DATE: April 3, 2015
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>
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<tbody>
<tr>
<td>Barrels +$.0500</td>
<td>Weekly Average +$.0599</td>
<td>Calif. Plants $0.9723 20,950,017</td>
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<td>Daily Market News w/e 04/03/15</td>
<td>Nat’l Plants $0.9918 29,102,705</td>
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<td></td>
<td>National Plants w/e 03/28/15</td>
<td>Calif. Plants $0.9849 15,458,188</td>
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<td>Weekly Average, Cheddar Cheese</td>
<td></td>
<td>Nat’l Plants $1.0085 20,309,303</td>
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<tr>
<td>Blocks +$.0438</td>
<td>$1.5763</td>
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<tr>
<td>Barrels +$.0738</td>
<td>$1.5888</td>
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DRY WHEY

| Dairy Market News w/e 04/03/15 | $0.4425 |
| National Plants w/e 03/28/15  | $0.4930 |

FRED DOUMA’S PRICE PROJECTIONS…

Apr 3 Est: Quota cwt. $15.55 Overbase cwt. $13.85 Cls. 4a cwt. $13.53 Cls. 4b cwt. $14.19
Mar’ 15 Final: Quota cwt. $15.47 Overbase cwt. $13.78 Cls. 4a cwt. $13.42 Cls. 4b cwt. $13.97

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

Milk & Dairy Markets

Dairy product prices plunged at the Global Dairy Trade (GDT) auction this week, but the domestic dairy markets generally disregarded weakness overseas and held their ground. The GDT index fell 10.8%, and all products moved lower. Butter milk powder was weakest; it fell 25.1%. Butter and anhydrous milkfat fell 7.6% and 5.3%, respectively. After adjusting to 80% butterfat, the nearest GDT butter contract equates to $1.42/lb. In the U.S., the CME spot butter market dropped 1.25ȼ this week, slipping to $1.74/lb.

GDT milk powder prices also faded. Skim milk powder (SMP) fell 9.9% and whole milk powder (WMP) slipped 13.3%. In contrast, the spot nonfat dry milk (NDM) market shook off last week’s stupor and gained 0.25ȼ. It closed Thursday at $0.9775. Class IV futures were not impressed by this tepid strength; most contracts posted double digit losses this week.

Cheddar prices dropped 10.5% at the GDT to $1.26/lb. However, at the CME, Cheddar blocks gained 4ȼ and barrels jumped a nickel higher. They closed at $1.58 and $1.595, respectively. Dairy Market News reports that domestic cheese demand has been surprisingly robust. Buyers are looking for cheese for immediate delivery, which helps to explain why the spot market is strong while futures are less so. The Class III market was mixed this week, but most contracts settled a few cents higher than last week.
USDA announced the March Class III milk price at $15.56/cwt., down $7.77 from last year and a dime higher than February. The California 4b milk price was $13.97, up 22¢ from February but $8.19 lower than last year. The California 4a price for March was $13.42, or 33¢ higher than the previous month. The 4a market is down $9.95 from last year. The federal order Class IV price slipped 2¢ to $13.80, down $9.86 from March 2014.

Milk is plentiful and U.S. dairy product output is generally above year-ago levels. However, due to lower output in California, U.S. butter production totaled just 156 million pounds, down 4.8% from a year ago and down 3.8% from January on a daily average basis. California butter production was 9% lower than last year. The butter market has been supported by lower than expected production and reasonably firm domestic demand ahead of Easter and Passover. But the mild rally in the U.S. butter market has weighed on exports. U.S. butter sales to foreign buyers slipped to 5.6 million pounds, and imports climbed to 7.2 million pounds.

More milk went to the drier in February than the year before, but milk powder production slowed from the January rate. Combined output of NDM and SMP totaled 180.5 million pounds, up 2.6% from last year but down 4.2% from January on a daily average basis. Inventories have gone nowhere since December; in February they totaled 240.7 million pounds, up 32.6% from the year before.

U.S. NDM exports totaled 78.5 million pounds in February, down 1.5% from a year ago but up 12.8% from January on a daily average basis. With China largely on the sidelines, New Zealand and Europe have been aggressively seeking to unload milk powder elsewhere. In this context, U.S. milk powder exports in February were rather impressive and help to prove that the U.S. can compete if the price is right.

U.S. cheese output reached 884.3 million pounds in February. This was slightly higher than January on a daily average basis and up 3.9% from a year ago, scoring a new record for the month. U.S. cheese exports of 65.2 million pounds were down 5.4% from a year ago but notably larger than January.

For the most part, export volumes and domestic demand have exceeded expectations, and so, while today’s dairy product prices are a far cry from last year’s levels, they ought to be lauded as better than what might have been. However, even this rather bleak celebration may be short-lived. Barns are full and the weather is mild. This year’s spring flush is likely to flood the market with milk, which may strain processing capacity in some areas. Cheese and milk powder production could be formidable this spring. U.S. dairy product prices will need to remain low enough to overcome the very strong dollar and attract importers. Otherwise, domestic inventories will grow and the market will eventually come under pressure.

For the week ending March 21, dairy producers culled 60,409 head, which was 3.6% greater than the same week last year. So far this year, dairy cow slaughter is 3.1% higher than 2014.
**Grain Markets**

USDA released its long awaited Prospective Planting and quarterly Grain Stocks reports Tuesday. Corn stocks were larger than anticipated, which likely implies that December through February feed demand was lower than expected. Farmers intend to plant 89.2 million acres of corn this year. Although this is 1.4 million acres below 2014, it was greater than analysts expected. With larger stocks and a smaller than anticipated decline in acreage, the corn market sunk on Tuesday. After rebounding Wednesday and Thursday, May corn settled at $3.865/bushel, almost a nickel lower than last week.

The reports had exactly the opposite effect on the soybean market. May soybeans gained nearly 20¢ this week and settled at $9.86. The bean market was buoyed by lower than expected stocks and acreage figures. Farmers hope to sow 84.6 million acres of soybeans this year. This is 934 thousand acres greater than last year and it would be the largest soybean acreage figure on record if farmers achieve it. USDA also reported a decline in intended winter wheat area. This leaves fewer acres with the potential for a second crop of soybeans.

With the reports behind them traders will now shift their attention to spring weather to determine if farmers will be able to carry out their intentions. There are concerns about dry conditions in the Plains, which have supported the wheat market. Dry soil in the Plains and northwest Corn Belt would allow farmers to get into fields earlier, which could shift some acreage from soybeans to corn. But after fieldwork is completed, farmers in the region will hope for a downpour.

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**AS WE WAIT FOR ANY ALTERNATIVE FEDERAL ORDER PROPOSALS, THE CALIFORNIA DISCOUNT CONTINUES:** *(By Rob Vandenheuvel)*

While the three California cooperatives (CDI, DFA and LOL) and the three California dairy farmer trade associations (MPC, California Dairy Campaign and Western United Dairymen) are unified in our support for the CA-Federal Order proposal put forth by the cooperatives in February, other parties have until next Friday to submit any alternative proposals. We look forward to reviewing any alternatives that are submitted and reporting the details of those proposals in this newsletter.

In the meantime, we’ve closed the books on another month, and to absolutely no one’s surprise, the “California Discount” on milk sold to cheese plants is alive and well. As you can see in the chart shown here, California’s Class 4b price for milk produced and sold to California cheese plants was $1.59/cwt below the Federal Order Class III price – the benchmark price for milk sold to cheese plants throughout the country. The cumulative discount since 2010 is now more than $1.75 Billion, and as we reported last month, for a 1,000-cow dairy in the State, your share of that discount is now more than $1 million dollars since 2010.

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**DAIRY CARES REPORT FOCUSSES ON THE TREMENDOUS WORK BY THE DAIRY INDUSTRY IN THE AREA OF WATER CONSERVATION:** *(By Rob Vandenheuvel)*

The latest Dairy Cares Report, entitled “Responsible water discussion welcomed (rain, too),” has been posted on our website at: [http://www.milkproducerscouncil.org/cares.htm](http://www.milkproducerscouncil.org/cares.htm). This month’s column focuses on the tremendous efforts in dairy industry that have led to producing more milk with less water. As the article states, “It takes about 1/3 of the water it did during the Franklin Roosevelt administration to produce a glass of milk today.”

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*We would like to wish all of you and your families a very blessed Easter Weekend!*