DATE: February 7, 2014
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

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<th>CHICAGO CHEDDAR CHEESE</th>
<th>CHICAGO AA BUTTER</th>
<th>NON-FAT DRY MILK</th>
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FRED DOUMA’S PRICE PROJECTIONS...

Feb 7 Est: Quota cwt. $23.56 Overbase cwt. $21.86 Cls. 4a cwt. $22.95 Cls. 4b cwt. $21.66
Last Week: Quota cwt. $23.95 Overbase cwt. $22.25 Cls. 4a cwt. $23.03 Cls. 4b cwt. $22.45

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

Milk & Dairy Markets
The formerly robust cheese market succumbed to gravity this week. CME spot Cheddar blocks retreated for the first time since early December, and on Friday they did so with abandon, ending at $2.2325/lb., down 12.75ȼ from last week. Barrels moved lower for the first time this year; they lost 11.5ȼ, closing at $2.205. Weeks of record high prices have caused demand to erode, although exports are still strong. Class III futures shrugged off the first sign of weakness but by Friday they too were falling. February through June futures ended with double digit losses, while futures in the second half of the year managed to gain a little.

Spot butter and nonfat dry milk (NDM) also faded this week. Butter ended at $1.82, down 6ȼ. NDM lost 2.25ȼ and closed at $2.0175. Most Class IV contracts were 40 to 80ȼ lower than last week, and the market has taken on a more bearish tone. However, a sudden collapse seems unlikely and there are some signs of strength. The California Weighted Average Price of NDM added 1.6ȼ this week, rising to $2.0243 on impressive sales volume.

USDA announced January Class III and IV milk prices at $21.15/cwt. and $22.29, respectively. Class III futures were up $2.20 from December and $3.01 higher than last year. Class IV futures were $0.75 higher than December and up $4.66 from January 2013. The January California 4a price was $22.13, up $0.97 from December and up $5.05 from January 2013. The January 4b price was $20.31, up $2.28 from December and $4.47 higher than January 2013.

Dairy product prices logged a mixed performance at the Global Dairy Trade (GDT) auction. The GDT index rose 0.5%. The weighted average price of skim milk powder (SMP) was steady, although the average winning price
was slightly higher than the previous auction, at $2.26/lb. Whole milk powder (WMP) prices rose 1.4%, and butter added 2.6%. Deferred butter contracts were notably strong, although the price of butter for March delivery faded. Dairy America butter suffered across the board declines compared to two weeks ago. Cheddar prices dropped 4.3%.

Cheesemakers continue to favor mozzarella, and December Cheddar production fell short of prior year levels for the third time in four months. The slowdown in Cheddar output explains why CME spot cheese prices have risen in the face of strong cheese production. Manufacturers made 973 million lbs. of cheese in December, up 2.3% from December 2012 and 1.6% higher than November on a daily average basis. California cheese production grew 3.7% from a year ago in December. For all of 2013, California cheese production was 2.8% higher than in 2012.

Butter production rose to 161 million lbs. in December, up 9.3% from November on a daily average basis but down 7% from December 2012. Both NDM and SMP production rose in December from November, and milk powder makers continue to devote plenty of drier capacity to SMP. Combined NDM/SMP production reached 183.1 million lbs., up 13% from November but down 6.5% from the previous year. SMP production in 2013 was 67% greater than in 2012.

But even with rising output, NDM stocks plunged to the lowest levels since December 2009. At 133.1 million lbs., NDM inventories are 27% lower than last year and have fallen to unusually low levels considering the increase in the nation’s capacity to produce milk powder. Tight NDM supplies have pushed NDPSR NDM prices above $2 for five weeks running. Supplies were similarly tight in 2007, when NDPSR NDM topped $2 for 18 weeks. However, milk powder futures and CME spot prices have faltered and Daily Dairy Report analysts believe that the current run in NDM will not surpass the 2007 record.

Exports are to blame for the shortage of U.S. milk powder supplies. The U.S. sent a record large 1.2 billion lbs. of NDM/SMP overseas in 2013, accounting for 58% of U.S. milk powder production. One third of U.S. NDM/SMP exports went to Mexico, although total exports to Mexico declined 7% from 2012 volumes. Sales south of the border waned as prices rose. However, Asian buyers had no such qualms about price. Sales to China tripled in 2013. Sales to China remained strong in December, but purchases from other buyers faded and December NDM/SMP exports fell 6% from November sales. Now that U.S. milk powder prices are near global prices, exports to southeast Asia could dwindle.

U.S. butter and cheese exports were also record large in 2013. Butter exports totaled 202 million lbs. last year and accounted for 11% of U.S. butter production. The U.S. continues to find new markets for butter. Iran was the largest buyer in December. Butter exports in December were up 12% from November and nearly three times as large as December 2012. Cheese exports totaled 698 million lbs. in 2013, up 22% from 2012. Exports continued to grow in December, rising 6% from November. They were 49% larger than in December 2012.

Dairy producers 60,470 head in the week ending January 25. This was 6.5% lower than the very high slaughter in the same week a year ago; however, slaughter has been surprisingly high considering the very strong margins dairy producers enjoy today. Year to date slaughter is down 6.7% from last year.
**Grain Markets**
Corn futures ended a dime higher this week, and the market has taken on a more bullish tone. Strong export and ethanol demand have supported prices of late. Perhaps the rally will finally encourage farmers to part with the crop in their bins. The corn basis has softened a little, suggesting that some farmers have been enticed already.

Soybean futures added nearly 50¢ this week. The U.S. continues to export soybeans at a steady clip, but Brazil’s export season is off to a good start as well. Soybean prices will remain well supported until U.S. exports begin to slow.

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**QUICK UPDATE ON THE FARM BILL:** (By Rob Vandenheuvel) As we anticipated in last week’s newsletter, the U.S. Senate approved the compromise Farm Bill package this week (which had already been approved by the House last week), sending the bill to the President’s desk for signature, which occurred earlier today. So the new Farm Bill is now the law of the land. The next step with regard to the new margin protection program for dairy producers is the U.S. Department of Agriculture’s (USDA) task of developing their regulations that implement the details of the law that was just passed. We will continue to watch that process.

If you missed last week’s comments on the Farm Bill and what is included, I encourage you to check it out at: http://www.milkproducerscouncil.org/013114farmbill.htm. We will delve further into the details of this new dairy safety net program in upcoming issues, but for this week we just wanted to report that the bill is now signed into law.

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**AN INTERESTING UPDATE ON THE SOUTHERN CALIFORNIA DAIRY INDUSTRY:** (By Rob Vandenheuvel) This past week, The Press Enterprise – a Riverside County, CA newspaper – wrote an article updating their readers on the current state of the local Southern California dairy industry, specifically with regard to the San Jacinto and Chino Valley regions. The history of cows moving into - and now out of - this region of California is one that many in our industry throughout the country have heard about, at least anecdotally. The Chino Valley once carried the distinction of representing the highest concentration of dairy cows in the U.S. Many of our readers outside of Southern California may find the update interesting, so with The Press Enterprise’s permission, I’ve reprinted the article below. (It's worth noting that in the figures at the end of the article are from 2012, the most recent annual data available. There have been additional reductions in the industry since 2012 that is not reflected in those numbers.)

The Press Enterprise
February 6, 2014

Dairy farms disappearing
By Craig Shultz, Staff Writer

There was a time when one couldn’t drive into San Jacinto, Eastvale or Chino without being overcome by the telltale odor of dairies.

To motorists, it was annoying. To dairy farmers, it was the smell of money.

But a lot of that smell, and that money, are disappearing. Riverside and San Bernardino counties were home to almost 300 dairy farms at the turn of this century, but just 36 remain in Riverside County, and most of those are in San Jacinto, according to Robert Vandenheuvel, general manager of California’s Milk Producers Council.

There are 75 dairies in San Bernardino County, most centered around Chino.

Beginning in the late 20th and early 21st century, area dairy farmers began migrating to other parts of California and other states to escape urban sprawl and stricter regulations.
“The land rush by developers had a huge impact until about 2006,” Vandenheuvel said. “What’s driven it in the past several years is horrible economics for dairy farmers.”

When the housing boom hit the region after the turn of the century, land became valuable to developers, who bought out many longtime dairy families.

Farmers who remained found an unfriendly business climate, said Steve Pastor, executive director of the Riverside County Farm Bureau.

“It’s primarily overregulation of the dairy industry and manipulation of prices by the federal government,” he said. “They’re regulating our guys out of the state.”

**San Jacinto**

A number of dairies can be found on Warren Road, near San Jacinto’s western border. Once covered in cows, the area has become a mix of dairy farms, housing tracts and vacant land that was planned for homes before the recession hammered the housing industry.

Nick Schouten and his brothers sold their Warren Road land to a developer in 2004, and then declined an offer to buy back the land when plans for housing soured like milk left overnight on the kitchen counter.

Dick Van Dam didn’t want to sell his family-run dairy farm on Cottonwood Avenue in San Jacinto, but some of his neighbors did. In fact, a housing tract was built next to his pasture.

“We love dairy farming. We love taking care of animals,” said Glenn Van Dam, Dick’s son, who operates the dairy. “It’s a beautiful part of the world. We hope to stay as long as we can.”

Van Dam said he doesn’t get grief from his neighbors, some of whose homes are closer to the pasture than the Van Dam’s farmhouse.

“Most of the people there enjoy the agricultural surroundings,” he said. “There’s always a few that don’t like the natural environment.”

As the region has grown, farms have migrated east from Chino to Corona and San Jacinto.

**Farmers Flee Eastvale**

The city of Eastvale, once home to an estimated 80 dairies and up to 90,000 cows, has become a suburban hub with wide, impeccably landscaped thoroughfares, well-tended parks and one of the highest median incomes in the Inland area.

Just three farms remain.

With the loss of those and other dairies come the loss of jobs and the money that farmers spend on items such as feed, fuel and veterinary care.

It also means local merchants must look elsewhere for milk. “Those cows don’t produce enough milk to meet the needs of the residents of Southern California,” Vandenheuvel said.

He said importing milk from further up in the state adds to the costs. Milk cost an average of $3.64 per gallon in Southern California last month, according to state agriculture department. That’s up 11 cents from two years ago. That same gallon of milk is $1 cheaper in Phoenix.

In 1980, it cost $2.80 for a gallon of milk in the region.
Van Dam said he produces about 14,000 gallons per day from 1,500 cows.

Farmers are retiring, renting their land or relocating to places such as California’s Central Valley or other states, including Idaho, New Mexico and Arizona.

On a recent 80-degree day, Van Dam, 44, marveled at his location and the temperatures and wondered aloud why anyone would want to farm anywhere else.

He said developers are starting to make offers for his land again, but he’s looking forward to passing the dairy down to his five children, as generations of his family did to their offspring.

**Developers Kept at Bay**

John Oostdam, who has operated J&M Oostdam Dairy on Warren Road, just south of Ramona Expressway in San Jacinto since 1980, said developers have inquired about buying his property, but most want to buy it on speculation.

“I think development is still years away,” he said. “It’s going to happen; it’s just a matter of when.”

Like his neighbors, Oostdam says San Jacinto is an ideal place to farm.

“This is the last piece of open ground in Southern California except the desert,” he said. “Everything else is being built out.”

But farmers such as Oostdam and Van Dam may be among the last holdouts.

“Going forward, I think we’re going to see a continued migration out of Southern California,” Vandenheuvel said. “There will be some sort of dairy presence for the near future, but it will be smaller and smaller.”

**By The Numbers**

The number of dairy farms and amount of milk produced in Inland area have dwindled in past decade:

- **286** - Dairy farms in Riverside and San Bernardino counties in 2000
- **275,000** - Cows in Riverside and San Bernardino counties in 2000
- **111** - Number of dairy farms in Riverside and San Bernardino counties in 2012
- **115,000** - Number of cows in Riverside and San Bernardino counties in 2012
- **32.3 billion** - Pounds of milk produced in California in 2000
- **6 billion** - Pounds of milk produced in Southern California in 2000
- **41.7 billion** - Pounds of milk produced in California in 2012
- **2.9 billion** - Pounds of milk produced in Southern California in 2012

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**USDA FUNDING AVAILABLE FOR “CONSERVATION INNOVATION GRANTS” - APPLICATIONS DUE BY MARCH 7**

*By Kevin Abernathy*  
The U.S. Department of Agriculture (USDA) has announced the launch of the application period for 2014 “Conservation Innovation Grants” (CIG). These grants – estimated to total about $15 million in 2014 – are aimed at “stimulating the development and adoption of innovative conservation approaches and technologies,” according to the USDA announcement.

More details on the grant, including the types of projects that can qualify for this funding can be found in a factsheet on USDA’s website at: [http://www.nrcs.usda.gov/wps/portal/nrcs/main/national/programs/financial/cig/](http://www.nrcs.usda.gov/wps/portal/nrcs/main/national/programs/financial/cig/). MPC members that are interested in pursuing this grant funding are encouraged to contact me at 209-678-0666 or kevin@milkproducers.org.