DATE:  January 4, 2013  PAGES: 4
TO:  Directors & Members  FROM:  Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

<table>
<thead>
<tr>
<th>Blocks</th>
<th>+$.0200</th>
<th>$1.7600</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barrels</td>
<td>+$.0100</td>
<td>$1.7200</td>
</tr>
</tbody>
</table>

Weekly Average, Cheddar Cheese

<table>
<thead>
<tr>
<th>Blocks</th>
<th>+$.0200</th>
<th>$1.7600</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barrels</td>
<td>+$.0400</td>
<td>$1.7225</td>
</tr>
</tbody>
</table>

CHICAGO AA BUTTER

<table>
<thead>
<tr>
<th>Weekly Change</th>
<th>+$.0025</th>
<th>$1.5000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Average</td>
<td>-.0006</td>
<td>$1.4969</td>
</tr>
</tbody>
</table>

NON-FAT DRY MILK

Week Ending 12/28 & 12/29

| Calif. Plants | $1.5013  | 18,799,127 |
| Nat’l Plants  | $1.5193  | 22,967,867 |

Prior Week Ending 12/21 & 12/22

| Calif. Plants | $1.5262  | 5,620,376 |
| Nat’l Plants  | $1.5596  | 12,302,358 |

MARKET COMMENTARY:  (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

The “dairy cliff” has been averted. After much drama, Congress extended the current farm bill, including the Milk Income Loss Contract program, until September 30. Dairy price supports will remain in effect until the end of the year. Lawmakers have given themselves more time to come to consensus on a new five-year farm bill and delayed enacting the Dairy Security Act’s margin protection and supply management programs. Nothing is certain in Washington except taxes.

Milk continues to flow into cheese vats in lieu of dryers and butter churns. November cheese production totaled 911.6 million lbs., up 1.8% from 2011, according to Thursday’s Dairy Products report. California produced 185 million lbs. of cheese, down 2% from the prior year. Cheese production in the Western region was up slightly from last year despite lower milkflows. Indications of cheese prices moved mostly lower. The average Cheddar price fell 1.9% at the Global Dairy Trade auction to $1.57/lb. The National Dairy Products Sales Report (NDPSR) showed declines in the price of all products: Cheddar blocks fell 1.85ȼ and barrels lost a penny. Over the course of the week at the CME, blocks added 2ȼ and barrels moved up 1ȼ.

Butter production was 6% lower than last year at 143.7 million lbs. Production was lower in all regions, falling 4.6% in the West. California butter production was 7.8% lower than last year. Thanks to firmer bids in Friday’s CME spot session, spot butter was 0.25ȼ stronger this week. NDPSR butter prices were 4.41ȼ lower than last week.

Combined nonfat dry milk (NDM) and skim milk powder (SMP) production totaled 160.4 million lbs. in November, up 0.3% from November 2011. NDM production in the West fell 16.4%, and California NDM production was 24.5% lower than the year before. USDA does not report SMP production by state or region, and it is likely that regional dryers were producing more SMP than last year, reducing capacity for NDM production. However, it is clear that regional milk powder production is significantly lower than last year. As most

![National NDM/SMP Production (Million lbs.)](image-url)
U.S. powder exports come from the West, this could reduce the volume of powder readily available for export. As New Zealand milk and powder production is also slowing, this could create a vacuum in the global powder market and support prices.

Indeed, milk powder prices moved notably higher at the Global Dairy Trade auction; WMP was up 1.6% at $1.45/lb. and SMP added 4.7%, averaging $1.67, and 18-month high. The mostly range for NDM in the West moved 0.25ȼ higher, according to Dairy Market News. NDPSR NDM prices were 4.03ȼ lower. The California Weighted Average Price (CWAP) for NDM fell for the second consecutive week after rising for 17 straight weeks. For the week ending December 28, CWAP NDM averaged $1.5013/lb., down 2.49ȼ on the highest sales volume since June. It appears that processors cleared out inventories ahead of year-end. NDM has not traded at the CME spot session in some time, but a lone bidder appeared earlier this week.

Given heavy cheese production and lower butter and powder production, it is not surprising to see the spread between Class III and IV prices continue to narrow. The December Class III milk price was $18.66, down $2.17/cwt. from November. Class IV fell by $0.83 to $17.47. Similarly, December California 4a milk was $17.47, down $0.80. 4b milk was $16.30, down $2.18.

The Dairy Trader notes that weeks of hot, dry conditions in New Zealand have reduced the potential for good pasture conditions going forward. Pasture conditions at the end of the 2011-12 production season were ideal, allowing for more forage and a longer milk production season. The 2012-13 milk season got off to a stronger start than the previous one, but the less optimistic outlook for Kiwi pasture suggests that milk production in New Zealand will not surpass last year’s record. The outlook for Australian milk production is also dimming, as Weatherzone warns of a severe heat wave in central Australia in the next couple weeks and warmer than normal temperatures which could impact dairy cow comfort across the continent through March.

Dairy cow slaughter in the U.S. remains heavy. For the week ending December 22, dairy cow slaughter totaled 67.5K head, up 13.3% from the same week a year ago. Dairy cow slaughter in the most recent three weeks of data represent three of the four largest slaughter weeks of 2012. Year to date, dairy cow slaughter is 6.5% higher than last year.

**Grain Markets**

Grain and oilseed prices moved lower this week, with nearby corn holding below $7.00 bushel and soybeans remaining under $14.00. South American weather is generally favorable, pressuring soybean prices. U.S. soybean exports will likely decline in a month or so, as importers switch to South America when new crop supplies become available. China cancelled another contract to purchase U.S. soybeans this week despite very strong crushing margins there. It will be interesting to see if Chinese soybean buyers will choose to contract additional cargoes from the U.S. to lock in available margins or gamble and wait for South American supplies next month, hoping they will be cheaper.

Weekly corn export sales were the lowest yet for the marketing year which began in October, and exports up to this new low have not been impressive. Ethanol production is also slow. However, in general, corn market analysts note that nearby corn futures are undervalued, while new crop corn futures are likely to move lower eventually given normal weather which would allow for a big harvest. After surveying farmers, Farm Futures...
magazine suggests the 2012 corn crop is less than the most recent USDA estimate of 10.725 billion bushels. Farm Futures estimates the crop at 10.62 billion bushels with a 121.3 bushel per acre yield. USDA will update its balance sheet next Friday. For 2013, Farm Futures expects 97.75 million corn acres, up from 93 million as indicated by its August survey when soybean prices were around $16 per bushel.

***

FRED DOUMA’S PRICE PROJECTIONS…

| Jan 4 Est: | Quota cwt. $18.48 | Overbase cwt. $16.79 | Cls. 4a cwt. $16.93 | Cls. 4b cwt. $16.26 |
| Dec ’12 Final: | Quota cwt. $19.00 | Overbase cwt. $17.30 | Cls. 4a cwt. $17.47 | Cls. 4b cwt. $16.30 |

***

LONG-TIME MPC DIRECTOR DICK JORRITSMA PASSED AWAY THIS WEEK:  (By Rob Vandenheuvel) This week, Ontario dairyman and long-time MPC director Dick Jorritsma went home to be with God in glory. Dick is survived by his wife, Nona, and his four daughters, Jamie, Emily, Rachel and Valerie. Dick, 67, served on the MPC board of directors for more than 20 years and was a huge asset to MPC and to our industry. On behalf of the board and staff of MPC, our thoughts and prayers are extended to the entire Jorritsma family in this difficult time. A memorial service for Dick will be held on Tuesday, January 8th at 11 a.m. at Crosspoint Christian Reformed Church (6950 Edison Avenue, Chino, CA 91710).

CONGRESS PUNTS THE FARM BILL ISSUE FOR ANOTHER NINE MONTHS:  (By Rob Vandenheuvel) By now, I’m sure most of you have heard what happened this week in Washington, DC. As part of the “fiscal cliff” tax package that was approved by Congress this past Tuesday, the 2008 Farm Bill provisions were extended through September 30, 2013. What this means for the dairy industry is that we continue to have the woefully inadequate “safety net” of the Milk Income Loss Contract (MILC, which is of very little value to the larger Western-style dairies), the Dairy Product Price Support Program (DPPSP, which doesn’t kick in until milk prices drop to about $10 per hundredweight) and the Dairy Export Incentive Program (DEIP, which USDA won’t use).

MPC joined many dairy farmer organization/cooperatives around the country in working to include the Dairy Security Act in any Farm Bill legislation/extension that Congress considered. Unfortunately, that effort was unsuccessful as Congress opted to simply kick the can down the road another nine months.

As we now begin a new session of Congress, the House and Senate Agriculture Committees are preparing to restart their process for approving a new five-year Farm Bill. MPC will continue to work with the national coalition of producer groups/cooperatives to include meaningful dairy policy reforms as part of that new Farm Bill, and the Dairy Security Act is likely to be the starting point for those efforts. On behalf of our board of directors, we want to give a heartfelt thanks to all of you who made calls or sent emails/faxes to your Congressional representatives urging them to include the DSA in the Farm Bill package. The dairy industry continues to be in great need of real safety net reforms, and the DSA has been the one proposal that would not only provide real improvement to our safety net, but also boasts a national coalition of support among dairy farmers – something we rarely have in this industry.

Special Note on the MILC Program: Given that Congress just approved this short-term extension of the MILC program this week, it’s still unclear what dairy farmers need to do to enroll. Forecasts indicate that MILC payments may be available as soon as February 2013. However, since this will be a new contract (the previous MILC contract that was signed back in 2008 expired on September 30, 2012), producers will likely not be required to select a month “by the 14th of the prior month” (this is only a requirement when it is a “contract modification,” not a new contract). USDA staff has indicated that they will be clarifying the details in the coming days as to how to proceed with this new contract, so please keep an eye on this newsletter or information coming from USDA with more information. And of course, if you have any questions, please don’t hesitate to call MPC at (909) 628-6018.

Page 3 of 4
CENTRAL VALLEY WORKSHOPS SCHEDULED FOR DAIRIES INTERESTED IN LEARNING MORE ABOUT TRACTOR REPLACEMENT FUNDING: (By Kevin Abernathy, Director of Regulatory Affairs) We’ve written articles in recent issues of this newsletter about funding that’s available from the Central Valley Air Board to help farmers replace some of their older tractors. A series of workshops on this issue has been scheduled for January 14th – 17th throughout the Central Valley. A flyer with more information on the workshops can be found at: http://www.milkproducerscouncil.org/2013tractor.pdf. Dairies are strongly encouraged to send a representative to one of these workshops to learn more about this valuable opportunity. The workshops will be held at:

- Kings County Multi-Purpose Room – Administrative Building (1400 W. Lacey Blvd., Hanford) on Monday, January 14th from 9 – 11 a.m.
- Fresno County Farm Bureau (1274 W. Hedges, Fresno) on Monday, January 14th from 1 – 3 p.m.
- San Joaquin County Ag Center (2101 E. Earhart Avenue, Stockton) on Tuesday, January 15th from 9 – 11 a.m.
- Stanislaus County Farm Bureau (1201 L Street, Modesto) on Tuesday, January 15th from 1 – 3 p.m.
- Merced County Farm Bureau (646 California 59, Merced) on Wednesday, January 16th from 9 – 11 a.m.
- Madera County Farm Bureau (1102 South Pine Street, Madera) on Wednesday, January 16th from 2 – 4 p.m.
- Kern County Cooperative Extension (1031 S. Mount Vernon Avenue, Bakersfield) on Thursday, January 17th from 9 – 11 a.m.
- Tulare County Ag Commissioners Office (4437 S. Laspina, Tulare) on Thursday, January 17th from 1 – 3 p.m.

MPC members with any further questions should give me a call at (209) 678-0666.

DAIRYMEN REMINDED TO LOG YOUR DECEMBER 31, 2012 ODOMETER READING ON YOUR CARB-REGISTERED DIESEL TRUCKS: (Kevin Abernathy, Director of Regulatory Affairs) Over the past couple years, most of the dairies in California registered their heavy-duty diesel engine trucks with the California Air Resources Board (CARB). With CARB in the process of requiring equipment upgrades to these vehicles to reduce emissions, dairies and other agricultural interests were able to enroll in a temporary exemption program that delayed implementation of these upgrades until 2017 or later. As part of that process, the owners of these agricultural trucks must log their December 31 odometer readings and report them on CARB’s website. The deadline to report the 2012 annual odometer reading is January 31, 2013. More information can be found on CARB’s website at http://www.arb.ca.gov/msprog/onrdiesel/reportinginfo.htm. MPC members that have any questions about their dairy’s compliance can contact Rob Vandenheuvel at (909) 628-6018, Betsy Hunter-Binns at (661) 205-6721 or Kevin Abernathy at (209) 678-0666.