DATE: December 31, 2015
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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</thead>
<tbody>
<tr>
<td>Barrels: $+.1000  $1.5300</td>
<td>Weekly Average: $+.0119 $2.0450</td>
<td>Calif. Plants $0.7744  5,828,855</td>
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<td>Weekly Average, Cheddar Cheese</td>
<td></td>
<td>Nat’l Plants $0.7790  12,265,158</td>
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<tr>
<td>Blocks: $+.0406  $1.4544</td>
<td>Dairy Market News w/e 12/31/15 $2.400</td>
<td>Prior Week Ending 12/18 &amp; 12/19</td>
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<tr>
<td>Barrels: $+.0575  $1.4875</td>
<td>National Plants w/e 12/26/15 $2.293</td>
<td>Calif. Plants $0.7864  8,836,061</td>
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<tr>
<td>DRY WHEY</td>
<td>Nat’l Plants $0.7918  20,311,023</td>
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FRED DOUMA’S PRICE PROJECTIONS…

| Jan ’16 Est: Quota cwt. $15.12 | Overbase cwt. $13.42 | Cls. 4a cwt. $13.07 | Cls. 4b cwt. $13.17 |
| Dec ’15 Final: Quota cwt. $15.61 | Overbase cwt. $13.92 | Cls. 4a cwt. $14.55 | Cls. 4b cwt. $12.90 |

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

Milk & Dairy Markets

It was the best of times, it was the worst of times... it was the spring of hope, it was the winter of despair. Charles Dickens didn’t pen those words for cows, but they are apt. In much of the country, Christmas was downright balmy. Herds in the Midwest and Northeast benefited from spring-like temperatures that were as much as 20 degrees above normal in places. Milk flowed with abandon. According to Dairy Market News, “Spot milk in the Midwest is available for cheese at $6 to $7 under Class. Inventories in the Midwest are building.” This week has been a little colder, but far from abnormal given the season.

Meanwhile, cows in the Texas Panhandle and neighboring New Mexico suffered a weekend of wintry despair. A harsh blizzard ripped through the region, temperatures plummeted and winds howled. Dairy herds endured heavy death losses and a marked decline in production. In the coming weeks, dairy producers will likely face a bump in cull rates and a sustained decline in milk per cow. With milk trucks sidelined, many dairies were forced to pour at least a days’ worth of production down the drain and a number of processors in the area shut down completely on Sunday. This likely prompted the rally in the cheese and Class III markets on Monday, but one could argue that they were overdue for a bounce after a sharp setback last week.
Last week the spot cheese market stumbled, but it came roaring back today. Blocks closed at $1.5075, up 6.75ȼ over the past two holiday-shortened weeks. Barrels climbed 8ȼ to $1.53. Class III futures similarly posted a steep decline followed by a sizeable bounce; they logged a mixed performance compared to where they stood two weeks ago.

Spot nonfat dry milk (NDM) retreated, slipping to 75.5ȼ, down a penny over the past couple weeks. CME spot butter climbed late this week and ended at $2.08, up 2ȼ from two weeks ago. Since mid-2014 butter users have gotten burned by waiting for lower prices that never arrived, and many view the recent collapse as a buying opportunity, despite the still large premium in U.S. butter relative to the global price. This, coupled with the California milk production deficit, is likely to keep a bid under the butter market. This week February through July butter futures reached new contract highs. But, weighed down by the powder market, most Class IV futures posted double digit losses.

USDA announced the December Class III price at $14.44/cwt., down 86ȼ from November and $3.38 lower than a year ago. The California 4b milk price was $12.90, down $1.63. December Class IV was $15.52, down $1.37 from last month and down $1.18 from December 2014. California 4a milk was $14.55, down $2.02.

2015 was a year of declines for the dairy industry. Milk and beef checks dropped from the unprecedented heights of 2014. Feed and energy costs moved lower too. Dairy producers watched in dismay as their once-plump bank accounts slimmed down. As is the case for most commodity markets, China is a huge part of this story. Chinese dairy product imports improved slightly in November but they remain lackluster compared to late 2013 and early 2014. The U.S. Dairy Export Council estimates that the net drop in Chinese and Russian dairy product imports from their peak to their recent trough erased more than 10% of dairy trade, in milk equivalent terms, from the global marketplace.

The good news is that low prices spur demand. With wages no higher than last year, the U.S. consumer can fill up his gas tank, go out to dinner, and put a few more premium items in his grocery cart. Hopefully the industry can find a balance, where prices are low enough to encourage demand, but high enough to provide profits. This may sound disappointing after $20+ milk a year ago, but the milk boom too often heralds a bust. With low feed costs, the industry has the potential for greater stability, something that can be good for dairy producers and their customers.

Global dairy product prices are likely to remain low until milk production slows. Lower output in California and New
Zealand helps, but it simply can’t make up for growth in a dairy giant like Europe. *Dairy Market News* reports, “Higher than expected [European] milk production during the final quarter of the year... is considered indicative of the potential for higher production during the first part of 2016.” In order to stem the flood, FrieslandCampina is offering its 20,000 members a bonus of €2 per 100 kilos of milk if they maintain or cut their production. This amounts to a 5% bump in revenue.

Even after global milk production slows, it will take some time to use up dairy product stockpiles. This is particularly a problem for the milk powder market, but also for cheese. Prices are once again low enough to encourage European processors to sell skim milk powder (SMP) into the government intervention program. In the U.S., inventories of American cheese on November 30 climbed 1.2 million pounds to 698 million pounds, up 21.8% from a year ago. American cheese stocks typically decline in November. In contrast, butter stocks declined nearly 26%, or 46.1 million pounds, in November. Still, at 132.7 million pounds, butter stocks are higher than they have been in any November since 2009.

Over the past two reported weeks, dairy cow slaughter has been a little higher than last year. With two weeks of data remaining, the 2015 cull rate is 3.7% ahead of the 2014 pace.

*Grain Markets*

The corn market finished the year just above life-of-contract lows. March corn settled at $3.5825 per bushel, down 16.25ȼ from two weeks ago. January soybeans closed at $8.7125, down 21ȼ over the holiday weeks. Exporters in both markets are struggling to compete with Argentina. The newly free market nation celebrated Christmas with the second largest volume in grain exports this year, despite the shortened work week. There is likely to be plenty more for sale when the South American harvest arrives. Crops are in excellent shape in Argentina, and the forecast for Brazil is much improved, with welcomed rains falling in northern Brazil and lighter precipitation in soggy areas to the south. Big crops may be looming and American exporters are at a huge disadvantage. In 2015 both the Argentine peso and the Brazilian real dropped more than 30% against the greenback.

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**YOUR CHECK-OFF DOLLARS AT WORK – KEEP AN EYE OUT FOR THE REAL CALIFORNIA MILK FLOAT IN THE ROSE PARADE! (By Rob Vandenheuvel)** For those of you who like to start your New Year watching the Rose Parade either on TV or with a voyage to Pasadena, make sure to keep an eye out for the float presented by the California Milk Advisory Board (CMAB)! Their float is themed “Adventures in Real Food,” and as you can see from the concept drawing released by CMAB last month (below), it will feature the various delicious dairy products made from Real California Milk.
The following description of the float was included in CMAB’s press release last month:

The “Adventures in Real Food” float will show how consumers can find adventure on their plate with an exciting meal or by being outdoors with the people and foods they love:

- The float will feature a flowing river of milk rapids cascading over California’s rolling hills and valleys.
- Float riders will maneuver these rapids with ease by rafting atop a gooey, buttery grilled cheese sandwich; boating aboard a baked potato topped with butter and sour cream; and riding on a pizza pie paddleboard oozing with cheesy Mozzarella and Provolone cheeses.
- At the back of the float, a premium Cheddar cheese wheel represents the warm California sun, which shines happiness upon the scene.
- Adding to this delight, at the front of the float, is a banana split “satellite” unit featuring two scoops of California ice cream goodness with a cherry on top, while a bowl of creamy yogurt and a variety of savory cheeses and butter complete the scene.

On behalf of MPC, we extend a heartfelt thanks to all the individuals – including not only CMAB, but the volunteers they’ve enrolled, which I know has included numerous California dairy farmers and their families – who have worked so hard to bring this concept to life.

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OUR THOUGHTS EXTENDED TO OUR COLLEAGUES IN NEW MEXICO AND WEST TEXAS: (By Rob Vandenheuvel) While this time of year is great for reflecting on the blessings of the past year and looking to the hope of the coming year, we can’t help but pause to send our thoughts and prayers to our dairy industry family/friends/colleagues impacted by Winter Storm Goliath. In particular, we think of those in New Mexico and West Texas, where blizzards ravaged an area not used to or designed for that type of weather.

While it will take some time to fully assess the damage caused by this devastating storm event, we’ve already seen reports of dozens of deaths throughout the country attributed to flooding caused by Winter Storm Goliath. Specific to the dairy industry, we’ve seen initial reports that the blizzard conditions in New Mexico and West Texas caused the death of tens of thousands of dairy cows (40,000 animals in one such news report by Dairy Herd Management: http://www.dairyherd.com/texas-goliath-impact-will-bring-total-40000-lost-southwest-dairy-cattle). Please keep these folks in your thoughts as they recover from the events of the past few week.

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On behalf of the MPC Board and Staff, we want wish all of you and your families a Happy and Safe New Year!