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DATE: April 11, 2014 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.1800*	$2.1700
Barrels	*- $.1450*	$2.0800
Weekly Average, Cheddar Cheese		
Blocks	*- $.1680*	$2.2175
Barrels	*- $.1200*	$2.1210

CHICAGO AA BUTTER		
Weekly Change	*N/C*	$1.9700
Weekly Average	*- $.0170*	$1.9700
DRY WHEY		
Dairy Market News	w/e 04/11/14	$.6475
National Plants	w/e 04/05/14	$.6710

NON-FAT DRY MILK		
Week Ending 4/4 & 4/5		
Calif. Plants	$2.0007	16,243,376
Nat'l Plants	$2.0524	23,869,288
Prior Week Ending 3/28 & 3/29		
Calif. Plants	*$2.0262*	*17,642,788*
Nat'l Plants	*$2.0734*	*20,144,671*

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FRED DOUMA'S PRICE PROJECTIONS…

April 11 Est:	**Quota cwt. $24.00**	**Overbase cwt. $22.31**	**Cls. 4a cwt. $23.56**	**Cls. 4b cwt. $21.48**
Last Week:	**Quota cwt. $24.49**	**Overbase cwt. $22.80**	**Cls. 4a cwt. $23.54**	**Cls. 4b cwt. $22.56**

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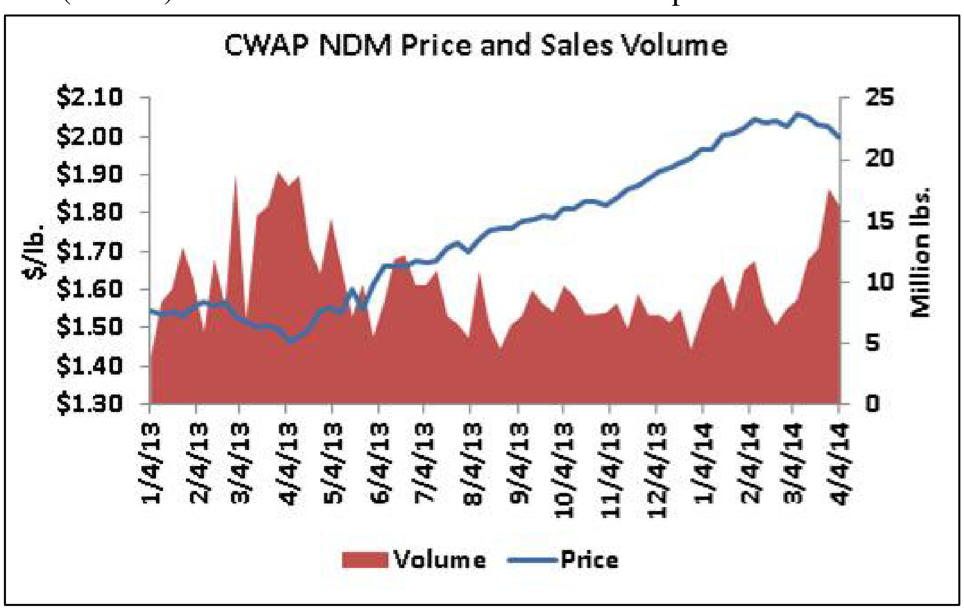
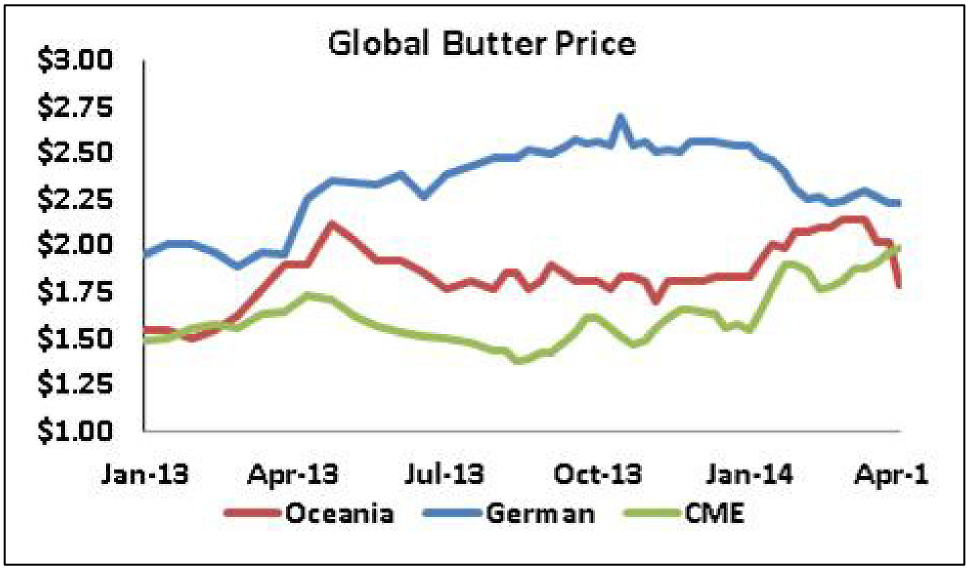
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

The CME spot butter market remained aloof this week, holding at $1.97/lb. Meanwhile, cheese and milk powder prices plunged. Cheddar blocks fell 18¢ and barrels lost 14.5¢. They closed at three-month lows of $2.17 and $2.08, respectively. Nonfat dry milk (NDM) shed 11¢ on Wednesday, but clawed a little of it back Thursday and Friday. NDM ended 9¢ lower than last week, at $1.9075. Both Class III and IV futures posted double digit losses for nearly every contract. The biggest losers this week were July Class III, which dropped 73¢, and July and August Class IV, which each lost 40¢.

The California Weighted Average Price (CWAP) for NDM echoed declines in the spot market. It fell to $2.0007/lb., a three-month low. The CWAP and other domestic NDM markets are falling as milk powder prices weaken overseas. According to *Dairy Market News*, skim milk powder (SMP) prices fell 11% in Oceania in the past two weeks, and whole milk powder (WMP) prices logged an equally large decline. In Western Europe, SMP prices fell 4.5%, while WMP prices were nearly 4% lower. The NDM market was the decisive leader in the broad dairy product rally, and now it is leading the way downward.

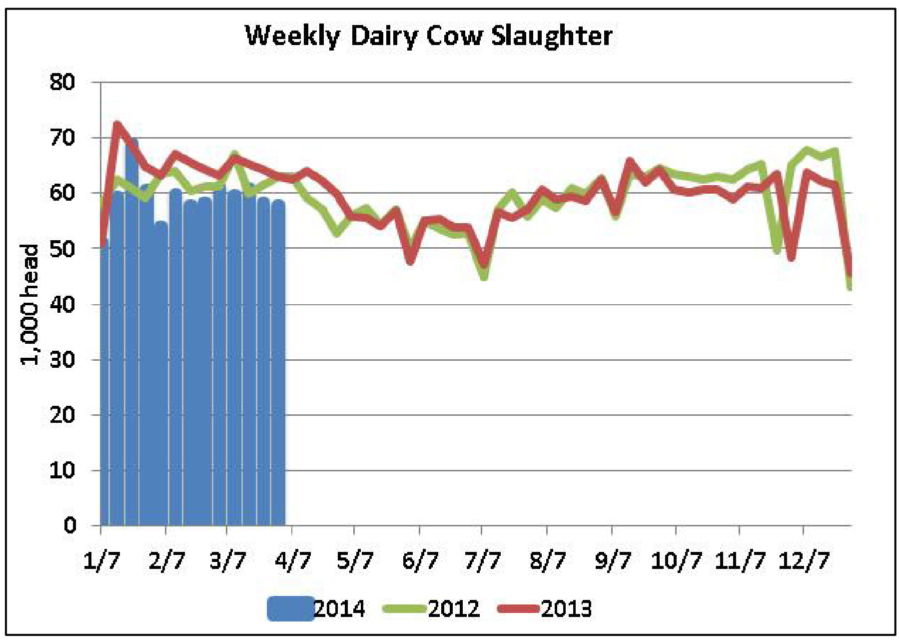




Although the butter market is holding for now, there are hints that it may soon succumb to overseas pressures. Butter prices were only slightly lower in Western Europe over the last two weeks, but they fell 13% in Oceania. After at least six months of booming exports and firm domestic demand, U.S. butter stocks are low, and prices have been well-supported. But the U.S. is no longer the obvious source for butter. The recent drop in the Oceania butter market has put prices there at a discount to the U.S., and export demand is already slowing.

At the same time, retailers are scaling back their butter purchases, as they are all stocked up for Easter. This will free up more butter for manufacturers to build inventories, but they may be reluctant to store butter at today's prices. Futures are projecting lower values in the months to come, and butter makers don't want to be saddled with stocks that will hold a premium to the market later this year. Last year, CME spot butter peaked in mid-April and weakened into August. A similar trend is possible this year.

Manufacturers are shifting ever more whey into the higher value protein products. February production of whey protein concentrate (WPC) with 24 to 49.9% protein was 44% higher than the prior year. But despite consistent growth in the production of WPC and whey protein isolates, stocks are falling. Demand for whey in all forms has grown thanks to the burgeoning infant formula and sports nutrition markets. This is helping to partially mute the impact of declining cheese prices on Class III futures. However, whey prices are falling in Europe, and the whey market, which is highly dependent on exports, is unlikely to remain immune to overseas pressures.



For the week ending March 29, dairy cow slaughter totaled 57,710 head. This was down 8.4% from the same week a year ago. So far this year, dairy cow slaughter has fallen 8.6% short of 2013 levels.

Grain Markets

Corn futures dropped a few cents this week, and May futures settled below the $5 mark. USDA issued its monthly revisions to supply and demand estimates this week. They now forecast corn exports at 1.75 billion bushels, 125 million bushels higher than the previous report. Ending stocks were reduced by an equal amount. But the changes were largely expected, and the markets greeted the report with a yawn.

Corn traders are now focusing on the forecast. It is warm and sunny in the Corn Belt, and planting is just beginning in western areas. The eastern Corn Belt is still too muddy for fieldwork. If the weather hampers planting efforts in the next six to eight weeks, corn could lose acreage to soybeans.

Soybean futures lost a dime this week as a late-week sell-off usurped Tuesday and Wednesday's gains. The early week strength came in response to changes to the soybean balance sheet. USDA raised its estimate of soybean exports by 50 million bushels to 1.58 billion bushels. Try as it might, USDA could not offset the entire increase in export demand with cuts elsewhere. For months, USDA has struggled to reconcile the unsustainably strong pace of U.S. soybean exports and the assumption that soybean stocks at harvest can fall no lower than 145 million bushels to maintain minimal pipeline supplies. On Tuesday USDA conceded that projected export demand has eroded U.S. soybean stocks below this critical level; it trimmed 10 million bushels from its ending stocks forecast, which now stands at 135 million bushels.

China is the main culprit behind the U.S.'s unsustainable export pace. But it appears that China didn't need all that they bought. Historically, Chinese soybean processors have been granted greater access to credit when they purchase soybeans, which created a perverse incentive for Chinese importers to buy more than they need. Now the Chinese market is flooded with imported soybeans and Beijing is enforcing tighter credit standards. Importers have already defaulted on 500,000 metric tons (MT) of U.S. and Brazilian soybeans, and the U.S. Soybean Export Council warns that they may default on up to two million MT.

The cargoes in question have already left our shores and it is too late for these defaults to improve U.S. soybean supplies. However, with the world's biggest soybean buyer backing away from the market, prices are under pressure. Although the aforementioned credit incentives are unique to certain agricultural purchases and soybeans are not a proxy for other commodities, these defaults certainly don't inspire confidence in Chinese demand writ large. Makers of products that depend on Chinese demand, including dairy producers, should take notice.

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THE NEW "MARGIN PROTECTION PROGRAM," PART TWO – WHAT DECISIONS DAIRIES WILL HAVE TO MAKE: *(By Rob Vandenheuvel)* Two weeks ago, we started what will be a series of several articles spread out over the coming months, providing information about the new "Margin Protection Program" (MPP), a five-year program that was included in the 2014 Farm Bill and will be implemented later this year. If you missed the introduction/background two weeks ago, you can find it on our website at: http://www.milkproducerscouncil.org/032814dpmpp.htm. The reason for this series is simple: at some point later this year, every dairy will be asked to decide whether or not you want to participate in this new program. Our hope is that you will make that decision with the most and best information available.

This week, we will be looking briefly at some of the different options you will have as a dairy farmer when deciding whether or not to participate. As I'm sure you all know by now, the MPP is not a one-size-fits-all program – each dairy will have to make a decision about how the program is structured for your operation. You'll have two adjustments that can be made:

- What percentage of your production would you like to have participating in the MPP?
- At what margin level would you like your dairy to enroll?

So for each dairy that decides to participate in this program, decisions will ultimately have to be made on the two issues above. (And by "each dairy," the program is clear that it treats each dairy facility separately, so if you own multiple dairies, each dairy will be a separate decision).

Let's start with the percentage of production that can be covered. The MPP is available for between 25 and 90 percent of your dairy's "production history." That production history is the highest annual production your dairy has had in the last three years (2011, 2012 or 2013). So as a simple example:

- Your dairy produced 10,000,000 lbs of milk in 2013, which was the highest annual production in the past three years.
- Going forward, your dairy will be able to sign up between 2,500,000 and 9,000,000 lbs of production per year to be covered under the MPP.

- In future years, that amount may be modestly increased is national production increases.

Once a dairy determines how much production to enroll in the MPP, the next decision is at what margin level. The available margin levels to choose from range from the lowest option that has no premium (other than a $100 administrative fee that every enrolled dairy must pay), up to the highest level that has premiums as high as $1.36 per hundredweight. I'm sure you've seen this chart many times (and will continue to see it many times in the future), but below are the different margin levels that are available:

Coverage Level	Premium on first 4M lbs	Premium on >4M lbs
$4.00	$0.000	$0.000
$4.50	$0.010	$0.020
$5.00	$0.025	$0.040
$5.50	$0.040	$0.100
$6.00	$0.055	$0.155
$6.50	$0.090	$0.290
$7.00	$0.217	$0.830
$7.50	$0.300	$1.060
$8.00	$0.475	$1.360

The Farm Bill language that implements the MPP leaves a number of details to be determined by the Secretary of the U.S. Department of Agriculture (USDA). One of those issues is whether a dairy has the ability to opt in or out of the MPP each year. Given that there is an annual administrative fee paid by each dairy, it would make logical sense that the dairy would have the flexibility to opt out of the program in any given year and not pay that fee. However, the bill language is not entirely clear on that specific issue, so we await final language from USDA.

One thing that *is* clear from the Farm Bill language is a dairy will have a choice each year as to what level of protection to enroll for. So a dairy that enrolls in the lowest level of the program (with no premium due above the administrative fee) will certainly have the option in future years to enroll at a higher level, which in turn will require additional premiums to be paid by the dairy. Or alternatively, a dairy that has enrolled at the higher level will have the option in future years to enroll at a lower level, avoiding or reducing the additional premiums due.

In future articles in this series, we'll get into the details of how to calculate the premiums for your dairy, how margins are calculated, and how payouts are generated under the program (a key issue to understand before making the decision on whether or not to enroll). As stated in the first article of this series, **any of our readers with unanswered questions about the MPP should send me an email at rob@milkproducers.org**. Hopefully we will be able to incorporate answers to your questions through this series.