MPC Weekly Friday Report

Date: June 7, 2024
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 6

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter		
Blocks	+ $.0350	$1.8450	Weekly Change	+ $.0025	$3.0925
Barrels	+ $.0150	$1.9550	Weekly Average	+ $.0796	$3.1040
Weekly Average Cheddar Cheese			**Dry Whey**		
Blocks	+ $.0429	$1.8660	Dairy Market News	w/e 06/07/24	$.4550
Barrels	N.C.	$1.9550	National Plants	w/e 06/01/24	$.4160

Non-Fat Dry Milk		
Week Ending 06/01/24		
Nat'l Plants	$1.1305	22,723,166
Last Week Ending 05/25/24		
Nat'l Plants	$1.1411	18,941,526

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
Jun 7 Est	$21.68 - $22.18	$21.60	$19.50	$21.15
May '24 Final	$20.06 - $20.56	$21.50	$18.55	$20.50

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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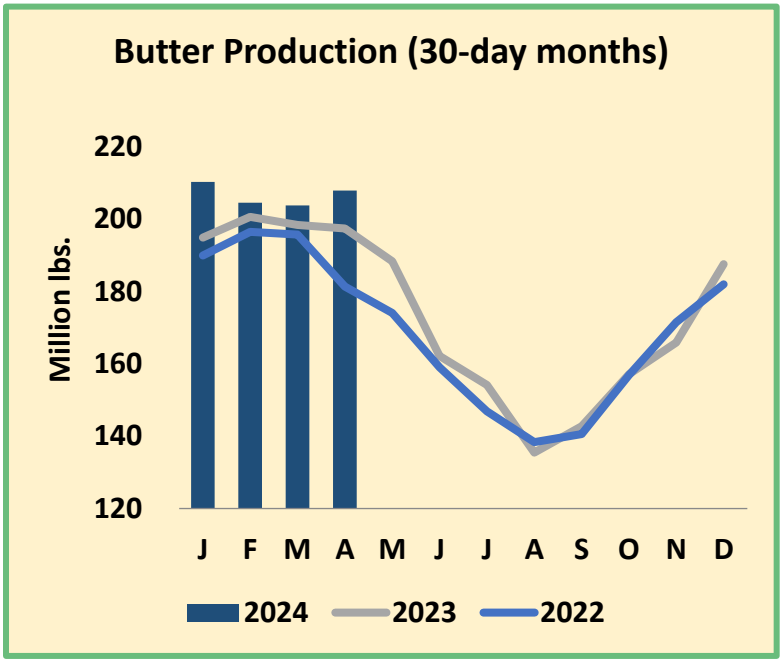
Milk & Dairy Markets

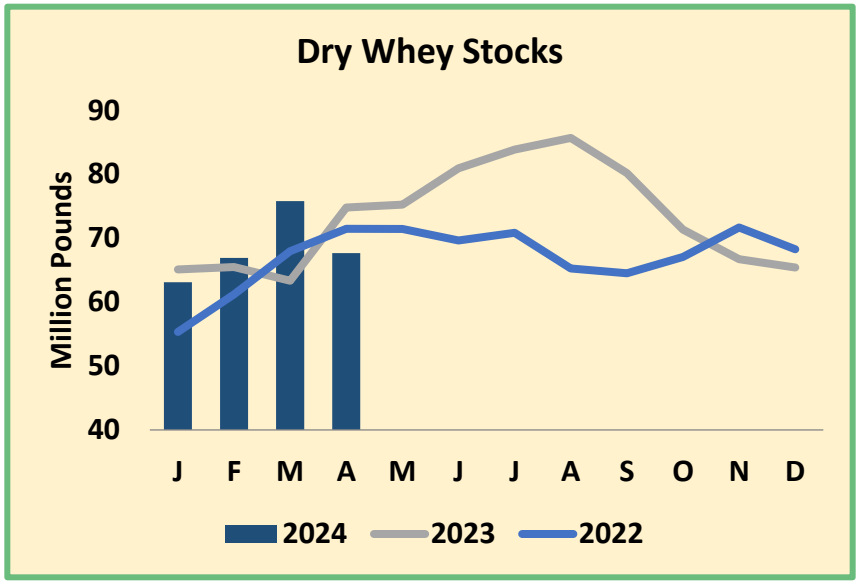
The bulls are back in charge on LaSalle Street. July through December Class III and a smattering of Class IV futures notched life-of-contract highs this week. While most Class III contracts ultimately settled a little lower than they did last Friday, Class IV futures added roughly 30¢. Third-quarter Class III stands solidly above $20 per cwt., with fourth-quarter contracts in the $19s. Class IV futures are in the $21s and $22s.

Prices moved higher across the board at the CME spot market, led by whey, the unsung

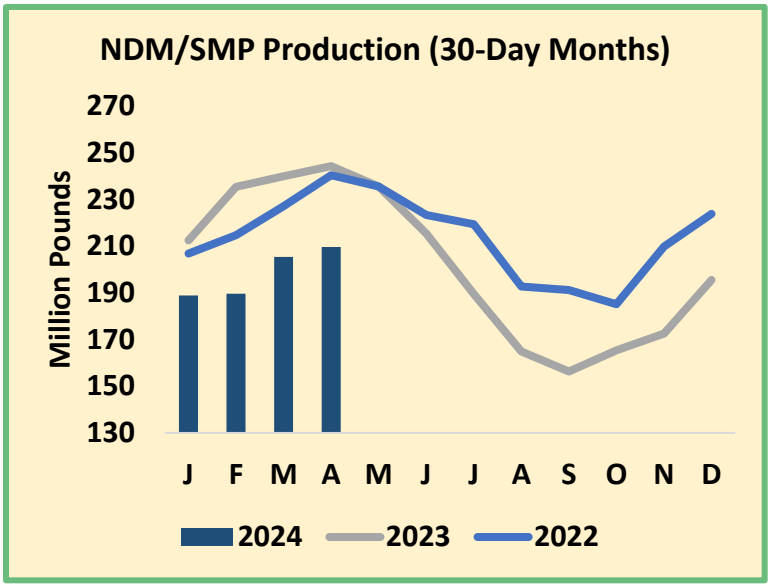


hero of the Class III complex. Spot whey powder climbed 5.5¢ this week – a hefty 13.25% gain – and reached 47¢ per pound for the first time since February. Spot Cheddar blocks and barrels rallied 3.5¢ and 1.5¢, respectively. That put blocks at $1.845 and barrels at $1.955. Boosted by a strong performance at the Global Dairy Trade auction, CME spot nonfat dry milk (NDM) advanced 2.75¢ to $1.195. Butter added a fraction of a cent and settled at $3.0925.

While milk output remained below year-ago volumes in April, higher components allowed for greater cheese and butter production. Manufacturers churned out nearly 208 million pounds of butter in April, 5.3% more than in April 2023. That marks the highest butter output ever for the month, aside from April 2020, when pandemic shutdowns pushed nearly all cream to churns. The unprecedented strength in the butter market in the face of sizable output speaks to formidable demand.

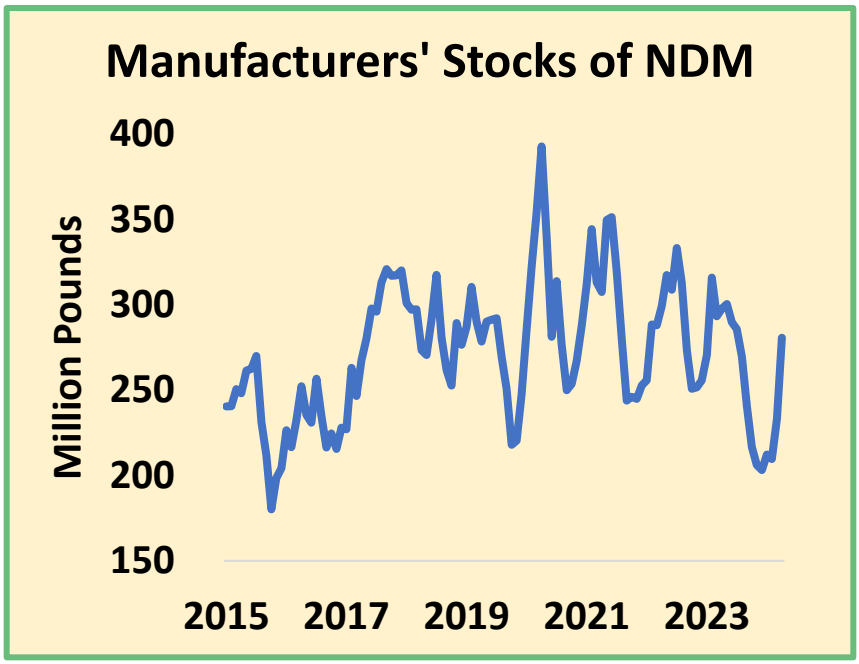


U.S. cheese production neared 1.19 billion pounds, up 1.8% from April 2023 and the highest April output on record. Manufacturers cranked out more Mozzarella than ever before, and production of Italian-style cheeses outpaced April 2023 by 6.2%. Strong Mozzarella production is not bearish, as this cheese is typically made to order and either consumed fresh or loaded on ships and moved abroad. It does not typically pile up and drag down cheese prices, as Cheddar is wont to do. In contrast, Cheddar output slumped, falling 8.6% from year-ago volumes. January through April Cheddar output was 5.9% lower than it was in 2023.



Cheese exports remained strong in April, falling just short of the record-setting volumes logged in March. U.S. cheese exports to Mexico reached an all-time high, and shipments to key markets in Asia comfortably outpaced April 2023 volumes. Cheese shipments abroad are up 23% so far this year,

which helps to explain why the cheese market briefly topped the $2 mark. But it's going to be a lot harder to win new business with cheese around $1.90 than it was when cheese hovered around $1.50.



Firm demand for high-protein whey products pushed manufacturers to concentrate more of the whey stream, leaving less for the dryer. After heavy production in the first quarter, whey powder output held steady with year-ago volumes in April. Whey powder exports were also close to year-ago volumes. Nonetheless, manufacturers' whey powder stocks declined, paving the way for the recent rally.

Lower milk output and greater cheese production reduced the lineup of trucks waiting at the dryer. Combined production of NDM and skim milk powder (SMP) totaled 209.6 million pounds, down 14.2% from the year before and the lowest April milk powder output since 2013. Nonetheless, NDM stocks surged, logging their largest March-to-April increase ever. Slower exports are likely to blame. The U.S. sent 144 million pounds of NDM and SMP abroad in April, 2.5% less than the year before and the lowest tally for the month since 2019. But it's possible that export volumes may soon improve. Higher cheese prices could entice Mexico to import less cheese and more NDM, which manufacturers there can use to fortify their domestic cheese production.

The dairy markets promise producers a much more prosperous future. But the mixed signals from this week's data and the extreme volatility in the dairy complex counsel caution. There are many barriers to expansion – including high interest rates, scarce heifers, and the bird flu – that suggest milk production will not grow quickly. But Class III futures are $3.50 higher than they were a year ago, and corn is $1.55 cheaper. Dairy producers have a powerful incentive to make more milk, and they will likely succeed. They also have an excellent opportunity to protect today's margins using futures, options, or the Dairy Revenue Protection (DRP) insurance program.

Grain Markets

The feed markets swayed back and forth this week but finished near where they began. July corn closed at $4.4875, up 2.5¢. July soybean meal fell $4.10 to $360.60 per ton. Farmers have almost finished planting their crops, and a drier forecast should allow them to sow their final acres. While heavy spring rains created a lot of mud and headaches, concerns about lost acres have been put to rest, and most farmers will be grateful for much-improved moisture reserves to carry them deep into summer. Less ideal conditions in other farming regions around the world could boost U.S. export prospects, which will prevent prices from dropping too far, too fast. But, assuming normal weather, the U.S. is likely to harvest large crops, and feed costs could drift even lower than they are today.

CDFA to Hold Producer Referendum on Quota

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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As I reported last month, the Producer Review Board (PRB) has been reviewing the Class I revenue generated into the California Federal Order pool and comparing that income to the payouts to quota holders, which was fixed at $1.70 per cwt. back in 1994, some thirty years ago.

What those numbers show is steadily declining revenue from Class I, compared to a very stable quota payout. For example, in April 2024, the CA FMMO reported 395,561,655 pounds of Class I sales. Multiplying that number by the average CA FMMO Class I differential of $1.89 per cwt. yielded $7,480,070 in Class I revenue for April. Net quota payouts to quota holders for April have not yet been reported, but they really don't change because the pounds of quota SNF that exists doesn't change and that quota payout should be in the range of $11,700,000.

About 2,213,000 pounds of quota SNF exist. If you took April's Class I revenue of $7,480,070 and divided it by 30 days and then divide that by 2,213,000, you get a daily value per pound of $0.1127. The standard differential is based on 8.7 pounds of SNF in a cwt. of milk: 8.7 multiplied by $0.1127 equals $0.98 per cwt.

This situation has been going on for a long time. PRB member Frank Konyn presented all of this information to the PRB over the past several meetings. (You can read my articles on this issue here.) On May 1, the PRB debated and passed a recommendation to California Agriculture Secretary Karen Ross that a producer referendum be held to vote on whether to reduce the quota differential from the current $0.195 per pound of SNF ($1.70 per cwt.) to $0.115 per pound of SNF ($1.00 per cwt) and to eliminate the Regional Quota Adjusters. The net effect of the change, if it is passed, will be to lower the quota payment to a flat $1.00 per cwt. to quota holders everywhere in the state. That would lower the QIP assessment needed to fund the quota payments from the current $0.348 per cwt. to about $0.23 per cwt.

CDFA announced that they are planning a series of public meetings in July to give the industry the opportunity to learn about the proposal. They anticipate sending out ballots to producers in late August.

Here are the rules for the referendum from Section 62717 of the California Food and Agriculture Code:

> 51% or more of the eligible producers need to vote; of the votes cast, the referendum passes if 65% of the voting producers producing at least 51% of the voting milk vote yes;
> Or 51% of the voting producers producing at least 65% of the voting milk vote yes.

Milk Producers Council has no official position on this issue, but I am available to answer questions about this proposal if you have them.

CARB Rejects Petition to Regulate Digesters

By Brad Hooker
Agri-Pulse

The Air Resources Board has denied a request to enact new regulations on methane emissions from dairies and other livestock operations.

In March the advocacy group Climate Action California argued that "far too few dairy farmers" are investing in dairy digesters or alternative manure management practices to meet the state's goal of cutting emissions 40% by 2030. Under California's pioneering methane law SB 1383, that would trigger CARB to implement regulations requiring the industry to take steps to reduce their emissions. The group had pushed CARB to immediately open the rulemaking.

The dairy industry and renewable natural gas companies derided the petition as reaching incorrect conclusions and misrepresenting the success of the incentive programs.

Continue reading here.

CDRF Research Bulletin Review

Courtesy of the California Dairy Research Foundation

Each month CDRF Chief Science Officer, **Dr. Kevin Comerford**, reviews emerging scientific articles that may have an impact on our industry, specifically from a California perspective. See what's new in dairy research across topics such as environmental health, nutrition and human health effects, dairy economics, animal health and genetics, and food safety and security.

Topics from the most recent bulletin include:

- **Air Quality and Public Health Effects of Dairy Digesters in California**;
- **Micro-positive pressure significantly decreases greenhouse gas emissions by regulating archaeal community during industrial-scale dairy manure composting**;
- **Revolutionizing cattle breeding: Gene editing advancements for enhancing economic traits**.

Forest Thinning Adds Millions of Acre Feet to California's Water Supply

Courtesy of Edward Ring, Director of Water and Energy Policy, California Policy Center

Note by Geoff Vanden Heuvel

Milk Producers Council is a supporter of the work of Californians for Energy and Water Abundance. Ed Ring, who authors these weekly "What's Current" reports, brings a very thoughtful and valuable voice to the consideration of essential government resource policy. While it may seem to be a bit outside a specific dairy focus, Milk Producers Council dairy families are heavily invested in California

and are painfully impacted by the policies imposed by our government. The purpose of the work of Californians for Energy and Water Abundance is to expand the discussion and debate with facts and perspectives that challenge the status quo and hopefully lead to more productive policies that encourage human flourishing.

Forest Thinning Adds Millions of Acre Feet to California's Water Supply

Practical solutions to California's energy and water shortages will always have a better chance of being implemented if they adhere to the limitations placed upon them by the climate lobby. Thankfully there are numerous solutions, strategic in their impact, that would fulfill this criteria. Sadly, however, most of them remain controversial.

Examples of climate compliant yet controversial solutions include nuclear power, natural gas power generation with underground sequestration of the emissions, offstream reservoirs, and desalination. Another example, the subject for this week, is forest thinning.

On September 23, 2020, after another round of devastating super-fires immolated another 4.1 million acres of California's forests, Governor Newsom announced via executive order a ban on sales of cars with internal combustion engines to take effect by 2035. Whether or not you believe automotive emissions constitute a mortal threat to the planet or not, Newsom's edict did nothing to alleviate superfires.

The primary reason for out of control wildfires is because California's state legislature has funded fire suppression at the same time as it has regulated timber harvesting nearly out of existence. We have become very, very good at squelching wildfires before they get started. We've also reduced our annual timber harvest in California from 6 billion board feet per year as recently as the 1990s to around 1.5 billion board feet in recent years. As a result, California's forests are estimated to have tree densities that are many times what is known to be historically normal.

In past millennia, fires caused by lightning strikes routinely burned off undergrowth and a high percentage of small trees, leaving the larger trees to survive these fires. Today, trees and undergrowth are so crowded that everything is stressed. Light, soil nutrients, and water are now being shared by anywhere between 2 and 6 times (or more) as many trees and plants as these ecosystems were naturally evolved to support. Observations of excessive tree density are corroborated by numerous studies, testimony, and journalistic investigations.

This is the real reason the fires have gotten so bad. Anyone concerned about climate resiliency, or who cares about the health of our forests, or, dare we say it, who wants to preserve a human presence with homes and towns in the "urban wildland interface," should be demanding forest thinning.

Continue reading here.