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DATE: August 8, 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</td>
<td>$2.1000</td>
<td>$2.4000</td>
</tr>
<tr>
<td>Barrels</td>
<td>$2.1225</td>
<td>N/C</td>
</tr>
<tr>
<td>Weekly Average, Cheddar Cheese</td>
<td>- $.0810</td>
<td>$2.4000</td>
</tr>
</tbody>
</table>

| Blocks | $2.0840 |
| Barrels |

Weekly Average: Cheddar Cheese

| Blocks | $1.8438 |
| Barrels |

Dairy Market News: w/e 08/08/14

| Calif. Plants | 11,247,293 |
| Nat'l Plants  | 17,405,384 |

Prior Week Ending 7/25 & 7/26

| Calif. Plants | 13,973,399 |
| Nat'l Plants  | 19,346,335 |

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FRED DOUMA’S PRICE PROJECTIONS…

August 8 Est: Quota cwt. $23.00 Overbase cwt. $21.30 Cls. 4a cwt. $23.29 Cls. 4b cwt. $19.44

Last Week: Quota cwt. $22.64 Overbase cwt. $20.94 Cls. 4a cwt. $23.22 Cls. 4b cwt. $18.71

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

Milk & Dairy Markets

The CME spot cheese market stands alone as a bastion of strength as the rest of the global dairy markets softened. Spot Cheddar blocks gained a dime this week and settled at $2.10/lb., the highest level since early May. Barrels added 12.25ȼ, climbing to $2.1225. The cheese market supported August Class III futures, but all other contracts faded. Given the outlook for rising global dairy product inventories, it seems likely that deferred cheese and Class III prices will continue to slide as they seek to narrow the gap between U.S. and global markets.

After months of carefully stair-stepping lower, spot nonfat dry milk (NDM) tumbled off the precipice this week, losing 11ȼ. At $1.54/lb., spot NDM stands at its lowest level since March of last year. Traders exchanged 37 loads of butter this week. A number of those trades took place as low as $2.38, but butter was inevitably bid back up to $2.40. It settled there, unchanged from last Friday. Class IV contracts traded in the red, with the December contract nearly a dollar lower than last week’s settlement.
Dairy product prices were sharply lower at the Global Dairy Trade (GDT) auction. The GDT index fell more steeply than anticipated, dropping 8.4%. All products except anhydrous milkfat traded lower than at the previous event. Butter fell 9.6% and Cheddar was 10.2% lower. Skim milk powder (SMP) and whole milk powder (WMP) lost 6.5% and 11.5%, respectively.

Despite the break in foreign and domestic milk powder prices, the California Weighted Average Price (CWAP) for NDM gained 5.51¢ in the week ending August 1. The CWAP now stands at $1.8438/lb., near the National Dairy Product Sales Report (NDPSR) price of $1.8412. These prices, which influence a large part of the milk check, are considerably higher than the Western mostly range for NDM ($1.62 to $1.85) and the spot market ($1.54). As the Daily Dairy Report noted this week, spot markets are signaling for a decline in milk powder production, but it will be some time before that message is communicated through producers’ milk checks. Indeed, Dairy Market News reports that condensed milk supplies are testing drier capacity in the Northeast, Mid-Atlantic and Midwest regions.

Last Friday, USDA’s Dairy Products report showed a surprisingly small uptick in cheese production. But on Tuesday, USDA issued a correction, noting that it had failed to fully account for cheese output in Idaho. Thus, U.S. cheese production in June was 3.3% greater than last year, not 0.5% higher as reported last week. The revised total represents the largest year-over-year gain in U.S. cheese output since October. Nonetheless, the nearby cheese markets shrugged off the combined pressures of the disappointing GDT auction and the news of stronger U.S. output.

The U.S. cheese and butter markets have proven resilient to outside pressures because demand is strong and buyers have had some difficulty securing supplies for immediate needs. U.S. dairy product exports flourished in the first half of the year, depleting inventories. Compared to the first six months of 2013, the U.S. increased exports of butter by 57%, cheese by 34%, NDM by 13% and whey by 8%.

NDM exports were record-large in June, reaching 134 million pounds, up 26% from last year. Mexico has emerged as an eager buyer of milk powder now that prices have fallen. U.S. sales of NDM to Mexico in
June were 72% greater than last year. U.S. cheese exports climbed to 74.8 million pounds in June, nearly a one third increase from the previous year. Sales to Southeast Asia are booming as consumers in Japan and South Korea have acquired the taste for pizza. Both nations surpassed Mexico as top markets for U.S. cheese in June. Butter exports totaled 13.2 million pounds in June, down 21% from June 2013.

Global dairy trading patterns will likely shift due to Russia’s retaliatory bans on agricultural imports from the U.S., Europe and Australia. New Zealand is likely to export more to Russia, while European products will be displaced and looking for buyers elsewhere. Given the strong U.S. dollar and the disparity between U.S. and global dairy product prices, the U.S. will face stiff competition for exports in the months to come. Imports of butter and cheese could exceed exports later this year. This will help to alleviate the tight butter situation during the typical drawdown period this fall. But as dairy products trickle in from overseas, they are also likely to pressure U.S. dairy product prices.

For the week ending July 26, dairy cow slaughter totaled 52,635, down 8% from the same week last year. Over the past few weeks, slaughter rates have been a little higher than they were in May and June. Slaughter rates typically tick upward in the late summer. For the year to date, dairy cow slaughter remains 10.3% lower than in 2013. Dairy profit margins are excellent.

**Grain Markets**

Corn futures gained a penny this week. Grain markets rallied earlier this week, but they faded Thursday and Friday. Analysts expect USDA to forecast record large yields in next week’s Crop Production report. The average guess calls for a corn yield of 170.1 bushels per acre.

Nearby soybean futures settled nearly 70¢ higher than last Friday thanks to unexpectedly large export sales. It is likely that these new export contracts will be delayed until harvest and will not further diminish old crop soybean supplies. However, the sales serve as a reminder that U.S. soybean and soybean meal prices will need to remain high enough to discourage any marginal increase in demand. Argentina is in default and farmers are hunkered down. Argentina is thus an unreliable and undesirable source for long-term purchases. Buyers are turning their focus to the U.S. in spite of tight domestic supplies.

November soybean futures rallied 26¢ this week. Rains over the past week have helped the crop in the western Corn Belt, but more rains are needed, and rainfall next week is likely to be below average. The weather and next week’s Crop Production and World Agricultural Supply and Demand Estimate reports will determine the market’s direction in the coming weeks.