MPC Weekly Friday Report

Date: December 20, 2024
To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 7

P.O. Box 4030, Ontario, CA 91761 • (909) 628-6018
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	+ $.0525	$1.8525	Weekly Change	+ $.0900	$2.5550	Week Ending 12/14/24		
Barrels	+ $.0325	$1.7600	Weekly Average	+ $.0035	$2.5190	Nat'l Plants	$1.3991	17,318,476
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 12/07/24		
Blocks	+ $.0905	$1.8500	Dairy Market News	w/e 12/20/24	$.7200	Nat'l Plants	$1.3936	14,424,287
Barrels	+ $.0620	$1.7640	National Plants	w/e 12/14/24	$.6251			

California Federal Milk Marketing Order Price Projections

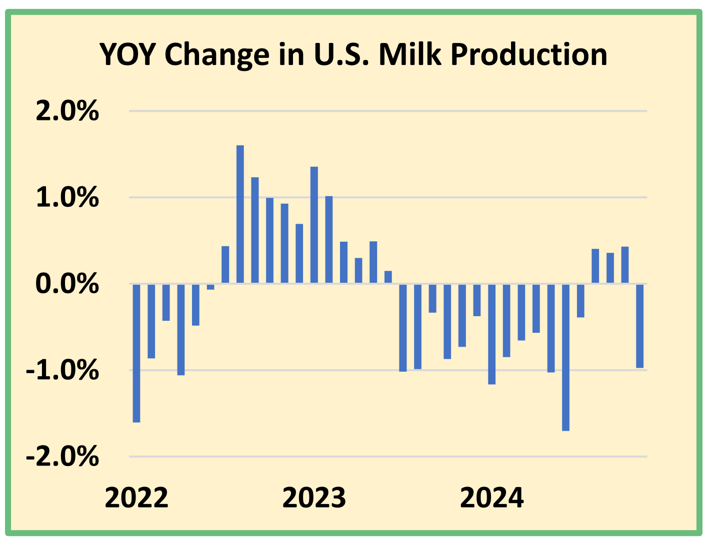
Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
Dec 19 Est	No Change	$21.29	$18.66	No Change
Last Week	$23.03 - $23.53	$21.33	$18.77	$20.75

Milk, Dairy and Grain Market Commentary

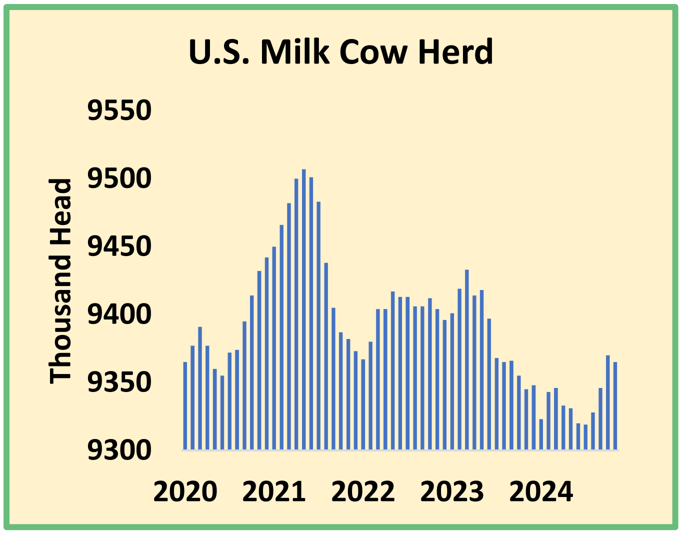
By Sarina Sharp, Daily Dairy Report
Sarina@DailyDairyReport.com

Milk & Dairy Markets

Bah! Humbug. California dairy producers are likely expressing their frustration with more colorful – but less festive – epithets as the bird flu ravages the nation's foremost dairy state. In November, as roughly one in four California dairies struggled with avian influenza, the state's milk production plummeted 9.2% from a year ago, the largest-ever decline in a century of USDA records. The setback was steep enough to offset 0.8% growth in the rest of the nation. The Golden State deficit dragged U.S. milk output down 1% from a year ago to 17.9 billion pounds.

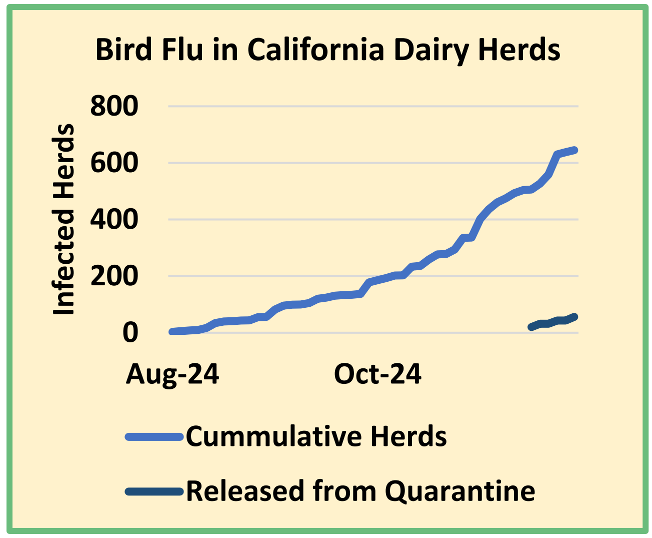


Milk production also dipped in the nation's second-largest dairy state, with Wisconsin output down 0.3% from November 2023. But production easily

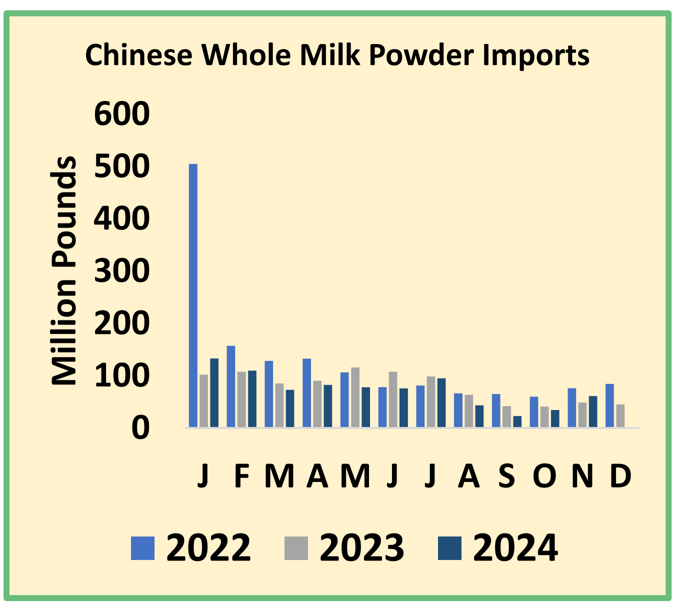


topped year-ago volumes in the other major dairy states, led by a 7.3% increase in Texas. Idaho (+2.1%) and New York (+1.2%) rounded out the top five.

USDA revised upward its estimates of October milk production and dairy-cow head counts but reported a 5,000-head decline from October to November. That put the dairy herd at 9.365 million head, up 20,000 head from a year ago. That's enough cow power to push milk production back to growth in the absence of avian influenza. But for now, the virus continues to weigh heavily on California milk output. The number of herds impacted by avian influenza climbed from 202 at the end of October to 461 at the end of November. By December 17 it leapt to 645 herds, affecting roughly 60% of dairies in the Golden State. Governor Gavin Newsom declared a state of emergency which will unlock additional funding and encourage cooperation between state and local agencies. But it's unclear how this declaration will help to contain the bird flu when the state's already robust efforts have failed.



Across the pond, European milk output outpaced October 2023 by 0.9%. Bluetongue disease continues to hamper milk output in Germany and the Netherlands, but production climbed in other key milksheds. And on the other side of the world, New Zealand milk output was strong once again in November, up 2.1% from the year before. Kiwi co-ops aren't concerned about the rebound in milk output, thanks to hints that China is finally looking to bring in more dairy.



China imported 61 million pounds of whole milk powder (WMP) in November, 25% more than the year before. While it was easy to surpass the decidedly low volumes logged in November 2023, the improvement is noteworthy. This marks the first time that Chinese WMP imports have outpaced 2023 levels since January. Chinese skim milk powder imports once again fell well short of year-ago volumes. But Chinese whey imports climbed to their highest November volume on record, up 3% year over year. As long as a trade war doesn't complicate the U.S.-China trading relationship, better whey demand increases the likelihood of a prosperous new year for the U.S. dairy industry. The U.S. accounted for 44% of Chinese whey imports in November.

The shockingly low milk production figures had the bulls feeling merry this week. The trade assumes that lower milk output will mean lower milk powder output. Thus, CME spot nonfat dry milk (NDM) rallied 1.5¢ to $1.3925 per pound, a two-year high. The butter market bounced back in a big way. It rallied 8.25¢ to $2.555.

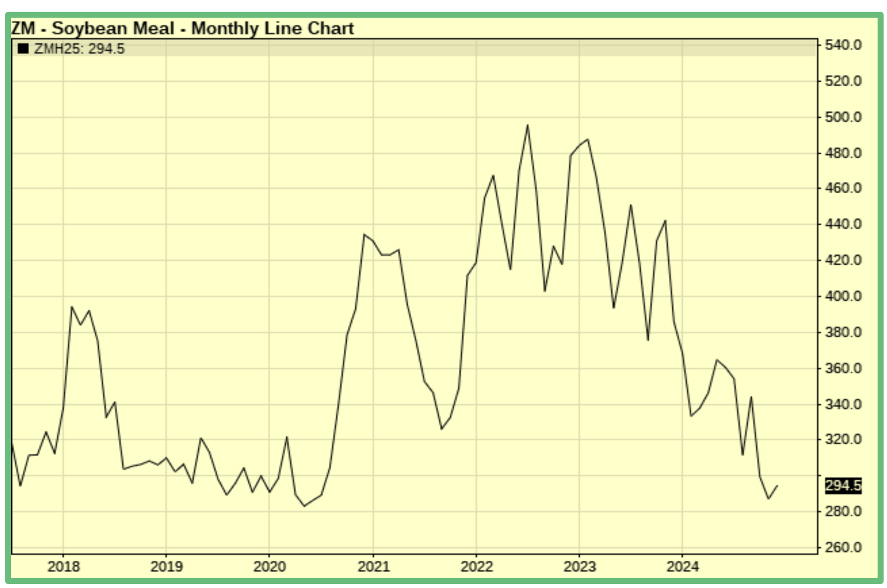
The cheese markets dropped hard in October and November, on the premise that new production capacity would overwhelm demand. But the newest plant has struggled with typical start-up issues. There is less cheese looking for buyers than many anticipated. Booming exports have further tightened supplies, and the market feels a bit snug. CME spot Cheddar blocks advanced 5.5¢ this week to $1.855. Barrels climbed 3.25¢ to $1.76.

Whey bucked the trend once again. Demand is strong, but prices are already quite lofty. CME spot whey fell 5.25¢ to 74¢.

Despite the sizable comeback in the cheese markets, Class III futures lost ground this week. While fresh cheese is relatively scarce, the forward-looking futures market remains concerned about the looming increase in cheese output. The setback in whey also pulled prices lower. January Class III fell 20¢ to $19.79 per cwt. In contrast, Class IV futures climbed. Each of the first quarter contracts added 40¢ and closed at $21. Although on-farm margins are not as thrilling as they were this fall, they are still positive for most producers, especially after accounting for significant beef income.

Grain Markets

The feed markets swung wildly back and forth, swayed by the whims of the weather, politicians, and the Federal Reserve. The soy complex plummeted after the proposed – but ultimately failed – budget resolution offered generous handouts for farmers but no additional biofuels tax credits. The more hawkish tone from the Federal Reserve also soured sentiment in the export-dependent commodity markets. And great weather in South America further emboldened the bears. Soybean meal futures touched four-year lows on Thursday. But that was low enough, apparently. Soybean and soybean meal futures came roaring back on Friday, likely fueled by profit-taking from investment funds who held massive net short positions and were looking to close them out before the end of the year. March soybean meal rallied $8.80 to $301.90 per ton. The Friday rebound wasn't enough to overcome early-week losses for soybeans. The March contract settled at $9.7975 per bushel, down 15.25¢ from last Friday. March corn rallied 4¢ this week to $4.46.



Producer Review Board Has a Meeting

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

There was a full slate of 15 voting members participating at the Tuesday, December 17, 2024, Producer Review Board (PRB) meeting in Modesto. Eleven of them were in-person and four participated by telephone. Two of the 15 voting members were alternates serving on behalf of absent board members.

The Department announced that it is about 30 votes short of obtaining a quorum of producers voting on the current referendum. The ballots must be postmarked by January 9, 2025, to be counted, and 51% of the producers must vote for the referendum to be valid. If you want to confirm that your ballot has been received by the Department, you can contact David Ko at David.Ko@cdfa.ca.gov or 916-900-5011. For producers planning to vote in the referendum, I encourage you to get your ballot submitted today so that it's not lost in the holiday shuffle.

The main reason the meeting had to be held in this holiday season is due to the requirement in the Referendum Petition Procedure rules that the PRB must meet within 60 days to consider a petition that has received valid signatures from at least 25% of eligible producers. On November 4, 2024, CDFA verified that a petition by STOP QIP for a referendum to terminate the QIP program had obtained sufficient signatures. This started the 60-day clock. The PRB had a robust discussion about the petition and a motion to recommend to the Secretary that a referendum be called to vote on terminating the QIP program passed by a vote of 8 yes to 7 no. A subsequent motion to ask the Secretary to delay her consideration of the recommendation until the results of the current referendum are known passed 14 yes to 1 no.

Another action by the PRB was to recommend lowering the QIP assessment from the current 4 cents per pound of SNF to 3.85 cents per pound of SNF. This is a regular fine tuning of the assessment rate to make sure the cash balances in the fund do not over accumulate while still maintaining a sufficient reserve to pay quota premiums on time.

The Department gave an update on processor audits it conducted this past year. Those audits found a collective underpayment to producers of about $570,000, which it is in the process of obtaining.

The final topic in the meeting was dealing with five hardship requests. One producer requested relief from paying the assessment citing losses his operation incurred due to flooding. The four other requests all made the argument that they were not getting any benefit from the QIP and that paying the assessment was creating an economic hardship, therefore they should be excused from paying. There was a robust discussion, but in the end all of the requests were denied by overwhelming majorities.

How Newsom Can Achieve "Affordability"

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

Leadership in the California Legislature claim they're aware of the cost of living and doing business in the state. In the special session called by Governor Newsom to "Trump proof" the state, Assembly Speaker Robert Rivas (D, Salinas) said "We must chart a new path forward and renew the California Dream by focusing on affordability."

We welcome this nonpartisan acknowledgement of what is the biggest challenge facing households and small businesses in the state. In that spirit, and for our final weekly newsletter of 2024, we shall reiterate ideas for how we believe affordability and economic health may be restored in California.

We may begin by ending the legislative assault on California's oil and gas industry. Start permitting new drilling, repeal the 3,200 foot setback between wells and "sensitive receptors," and repeal the most recent unreasonable regulations on refineries. These measures are hypocritical. California relies on oil and natural gas for 80 percent of its raw energy. Yet despite sitting on ample reserves of both, we import 75 percent of our oil and 90 percent of our natural gas.

California's elected officials must recognize that while many electric applications convert raw energy into usable energy more efficiently than "thermal" solutions, it is going to take 50 years or more to further develop the technology and retool our entire infrastructure. Meanwhile, we should not be exporting the impact of our dependence on oil and gas overseas, when we can extract it far more responsibly right here.

The most difficult reality check for California's elected officials, however, is the fact that infusing every law and regulation with "climate crisis" urgency is incompatible with affordability. Our major electric utilities, for example, cannot afford to rapidly transition to "renewables" at the same time as they must maintain their aging statewide grid of far flung transmission lines. As long as ratepayers have to subsidize both of these massive undertakings, electricity will cost more than twice what it costs in less ambitious states, and our big utilities will continue to flirt with bankruptcy.

A more reasonable strategy is to prioritize policies and projects that address climate change concerns but don't go off the deep end. If they don't make economic sense, find alternatives that will. One big step in that direction would be to replace the goal of "net zero by 2045" with reasonable goals for carbon intensity. Doing this would enable natural gas powered generating plants to remain part of our electricity supply, driving electricity rates down as the competing base of photovoltaic/battery systems continues to grow. Emerging designs for natural gas power plants offer efficiencies of over 70 percent. We should be building them here in California.

Continue reading here.

It's the Economy, Stupid

Courtesy of the [Agricultural Energy Consumers Association]

California residents are not feeling the holiday spirit.

A recent Public Policy Institute of California (PPIC) poll conducted after the election showed that **56%** of adult residents expect bad financial times in California over the next 12 months, including **60%** of Republicans and **65%** of Independents.

Majorities across income groups and state regions are rightly concerned with high housing, fuel, energy and food inflation. High costs are increasingly driven by the state's aggressive climate and energy policies and rapidly expanding regulation.

ENOUGH IS ENOUGH!

Voters want balanced policies that don't force them to choose between turning their heater on or putting food on the table. **Policymakers can no longer ignore California's increasing affordability crisis.**

Congress Still Trying to Agree on Year-End Spending Bill, Farm Bill Extension

Courtesy of Gregg Doud, President & CEO
National Milk Producers Federation

In what's become a common "night(s) before Christmas" annual tradition in Washington, Congress is struggling to pass a stop-gap spending measure before midnight tonight, in order to avert a government shutdown this weekend. A bill unveiled Tuesday would have extended government funding until March 14, and it also contained an extension of the existing 2018 farm bill through Dec. 31, 2025, along with billions in disaster assistance for farmers.

But that bill ran into opposition from the incoming Trump administration and fell apart by Wednesday evening. A narrower spending measure written mostly by House Republicans was similarly rejected last night in the House, leaving lawmakers to grapple with whether to allow the government to shut down during the holidays. A third effort is under development today in the House to break the process into three separate bills: a short-term funding bill, money for recent natural disasters and a one-year farm bill extension with aid for farmers. Whatever passes the House must also win Senate approval and a White House signature.

No farm bill extension by Jan. 1 would bring us to the edge of the "dairy cliff," the point at which the return of permanent law regulating the USDA would resurrect the price support program at levels that could cause marketplace disruption. That remains a very unlikely scenario, but as the past week has demonstrated, past precedent for how work gets done on Capitol Hill is not always the best indication of how things will happen going forward. Fortunately, key members of Congress are aware of these ramifications, making it likely that an extension ultimately passes.


MERRY
Christmas
happy new year
The next MPC Friday Report will be published on January 3, 2025.
From all of us at MPC, Merry Christmas to you and your family!