DATE: November 30, 2012 PAGES: 3
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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<tr>
<td>Blocks</td>
<td>Weekly Change</td>
<td>Week Ending 11/23 &amp; 11/24</td>
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<td>Weekly Average, Cheddar Cheese</td>
<td>Dairy Market News</td>
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MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets
Spot butter prices continued to fall this week, shedding 9¢ since markets closed for the holidays. Spot butter has lost 34¢ since late September and has not been this low since July. Butter futures had been holding despite pressure from the spot market in recent weeks, but this week they capitulated. Some deferred contracts posted limit losses on Wednesday and continued to fall on Friday. The National Dairy Product Sales Report (NDPSR) showed a 2.2¢ decline in butter prices. Cream is plentiful and is making its way to the churn. And despite the decline in prices, international buyers have shown little interest in U.S. butter and milkfat. It is going to inventory instead.

In contrast, milk powder exports are reportedly strong and prices are holding steady. According to Dairy Market News, nonfat dry milk prices in the West increased by a penny on both the low and high end of the range.

Class III milk prices softened along with the cheese market. Spot cheddar blocks lost 6.5¢ this week while barrels fell 3.25¢. NDPSR block prices were more than 6¢ lower in the week ending November 24. Barrels were 11.3¢ lower. The impact of the weak cheese market on the Class III futures market has been somewhat muted by impressive strength in the whey market. Every penny increase in whey prices adds 6¢ to the Class III futures market. Whey futures moved higher this week, and the NDPSR reported a 0.59¢ increase in the whey price. Dairy Market News showed no change to whey prices in the West, but prices increased by an average of 0.62¢ in the Central region.

Weekly dairy cow slaughter totaled 65,300 head, an increase of 6.4% from the same week in 2011 and the largest weekly volume since early March. Regional trends in dairy cow slaughter appear to be changing. For most of the year, slaughter was heavy in the West and East while slaughter in the Midwest and Plains states held well below
year ago levels. Year to date slaughter in the Midwest is still 5.8% below 2011, but it is increasing. Dairy producers in the Midwest culled 22,600 cows in the week ending November 17, more than in any week since the holiday-inflated kill in the first week of 2011. Slaughter in that region in the most recent four weeks is larger than any four week slaughter period since 2003. It appears that margin pain has become more widespread and dairy producers in the Midwest are now suffering from rising feed costs as they are exhausting feed inventories.

Grain Markets

On balance, corn prices increased slightly this week as early week gains outweighed later losses. Since bottoming around $7.10 earlier this month, corn prices have sustained a steady but impressive rally back to $7.50. The market remains supported. Prospects for the U.S. winter wheat crop are declining. Concerns are rising that South American farmers will switch acreage to soybeans as the corn planting window is closing, and global grain stocks are minimal. Most end users are doing little to ration corn demand. Poultry producers are raising birds to record heavy weights, and cattle producers are doing the same. Given the continuing and severe drought in the Plains, there will likely be little winter pasture available, and more cattle will spend the winter off pasture and on feedlots consuming purchased feed. Exports are minimal but will likely increase in the next couple months when Brazil runs out of exportable supplies. There is very little reason for corn to return to recent lows near $7.00.

In similar fashion, soybeans continued to rally but suffered a late week setback. Widely followed analyst group Oil World warned that soybean and soy products are likely undervalued given the risk for smaller than expected production in South America. Global soybean stocks are projected to fall to 49.3 million metric tones (mmt) in the first quarter next year, down form 70.1 mmt in the first quarter this year. This would be the lowest quarterly stocks volume in at least five years. There is no room in the global soybean balance sheet for any problems in South America. If production there falls short of expectations, soybean users will be forced to ration demand.

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FRED DOUMA’S PRICE PROJECTIONS…

Dec ‘12 Est: Quota cwt. $19.03 Overbase cwt. $17.33 Cls. 4a cwt. $17.38 Cls. 4b cwt. $16.41
Nov ’12 Final: Quota cwt. $20.19 Overbase cwt. $18.49 Cls. 4a cwt. $18.21 Cls. 4b cwt. $18.48

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***ACTION ALERT…YOUR CONGRESSMAN NEEDS TO HEAR FROM YOU***

THERE IS STILL AN OPPORTUNITY TO APPROVE A NEW FARM BILL THIS YEAR: (By Rob Vandenheuvel)

Earlier this year, Congress seemed to be on a pace to have a new five-year Farm Bill read to be enacted by September 30th, which is when our previous Farm Bill expired. In fact, the House and Senate Agriculture Committees started their hearing processes early, holding some hearings on Farm Bill issues as early as last year. On April 26, 2012, the Senate Committee on Agriculture, Nutrition and Forestry approved their version of the 2012 Farm Bill (S. 3240). About two months later, after extensive debate and some amending of the bill on the Senate floor, the full U.S. Senate approved the bill on June 21st. Less than a month after that, the House Committee on Agriculture approved their version of the 2012 Farm Bill (H.R. 6083) on July 12, 2012, sending the bill to the House Floor, with the hope that it would be voted on soon.

That is where the bill stopped in its tracks. Since then 141 days have passed and the previous Farm Bill has officially expired, while the House leadership has refused to bring the Farm Bill up for a vote on the full House of Representatives.

There are eight remaining days left on the current 2012 House of Representatives Legislative Calendar (Dec. 3-6 & Dec. 11-14). While that doesn’t sound like much time, history tells us that oftentimes Congress needs a deadline to spur action. And with all the talk about the impending “fiscal cliff,” Congress is under tremendous pressure to approve deficit-reduction legislation by the end of the year, making the new Farm Bill an attractive piece of that puzzle (since the House and Senate versions of the Farm Bill reduce expected government spending by $24 - $35 billion over the next five years, depending on which version of the bill you’re looking at).

Why is this important to the dairy industry? Both the Senate-approved and House-Ag-Committee-approved
Farm Bills include critical and much-needed reforms to our dairy safety net policies. Both versions of the bill would eliminate the current Milk Income Loss Contract (MILC) and Dairy Product Price Support (DPPSP) programs, and replace them with a voluntary two-pronged program known as the Dairy Security Act. It’s been written about many times in this newsletter, but as a reminder, the two pieces of that new safety net program are: (1) the Dairy Producer Margin Protection Program, or DPMPP, and (2) the Dairy Market Stabilization Program, or DMSP. The DPMPP would provide a voluntary “margin insurance” option that would make direct payments to participating dairy farms when national average milk-price-over-feed-cost margins drop below certain levels. The DMSP would also trigger in at these times, creating a direct financial incentive for participating dairies to temporarily reduce their milk production by 2-4%, in an effort to help re-align the supply of raw milk with the demand for that milk (which is the main driver of reduced margins on the farm in the first place).

Compare that new two-pronged program with what we’ve had under the previous Farm Bill. From 2008 – 2012, we’ve had an MILC program that provides direct payments when milk prices drop below certain levels, but only on the first 2.985 million pounds of milk produced per dairy per year. That has resulted in only minimal “protection” for the average-sized dairies in California, which produce that volume of milk in about six weeks. We’ve also had the DPPSP, which allows the government to buy surplus stocks of cheese, butter and nonfat dry milk, but not until our milk price drops to about $10 per hundredweight, a laughable “price floor” in our current ethanol-driven, high-cost dairy farming environment. We have an opportunity to replace that old system with a new system that treats all dairies across the U.S. the same, regardless of size and region, and a tool that addresses the underlying root of our problem – the lack of an effective and efficient tool to re-align the supply of milk with the profitable demand.

So what does this mean for individual dairy families? We need you to get on the phone and contact your Congressman! MPC is working hard with other groups and cooperatives around the country that support this desperately-needed reform, and the opportunity is within our grasp. But our elected representatives in Washington, DC need to hear directly from their constituents about how important it is that this Farm Bill, with the carefully-crafted dairy provisions included, be approved before Congress adjourns for the year. If, for any reason, this issue is punted until 2013, we will have to start the whole process over, resulting in delays that our industry cannot afford. Below are phone numbers for many of the California Representatives from our dairy regions:

- Wally Herger (Orland): (202) 225-3076
- Jerry McNerney (Escalon/Lodi/Tracy): (202) 225-1947
- Jeff Denham (Madera/Chowchilla/Kerman): (202) 225-4540
- Jim Costa (Fresno/Hanford/Bakersfield): (202) 225-3341
- Devin Nunes (Tulare/Visalia): (202) 225-2523
- Kevin McCarthy (Bakersfield): (202) 225-2915
- Joe Baca (Ontario): (202) 225-6161
- Gary Miller (Chino): (202) 225-3201
- Ken Calvert (Corona): (202) 225-1986
- Jerry Lewis (Redlands): (202) 225-5861
- Mary Bono-Mack (Moreno Valley): (202) 225-5331

Rest assured, the processors’ main lobbying organization – the International Dairy Foods Association, or IDFA – is working hard to gut the dairy provisions. They want to strip out the DMSP from the bill, removing the only part of the bill that actually addresses the root of our problem. They are understandably nervous about empowering dairy farmers with the ability to temporarily cut back milk supply when the prices we receive fail to even cover our costs, much less provide a profit. We cannot afford to let them sabotage this rare opportunity in the Farm Bill. If dairy farmers, their spouses, their children, their grain dealers, etc. don’t voice their support to their Congressmen, you hand IDFA all the power. So please, pick up the telephone!

If you have any questions, feel free to give MPC a call at (909) 628-6018.