DATE: July 24, 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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</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>Weekly Change</td>
<td>Weekly Average</td>
</tr>
<tr>
<td>+$.0850</td>
<td>+$.1150</td>
<td>+$.0150</td>
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<tr>
<td>$1.6975</td>
<td>$1.9550</td>
<td>$1.8835</td>
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<tr>
<td>Barrels</td>
<td>Weekly Average</td>
<td></td>
</tr>
<tr>
<td>+$.0650</td>
<td>+$.0150</td>
<td></td>
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<tr>
<td>$1.6600</td>
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</tbody>
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Weekly Average, Cheddar Cheese
Blocks: +$.0200 $1.6680
Barrels: +$.0275 $1.6395

CHICAGO AA BUTTER
Weekly Change: +$.1150 $1.9550
Weekly Average: +$.0150 $1.8835

NON-FAT DRY MILK
Week Ending 7/17 & 7/18
Calif. Plants $0.8599
Nat’l Plants $0.8472

Prior Week Ending 7/10 & 7/11
Calif. Plants $0.8905
Nat’l Plants $0.8621

DRY WHEY
Dairy Market News w/e 07/24/15 $3.900
National Plants w/e 07/18/15 $3.894

FRED DOUMA’S PRICE PROJECTIONS…

July 24 Est: Quota cwt. $16.07 Overbase cwt. $14.38 Cls. 4a cwt. $13.30 Cls. 4b cwt. $14.98
Last Week: Quota cwt. $16.02 Overbase cwt. $14.32 Cls. 4a cwt. $13.31 Cls. 4b cwt. $14.84

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

Milk & Dairy Markets
Milk is plentiful and foreign dairy markets continue to flounder. But at the CME spot market, cheese and butter prices remain buoyant. Spot Cheddar blocks gained 8.5¢ this week and climbed to $1.6975/lb. Barrels added 6.5¢, reaching $1.66. The weekly average spot price is more than 20¢ lower than Cheddar in Oceania and nearly 60¢ below that of German Edam. However, the spot market offers the cheapest domestic cheese – all 2015 futures contracts are over $1.70 – and buyers are flocking there. This week seven loads of blocks and 21 barrels changed hands. 2015 Class III futures posted double digit gains this week, with strength weighted to nearby contracts.

CME spot butter jumped to $1.955/lb. on Friday, up 11.5¢ on the week to the highest level in over a month. The futures climbed as well, and most 2015 contracts gained a nickel – their daily trading limit – at some point this week. This allowed Class IV futures to rally despite abject weakness in the powder market. Spot Grade A nonfat dry milk (NDM) plunged to a new all-time low of 70.5¢ on Thursday and closed Friday at 71.25¢, down 4.25¢ from last week.

It is said that low prices are the cure for low prices. However, as the ailing powder market has demonstrated, recovery can be painfully slow. Prices have not yet been low enough for long enough to discourage production and evoke new demand in volumes sufficient to change the market’s course. Global powder supplies remain burdensome and there are no signs of slowing output. Fonterra recently stepped up its product offerings for the...
August 4th Global Dairy Trade auction. Europe is likely increasing powder production as well.

Milk production in the 28 nations of the Eurozone continued to rise in May, with producers in a few countries in particular taking advantage of their post-quota freedom. The two largest dairy producing nations in the bloc – Germany and France – both swung from year-over-year deficits in April to growth in May. Output rose 10% in Ireland and 6.6% in the Netherlands. After five months, European milk output is now 0.85% greater than it was at the same point in 2014.

There is little sign that demand is rising quickly enough to absorb this extra product. In Europe powder prices are hovering near intervention levels and Lithuania has offered nearly 200 metric tons of skim milk powder into the EU’s purchasing program. China has gone quiet and milk powder manufacturers in Lithuania and elsewhere hope the government can fill in the space formerly occupied by the mammoth in the milk powder market. Chinese milk powder imports slowed in June to 65.8 million pounds, down 28.1% from May on a daily average basis and down 53% from a year ago.

U.S. milk production totaled 17.45 billion pounds last month, up 0.7% from June 2014. This is the smallest year-over-year growth in U.S. milk output since December 2013 (when production contracted). At 9.317 million head, the milking herd is 50K head larger than it was a year ago. This is 7K head larger than USDA’s initial estimate for May, but it represents a 7K head decline after USDA revised its assessment of the May herd up by 14K head.

Milk production remains very strong in the Midwest. Output climbed 7.2% in Michigan and 3.4% in Wisconsin. Production slipped further in New Mexico (-4.5%), California (-4.3%), Oregon (-3.2%), and Texas (-2.1%). Ohio and Washington reported their first year over year declines in milk output in some time.
Cheese is plentiful, and in light of persistently high milk output in the Midwest and the chasm between U.S. and foreign markets, U.S. cheese stocks are likely to remain high. In June they climbed to 1.14 billion pounds, putting inventories 8.1% higher than the year before and just 9 million pounds shy of the record set in 2013. Stocks were 2.6% greater than the previous month, and the May to June increase was more than five times larger than the historical average build.

Butter inventories slipped in June to 254.7 million pounds, down 3.8% from May but still 27.8% greater than prior year volumes. Butter production has been less than impressive despite robust U.S. milk production. Historically, California has accounted for at least one third of U.S. butter output, so waning milk production in the Golden State could mean that U.S. butter output will continue to underwhelm.

For the week ending June 11, dairy cow slaughter totaled 52,672 head. This was down 1.1% from the same week last year, bringing year-to-date slaughter 4.7% ahead of the 2014 pace.

**Grain Markets**

The grain markets retreated this week. December corn settled at $4.0275/bushel, down 17.5ȼ. November soybeans finished at $9.65, more than 40ȼ lower than last Friday. August soybean meal futures begrudgingly gave back $6.30/ton, closing at $354.80.

The crop is pollinating under excellent conditions. The ravages of flooding in the Eastern Corn Belt cannot be undone, but these losses are at least partially mitigated by the potential for fabulous yields in other areas. With fewer weather concerns on which to focus, the trade has turned its attention to demand.

Weekly export sales data has been uninspiring at best. Farmers in both the U.S. and South America sold aggressively during the recent rally. This has allowed South American exporters to book sales later this year, a period when the U.S. tends to dominate the international trade. U.S. export commitments as a share of USDA’s export forecast are far lower than is typical for this time of year, which suggests that export demand may be revised downward.

Currency moves may further slow U.S. export sales. The Brazilian real was already beleaguered by concerns about global economic growth, which could weigh most heavily on commodity-driven economies like Brazil’s. This week it was pummeled to 12-year lows upon news that the nation would have trouble trimming its debt levels, putting its credit rating in danger. Thanks to the currency effect, farmers in Brazil could shrug off declines in the U.S. soybean price and choose to plant even more acreage in just a few months.