DATE: March 27, 2015
TO: Directors & Members
FROM: Rob Vandenheuvel, General Manager

MPC FRIDAY MARKET UPDATE

**CHICAGO CHEDDAR CHEESE**

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Weekly Average</th>
<th>Weekly Change</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/C</td>
<td>-.0275</td>
<td>.0725</td>
<td>$1.54</td>
</tr>
<tr>
<td>Barrels</td>
<td>-.0260</td>
<td>.0195</td>
<td>$1.54</td>
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**CHICAGO AA BUTTER**

<table>
<thead>
<tr>
<th>Weekly Change</th>
<th>Weekly Average</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>+.0725</td>
<td>+.0195</td>
<td>$1.69</td>
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</tbody>
</table>

**NON-FAT DRY MILK**

<table>
<thead>
<tr>
<th>Calif. Plants</th>
<th>Nat'l Plants</th>
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<tbody>
<tr>
<td>$0.9849</td>
<td>$1.0085</td>
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**DRY WHEY**

<table>
<thead>
<tr>
<th>Dairy Market News</th>
<th>National Plants</th>
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<tbody>
<tr>
<td>w/e 03/27/15</td>
<td>w/e 03/21/15</td>
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<tr>
<td>$.4425</td>
<td>$.4668</td>
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</tbody>
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FRED DOUMA'S PRICE PROJECTIONS...

Mar ’15 Final: Quota cwt. $15.51 Overbase cwt. $13.82 Cls. 4a cwt. $13.54 Cls. 4b cwt. $13.97
Last Week: Quota cwt. $15.55 Overbase cwt. $13.85 Cls. 4a cwt. $13.61 Cls. 4b cwt. $13.99

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

*Milk & Dairy Markets*

The cheese market remains complacent. CME spot Cheddar blocks spent the week traversing what is by now very familiar territory. They ended at $1.54/lb., steady with last Friday. Barrels added 2.5¢, reaching $1.545. The fact that cheese prices have managed to hold in the face of very strong output cheered the Class III market this week, and a rally in dry whey futures offered an added boost. March Class III futures slipped, but the other contracts settled as much as 34¢ higher than last week.

Spot nonfat dry milk (NDM) is also in a holding pattern. A handful of loads changed hands this week, but the price never budged from $0.975. The butter market perked up late in the week, and spot butter closed Friday at $1.7525, up 7.25¢. Class IV futures put in a mixed performance. The June and July contracts each gained 19¢, but the more deferred contracts lost ground.

Stable cheese prices indicate that manufacturers are not offering more cheese for sale than end users can absorb in the near term. However, this equilibrium should not be mistaken as a sign that demand has grown as quickly as supply. Rather, it seems that manufacturers are choosing to build inventories rather than bring huge volumes of cheese to market. U.S. cheese stocks climbed to 1.06 billion pounds at the end of February; they are 5.3% larger than the year before. In the first two months of 2015, cheese inventories rose more than 46 million pounds, far more than the five-year average of around 20 million pounds. Once
manufacturers run out of patience or storage, this excess cheese is likely to weigh on the market.

U.S. inventories of butter also rose in February, but the month-to-month increase was in line with seasonal trends. At 178.2 million pounds, butter stocks were 3.7% larger than a year ago and 19.7% larger than January. It seems that processors with flexibility are favoring cheese over butter. Once the spring flush arrives in earnest, there will likely be plenty of milk for vats, churns and driers.

European milk output totaled 12 million metric tons in January. This was 0.7% lower than January 2014, marking the first year-over-year deficit in European milk output since June 2013. The combination of low pay prices and quota penalties in a few key nations is slowing milk production. However, in just five days, European dairy producers will lose their fetters. Low margins may temporarily dampen producers’ enthusiasm for a sudden increase in milk production. But surely after 31 years there must be a lot of pent-up appetite for expansion. European processors certainly expect more milk; they have invested millions in additional capacity.

After a month of decent rainfall on the North Island, pasture conditions have improved in New Zealand, and Fonterra has tempered its outlook for a decline in full-season milk production. The cooperative now expects 2014-15 milk output to fall 2% below year-ago levels; last month Fonterra called for a 3.3% decline. Fonterra also increased the volume of product it will offer at the Global Dairy Trade auction. Clearly there is no shortage of product in New Zealand, and global dairy product prices have fallen accordingly. Over the past two weeks, whole milk powder (WMP) prices in Oceania have fallen 10.4%, according to Dairy Market News.

For the week ending March 14, dairy cow slaughter totaled 60,462 head. This was 0.5% lower than the same week a year ago. For the year-to-date, dairy cow slaughter is 3% ahead of last year’s pace.
Grain Markets

The grain trade is anxiously awaiting USDA’s Planting Intentions report, due on Tuesday. The report is expected to show increased soybean acreage relative to last year, at the expense of corn, wheat, cotton and other small grains. With that in mind, the corn market gained 6¢ this week, while soybeans lost 6.5¢. The Planting Intentions report has the potential to create upheaval in the grain complex and send new crop corn and soybean prices sharply in either direction. But if it is closely in line with expectations, the trade will simply shrug and move on.

Once the report is behind them, traders will quickly turn their attention to the weather. The Northern Plains and northwest Corn Belt are looking dry, and there is not a lot of moisture in the forecast. However, a few good spring rains could remedy field conditions there. Spring weather will also have an impact on the acreage mix. If the sun is still shining when farmers finish planting corn, they’ll want to keep moving. They may plant more corn than intended rather than waiting to plant soybeans and hoping for another favorable planting window.

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FINAL REMINDER: CDQAP HOSTING ENVIRONMENTAL CERTIFICATION CLASSES NEXT WEEK: (By Kevin Abernathy) As many of you already know, one way to help combat the annual fees from the State Water Resources Control Board (SWRCB) is to become environmentally certified under the “California Dairy Quality Assurance Program” or CDQAP. This program – which includes classroom education and a followup on-site inspection – carries with it the benefit of a 50% discount in your annual fees paid to the SWRCB for the next five years (producers can be re-inspected every five years to continue the certification/discount).

While many producers have already participated in the classroom portion of this certification process, there are still some who have not. CDQAP has scheduled a workshop next week in Modesto for those who would like to complete the classroom portion. The details on date/time are below and a flyer is posted on our website at: http://www.milkproducerscouncil.org/2015cdqap.pdf. (Note: this is the only scheduled workshop this year, so if you are trying to get this certification prior to the next annual fee due date, this is your opportunity to attend the class.)

Water Quality Class:
(Must attend both sessions if you haven’t previously accumulated any hours – six hours total required)
- Wednesday, April 1st, 9 am-12 pm & 1-4 pm
- Stanislaus County Agricultural Center, Stanislaus Building, “HI” Room
  3800 Cornucopia Way, Modesto

Air Quality Class:
- Thursday, April 2nd, 10 am-12 pm
- Stanislaus County Agricultural Center, Stanislaus Building, “HI” Room
  3800 Cornucopia Way, Modesto

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FINAL DAIRY PRODUCER MEETING NEXT WEEK HOSTED BY STATE WATER BOARD: (By Kevin Abernathy, Director of Regulatory Affairs) Over the past couple weeks, we’ve written about the series of “stakeholder meetings” being held by the State Water Resources Control Board on the issue of their annual fee structure for dairies and other “Confined Animal Feeding Operations” or CAFO’s. The last in that series of meetings is next Wednesday. It’s the same time as the CDQAP meeting mentioned above, so if you are not yet “environmentally certified” under the CDQAP program, you should definitely attend the CDQAP meeting and get yourself the 50 percent discount on your annual fees. But for those in the Merced area who are already CDQAP-certified and interested in attending this Water Board stakeholder meeting, the details are below:

Merced County
- Wednesday, April 1st, 10:00 am – 12:30 pm
- UC Cooperative Extension Merced, 2145 Wardrobe Avenue, Merced, CA 95341