

MPC WEEKLY FRIDAY REPORT

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 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	+ \$.0200	\$2.2950	WEEKLY CHANGE	-\$.0850	\$2.7100
Barrels	+ \$.0025	\$2.2525	WEEKLY AVERAGE	-\$.0795	\$2.7155
WEEKLY AVERAGE CHEDDAR CHEESE		DRY WHEY		WEEK ENDING 03/26/22	
Blocks	+ \$.0105	\$2.2310	DAIRY MARKET NEWS	W/E 04/01/22	\$.7275
Barrels	+ \$.0360	\$2.1110	NATIONAL PLANTS	W/E 03/26/22	\$.7938
				LAST WEEK ENDING 03/19/22	
				NAT'L PLANTS \$1.8075 19,487,230	
				NAT'L PLANTS \$1.7942 22,864,610	

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
APRIL 1 EST	\$25.98 - \$26.48	\$25.57	\$23.69	\$25.10
MAR '22 FINAL	\$24.48 - \$24.98	\$24.76	\$22.45	\$24.82

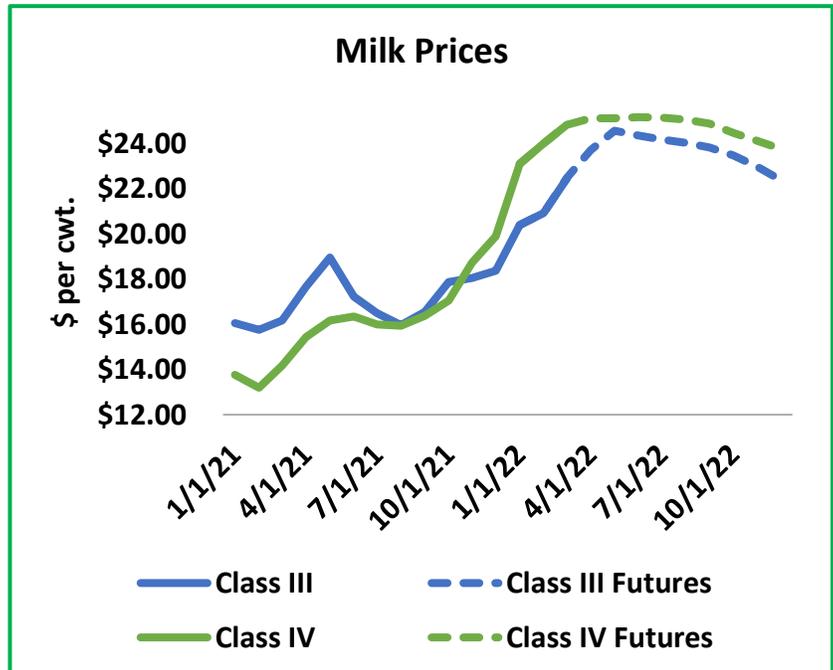


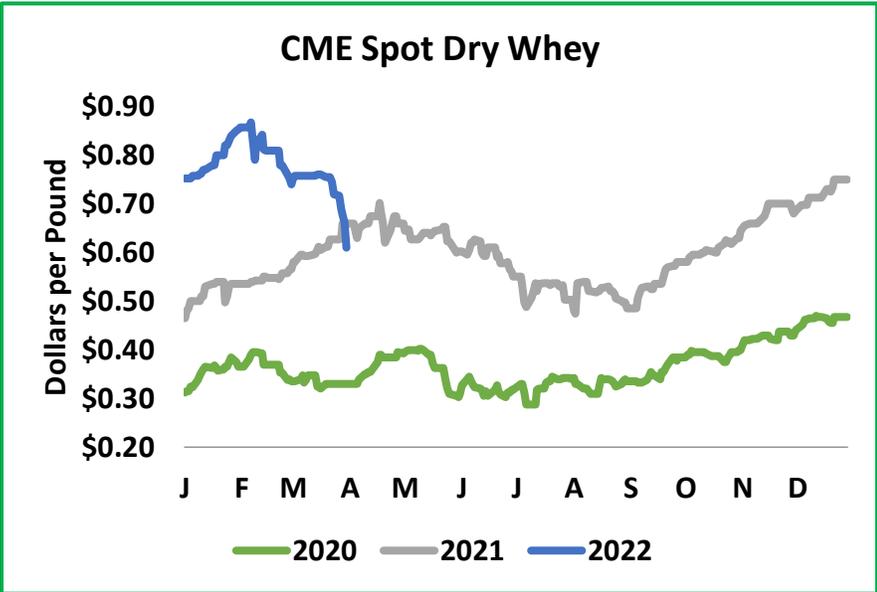
Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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Milk & Dairy Markets

The dairy markets are getting accustomed to the altitude. Last week, Q2 Class III contracts summited briefly above \$25/cwt., while Q3 topped \$24.50 and Q4 approached \$24. But the air was too thin, and they quickly pulled back from the highs. Class III futures spent the first couple days of this week tumbling, but on Wednesday they found their footing and began to plod upward once again. Both Class III and Class IV contracts finished the week below last Friday's impressive closes, but they looked lively rather than exhausted as they headed into the weekend. Most Class III contracts lost between 15 and 40¢, but April finished 62¢ lower at \$23.68. Most





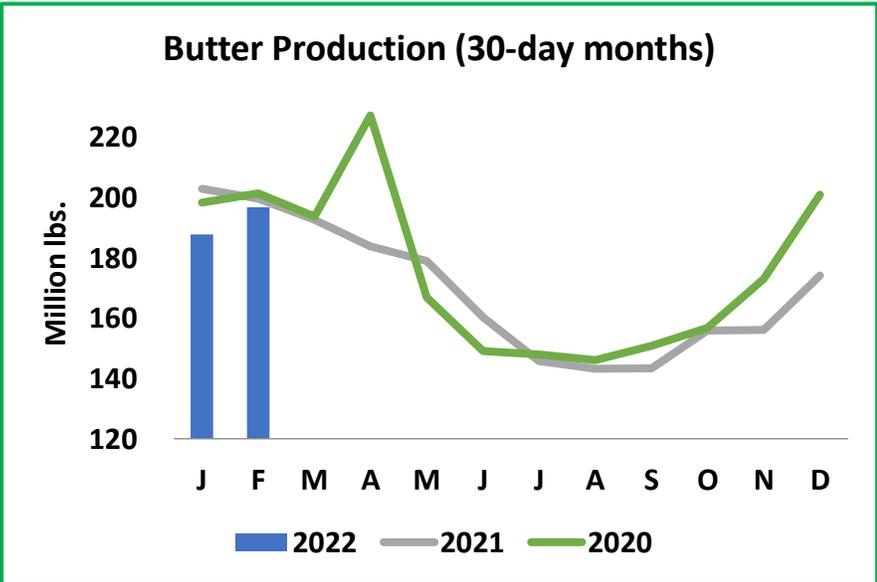
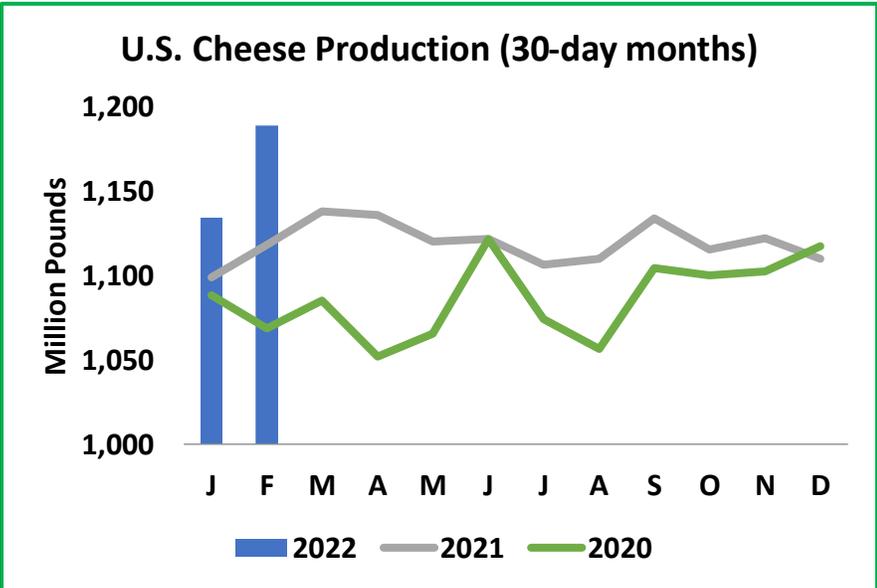
Class IV contracts gave up about 20¢. April through August Class IV futures held their ground above \$25.

USDA announced the March Class III price at \$22.45, up \$1.54 from February and \$6.30 higher than March 2021. At \$24.82, Class IV futures set an all-time high, up 82¢ from February and an astounding \$10.64 above March 2021. Dairy producers can anticipate some very big milk checks in a few weeks.

At the spot market, Cheddar blocks climbed 2¢ to \$2.295 per pound. Barrels added 0.25¢ and reached \$2.2525. But butter and the powders fell. CME spot butter slumped 8.5¢ to \$2.71. Spot nonfat dry milk fell 0.25¢ to \$1.85. Whey plummeted 11¢ to 61¢, a 15% decline in just five trading sessions.

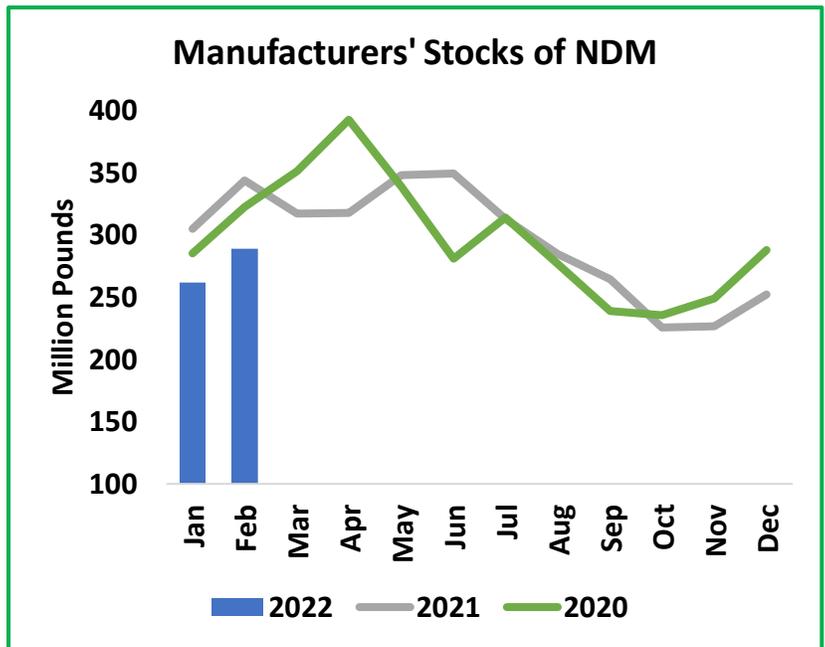
Processors tell USDA's *Dairy Market News* that there is more whey on offer, and buyers have turned coy. Last week, China reported disappointingly low whey import volumes in January and February. Today, USDA reported that commodity whey production was just 0.7% lower than the prior year in February, and whey stocks began to climb after five months in decline. Whey buyers clearly expect that, with stocks on the rise and China backing off, they can bide their time and hope to purchase whey at a bargain. This could have a big impact on milk revenues. Every penny decline in the whey price takes 6¢ off Class III milk.

U.S. cheese production topped 1.1 billion pounds in February, up 6.3% from a year ago. For months, issues in staffing and logistics have prevented cheese makers and other dairy processors from running optimally. Nonetheless, daily average cheese



production in February reached an all-time high. Production was strong across the board, with Cheddar output up 3.9% from a year ago, and Mozzarella production up 4.4%. Recently, growth in cheese inventories has slowed and prices have climbed, so today's big cheese production figures imply that the world is hungry for U.S. cheese.

Strong cheese production left less milk for Class IV manufacturers. U.S. butter production totaled 183.6 million pounds in February, down 1.4% from a year ago. Combined production of NDM and skim milk powder (SMP) fell 6.8% year over year to 200.6 million pounds. Manufacturers' stocks of NDM climbed from January to February, but, at 288.8 million pounds they are 16% smaller than they were a year ago and represent the smallest U.S. stockpile for this time of year since 2017. Given lower milk output in Europe and Oceania, it should not be difficult to keep U.S. milk powder moving abroad, which will continue to support Class IV milk values.



Grain Markets

American farmers love to plant corn, but record-shattering fertilizer costs have strained the relationship. Yesterday USDA published its annual Prospective Plantings report, reflecting farmers' intended crop mix in early March. The survey showed that farmers planned to plant fewer than 89.5 million acres of corn, the lowest total since 2018 and a 4.1% drop from last season. In the Corn Belt, farmers intend to switch to soybeans. USDA reported soybean planting intentions at just shy of 91 million acres, up 4.3% from last season. If farmers follow through, this will mark only the third time ever that soybeans take the acreage crown from King Corn. In the South, farmers say they will move away from corn and sorghum acres and into cotton. In the far Northern Plains, farmers plan to plant fewer row crops altogether and switch to more wheat, small grains, and sunflowers.

There is still time for farmers to change their minds, and the new crop futures markets are doing all they can to push them back to corn. December corn futures settled today at \$6.905 per bushel, an all-time high for the benchmark new crop contract ahead of spring planting. December corn futures have climbed 52¢ since USDA took its survey in early March. Over the same period, November soybean futures have fallen more than 60¢. It's likely farmers will shift some fields back from soybeans into corn, but rising fertilizer costs remain a deterrent, and spring weather will also play a big role in the final acreage mix.

The price that dairy producers will pay for feed today took a small step back this week. The strong dollar and falling energy costs weighed on commodity markets of all types. USDA also reported quarterly grain and soy stocks yesterday, and, as expected, both corn and soybean stocks are higher than they were a year ago. It seems that nearby corn and soybean prices are more than expensive enough to deter new export sales, so the futures retreated. May corn closed today at \$7.35 per bushel, down nearly 20¢ from last Friday. May soybeans settled at \$15.8275, down \$1.275. May soybean meal plummeted \$37.90 this week to \$450 per ton.



Crisis in California Water

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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It took me a while, but I finally got through all [122 pages of the court order](#), issued a few weeks ago by Federal District Court Judge Dale A. Drozd, that will dictate how water will flow through the Bay-Delta between now and September 30. I'd heard it before, but it is still shocking to read the dictates of the Endangered Species Act (ESA) on the pages of a court order cited by the Judge:

“Congress has determined that under the ESA the balance of hardships always tips sharply in favor of endangered or threatened species, courts considering and issuing injunctive relief under Section 7(a) of the ESA do not have the discretion to consider countervailing allegations of economic costs. Evidence regarding purely economic consequences of an injunction proposed to address an ESA violation is therefore arguably not relevant to the court’s evaluation of that proposed injunctive relief. That is because preserving an endangered species has an “incalculable value.”

The court goes on to say, in reference to another court decision:

“There, after being presented with evidence that the requested remedies would result in water shutoffs that would “financially ruin farmer families” the court nonetheless acknowledged that “typically the interests of the protected species outweigh those of farmers and ranchers.”

We are in a very tough spot. This court case required the Judge to decide between dueling scientists. A major focus was how sensitive winter run chinook salmon are to temperature during the early part of their life. The salmon run that originates downstream from the Shasta Dam is endangered. A water temperature of 53.5 degrees is optimal for the salmon eggs which hatch to become fry. Temperatures above that cause increased mortality, which greatly accelerates over 56 degrees. Water levels at Lake Shasta are low, greatly reducing the cold-water pool at the bottom of the lake. The prospects for increasing the water supply behind Shasta Dam are not good because of the continued drought. The specific reason for this issue being presented to the Judge for a decision is ongoing litigation over the 2019 Biological Opinions governing delta water operations, which were adopted by the federal agencies in 2019. That federal decision was immediately objected to by the State who sued the federal agencies and adopted their own plan for operating the State Water Project. The State and Federal agencies earlier this year jointly prepared an Interim



Shasta Lake at historic low.

Operating Plan (IOP) that is different from the federal or the state plan. The environmentalists and the water agencies objected to the IOP and brought the issue to Judge Drozd for decision.

There are also other endangered species in the delta. The delta smelt has been on the endangered list since the early 1990s. The Judge addressed delta smelt issues as well in his order, citing an expert who said:

“There is considerable concern that the Delta Smelt face imminent extinction in the wild. None have been caught in the standard sampling for the last four years. The standard sampling addresses a small fraction of the waters of the estuary so we could be missing some that are still there. A newer year-round sampling program targets areas and water conditions where Delta Smelt are expected to occur and two Delta Smelt were found in 2021, so they appear to be exceptionally rare rather than extinct. For the last 25 years, high spring outflows have usually foretold upswings in the autumn abundance of Delta Smelt. But despite the high outflows in spring 2017 and above-average outflows in 2018 and 2019, Delta Smelt have almost disappeared.”

Through the 122 pages, the Judge systematically deals with all the objections presented by the parties and in the end adopts the joint federal-state Interim Operating Plan.

“The IOP modifies the decision-making guidelines and structure in ways to reinforce the IOP’s prioritization of winter run [salmon] habitat needs. The guidelines come in the form of a prioritization system that gives first priority to public health and safety. Second priority is given to the habitat needs of winter-run, which are embodied in (a) temperature targets discussed above that are designed to prevent catastrophic temperature dependent mortality in dryer years and (b) the carryover targets that acknowledge the demonstrated need to plan ahead for subsequent years. Only once a water management plan is in place that addresses the second priority for the longest period possible can the third and four priorities be satisfied: deliveries to senior water contractors [Sacramento Valley] and to “Level 2” wildlife refuges; and other deliveries.”

It seems clear to me that until the drought ends, south of delta water users will not get much water out of Northern California. Furthermore, whatever strategy has been deployed by the agencies in charge of the delta smelt recovery effort over the past 30 years, which has mostly consisted of restricting water deliveries to farms and towns, has failed miserably. Those agencies are unaccountable for the massive economic costs this has inflicted because Congress dictates that economic costs cannot be considered when the survival of an endangered species is at stake. This might be a subject to bring up with candidates for Congress over the next several months as they come soliciting your votes and campaign



contributions. The other thing that seems obvious is that much more storage needs to be constructed – not just for water supply – but also for cold water supply since it is vital to meeting the needs of the fish while having some left over for the people. The proposed Sites Reservoir in the Sacramento Valley should be built immediately and the project to raise Shasta Dam by 18 feet, which would add about 650,000 acre-feet of storage to the lake, should also be done ASAP.

There was other water news this week. On Tuesday, Assemblyman Adam Gray published an article calling for an audit of the water supply forecasting done by the state Department of Water Resources that overestimated mountain runoff and therefore caused the premature release of hundreds of thousands of acre-feet of water to the ocean. You can read the article [here](#).

Also on Tuesday, Governor Newsom announced the signing of a Memorandum of Understanding between the state and several water agencies, which is being brought forward as the beginnings of a Voluntary Settlement Agreement for meeting the water quality requirements of the delta. This could be a very positive thing, however there are significant water agencies with rights to water that flows to the delta who are not party to this agreement. So, there is cheering and grumbling all at the same time. You can read about it [here](#) and [here](#).

On Monday, Governor Newsom issued an emergency Executive Order dictating that urban water suppliers implement their water shortage contingency plans. It requires the banning of irrigation of “non-functional turf” in the commercial, industrial and institutional sectors. The order also requires the State Water Resources Control Board to do inspections and bring enforcement actions against illegal diverters and those engaging in the “wasteful and unreasonable use of water”. *[One wonders if diverting water to protect non-existent delta smelt could be considered wasteful and unreasonable.]* The order also requires county, city or other public agencies to obtain written verification from the local Groundwater Sustainability Agency before allowing any new groundwater well. The order does instruct the Water Quality Control board to accelerate approvals for projects that enhance the ability to capture high precipitation events for local storage or recharge. You can read the proclamation [here](#).

Dairy Security Advisory: Armed Robbery on Dairies March 2022

By Dr. Michael Payne, [California Dairy Quality Assurance Program](#) Director

On Wednesday, March 30, the Tulare County Sheriff’s office reported that four suspects implicated in a [string of armed robberies](#) on five Pixley area dairies were in custody. The thirteen victims told authorities that the robbers demanded personal items like wallets, phones, and jewelry. One vehicle was carjacked and subsequently stopped by law enforcement. The arrests were made, but not before shots were exchanged between the suspects and law enforcement officers. No officers, victims, or suspects were reported injured in any of the incidents.



All four of the suspects will face charges of strong-armed robbery, attempted homicide of a police officer, carjacking, and conspiracy to commit criminal felonies.

The memory of 2020’s two Gustine dairy robberies, assaults that left one employee dead and another hospitalized, are still fresh. The assailant in those cases was convicted of a variety of charges including murder, attempted murder, assault and robbery. He was sentenced to life in prison in May of last year.

CDQAP has worked with state and local law enforcement to develop resources specifically addressing dairy security.



Of most relevance to this string of robberies is a CDQAP newsletter article [Dairy Security Recommendations](#), which concisely reviews key education points related to employee safety, including law enforcement advice for employees during and following a robbery. Also covered are mitigation measures that can be taken beforehand to discourage robbery.

**Farm to Market:
Featured Panel at California Dairy Sustainability Summit**

Courtesy of the [California Dairy Sustainability Summit](#)

Food and beverage leaders, Nestlé and Starbucks have both been recognized for efforts to help shape a resource-positive future. Collaborating with dairy farmers and suppliers is key, as they work to advance sustainable practices throughout their supply chains. This session will highlight how leading dairy cooperative, California Dairies, Inc. has been partnering with both Nestlé and Starbucks—supporting its dairy farmer owners and working to ensure environmental, economic, and social sustainability.



Kelly Bengston
Senior Vice President/Chief
Procurement Officer
Starbucks



Brad Anderson
CEO
California Dairies, Inc.



Kimberly Fisk
Global Head of
Procurement –
Commodities
Nestlé



**John Talbot
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