MANAGER’S NOTE: (By Rob Vandenheuvel) This week, we introduce a new contributor to the weekly MPC newsletter: Sarina Sharp. Sarina, who will be providing regular dairy and grain market commentary for our readers, is a dairy and grain market analyst for the Daily Dairy Report. She grew up on dairy farms in California’s Central Valley and then West Michigan. Sarina graduated with honors from Covenant College in Lookout Mountain, Georgia, where she majored in Business with concentrations in Finance and Accounting and minored in English. After college she worked as a research analyst at the Nesvick Trading Group in Memphis, Tennessee and earned her Series III trading certification. In 2010, Sarina returned to the Midwest to manage risk for her family’s dairy, feed and beef operations.

We welcome Sarina to the MPC team and look forward to the valuable commentary she’ll be providing for our readers!

MARKET COMMENTARY: (By Sarina Sharp)

Milk & Dairy Markets

Dairy markets tumbled this week as demand has waned at historically high prices. The U.S. dairy market has managed to hold product prices above those of competitors in Oceania and Europe for months, at the expense of export sales. U.S. cheese exports in September totaled 40.5 million lbs., the lowest monthly volume so far this year. Similarly, butter exports totaled 4.2 million lbs., the smallest in a year. Meanwhile, U.S. butter imports are rising and the U.S. dollar is strengthening, making exports less competitive.

Domestic demand for cheese is also softening, as end users are reportedly well stocked for the approaching holidays. CME spot cheese prices moved significantly lower this week, and they pulled nearby futures down with them. Cheddar blocks fell 19¢/lb. this week to $1.92, and barrels fell 24 ½¢ to $1.835. In response, November Class III futures closed 42¢ lower this week and December futures lost nearly a dollar.

In contrast, milk powder prices are still moving higher. Grade A nonfat dry milk (NDM) added ½¢ at the CME spot exchange this week. Dairy Market News reported continued increases in dry product prices. NDM added a penny on the low end of the range of prices in the West. The California Weighted Average Price for NDM was up 0.62¢.

Until late this week, dairy prices have been supported by high production costs and falling milk production. Those fundamentals remain in place, but for now they are not enough to overcome diminishing demand. California milk production totaled 3.18 billion lbs. in September, a decline of 3.9% from 2011. National milk

MANAGER’S NOTE: (By Rob Vandenheuvel) This week, we introduce a new contributor to the weekly MPC newsletter: Sarina Sharp. Sarina, who will be providing regular dairy and grain market commentary for our readers, is a dairy and grain market analyst for the Daily Dairy Report. She grew up on dairy farms in California’s Central Valley and then West Michigan. Sarina graduated with honors from Covenant College in Lookout Mountain, Georgia, where she majored in Business with concentrations in Finance and Accounting and minored in English. After college she worked as a research analyst at the Nesvick Trading Group in Memphis, Tennessee and earned her Series III trading certification. In 2010, Sarina returned to the Midwest to manage risk for her family’s dairy, feed and beef operations.

We welcome Sarina to the MPC team and look forward to the valuable commentary she’ll be providing for our readers!

MARKET COMMENTARY: (By Sarina Sharp)

Milk & Dairy Markets

Dairy markets tumbled this week as demand has waned at historically high prices. The U.S. dairy market has managed to hold product prices above those of competitors in Oceania and Europe for months, at the expense of export sales. U.S. cheese exports in September totaled 40.5 million lbs., the lowest monthly volume so far this year. Similarly, butter exports totaled 4.2 million lbs., the smallest in a year. Meanwhile, U.S. butter imports are rising and the U.S. dollar is strengthening, making exports less competitive.

Domestic demand for cheese is also softening, as end users are reportedly well stocked for the approaching holidays. CME spot cheese prices moved significantly lower this week, and they pulled nearby futures down with them. Cheddar blocks fell 19¢/lb. this week to $1.92, and barrels fell 24 ½¢ to $1.835. In response, November Class III futures closed 42¢ lower this week and December futures lost nearly a dollar.

In contrast, milk powder prices are still moving higher. Grade A nonfat dry milk (NDM) added ½¢ at the CME spot exchange this week. Dairy Market News reported continued increases in dry product prices. NDM added a penny on the low end of the range of prices in the West. The California Weighted Average Price for NDM was up 0.62¢.

Until late this week, dairy prices have been supported by high production costs and falling milk production. Those fundamentals remain in place, but for now they are not enough to overcome diminishing demand. California milk production totaled 3.18 billion lbs. in September, a decline of 3.9% from 2011. National milk

MANAGER’S NOTE: (By Rob Vandenheuvel) This week, we introduce a new contributor to the weekly MPC newsletter: Sarina Sharp. Sarina, who will be providing regular dairy and grain market commentary for our readers, is a dairy and grain market analyst for the Daily Dairy Report. She grew up on dairy farms in California’s Central Valley and then West Michigan. Sarina graduated with honors from Covenant College in Lookout Mountain, Georgia, where she majored in Business with concentrations in Finance and Accounting and minored in English. After college she worked as a research analyst at the Nesvick Trading Group in Memphis, Tennessee and earned her Series III trading certification. In 2010, Sarina returned to the Midwest to manage risk for her family’s dairy, feed and beef operations.

We welcome Sarina to the MPC team and look forward to the valuable commentary she’ll be providing for our readers!

MARKET COMMENTARY: (By Sarina Sharp)

Milk & Dairy Markets

Dairy markets tumbled this week as demand has waned at historically high prices. The U.S. dairy market has managed to hold product prices above those of competitors in Oceania and Europe for months, at the expense of export sales. U.S. cheese exports in September totaled 40.5 million lbs., the lowest monthly volume so far this year. Similarly, butter exports totaled 4.2 million lbs., the smallest in a year. Meanwhile, U.S. butter imports are rising and the U.S. dollar is strengthening, making exports less competitive.

Domestic demand for cheese is also softening, as end users are reportedly well stocked for the approaching holidays. CME spot cheese prices moved significantly lower this week, and they pulled nearby futures down with them. Cheddar blocks fell 19¢/lb. this week to $1.92, and barrels fell 24 ½¢ to $1.835. In response, November Class III futures closed 42¢ lower this week and December futures lost nearly a dollar.

In contrast, milk powder prices are still moving higher. Grade A nonfat dry milk (NDM) added ½¢ at the CME spot exchange this week. Dairy Market News reported continued increases in dry product prices. NDM added a penny on the low end of the range of prices in the West. The California Weighted Average Price for NDM was up 0.62¢.

Until late this week, dairy prices have been supported by high production costs and falling milk production. Those fundamentals remain in place, but for now they are not enough to overcome diminishing demand. California milk production totaled 3.18 billion lbs. in September, a decline of 3.9% from 2011. National milk

MANAGER’S NOTE: (By Rob Vandenheuvel) This week, we introduce a new contributor to the weekly MPC newsletter: Sarina Sharp. Sarina, who will be providing regular dairy and grain market commentary for our readers, is a dairy and grain market analyst for the Daily Dairy Report. She grew up on dairy farms in California’s Central Valley and then West Michigan. Sarina graduated with honors from Covenant College in Lookout Mountain, Georgia, where she majored in Business with concentrations in Finance and Accounting and minored in English. After college she worked as a research analyst at the Nesvick Trading Group in Memphis, Tennessee and earned her Series III trading certification. In 2010, Sarina returned to the Midwest to manage risk for her family’s dairy, feed and beef operations.

We welcome Sarina to the MPC team and look forward to the valuable commentary she’ll be providing for our readers!

MARKET COMMENTARY: (By Sarina Sharp)

Milk & Dairy Markets

Dairy markets tumbled this week as demand has waned at historically high prices. The U.S. dairy market has managed to hold product prices above those of competitors in Oceania and Europe for months, at the expense of export sales. U.S. cheese exports in September totaled 40.5 million lbs., the lowest monthly volume so far this year. Similarly, butter exports totaled 4.2 million lbs., the smallest in a year. Meanwhile, U.S. butter imports are rising and the U.S. dollar is strengthening, making exports less competitive.

Domestic demand for cheese is also softening, as end users are reportedly well stocked for the approaching holidays. CME spot cheese prices moved significantly lower this week, and they pulled nearby futures down with them. Cheddar blocks fell 19¢/lb. this week to $1.92, and barrels fell 24 ½¢ to $1.835. In response, November Class III futures closed 42¢ lower this week and December futures lost nearly a dollar.

In contrast, milk powder prices are still moving higher. Grade A nonfat dry milk (NDM) added ½¢ at the CME spot exchange this week. Dairy Market News reported continued increases in dry product prices. NDM added a penny on the low end of the range of prices in the West. The California Weighted Average Price for NDM was up 0.62¢.

Until late this week, dairy prices have been supported by high production costs and falling milk production. Those fundamentals remain in place, but for now they are not enough to overcome diminishing demand. California milk production totaled 3.18 billion lbs. in September, a decline of 3.9% from 2011. National milk

MANAGER’S NOTE: (By Rob Vandenheuvel) This week, we introduce a new contributor to the weekly MPC newsletter: Sarina Sharp. Sarina, who will be providing regular dairy and grain market commentary for our readers, is a dairy and grain market analyst for the Daily Dairy Report. She grew up on dairy farms in California’s Central Valley and then West Michigan. Sarina graduated with honors from Covenant College in Lookout Mountain, Georgia, where she majored in Business with concentrations in Finance and Accounting and minored in English. After college she worked as a research analyst at the Nesvick Trading Group in Memphis, Tennessee and earned her Series III trading certification. In 2010, Sarina returned to the Midwest to manage risk for her family’s dairy, feed and beef operations.

We welcome Sarina to the MPC team and look forward to the valuable commentary she’ll be providing for our readers!

MARKET COMMENTARY: (By Sarina Sharp)

Milk & Dairy Markets

Dairy markets tumbled this week as demand has waned at historically high prices. The U.S. dairy market has managed to hold product prices above those of competitors in Oceania and Europe for months, at the expense of export sales. U.S. cheese exports in September totaled 40.5 million lbs., the lowest monthly volume so far this year. Similarly, butter exports totaled 4.2 million lbs., the smallest in a year. Meanwhile, U.S. butter imports are rising and the U.S. dollar is strengthening, making exports less competitive.

Domestic demand for cheese is also softening, as end users are reportedly well stocked for the approaching holidays. CME spot cheese prices moved significantly lower this week, and they pulled nearby futures down with them. Cheddar blocks fell 19¢/lb. this week to $1.92, and barrels fell 24 ½¢ to $1.835. In response, November Class III futures closed 42¢ lower this week and December futures lost nearly a dollar.

In contrast, milk powder prices are still moving higher. Grade A nonfat dry milk (NDM) added ½¢ at the CME spot exchange this week. Dairy Market News reported continued increases in dry product prices. NDM added a penny on the low end of the range of prices in the West. The California Weighted Average Price for NDM was up 0.62¢.

Until late this week, dairy prices have been supported by high production costs and falling milk production. Those fundamentals remain in place, but for now they are not enough to overcome diminishing demand. California milk production totaled 3.18 billion lbs. in September, a decline of 3.9% from 2011. National milk
production was 0.5% lower than last year and production per cow fell 0.6%. High feed costs are incentivizing dairy producers to feed lower quality rations and cull aggressively, and a number of dairies have been liquidated. It all adds up to sustained declines in milk production. In the long run, this could lead to higher milk prices. In the short term, the market remains focused on signs that dairy demand suffered at recent price levels.

Grain Markets

USDA offered some hope of lower feed costs in its monthly World Agricultural Supply and Demand Estimates. The report was notably bearish for soybeans. USDA estimates soybean yields at 39.3 bushels per acre, up 1.5 bushels from the October forecast. National soybean production is expected to total 2.971 billion bushels, 111 million bushels higher than USDA estimated in October. Spot soybean futures fell $0.48 to their lowest level in over four months. Still, supplies remain tight, and much of the increased production will go immediately to larger exports and processing for soybean meal and soybean oil.

With limited supplies, soybean prices will be sensitive to any hint of trouble for the South American crop. The ideal window for corn planting is closing in Argentina, and flooding has slowed fieldwork. Only 40% of the Argentine corn crop is planted, and farmers may switch acreage intended for corn to soybeans. Still, widely followed oilseed analyst group Oil World warns that Argentina could lose 10% of its soybean crop to drowning.

In contrast, farmers in Brazil are behind the normal planting pace because of a dry start to the season. This prevented them from planting soybeans that could be harvested and sent to export in early March. Fortunately, scattered rains have fallen in northern Brazil all week, and they are expected to resume mid-next week after a few dry days. Crop conditions in southern Brazil are favorable.

USDA made minimal changes to the corn balance sheet. It estimated the corn yield at 122.3 bushels per acre, up 0.3 bushels from its October figure. This made for a 19 million bushel increase in U.S. production, and supply was increased further due to a 25 million bushel increase in imports. The Mississippi River is low, and barge traffic is limited. This has led to an increase in rail transport and rising rail costs. Southeast livestock producers can thus purchase imported corn at a discount to feed transported from the Midwest.

The increase in corn supplies is immaterial and grain prices are unlikely to fall much from current levels. Wheat prices are rising as crop conditions in major growing areas – including the Black Sea, Australia, Argentina and the U.S. Plains – are struggling. Corn exports are currently slow but will likely accelerate in a few months when Brazilian supplies dwindle. The USDA expects only 21 days’ supply of corn at the end of the 12/13 crop year next fall.

These minimal year-end supplies can only be achieved given considerable declines in feed demand, and most livestock industries have shown little sign of rationing. Hog producers are not liquidating despite painful margins. Beef cattle growers are feeding cattle for longer periods and carcass weights are at record levels. Only the dairy and poultry industries are showing signs of contraction, and more rationing is needed. Until U.S. livestock numbers decline significantly or global malaise weakens corn demand materially, corn prices will remain well supported.

***

FRED DOUMA’S PRICE PROJECTIONS...

| Nov 02 Est: | Quota cwt. | $20.30 | Overbase cwt. | $18.61 | Cls. 4a cwt. | $18.22 | Cls. 4b cwt. | $18.72 |
| Last Week:  | Quota cwt. | $20.82 | Overbase cwt. | $19.12 | Cls. 4a cwt. | $18.21 | Cls. 4b cwt. | $19.84 |

***
A QUICK LOOK AT SOME OF THE ELECTION RESULTS:  (By Rob Vandenheuvel) So we all know who won the Presidential election, but what about all the other items on that multi-page ballot?  Let’s take a look at a few of those State and Congressional election results that impact California’s dairy regions.

**Congressional Races**

- First, our congratulations go out to David Valadao (R), who won convincingly (60% to 40%) in California’s 21st Congressional district in the Hanford area. David, a dairyman in that district, has been serving in the California State Assembly for the past two years and will be a valuable industry advocate in Washington, DC. **Congratulations Congressman-elect Valadao!**
- Ricky Gill, a farmer running for California’s 9th Congressional district (Stockton/Lodi area), was defeated by incumbent Congressman Jerry McNerney by a 54% to 46% margin.
- Incumbent Congressmen representing major dairy areas in the Central Valley – Kevin McCarthy (R-Bakersfield), Devin Nunes (R-Visalia), Jim Costa (D-Fresno) and Jeff Denham (R-Merced) – were re-elected to their Congressional districts.
- Incumbent Congressmen in Southern California that have represented the local dairy regions – Gary Miller (R-Rancho Cucamonga), Ken Calvert (R-Corona) – won their re-election campaigns as well.
- Congressman Joe Baca (D) was defeated by State Senator Gloria Negrete McLeod (D) in the race for California’s 35th Congressional district, which covers Chino and Ontario. As a senior member of the House Agriculture Committee, we thank Congressman Baca for his years of service to the industry. Incoming Congresswoman Negrete-McLeod is very familiar with the California dairy industry, having represented the Chino area for many years, and MPC looks forward to continuing to work with her in her new role in Washington, DC.
- In a race for the newly created 41st Congressional district (Moreno Valley), Mark Tekano (D) defeated long-time Riverside County Supervisor John Tavaglione (R).

**State Legislature Races**

- In the 5th State Senate district (Stockton/Lodi/Tracy), two current Assembly members ran for the seat. While some of the absentee votes are still being counted, it appears that Assemblyman Bill Berryhill (R) will be defeating Assemblywoman Cathleen Galgiani (D) by a close margin (currently 51.1% to 48.9%). Assemblywoman Galgiani has been serving as the Chairwoman of the Assembly Agriculture Committee, and MPC thanks her for her service in that role.
- State Senator Bob Huff (R-Chino Hills), who comes from a farming family and has been a friend to the local dairy industry, won his re-election campaign.
- In the newly-created 31st State Senate district (representing dairies from Eastvale out to Moreno Valley), newcomer Richard Roth (D) defeated Assemblyman Jeff Miller (R), who’s been representing part of that region in the Assembly for the past four years.
- On the Assembly side, Tulare-area Assemblywoman Connie Conway (R) and Bakersfield-area Assemblywoman Shannon Grove (R) both easily won their re-election campaigns.
- In a hotly contested race for the 32nd Assembly district (Hanford/Delano/Shafter), Rudy Salas (D) holds a slim lead over Pedro Rios (R). Out of the 58,850 ballots that have been counted (with some more absentee votes still to be counted), the difference between these two candidates is currently 268 votes.
- In the Chino/Ontario region, incumbent Assemblywoman Norma Torres (D) easily won re-election.
- The big story in Sacramento is the likelihood that when all the votes are counted, Democrats may achieve a two-thirds “supermajority” in both the State Senate and Assembly, providing the State’s Democrats with overwhelming control over our Legislature.