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DATE: April 8, 2016
 TO: Directors & Members

PAGES: 5
 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks - \$.0500 \$1.4200
 Barrels - \$.0375 \$1.4175

Weekly Average, Cheddar Cheese

Blocks - \$.0335 \$1.4345
 Barrels - \$.0155 \$1.4335

CHICAGO AA BUTTER

Weekly Change +\$.1600 \$2.1200
 Weekly Average +\$.1000 \$2.0485

DRY WHEY

Dairy Market News w/e 04/08/16 \$2.450
 National Plants w/e 04/02/16 \$2.515

NON-FAT DRY MILK

Week Ending 4/1 & 4/2

Calif. Plants \$0.7634 7,682,719
 Nat'l Plants \$0.7461 19,162,355

Prior Week Ending 3/25 & 3/26

Calif. Plants \$0.7511 13,183,836
 Nat'l Plants \$0.7524 15,522,747

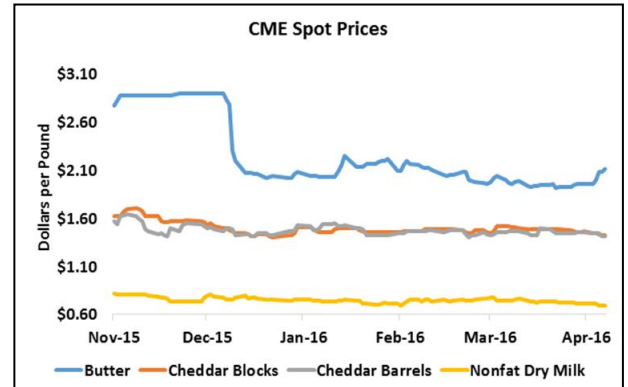
FRED DOUMA'S PRICE PROJECTIONS...

Apr 8 Est: Quota cwt. \$14.39 Overbase cwt. \$12.70 Cls. 4a cwt. \$12.85 Cls. 4b cwt. \$12.68
 Last Week: Quota cwt. \$14.38 Overbase cwt. \$12.68 Cls. 4a cwt. \$12.32 Cls. 4b cwt. \$13.02

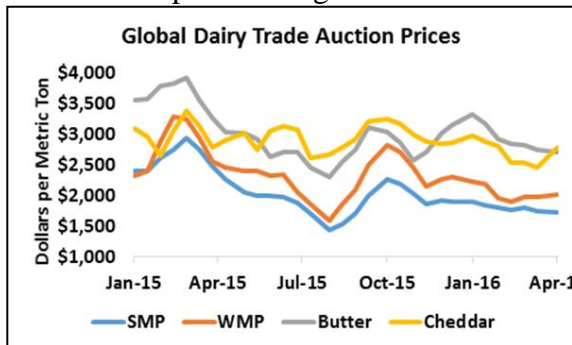
MARKET COMMENTARY: (By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)

Milk & Dairy Markets

Easter has passed, cream is plentiful, and butter stocks are growing. It matters not. Over the past two weeks, the CME spot butter market has jumped nearly 20¢, to \$2.12/lb. The spot market is now almost a dollar higher than butter prices in Europe and on the GDT, after adjusting for butterfat and currency differences. It should come as no surprise then that the U.S. imported 2.4 million pounds more butter and milkfat in February than it exported.



By all accounts, U.S. butter demand remains strong. Indeed, butter is starting to look like a less expensive source of fat as the price of vegetable oils has climbed to 15-month highs. Food makers are likely looking for ways to replace oils with butterfat in their formulations, trimming costs and improving the taste at a stroke. Still, supply is growing more quickly than demand. U.S. butter output in February totaled 171.2 million pounds, up 5.8% from a year ago after adjusting for Leap year. Much of that butter is headed straight to the warehouse.

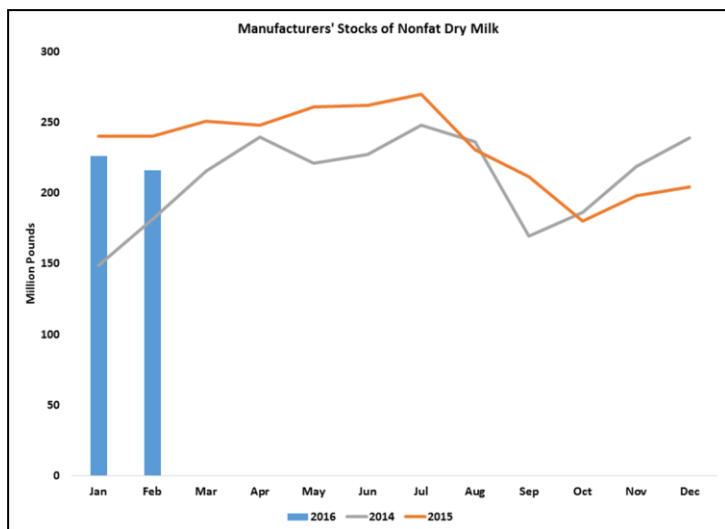


The milk powder market remains in the doldrums. Three times this week and six times in August, the spot nonfat dry milk (NDM) price has dropped to 69¢, where it finished this week. That is down 3.5¢ from two weeks ago, and it is the lowest price ever at the spot market.

The milk powder market has not been this low since 1977, when the support price was 68¢.

Milk powder prices moved a little higher at the Global Dairy Trade (GDT) auction on Tuesday. The average winning price for skim milk powder (SMP) was up 0.1% from the previous event, and whole milk powder (WMP) prices climbed 1.5%. Cheddar values jumped 10.5% while butter prices were 2% lower. The GDT Index rallied 2.1%, posting only its second increase in seven auctions this year.

Combined production of NDM and SMP reached 184.8 million pounds in February. On a daily average basis volume was 2.6% lower than a year ago. Manufacturers' stocks of NDM on February 29 dropped to 216.6 million pounds, down 10% from a year ago and down 9.9 million pounds from the end of January. Stocks typically rise from January to February, so the decline is evidence that manufacturers have been able to keep product moving. All they have to do to attract bargain shoppers is offer perpetually lower prices. U.S. exporters sold 91.2 million pounds of NDM overseas in February, at an average price of 92.8¢/lb., down from \$1.034 in January and \$1.13, on average, in 2015.



The cheese market has slipped toward the low end of its well-trod trading range. CME spot Cheddar blocks closed at \$1.42, the lowest price since before Christmas. Blocks are down 7¢ in the past two weeks. Over the same period, Cheddar barrels dropped 3.25¢ to \$1.4175. Domestic cheese prices are still too high to attract much export demand. U.S. cheese exports totaled 53.8 million pounds in February, down 20.4% from last year on a daily average basis.

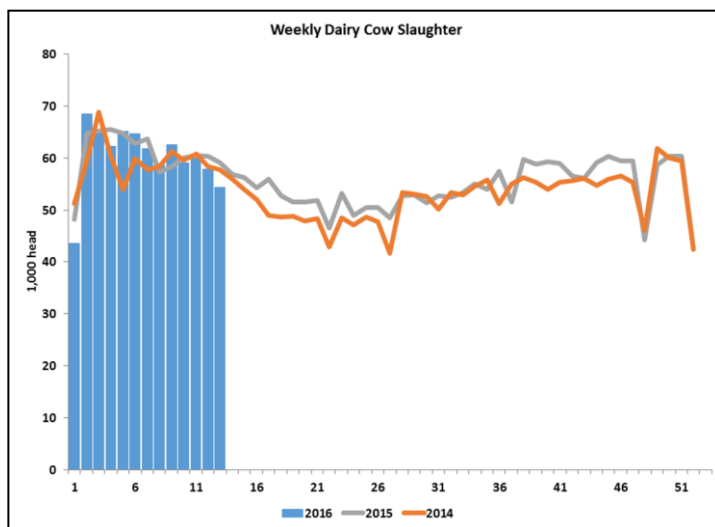
U.S. cheese output reached 956 million pounds in February, up 4% from 2015 after adjusting for Leap Year. Daily average mozzarella production was record high as manufacturers likely fortified vats with

inexpensive skim milk solids to improve throughput. Mozzarella production jumped 6.2% from a year ago. Cheese makers in the Midwest are running at capacity and they are quickly running out of storage. Demand has been good, but it's hard to keep pace with rising supplies as milk continues to gush in the traditional cheese states.

Over the past two weeks, nearby Class III prices retreated, but most deferred contracts moved 20¢ to 30¢ higher. During the same timeframe, April Class IV futures lost 42¢ but most other contracts gained between 30¢ and 50¢, bouyed by the butter market.

USDA announced the March Class III milk price at \$13.74, down 6¢ from February and \$1.82 lower than last year. California 4b milk was \$13.24, up 19¢ from the previous month. California 4a milk slipped 87¢ to \$12.41. March Class IV milk was \$12.74, down 75¢ from February and down \$1.06 from March 2015.

Dairy cow slaughter totaled 57,900 head in the week ending March 19 and 54,366 head in the week ending March 26, which included Good Friday. Relatively low slaughter in these two weeks pushed the year-to-date cull rate 0.9% behind the 2015 pace.



Grain Markets

America's farmers have been eyeing the futures market with chagrin. No matter the crop, projected revenues are down. Fertilizer and fuel costs are down too, but land rents are only starting to retreat and seed costs are still high. At times like this, even when soybeans and other low-yielding crops look a little better on paper, farmers often choose to plant corn and hope for sky-high yields. Perhaps that's why USDA reported that, according to surveys

in early March, farmers intend to plant 93.6 million acres of corn. That was much larger than the trade had anticipated, and corn futures promptly dropped to their lowest level in months. They have since regained some ground. May corn futures settled today at \$3.6225 per bushel, down 7.75¢ over the past two weeks.

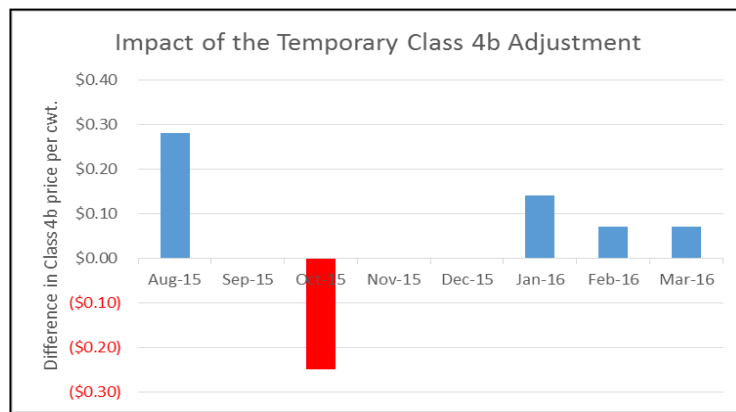
It is cold and wet in the Corn Belt, and if it remains so, Mother Nature may force some farmers to change their plans. The futures market might prompt a shift as well. USDA expects farmers to plant 82.2 million acres of soybeans, slightly fewer than they sowed last season. But soybean futures have gained 6.25¢ in the past two weeks. May futures closed at \$9.1675. Since USDA conducted its surveys in early March, November soybean futures have rallied 40¢. They settled today at \$9.3075.

No matter the acreage mix, there is plenty of both crops already. There will likely be even more a year from now. Grain and protein prices continue to slip. In California, dairy producers are enjoying a further decline in the prices of local products like almond hulls and hay. Weather permitting, feed costs are likely to remain low.

COMING UP MONDAY...CDFA HEARING ON THE CLASS 4B CALCULATION: (By Rob Vandenhuevel) On Monday, the California Department of Food and Agriculture (CDFA) will be conducting its scheduled hearing to consider modifications to the Class 4b minimum price calculation, specifically with regard to the impact that dry whey market prices have on the monthly announced Class 4b milk price.

While our readers undoubtedly know the history of this issue very well by now, as a quick background, this is the latest in a long series of hearings CDFa has conducted on the issue of the Class 4b formula over the past several years. In its most recent hearing last June, CDFa established a one-year modification to the impact dry whey market prices have on the Class 4b price. That temporary change started in August 2015 and expires in July 2016. When announcing the temporary modification, CDFa Secretary Karen Ross wrote in a letter, *“I believe this adjustment will provide a needed increase in revenue to producers to ensure a stable milk supply.”*

Shortly after the start of this new modified calculation, dry whey market prices dropped significantly – from \$0.42/lb in June at the time of the announced change to \$0.22/lb by September – and have remained at \$0.25/lb or below since then. Because this temporary change to the Class 4b calculation was exclusively tied to the market prices for dry whey, the result was unfortunately very little actual “increase in revenue to producers.” A bar graph is shown here demonstrating the impact of the temporary modification to the Class 4b milk price since its start in August 2015.



All told, in the first eight months of the 12-month adjustment, the Class 4b price has seen an increase by of \$0.04/cwt on average, compared to the previous calculation. During that time, the Class 4b price has also averaged \$0.80/cwt below the Federal Order Class III price. This is certainly a far cry from \$1.33/cwt California Discount we saw in 2015, or the \$2.41/cwt California Discount we saw in 2014, but as we have talked about so many times in past issues of this newsletter, California dairy farmers need to be on an *even* playing field with our colleagues and competition throughout the U.S.

Refocusing on Monday’s hearing, MPC will be joining with our fellow California dairy farmer trade associations – California Dairy Campaign and Western United Dairymen – to advocate for our joint proposal that largely mirrors the impact that dry whey market prices have on the Federal Order Class III monthly milk price. While we are restricted in this hearing from proposing any changes to other “non-dry whey” portions of the formula (such as the impact of Cheddar cheese prices), our message is that within the confines of what’s allowed in this hearing, we should mirror the Federal Order calculation. This is, of course, also consistent with our recent testimony at USDA’s hearing on a California Federal Milk Marketing Order last fall.

So how about the other proposal, put forth by the Dairy Institute of California (DIC) on behalf of the cheese manufacturers it represents? Their proposal aims to take an entirely different approach in calculating the Class 4b price. While California has used dry whey market prices to drive the Class 4b milk price since 2003 (as has the Federal Order system since 2000), the DIC is proposing to change that to using the “34% Whey Protein Concentrate” price.

We will undoubtedly hear lots of testimony on Monday from the DIC and their cheese manufacturing members about why they like this proposal. But rather than get into the nitty-gritty details of WPC-34 vs. Dry Whey, I want to focus on the actual impact the DIC’s proposal would have on producer milk prices. **I’ve ran the numbers; it’s a bad deal for producers.** But rather than taking my word for it, here’s CDFA’s own analysis of exactly what impact the DIC’s proposal would have on the Class 4b and Overbase prices.

CLASS 4b PRICES	2011-12	2012-13	2013-14	2014-15	2015-16	5-Year Average
Institute	\$0.59	\$0.17	\$0.47	\$0.45	-\$0.11	\$0.31
CDC/MPC/WUD	\$1.66	\$1.51	\$1.61	\$1.75	\$0.38	\$1.38
POOL PRICES: QUOTA & OVERBASE						
Institute	\$0.27	\$0.08	\$0.22	\$0.21	-\$0.05	\$0.14
CDC/MPC/WUD	\$0.75	\$0.69	\$0.75	\$0.83	\$0.18	\$0.64

Please Note: Historic Prices are not necessarily a good predictor of future prices.

Amazing. Had the Dairy Institute’s proposal been in place from March 2015 – February 2016, the average Class 4b milk price would have been even lower than it was! **Think about that for a minute; at a time when California dairy families are under tremendous financial stress, and experiencing 15 straight months of year-over-year milk production declines, the DIC nonetheless stays on message that the State-announced milk price should have been *even lower*, in their opinion. Is this greed? Or just complete disregard for the California producers? The DIC shows no fear that their actions are literally destroying the “Goose” that has laid the “Golden Eggs” of ample milk production to meet all their needs and facilitated massive growth in their market share over the past decades.** Like I said, “Amazing.”

How about the relationship between the Class 4b and FMMO Class III price? How would the two proposals impact that?

California Class 4b less Federal Class III	2011-12	2012-13	2013-14	2014-15	2015-16	5-Year Average
Current (Permanent Whey Scale)	-\$2.13	-\$1.80	-\$1.65	-\$2.55	-\$1.12	-\$1.85
Institute	-\$1.53	-\$1.63	-\$1.18	-\$2.10	-\$1.23	-\$1.53
CDC/MPC/WUD	-\$0.46	-\$0.29	-\$0.04	-\$0.79	-\$0.74	-\$0.46

As you can see, the CDC/MPC/WUD proposal (which is also supported by the three major cooperatives in California – CDI, DFA and LOL) would have closed that gap to an average of \$0.46/cwt the past five years (we were unable to propose eliminating it due to the limitations of the hearing, only addressing the whey related portions of the calculation). **At the same time, while the DIC proposal attempts to distract folks with discussion of an alternative commodity to be used in the formula, the end result is a continuation of a steep California Discount, protecting their access to some of the lowest-cost milk in the country.** An “A” for effort, but it’s not hard to see right through it. Let’s hope CDFA see’s through it too.

WORTHWHILE READ FROM HOARD’S DAIRYMEN: (By Rob Vandenheuvel) The current issue of Hoard’s Dairymen had a very interesting editorial on recent comments made by the CEO of Saputo Inc., an

international manufacturer of cheese and other dairy products, with operations in California as well. Saputo is a member of the DIC, and is a regular participant in CDFA's milk pricing hearings, as well as in the recent USDA hearing on a CA-Federal Milk Marketing Order. With permission from Hoard's Dairymen, that editorial is reprinted below:

***Hoard's Dairyman* Editorial Comment**
FEDERAL ORDERS HAVEN'T IMPEDED DAIRY SALES

It was refreshing to hear a global dairy processor suggest that Federal Milk Marketing Orders and the associated regulations haven't prevented his company from growing in the U.S. This dialogue took place as fellow dairy processors continued to harp on federal milk pricing rules as a market impediment during the largest gathering of North American dairy manufacturers.

Granted, Lino Saputo, CEO of Saputo Inc., has a far different perspective than his American counterparts. Based in Canada, Federal Milk Marketing Orders appear more like a single strand of a chain compared to Canada's supply management system that resembles a much stronger chain-link fence. "It's regulatory and market access to milk that is key to us," Saputo said, when discussing where his family business might pursue its next dairy plant acquisition.

When stating that access to milk is key to growing his business, Saputo and his 75-year-old company back up that statement with action. Starting in 1980, Saputo acquired its first two U.S. plants. Since then, that number has grown to 24, now outranking the company's total in Canada. The list includes Stella Foods, Treasure Cave, Nauvoo, the Land O'Lakes West Coast industrial cheese business, Fairmount Cheese Holdings and Morningstar Foods. The boldest move took place in 2008 when Saputo purchased controlling interest in Alto Dairy Cooperative, then the nation's 19th largest farmer-owned dairy business.

To say the least, Saputo has repeatedly voted with its wallet, reconfirming that the U.S. is a place where the company can grow and market regulation is not a hindrance. "Our job is to be the best processor," said Saputo of his organization's focus. "Our job isn't to change regulations."

Not only could all dairy processing interests benefit from that attitude, the beverage sector could use a double dose. Mired in decades of lackluster innovation, we were pleased to also hear candid comments from Fairlife's CEO Stephen Jones on the same panel.

"We can grow the industry with better packaging and marketing," said the innovator in the fluid category. "Packaging in the milk industry sucks," Jones said, asking other companies to join Fairlife to recreate dairy.

We couldn't agree more with Saputo and Jones. Both offer refreshing insight from the CEO perspective and back it up with action without relying on federal order bashing to potentially improve their respective company's bottom line.

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MANAGER'S NOTE: (By Rob Vandenheuvel) Many of California's cheese/whey manufacturers have spent a lot of time in past CDFA hearings as well as USDA's CA-FMMO hearing warning us all of the impending doom if we do not give them access to a steep discount in the regulated price of the milk they need. **This is merely a talking point – political rhetoric – and one they have stuck to (successfully) for many years.** The fascinating thing about this *Hoard's Dairymen* editorial is that it reveals to us all that outside of the government hearing rooms, as the truth comes out in their conversations amongst themselves, these companies admit that they have been able to not only survive, but *thrive* under the U.S. milk pricing regulations, even in areas outside California where the prices they pay for their milk are significantly higher. **MPC and our fellow producer representatives look forward to combating the continued rhetoric on Monday in CDFA's hearing room.**