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DATE: January 16, 2015 **PAGES: 3**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*- $.1200*	$1.4700
Barrels	*- $.0950*	$1.4500
Weekly Average, Cheddar Cheese		
Blocks	*- $.0580*	$1.5180
Barrels	*- $.0345*	$1.5085

CHICAGO AA BUTTER		
Weekly Change	*+$.0100*	$1.5500
Weekly Average	*+$.0050*	$1.5450
DRY WHEY		
Dairy Market News	w/e 01/16/15	$.4800
National Plants	w/e 01/10/15	$.5885

NON-FAT DRY MILK		
Week Ending 1/9 & 1/10		
Calif. Plants	$1.0155	13,139,595
Nat'l Plants	$1.0618	22,617,053
Prior Week Ending 1/2 & 1/3		
Calif. Plants	*$1.1562*	*4,766,967*
Nat'l Plants	*$1.1395*	*13,082,732*

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FRED DOUMA'S PRICE PROJECTIONS…

Jan 16 Est:	**Quota cwt. $16.16**	**Overbase cwt. $14.46**	**Cls. 4a cwt. $13.55**	**Cls. 4b cwt. $13.71**
Last Week:	**Quota cwt. $16.62**	**Overbase cwt. $14.92**	**Cls. 4a cwt. $14.20**	**Cls. 4b cwt. $14.23**

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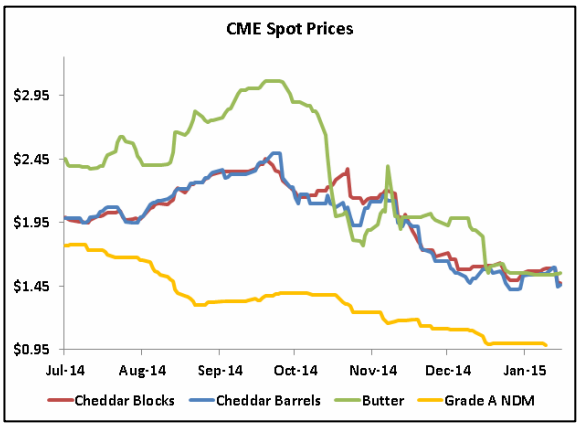
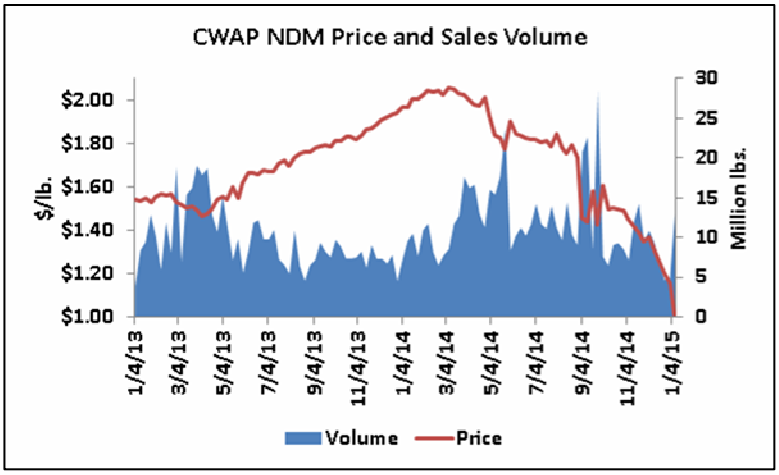
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

The days of $20 milk are only a fond memory. January through May Class IV and April Class III futures settled below $14/cwt this week. Both milk classes suffered double digit losses across the board. The damage was most severe for first quarter Class IV contracts, which lost 60¢ or more. The Class III losses were prompted by a rout in the spot cheese market. Cheddar blocks dropped 12¢ Wednesday, and then held at $1.47/lb. Cheddar barrels closed at $1.45, down 9.5¢ from last Friday. Butter gained a penny, and rebounded to $1.55. Spot nonfat dry milk (NDM) slipped to 95¢, down 3.75¢ on the week. Spot NDM prices have not been this low since August of 2009.

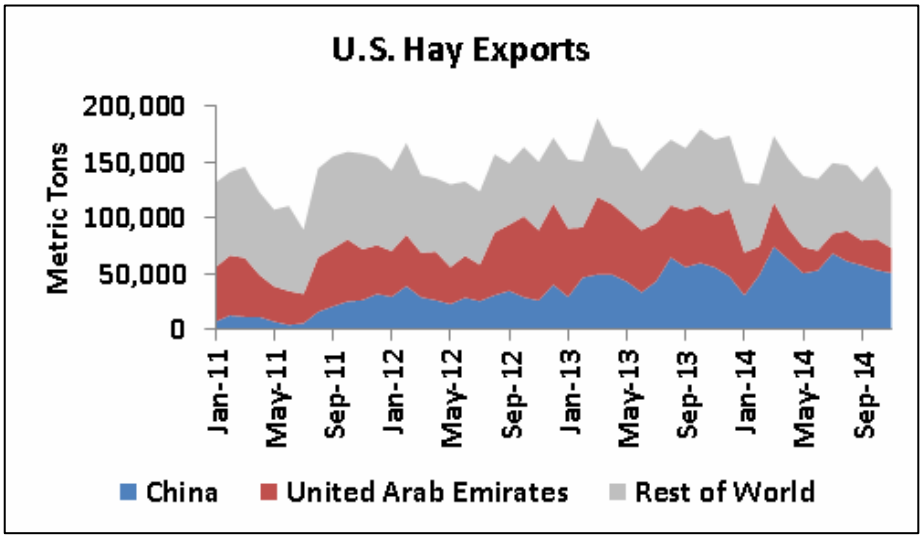




Manufacturers' prices for NDM also stand at multi-year lows. The National Dairy Product Sales Report (NDPSR) average price dropped to $1.06, down 8.4¢ from the previous week. Not to be outdone, the California Weighted Average Price (CWAP) for NDM plunged to $1.0155, down 14¢. Both the California Department of Food and Agriculture and USDA reported a sizeable increase in sales volume. Still, the general tone of the milk powder market remains weak; buyers may wait for another drop in prices before making their next wave of purchases.

With the exception of the frigid upper Midwest, milk output has been strong, and there is plenty of excess milk around for manufacturers in all regions. *Dairy Market News* reports that butter export demand is improving. Still, cream is readily available and churns are active. Both butter and cheese inventories continue to mount. As stocks grow, dairy product prices could come under additional pressure.

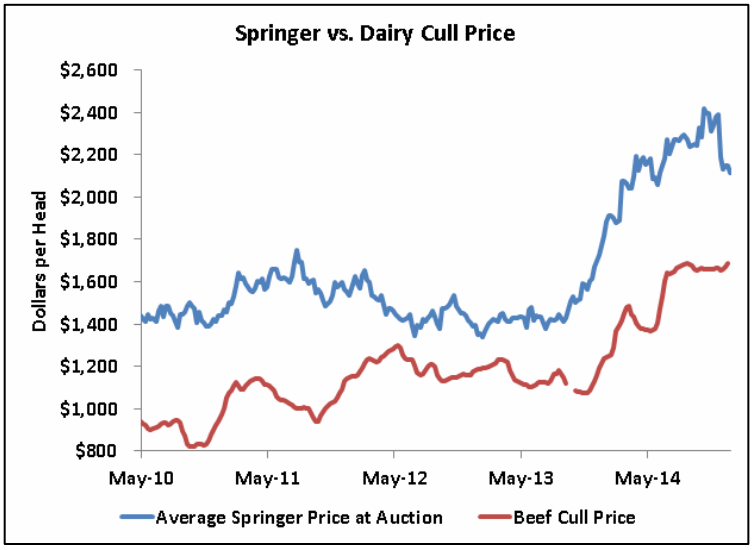
From Waikato to Galway to Tulare, dairy producers are feeling the strain of sharply lower margins. But farmers in China may be suffering most. Milk production in China comes at a very high cost, more than double the average in the U.S. or New Zealand. At current prices, manufacturers prefer to import milk powder and rehydrate it, rather than buying more expensive fresh milk from local suppliers. There are numerous reports of Chinese dairy producers dumping milk or culling their cows and leaving the business. The Chinese government has invested heavily in modernizing its dairy industry, and Beijing may consider forcing processors to buy local. If the government does intervene, Chinese milk powder imports could drop sharply.



In the short run, troubles in China could reduce the demand for U.S. hay exports as producers there look to cut costs. China replaced the United Arab Emirates as the largest market for U.S. hay in 2014, with sales up 15% from 2013 through November. But in the long run, today's red ink is likely to foster more consolidation as small producers exit the industry, leaving an opening for larger, more modern operations. These larger dairies may limit the amount of quality alfalfa in the ration for a time, but they are likely to add it back as soon as milk prices allow. Meanwhile, U.S. hay and dairy product exports to the Middle East may continue to decline as falling oil revenues crimp budgets there.

For the week ending January 3, dairy producers culled 48,166 head. Slaughter numbers are relatively low due to the holidays, but cull rates seem to be on the rise. Over the past five weeks, slaughter in Region 9, which includes California, Arizona, New Mexico and Nevada, was 4,100 head greater than the same period a year ago.

Cull rates are likely to continue to rise. After nearly a year of very high milk prices, producers have filled their barns and they have cows to spare. Lean beef prices remain at record highs, and dairy producers have every incentive to cull their older, heavier cows and replace them with a younger model. Or they can simply deposit their beef check and leave an empty stall or two.



Today's cull cow revenue may serve as the high water mark for some time. Wholesale beef prices remain strong, and demand is robust, so befuddled traders are struggling to explain the violent collapse in live cattle futures. The market has fallen $20/cwt. since peaking in late November. There are a number of potential culprits, including the strong dollar, index fund rebalancing, fear of global deflation and rising supplies of pork and poultry. Whatever the

cause, the bulls have been shoved out of the cattle pits, and lean beef prices are sure to succumb eventually.

Grain Markets

March soybean futures dropped 60¢ this week in the wake of USDA's World Agricultural Supply and Demand Estimates (WASDE). USDA raised its assessment of the recent soybean harvest, and upped its estimate of export demand, leaving its projection for ending stocks unchanged. The trade likely expected a larger increase to export demand, as sales to date have been impressive. But South America's soybean crop is expected to be very large, and farmers there have sold very little of it. The U.S. will likely face stiffer competition for exports in coming months.

Corn futures followed the soybean market lower; the March contract dropped 13¢, settling near the low end of the recent trading range at $3.87. USDA lowered its estimate of corn acreage and the national average yield. Ahead of the report, there were fears of a much larger drop in corn acreage. Once USDA removed that uncertainty, corn prices sought a lower equilibrium. Going forward, the corn market is likely to be highly sensitive to moves in the soy complex, and vice versa, as farmers consider which crops will offer the best revenue.

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JUDGE IN WASHINGTON STATE PUBLISHES A FRIGHTENING DECISION: *(By Rob Vandenheuvel)* This past week, U.S. District Judge Thomas O. Rice published a ruling in a lawsuit brought against "Cow Palace LLC" – a dairy in the Lower Yakima Valley of Washington – by a group of local and national environmental activists. In short, the Judge – for the first time ever – ruled that livestock manure can be subject to Federal "anti-dumping" laws.

The case is based on a Federal law known as the "Resources Conservation and Recovery Act" (RCRA), which was created in 1976, and gives the U.S. Environmental Protection Agency (EPA) the authority to regulate "hazardous wastes." Included in that law is a specific ag-related exemption, clearly stating that the provisions of the law *"do not apply to agricultural wastes, including manures and crop residues, returned to the soil as fertilizers or soil conditioners."*

However, what the Judge ultimately determined was that he believes there are situations on a dairy when manure is not completely "returned to the soil as fertilizers or soil conditions." Specifically, he pointed to potential "seepage" around and beneath the lagoons holding liquid manure as a "dumping" of waste. He also pointed to manure applications to cropland that the environmental activists claimed was in excess of what was needed as a fertilizer. He also pointed to the composting of manure on "natural, unlined soil" as another potential "dumping."

There are, of course, many other issues discussed in the 111-page ruling published by Judge Rice; too many to discuss in this article. But the bottom line is that this ruling – if not overturned by appeal – would not only impact "Cow Palace LLC", but dairies throughout the U.S., as this is a Federal law, and you can clearly see how liberally the Judge is applying it in his ruling. It's not clear yet when an appeal of this ruling will take place, but for those of you who weren't already watching this with great interest, I strongly encourage you to keep your eyes on it going forward.

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FYI - USDA ANNOUNCES STATE-BY-STATE PARTICIPATION IN THE MARGIN PROTECTION PROGRAM: *(By Rob Vandenheuvel)* This week, the U.S. Department of Agriculture announced the state-by-state participation in the new Margin Protection Program (MPP). In California, approximately 69 percent of the milk production was enrolled in the program at some level, with 35 percent of that enrolled volume signing up for an enhanced margin protection level ($4.50 per hundredweight and above). Nationally, about 50 percent of the milk production was enrolled in the program, with about 55 percent of that enrolled volume signing up for margin levels of $4.50 per cwt and above. For the full state-by-state report, you can find it on our website at: http://www.milkproducerscouncil.org/2015mppstate.pdf.