DATE: November 14, 2014
TO: Directors & Members
FROM: Rob Vandenhuevel, 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>Weekly Change</td>
<td>Week Ending 11/7 &amp; 11/8</td>
</tr>
<tr>
<td>Barrels</td>
<td>Weekly Average</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>Dairy Market News</td>
<td>Prior Week Ending 10/31 &amp; 11/1</td>
</tr>
<tr>
<td>Blocks</td>
<td>w/e 11/14/14</td>
<td>Calif. Plants</td>
</tr>
<tr>
<td>Barrels</td>
<td>w/e 11/08/14</td>
<td>Nat'l Plants</td>
</tr>
</tbody>
</table>

$1.9425
$1.9875
$1.9930
$1.4524
$1.4633
$1.4892
$1.4578
$1.9150
$1.9930
$2.0040
$1.9524
$1.9544

DRY WHEY

FRED DOUMA’S PRICE PROJECTIONS…

Nov 14 Est: Quota cwt. $21.27 Overbase cwt. $19.57 Cls. 4a cwt. $18.69 Cls. 4b cwt. $19.21
Last Week: Quota cwt. $21.89 Overbase cwt. $20.18 Cls. 4a cwt. $18.81 Cls. 4b cwt. $20.47

MARKET COMMENTARY: (By Daily Dairy Report staff, info@dailydairyreport.com)

Milk & Dairy Markets

The CME Group (CME) spot cheese prices closed the week on a quiet note after a significant correction in Cheddar block and barrel markets earlier in the week. On Tuesday, the Cheddar block and barrel prices shed 18¢ and 17.25¢, respectively, to close at $2/lb. and $1.9475. This was the largest single-day drop for blocks since Oct. 23, when they fell 21¢. Both block and barrel markets traded modestly lower on Wednesday followed by multiple-cent declines on Thursday to $1.9425 and $1.915, respectively. Friday’s trading session was eerily quiet with no bids, offers, or trades.

Cheese production is nearing capacity in many facilities across the United States. Milk supplies are more than ample. USDA’s Dairy Market News reports that surplus milk from Idaho is selling in the region below class prices. Spot loads in the Midwest are being discounted between $2 and $5 under the Class III price. Nevertheless, cheese manufacturing is the preferred outlet for surplus milk given current nonfat dry milk (NDM) prices.

CME spot butter trading was active, with 22 loads (more than 950,000 lbs.) exchanging hands. The butter price
closed the week at $1.9875, down 2¢ from the previous Friday. Retail and bulk butter demand is good. Butter manufacturers are churning to fill orders rather than to build inventories.

Ten loads of Grade A NDM were sold in the CME spot market this week. The market closed at $1.18, up 2¢ from the previous Friday. Dairy Market News reports that NDM prices continue to weaken across the country with the lowest spot prices coming in at $1.11/lb. For the week ending Nov. 14, the West mostly range was unchanged on the low end at $1.15/lb. but fell 3.75¢ to $1.4125 on the high end compared to the previous week. The California Weighted Average Price (CWAP) for NDM for the week ending Nov. 7 fell 3.68¢ to $1.4524. Further price declines are projected in the CWAP price, but it could take several weeks for the price to reflect current spot prices.

USDA raised its outlook for 2014 cheese and NDM prices to reflect current price movements but lowered its 2015 price forecasts because “domestic supplies are expected to be relatively large,” according to World Agricultural Supply and Demand Estimates (WASDE) released earlier this week. USDA tempered its 2015 milk production estimate, citing more moderate expansion in cow numbers and growth in milk production per cow compared to earlier forecasts. Export forecasts for 2014 and 2015 were lowered as U.S. dairy products, particularly NDM, have become less competitive in global markets. In total, USDA’s outlook for the 2015 All-Milk price fell a very modest 10¢ per hundredweight on each side of the range from last month’s estimate to $18.85 to $19.75. The midpoint of the 2015 All-Milk price estimate is $19.30. If it comes to fruition, it will be the third highest All-Milk price following 2014’s record-high $24.20 and 2013’s $20.05.

Annual dairy cow slaughter in 2012 and 2013 surpassed 3.1 million head, roughly one-third of the U.S. dairy herd. Through the first three quarters of 2014, dairy producers retired nearly 11% fewer cows than they did in the past two years. Weekly cow slaughter under Federal Inspection for the week ending Nov. 1 fell to 54,700 head, down 2.5% compared to the previous week and 7.3% less than the prior year. Dairy culling in Federal Inspection region 9, which includes Arizona, California, and Nevada, trails last year by 100,000 head, followed by combined regions 5, 7, and 8, comprised of key Midwest and Central Plains dairy states, with 88,000 fewer head. In recent weeks, dairy slaughter in the Pacific Northwest has been running slightly ahead of last year and the level of year-over-year declines in region 9 narrowed dramatically to just 200 head this past week. Meanwhile, dairy cow retirements in the Midwest and Central Plains are off last year’s pace by 20% due to exceptional milk prices and low feed costs.

Page 2 of 4
**Grain Markets**

USDA lowered its estimate for the 2014 corn crop while increasing its forecast for corn use, according to the WASDE report. USDA expects the 2014 corn harvest to set a new record at 14.407 billion bushels despite lowering its previous estimate by 68 million bushels due to a 0.8-bushel yield reduction. On the demand side of the equation, U.S. corn use for 2014-15 is forecast marginally higher with a 5-million-bushel increase in food, seed, and industrial use. USDA raised its estimate of global corn production by 1.4 million tons due to greater output from the European Union, Ukraine, and Mexico, which more than offsets reductions in China and Kenya. The net result is a dime increase on both ends of USDA’s forecast range of $3.20 to $3.80/bu. compared to last month’s forecast.

***

**STILL WAITING ON A COUPLE OF “TOO-CLOSE-TO-CALL” ELECTIONS:** *(By Rob Vandenheuvel)*

As we sit here 10 days after election day, you would hope that we’d have the final picture of who won and who lost. In most cases, we do. However, there are still a few “too-close-to-call” elections pending while final ballots are counted. Two of those races are in Central Valley Congressional elections:

- Congressman Ami Bera (D-Elk Grove) is currently leading his opponent Doug Ose (R) by 711 votes, with an estimated 19,000 votes still to be counted and announced.
- As of 3 pm this afternoon, Congressman Jim Costa (D-Fresno, Merced) is leading his opponent, dairyman Johnny Techerra (R) by 700 votes. It’s unclear how many votes still need to be counted. On election night, Techerra was leading this race, but as votes have continued to be counted, Costa has not only closed that gap, but has now taken the lead. With votes still coming in from Fresno, Merced and Madera Counties, this race probably won’t be called until every last vote is counted.

While those races are still pending, let’s take a look at some of the election results from dairy regions where we do know the winner:

**Congressional Elections:**

- Nationally, Republicans maintained the voting majority (and therefore control) in the U.S. House of Representatives.
- Nationally, Republicans also now hold the voting majority and control in the U.S. Senate, which has been controlled by the Democrat party since 2007.
- In California, notwithstanding the “too-close-to-call” elections mentioned above, all other incumbent Representatives who were on the ballot won re-election.
- Specific to some of the dairy regions in the State, MPC congratulates the following Congressmen on their re-election:
  - Rep. Doug LaMalfa (R-Chico)
  - Rep. John Garamendi (D-Orland/Sacramento)
  - Rep. Paul Cook (R-Barstow)
  - Rep. Jerry McNerney (D-Stockton/Lodi)
  - Rep. Jeff Denham (R-Modesto/Turlock)
  - Rep. David Valadao (R-Hanford/Bakersfield)
  - Rep. Devin Nunes (R-Visalia/Tulare)
  - Rep. Kevin McCarthy (R-Bakersfield)
  - Rep. Raul Ruiz (D-San Jacinto)
  - Rep. Mark Takano (D-Moreno Valley)
  - Rep. Ken Calvert (R-Menifee/Lakeview)
  - Rep. Juan Vargas (D-Imperial Valley)
  - Rep. Scott Peters (D-San Pasqual Valley)
- In addition to these incumbents, congratulations are in order to current State Senator Norma Torres (D-Chino), who was elected to replace outgoing Rep. Gloria Negrete-McLeod (D-Chino).
State Elections:

- Proposition 1 was approved. This measure, known as the “Water Bond,” authorizes the sale of more than $7 billion in bonds, the proceeds of which are to be used for water supplies and water quality. Specifically, $2.7 billion of the funds are to be used for water storage projects, dams and reservoirs.

- In the State Senate, MPC congratulates the following incumbents from dairy regions who won re-election:
  - Sen. Tom Berryhill (R-Chowchilla/Escalon)
  - Sen. Anthony Cannella (R-Merced)
  - Sen. Andy Vidak (R-Hanford/West Kern Co.)
  - Sen. Jean Fuller (R-Bakersfield/Barstow)
  - Sen. Joel Anderson (R-Escondido)
  - Sen. Ben Hueso (D-Blythe/Imperial Valley)

- In a State Senate race pitting two current Assemblymen, Dr. Richard Pan (D-Lodi) defeated Assemblyman Roger Dickinson (D-Sacramento). You’ll recall that Dr. Pan was the lead sponsor of AB 31 in 2013, a bill supported by dairy farmers that would have closed the gap between the California and Federal regulated milk prices.

- In the State Assembly, MPC congratulates the following incumbents from dairy regions who won re-election:
  - Assemb. Kristin Olsen (R-Escalon/Ripon)
  - Assemb. Susan Talamantes Eggman (D-Stockton)
  - Assemb. Adam Gray (D-Merced)
  - Assemb. Henry Perea (D-Fresno)
  - Assemb. Rudy Salas (D-Hanford/West Kern Co.)
  - Assemb. Shannon Grove (R-Bakersfield)
  - Assemb. Freddie Rodriguez (D-Chino/Ontario)
  - Assemb. Jose Medina (D-Moreno Valley)
  - Assemb. Brian Maienschein (R-San Pasqual Valley)

- Congratulations to Assemblyman-elect Jim Cooper, who was elected to the 9th Assembly district (Lodi) currently held by Senator-elect Dr. Richard Pan.

Other Notable Election Results:

- MPC would like to congratulate Justin Mendes who was elected to the Hanford City Council. MPC has worked with Justin over the past couple years in his role as District Director to Hanford Congressman (and dairyman) David Valadao.

- Finally, MPC would also like to congratulate Brian Pacheco, Fresno County dairyman and former Chairman of the Board at California Dairies, Inc., for winning his election for Fresno County Supervisor.

Anyone interested in checking on other Congressional or State Legislature races can find that information on the California Secretary of State’s website (http://vote.sos.ca.gov/). Or for the local races, you can check the website of your county’s registrar of voters.