DATE: April 17, 2015  PAGES: 4
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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<tr>
<td>Blocks</td>
<td>Weekly Change</td>
<td>Weekly Average</td>
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<tr>
<td>- $0.0025</td>
<td>+$0.0550</td>
<td>+$0.0275</td>
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<tr>
<td>Barrels</td>
<td>Weekly Average</td>
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<td>+$0.0150</td>
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Weekly Average, Cheddar Cheese

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<tr>
<th>Blocks</th>
<th>Weekly Average, Cheddar Cheese</th>
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<tr>
<td>- $0.0035</td>
<td>Calif. Plants $0.9765 14,801,129</td>
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<td>Barrels</td>
<td>Nat’l Plants $0.9752 21,893,401</td>
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<table>
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<th>Dairy Market News w/e 04/17/15</th>
<th>DRY WHEY</th>
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<td>- $0.0080</td>
<td>Calif. Plants $0.9833 11,007,822</td>
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<tr>
<td>Barrels</td>
<td>Nat’l Plants $0.9955 18,818,117</td>
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FRED DOUMA’S PRICE PROJECTIONS…

Apr 17 Est: Quota cwt. $15.53 Overbase cwt. $13.83 Cls. 4a cwt. $13.51 Cls. 4b cwt. $14.16
Last Week: Quota cwt. $15.54 Overbase cwt. $13.85 Cls. 4a cwt. $13.53 Cls. 4b cwt. $14.17

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

Milk & Dairy Markets

Foreign dairy product prices continue to fade, and the U.S. milk powder market had little choice but to follow. CME spot nonfat dry milk (NDM) slipped to 92.5ȼ/lb. this week, down 0.5ȼ to fresh multi-year lows. Dairy Market News reported softer prices for all dairy products in Oceania and Western Europe, and the milk powder market was weakest. Over the past two weeks, the Oceania skim milk powder (SMP) price has fallen 10.2%. Whole milk powder (WMP) prices were down 3% in both Oceania and Western Europe. WMP fell 4.3% at the Global Dairy Trade (GDT) auction, and SMP dropped 7.8% to its lowest ever performance in its five years at the auction.

Butter also lost ground at the GDT. It fell 6.6% to $1.34/lb. after adjusting to 80% butterfat. However, domestic butter demand remains strong, and production is less so. Dairy Market News notes that “Most companies would like to make and store product for future use but are unable to at current demand levels.” With that, the spot butter market moved up 5.5ȼ to $1.8075, a new high for the year. Most Class IV contracts settled 10 to 20ȼ above last Friday’s close.

After another harsh winter, consumers on the East Coast and in the Midwest are finally enjoying some sunshine. Many will welcome spring by grilling, and so, with the advent of cheeseburger season, barrel Cheddar is reportedly a little tight. However, it probably won’t remain so for long. Milk is plentiful, particularly in the Midwest, where some cheese plants are able to purchase excess milk at as much as $5 below class. Cheese plants around the nation are running at or near capacity and storing up supplies for later this year.

The cheese market has proven impressively resilient to robust domestic production and lower prices overseas. Cheddar gained 2.7% at the GDT, but comparatively small volumes of cheese trade there. Europe offers a better

![CME Spot Prices Chart](chart.png)
indication of the tone of the global market, and Cheddar prices have fallen 1.4% in Western Europe in the past two weeks. At the CME, Cheddar blocks took one step forward and two steps back. They closed at $1.575 on Friday, down 0.25ȼ this week. Barrels were stronger; they gained 1.5ȼ and closed at $1.625, also scoring a new 2015 high after months of inactivity.

Both the National Dairy Product Sales Report and Dairy Market News indicate that whey prices have come under pressure. However, dry whey futures moved upward every day this week and summer contracts now stand at their highest levels since late February. This boosted Class III futures, which were given added support from the spot barrel market. Class III milk climbed for the fourth consecutive week, although August through November contracts added just a few cents.

The January-February numbers are in for the new Margin Protection Program, and national average margins fell just shy of $8/cwt. The 216 producers who paid up for the highest possible coverage stand to gain 0.4456ȼ/cwt., for a total of $25,992 on the 583 million pounds that were insured at this level. The payout is a pittance compared to the 47.5ȼ/cwt. premium for the first four million pounds of protection and $1.36/cwt. for any additional volume.

Although producers in regions with higher feed costs find today’s milk checks inadequate, dairy profit margins are not yet painful enough to encourage widespread contraction in the milking herd. For the week ending April 4, dairy cow slaughter totaled 56,836 head, up 1.4% from the same week last year. So far this year, slaughter is 2.9% ahead of the 2014 pace.

While milk checks and on-farm margins are down significantly from last year, replacement heifer prices remain high. Dairy producers are still willing to pay $2,000 or more for quality Holstein springers at auctions around the country. Higher beef prices provide a relatively high floor for dairy cows and calf values, and so springers have more intrinsic worth.

In areas where feed is relatively cheap, producers have slim profits and last year’s revenue. Some expansion is underway, and this, along with routine heifer demand, has supported heifer values. In the West, dairy producers are likely seeking to preserve cash flows by stretching their fixed costs over larger volumes of milk, and to do so they’ll need to keep their barns full. It’s likely that milk production deficits in California and New Mexico are primarily the result of herd retirements and herd health issues, rather than declining cow numbers in the remaining operations.

**Grain Markets**

May soybean futures settled at $9.6875/bushel, up 18.25ȼ. There are plenty of soybeans in South America, so demand for U.S. soybeans is likely to slow eventually. However, soybean export volumes continue to beat expectations for this time of year.
Corn prices dropped on Monday but rallied the rest of the week. May corn futures settled at $3.7625, up 3¢ from last Friday. Among the major grain exporters, U.S. corn is the most expensive. This should limit demand for U.S. corn exports and may pressure prices in the months to come. For now, however, the market is almost exclusively focused on the forecast.

Soggy soils in the Southeast could mean less corn and more soybeans there as the ideal corn planting window is quickly drawing to a close. But much of the rest of the country is dry. In fact, nearly 60% of the continental U.S. is abnormally dry or worse, and 32% of the nation is suffering from severe drought. This means that planters are already rolling throughout much of the Corn Belt. However, farmers in the western Corn Belt and Great Plains would love to see rain clouds on the horizon.

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A CALIFORNIA-FMMO: ALTERNATIVE PROPOSALS SUBMITTED TO USDA: (By Rob Vandenheuvel) April 10th was the deadline to submit alternative proposals to be part of the discussion by USDA in their consideration of a California Federal Milk Marketing Order (CA-FMMO). Of course, the MPC Board has already expressed our support for the proposal submitted by California Dairies Inc., Dairy Farmers of America and Land O’Lakes in February. We look forward to working with our fellow dairy farmer organizations and cooperatives in advocating for those proposed provisions in a hearing hopefully scheduled for later this year.

This week, we got our first glance at the alternative proposals that were submitted; there were three of them. The Dairy Institute of California (DIC) – on behalf of many of the State’s milk processors – submitted a complete alternative proposal, with stark differences from the cooperative’s proposal in key areas. The “California Producer Handlers Association” also submitted a proposal, but only focused on changes they would like in the specific producer-handler provisions of the cooperatives’ proposal. Finally, Ponderosa Dairy – a large dairy in Nevada that milks several thousand cows and ships their milk into Southern California – submitted a proposal specifically on how they would like to see “out-of-area” milk handled in some cases. (All these proposals can be found on USDA’s website at: http://www.ams.usda.gov/AMSv1.0/CAOrder).

In future issues of this newsletter, we’ll get into more detail on all three of these alternative proposals. Today, however, I’d like to focus on comments made by the DIC in the opening paragraphs of their proposal. The following statements were included in the introduction of the DIC’s proposal:

• “The Dairy Institute concludes that there are no significant disorderly marketing conditions that would warrant either a hearing, or after any hearing, the promulgation of a California Federal Milk Marketing Order.”

• “[The cooperatives’] failure to present any real evidence of disorderly marketing conditions is not surprising, given that no such evidence exists.”

Those are some pretty bold statements, to say the least. We can have intellectual debates about the pros and cons of the various proposals, but it takes some real chutzpah to start off by claiming that California’s producers don’t even deserve the opportunity to present our case to USDA!

Now before I get too upset, I have to remind myself of what the current California system provides the processors (buyers) of our milk. Here are a few highlights:

• California dairy farmers pay 100% of the cost of a transportation subsidy program that ensures that Class 1, 2 and 3 manufacturers get the milk they need, regardless of how far that milk must be hauled to get to the plant. So the plants that are built in urban areas are ensured a milk supply even as agriculture is forced out of the area.

• The minimum price formulas result in raw milk prices that move up and down based on the value of dairy products moving up and down. In other words, it’s like if a dairy farmer’s feed costs automatically moved up and down based on the price of milk. What a deal!

• Included in the minimum price formulas are “make allowances” that are largely based on the cost of
manufacturing the products included in the calculation of the formula. In other words, the formulas ensure that – regardless of whether milk prices are high or low – the price a manufacturer pays for their milk is low enough to provide opportunities for profit.

- In every one of the five classes of milk, the California minimum price lags below the comparable Federal Order prices on average. That’s right, every single one. Of course, our Class 4b price gets most of the attention, as the most egregious of the California discounts.

So in short, our processors get: (1) access to the milk they need; (2) at discounted prices; (3) regardless of whether the dairy farmer selling them the milk is making money or not. I gotta be honest; if I were in these manufacturer’s shoes, I’d probably stick with the company line that there’s no problem with the current system! In a State where it’s seemingly everything is more expensive, they are bucking the trend and buying some of the lowest-cost milk in the country, and getting all those other benefits of the system at the same time! Life is good, right?!!

Of course, California’s dairy farmers would look at a very different set of facts. Some of those facts include:

- A mailbox milk price that has been below the CDFA-announced Cost of Production in 64 out of the past 96 months (67% of the time!).
- Even with the profitable months of 2014, an average-sized dairy (1,000 cows) producing 70 lbs/cow/day is expected to have lost nearly $1.7 million since 2009!
- Dairy families are leaving California (home to 39 million residents, and with access to billions of consumers to our West and South) and relocating to areas like Nebraska (population of 1.8 million), Kansas (population of 2.9 million), and other locations around the country. Why? Because amazingly the milk produced in those states receives a higher price than in California in the middle of all these consumers!

Take a look at the line graph here, showing the cumulative losses that a 1,000-cow dairy with a 70 lb average experienced since 2009, according to CDFA’s own data.

While 2014 was year of partial recovery for California’s dairy families, we’re still $1.7 million per dairy away from filling the hole we’re already in. And as regular readers of this newsletter are well-aware, more than $1 million-per-dairy of these losses can be attributed directly to the California Discount on California’s Class 4b!

So our State’s manufacturers can certainly try to cherry-pick the facts and come up with an explanation of why the California system is already “orderly,” (and with all the benefits they reap from the current system, who can blame them?) But as producers, we would be fools to let them get away with it. Our processors have gotten spoiled with top-quality milk at hugely-discounted prices, and it’s time to introduce them to a world of actually paying a fair price! Producers must remain united in our support for the CA-FMMO proposal put forth by the cooperatives in February. After exhausting our efforts in California with hearings, protests, rallies, a lawsuit and legislation, the Federal Milk Marketing Order system is our best chance of putting California producers on an even playing field with our fellow dairies throughout the country.