MPC Weekly Friday Report

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From: Kevin Abernathy, General Manager
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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter				Non-Fat Dry Milk		
Blocks	- $.0100	$1.8900	Weekly Change		- $.0325	$3.1000	Week Ending 07/06/24		
Barrels	- $.0525	$1.8500	Weekly Average		- $.0206	$3.1150	Nat'l Plants	$1.2007	9,403,697
Weekly Average Cheddar Cheese			Dry Whey				Last Week Ending 06/29/24		
Blocks	+ $.0485	$1.9485	Dairy Market News	w/e 07/12/24		$.4800	Nat'l Plants	$1.1805	18,532,952
Barrels	+ $.0276	$1.9120	National Plants	w/e 07/06/24		$.4340			

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
Jul 12 Est	No Change	$21.82	$19.81	No Change
Last Week	$22.71 - $23.21	$21.75	$19.72	$21.41

June 2024 CA FMMO Statistical Uniform Price Announcement

June '24 Final	Class I	Class II	Class III	Class IV	Statistical Uniform Price (Blended Price)	Net Price After Quota Assessment*
Minimum Class Price	$21.68 | Tulare $22.18 | L.A.	$21.60	$19.87	$21.08	$20.16 | Tulare $20.66 | L.A.	$19.812 | Tulare $20.312 | L.A.
Percent Pooled Milk	17.6%	5.1%	74.8%	2.6%	100% (1.9 billion lbs. pooled)	

**Quota rate of $0.348/cwt. as of November 2023 milk*

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
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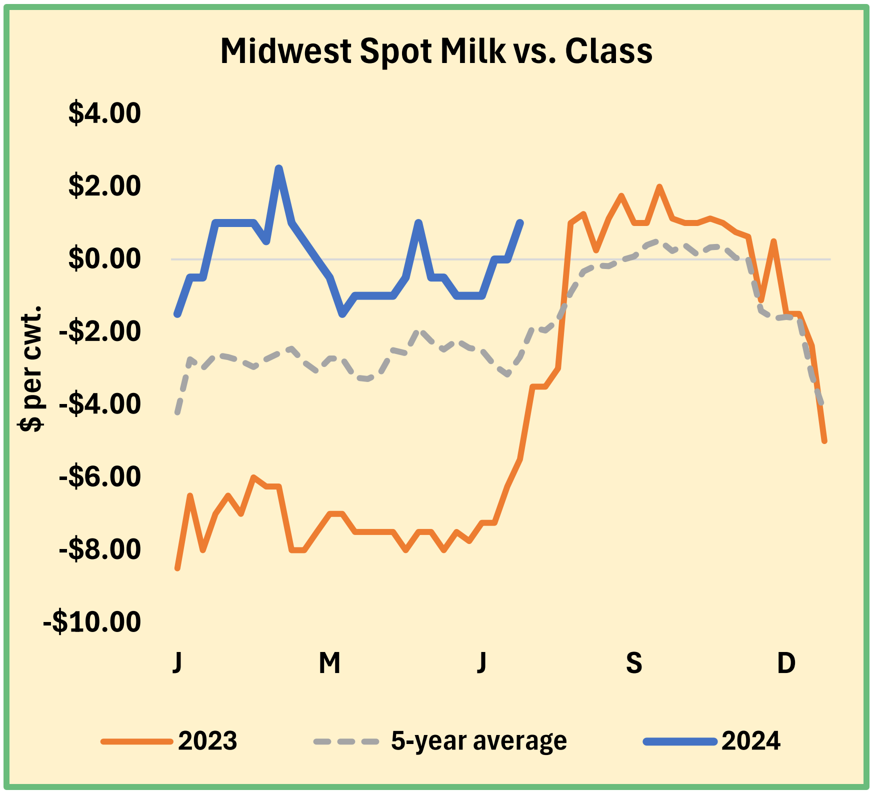
Milk & Dairy Markets

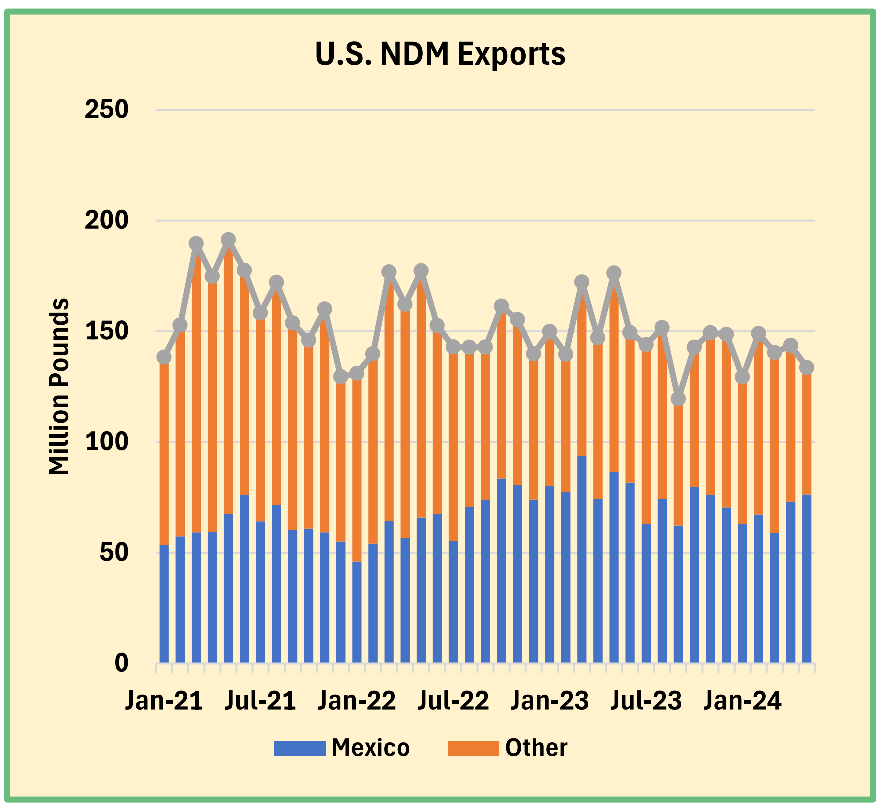
Soaring temperatures and suffocating humidity are challenging milk production in many parts of the country. As the mercury rises, cow comfort has suffered and milk production has declined. Spot milk availability has tightened up considerably and *Dairy Market News* notes that even



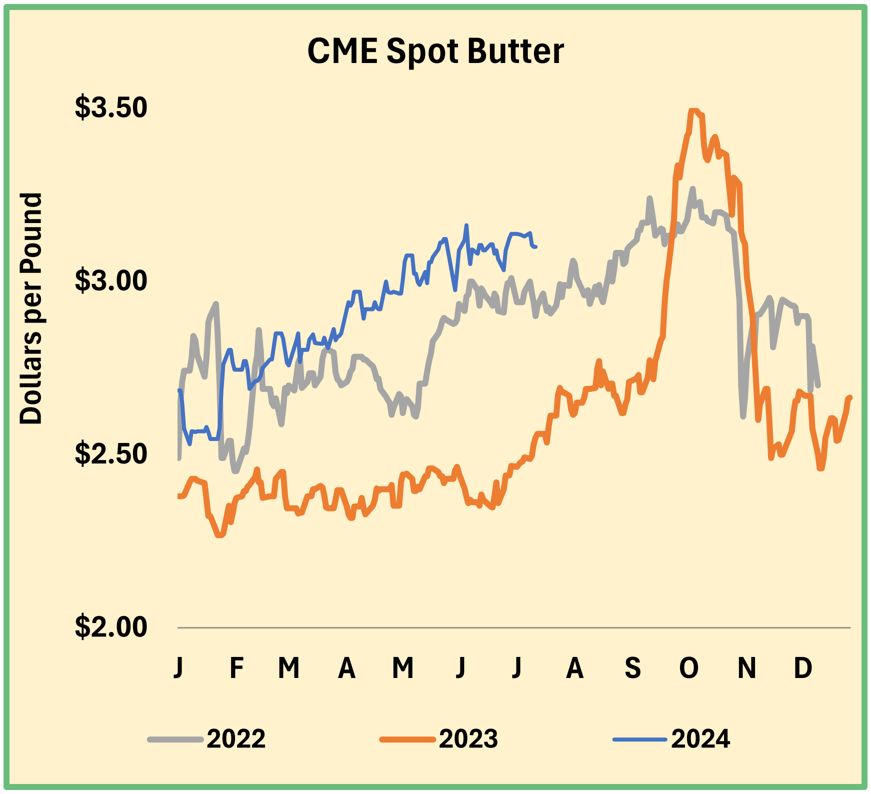
during the holiday last week, milk handlers in the Midwest had few excess loads to place. Processors that hope to find spot loads of milk are paying an average of 50¢ over Class III – a sharp contrast to the five-year average of nearly a $2.70/cwt. discount.

The weather is further exacerbating tightness in the U.S. milk supply which has trailed prior year levels on a liquid basis for almost a year. However, the tables may be turning as margins have improved considerably in recent months. The May Milk Margin Over Feed Cost reported by USDA as part of the Dairy Margin Coverage program reached $10.52/cwt. in May, up 92¢ from April and the highest figure since November 2022. But despite the dramatic increase in margins, producer expansion remains constrained by elevated interest rates, heifer scarcity, and high beef prices which are stymieing dairy herd growth.

Limited milk supplies have been most prominently felt by dryers, who have not demonstrated the strong production that would typically be expected early in the year. Combined production of nonfat dry milk (NDM) and skim milk powder (SMP) in May was down 15.9% year over year and cumulative production of NDM/SMP during the first five months of 2024 is the lowest it has been in a decade. Yet, despite weak milk powder production, NDM prices at the CME have remained remarkably stable, trading in just a 20¢ range over the last 17 months. The NDM spot price ended this week unchanged from last Friday at $1.18/lb., as 14 loads traded hands.



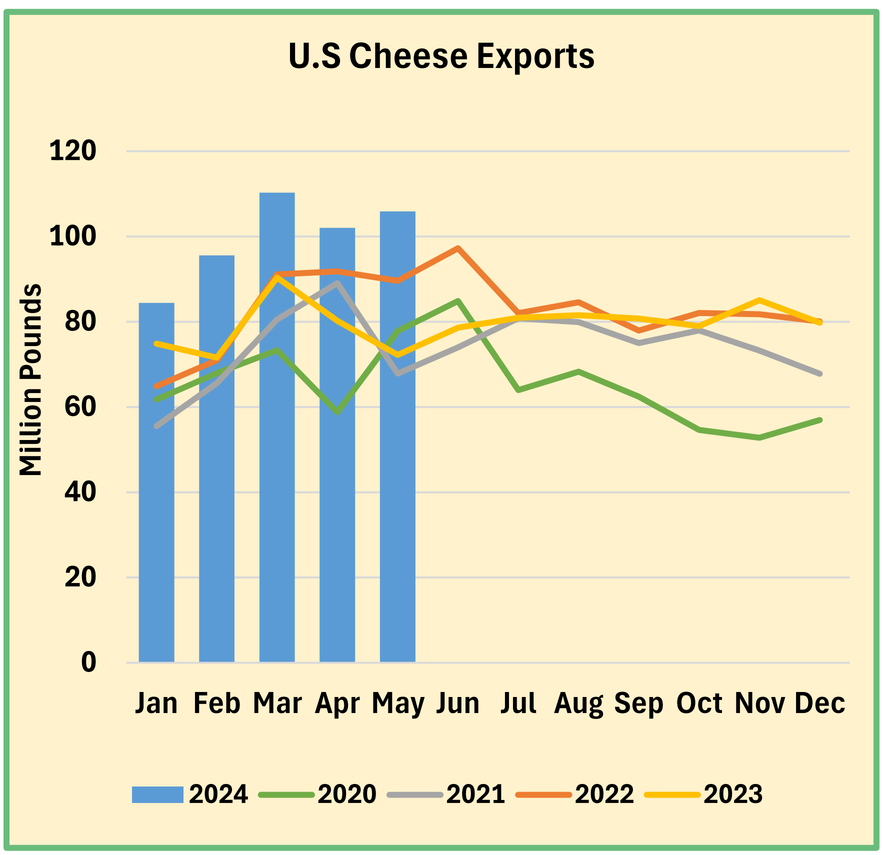
Price stability has been a product of tepid demand balancing out weak supply. May exports of NDM and SMP tumbled to just 133.6 million pounds, down 24.2% year over year and



representing the lowest value for the month since 2017. Slower demand from Mexico has been a key driver of the decline as cumulative shipments south of the border have fallen 18.3% this year. Mexico has not been fully responsible for the dip, however, as shipments have also slowed markedly to key destinations in Southeast Asia, among others.

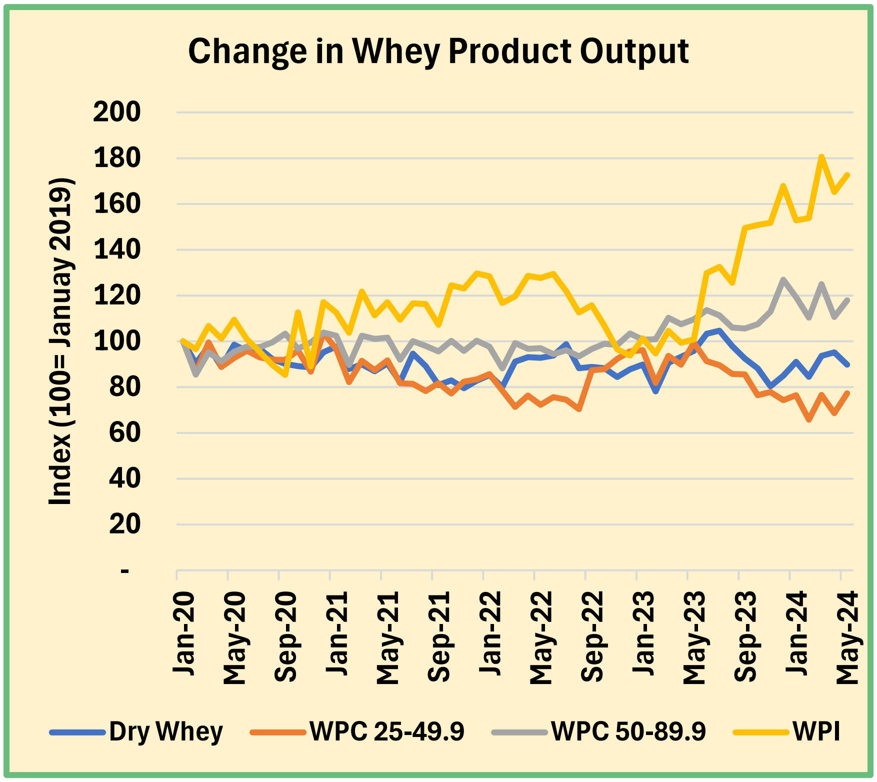
The story is significantly more inspired on the other side of the Class IV complex, where butter prices persist at high levels. After a 6¢ jump on Monday, spot butter gave up ground on Thursday and Friday, ending the week down a penny at $3.10/lb. - still a remarkably strong price by historical standards. Butter demand remains upbeat, even at current levels. However cream supplies have tightened considerably with the summer heat and churns report that increased competition from Class II users are introducing more tension into the cream market. Butter production rose 4% year over year in May, but the current market seems to insist that it wants more butter.

Cheese production also expanded in May, rising 0.7% compared to the same last year. However, the increase was driven almost entirely by rising output of Italian varieties, which leapt 4.4% compared to the same month last year. Meanwhile, Cheddar production during May tumbled 9.7% year over year with a lack of available supplies likely giving the spot market the fuel it needed to run toward $2/lb. during the month. Cheese exports surged in May with 105.9 million pounds shipped during the month, second only to March's all-time high figure. Record cheese exports to Mexico and stronger volumes to Korea bolstered the overall May figure. However, the cheese that shipped during May was probably booked several months



earlier when prices were significantly lower. The higher cheese prices we are seeing today, which have largely converged with other international suppliers, will likely dampen the pace of cheese exports in the coming months.

The cheese markets wavered at the CME this week as gains early on were canceled out by losses on Thursday and Friday. Cheddar blocks added 7¢ between Monday and Wednesday before giving up the gains and ending the week at $1.89/lb., down one cent from last Friday. Barrels were softer yet with a 3.75¢ gain on Monday wiped out by 9¢ of losses late in the week, bringing the price to $1.85/lb. as 31 loads traded hands.



Whey markets found the motivation this week to break through the 50¢ per pound threshold for the first time since February. After a small dip on Monday, the market bounced back and added price on Tuesday and Thursday. Dry whey ended Friday's spot session at 51¢ per pound, up 1.75¢ from last week with 3 loads moving. Whey production has remained perky as consistent cheese production has created an ample whey stream. However, manufacturers continue to show a distinct preference for value added products like whey protein isolates and high protein whey protein concentrates. As a result, the portion of the whey stream routed to dry whey production remains limited and is likely to keep prices supported in the near term.

Grain Markets

USDA released the July World Agricultural Supply and Demand Estimates report today. Corn production estimates for 2024/25 were increased by 1.6% on acreage gains. However, a reduction in beginning stocks and an increase in use and exports pushed ending stocks down. In the soybean balance sheet, a modest decrease in acreage pulled the production forecast down by 0.3%. Lower output combined with slightly reduced beginning stocks also decreased ending stocks. Despite the decline in ending stocks for both crops, USDA shaved a dime off its forecast average farm price, bringing the price for corn and soybeans to $4.30/bu. and $11.10/bu., respectively. Soybean meal prices remained unchanged at $330/ton.

While these forecasts suggest that feed costs should remain moderate, weather challenges are creating new supply concerns. Intense flooding in the Midwest and along the Mississippi river has damaged crop production with some analysts estimating that up to one million acres of corn could be lost with little hope that this acreage could be replanted.

USDA Publishes Federal Milk Marketing Order Hearing Decision

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

Back when California operated under a State Milk Marketing Order, milk price hearings were a regular occurrence. I can remember having multiple hearings in a single year to adjust milk prices. The process usually involved some stakeholder filing a petition for a hearing to raise or lower milk prices and the California Department of Food and Agriculture (CDFA) would often respond by scheduling a hearing. Those hearings would normally last a day. The CDFA staff would be the hearing panel taking "testimony" and they could ask questions of the witnesses, but no one else could. Within about 50 days after the hearing the decision would be announced, usually about 15 days before it took effect and that would be it. Folks would be happy or sad depending on the results, but you could be sure another hearing would be called in the not-too-distant future and the argument would start over again.

The Federal Milk Marketing Order (FMMO) process is very different. Getting USDA to call a hearing, particularly on a big issue, can take years. When a hearing is called, there is an Administrative Law Judge and an adversarial process where every proposal must be defended. The proposals are challenged by lawyers and professional economists and anyone else who shows up and wants to ask a question. There is no time limit and anyone and everyone can participate. When the hearing is over, USDA does have some time limits on when they have to decide. FMMO hearings happen rarely. The pricing formula hearing that started back in August of 2023 and finished on January 30, 2024, covered virtually the entire classified milk pricing system. There were 21 proposals that were accepted by USDA for consideration that were grouped into five topic categories.

Here is what you need to know about the recommended decision USDA just released.

First the bad news. The make allowance for Class III cheese is going up by about 90 cents per cwt. and the Class IV butter/powder make allowance is going up by about 75 cents per cwt. National Milk Producers Federation (NMPF) had proposed make allowance increases for Class III and IV of about 55-60 cents per cwt. and the processors had proposed increases of about $1.35-$1.55 per cwt. The last time the class III and IV manufacturing (make) allowances were changed was in 2008. Since it was agreed by everyone that the basic costs associated with processing milk into butter/powder and cheese/dry whey, such as labor and energy, have all increased significantly since 2008, it was not a matter of whether the make allowance would be increased, but by how much it would be increased. USDA's recommended decision goes into detail on how they came up with the numbers that they did. They used observed cost data reported in a couple of manufacturing cost studies that were done by long time academic dairy economists for cheese, butter, and dry whey. In the case of nonfat dry milk, they also considered the 2016 CDFA manufacturing cost study. They took averages, meaning they did not fully cover all the plants' costs.

In their proposal, NMPF had acknowledged that the 55-60 cent request was a negotiated number that did not fully reflect the increases in manufacturing costs. They explicitly said that they discounted it because of concern about the impact increasing the make allowance has on producer income. USDA responded to that with this statement on page 176 of the recommended decision: “The potential impact to producers remains an inappropriate factor in determining make allowance levels. While many stakeholders look to the FMMO program to provide stability, it is not within FMMO authority to support dairy farmer income.”

There are a couple of things to keep in mind around this bad news. For California producers, we are now on a level playing field with the rest of the country on Class III and IV minimum prices, so the changes to the make allowance will affect everyone in the country, not just us. Secondly, USDA made this change based on their assessment of the costs of manufacturing that were entered into the hearing record. They state that they believe they have enough valid information to make this decision. This looks like a final decision to me, not a “down payment” on further make allowance changes. There is a lot of talk in the industry about having USDA establish a mandatory cost of processing study. Congress is considering giving USDA that authority in the Farm Bill, but I see no indication that this decision anticipates that will happen any time soon. For cooperatives with manufacturing plants, this change will ease some of the intense margin pressure they have been experiencing, hopefully enabling them to eliminate the negative re-blending that is occurring now.

Now for the good news in the decision. Barrel cheese is being dropped as part of the Class III product survey. The huge negative disparity of barrel cheese prices has hurt producer income substantially in recent years. For Class I, it is back to “higher of” using either the Class III or Class IV value. The “average of, plus 74 cents” experiment that has cost producers in excess of $1 billion will soon be over. Class I differentials are also going up. The Southern California Class I differential is going from $2.10 to $2.80. The Fresno Class I differential is going from $1.60 to $2.20. The Bay area is going from $1.80 to $2.40. The standard milk solids component assumptions in the current pricing system are going to be raised. In California this will mostly impact the Class I base price, raising it in the range of about 30 cents per cwt. Unfortunately, the component change will not be effective until 12 months after the other changes are made in the formula. The reason for the delay is that it will change the announced Class III and IV prices, which will impact futures prices and therefore complicates risk management programs. I think this delay is something we might want to say something to USDA about in the 60-day comment period that starts as soon as this recommended decision is published in the Federal Register. The big make allowance changes will also impact risk management strategies and there is no delay in their implementation. I see no reason that the component change should be delayed if the make allowance decision is not being delayed.

The bottom line is that we have known for a long time that a major change was coming to the FMMO pricing formulas. It could have been worse. But it is not great. After a comment period, USDA has 60 days to respond to comments. Then there will be a Final Decision, which the producers will have to vote on. The choice at that point is the new FMMO or no FMMO. Keeping the current system is not an option. If adopted, the new formulas would take effect sometime in early 2025. You can read the full recommended decision here.

CDFA Announces Public Forums and Hearing Related to Proposed Changes to Quota Implementation Plan

Courtesy of the California Department of Food and Agriculture

Note from Geoff Vanden Heuvel

As readers of this weekly report are well aware of, I have written extensively about the Quota Implementation Plan (QIP) since California transitioned to a Federal Milk Marketing Order. You can read my previous articles here, including the latest about the proposed changes to the QIP.

This week, CDFA announced it will hold a series of public forums and a public hearing related to those proposed changes. See details about the upcoming meetings below. You can also read the official notice here, which CDFA will be mailing to all dairy farmers of record. If you need to update your information with CDFA, please contact the Quota Administration Program at pooling@cdfa.ca.gov or 916-900-5012.

Date and Time	Location
July 29, 2024 Beginning at 10:00 a.m.	**Public Forum – In person** Sonoma County Ag Commissioner's Office: 133 Aviation Blvd #110, Santa Rosa, CA 95403
August 8, 2024 Beginning at 10:00 a.m.	**Public Forum – In person** Stanislaus County Ag Commissioner's Office Harvest Hall – Room D & E: 3800 Cornucopia Way, Suite B, Modesto, CA 95358
August 9, 2024 Beginning at 10:00 a.m.	**Public Forum – In person** Tulare County Ag Commissioner's Office: 4437 S Laspina Street, Tulare, CA 93274
August 15, 2024 Beginning at 10:00 a.m.	**Public Hearing – via Zoom** Teleconference Information: **Join by Zoom:** https://us02web.zoom.us/j/84248601086 **Meeting ID:** 842 4860 1086 **Passcode:** 4^5WBjb* **Join by Telephone:** 1-669-444-9171 **Meeting ID:** 842 4860 1086 **Passcode:** 04670783

According to the official notice, this is a summary of the proposed changes:

The Producer Review Board's proposed changes to the Quota Implementation Plan consist of three parts that are to be considered together:

1. ***Reducing the current quota premium payout from $1.70/cwt (0.195/lb. of SNF) to $1.00/cwt (0.115/lb. of SNF).***

2. ***Eliminating the Regional Quota Adjusters (RQAs).***

3. ***Clarifying the language about "hardships" by adding the details that were part of the former Pooling plan.***

The change proposed by the Department consists of:

4. ***Rewording the definition of "Producer" to enhance clarity.***

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

Register Now for July 16 Visitor Biosecurity Webinar

Courtesy of the California Dairy Quality Assurance Program

"What biosecurity precautions should I expect from visitors to my dairy?"

As the total number of dairy herds in the U.S. reported infected with HPAI ("Bird Flu") approaches 150, there is growing concern among producers regarding visitors. Important questions are being raised in many sectors, not only from producers and processors, but from regulatory inspectors and essential visitors such as veterinarians, hoof trimers, AI and equipment technicians, as well.

CDQAP and CDFA are partnering to provide some answers.

Join us on **Tuesday July 16th, at 3:30 p.m.** (Pacific Time) for a one-hour webinar that focuses exclusively on *visitor* biosecurity. See the full agenda here.

You will hear perspectives and recommendations from CDFA, the NMPF-FARM Program and American Association of Bovine Practitioners. From allied industry, we will also be joined by DeLaval, which has developed a comprehensive program to protect herds on which they are performing milking machine maintenance or installation.

Participation is free but registration is required.* Go here to register.

If you have any questions about this webinar or other CDQAP outreach programs, please feel free to contact Dr. Michael Payne at 530-304-9306.

California Farmers Set to Cut Use of Colorado River Water, Temporarily Leaving Fields Dry

Courtesy of the Ian James, Los Angeles Times

Farmers who grow hay in the Imperial Valley will soon be eligible to receive cash payments in exchange for temporarily shutting off water to their fields for up to two months this year.

Workers check irrigation lines on a cabbage field in the Imperial Valley. (Robert Gauthier/Los Angeles Times)

Under a program approved by the board of the Imperial Irrigation District, farmers can now apply for federal funds to compensate them for harvesting less hay as part of an effort to ease strains on the Colorado River.

Paying growers to leave fields dry and fallow for part of the year represents a major new step by the district to help boost the levels of the river's reservoirs, which have been depleted by chronic overuse, years of drought and higher temperatures caused by climate change.

The Imperial Irrigation District delivers the single largest share of the Colorado River's water to farmlands that produce hay for cattle as well as many of the country's vegetables. District officials developed the so-called deficit irrigation program based on input from growers. They say the approach is aimed at avoiding longer-term fallowing of crops that would take farmland out of production and bring a heavier blow to food production and the area's economy.

Tina Shields, the district's water manager, called it a "mini-fallowing program."

"The goal is to strengthen the Colorado River and ensure long-term viability and reliability," Shields said. "It's our only water supply. And we also want to keep ag in production, because that's the bread and butter of our local economy. And we think that there's ways to do both."

The district's board last week approved the plan to pay farmers $300 per acre-foot of water they forgo during a 45-day or 60-day period starting in August.

Those growing alfalfa or two other types of hay — Bermuda grass or klein grass — are eligible. Those three crops, as of mid-June, were being grown on 234,000 acres in the valley, according to district data, and accounted for nearly three-fourths of the area's 320,000 acres of cultivated farmland.

Continue reading here.

Ag Spending Bills for FY 2025 Advance in House, Senate

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

Congress is unlikely to enact many laws this summer, but lawmakers in both chambers this week made progress on advancing their Fiscal Year 2025 USDA and FDA spending bills. On Wednesday, the House Appropriations Committee approved its FY '25 agriculture spending bill, and the Senate Appropriations Committee followed suit on Thursday. The House may bring its bill to the floor before the August recess, but as of now, the Senate does not appear poised to bring up individual appropriations bills for votes prior to the election. The two chambers will have to reconcile the different spending levels in the bills before a final version can be enacted into law.

Some of the highlights of the House appropriations bill (which can be found online here) include:

- **WIC Dairy Allotment** - The bill includes NMPF-backed language championed by Reps. Elise Stefanik, R-NY, and Josh Harder, D-CA, to reverse the reduction in the maximum monthly milk allotment in USDA's final foods package rule for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC).

- **FRSAN** - The bill includes $10 million for the Farm and Ranch Stress Assistance Network.

- **Dairy Innovation** - The bill includes $8 million for the Dairy Business Innovation Initiatives.

- **HFMIP** - The bill includes $3 million for the Healthy Fluid Milk Incentives Program.

- **H5N1** - The report includes language voicing the committee's concern with the ongoing H5N1 outbreak in the dairy industry and noting sensitivity to the effects of a voluntary vaccine on global trade relationships. The language directs USDA to report to the committee on its vaccine research, development, and approvals and to engage with other agencies to evaluate the potential for using vaccines in dairy cows. Finally, the language notes that the committee understands concerns among dairy farmers regarding data collection efforts to confirm H5N1 infections without indemnity assistance assurances and encourages USDA to consider providing indemnity assistance to farmers as appropriate.

- **DRP** – The report includes language urging USDA's Risk Management Agency to work with Congress to identify which improvements may be needed to the Dairy-Revenue Protection program to provide better long-term support for producers. NMPF worked with Rep. David Valadao, R-CA, to secure this language and is partnering with him and Rep. Jim Costa, D-CA, to determine from USDA the adjustments needed to DRP to increase the premium subsidy to provide affordable risk management during periods of long-term price decline.

Meanwhile, the Senate bill to fund USDA and FDA is available here. Highlights include:

- **IFEED** - The bill includes the Innovative FEED Act (S. 1842), providing us an important vehicle for getting this bill into law. NMPF worked with Sens. Tammy Baldwin (D-WI) and Jerry Moran (R-KS) to obtain this provision in the bill.

- **FRSAN** - The bill includes $10 million for the Farm and Ranch Stress Assistance Network, same as the House version.

- **Dairy Innovation** - The bill includes $17 million for the Dairy Business Innovation Initiatives, about double the House allocation.

- **HFMIP** - The bill includes $4 million for the Healthy Fluid Milk Incentives Program, slightly more than the House.

- **WIC Dairy Allotment** - The report includes language directing USDA to submit a report to Congress comparing the WIC percentage of redemption rates under the milk and dairy categories under implementation of the WIC foods package rule with redemption rates prior to implementation.

- **H5N1** - The report includes language encouraging USDA to continue coordinating with state animal health officials to mitigate the spread of the virus. The language also directs APHIS to brief the committee monthly on its use of Commodity Credit Corporation (CCC) funds to address H5N1. The report includes further language urging AMS to use CCC funds to bolster the Dairy Business Innovation Initiatives and other programs to assist with the H5N1 outbreak.