MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Weekly Average, Cheddar Cheese</th>
<th>Barrels</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/C</td>
<td></td>
<td>$1.7400</td>
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<tr>
<td>+$.0550</td>
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<td>$1.7100</td>
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Weekly Change

- $.0400

CHICAGO AA BUTTER

<table>
<thead>
<tr>
<th>Weekly Change</th>
<th>Weekly Average</th>
<th></th>
</tr>
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<tbody>
<tr>
<td>- $.0400</td>
<td>- $.0600</td>
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NON-FAT DRY MILK

<table>
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<tr>
<th>Week Ending 12/21 &amp; 12/22</th>
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<tbody>
<tr>
<td>Calif. Plants $1.5262</td>
</tr>
<tr>
<td>Nat’l Plants $1.5596</td>
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Week Ending 12/22

- $.0600

Calif. Plants $1.5262 5,620,376
Nat’l Plants $1.5596 12,302,358

MARKET COMMENTARY:

Milk & Dairy Markets

Like the needles on an under-watered Christmas tree, holiday demand for Class I and II dairy products has fallen off, and there is plenty of milk available to move to cheese vats, butter churns and driers. Dairy markets are unsettled, yo-yoing amidst light volume and mixed signals.

CME spot Cheddar barrel prices moved 5.5¢ higher on Thursday to $1.71/pound, narrowing the spread between block and barrel prices to historical norms at 3¢. Block and barrel prices moved 3-4¢ lower in the week ending December 22nd, according to the National Dairy Products Sales Report (NDPSR).

Spot butter fell 4¢ on Monday and did not trade later in the week. In contrast, NDPSR butter prices moved fractionally higher according to NDPSR. Last week’s Cold Storage report and continued tepid demand suggest that retailers stocked up on butter in September and October, and they feel no pressure to make additional purchases currently.

Nonfat dry milk (NDM) was untested at the CME this week. According to NDPSR, NDM averaged $1.5596/pound, up 1.4¢ from the previous week. California Weighted Average Price for NDM fell for the first time over three months, dropping to $1.5262/pound, down 0.12¢.

Dairy Market News dry product prices were mostly unchanged, but the average whey price in the West moved a half cent lower. However, NDPSR dry whey prices were 1.34¢ higher, averaging $0.6678/pound.

On balance, Class III prices moved quietly higher this week, likely supported by continued evidence that the U.S. dairy herd is contracting. USDA’s Livestock Slaughter report showed November dairy cow slaughter at 269,000. January through November slaughter totaled 2.84 million head, up 7.2% from the first eleven months of 2011 and the highest eleven month total since 1986, when a massive herd buyout and liquidation program spurred dairy producers to cull well over three million head. For the week ending December 15, dairy cow slaughter totaled 66,600 head, the third largest slaughter of any week.
this year. This volume is especially impressive as it immediately followed the highest weekly slaughter in nearly three years.

Dairy prices may also be garnering support from sensationalist headlines concerning the “dairy cliff.” The lack of a Farm Bill could revert dairy policy to guidelines under the Agricultural Act of 1949, with support prices hypothetically near $40/cwt. Various news outlets have stated that retail milk prices could immediately double at the turn of the year, but any government influence on the dairy price will certainly not affect the shelf price of a gallon of milk with any urgency. The Daily Dairy Report noted last week that the support price program is voluntary, with USDA specifications and packaging requirements. Manufacturers are not typically inclined to change their product to meet government standards, and they have often sold surplus product at below-support prices. Manufacturers are particularly unlikely to change their product specifications to meet government requirements if they view the increase in the support price to be fleeting. Further, California milk prices are based on CME spot prices and Federal Order milk prices are based on the NDPSR, regardless of the government support price. Product sold to the government at the support price would influence NDPSR prices, but volume would likely be small and may have little effect on the average weekly price. Sensationalism aside, the attention that the looming increase in the support price has received could pressure lawmakers to pass dairy policy measures quickly. A vote on Monday could put this issue to rest.

Grain Markets
Corn and soybean prices moved higher on Monday but lost ground later in the week, settling below prior week levels. Corn export sales remain virtually nonexistent, and this lack of demand pushed corn below $7 per bushel. Meanwhile, South American weather remains generally favorable, adding pressure to the soybean market. Forecasts of the Brazilian soybean crop are trending higher. Safras raised its estimate to 84.31 million metric tons (MMT), up 1.84 MMT from their previous projection, compared to USDA’s most recent 81 MMT estimate. A Monsanto official noted that Paraguay may also report strong soybean yields. The Paraguayan government is calling for a 8.4 MMT crop, up from 7.4 MMT last year, and the Monsanto representative believes it could be higher still. However, estimates of Argentina’s crop potential are falling. Wet weather has delayed corn planting and acreage may suffer. Private estimates center around 22-24 MMT of corn in Argentina this year, compared to the USDA at 27.5. Forecasts for the soybean crop are mostly 50-51 MMT, well below USDA at 55 MMT.

The Waterways Council, a shipping group, says the Mississippi River may be closed to barge traffic as early as January 3 or 4, as water levels are falling more quickly than previously anticipated. Significant rains would be needed before the river could reopen once closed. This would add to the cost of moving grains and oilseeds to the Gulf for export and could raise the price of U.S. crop exports, making corn exports even less attractive. It could also dampen U.S. soybean sales, which have been solid, and wheat sales, which have picked up noticeably after the recent break in prices.

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FRED DOUMA’S PRICE PROJECTIONS…
Dec 28 Final: Quota cwt. $19.00 Overbase cwt. $17.30 Cls. 4a cwt. $17.47 Cls. 4b cwt. $16.30
Last Week: Quota cwt. $19.01 Overbase cwt. $17.31 Cls. 4a cwt. $17.48 Cls. 4b cwt. $16.31
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CONGRESS SCRAMBLING TO FINISH THEIR WORK; FARM BILL STILL ON THEIR “TO DO” LIST: (By Rob Vandenheuvel) While the mainstream news has understandably focused on Congress’ “Fiscal Cliff” debate, the discussion over dairy and Farm Bill policy continues in Washington, DC. Here’s the latest update:

- I’m sure you’ve seen the numerous reports that if Congress does not pass either a new Farm Bill (which is unlikely, with only a week left in this Congressional Session) or an extension of the previous Farm Bill
(which is more likely) by December 31st, “permanent law” from 1949 would trigger in, which would require USDA to take steps to “support” a milk price that is at least 75% of “parity.” Rather than go into details about how “parity” is calculated, basically USDA would be required to take steps (i.e., offer to buy up cheese, butter, and nonfat dry milk) to support a milk price of at least $38 per hundredweight.

- This is not the first time this issue has come up. In 2007, Congress was unable to pass a new Farm Bill. Rather than allow this “permanent law” to trigger in, Congress approved a short term extension of the 2002 Farm Bill, and then passed the new five-year Farm Bill in 2008.

- Congress is in session this coming weekend to deal with several issues, including a likely attempt to extend the 2008 Farm Bill for up to a year, giving Congress more time to approve a new five-year Farm bill. Obviously, a simple extension of the dairy provisions in the 2008 Farm Bill (which includes the MILC and Price Support programs) provides inadequate (to say the least) protection as dairy farmers continue to face record high feed costs and a weakening milk price.

- **Some reason for hope:** News reports indicate that it’s possible that the short-term extension being discussed could include the Dairy Security Act. The leaders of the House and Senate Agriculture Committees understand that simply extending the MILC and Price Support Programs no real safety net for the dairy industry, and they recognize that the Dairy Security Act is a far better option. MPC and many dairy organizations/cooperatives around the country have been urging Congress to approve the Dairy Security Act for the past couple years, and this latest development provides some hope to an industry greatly in need of hope.

I strongly encourage each of you (and your spouses, children, relatives, neighbors, grain dealers, bankers, etc.) to give a quick call to your Congressman and tell them that if Congress is going to pass a short term extension of the previous Farm Bill, it MUST include the Dairy Security Act reforms that were in the 2012 Farm Bill discussions. We need you to remind your Congressman that simply extending the 2008 dairy provisions would do provide NO REAL ASSISTANCE to an industry being squeezed between record feed costs and an inadequate milk price.

As a reminder, here are the phone numbers for a number of the dairy-area Congressional offices.

- **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

Even if you just leave a voice message, please take the time to make the call. We have a rare opportunity to get this done, but your Congressman needs to hear from you and your family!

**On behalf of the MPC Board and staff, we wish you all a Happy New Year! Take a minute to leave a message for your Congressman, and maybe we can start 2013 with a much-needed improvement to our Federal safety net programs!**