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DATE: November 8, 2013 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0800*	$1.8225
Barrels	*- $.0875*	$1.7825
Weekly Average, Cheddar Cheese		
Blocks	*+$.0030*	$1.8865
Barrels	*- $.0130*	$1.8230

CHICAGO AA BUTTER		
Weekly Change	*+$.0275*	$1.5600
Weekly Average	*+$.0605*	$1.5570
DRY WHEY		
Dairy Market News	w/e 11/08/13	$.5650
National Plants	w/e 11/02/13	$.5796

NON-FAT DRY MILK		
Week Ending 11/1 & 11/2		
Calif. Plants	$1.8390	7,501,460
Nat'l Plants	$1.8616	11,407,507
Prior Week Ending 10/25 & 10/26		
Calif. Plants	*$1.8219*	*8,096,781*
Nat'l Plants	*$1.8457*	*15,360,130*

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FRED DOUMA'S PRICE PROJECTIONS…

Nov 8 Est:	**Quota cwt. $20.16**	**Overbase cwt. $18.47**	**Cls. 4a cwt. $20.08**	**Cls. 4b cwt. $17.32**
Last Week:	**Quota cwt. $20.33**	**Overbase cwt. $18.63**	**Cls. 4a cwt. $19.96**	**Cls. 4b cwt. $17.76**

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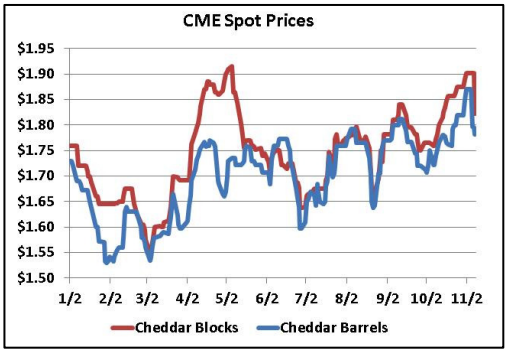
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

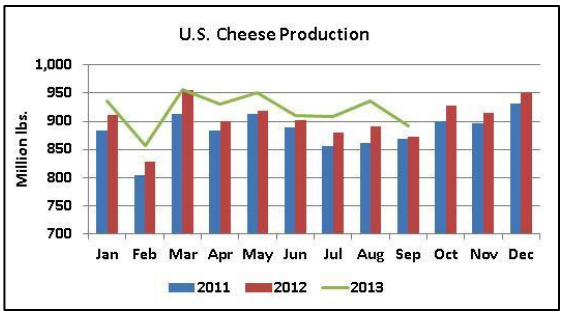


The Cheddar block market spent five days at $1.9025/lb., the longest such streak above $1.90 this year. But those highs were difficult to sustain, and blocks plunged to $1.8225 Friday, mirroring the steep declines after a similar trend in early May. Barrels paved the way for the descent; they fell 8.75¢ this week. November through January Class III futures moved lower in response, but most 2014 contracts posted modest gains. Spot butter and nonfat dry milk (NDM) added a couple cents this week, and Class IV futures settled mixed.

The quiet increase brought CME spot butter to $1.56/lb., even with the average price of butter sold at the Global Dairy Trade (GDT) auction. Butter prices fell 7% at the GDT, and by this measure the huge price advantage that has encouraged strong U.S. butter exports in the past five months has vanished. Indeed, Fonterra sold butter for January delivery at $1.55/lb., undercutting Dairy America's $1.70 sale.

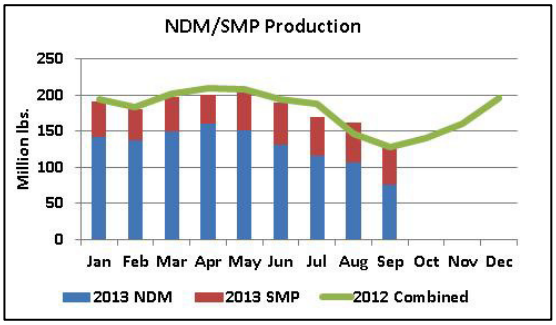
Given China's ravenous appetite for milk powder and New Zealand's growing capacity to produce it, Fonterra is likely to commit as much milk as possible to WMP driers and less to butter churns. As milk production in Oceania wanes seasonally, Fonterra will likely keep driers full and reduce butter and cheese output. But today's prices may suggest that there is currently enough milk in New Zealand to supply all product lines near capacity. In any case, Fonterra is signaling a willingness to use discounts to compete for a share of the global butter market.

The decline in butter prices was steep enough to bring the GDT index down 1.8%. Whole milk powder (WMP) was the only other product to move lower. It dropped 3.7%. The fact that anhydrous milkfat, Cheddar and skim milk powder (SMP) were able to rally is impressive given their already lofty prices.



U.S. cheese production totaled 891.8 million lbs. in September. This was 2.3% higher than September 2012, thanks in large part to greater Italian cheese output. Mozzarella production was up 4.7% from a year ago. Cheddar production, in contrast, fell 1.2% from a year ago. Daily average Cheddar production in September dropped to nearly two year lows. This is significant because milk prices are based on Cheddar prices. Holiday demand from retailers is reportedly firm, and with declining production, fresh supplies could become short. This would help to stall the decline in the spot market, which remains at respectable levels despite this week's dive.

September butter production at 133.7 million lbs. was down 1.9% from last year. California butter production was down 3% from a year ago and 0.8% lower than August on a daily average basis.

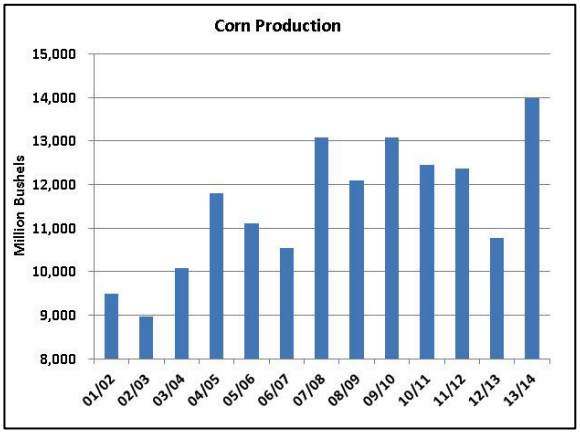


U.S. production of NDM and SMP was 1.9% higher than last year but down 16.7% from August on a daily average basis. SMP production remains strong, but NDM production is waning. NDM output totaled 76.4 million lbs. in September, down 9.6% from a year ago. Year to date NDM production is down 16.5% from the same period a year ago.

Manufacturers' stocks of NDM fell to 146.7 million lbs. at the end of September. This was down 48 million lbs. from August and represents the largest single-month drawdown since last June. It seems that buyers capitulated in September and stepped in to buy after months of waiting for lower prices. Milk powder demand remains firm, but with rising production overseas, the U.S. will have to compete to maintain export volumes.

Weekly dairy cow slaughter totaled 60,892 head. This was 3.7% lower than the same week a year ago. Dairy cow slaughter volumes have trailed the prior year for six consecutive weeks, likely due to improved profit margins.

Grain Markets



December corn futures touched as low as $4.15 ½ per bushel on Friday ahead of the Crop Production report. They settled at $4.26 ¾, a half-penny lower than last Friday. USDA estimates corn production at a record large 14 billion bushels. The national average yield officially stands at 160.4 bushels per acre, up from 155.3 in September. USDA lowered its estimates of planted and harvested acreage in response to FSA prevent planting data.

USDA also upped its estimates of corn feed and export demand. However, this was more than offset by the record large crop and an upward revision of stocks left-over from the previous crop year. USDA now expects ending stocks of 1.89 billion bushels, representing 15% of annual demand. Today's figures are in line with official pre-report expectations, and they forebode little change in the corn market. The trend remains downward.

USDA estimates of soybean production and demand were also in line with pre-report forecasts. However, the market reacted bullishly. November soybean futures added 27¢ today, and soybean meal gained $18/ton. November soybean futures are back over $13/bushel, and up 40¢ from last week's settlement.

USDA trimmed soybean acreage and increased yields from its September forecast, putting production at 3.26 billion bushels, 111 million bushels higher than the September estimate. USDA increased its estimates of soybean crush and export demand by nearly as much, so that ending stocks increased only incrementally and

stocks as a percentage of the now higher demand figures moved lower.

USDA's outlook for improved soybean demand likely fueled today's rally. But there are signs that soybean oil demand will struggle. The FDA has proposed a ban on trans fats from hydrogenated oils. The U.S. currently uses nearly 12.7 billion lbs. of soybean oil in foods annually.

Looking forward, South American production will have a larger impact on the direction of the soybean market. Recent rains have alleviated concerns about dryness in Argentina, and northern Brazil might even be a little too wet. In general, conditions are favorable, and estimates of soybean acreage in South America are rising.

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DAIRY INSTITUTE FIRES BACK; "EXPLAINS" WHY THERE WAS "NEVER A DEAL": *(By Rob Vandenheuvel)* This week, the Dairy Institute of California (DIC) – on behalf of California's cheese manufacturers – issued a press release attempting to explain that there was never any kind of "deal" between producers and processors as part of the most recent hearing at the California Department of Food and Agriculture (CDFA).

Now before going into this, let me prepare you for what you're going to read. There's a history here, and this press release is a "he said/she said" quagmire that is aimed at creating some sort of logic out of confusion. Two weeks ago, this newsletter included a summary timeline of how we got to where we are. If you haven't seen that yet, I recommend you check it out at: http://www.milkproducerscouncil.org/102513cdfahearing.htm.

This week's DIC press release is in response to the belief of both dairy farmers *and* Legislators that a July 8th letter written on behalf of the Dairy Institute represented a written offer of compromise. We've posted that letter many times, as our readers deserve the opportunity to examine the facts for themselves. Once again, the letter can be found at: http://www.milkproducerscouncil.org/070813dairyinstitute.pdf).

This July 8th letter was the reason – and the only reason – a petition was submitted to CDFA for a hearing. The DIC's proposal represented a **significant concession** by dairy farmers when compared to what we were ultimately working towards, which was a long-term policy that would keep our state-announced milk prices in closer alignment with the priced paid for comparable milk throughout the country *(and the proposal put forth by the DIC certainly left us well below the national value of comparable milk).* Despite this concession, dairy farmers took the DIC up on their proposed compromise in the interest of providing much needed additional revenue for dairy families in the short term.

As you have read in this newsletter, the DIC had a change of heart sometime between July 8th and the September 12th hearing. MPC and other producer groups have called them out, and that led to the press release below (also posted on their website at: http://www.dairyinstitute.org/pdf_members/Dairy%20Letter_110413.pdf.

> *Dairy Institute of California*
> *November 5, 2013*
>
> ***Never was a "deal" between producers and processors.***
>
> *The Milk Producers Council and Western United Dairymen continue to misrepresent the contents of a July 8 letter from Dairy Institute lobbyist Joe Lang to Dr. Richard Pan, author of AB 1038.*
>
> *The letter plainly states that Dairy Institute would agree to hearings to provide additional revenue to producers only "if economic conditions warrant" — a key point Milk Producers Council and Western United Dairymen refuse to admit.*
>
> *Three days later, on July 11, moments before a hearing by the Senate Agriculture Committee, Joe Lang met with George Soares, the designated lobbyist for the producer groups. Mr. Soares insisted that the July 10 verision (sic) of AB 1038 be stripped of the phrase "to the extent economic conditions warrant," calling it "a*

deal breaker."

Because this was a crucial provision for us, Mr. Soares ended any chance of our agreement by insisting that the "economic conditions" language be removed from the bill, which the Senate Agriculture Committee did on July 11.

The Dairy Institute offered to continue discussions with producers, but no producer group responded. Producers then filed their petition with CDFA on July 22 without asking the Dairy Institute to join them.

At the September 12 hearing, the Dairy Institute presented data showing that improving economic conditions did not warrant additional price increases.

Instead of continuing to misrepresent the facts, MPC and WUD need to face up to what really occurred (sic). By rejecting our language as "a deal breaker," they derailed any chance of an agreement, not us. They have only themselves to blame.

Rachel Kaldor
Executive Director
Dairy Institute of California

So does that clear it up for everyone? What the DIC is saying is that yes, they wrote the letter, but it doesn't mean what we think it means. Does it make sense now?

Remember, that letter was written after months of fighting in the State Legislature over what – if any – adjustments should be made to our California pricing system. It was addressed to Assemblyman Richard Pan (D-Lodi) after he posed a simple question: *What would the processors be willing to accept as a short-term compromise while we continue to work on a long-term solution?*

What we're finding out is that **apparently the DIC "had their fingers crossed" when they drafted that letter**. They showed that they're willing to make compromises only "if economic conditions warrant," and **they alone** are the ones who should determine "if economic conditions warrant."

It's also worth nothing that while the DIC is addressing MPC and Western United Dairymen in their press release, the same logic must apparently apply to the seven members of the State Legislature who testified on-the-record in the recent CDFA hearing that there was in fact an offer made by the DIC and accepted by producers, including Dr. Pan himself, who was the recipient of that letter. **Are Assemblyman Pan and his elected colleagues "misrepresenting" the letter as well?**

At the end of the day, the DIC will have to answer for their actions, explaining to the Legislature why their actions didn't constitute a breech of their offer. **But what should dairy farmers take away from this?**

I think the biggest thing we should take away from this is the recognition that **this is NO WAY to run a multi-billion-dollar industry**. You all have invested your resources, time and lives into your dairy operations, and **<u>you deserve better than this</u>**. You deserve change that will result in a fair milk price. The California pricing system has provided dairy producers with valuable opportunities in the past, but it has **woefully failed** in recent years to even live up to its most basic function of providing a stable and profitable milk price for our farmers.

To that end, producers should be very encouraged at the reports of continued progress by the three major California cooperatives in drafting a petition to create a California Federal Milk Marketing Order. We have an opportunity to put ourselves on an equal playing field with our colleagues around the country, and neither CDFA nor our processor "partners" in the industry are giving us any reasons to stop that effort.