# MPC Weekly Friday Report

**Date: October 18, 2024**
**To: Directors & Members**
**From: Kevin Abernathy, General Manager**
**Pages: 10**

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## MPC Friday Market Update

| Chicago Cheddar Cheese | | | Chicago AA Butter | | | Non-Fat Dry Milk | | |
|---|---|---|---|---|---|---|---|---|
| Blocks | + $.0375 | $1.9250 | Weekly Change | + $.0350 | $2.6600 | Week Ending 10/12/24 | | |
| Barrels | + $.1225 | $2.0100 | Weekly Average | - $.0200 | $2.6410 | Nat'l Plants | $1.3371 | 15,255,109 |
| Weekly Average Cheddar Cheese | | | Dry Whey | | | Last Week Ending 10/05/24 | | |
| Blocks | - $.0020 | $1.9220 | Dairy Market News | w/e 10/18/24 | $.5800 | Nat'l Plants | $1.3328 | 17,482,773 |
| Barrels | + $.0480 | $1.9370 | National Plants | w/e 10/12/24 | $.5659 | | | |

## 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 |
|---|---|---|---|---|
| Oct 17 Est | No Change | $21.11 | $22.58 | $21.06 |
| Last Week | $24.77 - $25.27 | $21.20 | $22.60 | $21.13 |

## September 2024 CA FMMO Statistical Uniform Price Announcement

| Sept '24 Final | Class I | Class II | Class III | Class IV | Statistical Uniform Price (Blended Price) | Net Price After Quota Assessment* |
|---|---|---|---|---|---|---|
| Minimum Class Price | $23.20 \| Tulare<br>$23.70 \| L.A. | $22.40 | $23.34 | $22.29 | $21.95 \| Tulare<br>$22.45 \| L.A. | $21.602 \| Tulare<br>$22.102 \| L.A. |
| Percent Pooled Milk | 24.1% | 9% | 4.9% | 62% | 100% (1.62 billion lbs. pooled) | |

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

## Milk, Dairy and Grain Market Commentary

*By Monica Ganley, Quarterra*
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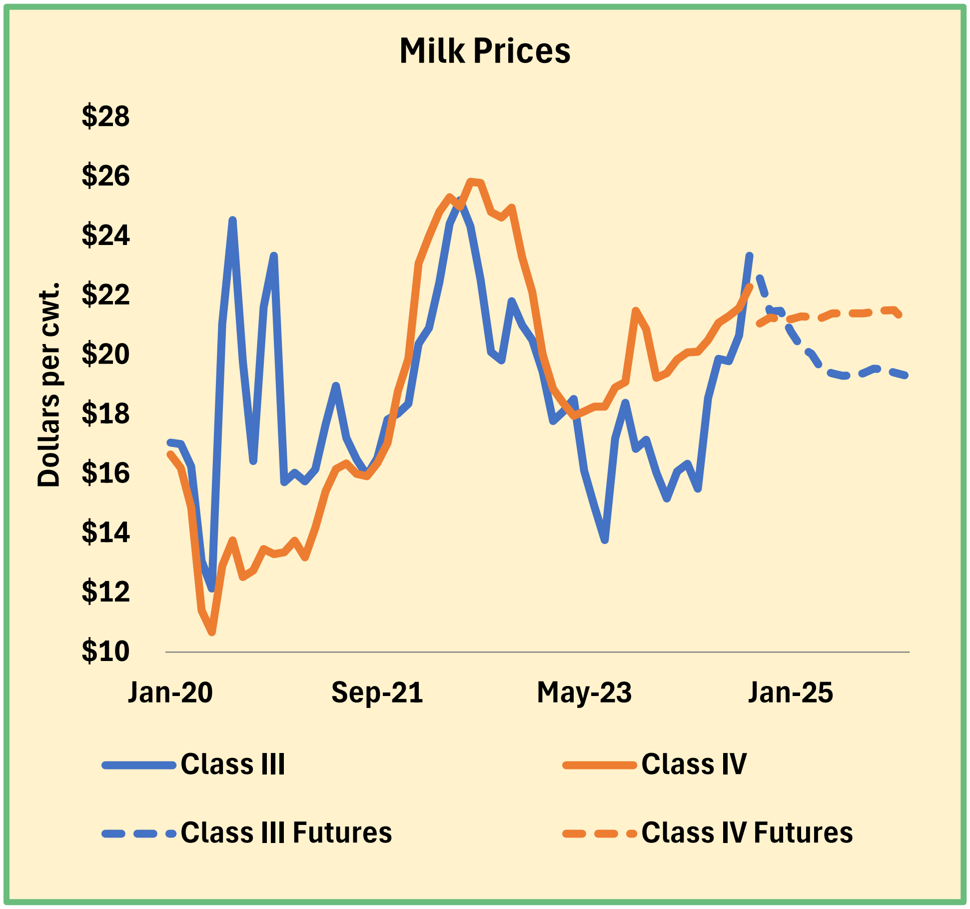
### *Milk & Dairy Markets*

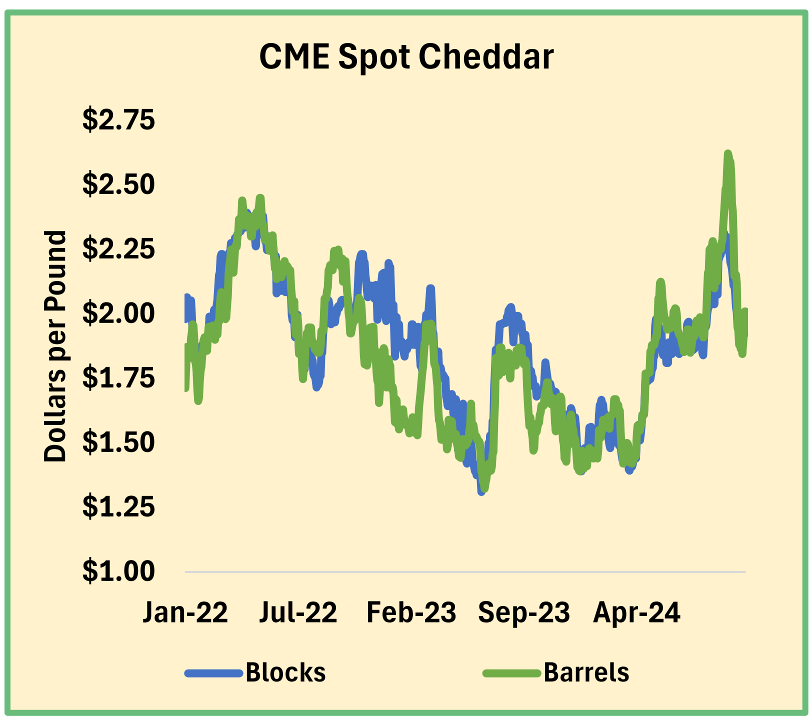
The dairy markets bounced this week, rejecting the notion that lower prices will be necessary to balance supply and demand. After the dramatic declines seen in late September and early




October, every product traded at the CME spot market moved upward this week. While the situation remains precarious, the bulls have clearly found some traction.

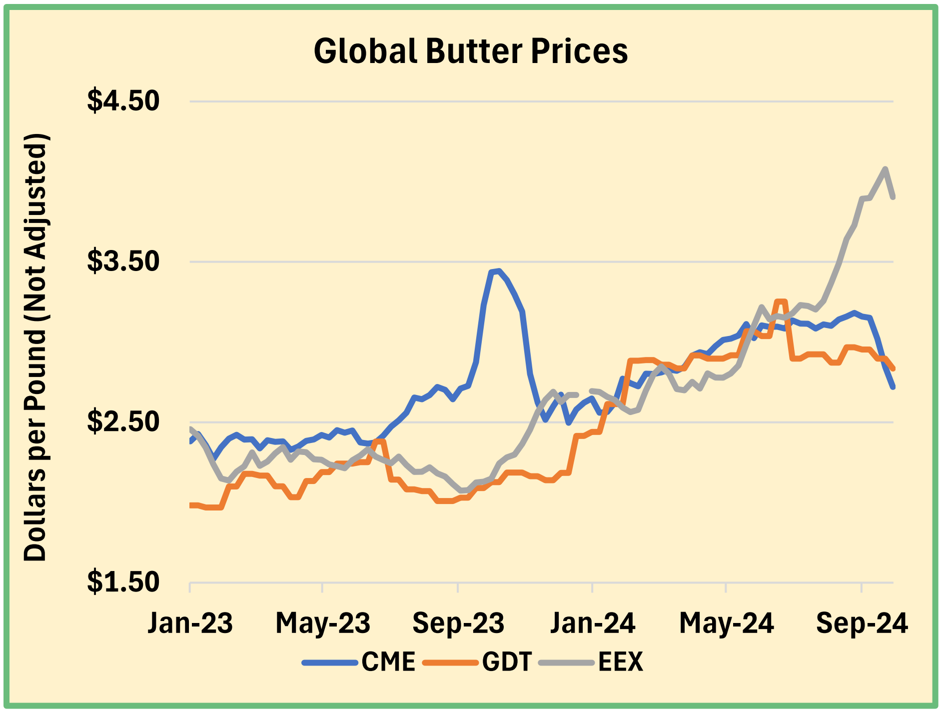
Renewed supply concerns have underpinned the rising prices. Additional information is emerging about the impact of avian influenza in California dairy herds and indicates that mortality among infected animals may be higher than originally believed. In addition, high temperatures are persisting in California, which is placing additional pressure on milk production in the country's largest dairy state. Output in other regions is faring somewhat better, particularly in the Midwest where cooler temperatures and high-quality feed are boosting both volumes and milk component levels.

Stronger prices in the spot market helped to buoy futures prices over the course of the week. As of Thursday's settlements, Class III prices were sitting above $20/cwt. in the first quarter of 2025 while Class IV prices perched above $21/cwt. over the full year. Operating costs remain moderate, and the resulting strong margins should encourage expansion. While the familiar challenges of heifer availability and processing bottlenecks persist, the prevailing economics should motivate producers to bring more milk to market.

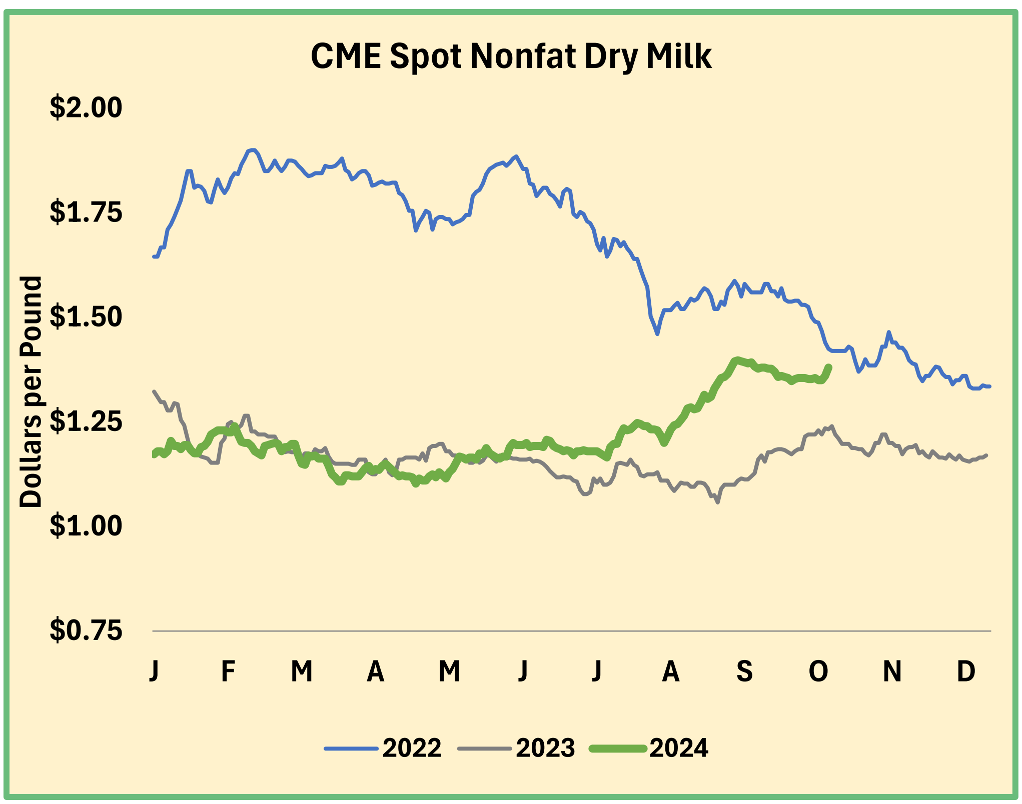



More milk would be welcome by dairy manufacturers, most of whom are paying a premium to procure spot milk. Cheesemakers in many parts of the country have maintained upbeat production schedules to meet demand. International cheese sales continue to be robust, according to market participants. Domestic demand has been mixed, but there have been bright spots as mozzarella sales have continued to impress and the success of meal deals has driven demand for barrel cheddar for processed cheese. Furthermore, the holiday season is around the corner and should support sales in the coming months.

Improved demand has encouraged price increases for spot Cheddar, particularly as U.S. cheese remains competitive against other international suppliers. Barrels saw the largest gains over the week as the price rose nearly every day and moved back above the \$2/lb. threshold. Ultimately, barrel prices ended the week at \$2.01/lb., up 12.25¢ from last week. Blocks made more modest gains, adding 3.75¢ during the week to end Friday's session at \$1.925/lb. as 16 loads traded hands. As a result, the block-barrel spread has once again inverted and stretched to 8.5¢.

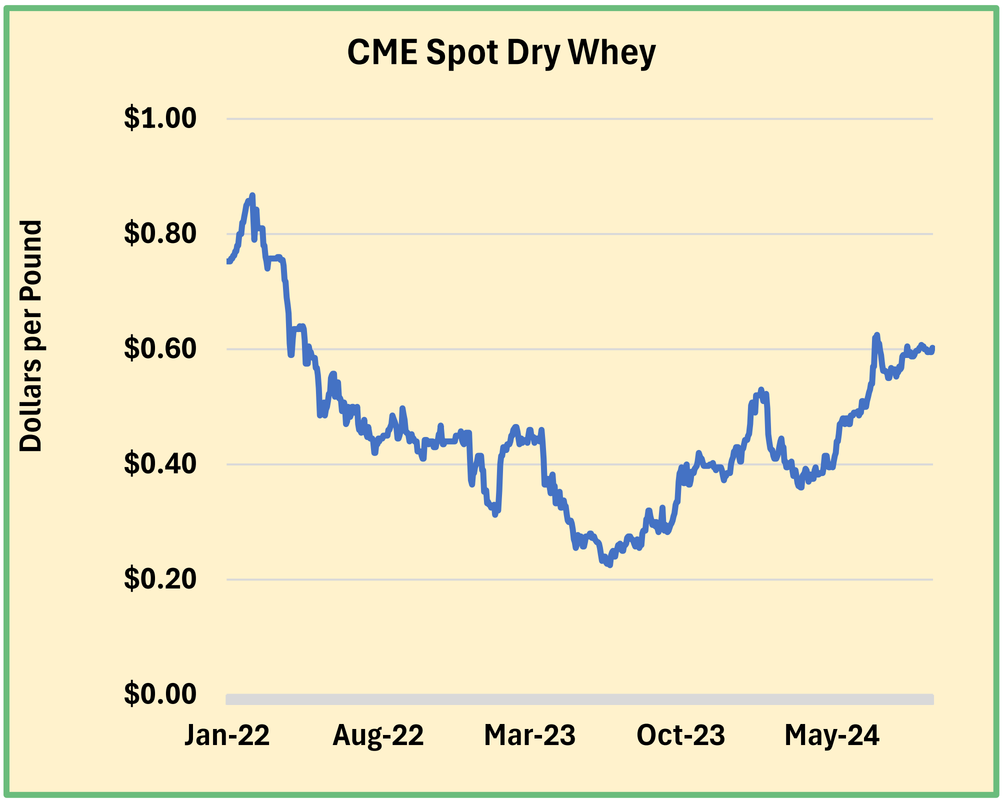



But the real flurry of activity occurred in the butter market where an astonishing 161 loads of product traded hands during the week. This was the largest volume ever recorded, handily besting the prior record by 32 loads. Buyers are clearly still active and appear comfortable with current price levels. Despite heavy buying, the price moved up just 3.5¢, closing the week at \$2.66/lb. Though European prices have relaxed from their recent highs, U.S. butter remains very competitively priced against global competitors. The U.S. is not typically a significant exporter of butterfat, but current market dynamics could push more product offshore.




Meanwhile back at home, churns remain active, and butter production is robust. Cream is readily available across the country as strong butterfat tests promote availability, even in areas where milk production is ailing. Dairy Market News notes that an uptick in cream cheese production in the East has siphoned off some cream supplies, but not enough to seriously restrict cream availability. Butter demand is healthy through retail channels as temperatures drop and baking season approaches. Nevertheless, stocks are ample, and market participants report that butter remains accessible.

On the other hand, production and inventories of nonfat dry milk (NDM) remain notably tighter. Some market participants have expressed concern about future supplies as the milk production issues are mostly affecting California where a majority of NDM is produced. However, demand has also been weak as the appetite of both international and domestic buyers has reportedly waned. As a result, the spot price of NDM remained relatively stable this week, rising just 2.75¢ to finish Friday's session at $1.38/lb. as a respectable 2 4 loads were traded.




Similarly, the spot price of dry whey edged modestly upward as supply and demand seem to be largely in balance. The price landed at 60.25¢ per pound on Friday, up by three quarters of a cent from the prior week. Activity was upbeat with 21 trades completed. While the dry whey market has exhibited enormous stability in recent weeks, trading in just a 7.5¢ range since August 1, market chatter is decidedly bullish. The high protein space continues to exert dominance over the whey stream, constricting the amount of raw whey available for the production of dry whey. Limited supplies are expected to keep a floor under the dry whey market in the coming months.

***Grain Markets***

Activity in the grains markets was mixed over the week but when the dust settled, prices had softened slightly. Favorable weather conditions in major global growing regions eased prices downward, even as attacks on Ukrainian grain storage and shipping infrastructure intensified and threatened to disrupt cereals trade. Corn and soybean prices remain at multi year lows and are contributing to favorable milk margins over feed costs. On Thursday, MAR25 corn settled at $4.2125/bu. while JAN25 soybean meal settled at $314.90/ton.

## Water Roundup

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

Back at the end of August I wrote about a big decision that was going to be made about a particular regulation regarding the outflow of fresh water to the ocean through the delta. You can read the details here or watch an interview I did on the issue here.

The good news is that the regulatory agencies suspended the Fall X2 regulation on October 1 and since that time there has been significant improvement in the export of fresh water to Central and Southern California. The experience of having the regulatory agencies actually adjust their plans in a positive way gives some hope that "adaptive management" of the water projects really can work to both improve the environment and provide critically needed water supply to California's people, farms, communities, wetlands and habitats located outside of the delta.

The other positive news is that going into the new water year, our major reservoirs are all at or about their historic averages. You can see a visual of this here.

On the local groundwater front, the news is less positive. The Tule Subbasin was placed on probation by the State Water Resources Control Board in September. A major concern of the State Board and the Friant Water Authority and the Bureau of Reclamation is the impact of groundwater pumping-caused subsidence that is damaging the Friant Kern Canal. A major construction project to build 10 miles of adjacent canal was just finished a few months ago but subsidence is continuing and threatens the effectiveness of the fix. There is also a financial dispute between the Friant Water Authority and the Eastern Tule GSA (ETGSA) which has groundwater regulatory responsibility over the land adjacent to the Friant Canal. This dispute has caused a rift within the Friant Water Authority between the water agencies that are part of the ETGSA and the other Friant Water Authority contractors. At the moment there is no clarity on how this works itself out.

Meanwhile, the Lower Tule River Irrigation District GSA and the Pixley Irrigation District GSA, also part of the Tule Subbasin, have a large dairy presence. Both of these GSA have an opportunity to be excluded from some of the probationary mandates. But the restrictions and limits these GSAs are having to place on themselves in order to satisfy the State Board are significant and immediate. The Pixley GSA just put 44 square miles of their area into a special category because of significant subsidence that has occurred since 2020. This designation will require comprehensive metering, potentially leading to severely restricted groundwater pumping in this area. Here too, there is not much clarity on how this gets resolved short of taking a lot of land out of production.

The Tulare Lake Subbasin covering most of Kings County was placed on probation last April. The Kings County Farm Bureau sued the State Board claiming various defects in the process the State Board used. The Superior Court Judge presiding over that case issued a Preliminary Injunction on September 12, 2024, that essentially stopped the imposition of probation on the Tulare Lake Subbasin. Since that time, the State Board staff has cut off all communication with the five GSAs that are part of the Tulare Lake Subbasin. The State Board has indicated that they plan to appeal the judge's decision, but an appeal has not yet been filed as of this writing. What we do know is that a Preliminary Injunction suspends probation until there is a court trial which is likely many months, if not longer, away. Prior to a trial there would likely be document discovery and depositions of State Board officials. Of course, the appeals court could do something different as well. So here again, there is a lack of clarity on the path forward.

On a more positive note, the Kaweah Subbasin located just north of the Tule Subbasin and also a large dairy area, has developed updated Groundwater Sustainability Plans that the Kaweah Subbasin officials believe addresses all of the identified concerns of the State Board with their original GSPs. Folks in the Kaweah are guardedly optimistic that they may avoid probation with these updated plans. Time will tell. The Kaweah Subbasin probationary hearing in front of the State Board is scheduled for January.

## Study Shows Direct Regulation of California Dairy Sector Harmful to Economy and Climate Priorities

*Courtesy of the California Cattle Council*

This week, the California Cattle Council released a new report, "Economic Analysis of California Dairy Consolidation, Attrition, and Policy Leakage." The data driven economic analysis, conducted by ERA Economics, looks at California dairy sector trends, market conditions, consolidation, and attrition, as well as the potential impacts of direct regulation of dairy methane emissions. The timely analysis highlights the successful collaboration between the State and the dairy industry in working towards achieving the 40% methane emission reduction target set by Senate Bill 1383 (2016), all while striving to produce milk and dairy products in an economically viable and sustainable manner.

"California is on track to meet its ambitious goals with its dairy methane reduction efforts. The data shows that replacing successful already in place incentive-based programs with direct regulation would be costly to both the climate and the economy," said Dr. Michael McCullough, Professor of Agribusiness at California Polytechnic State University, San Luis Obispo, and a lead author of the report. "California's methane reduction efforts would suffer, significant emissions leakage would occur, and small dairies would be hit the hardest, leading to increased dairy farm consolidation in the state."

Specific findings of the analysis include, but are not limited to the following:

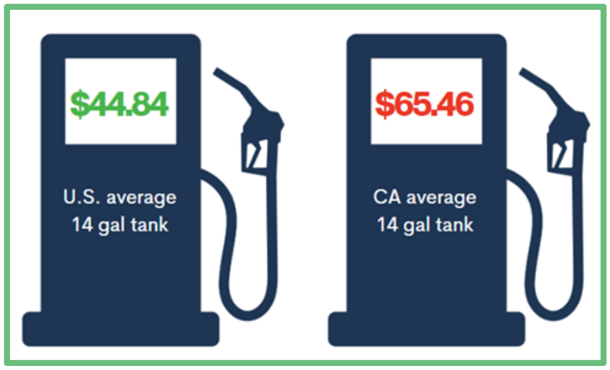
- Dairy sector consolidation is continuing and accelerating in California and across the US as fewer dairies remain in production each year.
- Statistical tests found no evidence that adoption of dairy digesters is causing consolidation to larger dairies. Consolidation is driven by other factors.
- Eliminating Low Carbon Fuel Standard (LCFS) credits and directly regulating methane emissions would cause:
- $675 million in direct annual net losses to California dairies, not including impacts to local communities or other businesses,
- Significant emissions leakage of 1.43 MMTCO2e as milk production shifts to other states,
- Abandoned digester projects, resulting in loss of an additional 2.44 to 3.51 MMTCO2e.
- Small farms would be negatively impacted disproportionately by the increased regulation.

*Continue reading here.*

## California Continues to Triple Down on Policies to Drive Up the Cost of Gasoline

*Courtesy of the California Business Roundtable*

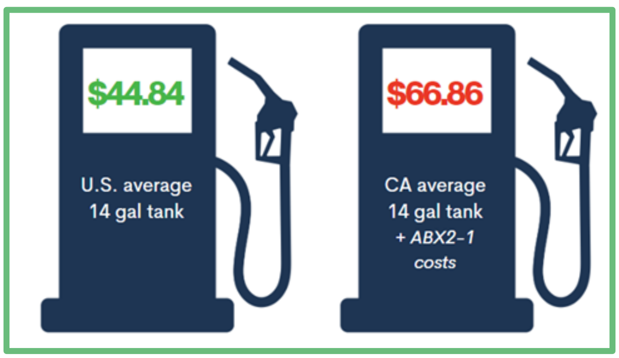
California State Assembly on Monday passed ABX2-1, which even state regulators admit will increase the price of gasoline. But this is just one of many policies the state is pursuing that will drive up the cost of gasoline and the price of everything we use and buy.




"ABX2-1 is yet another example of state policymakers trying to distract the public while they work quietly behind the scenes to drive up the cost of gasoline even higher. The high cost of gasoline not only affects working families but drives up inflation as well. It's time for legislators and the governor to take responsibility for the role they continue to play in California's highest-in-the-nation gasoline prices. We need policies that will actually help drive down the cost of gas and cost of living for all residents and stop with these unworkable ideas that do the opposite of their intended purpose," said **Rob Lapsley,** president of the California Business Roundtable.

**How California Is Driving Up the Cost of Gasoline**

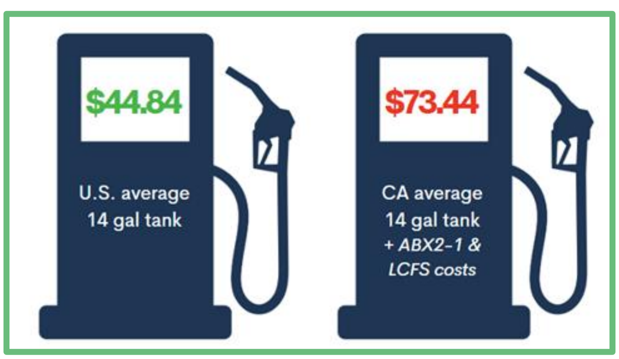
Aside from the more than $1.20 per gallon the state adds on to a gallon of gas right now, there are several policies coming online in the coming months that will make those costs even higher:




**ABX2-1 will** increase the price of gasoline. Based on research from the Center for Jobs and the Economy, this cost increase is likely to be **between 5 and 15** cents per gallon.

**ABX2-1 will not** lead to savings at the pump. The math just doesn't support the claim. Unless the governor plans to interfere with gas prices on a daily basis to affect normal fluctuations in gas prices within the standard deviation, ABX2-1 will **not** save consumers a penny.

**Increased Low Carbon Fuel Standard Costs.** As reported earlier this week, in just a few weeks, the California Air Resources Board (CARB) will vote on stricter limitations to the state's Low Carbon Fuel Standard, which will drive up the cost of gasoline anywhere from **47 cents to 65** cents higher per gallon beginning next year and increasing every year after.




**Increased Cap and Trade Costs**. Based on CARB's economic impact statement[1], pending amendments to the Cap-and-Trade program would raise gasoline prices by an additional **22 cents** per gallon (based on levelized costs for a family of four).

**Increased Gas Tax Under SB 1:** SB 1 includes an annual increase in the statewide gas tax to support transportation projects.

**Please note that LCFS, cap and trade, and SB 1 gas taxes are ongoing cost increases and will grow beyond the estimates provided here.**

**Unquantifiable Cost Increases**

Beyond just the policies with an attributable direct dollar amount, California is also pursuing several additional policies that will drive up the cost of gas as well by further limiting the ability of California to import gasoline from other countries.

Since California policies have reduced in-state oil production, the state has become increasingly reliant on imported oil from other states and countries. This oil is already more expensive given the added transportation costs, but a series of new port regulations will significantly impact the state's ability to import needed oil to meet with consumer demand.

**CARB Limits Imports at Our Ports.** CARB's Ocean Going At-Berth Regulation takes effect for tankers that bring gasoline into California beginning January 2025. Similar requirements currently limit the number of container vessels able to use the San Pedro Bay ports to essentially a "California fleet" of vessels equipped with the necessary environmental components including those related to shore power and fuels. These new rules will directly impact supply, limit flexibility and response to production shortfalls, and once again driving up gasoline costs.

**Local Port Regulations Will Also Limit Imports.** In addition to the At-Berth regulations going into effect on January 1, 2024, the South Coast Air Quality Management District (SCAQMD) continues to evaluate an Indirect Source Rule (ISR) for the San Pedro Bay ports that could lead to limits on all cargo, including tanker traffic, coming into the ports.

Again, while these costs are unquantifiable at present, they pose a significant risk to disrupt necessary oil imports, leading to gasoline shortages directly tied to these and other state and regional policies.

## Dairy Farmers Feed Local Families in Need

*Courtesy of Dairy Cares*

One in 5 Californians have uncertain or inconsistent access to food. That's why California's dairy farm families are continually doing their part to help feed those in need.

**In 2023, California dairy organizations collectively donated more than 3.6 million pounds of dairy products to local food banks.**

This includes donations of milk and cheese, as well as yogurt, cottage cheese, sour cream, evaporated milk, macaroni and cheese, ice cream, and more. Additionally, the U.S. Department of Food and

Agriculture purchases tens of millions of pounds of dairy products per year that are provided to Californians in need through various government programs. Milk continues to be one of the most requested items at California's local food banks.

**California's Food Security Leaders Say...**

"Milk is central to many Californians — and it's one of the most coveted items sought by food bank visitors. California dairy families' partnership and contributions help source nutritious milk and dairy foods for families facing food insecurity throughout the state. We are grateful to California dairy farmers and the California Milk Advisory Board for their commitment to providing more dairy to those who need it most."

**Stacia Levenfeld, CEO,**
**California Association of Food Banks**

"The Kings Community Action Organization Food Bank is committed to serving individuals and families. The invaluable support from the dairy industry has advanced our mission. By providing milk and dairy foods to vulnerable populations, we have strengthened our efforts in combating food insecurity."

**Jeff Garner, Executive Director,**
**Kings Community Action Organization**

**Dairy's Role in School Meals**

School meals play a vital role in providing a safety net and ensuring nutrition security for children, supporting their growth, development, and academic success by offering consistent access to nutritious food. California schools make available both a nutritiously adequate breakfast and lunch for, not just needy children, but all children each school day. Milk and dairy foods are key components of these meals, offering nutrient-dense, affordable, and appealing options. Scroll to learn about Dairy Council of California's Let's Eat Healthy initiative, which works to promote lifelong healthy eating habits and sustainable solutions that enhance community health, ensuring that wholesome foods like milk and dairy are accessible to all.

**Dairy Critical to Nourishing Communities**

Dairy's nutritional contribution is critical for key life stages, improving nutrition security and supporting optimal health. Providing culturally relevant dairy options and pairings is also critical to improving nutrition security. Access to nutritious and familiar foods like dairy will go a long way in improving the health of people and communities.

*Continue reading here.*

## Help Document Ontario's Dairy History

*Courtesy of Ontario Community Life & Culture Agency*


Do you have photos, videos, or movie footage of Ontario, California dairies? Do you or your family have ties to dairy in Ontario? Are you an Ontario dairy history buff? We need your help! The City of Ontario is working with consultants to produce a video documentary about Ontario's dairy industry, and we need your memories!

Please call or email Doug Kupel at (844) 872-2623 or doug@urbanapreservation.com.