MPC Weekly Friday Report

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To: Directors & Members
From: Kevin Abernathy, General Manager
Pages: 8

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	+ $.0450	$1.8775	Weekly Change	- $.0975	$2.4325	Week Ending 01/25/25		
Barrels	- $.0100	$1.8100	Weekly Average	- $.0505	$2.4745	Nat'l Plants	$1.3639	14,500,818
Weekly Average Cheddar Cheese			Dry Whey			Last Week Ending 01/18/25		
Blocks	+ $.0986	$1.9005	Dairy Market News	w/e 01/31/25	$.7300	Nat'l Plants	$1.3904	15,163,902
Barrels	+ $.0240	$1.8490	National Plants	w/e 01/25/25	$.7307			

California Federal Milk Marketing Order Price Projections

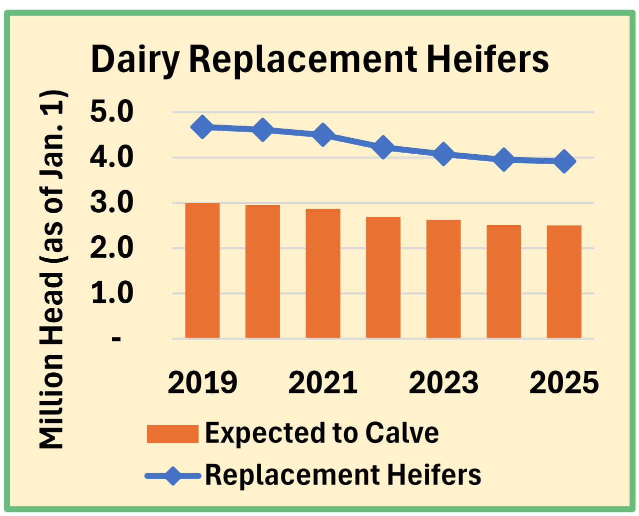
Price Projections	Class I Actual (range based on location)	Class II Projected	Class III Projected	Class IV Projected
Jan 30 Est	No Change	$21.59	$20.36	$20.73
Last Week	$21.98 - $22.48	$21.60	$20.28	$20.87

Milk, Dairy and Grain Market Commentary

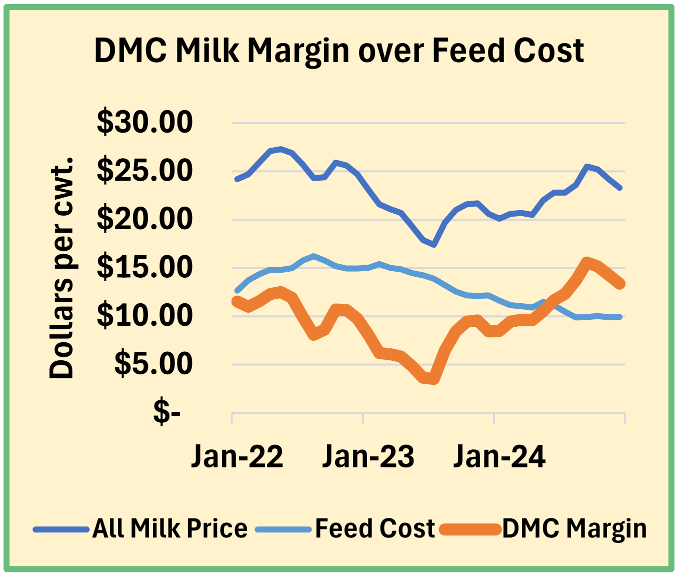
By Monica Ganley, Quarterra
Monica.Ganley@QuarterraGlobal.com

Milk & Dairy Markets

This week may have been light on USDA reports, but there was no shortage of news for the dairy markets to digest. Developing stories on supply, demand, tariffs, and more sowed the markets with volatility as prices scrambled to find direction.

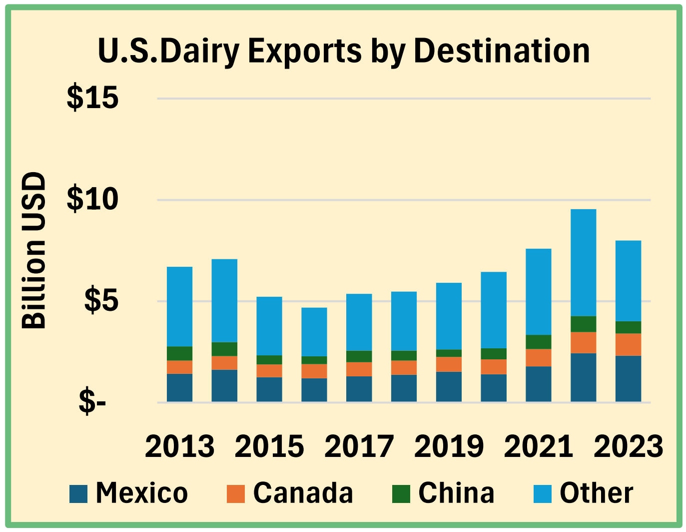


One USDA report that was published this week, however, was the long-anticipated *Cattle* report. After dropping publication to just once a year early in 2024, the trade has had to wait an entire 12 months to get an estimate of dairy heifer stocks. Today's report showed that dairy heifer numbers remain extremely tight. At the start of this year, there were only 3.914 million replacement dairy heifers in the national herd. This is 0.9% less than at the same time last year and the lowest

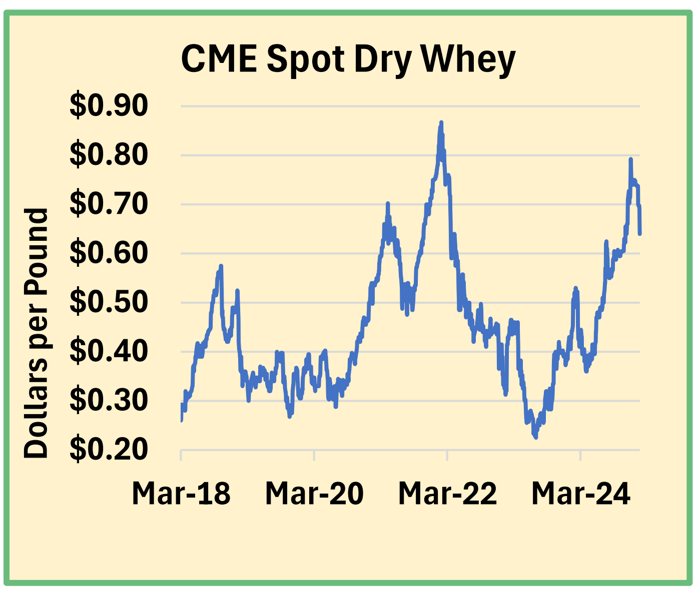


inventory level since 1978. USDA also revised the 2024 figure down by 2.7%. Furthermore, the number of heifers expected to calve fell by 0.4% versus last year to just 2.5 million head.

A lack of available heifers is likely to keep milk production growth constrained, even as margins persist at levels that should encourage expansion. December's milk margin over feed cost reported as part of the Dairy Margin Coverage program is estimated at $13.38/cwt. Even though this represented a 91¢ decline from prior month and the third consecutive drop, margins remain much higher than historical levels and the $11.97 average margin in 2024 was comfortably the strongest result since the program's inception in 2019. Based on current futures markets, the 2025 margin is projected to average $13.37/cwt.

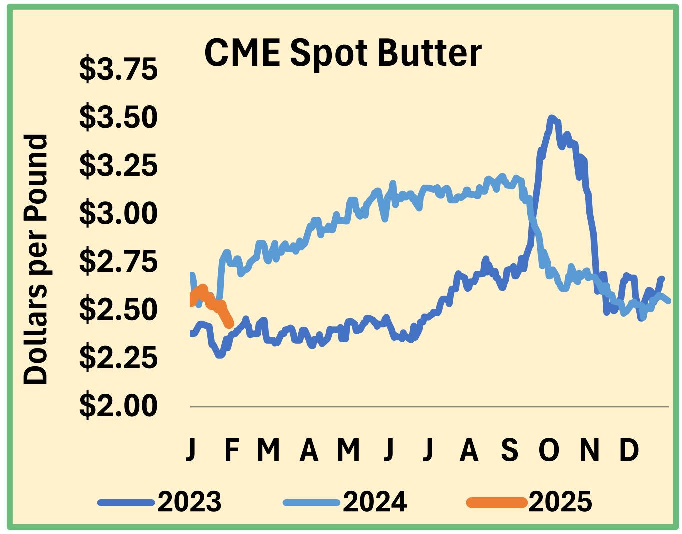


Additional milk production will be necessary to fill up new processing capacity, but doubts are emerging about where this new dairy product output will go. The Trump administration has indicated that it will proceed with plans to implement 25% tariffs on imports from Mexico and Canada and 10% tariffs on imports from China as soon as February 1. Details remain vague, but it seems clear that this action will result in retaliatory tariffs from these countries which, coincidentally, are the top three markets for U.S. dairy exports. The precise impact of the retaliatory tariffs will depend on a slew of factors but will likely have a negative impact on demand for U.S. dairy products.



Lighter exports could be particularly problematic for the cheese market, which leaned heavily on soaring international demand to compensate for tepid domestic consumption during 2024. Despite the threat of a potentially weaker export outlook, tighter spot milk supplies and renewed interest from both foodservice and retail buyers has kept the market supported. Spot Cheddar blocks moved up during the first part of the week, only giving up ground on Friday. Today's session ended with blocks at $1.8775/lb. up 4.5¢ from last week. Barrels followed a similar trajectory, but today's losses undid gains earlier in the week, dropping the final price by a penny to $1.81/lb. A total of 17 loads of blocks and 13 loads of barrels traded hands.

On the other side of the Class III complex, dry whey prices swiftly backed away from the above-70¢ mark where they have sat comfortably for the last two months. In a market that is typically more subdued than its counterparts, losses on three of five trading days pulled the spot dry whey price down to 64¢ per pound on Friday, a decrease of 5.75¢ from last week and the lowest price seen since November of last year. Dry whey availability remains somewhat tight as whey manufacturers continue to route the raw whey stream toward the production of higher value products, such as whey protein isolate. However, dry whey users appear to have tired of higher prices and are making substitutions with other products, like whey permeate, where possible. Furthermore, rising cheese production has also augmented the whey stream, leaving more whey available for all users.



The bears were also driving the butter market this week as prices moved decisively downward. Even though milk production has fallen in recent months in liquid terms, higher component levels have led to an increase in the availability of butterfat. Plentiful cream supplies have kept multiples low and butter churns busy. Indeed, domestic butter consumption has been strong, but supply has outpaced demand and, as illustrated in last week's Cold Storage report, butter stocks continue to accumulate. Under the pressure of ample inventories, the CME spot price for butter descended every day between Tuesday and Friday giving up a total of 9.75¢ to end the week at $2.4325/lb., the lowest price seen in 18 months.

With lots of action across the other commodities, the nonfat dry milk (NDM) market seemed content to observe quietly, only moving down by a quarter cent on Wednesday to end the week at $1.345/lb. U.S. milk powder remains expensive compared to European suppliers, however an increase in the SMP price at this week's Global Dairy Trade Pulse event effectively wiped away the price differential with Kiwi product. Even so, supplies remain tight and looming tariffs are likely to diminish U.S. export prospects for milk powder.

Grain Markets

The fireworks weren't limited to the dairy markets this week as the feed markets also got in on the action. Reports of unfavorable growing and harvest conditions in South America went head-to-head with tariff threats, which market participants believe will reduce grain and oilseed exports from the U.S. After the drama, the MAR25 corn contract settled at $4.9025/bu. on Thursday while MAR25 soybean meal ended at $304.70/ton.

The average feed price calculated as part of the DMC program was reported at $9.92/cwt. in December, virtually unchanged compared to prior month. Low feed prices have been a key driver of dairy producer profitability and will be critical to maintain margin levels in the coming year.

Ringside: Ten State Water Laws to Scrap

By Edward Ring, [Courtesy of the California Globe]

Note from Geoff Vanden Heuvel, MPC Director of Regulatory & Economic Affairs
MPC has been a long-time friend of Ed Ring and supportive of his work at the California Policy Center. His insights on water and energy are substantive, well-reasoned, and timely, as evidenced by the piece below.

There are two ways we can respond as Californians to the wildfires in Los Angeles, and for those who share this concern, to the climate crisis which they cite as an underlying cause.

We can ration our consumption and retreat into increasingly dense urban cores. That's one option. Or, alternatively, we can adapt and advance, rebuilding our neighborhoods in the "wildland urban interface," recognizing that California already has the highest density urban areas in the nation, despite the fact that only five percent of its land is urbanized.

In the interests of full disclosure, and to state what has been the obvious message throughout these columns, we are unequivocally in support of the second option. Achieving sustainable abundance is the only way to achieve resilience, equity, and affordability. To do this will take restoring a balance that has been lost in California, a process that will require a completely new legislative agenda and a completely revamped set of agency priorities. One that places economic prosperity and property rights on equal footing with environmental objectives.

When asking for expert suggestions for specific steps needed to unwind the scarcity policies that have proliferated in California over the past two decades or more, the quality and scope of the responses were too valuable to condense into a few hundred words. Instead, over the next few weeks, they will be presented here with most of the details preserved. They focus on water policy, land management, permitting reform, energy, and infrastructure in general.

For this week, a list of reforms from a member of the water rights community who is painfully familiar with the harm inflicted by California's political agenda of scarcity.

Ten State Water Laws/Regulations to Scrap:
(1) Bay Delta Plan (San Joaquin River). The oldest and most independent irrigation districts in the State are being forced to dedicate 40 percent of the flow in the San Joaquin River to one species of salmon without any evidence this flow will actually benefit fish returns. The State ignored significant evidence showing these salmon are being eaten by bass introduced into the system by the Department of Water Resources in the 1960s. There is a federal mechanism to overturn the Bay Delta Plan; the EPA is required to approve the Bay Delta Plan. The SWB submitted the Bay Delta Plan to EPA and EPA has yet to take any action – approval is literally sitting with the EPA.

(2) Water Code section 1058.5. This new law allows the State Water Board to take over and control locally run and independently funded water systems during statewide drought. The State Water Board

did this in 2014-15 and 2021-2022 and issued weekly notices controlling local systems – many of which were incorrect and made erroneous assumptions. A court ruling overturned State Water Board actions in 2014-15 and awarded attorney fees to water right holders/irrigation districts that challenged the Board. Meanwhile, the 2021-2022 actions are still being challenged in expensive litigation – where the Board is alleging water right holders are harassing the Board by objecting to discovery.

(3) Expansion of Wetlands Definition. In 2019, in response to federal definitions of waters of the United States, the State Water Board adopted an expansive definition of wetlands to "fill the gap" left by the federal definition. The State Water Board did so by unlawfully amending a water quality control plan to regulate all state waters, instead of only WOTUS waters (Waters of the United States).

Continue reading [here](#).

Note to California Producers Who Participate in Dairy Revenue Protection Crop Insurance Program

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

This is just a heads up to California producers who purchase Dairy Revenue Protection crop insurance coverage. There is a feature of this program that uses milk production per cow as an adjuster to the calculation of actual revenue, which is then compared to expected revenue for the purpose of determining indemnity payments.

Every endorsement includes an expected yield per cow that is fixed based on the date of purchase. Every quarter, the Expected Yield Per Cow for future quarters is updated when the USDA quarterly Milk Production Report is released. The bird flu caused a large reduction in milk production per cow in the 4th quarter of 2024. DRP endorsements purchased to cover Q4 2024 milk production were adjusted accordingly, and this led to significantly higher indemnity payments. However, that lower per cow production is now reflected in a significantly lower expected yields per cow for Q2 2025, Q3 2025, and Q4 2025 DRP quotes.

The Q2 2025 expected yield dropped by 257 pounds per cow, or a little over 4%, and the Q3 2025 expected yield dropped by 228 pounds, also about 4%. The 2025 Q4 expected yield is even lower at 322 pounds, down about 5.5%. What this means is that if California milk production rebounds to normal levels later this year, DRP endorsements purchased now will likely take a yield per cow hit if the milk prices drop below floor prices and indemnities come into play. There will be a new USDA quarterly milk production report in late April, and if Q1 2025 production has recovered, the expected yields per cow will increase.

The DRP is a good program. The yield per cow formula used in California adjusts expected yields rapidly to stay as accurate as possible. The yield per cow adjustment was greatly beneficial to producers for Q4 2024 indemnities, but buyer beware, new DRP purchases for Q2 and Q3 in particular will have the potential for the yield per cow factor to be a negative on indemnities.

Sustainable Ag Land Conservation Workshops in Porterville, Tipton, Tulare

Courtesy of the Tri-County Water Authority

Register [here](#).

Dairy Risk Management Meetings with Marin Bozic in Visalia, Bakersfield February 26-27

Courtesy of AgWest Farm Credit

AgWest FARM CREDIT

200 E. Cartmill Avenue, Tulare, CA 93274

Save the Date

Dairy Risk Management Meeting

with Marin Bozic

Feb. 26, 2025 - 4 p.m.

The Vintage Press

216 N Willis St, Visalia, CA

Feb. 27, 2025 - 10 a.m.

Luigi's Restaurant -

725 E 19th St, Bakersfield, CA

Invitation to follow

Ready to register now?

Scan the QR code to reserve your spot.

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California Dairy Sustainability Summit March 25 in Visalia

Courtesy of Dairy Cares

The next California Dairy Sustainability Summit will take place on March 25, 2025, at the Visalia Convention Center. This year's event will equip California dairy farmers and employees with information to further enhance and future-proof farming operations. Registration includes full access to sessions, breakouts, the Expo Hall, breakfast, lunch, and the closing reception. Enjoy a full day of learning and networking together as we continue to lead the way in nourishing lives through sustainable dairy farming. Register here. Learn more here.

Fake Milks' Shrinking Footprint the Focus of Dairy Defined

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

Our latest *Dairy Defined* column, released this week, notes that the relative popularity of dairy imitators appears to have peaked and begun to decline, as consumers are catching on to the misleading arguments of plant-based beverage purveyors. According to research firm Circana, alternative plant-based "milks" dropped from 10.3% of the retail dairy category in 2023, to 9.8% last year – the lowest level since 2020. While milk consumption stayed essentially flat, plant-based beverage consumption fell for its third consecutive year, with almond and soy continuing to fall and oats going nowhere.

From a policy standpoint, this is more evidence that the government should catch up to the people it serves by encouraging healthy choices through enforcing its own standards of identity for dairy terms and making it clear that plant-based alternatives don't provide the nutrition consumers expect from milk.