MPC FRIDAY MARKET UPDATE

<table>
<thead>
<tr>
<th>CHICAGO CHEDDAR CHEESE</th>
<th>CHICAGO AA BUTTER</th>
<th>NON-FAT DRY MILK</th>
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</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>Weekly Change</td>
<td>N/C</td>
</tr>
<tr>
<td>$0.0700</td>
<td>$2.3625</td>
<td>$1.8800</td>
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<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td>$0.0040</td>
</tr>
<tr>
<td>$0.0125</td>
<td>$2.2625</td>
<td>$1.8840</td>
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<tr>
<td><strong>Weekly Average, Cheddar Cheese</strong></td>
<td><strong>Dry Whey</strong></td>
<td><strong>Non-Fat Dry Milk</strong></td>
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<tr>
<td>Blocks</td>
<td>Dairy Market News</td>
<td>Calif. Plants</td>
</tr>
<tr>
<td>+$0.0785</td>
<td>w/e 03/14/14</td>
<td>$2.0594</td>
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<tr>
<td>Barrels</td>
<td>National Plants</td>
<td>Nat’l Plants</td>
</tr>
<tr>
<td>+$0.0695</td>
<td>w/e 03/08/14</td>
<td>$2.1032</td>
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</tbody>
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FRED DOUMA’S PRICE PROJECTIONS...

Mar 14 Est: Quota cwt. $24.03 Overbase cwt. $22.33 Cls. 4a cwt. $23.22 Cls. 4b cwt. $21.96

Last Week: Quota cwt. $23.85 Overbase cwt. $22.16 Cls. 4a cwt. $23.16 Cls. 4b cwt. $21.62

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

Milk & Dairy Markets

CME spot Cheddar blocks broke the record set just 38 days ago. They traded today at a new all-time high of $2.3625/lb., up 7¢ from last week. Cheddar barrels lost ground on Thursday and Friday but still ended the week 1.25¢ higher than last Friday. Class III futures climbed in response, and nearby contracts were particularly strong. April Class III rose to $22.37, up $1.09 this week. March through September contracts logged double digit gains.

The butter and milk powder markets were rather quiet this week. CME spot Grade A nonfat dry milk (NDM) held steady at $2.04/lb. Butter edged up on Monday and back down on Friday, ending at $1.88, unchanged from last week. Class IV futures were mostly higher, but only the March and April contracts moved decisively. They added 25¢ and 33¢, respectively.

Last week the California Weighted Average Price (CWAP) for NDM rose to $2.0594/lb., up 3.26¢ from the previous week. This was the highest CWAP price since October 2007. It compares to CME spot NDM at $2.04 and Dairy Market News NDM around $2.0775. Domestic NDM prices as indicated by these measures are slightly higher than European skim milk powder (SMP) prices once those prices are adjusted for protein content. The U.S. is losing its competitive advantage in the milk
powder market, and export volumes may suffer.

Indeed, while U.S. cheese and whey prices have climbed and butter and milk prices have plateaued, dairy product prices have retreated in Europe and Oceania. According to Dairy Market News, all dairy product markets in Oceania and Western Europe have dropped with the exception of butter. SMP prices have dropped 0.5% in Oceania and 4.3% in Europe over the past two weeks. With the spring flush approaching, how long can U.S. dairy products sustain such lofty prices? It’s already warm and dry in the Southwest. The Midwest is suffering the tease of warmer weather followed immediately by winter storms. But spring is coming, and larger milk volumes loom.

U.S. dairy exporters will also have to contend with strong overseas output. Milk flows in Western Europe are currently tracking about 4% higher than last year. The European Commission forecasts a 1.8% increase in 2014 milk production. And while dry conditions are cropping up in parts of New Zealand, the weather has had little impact on milk production there. Official data is not yet available, but numerous sources indicate that season-to-date production is around 5% higher than at this time last year.

On Thursday, Chinese Premier Li Keqiang warned that the Chinese economy faces “severe challenges” in 2014. Beijing is hoping to enact reforms that will allow for slower but more sustainable growth. But such growth may prove elusive. The pace of investment, retail sales and factory output has fallen to multi-year lows. Chinese corporations have taken on huge volumes of debt over the past five years, and the financial services industry is bracing for a mess of defaults. Many commodity markets that depend on Chinese purchases took quite a hit this week. Copper futures fell 4.5% to 3½-year lows. So far the dairy markets have proven impervious to concerns about the Chinese economy, and indeed, by all accounts Chinese dairy product imports remain strong. But every commodity market that depends on exports must be casting a wary eye toward China.

Over the past few weeks it appeared that the California springer market was petering out, but it may have just needed a quick breather. Replacement heifers were in high demand at the auction in Turlock last week. Prices for #1 Holstein springers ranged from $1,800 to $2,700.

Weekly dairy cow slaughter totaled 61,168. While this is 3.2% lower than the same week a year ago, it is nonetheless an impressive figure, especially considering current dairy profit margins. Year to date slaughter is down 8.5% from last year.

Grain Markets
Corn futures were little changed this week. Exports remain strong. USDA increased its estimate of corn exports by 25 million bushels on Monday’s World Agricultural Supply and Demand Estimates (WASDE) report, but made no other changes. If corn keeps leaving U.S. ports at the current pace, USDA may have to boost its export forecast further.

Some ethanol producers have slowed production because they lack the rail cars to move their product. Spring weather could help reduce the backlog in the railroad industry, but not much. The U.S. is producing more oil than it can pipe, and rail cars are moving oil from the Northern Plains to refineries on the coasts. Trucks that might have moved grain are instead hauling supplies to the oil fields. Feed vendors have struggled to make timely deliveries all winter, and it doesn’t seem that those issues will be solved anytime soon.
USDA increased its forecast of soybean exports as expected. In order to maintain minimal inventories, USDA offset the stronger export demand through larger imports and lower domestic crushing. The changes pushed ending stocks to 145 million bushels. This was slightly lower than USDA’s previous forecast, but still higher than the market expected. Soybean futures plunged Monday and kept sliding throughout the week. They settled on Friday at a 70-80¢ discount to last week’s settlements.

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IT MAY SOUND LIKE A BROKEN RECORD, BUT AN IMPORTANT REMINDER: (By Rob Vandenheuvel) It’s that time of the month again; with February’s final prices announced by CDFA and the Federal Milk Marketing Orders, it’s time to recalculate the State-Sponsored Discount lavished upon California’s cheese manufacturers.

The table to the right compares the California Class 4b price (for milk sold to CA cheese manufacturers) to the Federal Order Class III price (the benchmark price for milk sold to cheese manufacturers around the country). Since 2010, more than $1.23 Billion have stayed in manufacturer’s pockets rather than being paid into the California pool. What does that mean for the average CA dairy? If you’re a 1,000-cow dairy producing 65 lbs of milk/cow/day, this $1.2 Billion represents almost $725,000 since 2010 to your dairy alone!! Efforts to fix this – given CDFA’s unwillingness to fix it themselves – are underway, and can’t move fast enough for producers’ liking.

A WORTHWHILE READ FROM LAST WEEKEND’S WALL STREET JOURNAL: (By Rob Vandenheuvel) Last Saturday, there was a column in the Wall Street Journal entitled, “How the Other California Lives.” The column, which was based on an at-length interview with California farmer Mark Watte, goes into detail about the current issues faced by California agriculture as a result of the recent drought (which, as noted in the column, is as much a man-made disaster as an ecological one).

While copyright laws won’t allow me to repost the article here in the newsletter, I’d strongly encourage all of you who haven’t already seen it to check the column out on the Wall Street Journal’s website at: http://online.wsj.com/news/article_email/SB10001424052702303775504579396093119215448-IMyQiAxMTA0MDAwODEwNDgyWj.

You’ll notice at the end of the column an update from a theme we wrote about earlier this year. If you’ll recall, we pointed out that a year ago, about 700,000 acre-feet of fresh water from the Sacramento-San Joaquin Delta had been released to the Pacific Ocean rather than pumped to available storage facilities, out of a fear that some of the “endangered” Delta Smelt population would be killed during pumping (if you missed that article, it can be found at: http://www.milkproducerscouncil.org/updates/012414.pdf). As the Wall Street Journal column states, “A few days after the president issued a veto threat, northern California was hit by a deluge. Government responded quickly: To protect the three-inch smelt from the delta pumps that would have directed the rainfall to Central Valley farmers desperate to irrigate their land, regulators flushed 95,000 acre-feet of water into the ocean.”

Amazing.

For those of you in the Fresno area, this issue will be the topic of a field hearing of the U.S. House of Representatives Natural Resources Committee next Wednesday (March 19th) at 10:00 am in the Fresno City Council Chambers (2600 Fresno Street). For more information, check out the Committee’s website at: http://naturalresources.house.gov/news/documentsingle.aspx?DocumentID=372163.