DATE: May 9, 2014
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 - $0.250 $2.0450</td>
<td>Weekly Change +$0.0925 $2.1675</td>
<td>Week Ending 5/2 &amp; 5/3</td>
</tr>
<tr>
<td>Barrels - $0.0350 $2.0200</td>
<td>Weekly Average +$0.1750 $2.1445</td>
<td>Calif. Plants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nat’l Plants</td>
</tr>
<tr>
<td>Weekly Average, Cheddar Cheese</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blocks - $0.0870 $2.0480</td>
<td>Dairy Market News w/e 05/09/14</td>
<td>Calif. Plants</td>
</tr>
<tr>
<td>Barrels - $0.0845 $2.0405</td>
<td>National Plants w/e 05/03/14</td>
<td>Nat’l Plants</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DRY WHEY</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>$2.0124 11,292,368</td>
</tr>
<tr>
<td>Barrels</td>
<td>$2.0173 18,908,679</td>
</tr>
</tbody>
</table>

***

FRED DOUMA’S PRICE PROJECTIONS…

May 9 Est: Quota cwt. $23.15  Overbase cwt. $21.45  Cls. 4a cwt. $23.29  Cls. 4b cwt. $19.58
Last Week: Quota cwt. $23.26  Overbase cwt. $21.57  Cls. 4a cwt. $23.47  Cls. 4b cwt. $19.69

***

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

Milk & Dairy Markets

CME spot butter futures climbed 9.25¢ this week to $2.1675/lb., a three-year high. The butter market’s trajectory has been straight upward for three weeks now. Meanwhile, after declining for two weeks, the milk powder market seems to be stabilizing. Spot Grade A nonfat dry milk (NDM) traded Friday at $1.78, up 0.25¢ from the week before. Class IV futures were mixed.

CME spot Cheddar blocks lost 2.5¢ and closed at $2.045. Barrels shed 3.5¢, and ended the week at $2.02. Both markets scored new lows for the year on Tuesday, and barrels logged fresh lows Friday. June and July Class III futures lost about 30¢, but deferred contracts were little changed from last week.

NDM prices averaged $1.9473 in the 30 days ending May 3, according to USDA’s National Dairy Product Sales Report (NDPSR). This was 6.7¢ lower than the previous week, marking the largest weekly decline for NDPSR.
$3,713/metric ton or $1.72/lb. once converted to 80% butterfat.

While butter prices rose at the GDT, they remain significantly lower than CME spot market or NDPSR prices. The U.S. butter market has traded at a discount to European butter for nearly a year and a half. But this week U.S. butter prices surpassed the German butter market after adjusting for butterfat, making U.S. butter the most expensive in the world. German butter prices have fallen 4.2% since inventories reached their low at the end of February.

U.S. butter inventories are tight and manufacturers are only slowly building stocks. Butter production in the first three months of this year was 6% lower than the first quarter of 2013. Domestic cream and butter demand is firm and exports are booming. U.S. butter exports totaled 12,414 metric tons (MT) or 27.4 million lbs. in March. This was twice as large as March 2013 exports and was 24% greater than February shipments on a daily average basis. Butter exports will likely remain strong in the months ahead to fulfill contracts made when U.S. butter was a bargain. But given declining prices overseas, lower export volumes and eventually lower prices are likely to ensue.

U.S. cheese exports reached 36,163 MT (79.7 million lbs.) in March, breaking the record set just two months before. Exports were 37% larger than March 2013 and 7.8% greater than February on a daily average basis. Combined exports of NDM and SMP totaled 51,620 MT (113.8 million lbs.) in March. This was 30% higher than the prior year and 20.6% above February sales.
Weekly dairy cow slaughter totaled only 48,885 head, down 18.4% from the same week a year ago. Year to date slaughter is 10.1% lower than last year. It is clear that dairy producers are doing all they can to keep every stall full, and U.S. milk production is likely to grow.

**Grain Markets**
The global market has done an impressive job of absorbing the significant increase in overseas production, albeit at lower prices. This implies very strong demand and suggests that, while the looming increase in U.S. milk production could further pressure dairy markets, it is unlikely to overwhelm the market and bring about a price collapse. Global dairy product inventories are low and buyers are counting on relief from formidable production in the U.S. and Europe. What will happen to dairy product prices in the event of a hot summer or poor pasture conditions in Europe or any number of factors that could prevent dairy producers from running full throttle in the months to come?

Despite a set-back on Friday, corn futures ended this week higher than the last. July corn futures added 8¢ while December futures settled almost a nickel higher. USDA issued its first balance sheets for the 2014-15 crop year as part of the World Agricultural Supply and Demand Estimates report. U.S. corn inventories are expected to total 1.7 billion bushels by next fall, an increase of 580 million bushels or 51% from 2014 ending stocks. This marks the second consecutive year-over-year increase in corn stocks and likely heralds a continuation of the long-run trend toward lower grain prices after three years of tight stocks and sky high feed costs.

USDA made a few tweaks to the 2013-14 balance sheets. The agency raised its estimates of corn for ethanol and export demand. These changes resulted in a lower forecast for ending stocks and brought USDA in line with private analysts. But while U.S. corn stocks are now officially lower than USDA’s previous estimate, global stocks are notably larger, thanks in large part to better late-season conditions in South America.

This week July soybeans gained 17¢ and November soybeans settled 4¢ higher. There were no surprises in the soybean balance sheet. USDA anticipates a record large soybean crop this year, and end-of-season soybean inventories are expected to rise to 330 million bushels next fall, an eight-year high.

Imported soybeans from South America continue to reach U.S. ports and this is helping to ease the very tight stocks situation. Still, USDA expects there will be just two weeks’ needs in inventory before new crop supplies arrive this fall and soybean and soybean meal prices remain near the highs.

***

**ONLINE TOOL FOR RESEARCHING MARGIN PROTECTION PROGRAM:** *(By Rob Vandenheuvel)*
We will be continuing our series in the coming weeks on the new Margin Protection Program that was part of the 2014 Farm Bill. In the meantime, the University of Illinois published what they are calling the “MPP - Dairy Dashboard.” This online tool allows you to enter your production history (highest annual production in 2011, 2012 or 2013), select a margin protection level and percentage, and see how the program would have worked in any given year from 2000 through 2013.

The dashboard can be found at: [http://www.farmdocdaily.illinois.edu/tools/flash_dairy_dashboard_010514.html](http://www.farmdocdaily.illinois.edu/tools/flash_dairy_dashboard_010514.html). I’d encourage all of you to check it out. It provides valuable information about how the MPP would have worked historically, under the various economic conditions in the past 14 years (high milk prices, low milk prices, high feed costs, lower feed costs, etc.).
OVERALL MILK PRICES MAY BE HISTORICALLY HIGH, BUT OUR CHEESE MANUFACTURERS ARE STILL GETTING A GREAT DEAL: (By Rob Vandenheuvel) Time to, once again, calculate the latest 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 $1.28 Billion has 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 $1.28 Billion represents more than $750,000 since 2010 to your dairy alone!

<table>
<thead>
<tr>
<th></th>
<th>April ’14</th>
<th>2010 – Apr ’2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Class 4b Price</td>
<td>$21.73</td>
<td>$15.83</td>
</tr>
<tr>
<td>FMMO Class III Price</td>
<td>$24.31</td>
<td>$17.51</td>
</tr>
<tr>
<td>Discount</td>
<td>($2.58)</td>
<td>($1.68)</td>
</tr>
</tbody>
</table>

The “California Discount” for our State’s Cheese Manufacturers

The “CA Discount”:
More than $1.28 Billion since January 2010.

Some may wonder why MPC continues to publish this reminder on a monthly basis. Or why we continue to apply pressure for change when prices are at historically high levels. Our response is simple – if you’re asking the question, you must not be a California producer who’s on the losing end of the $1.28 Billion discount. Producers must continue to pressure their leaders for change; the status quo is unacceptable.

***

REMINDER: MILC PROGRAM SIGNUP FROM NOW THROUGH MAY 30TH: (By Rob Vandenheuvel)
As we reported a couple weeks ago, due to the passage of the Farm Bill earlier this year, there may be some paperwork needed to make sure your dairy is able to take advantage of the program, if necessary.

While the MILC program will eventually be replaced by the “Margin Protection Program” later this year, the Farm Bill did temporarily extend the MILC program in the meantime. That means that if payments under the MILC program were to be available between now and about September 1, 2014, your dairy could be eligible to receive those payments.

As you recall, for most dairies in California, the selection of a “start month” is critical for the MILC program. Your start month for this year is set for whatever your dairy’s start month was last year. That may or may not be acceptable to you, depending on how long it takes your dairy to produce up to the 2.985 million pound volume “cap” on the program.

If you wish to modify your start month to later this year, in order to provide your dairy with more flexibility as the dairy markets change on a daily basis, your local FSA office can process those changes during a special “relief period” from now through May 30th. You can either contact your local FSA office, or MPC members can contact our office at (909) 628-6018 to get assistance on this.

Of course it goes without saying that we certainly hope there are no MILC payments between now and the end of the program.