DATE: July 10, 2015  
TO: Directors & Members  
FROM: Rob Vandenheuvel, General Manager  
PAGES: 3

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>Week Ending 7/3 &amp; 7/4</td>
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<tr>
<td>$1.7250</td>
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<td>Calif. Plants $0.8835</td>
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<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td>Nat’l Plants $0.8770</td>
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<td>$1.6600</td>
<td>- $0.0041</td>
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Weekly Average, Cheddar Cheese  

<table>
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<tr>
<th>Blocks</th>
<th>Barrels</th>
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<td>$1.6660</td>
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DRY WHEY  

<table>
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<tr>
<th>Dairy Market News</th>
<th>National Plants</th>
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<tr>
<td>w/e 07/10/15</td>
<td>w/e 07/04/15</td>
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<tr>
<td>$0.4050</td>
<td>$0.4090</td>
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FRED DOUMA’S PRICE PROJECTIONS…

July 10 Est:  
Quota cwt. $16.29  
Overbase cwt. $14.59  
Cls. 4a cwt. $13.47  
Cls. 4b cwt. $15.32

Last Week:  
Quota cwt. $16.02  
Overbase cwt. $14.33  
Cls. 4a cwt. $13.62  
Cls. 4b cwt. $14.67

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

Milk & Dairy Markets

Milk powder prices slipped again this week. At the CME spot market, Grade A nonfat dry milk (NDM) dropped 3.75¢ to a new all-time low of 79.5¢/lb. The California Weighted Average Price for NDM dropped 2.16¢ to 88.35¢ and sales volume fell to its lowest level since the holiday weeks at the turn of the year. Inventories are record large and climbing.

CME spot butter prices also fell this week. They dropped 2¢ to $1.92. With both butter and milk powder in the red, Class IV futures lost ground nearly every day this week. 2015 contracts ultimately retreated 30 to 60¢ and 2016 losses were even greater.

The cheese market, by contrast, defied gravity. Spot Cheddar blocks jumped 10.5¢ to $1.725. Barrels traded as high as $1.70 Friday but settled at $1.66, up 7.75¢ from last Thursday. Nearby Class III futures moved higher, but deferred contracts greeted the rally in the cheese market with a skeptical shrug and continued their descent. Most 2015 contracts settled between 10 and 20¢ lower than last week, and 2016 contracts lost roughly 40¢.

In the heart of the country, it feels more like May than July, and the cows love it. While national milk production has declined seasonally, intakes in the Midwest are reportedly steady. A brief heat spell in central California and punishingly high temperatures in Oregon, Washington and Idaho have recently given way to more pleasant weather, and so on the whole seasonal declines in milk production are likely to be normal at worst.

There has been no summer vacation for Midwestern cheese makers. Many worked straight through the holiday
weekend, and they continue to run hard. There is plenty of cheap milk powder available to fortify cheese vats and improve yields. Production remains strong and Dairy Market News reports that “stocks are trending higher.”

Spot domestic cheese prices have been able to disregard rising inventories, but overseas markets continue to slide. Cheese prices in Oceania have not been this low since 2009, and German Edam prices are at levels not seen in more than a decade. U.S. cheese exports lost ground in May and they are fast becoming even less competitive. May cheese exports totaled 64.7 million pounds, down 10.2% from April on a daily average basis and 7.6% less than May 2014.

Butter exports were anemic in May, falling to 3.5 million pounds, the lowest monthly total since August 2009. The chasm between U.S. and overseas butter markets continues to widen, so exports are likely to remain low, while imports climb. In May, the U.S. imported 3.1 million pounds of butter and 3.6 million pounds of anhydrous milkfat. Butter imports were 80% higher than May 2014 shipments.

Exports of NDM and skim milk powder (SMP) totaled 133.6 million pounds, up 2.2% from April on a daily average basis and slightly more than May 2014 volumes. Exporters from the U.S., Europe and New Zealand are competing fiercely to rid themselves of excess milk powder, and prices are likely to remain under pressure.

Outside market forces added another layer of complexity to the already volatile dairy markets. Concerns about Greece and its status in the Eurozone have dominated the headlines, but anxiety about the health of the Chinese economy controlled the markets. Thanks to low interest rates and relaxed rules, highly leveraged investors have poured into the Chinese stock market, pushing it up 150% from June 2014 to its peak last month. Since then, it has retreated nearly 30% despite a bevy of rules meant to forestall its decline.

After instructing controlling shareholders and executives to “bravely take social responsibility” and step up their stock market purchases, Beijing finally managed to stop the bleeding late this week. But the preceding plunge and the amount of intervention it required have reduced investor confidence and called Chinese economic growth into question. As the Daily Dairy Report noted earlier this week, “If China’s economy suffers a setback, it is likely to impair economies around the globe. The U.S. dairy industry could suffer from reduced demand from China, primarily, but also from other markets – including our own – where economic growth has been bolstered by Chinese consumers.” A squall in China would cause rough waters in Australia and New Zealand, but it could also ripple painfully through the U.S. dairy market.

For the week ending June 27, dairy cow slaughter totaled 50,533 head. This was 5.9% higher than the same week a year ago, bringing year-to-date slaughter 4.6% ahead of the 2014 pace.
Grain Markets
December corn futures climbed to $4.45 per bushel Friday, up 7.75¢ from last week to their highest close in more than a year. November soybean futures settled at $10.2225, down almost a dime from last Friday, but well above their mid-week lows.

Last week’s Grain Stocks report implied much stronger demand for corn and soybeans, and USDA acknowledged it in today’s World Agricultural Supply and Demand Estimates, lowering its estimates of corn and soybean inventories at the end of the 2014-15 crop year. This led to lower estimates of ending stocks for the 2015-16 seasons as well, but these figures did not fall by as much as the trade had anticipated. Nonetheless, grain and oilseed prices moved higher after the report’s release. This suggests that, while USDA is eyeing prospects for lower demand in the new crop year, the market is more focused on the adverse impact that wet weather in the Eastern Corn Belt could have on supplies.

The trade will spend the coming months trying to determine if fabulous yields in places like Iowa, Nebraska and Minnesota can offset losses in the soggy Eastern Corn Belt. It is worth noting that Indiana, Ohio and Missouri, home to the worst conditions, are the fifth, seventh and eighth largest corn-producing states, respectively. If the focus on these areas causes the trade to overestimate crop losses, it will push corn and soybean prices higher than necessary, resulting in reduced demand. On the other hand, it will take very large yields indeed to make up for total losses in the worst areas.

Farmers in Argentina are already marketing aggressively in response to the most recent rally, and booking contracts to export soybeans later this year, a period in which the U.S. typically dominates the trade. The future of U.S. corn and soybean supplies remains uncertain, and the market has seen fit to add a weather premium. Demand prospects are surer – at today’s prices they are beginning to erode.

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WHILE WE AWAIT WORD FROM CDFA AND USDA, AN UPDATE ON THE CA DISCOUNT: (By Rob Vandenheuvel)  As you may recall, the California Department of Food and Agriculture (CDFA) held a hearing on June 3rd to consider temporary adjustments to the Class 4b calculation for milk sold to California’s cheese manufacturers. We expect to see the results of that hearing later this month. As we reported in previous issues of this newsletter, producers were well represented at that hearing, with a unified proposal supported by all three producer trade associations and all three major cooperatives and solid evidence that a significant upward adjustment is needed. So we anxiously await the results of that hearing.

At the same time, we are awaiting official word from the U.S. Department of Food and Agriculture (USDA) on whether they will schedule a hearing on establishing a California Federal Milk Marketing Order (CA-FMMO). Again, producers – through the three major cooperatives – have put forth a strong case supporting the need for a hearing, and a proposed CA-FMMO that has garnered the support of all three producer trade associations.

In the meantime, we must still deal with the here-and-now, which means a continuation of the California Discount given to our State’s cheese manufacturers. While the gap between the California Class 4b price and the Federal Order Class III price (the benchmark price for milk sold to cheese plants around the country) has shrunk, it continues to represent a significant amount of money to producers who desperately need their fair share of the market dollars. This past month our Class 4b price was $1.17 per hundredweight below the FMMO Class III price. While we don’t have the final utilization data for June yet, we know that for January-May (only five months), the real-dollar value of the California discount was almost $145 million that our State’s cheese manufacturers didn’t have to pay in the form of regulated prices to producers (or about $81,000 for a 1,000 cow dairy producing 65 lbs/cow/day). Of course, this is just a sliver of the impact that discount has had over the past 5+ years; as you see on the updated chart above, the total impact since 2010 is now more than $1.83 Billion. Let’s hope the word we get from CDFA and USDA give producers hope that we are forging a new path going forward, both in the short and long term.