MPC Weekly Friday Report

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MPC Friday Market Update

Chicago Cheddar Cheese			Chicago AA Butter			Non-Fat Dry Milk		
Blocks	- $.1175	$1.7200	Weekly Change	- $.0200	$2.6500	Week Ending 11/02/24		
Barrels	- $.1000	$1.7675	Weekly Average	- $.0220	$2.6675	Nat'l Plants	$1.3600	15,282,261
Weekly Average Cheddar Cheese			Dry Whey					
Blocks	- $.1045	$1.7680	Dairy Market News	w/e 11/08/24	$.5850	Last Week Ending 10/26/24		
Barrels	- $.0690	$1.8135	National Plants	w/e 11/02/24	$.5834	Nat'l Plants	$1.3535	14,811,240

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
Nov 7 Est	No Change	$21.06	$20.13	No Change
Last Week	$24.13 - $24.63	$21.63	$20.12	$21.06

Milk, Dairy and Grain Market Commentary

By Sarina Sharp, Daily Dairy Report
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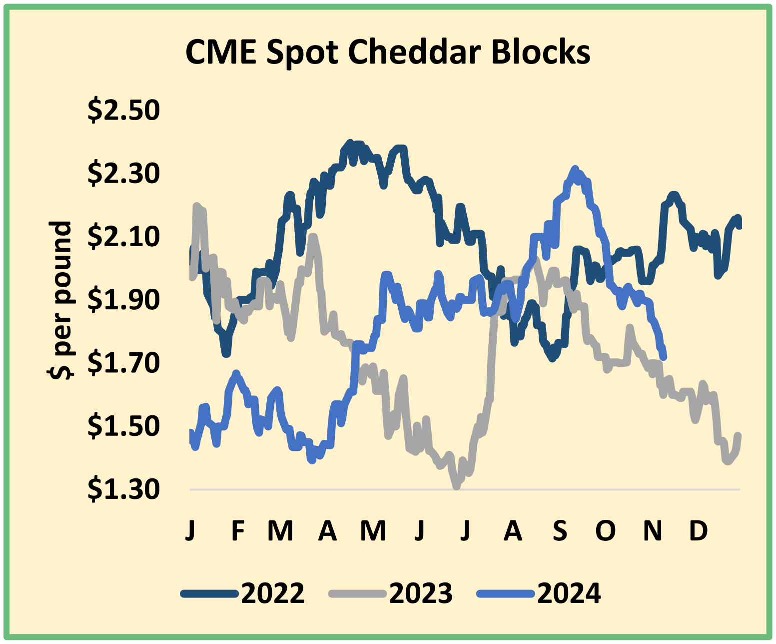
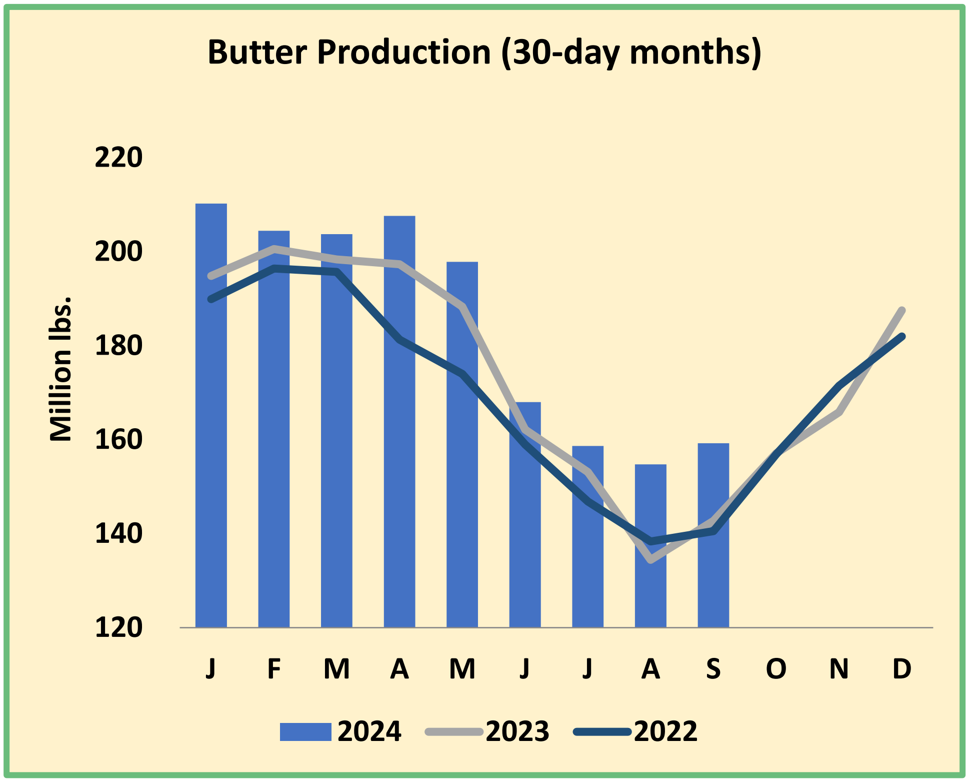
Milk & Dairy Markets

The cheese markets took another big step back this week. CME spot Cheddar blocks plummeted 11.75¢ and closed at $1.72 per pound, their lowest price since April. Barrels lost a dime and finished at $1.7675, also a six-month low. Cheddar production continued to lag year-ago volumes. In September, Cheddar output tallied 311.8 million pounds, down 2.6% from September 2023. Strong Mozzarella output lifted total cheese production to 1.16 billion pounds, on par with last year.



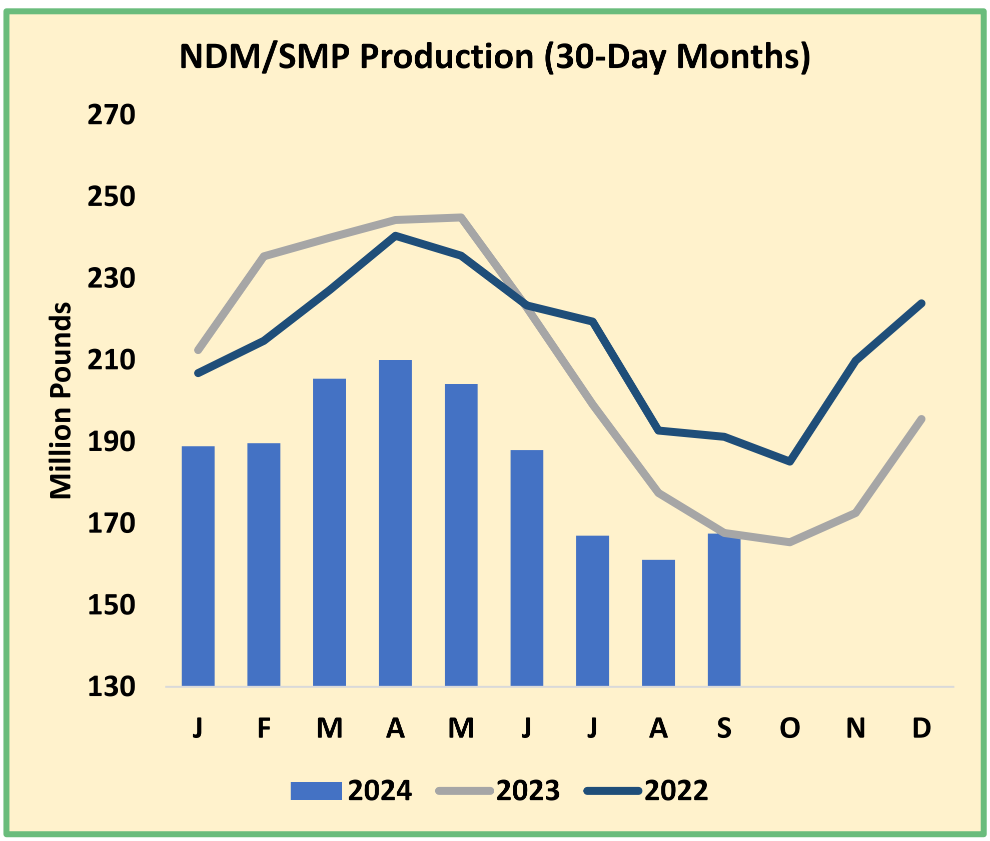
While cheese isn't moving abroad at the



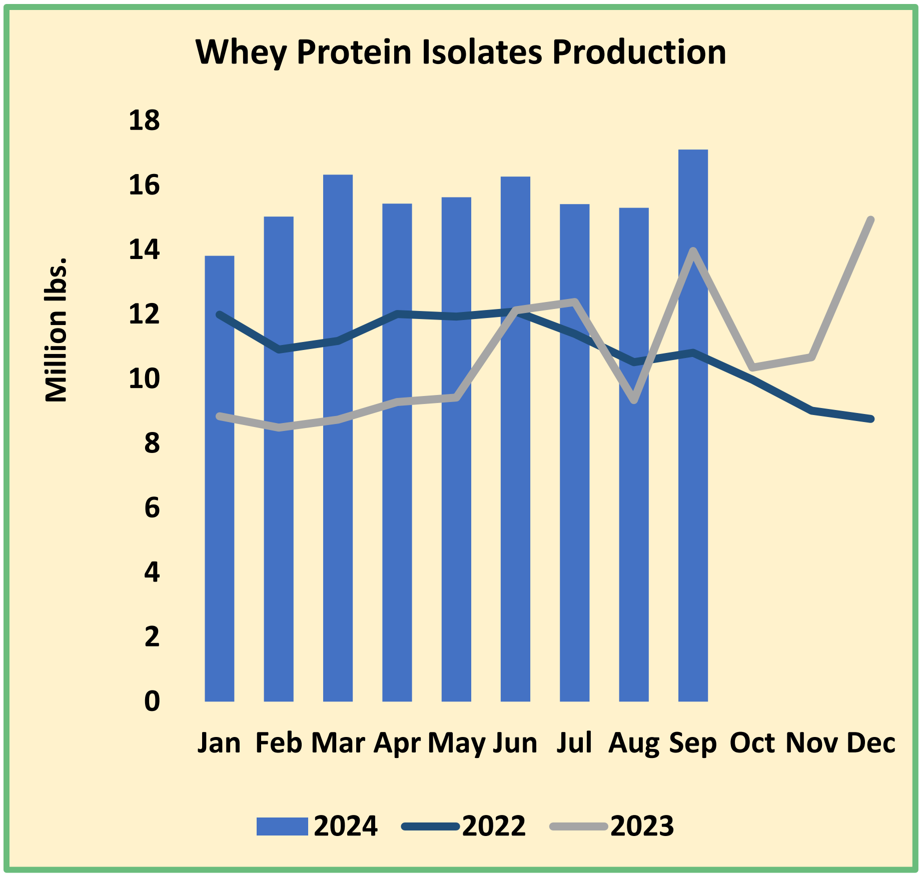
breakneck pace set early this spring, exports remain large. In September, cheese exports topped year-ago volumes by 7% and notched a new high for the month thanks to strong shipments to Central and South America. Mexico's appetite for U.S. cheese appears insatiable. Cheese shipments south of the border are up 33% for the year to date.

Steady output and big exports are not a recipe for a steep setback in cheese prices. But these are not the only ingredients in the mix. Cheesemakers tell USDA's *Dairy Market News* that domestic demand is "steady to lighter." That's simply not good enough for a market bracing itself for several significant jumps in production. New capacity will ramp up over the next six months.

The butter market is also on the back foot. CME spot butter fell 2¢ this week to $2.65. After two anxious years, butter buyers are entering the holiday season confident that supplies are adequate to fill the dairy case. Butter production bounced to 159 million pounds in September, up 11.6% from a year ago and the highest September output on record. Year-to-date butter production is also record large, up 5.9% from the first nine months of 2023. Butterfat tests remain high, and cream is plentiful and cheap.



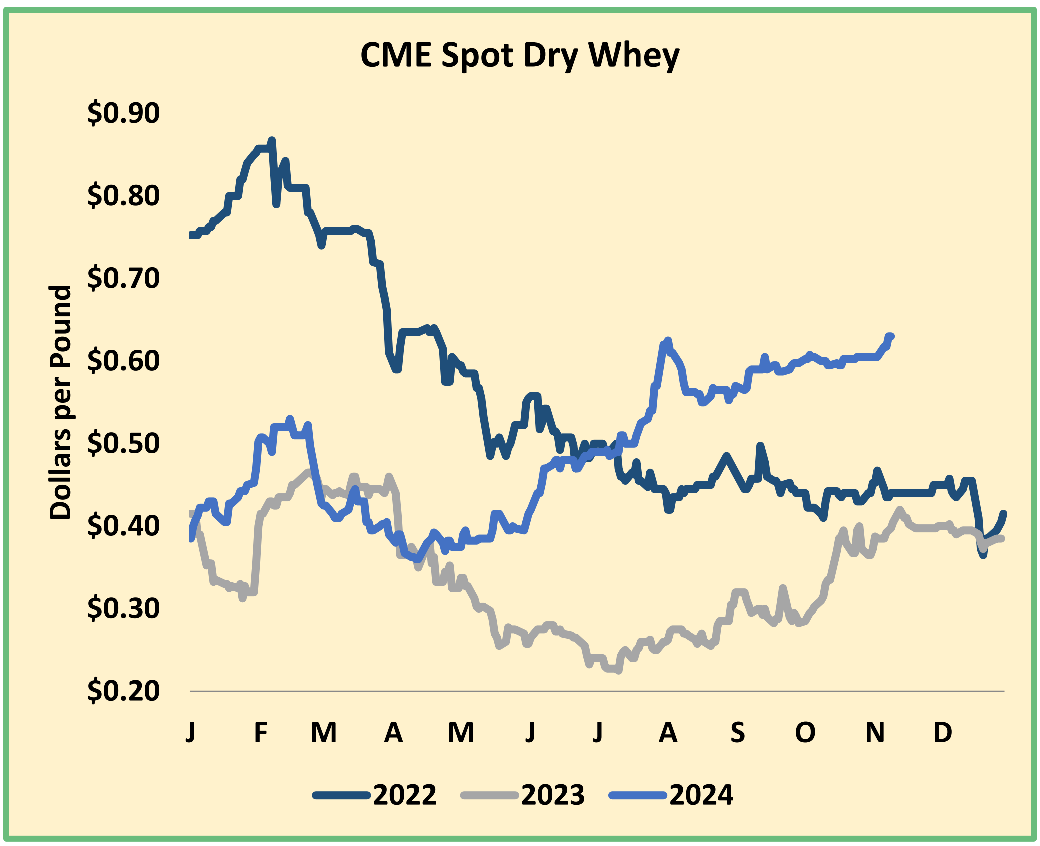
U.S. milk powder production has lagged well below year-ago volumes in every month since June 2023. The milk



production deficit and competition from other dairy processors kept milk away from dryers. But in September – when milk production topped prior-year levels by 0.1% - milk powder output rebounded to within 0.1% of September 2023 production. U.S. milk powder output is still down 14.1% for the year to date, but the trend may be shifting.

Cheaper NDM in the early half of the year and strong demand from Mexico allowed for decent exports in the third quarter. September NDM shipments were 15.6% higher than the year before, although they fell a little short of September 2021 and 2022 export volumes.

Low milk powder production and waning stocks paved a clear path for a late-summer rally. CME spot NDM climbed about 25¢ above its first-half average. But these higher prices have clouded the outlook. U.S. milk powder is now among the most expensive in the world. And rising milk output in New Zealand is likely to stiffen competition in the export market. The surge in the dollar after this week's election also puts U.S. milk powder exports at a disadvantage. Global milk powder prices are climbing, highlighted by 4% gains at this week's Global Dairy Trade auction. But while the bulls were bold in Oceania, they were more cautious in Chicago. CME spot NDM inched up a penny to $1.3875 per pound.



There is no such reticence in the whey powder market. CME spot dry whey rallied 2.5¢ this week to 63¢, its highest price since April 2022. American demand for protein grows relentlessly. The International Food Information Council's annual survey finds that 71% of adults are actively trying to consume more protein, up from 59% in 2022 and 67% in 2023. The dairy industry is striving to meet that demand, concentrating huge volumes of whey into high-protein concentrates and isolates. In September, production of whey protein isolates (WPIs) soared to an all-time high of 17.1 million pounds. January through September production of WPIs outpaced the prior year by 53%. This steep increase has limited dry whey output. In the first nine months of the year, production of whey powder for human consumption fell 9.9% from 2023 to the lowest year-to-date total since 1985, when U.S. cheese production was nearly three times lower than it is today. Whey powder inventories dropped to an eight-year low in September, setting the stage for continued strength in the whey market. That will pay big dividends for dairy producers. This year's Class III milk price is about 90¢ higher than it would have been had whey values remained at 2023 levels.

But this week, the big drop in cheese prices overwhelmed the whey market rally. Class III futures posted double-digit losses. The December contract fell 63¢ to $19.05 per cwt. Class IV was mixed with modest losses nearby and steady prices down the board. Most Class IV futures are close to $21.

Grain Markets

The old-timers on LaSalle Street will tell you that "Big crops get bigger." The adage highlights USDA's propensity to take a cautious approach to yield estimates until they can make a full accounting long after the crop is in the bin. But this year's big crops did not "get bigger." In fact, after USDA shocked the market with its record-shattering yield forecasts this fall, it was forced to retreat. In today's monthly update, USDA trimmed its assessment of the corn yield by 0.7 bushels per acre compared to its October estimate. Still, at 183.1 bushels per acre, the national average corn yield is easily the highest ever, topping the record set last year by a convincing 5.8 bushels. There's no shortage of corn. USDA expects there will be 1.94 billion bushels left over when the next harvest arrives, which would be the highest carryover inventory in six seasons.

USDA made deeper cuts to its soybean yield estimate. The agency now pegs the national average soybean yield at 51.7 bushels per acre, down 1.4 bushels from its October estimate, a 2.6% decline. The revised numbers showed the yield tied with 2021 for the highest on record. While previous estimates projected a record-setting crop, the harvest is now expected to be negligibly smaller than the all-time high set three years ago. USDA also reduced its forecast for demand from crushers and foreign buyers. With that, the agency projects end-of-season stocks at 470 million bushels, 80 bushels less than it had forecast in October.

The unexpected declines in USDA's crop production estimates lifted benchmark corn and soybean futures to one-month highs. December corn closed at $4.3125 per bushel, up 17¢ for the week. January soybeans climbed 37¢ to $10.31. December soybean meal rallied $2 to $297 per ton. But the big picture hasn't changed. Grain and oilseeds are plentiful and inexpensive. The bins are full, and the market must keep prices low enough to entice importers in the face of stiff competition from South America, a strong dollar, and the potential for new trade battles.

Quota News

By Geoff Vanden Heuvel, Director of Regulatory and Economic Affairs
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First of all, California producers are in the middle of a referendum period that started on October 11 and ends on January 9, 2025. This referendum is asking producers to vote yes or no on a proposal to change the quota premium from its current $1.70 per cwt. less any applicable Regional Quota Adjuster to $1.00 per cwt. without a Regional Quota Adjuster. With the lowering of the quota premium, the current producer assessment applicable to all Grade A milk production in California would be reduced from its current 34.8 cents per cwt. to approximately 21-22 cents per cwt. The proposal also has some clarifying language on what a producer hardship is and a minor clarification on who a producer is. You can read the official announcement here.

In order for the referendum to pass, 51% of the eligible producers in California must vote. Then either 65% of the voting producers who produced 51% of the milk produced in California in the designated month (August 2024 is the month for this referendum) must vote yes, or 51% of the eligible producers who produce 65% of the milk produced in California in August 2024 must vote yes.

If you are a producer, you should have received a ballot about a month ago. The department has said that they will not open returned ballots or announce how many ballots they have received before the voting period finishes. We will not know until after January 9, 2025, whether enough producers have voted to have a valid referendum. If you have any questions about your particular ballot or if you want to confirm if CDFA has received it, you can contact David Ko at the QAP administration office at 916-900-5012.

The second significant news is that CDFA announced this week that the STOP QIP petition for a referendum to terminate the QIP program has qualified to be considered. You can read the petition here. You can read CDFA's determination here.

The determination letter does identify that there are 787 eligible producers in California. 197 of them signed the termination petition. This petition next goes to the Producer Review Board for their consideration. It is up to the PRB to decide what to do next. They could decide to recommend another referendum, or they could do something else. Ultimately, the Secretary is the person with the authority to decide what to do next. CDFA indicated that a PRB meeting would be called in the next few weeks, but that the STOP QIP petition has no impact on the referendum that is going on right now.

Stay the Course on the LCFS

Courtesy of Dairy Cares

Climate experts have been clear that reducing methane is the best and fastest strategy for combatting climate change. In total, more than 150 governments have pledged to reduce methane emissions by 2030, but few are living up to their commitment. Luckily, there is a bright spot: the

California dairy industry is leading the pack compared to other sectors, and is now on track to achieve the state's 40% methane reduction by 2030 goal.

California's dairy industry is already most of the way there to achieving this goal, and could easily exceed it if the state stays the course. However, this progress is at risk of stalling - or even worse, being undone. On November 8, the California Air Resource Board will consider changes to the Low Carbon Fuel Standard that will continue the state's successful incentive-based dairy methane reduction efforts.

The dairy industry's methane reduction achievements are due in large part to the unique partnership with the state. To date, more than $2 billion has been invested by the state, farmers, and investors in 140 digester projects and more than 170 alternative manure management projects. California's dairy digester program is achieving more CO_2e reductions than any of the state's other climate investments. At a cost of just $9 per ton of CO_2e reduced, dairy digesters are California's most cost-effective investment in the fight against climate change, achieving 29% of total GHG reductions. It makes zero sense to change course and undo the progress already made.

California cannot and will not achieve its climate goals without its successful partnership with dairy producers. We're not over the finish line yet, the state must stay this successful course by adopting the proposed LCFS changes.

Read more:

- In a **CalMatters commentary**, a Fresno County farm manager describes California dairy's world-leading climate progress and why continuation of incentive programs, including the LCFS is critical to rural residents and the state.

- The California Cattle Council released a **new economic analysis**, which highlights successful collaboration and concludes that a switch to direct regulation would be harmful to the climate and local economy.

- Dr. Frank Mitloehner shares his perspective as a researcher and from participation in global discussions. He says California's methane reduction efforts are **setting an example for the world**.

Trump Version 2.0 Returning to Washington

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

For the first time since Grover Cleveland did it in 1892, Donald Trump was reelected president after coming up short on his initial bid for a second term in 2020. There's no shortage of commentary available online about how and why this happened, so I won't add to that glut.

What I will say is that our members need to gear up for a very busy 2025. Given that the Republicans will likely hold 53 Senate seats, and possibly a slim margin in the House (as they do now), the period between January and next summer will be very active, with the Republicans likely in control of both chambers of Congress and the White House. The flurry of activity will include tax policy – the 2017 tax cuts expire at the end of next year, and renewing those income tax rates, as well as adjusting other aspects of tax policy from tipped income to the SALT tax, will be the focus of a huge, all-hands-on-deck campaign in 2025.

We know that trade will be a top priority of the incoming Trump Administration and it sounds like Ambassador Robert Lighthizer will again be leading that effort. We will be ready on day one to make our priorities known. We also anticipate that a focus on immigration policy could come to the fore. Here again, NMPF is prepared to point out the crucial role that immigrant workers play in our food production system. What I will remind people of at this point is that the presidential campaign rhetoric is now fading, and the reality of a new Administration with new priorities is beginning. We will be keeping our eyes focused on not just words, but the actions and advocacy of shaping sound policy for U.S. milk producers.

I'm not going to add any more commentary on all of the individual contests that were decided this week, except for two seemingly minor but important ones:

First, voters in Sonoma County, California, rejected Measure J, which would have limited the size of animal farming operations. Proponents of the measure said it would been a way to contain "big agriculture," but opponents said many of the 21 farms it would have shut down are relatively small. That vote was a convincing 85% against and 15% in favor.

Meanwhile, in Colorado, Ordinance 309 failed. This was a ballot initiative to shut down a meatpacking plant in Denver that effectively would have destroyed the sheep and lamb processing industry in the entire West. The proposal was rejected by a two-to-one margin. Thanks to everyone who supported our efforts to defend the agriculture community from these attacks.