DATE: February 26, 2016
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

<table>
<thead>
<tr>
<th>CHICAGO CHEDDAR CHEESE</th>
<th>CHICAGO AA BUTTER</th>
<th>NON-FAT DRY MILK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks - $0.0075</td>
<td>Weekly Change</td>
<td>Week Ending 2/19</td>
</tr>
<tr>
<td>Barrels - $0.0500</td>
<td>Weekly Average</td>
<td>&amp; 2/20</td>
</tr>
<tr>
<td></td>
<td>DRY WHEY</td>
<td>Calif. Plants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$0.7789</td>
</tr>
<tr>
<td>Weekly Average, Cheddar Cheese</td>
<td>Dairy Market News</td>
<td>Nat’l Plants</td>
</tr>
<tr>
<td>Blocks - $0.0274</td>
<td>w/e 02/26/16</td>
<td>$0.7161</td>
</tr>
<tr>
<td>Barrels - $0.0361</td>
<td>$.2500</td>
<td>15,856,830</td>
</tr>
</tbody>
</table>

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FRED DOUMA’S PRICE PROJECTIONS...
Feb 26 Final: Quota cwt. $14.77 Overbase cwt. $13.07 Cls. 4a cwt. $13.26 Cls. 4b cwt. $13.05
Last Week: Quota cwt. $14.81 Overbase cwt. $13.12 Cls. 4a cwt. $13.32 Cls. 4b cwt. $13.10

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

Milk & Dairy Markets

The cold, hard numbers from USDA’s Cold Storage report weighed heavily on the dairy product markets. U.S. cheese inventories grew at a normal 2.8% pace in January, but that growth represents an addition to already burdensome supplies. At 1.18 billion pounds, domestic cheese stocks are up 12.8% from a year ago; that is the highest January volume since 1985, the days of neon and government cheese. That disappointing news pushed CME spot Cheddar barrels down to $1.405/lb., its lowest price in more than five years. The cheese market managed a late-week comeback but still finished lower than last Friday. Spot Cheddar barrels closed at $1.43, down a nickel on the week. Blocks ended at $1.48, down 0.75¢. Most cheese and Class III futures scored life-of-contract lows this week, although they too rallied on Thursday and Friday. March through November Class III futures settled between 19 and 64¢ lower than last week and the deferred contracts – which had been more steadfast than their nearby counterparts over the past few months – were particularly weak.

The Cold Storage report was even more disappointing on the butter front. Inventories grew 41 million pounds from December, a much larger than expected increase of 26.5%. At 196 million pounds, butter stocks were up 31.7% from January 2015. Supplies are more than adequate to meet Easter demand, and churns are running heavily. There is no...
reason to expect a run up to $3.00 as was the case in each of the past two years. In fact, this week the CME spot butter price slipped 7.75ȼ to $1.9775, its first foray below $2 since July.

The milk powder market posted another tepid rebound this week. Spot nonfat dry milk (NDM) closed at 76ȼ, up 2ȼ from last Friday. USDA’s Dairy Market News characterized the milk powder market as “unsettled.” Under pressure from the butter market, first-half Class IV futures dropped between 15 and 30ȼ, but deferred contracts moved higher.

Second-half Class IV futures were likely buoyed by news that China has taken a big step back into the dairy product markets. Chinese milk powder imports in January totaled 338.8 million pounds, up 161% from a year ago and just shy of the all-time record set two years before. China also bought 21.6 million pounds of foreign cheese and curd in January, their highest monthly volume ever. One month does not necessarily signal a change in trend, and the relatively early lunar new year may have boosted January imports at the expense of February. However, if China’s appetite for imported dairy is indeed recovering, it could help to more quickly rein in the world’s burdensome dairy product inventories to less crippling volumes.

Even so, the dairy industry’s path to recovery remains uncertain and the pain is likely to be prolonged by robust milk output in Europe. Milk collections in December totaled 27.4 billion pounds in the 28 nations of the Eurozone (assuming steady year-over-year production in Croatia), up 4.9% from December 2014. For the year, European milk output was 2.2% greater than 2014 and up 7.2% from 2013. Production growth is strongest in the Netherlands and Ireland, but Germany stepped up milk output in December by 6.2% compared to the year before. Germany dairy producers enjoyed a mild December, which likely boosted production per cow. Still, the accelerated growth in Europe’s largest dairy nation represents a concerning circumstance for a world already awash in milk. European dairy producers are clamoring for government aid and trying to solve their financial woes by filling their tanks even fuller.

For the week ending February 13, dairy cow slaughter totaled 61,811 head, down 3% from the same week a year ago. For the year-to-date, dairy cow slaughter is 0.9% behind the 2015 pace.
Grain Markets
March corn futures dropped a dime this week to $3.555 per bushel, near the lows set in early January. March soybeans plunged 23.25¢ to $8.55, also near the January lows. Prospects for U.S. crop exports are waning. U.S. export shipments disappointed this week, and soybeans in Brazil are hitting the ports. Private analysts in South America are steadily raising their expectations for the corn and soybean yields, and harvest is well underway in some areas.

Crop prices are likely to remain low throughout the year. There is always the possibility that prices will climb along with the temperature this summer. Indeed, as we transition from El Niño to La Niña the potential for a hot summer is elevated this year. Still, global inventories are large enough to meet demand even if this year’s crop is an absolute disaster. With that in mind and assuming normal weather, USDA expects on-farm corn prices to average $3.45 per bushel in the 2016-17 crop year, down 15¢ from 2015-16. The agency expects soybean prices to average $8.50 this year, down from $8.80 last season.

According to its Outlook Forum, USDA expects farmers to increase corn area to 90 million acres, up 2 million from 2015. Soybean area is likely to decline slightly to 82.5 million acres. With projected crop prices below the average cost of production, U.S. farmers are likely to suffer financial losses this year. The advantage that farming dairy producers held over their feed-buying competitors in the years of high-priced corn has been erased.

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FYI – CALIFORNIA PRODUCERS ENCOURAGED TO ATTEND UPCOMING CMAB BOARD MEETING: (By California Milk Advisory Board) The California Milk Advisory Board (CMAB) will be conducting all of their state board meetings in the Central Valley this year. There will be a meeting this coming Wednesday and Thursday (March 2nd and 3rd) in Modesto at the Doubletree Hotel (1150 9th Street). The meeting will be from 7:30 a.m. to 4 p.m. on Wednesday and 8 a.m. to noon on Thursday. The state board meetings are open to the public and the CMAB encourages all dairymen to attend to see how their promotion dollars are put to use. Please feel free to attend any part of the meeting, even if it’s just for a few hours.

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REMEMBER - GOLDEN STATE DAIRY MANAGEMENT CONFERENCE COMING UP: (By Kevin Abernathy, Director of Regulatory Affairs) This is just a friendly reminder that the inaugural “Golden State Dairy Management Conference” in Seaside, CA (near Monterrey) is coming up on March 8 – 10. This three-day conference is being put together by the University of California’s Division of Agriculture and Natural Resources, and boasts an agenda covering a broad range of topics relevant to managing a dairy in California. A flyer on the event can be found on our website: [http://www.milkproducerscouncil.org/2016mgmtconf.pdf](http://www.milkproducerscouncil.org/2016mgmtconf.pdf), and the full agenda can be seen at: [http://ucanr.edu/sites/CAdairyconference/Agenda](http://ucanr.edu/sites/CAdairyconference/Agenda).

Folks interested in attending can register online at [https://ucanr.edu/survey/survey.cfm?surveynumber=16669](https://ucanr.edu/survey/survey.cfm?surveynumber=16669), or contact Jennifer Heguy (UC Davis) at (209) 525-6800.