstances.
- An allocation policy of a GSA is not the subordination of a dormant overlying right.

Attorney Linden summed up with the following points:

- The water right is the right to use the water (beneficially and reasonably) on the land
- An overlying water right is tied to the land
- An allocation is not a water right and vice versa

What followed Attorney Linden's presentation was a proposed allocation policy that allocates the native yield to irrigated lands and creates two pools of transition water, which is essentially overdraft water, that will be made available in declining amounts over the next 20 years to the irrigated lands. This will very likely be accompanied by fees for the usage of that transition water.

Currently unirrigated lands would have the opportunity in the future to "opt-in" to receive their share of the allocation for use on their land in exchange for paying fees. This policy is a work in progress but does represent a significant step forward in fleshing out what operating in a GSA with very limited surface water resources will look like in the years ahead.

You can see the entire presentation [here](#).

