

MPC WEEKLY FRIDAY REPORT

DATE: OCTOBER 15, 2021
 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	-\$.0300 \$1.7800	WEEKLY CHANGE	+\$.0550 \$1.7750	WEEK ENDING 10/09/21	
Barrels	N.C. \$1.7900	WEEKLY AVERAGE	+\$.0800 \$1.7790	NAT'L PLANTS \$1.3427 14,370,460	
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		PRIOR WEEK ENDING 10/02/21	
Blocks	-\$.0215 \$1.7850	DAIRY MARKET NEWS w/E 10/15/21	\$.5662	NAT'L PLANTS \$1.3145 20,959,344	
Barrels	-\$.0175 \$1.7680	NATIONAL PLANTS w/E 10/09/21	\$.5362		

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
OCT 15 EST	\$18.68 - \$19.18	\$17.03	\$17.94	\$17.05
LAST WEEK	\$18.68 - \$19.18	\$16.97	\$18.03	\$16.87

SEPTEMBER 2021 CA FMMO STATISTICAL UNIFORM PRICE ANNOUNCEMENT

SEP '21 FINAL	CLASS I	CLASS II	CLASS III	CLASS IV	STATISTICAL UNIFORM PRICE (BLENDED PRICE)	NET PRICE AFTER QUOTA ASSESSMENT*
MINIMUM CLASS PRICE	\$18.19 (TULARE) \$18.69 (L.A.)	\$16.89	\$16.53	\$16.36	\$16.41 (TULARE) \$16.91 (L.A.)	\$16.045 (TULARE) \$16.545 (L.A.)
PERCENT POOLED MILK	20.8%	5.4%	11.2%	62.6%	100% (1.903 BILLION LBS. POOLED)	

*QUOTA RATE OF \$0.365/CWT. AS OF JUNE 2020 MILK

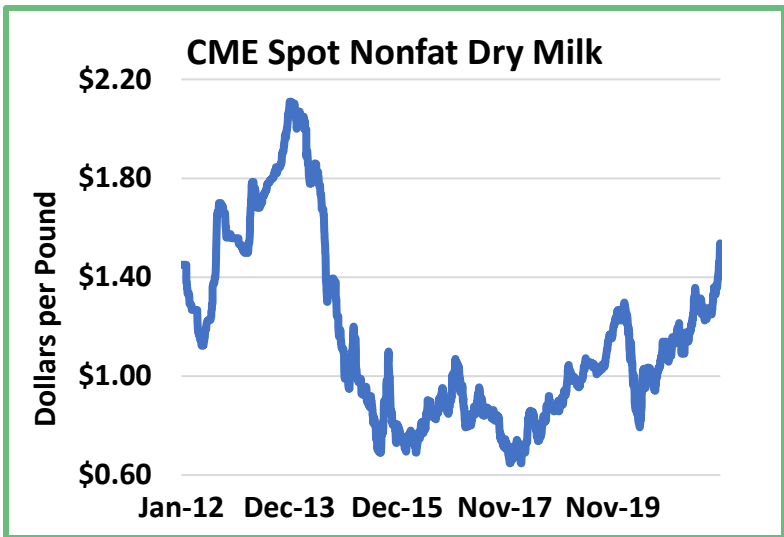


Milk, Dairy and Grain Market Commentary

By Monica Ganley, Daily Dairy Report
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Milk & Dairy Markets

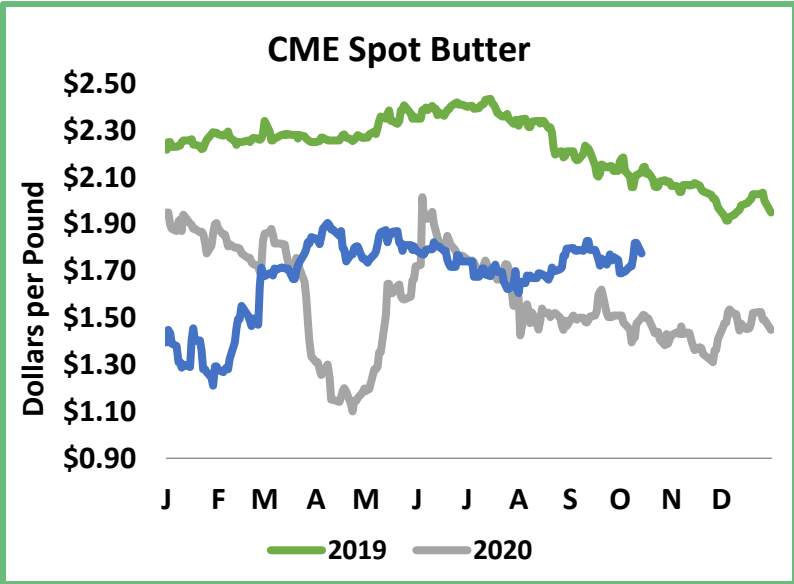
Class IV products continued to garner much attention in Chicago this week. Despite some moderation during Friday's spot session, gains earlier in the week left prices higher than last Friday for both butter and nonfat dry milk (NDM), pushing Class IV milk values upward.



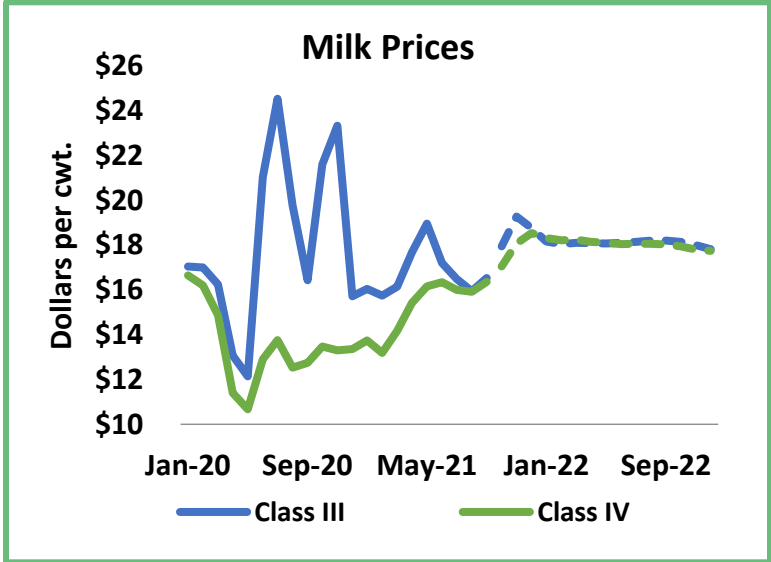
NDM saw the biggest gains during the spot trade this week. A .5¢ decline on Friday did little to counteract the substantive jumps seen on Tuesday and Wednesday. As a result, NDM finished the week at \$1.5325 per pound, an increase of 7.25¢ versus last Friday. This represents the first time since 2014 that NDM prices have exceeded \$1.50 per pound. 13 loads of product traded hands over the course of the week. Participants describe the NDM market as tight, even though loads of condensed skim are still available. USDA’s Dairy Market News reports that there is more product available in the West, but logistical challenges are

preventing buyers from easily moving product from one region to another.

Butter markets are also contributing to the Class IV gains. Demand for butter has been robust as the holiday season approaches and buyers, concerned about being caught short due to labor and logistical issues, seem to have frontloaded orders. The outlook for butter demand over the rest of the holiday season is mixed but for the moment, product continues to move at a rapid clip. Strong butter demand pushed the CME up to \$1.82 per pound on Wednesday, before giving up 4.5¢ during Friday’s trade. Ultimately, the CME spot butter price ended the week at \$1.775 per pound, an increase of 5.5¢ compared to last Friday.



With the strength imbued by NDM and butter, Class IV futures markets appreciated over the week, with particularly strong gains on Wednesday and Thursday. Futures markets for Class III and Class IV milk are showing remarkable parity through much of 2022. In fact, as of Friday’s settlement, JAN22 through MAY22 Class IV contracts are higher than those of Class III.

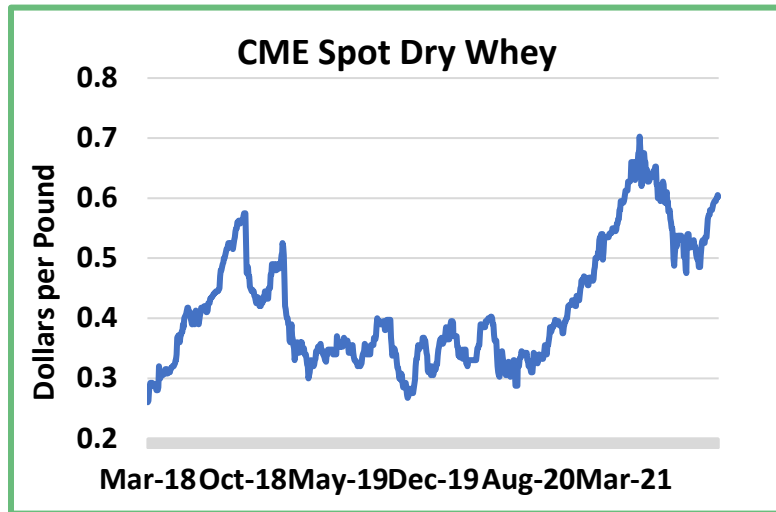
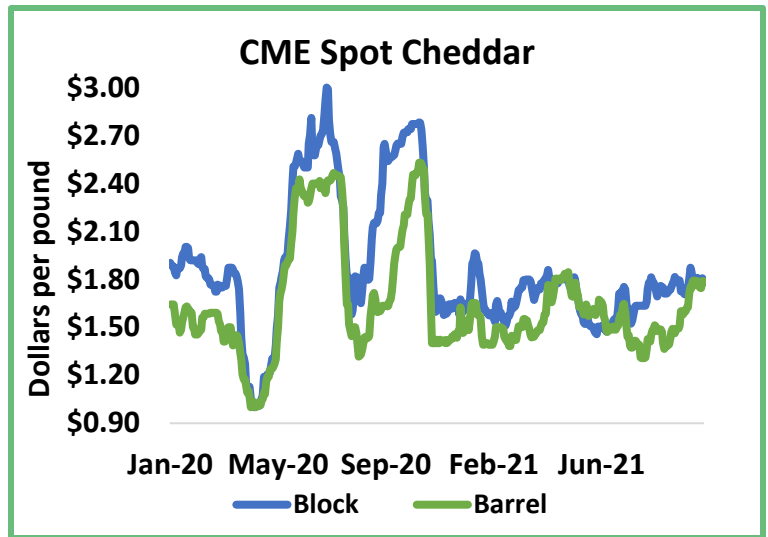


The spot cheese markets slid lower during the first half of the week before finding traction and bouncing back on Thursday. During Friday’s trade, barrels held steady at \$1.79 per pound while blocks again lost ground, falling to \$1.78 per pound and inverting the block-barrel spread for the first time since June. Blocks finished the week 3¢ lower than last

Friday while barrels were unchanged. Holiday demand has also perked up for cheese and processors indicate that given the availability of affordable spot milk, they would happily increase production if they thought they could reliably find enough labor to do so.

Whey markets continued to strengthen this week, adding value to Class III prices. Spot dry whey rose as high 60.5¢ per pound on Thursday before giving up a quarter cent to close the week at 60.25¢ per pound, up .75¢ from last Friday. Whey prices have not exceeded 60¢ per pound since June, when they were on the descent from their record setting rally.

Somewhat lighter cheese production has reduced the available whey stream while demand remains robust from both domestic and international sources.



Milk production is beginning to tick upward in most areas of the country with milk availability generally described as good. Class I demand has subsided from a few weeks ago, when the start of school bumped up demand from bottlers, but remains significantly elevated relative to prior year. Labor shortages are pervasive, and a lack of plant operators and truck drivers are creating challenges up and down the supply chain. At the ports, well documented congestion is interrupting dairy exports and causing a buildup of inventories. Yet even as challenges abound, demand for U.S. dairy products

remains robust from both international and domestic buyers.

Grain Markets

USDA’s World Agriculture Supply and Demand Estimates (WASDE) report, released on Tuesday, held some surprises for the trade. USDA rebuffed analysts’ expectations, increasing production estimates for both corn and soybeans on the back of higher yields. The forecast for corn production during the 2021/22 marketing year was raised by 0.2% to 15.019 billion bushels. Larger production, an increase in beginning stocks, and a decrease in total use forecasts allowed USDA to increase its corn ending stocks estimate by 92 million bushels. On the soybean balance sheet, a 1.6% increase in soybean production also trickled down to a 135-million-bushel, or 75%, increase in ending stocks. This dramatic change pulled the average farm price down to \$12.35 per bushel for the 2021/22 crop year, 55¢ lower than last month’s estimate.

The increase in U.S. corn and soybean production fed into expectations for larger global output, even as other key exporters of both crops saw their corn production expectations cut. The surprising WASDE report sent the futures markets for corn and soybeans tumbling on Tuesday, though they recovered later in the week. Heftier grain supplies should lead to lower grain prices and reduce pressure on dairy producer economics.



Greater Kaweah GSA Launches Groundwater Extraction Cap Discussion

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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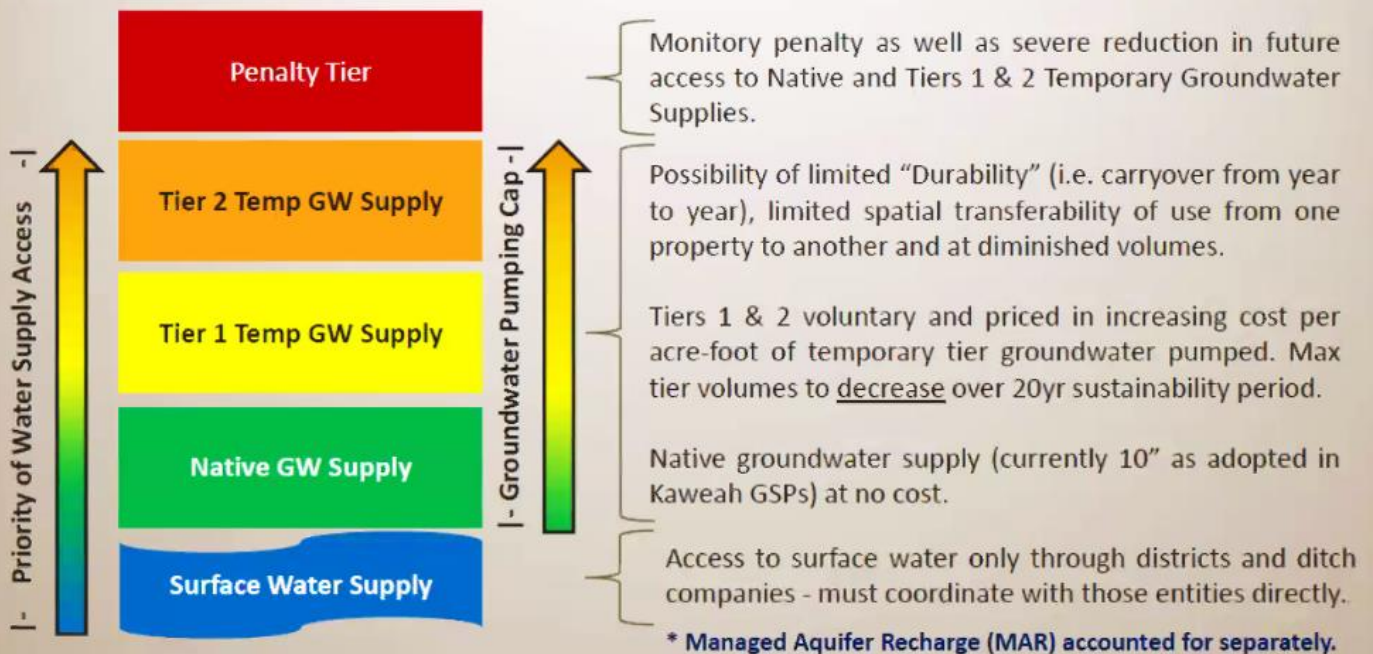
At this month's board meeting of the Greater Kaweah Groundwater Sustainability Agency (GKGSA), directors began discussions about establishing a cap on groundwater extraction for landowners. There are quite a few dairies in the GKGSA, so this action would be significant for the industry. You can see the structure of the draft cap policy in the slide below.

The cap applies to groundwater pumping only. The amount of "Native Groundwater Yield" available to every acre is currently calculated at **10 inches of water per year**. The next amount of allowable pumping is broken into two tiers that will be defined as discussions unfold over the next several months. This amount of pumping is essentially continued overdraft, which is allowed under the Sustainable Groundwater Management Act (SGMA) for the ramp down period between now and 2040. The law requires that by then, "undesirable results" be eliminated, which overdraft is an important one.

At the board meeting, Eric Osterling, the general manager of GKGSA, indicated that the total amount of initial allowable groundwater production under the cap proposal would likely be in the range of **2-3 acre feet per acre**. He also indicated that while the intention is to get the policies established and the mechanisms in place as soon as possible, the actual enforcement of the cap and the fees on pumping would start in October of 2022.

ITEM 6a – TAC Report | GKGSA Board 10/11/21

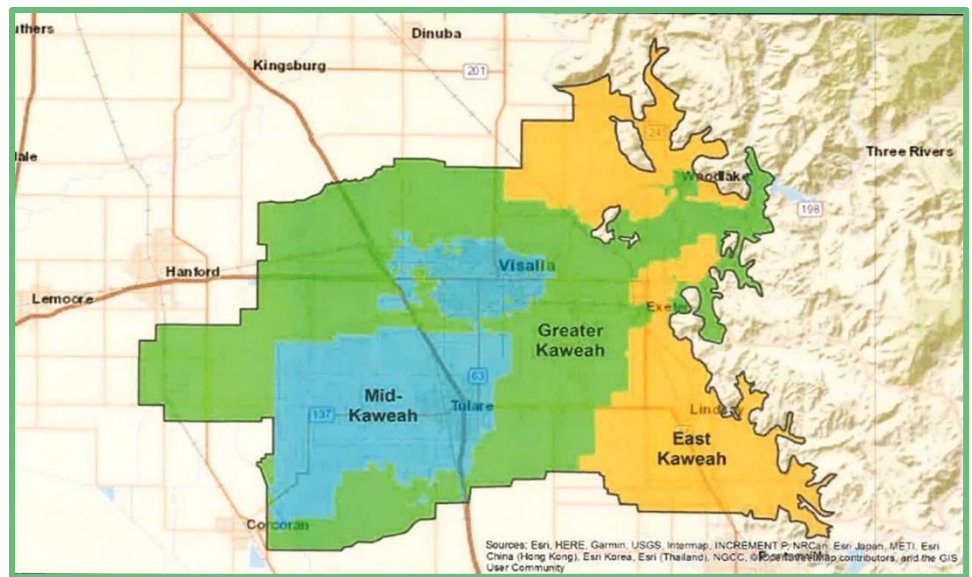
DRAFT Groundwater Pumping Cap Proposal All Gross Acreage Groundwater Users in GKGSA



Observations

The GKGSA has some distinct characteristics that make establishing a groundwater extraction cap uniquely challenging. First, the geographic footprint of the GKGSA is large. Land under the jurisdiction of GKGSA stretches from just below Lake Kaweah, east of Woodlake, all the way to lands just south of Hanford and another piece stretching nearly to Corcoran.

In addition to a large and spread out land mass, there are almost no water districts within the GKGSA. There are thousands of wells and hundreds of different landowners within the GKGSA, and groundwater conditions are not uniform throughout the GKGSA. They range from relatively shallow groundwater near the foothills, to areas where there is deep pumping from under the Corcoran clay. There is also a well field that pumps groundwater out of the GKGSA and moves it to lands in other subbasins.



Unlike other GSAs that were formed in conjunction with a water district, where landowners had an existing relationship with a water agency, those relationships do not exist in GKGSA. This was a completely new entity made up of the portion of the Kaweah Subbasin that was left over after Mid-Kaweah and the East Kaweah GSAs were formed. The Mid-Kaweah GSA is made up of the cities of Visalia, Tulare and the Tulare Irrigation District, and the East Kaweah GSA is made up of the water districts along the foothills that have rights to the Friant CVP water supply with some of the groundwater-only lands located next to their districts included. The sponsor of the GKGSA was the Kaweah Delta Water Conservation District, which did and does provide a lot of support for the GKGSA but is not a water district and does not have the water supply relationship with all of the landowners in its jurisdiction. The administrative task of setting up a groundwater extraction cap is immense, and so far, the GKGSA has only one employee, the general manager.

There are also some encouraging things to note when it comes to ultimately establishing a sustainable situation in the GKGSA. The private ditch companies, which operate predominately in the area east of Visalia, have access to a lot of surface water and they are seriously looking at creating a water district structure that would allow broader participation by the lands that are not currently ditch company stockholders. Of course, this access will come with significant costs. On the west side of Visalia, a new organization called the Delta View Water Association has been formed. This group is managed by Johnny Gailey and has a membership already representing more than 40,000 acres. The purpose of this group is to advocate for policies and facilitate projects that will minimize the economic costs of achieving sustainability. This group is also exploring the possibility of becoming a water district.

The task ahead is daunting. This drought has accelerated GKGSA's timetable for complying with SGMA. In retrospect, California should probably have begun its regulation of groundwater decades ago. But with innovation, cooperation, wisdom and the blessing and mercy of God, solid progress can be made. A very wet winter would help too.

“More Water Now” Initiative Effort Underway

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs

Geoff@MilkProducers.org

A final version of the Water Infrastructure Funding Act of 2022 is under review by the California Attorney General’s office. It is anticipated that this ballot initiative will be ready for signature collection around November 1, 2021. It will require 997,179 valid signatures to go on the November 2022 ballot for voter consideration. This is a very serious effort to change the water supply paradigm in California from a water scarcity reality to a provision of water supply adequacy for towns, farms and cities, while protecting and respecting our natural resources.

Here is the summary of the initiative from organizers:

Our ballot proposition, a nonpartisan initiative constitutional amendment, when approved by voters, will accomplish the following objectives:

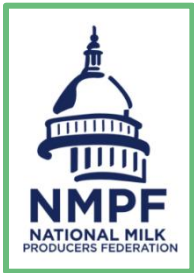
- Provide ample funds for water infrastructure by allocating a mere two percent of the state’s general fund to use for projects that increase California’s annual supply of water to farms and cities.
- Unlock immediate access to tens of billions to invest in water projects by permitting up to half of the two percent allocation to be used to pay principal and interest on construction bonds.
- Give priority to underfunded projects approved by voters in Prop. 1 (2014) that are also already approved by the California Water Commission.
- Prioritize maintenance, repair and upgrades for projects to deliver abundant and affordable drinking water to underserved communities.
- Funding does not expire until the supply capacity of new projects provides five million acre feet of new water for California’s farms and cities, with surplus water used to protect California’s ecosystems.
- Eligible projects include funding for conservation programs achieving up to one million acre feet of water saved.
- Allocate funds based on an all-of-the-above strategy, allowing Californians to repair and upgrade aqueducts, dams, water treatment plants, build off-stream reservoirs, expand existing reservoirs, invest in wastewater reuse and desalination plants, runoff capture, and aquifer recharge and recovery.
- Streamline the bureaucratic process so projects can be designed and built in a reasonable period of time, instead of taking many decades to get approved and completed.

Californians have neglected their water infrastructure for decades, even though our population has increased to nearly 40 million. This fact, coupled with climate change and prolonged droughts, means that achieving water resilience should be a top priority.

This effort has already garnered the support of a bipartisan group of 27 state legislators. You can see their letter of support [here](#). The Milk Producers Council Board of Directors this week contributed to the signature gathering campaign. It will take somewhere between \$5-\$6 million to get the required signatures to place this on the ballot, so funding is critical. But there is growing support for this in urban California, as well as agriculture, as Californians realize that a major investment in water supply for our state is necessary if we are going to flourish as a society.

You can find out much more information and sign up for updates and contribute at the website: www.MoreWaterNow.com

Full disclosure, I am on the steering committee and one of the [legal proponents of the initiative](#).



National Milk Producers Federation Update: DHS Curtails Worksite Immigration Raids Following NMPF Meeting

*By Jim Mulhern, President & CEO
National Milk Producers Federation*

In a major and welcome development for farm employers facing huge challenges with worker availability, Homeland Security Secretary Alejandro Mayorkas this week directed his agency to cease most worksite immigration **enforcement raids**, including those on farms, and instead concentrate agency resources on the most unscrupulous employers. The DHS laid out its updated policy [in a memo](#) issued on Tuesday that told its field agents to no longer conduct mass worksite operations and instead refocus workplace enforcement efforts on employers that exploit or traffic workers.

The new policy comes after NMPF met with DHS officials earlier this month to discuss [NMPF's request](#) that the Administration change its policies that have detrimentally impacted the dairy farm workforce. During the meeting, NMPF staff explained the challenges facing dairy farm employers, presented evidence on the payment and total compensation of dairy workers, and illustrated the challenges of recruiting immigrant workers without dairy employers' access to the H-2A visa program available to other ag sectors.

We are pleased by the announcement from Secretary Mayorkas and are hopeful that this draws to a close the recent spate of enforcement raids that have been hitting a number of dairy farms.

