MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 9

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MPC Friday Market Update

Chicago Cheddar Cheese		
Blocks	+ $.0400	$1.7900
Barrels	+ $.1075	$1.8800
Weekly Average Cheddar Cheese		
Blocks	+ $.0185	$1.7685
Barrels	+ $.0780	$1.8485

Chicago AA Butter		
Weekly Change	+ $.1050	$3.0750
Weekly Average	+ $.0385	$3.0135
Dry Whey		
Dairy Market News	w/e 05/03/24	$.4700
National Plants	w/e 04/27/24	$.4087

Non-Fat Dry Milk		
Week Ending 04/27/24		
Nat'l Plants	$1.1190	33,448,416
Last Week Ending 04/20/24		
Nat'l Plants	$1.1520	22,742,692

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
May 3 Est	$20.06 - $20.56	$21.41	$18.32	$20.22
April '24 Final	$20.78 - $21.28	$21.23	$15.50	$20.11

Milk, Dairy and Grain Market Commentary

By Monica Ganley, Quarterra
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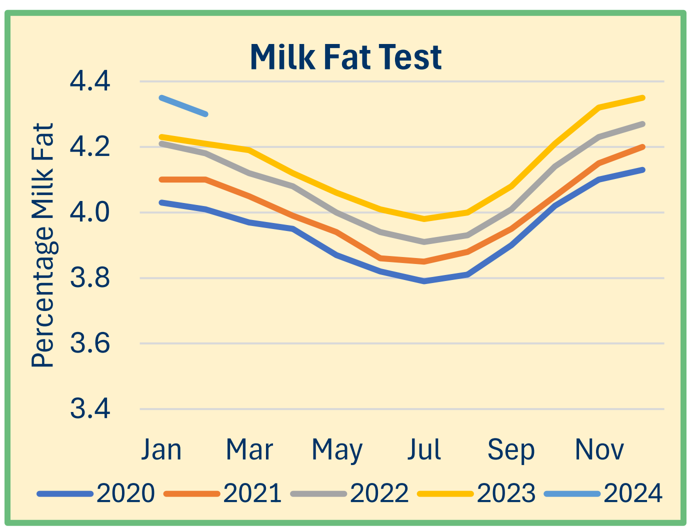
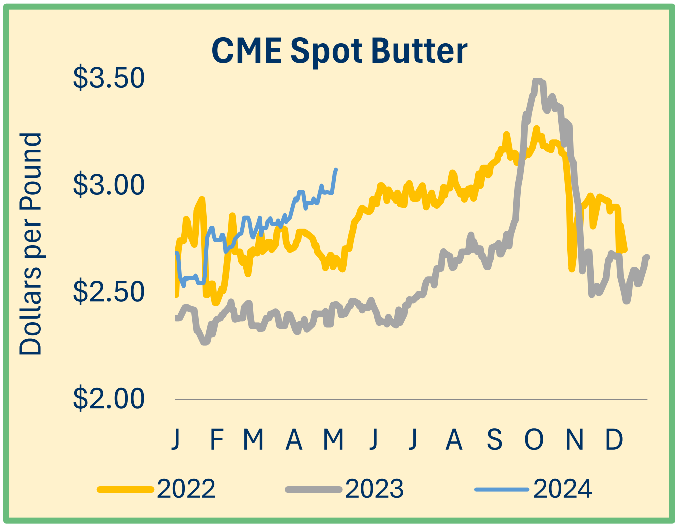
Milk & Dairy Markets

Folks from across the dairy industry gathered this week in Chicago for the annual meeting of the American Dairy Products Institute. This event provides a setting for traders and other stakeholders to chew over market information and revise expectations for the months ahead. While every commodity gained ground at the CME this week, it remains clear that individual products each are confronting their own set of challenges, and that the markets remain shrouded in uncertainty from both supply and demand.



One major theme that has come up repeatedly is the availability of milk. Volumes are at, or are close to, seasonal peaks though most parts of the country report that output trails prior year on a liquid basis.

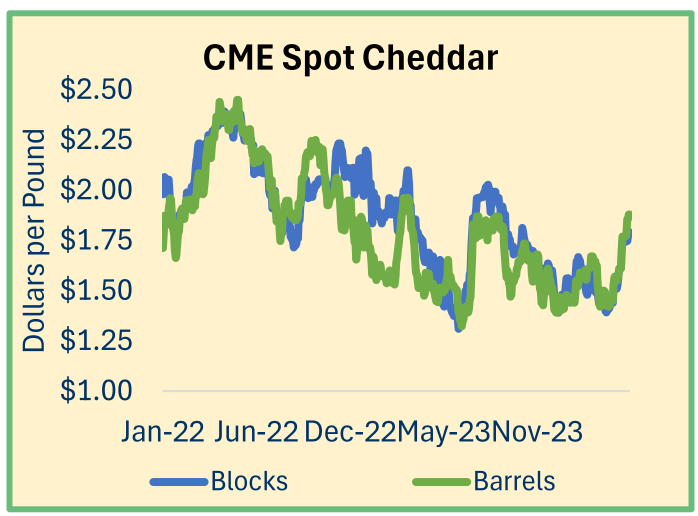
Rising component levels have helped to counteract some of the volume decline. Even so, there remains significant concern about how supply will evolve going forward. Producer margins are still under pressure, particularly in Class III heavy areas, and tight heifer supplies are constraining the expansion ability of producers who wish to grow. Furthermore, concerns about Highly Pathogenic Avian Influenza (HPAI) are sending shivers across the industry though the fallout on both the producer and consumer fronts has been contained, for now.



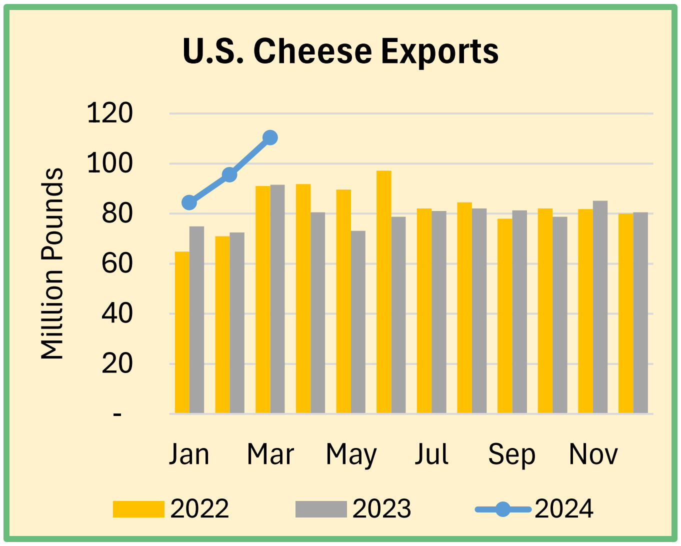
Perhaps no market has gotten as much attention as the butter market in recent weeks. Despite a mildly bearish *Cold Storage* report last week, the butter market wasted no time in setting fresh highs. The CME spot butter price ran up to a new spring record of $3.0575/lb. on Thursday as 23 loads traded hands, before besting itself again on Friday, reaching $3.075/lb. All told, the market gained 10.5¢ this week with a total of 43 lots moving.

The sustained high prices would suggest that butter buyers feel it is necessary to acquire butter stocks now in order to avoid paying higher prices during the peak demand season later in the year. However, the market fundamentals are a bit mixed. Last week's *Cold Storage* report suggested that butter stocks are accumulating slightly faster than normal. Demand has been healthy, particularly at retail, though not excessive. One characteristic that might help explain the behavior is a divergence between industrial and retail butter. In any case, the butter market has offered no shortage of fireworks, and we will all stay tuned to see what happens next.

Not to be left out, the cheese market has also enjoyed its fair share of attention. Cheese demand seems to be turning a corner. Domestically, retail cheese sales remain upbeat while foodservice demand continues to falter, a dynamic which is disproportionately weighing on sales of Italian style cheeses. But the big news came from export sales which soared to a record high 110.3 million tons in March, up 20.5% year over year. This is the first time that U.S. cheese exports have ever exceeded 100 million pounds. Strong demand from Mexico, which was up 8.2% year over year, supported the monthly gain but recovering demand in other key markets like South Korea and Japan, was also encouraging.

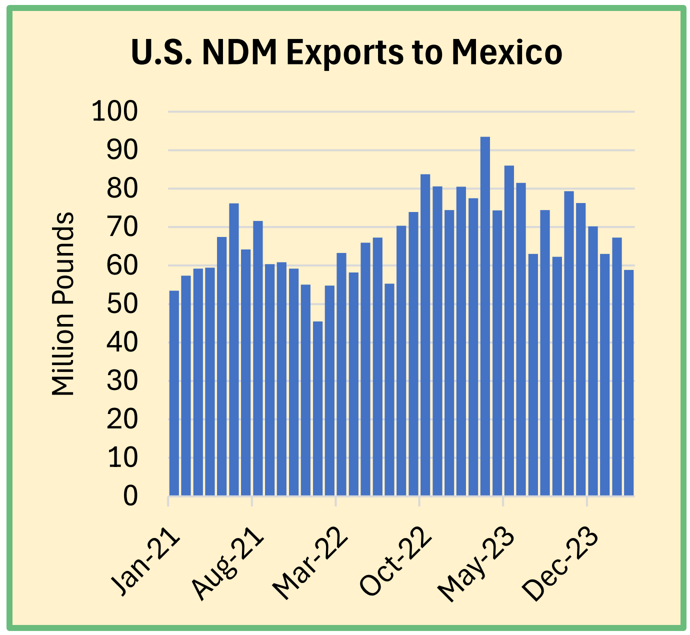


Cheese markets have responded to the uptick in demand by bounding gleefully upward. Cheddar barrels had an exceptionally strong week at the CME spot market, soaring to $1.88/lb. on Thursday where they stayed through Friday's trade. This marked a 10.75¢ increase versus last week and the highest price seen since March 2023. Blocks were also strong, and though they didn't show quite as much exuberance as barrels, also managed to add 4¢



to end the week at $1.79/lb. Two loads of blocks and nine loads of barrels moved over the course of the week. The increase in Cheddar prices has brought the U.S. market more in line with international competition and market participants are concerned that prices at these levels could kill off export demand.

While cheese exports soared in March, shipments of nonfat dry milk (NDM) and skim milk powder tumbled. NDM exports totaled just 140.4 million pounds in March, down 18.4% compared to the same month last year and marking the lowest volume for the month since 2020. Dramatically slower buying from Mexico weighed heavily on the figure as U.S. exports to that destination fell 37% year over year. Stronger domestic milk production combined with a reduced need to fortify cheese vats has likely discouraged Mexican NDM purchases. Meanwhile, exports to Southeast Asia were mixed.



Reduced export demand has kept the domestic NDM market in check as the CME spot price continues to move comfortably within the range established in January 2023. This week the market gained 2¢, rising to $1.13/lb. on Friday as 12 loads traded hands during the week. This price stability indicates that the market is in check but with NDM production down significantly in recent months and manufacturers' stocks sitting at multi-year lows, it wouldn't take much from the demand side to breathe some life into the market.

The dry whey market has also seemed content at current levels. At the CME this week, dry whey prices added 1.25¢ to end the week at 39.5¢ per pound with 11 loads changing hands. Domestic dry whey demand is steady while export demand appears to be faltering. March dry whey exports were down 22.3% year over year to 36.4 million pounds, due especially to slower demand from China. Exports of whey protein concentrates also faltered during March, dropping 6.4% to 30.3 million pounds.

Grain Markets

The grain markets rode a bid for most of this week with corn and soybeans moving higher. Rain that slowed planting in parts of the Midwest combined with a search for equilibrium with other commodity markets likely led the complex higher. Even so, planting progress remains on or ahead of schedule and grain remains available. These factors should keep a lid on the grains markets unless fundamentals change materially. The trade is waiting for the next installation of USDA's *World Agricultural Supply and Demand Estimates*, which will be released next Friday.

Producer Review Board Recommends Referendum to Change Quota Differential to $1.00 per cwt.

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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On May 1, 2024, the Producer Review Board (PRB) held a meeting in Tulare. There were 12 Board members and 2 voting alternate Board members in attendance. After approving the minutes and getting some routine updates from California Department of Food and Agriculture (CDFA) staff, the Board turned to an agenda item titled: QIP 5-Year Effectiveness Survey Follow-Up Update.

Over the past year, PRB member Frank Konyn has been reporting information to the PRB about how much Class I revenue is generated each month into the California Federal Milk Marketing Order (FMMO) pool and how much money is being paid out for quota payments every month. The way Frank calculates Class I revenue is by taking the reported pounds of Class I milk that the Federal Market Administrator reports each month and multiplying that number by the effective Class I differential that applies in California. The Class I price in California varies by region. In Southern California, the Class I differential is $2.10 per cwt. In the Bay area, it is $1.80, and in Tulare, the Class I differential is $1.60 per cwt. The statewide weighted average Class I differential is just under $1.90 per cwt. Class I sales have been in a steady decline for nearly 30 years. With that reality, the extra revenue that the Class I differential provides has also been declining. By the way, this method of calculating the Class I value is the same methodology Dr. Marin Bozic used a few years ago when he was working for the United Dairy Families to develop options for modifying the QIP. See his paper here.

At the PRB meeting on February 5, 2024, Frank provided detailed information which showed the Class I revenue, by month and year, going back to November of 2018 when the California FMMO started. The amount of Class I revenue was then compared to the amount of the payments to quota holders. At the February 5 meeting, there was significant and robust discussion about this issue, which I wrote about in an article. You can read that article here. In short, the amount of Class I revenue is now slightly over $7 million dollars per month and the quota holders are receiving just under $12 million per month in quota payments. Back in 2019, the Class I revenue was just under $8.5 million per month with the fixed quota payment being about the same as today. When you total up how much Class I revenue has been paid into the pool since the California FMMO started in 2018, and compare that to total payments to quota holders in that same time frame, the quota payout has exceeded the Class I revenue by more than $247 million. The outcome of this discussion at the February PRB meeting was a motion to move in the direction of tying the quota to Class I revenue and eliminating the Regional Quota Adjusters that create different quota payments in different parts of the state. That motion passed at the February meeting by a vote of 9 yes to 3 no. Frank Konyn and PRB member Will Dyt were encouraged to review the data and develop proposals to further this motion.

What came before the PRB this week was a specific proposal by Frank Konyn. The proposal has three parts. Part one is to change the quota differential from $1.70 per cwt to $1 per cwt., which is just higher than what Class I revenue contributes today. We know that there are proposals being considered by USDA that would both raise Class I differentials and reduce Class III and IV prices, meaning in the future, Class I revenue is likely to increase. Reducing the quota differential to $1 would reduce the assessment to pay for the quota program to about 22 cents per cwt. from the current 35 cents.

Part two of the proposal is to eliminate the Regional Quota Adjuster, thereby equalizing quota payments throughout the state. And the third part of the proposal is to place language in the QIP that defines a "hardship" as it was historically understood in the old California pooling system. I would encourage you to read Frank's entire proposal here.

Before Frank had the opportunity to present his proposal, a motion was made and seconded to not allow a vote on Frank's proposal at this meeting. Frank was allowed to make his presentation and there was discussion and debate about it. A vote on the motion to delay a vote on Frank's proposal to the next meeting of the PRB was then held. That motion failed: 10 no to 4 yes. A motion was then made to support Frank's proposal and send it to the Secretary as a recommendation to be submitted to a referendum of producers. After more debate, some of which centered on the hardship language, the motion passed 9 yes to 4 no with 1 abstention.

Next on the PRB agenda was the issue of hardships. PRB member Jim Viera had submitted a hardship request before he was appointed as a member of the PRB. He along with 9 other hardship requests have been on the agenda of the PRB since last November. The substance of these requests is similar. They point to financial stress on the dairy and cite the specific language of the QIP which defines a hardship as: "Hardship means a challenge to the management and operation of a dairy due to the operation of this plan." The PRB has struggled with what to do with these requests and has tabled them since November. PRB member Jim Viera has been very strong in asserting that producers without quota should be able to opt out of paying the assessment because of this hardship language. Of course, the whole QIP program depends on all milk paying assessments into the program for there to be money to pay the quota premium. So, granting hardships to exempt certain producers from paying the assessment would likely lead to a collapse of the entire system.

A motion was made to deny the 10 hardship requests based on a lack of merit to their request. This motion passed: 9 yes to 4 no (one of the PRB members was called out of the meeting and left). A second motion was made to have the PRB adopt as hardship policy guidance that a hardship is: "A challenge to the management and operation of a dairy due to conditions beyond the control of the producer such as fire, floods, storms, and other acts of God, or from Federal and State eradication programs for disease control, and that hardship requests will be limited to provisions regarding: (a) eligibility for pool quota; (b) pool quota allocations and assignments; (c) provisions regulating transfer of pool quota; (d) loss of pool quota; and (e) other matters relating to assignment or use of quota." This is the language used to describe hardship in the old pooling plan. This motion passed: 8 yes to 5 no.

Following this, there was a discussion with CDFA about a referendum and voting. There were questions about who could vote. CDFA explained that they have, and update monthly, a current list of eligible producers, identifying who is authorized to vote for each dairy. Each individual ownership has a vote in a referendum. So, a person with identical ownership in multiple dairy facilities would have one vote. A person with multiple dairies that have different ownership for those different dairies would have a vote for each of the different dairies. CDFA reported that as of March 2024, there were 1,048 Grade A dairies in California. There was also a question to CDFA about having either industry observers or a third-party independent entity handle the opening and tabulation of the ballots. CDFA stated that because of confidentiality rules, it needed to conduct the referendum. They said that they conduct between 10-15 referendums per year for other ag industries. They also said that they would include members of the independent State Auditor in the tabulation process and believed that, particularly with the involvement of the State Auditor, they were confident that an accurate tabulation of a referendum vote could be made.

This was an incredibly significant meeting of the PRB and for the future of the California dairy industry. Clearly, there is a split in the producer community. What the PRB is recommending will not satisfy everyone, but it is a path forward that is respectful of the historical role quota has played in the California dairy system. A separate method for dividing Class I revenues has been embedded in the system since California adopted a classified pricing regulation in the early 20th century. Time will tell if this is the solution for this time in history, but the PRB has put something forward and the next decision is up to the Secretary on whether to call for a referendum, and then the producers will have their opportunity to vote it up or down.

The Case for Oil Drilling in California

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

The regulatory war on oil production in California is well documented. The motivations of California's state legislature in some cases may be well intentioned, but the regulations coming down right now are designed to destroy the oil industry in the state within a few years. Investment in energy infrastructure, including extracting and refining oil, takes decades and requires regulatory certainty. Today in California, the only thing certain is that as in-state production is abandoned, imports will increase.

California's in-state production of oil peaked in 1986 at 402 million barrels, which at the time fulfilled 60 percent of the state's annual consumption of 676 million barrels. The decline since then has been steep. In 2023 California's total production was down to 124 million barrels, while overall consumption only dropped to 528 million barrels. Today, 77 percent of California's oil is imported.

This isn't happening because California is running out of oil. Commercially recoverable and proven reserves are currently estimated at 2.3 billion barrels, but this is only a fraction of the total estimated reserves in the state. Just the Monterey Shale Formation in California holds another estimated 15 billion barrels. Onshore and offshore, California's potentially recoverable oil reserves are sufficient to revive the industry for several decades.

Critics correctly point out that California's reserves of oil are heavier than sources elsewhere, requiring more energy to extract and refine. This fact, however, may be a reason in favor of reviving oil production in the state. California's idealistic legislators need to confront one nonnegotiable reality: other nations are not going to stop consuming oil for at least the next several decades. It is mathematically impossible.

Continue reading here.

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CDQAP to Host
Dairy PLUS Practice Field Days

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Join Us for the Field Days: 10 AM - 12 PM, Lunch to Follow

- May 16 – **Subsurface Drip Irrigation**, Merced County - **REGISTER**
- May 23 – **Vermifiltration**, Fresno County - **REGISTER**
- May 30 – **Weeping Wall,** Tulare County - **REGISTER**

Access all 3 links here:

Registration is required. The cost is $20 (reimbursed with attendance).
Locations of field days will be provided upon registration and verification.
HPAI Precautions: please wear freshly washed clothes. Plastic booties will be provided.

The next CDFA Dairy PLUS solicitation for project funding is expected in June. Field days will help you be prepared to apply within the 90-day window.

- See technology installations in the field.
- Hear about management, operations & economics from dairy producers/operators.
- Ask questions to evaluate if the technology is for your farm.

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California Milk Advisory Board Meeting May 8-9 in Visalia

Courtesy of the California Milk Advisory Board

The California Milk Advisory Board (CMAB) will host its next Board of Directors Meeting on:

Wednesday, May 8, 2024 – 7:30 a.m.
Thursday, May 9, 2024 – 8 a.m.

Visalia Marriott
300 S. Court Street
Visalia, CA

The CMAB Board meeting is open to any California dairy producer. If interested in attending, please RSVP to Tracy Garza at tgarza@cmab.net or 209-690-8252.

USDA Testing Ground Beef, Farm Workers for HPAI Virus; Additional Dairy Testing Confirms Effectiveness of Pasteurization

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

As the USDA's testing requirement for the interstate transportation of lactating cattle went into effect this week, the USDA and FDA continued to step up their focus on determining whether the Highly Pathogenic Avian Influenza virus is spreading to farm workers, beef products and retail dairy foods.

The good news is that as the FDA has expanded its examination of pasteurized retail products – fluid milk, but also sour cream and cottage cheese – the agency has found no live H5N1 bird flu virus in more than 200 commercial dairy samples, confirming what we reported last week: that commercial pasteurization eliminates any threat posed by the virus. The other good news is that there were no additional herds that tested positive this week.

As a reminder, the cattle testing requirement that began this Monday is mandatory for lactating dairy cows and recommended for other ages USDA on Saturday issued a clarification on the testing regulation indicating that the agency's new policy does not apply to the intrastate movement of a lactating dairy cow to a sale barn. Subsequent interstate movement for a lactating dairy cow from a sale barn directly to a slaughter facility requires only a Certificate of Veterinary Inspection (CVI) stating that the animal is clinically healthy; no testing is necessary. The APHIS website has more details.

We conducted a webinar this week on what farmers and cooperative staff concerned with the potential spread of HPAI into milk should know. A recording of that session is available here.

The government remains concerned about the potential spread of H5N1 to farm workers in close contact with cattle, and this week, state health labs sent about two dozen human test samples to the Centers for Disease Control for reference testing. The government has focused its testing in the nine states where the HPAI virus has been found in dairy cows. So far, the CDC has indicated there have been no unusual increases in flu cases around the country, even in areas with infected cows.

Finally, the USDA this week also tested for the virus in retail meat samples to see if culled cows could be spreading the virus. The Food Safety and Inspection Service tested 30 samples of retail ground beef from several states where dairy cattle have tested positive for H5N1. All of the samples tested negative under polymerase chain reaction testing, known as PCR. The USDA is also sampling beef muscle from culled dairy cows and cooking ground beef to test various temperatures for their efficacy at killing the virus.

The introduction of this virus into the dairy community is a challenge that I know we'll meet and overcome, as I noted in my monthly column. Much more work still lies ahead.