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DATE: March 24, 2017 **PAGES: 4**
TO: Directors & Members **FROM: Kevin Abernathy, General Manager**

MPC Friday Market Update

CHICAGO CHEDDAR CHEESE		
Blocks	*+ $.0400*	$1.4400
Barrels	*+ $.0250*	$1.3900
Weekly Average, Cheddar Cheese		
Blocks	*+ $.0610*	$1.4325
Barrels	*+ $.0140*	$1.3920

CHICAGO AA BUTTER		
Weekly Change	*- $.0325*	$2.0975
Weekly Average	*- $.0330*	$2.1135

DRY WHEY		
Dairy Market News	w/e 03/24/17	$.4900
National Plants	w/e 03/18/17	$.5263

NON-FAT DRY MILK		
Week Ending 3/17 & 3/18		
Calif. Plants	$0.8425	18,747,522
Nat'l Plants	$0.8517	27,008,835
Prior Week Ending 3/10 & 3/11		
Calif. Plants	*$0.8337*	*16,423,208*
Nat'l Plants	*$0.8490*	*22,924,289*

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Fred Douma's Price Projections…

March Final:	**Quota cwt. $15.90**	**Overbase cwt. $14.20**	**Cls. 4a cwt. $14.02**	**Cls. 4b cwt. $13.76**
Last Week:	**Quota cwt. $15.87**	**Overbase cwt. $14.18**	**Cls. 4a cwt. $14.07**	**Cls. 4b cwt. $13.68**

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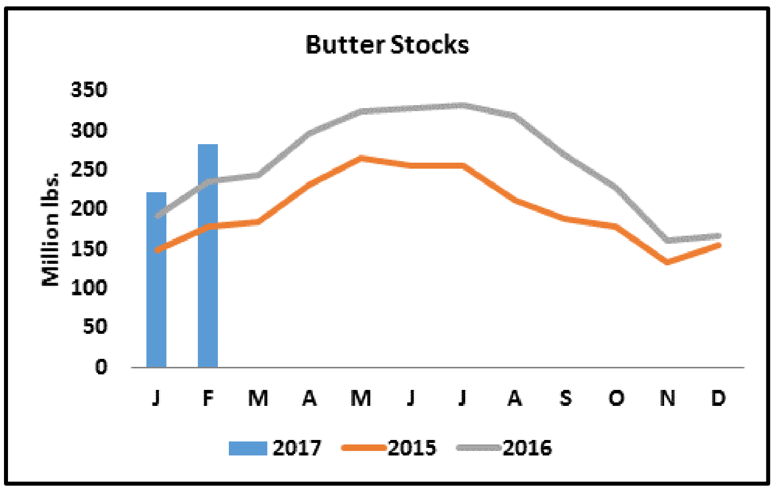
Market Commentary

By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com

Milk & Dairy Markets



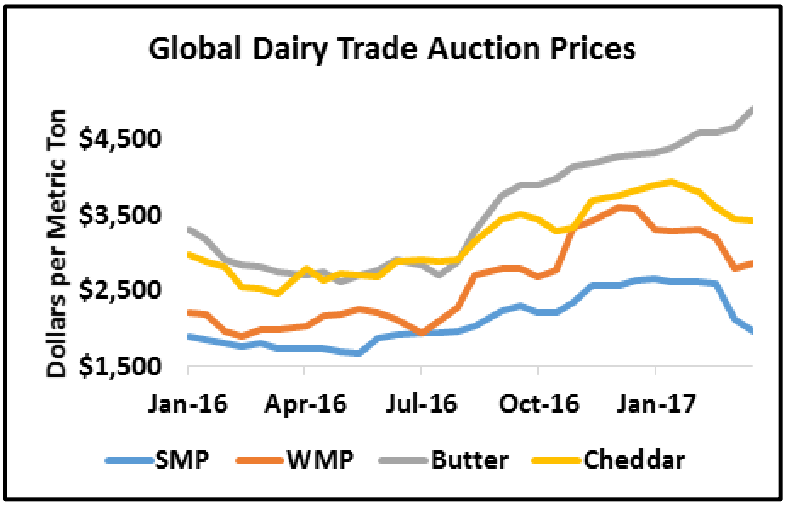
Butter and full-fat dairy products remain popular with consumers around the globe, and the cream-laden spring holidays are fast approaching. But demand has not been able to keep pace with swiftly growing supplies. U.S. butter stocks climbed a stunning 61.1 million pounds in February to 282.6 million pounds, the largest January to February increase since 1992. Inventories are up 20% from the prior year and stand at the greatest volume for the month of February in 24 years. Stockpiles are still growing. According to *Dairy Market News*, "Cream is abundant. Butter makers continue to churn cream to fulfill contracts and store butter, instead of selling cream on the spot market." With that, CME spot butter slid 3.25¢ this week to $2.0975/lb., a more than four-month low.

Meanwhile, butter prices are rising overseas. Since bottoming in February, butter values are up nearly 6% in Germany and 10% in the Netherlands. At the Global Dairy Trade (GDT) auction, butter rallied 4.9% from the previous event to the highest value since its debut at the auction in 2014. The average winning price for anhydrous milkfat was up 3%, and whole milk powder (WMP) prices climbed 2.9%. With weakness at home and strength abroad, the global butter markets are converging. This suggests that the U.S. could enjoy more opportunities for export or at least a decline in butter and milkfat imports going forward.

The other products did not fare as well at the GDT on Tuesday. Cheddar slipped 1% and skim milk powder (SMP) dropped 10.1% after Fonterra once again increased the volume of product on offer. SMP values in Europe and

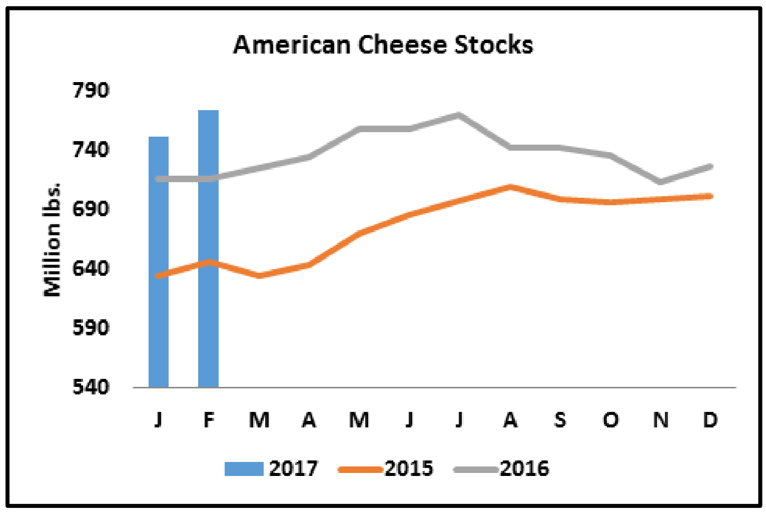
Oceania are eroding toward the EU's support price; the government could soon be adding to the mountain of milk powder it already holds.

Adjusted for protein, SMP at the GDT is equivalent to 94¢ nonfat dry milk (NDM). At the CME spot market, NDM clawed its way back to 82¢, up 1.5¢ for the week. American product has gotten cheap enough to attract some interest. *Dairy Market News* reports that "manufacturers are seeing some movement into Mexico and Canada" although contacts in the Midwest and West report that international interest has declined. There is simply more than enough milk powder to go around.

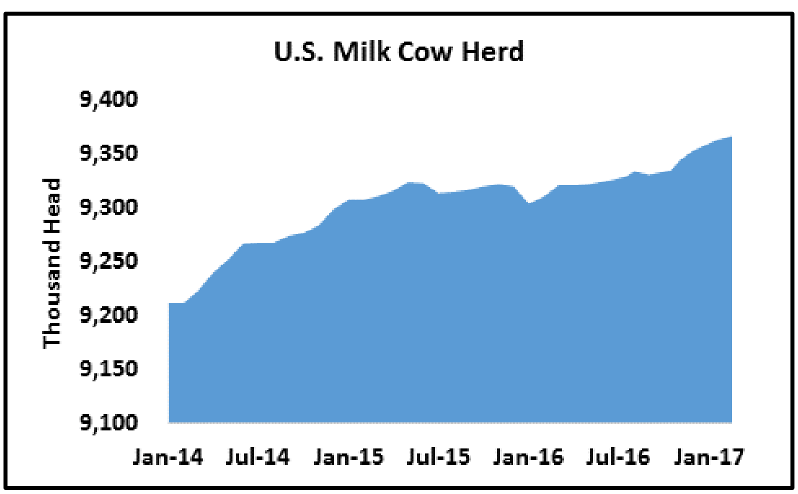


The CME spot cheese market rebounded this week. Cheddar blocks gained 4¢ and reached $1.44. Cheddar barrels were up 2.5¢ to a still unimpressive $1.39. Class III futures hold a sizeable premium to the spot cheese market. They yo-yoed this week, but the April through July contracts finished in the red. Deferred contracts were steady to slightly higher.

The trade hopes that cheese prices have finally gotten low enough to entice buyers to stock up, and some reports hint at just that. End users are wary of running short of product late in the year, and U.S. cheese is suddenly quite competitive compared to product from Europe or Oceania. Export prospects have notably improved. Still, cheese remains abundant. At the end of February there were 1.26 billion pounds on hand, up 34.9 million pounds from January, a much larger than typical increase. Cheese stocks are up 6.4% from a year ago and American cheese inventories are 8.1% larger than they were last February.

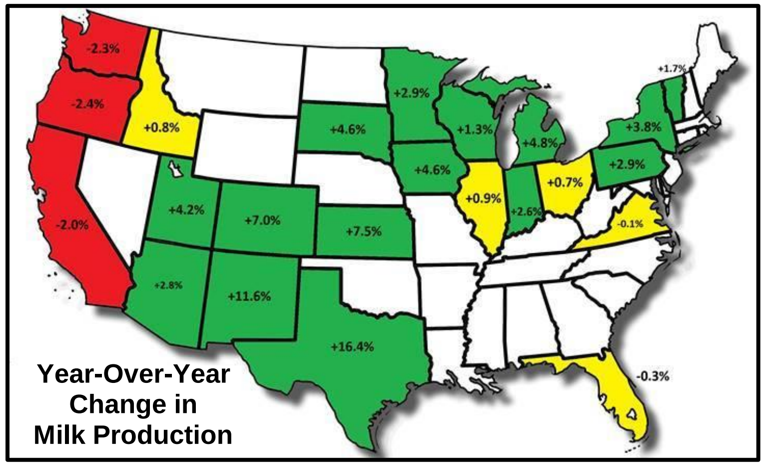


Cheese production will remain elevated as long as milk production continues to grow. It did so again in February, and particularly in some key cheese states. U.S. milk output was 2.3% higher than a year ago, after adjusting for leap day. USDA estimated the milking herd at a fresh 20-year high of 9.367 million cows, up 4,000 head from January (and up 7,000 from the agency's initial January figure). The U.S. dairy herd is now 56,000 cows larger than it was a year ago.



Cold, wet weather along the Pacific Coast depressed milk output last month. Production was down 2% in California, 2.4% in Oregon, and 2.3% in Washington. Idaho dairy producers and their herds were severely stressed by wintry weather, but they still managed to increase milk production by 0.8% year-over-year due to an increase in cow numbers. Production per cow in Idaho was down 1% in comparison to last year.

Some dairy producers told *Dairy Market News* that “it may be the next lactation before milk production recovers fully.”



In contrast, Texas and New Mexico reported huge gains in milk output because they are no longer suffering the impact of Winter Storm Goliath, which stifled milk production there in early 2016. Production was up 7% in Colorado and 7.5% in Kansas, driven largely by higher cow numbers. Output continues to climb in the Northern Plains, Upper Midwest, and Northeast, where an early start to the spring flush has already strained processing capacity.

If U.S. dairy producers were willing to add cows throughout 2016, they are likely to continue this year. The futures promise nearly $1.50/cwt. more than last year’s average. However, the lack of processing capacity represents a significant barrier to expansion in most regions. The tight labor markets and gradual improvement in lean beef prices also argue against continued growth, as does the fact that dairy producers are one year farther from the big profits of 2014 and early 2015. For now, however, growth continues. Meanwhile, in Europe, year-over-year deficits persist. January collections were down 2.3% from a year ago.

<u>*Grain Markets*</u>
Corn futures dropped a dime this week. The May contract settled at $3.5625 per bushel. May soybeans finished at $9.7575, down nearly 25¢. It is becoming ever clearer that the South American soybean crop is massive, and estimates of U.S. demand for soybeans might be a little too high. The trade also must contend with the prospect of a substantial increase in soybean plantings on top of last year’s record-breaking acreage. This means a little less ground for grains, which is why the corn market hasn’t felt quite as much pressure. If the weather cooperates, crop prices are likely to fade further. But there will probably be plenty of reasons for concern and quick rallies along the way.

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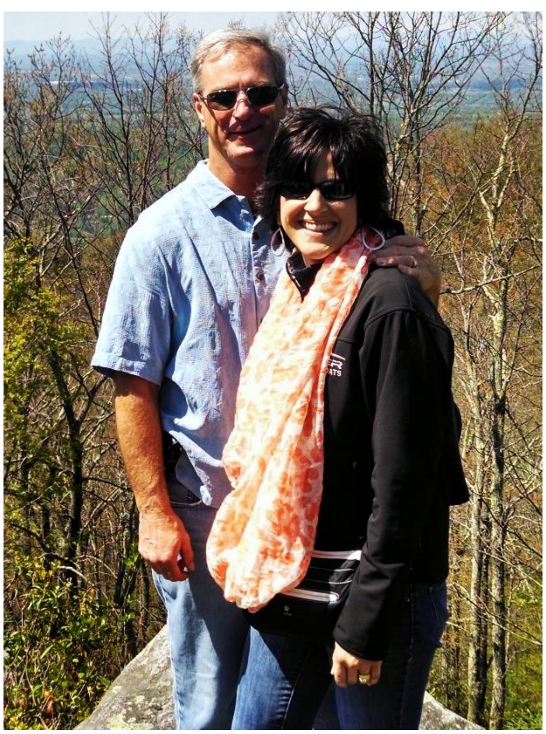

In Remembrance of Melany Reis-Abernathy
By Rochelle De Groot, MPC Board Member, but most of all, a friend.

It is with sincere sadness that on Saturday, March 18, Jesus took one of His children home. Melany Reis-Abernathy, the wife of our General Manager, Kevin Abernathy, fought a courageous battle with cancer.

It was a life too short, but a life filled with love and joy. Melany was always there for anyone, no matter what the need. When my husband and I lost our own fathers, Melany was there the same day, even though it was a 2-hour drive. She would always jump in and help in any way she could.

She loved adventure and was always up for road/Harley trips with Kevin. Kevin and Melany stuffed a lifetime of adventure into 15 years of marriage. Her smile was so bright it would light up a room. Even though her fight with cancer was a hard one, you would never know because she never complained.

Tony and I have had the privilege of being friends with Kevin and Melany over the last 10 plus years. The love and understanding they had for each other was very evident, especially in the last months of her life as Kevin took care of her so devotedly. And although we wish Heaven had visiting hours, we have the assurance that one day we will see each other again where there is no more sorrow or pain. Her memory will live on in our hearts. Please keep Kevin in your prayers as he adjusts to life without his wife.

The Celebration of Life service will be May 6th at the Lake (Waters Edge) of Tony and Rochelle De Groot at Noon (lunch will be provided): 2575 Grangeville Blvd, Hanford, California. Kevin and Melany felt so blessed by the overwhelming support they received. In lieu of flowers, they ask that donations be made to Aspiring Children For Tomorrow (FEIN #814948749) preferably through its website at www.AspiringChildrenForTomorrow.org or mailed to: 222 S. Thor Street, Suite 20, Turlock, CA 95380 (please supply an email address if you write a check).

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