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DATE: September 16, 2016 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.0600*	$1.6500
Barrels	*- $.1250*	$1.4800
Weekly Average, Cheddar Cheese		
Blocks	*- $.0465*	$1.6610
Barrels	*- $.1049*	$1.5295

CHICAGO AA BUTTER		
Weekly Change	*- $.0325*	$2.0000
Weekly Average	*- $.0190*	$2.0160

DRY WHEY		
Dairy Market News	w/e 09/16/16	$.3225
National Plants	w/e 09/10/16	$.2973

NON-FAT DRY MILK		
Week Ending 9/9 & 9/10		
Calif. Plants	$0.8612	9,688,100
Nat'l Plants	$0.8819	13,357,797
Prior Week Ending 9/2 & 9/3		
Calif. Plants	*$0.8460*	*10,962,954*
Nat'l Plants	*$0.8533*	*25,270,092*

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FRED DOUMA'S PRICE PROJECTIONS…

Sept 16 Est:	**Quota cwt. $16.47**	**Overbase cwt. $14.77**	**Cls. 4a cwt. $13.49**	**Cls. 4b cwt. $15.42**
Last Week:	**Quota cwt. $16.58**	**Overbase cwt. $14.88**	**Cls. 4a cwt. $13.38**	**Cls. 4b cwt. $15.69**

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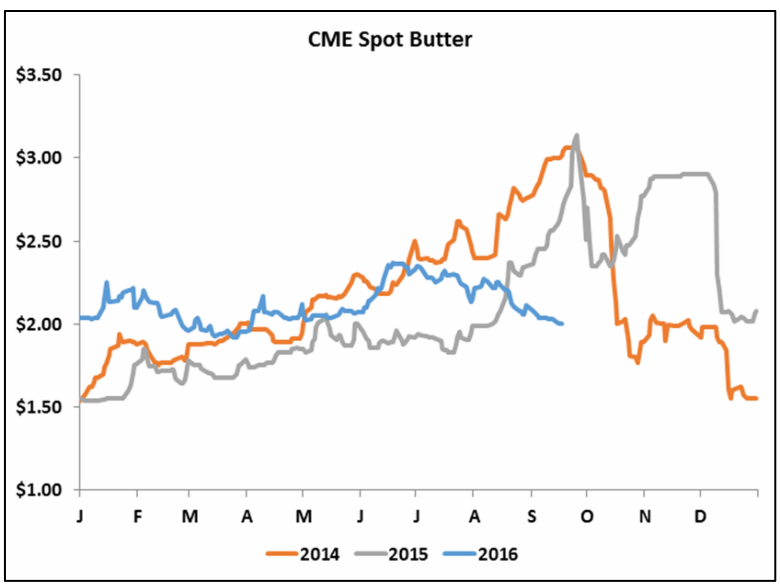
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

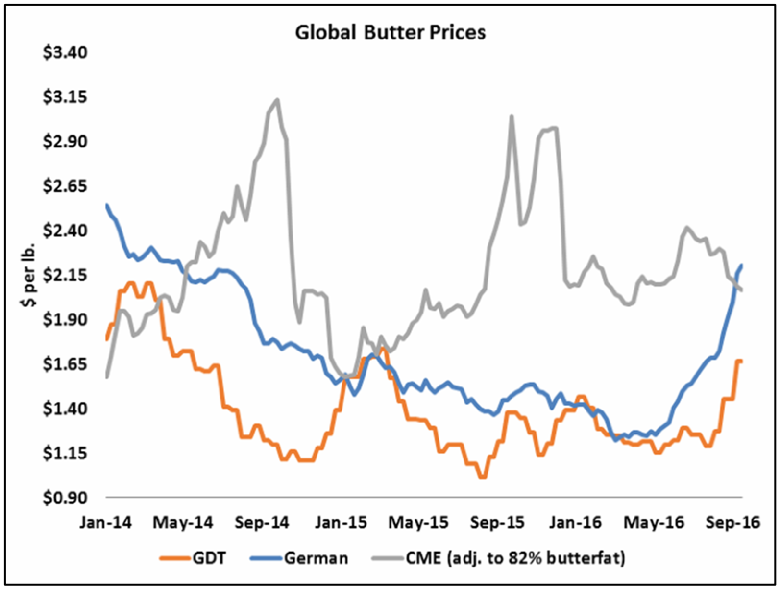
Most U.S. dairy markets tumbled this week. Only milk powder prices firmed, boosted by strength overseas. At the spot market, nonfat dry milk (NDM) climbed to an 11-month high at 91¢/lb., up a half-cent from last Friday. CME spot butter slipped 3.25¢ to $2.00. Class IV futures retreated further. The October and November contracts dropped more than 20¢ from last Friday.



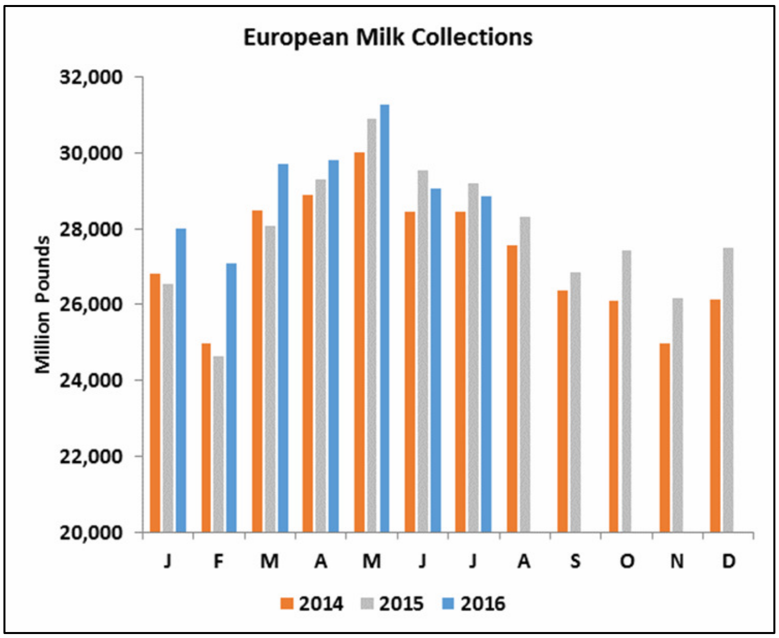
A few loads of spot butter changed hands below the $2 mark this week, but the market didn't languish at such levels for long. Buyers were enticed by the rare opportunity to purchase spot butter at nearly six-month lows and at a discount to foreign product to boot. At long last, U.S. butter is looking budget-friendly. The weekly average spot price stands some 13¢ below Germany product. Look for bargain shoppers to slow the market's decline even as heavy domestic supplies weigh.

Summer scarcity has given way to autumn abundance. The heat has abated, the scent of charcoal and cheeseburgers wafts from fewer backyards, and Cheddar barrels are easier to come by. Barrels dropped every day this week and finished at $1.48, down 12.5¢. Traders exchanged 45 loads, the highest weekly volume in years. Blocks took a step back as well. They closed Friday at $1.65, down 6¢. The whey market was steady to higher, but falling cheese prices dragged Class III futures downward. The October contract lost 63¢.

European milk production fell short of last year in both June and July. Assuming that output in Cyprus, which has not yet reported July collections, maintained the strong year-over-year increases it reported in the second quarter, milk output in the European Union totaled 28.9 billion pounds in July. That's 336 million pounds, or 1.1%, less than last year, a deficit equal to Colorado's July milk output.

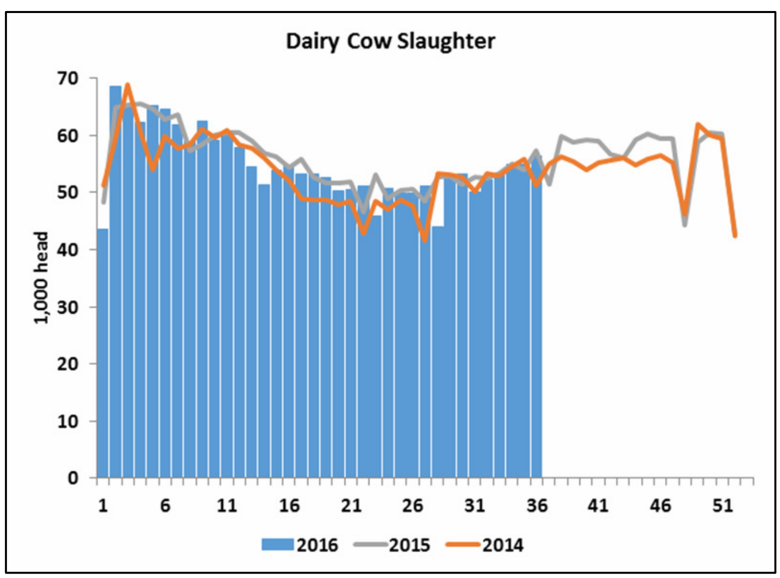


"European milk output is likely to fall short of last year in the second half of 2016," according to the *Daily Dairy Report*. "However, even a modest retreat from last year's colossal volumes is still a lot of milk. European dairy producers have vastly exceeded production estimates made prior to quota's expiration. Despite looming environmental restrictions and severe financial pressure, Dutch milk output continues to grow. Ireland is making good progress toward its ambitious plan to grow milk output by 50% by 2020. Meanwhile, dairy producers are hanging on in places like Spain, where milk output has not yet suffered a sustained decline."



The U.S. is likely to be the only major dairy exporter to increase milk output in the second half of this year. European dairy producers will struggle to build on last year's growth, and some will deliberately cut back to earn a bonus from the government, which will pay producers to restrict output in the fourth quarter. In Oceania, dairy producers have culled heavily and they are saddled with debt. In some areas, winter rainfall has disappointed, leaving pastures vulnerable to drought. South American producers have trimmed their herds. They face political and economic turmoil and limited access to credit.

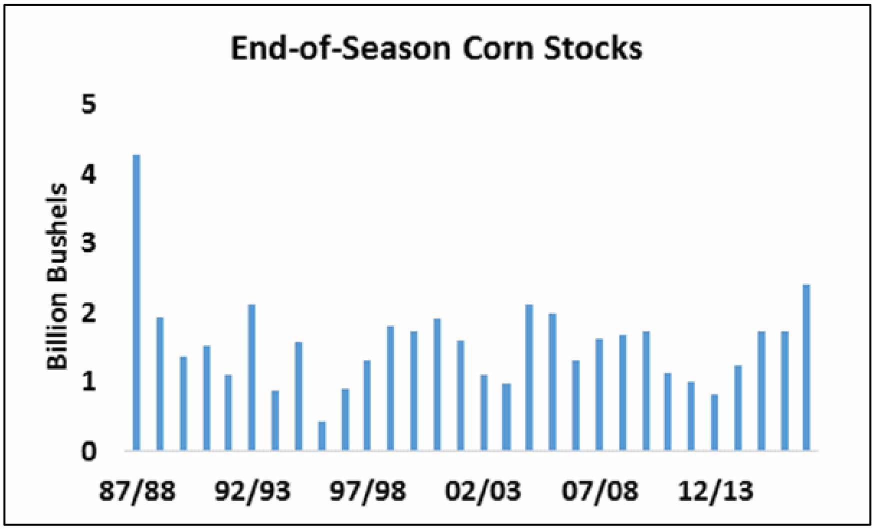
Collectively, the aforementioned issues are likely to cause a sizeable milk production deficit. This, coupled with sustained demand growth, has propelled global dairy product prices upward. Overseas, the trade is leaning bullishly, which means that a surprise is more likely to suppress rather than inflate foreign dairy product prices. Timely rains in New Zealand or less pronounced contraction in Europe could result in larger than expected supplies. Further declines in U.S. restaurant traffic, less robust growth in China, or any number of factors could curtail demand. Of course, there is also the potential for events to take a bullish turn, and the trend toward lower foreign output suggests that optimism is warranted. The world's appetite for dairy has often impressed and a



drought in New Zealand, for example, would devastate production. But given the size of the global dairy stockpile, and the maturity of the admittedly tepid global economic recovery, there is still plenty of risk of a setback in the dairy markets.

For the week ending September 3, dairy cow slaughter totaled 56,275 head, down 1.9% from the same week a year ago. After eight months, dairy slaughter is 1.4% behind the 2015 pace.

<u>Grain Markets</u>
With a weak start and a strong finish, December corn futures settled at $3.37 per bushel, up 7¢ this week. November soybeans strengthened Friday, but not by enough to overcome steep declines on Monday and Tuesday. They finished at $9.66, down 31.25¢.



USDA's Crop Production and World Agricultural Supply and Demand Estimates reports emboldened the bears. The agency called for record-breaking corn and soybean yields. At 174.4 bushels per acre, USDA's latest corn yield forecast is slightly lower than its August estimate, but it stands 3.4 bushels higher than the 2014 record. USDA expects the soybean crop to average 50.6 bushels per acre, a figure which surpassed even the highest pre-report guess. The soybean crop is forecast to reach an impressive 4.2 billion bushels, 7% more than last year. Demand is also strong, but this year's bumper crops are more than equal to it. Soybean stocks at the season's end are expected to climb significantly, building on more modest growth in the preceding two seasons. Corn stocks are projected to reach their highest total since 1988.

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PLEASE KEEP THE TROOST FAMILY IN YOUR THOUGHTS AND PRAYERS: *(By Rob Vandenheuvel)* While we spend considerable time and effort in this newsletter pontificating about the various issues that impact this dairy industry we all hold so dear, we must pause for a moment this week as those issues seem insignificant in the wake of heartbreaking news of the sudden passing of Garyn Troost, the 22-year old son of MPC Director Jeff Troost and his wife Dana. Many in our small "dairy industry family" tracked this story this past week as news spread that Garyn had gone missing on Sunday evening in Sterling, Alaska, where he has been living the past several months. Multiple days of searching ultimately led to the heartbreaking discovery on Wednesday evening that Garyn had passed away. A local news account of the tragic events can be read at: http://peninsulaclarion.com/news/2016-09-15/missing-sterling-man-found-dead.

No additional details or scheduling of a memorial service are available at the time of publication, but in the meantime, please keep Jeff and Dana Troost and the rest of their family in your closest thoughts and prayers as they make their way through this incredibly difficult time.

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RESPONSE TO SARINA SHARP'S CRITICISM OF THE CWT PROGRAM: *(By Geoff Vanden Heuvel, MPC's 2nd Vice Chairman)* As a producer who voluntarily invests in the CWT Program, I respectfully disagree with some of the opinions about the CWT Program that were expressed by Sarina Sharp in last week's Market Commentary (http://www.milkproducerscouncil.org/updates/090916.pdf). Back in 2009, producers were in desperate financial shape and we rightfully sought to do something significant to address the severe supply/demand imbalance that existed. The CWT Herd Retirement Program was what was available and it was deployed to try to turn that situation around. I supported that effort along with thousands of my fellow producers. Were mistakes made? Possibly, but anytime bold action is undertaken there is the risk that it may not turn out as you hope. Certainly observers after the fact can be critical. But I do not think Monday morning quarterbacking about the discontinued Herd Retirement Program is particularly helpful.

As for the ongoing CWT Export Assistance Program, I think it has paid big dividends for producers and our industry. The CWT Export Program is still in business, still providing assistance to help keep our guys in the export game. The nature of our milk pricing system in the US, where current spot prices get quickly captured in current milk prices, can be good for dairy farmers but it means that our cooperatives are at a disadvantage in the export market. Our major competition has the ability to adjust prices on a sale by sale and market by market basis to their export customers with their farmers absorbing, through lower milk prices, the costs of these variations. The CWT Export Assistance Programs keeps us in the game by helping to narrow the gap between what has to be paid for milk and what can be earned with an export sale. While there is always room for improvement and criticism is part of what pushes everyone to improve, if we don't have a way to assist our exporters then we run a big risk that will lose export customers. While the last year has been financially challenging for us in the United States, our fellow producers in New Zealand and Europe have had it much, much worse as low world prices for dairy products have resulted in devastatingly low producer milk prices. Fortunately the world market is beginning to strengthen and the US is still in the export business. The CWT Export Assistance Program has played a role in that reality and I think that my 4 cent per cwt. investment in CWT has been worthwhile.

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CAL/OSHA REPORTEDLY RAMPING UP ACTIVITY AROUND THE STATE'S DAIRY FARMS: *(By Kevin Abernathy)* I've received word that the Division of Occupational Safety and Health – also known as "Cal/OSHA" – is becoming more active with spot inspections of ag and air operations around the State, particularly in the Central Valley. These inspections can result in significant fines for the violations noted by the inspectors. And given the enormous volumes of regulations to adhere to, it is incredibly rare to experience an inspection without some number of violations.

For dairies concerns with the possibility of a spot inspection and the ensuing potential violations/fines, one idea that is possibly worth considering is participation in a voluntary compliance program offered by Cal/OSHA whereby an employer voluntarily subjects their operation to a "non-enforcement" review by Cal/OSHA, any deficiencies are identified, an assuming those deficiencies are addressed, you can be certified as compliant and exempt from programmed spot inspections. MPC members interested in exploring this option should contact me at kevin@milkproducers.org or (209) 678-0666.