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 TO: Directors & Members

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 FROM: Rob Vandenhuevel, General Manager

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE

Blocks +\$.0525 \$1.5325
 Barrels +\$.0600 \$1.5050

Weekly Average, Cheddar Cheese

Blocks +\$.0240 \$1.4990
 Barrels +\$.0330 \$1.4805

CHICAGO AA BUTTER

Weekly Change +\$.2000 \$1.7500
 Weekly Average +\$.0995 \$1.6495

DRY WHEY

Dairy Market News w/e 01/30/15 \$1.4600
 National Plants w/e 01/23/15 \$1.5852

NON-FAT DRY MILK

Week Ending 1/23 & 1/24

Calif. Plants \$1.0120 12,530,493
 Nat'l Plants \$1.0022 22,755,290

Prior Week Ending 1/16 & 1/17

Calif. Plants \$1.0199 15,016,314
 Nat'l Plants \$1.0085 25,855,580

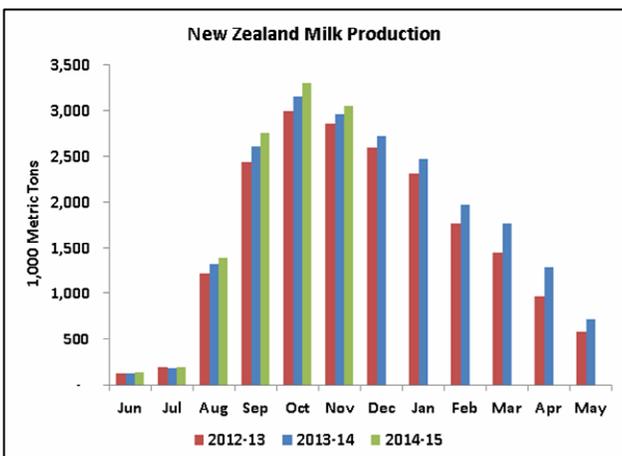
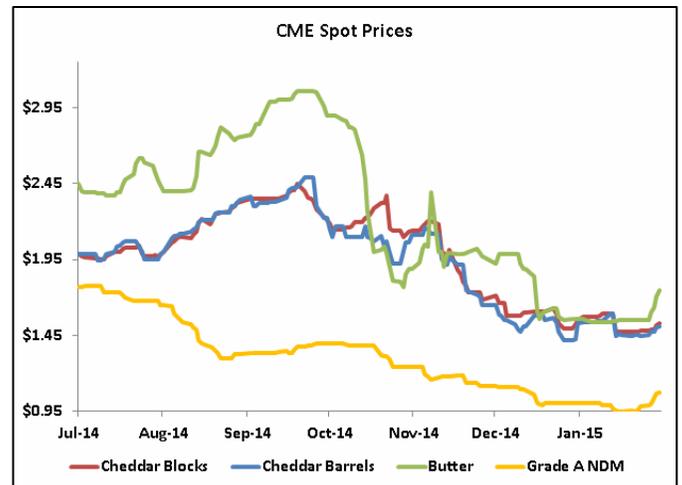
FRED DOUMA'S PRICE PROJECTIONS...

Feb '15 Est: Quota cwt. \$15.74 Overbase cwt. \$14.04 Cls. 4a cwt. \$13.62 Cls. 4b cwt. \$13.75
 Jan '15 Final: Quota cwt. \$16.05 Overbase cwt. \$14.36 Cls. 4a cwt. \$13.18 Cls. 4b cwt. \$13.75

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

Milk & Dairy Markets

After months of exhaustion, the U.S. dairy markets have found a second wind. Spurred on by forecasts for lower production and strong exports in New Zealand, nearby Class III futures were a dollar higher and Class IV futures were even stronger. The April Class IV contract settled \$1.92 higher than last Friday. Strength was not limited to the futures markets. CME spot Cheddar blocks rose 5.25¢ to \$1.5325. Barrels gained 6¢, reaching \$1.505. Grade A nonfat dry milk (NDM), is back over the dollar mark at \$1.07, up 8.75¢ on the week. CME spot butter soared to \$1.75, up an astounding 20¢ from last week.

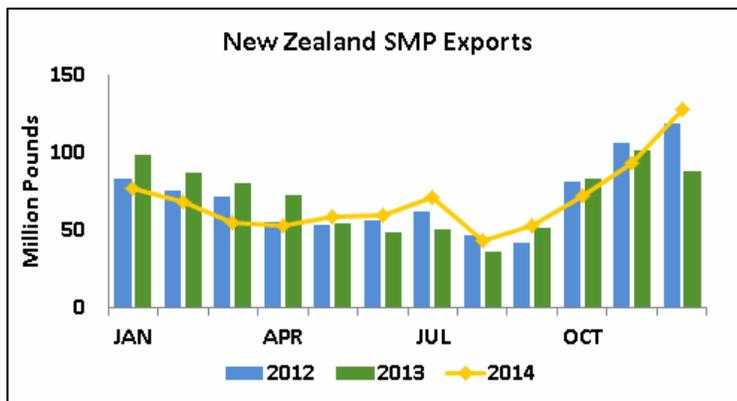
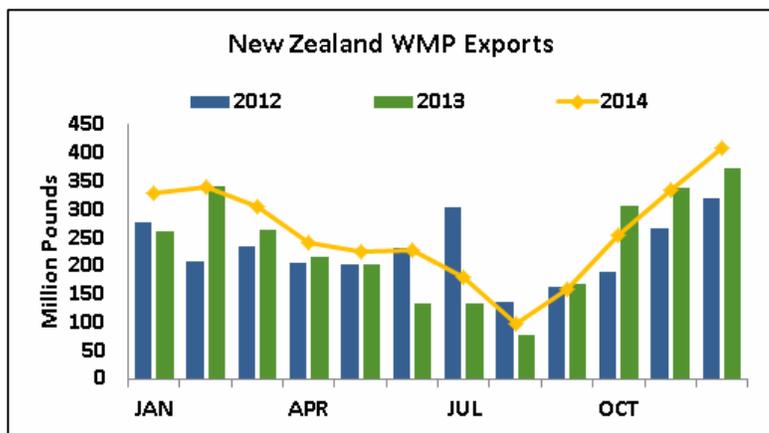


The trade has been mildly apprehensive about dry conditions in New Zealand; however, with much of the season already behind us, this was considered a back-burner issue. On Thursday, Fonterra brought these concerns from a simmer to a full boil when they lowered their production forecast. The cooperative now expects collections in the 2014-15 season to fall 3.3% short of last season. This would require double-digit declines in milk production relative to last year in what remains of the season, as collections in June through November were 4.3% greater than the same period in 2013.

On its own, lower milk output in the waning months of the New Zealand season is not enough to justify the formidable

strength in U.S. dairy product prices. But this potential decline, coupled with rising milk powder prices in Europe and manageable inventories in both of these key exporting markets has helped to alleviate concerns that a glut of dairy products will overwhelm the dairy markets in 2015. U.S. dairy product export volumes are still likely to slip this year due to the strong dollar and last year's price disparities. But exporters in New Zealand are on firmer footing.

Indeed, New Zealand set an all-time record for whole milk powder (WMP) exports in December. They shipped 191,638 metric tons, or 423 million pounds of WMP, 10% more than the previous year. They also sold 132.9 million pounds of skim milk powder (SMP), exceeding 2013 volumes by 46%.



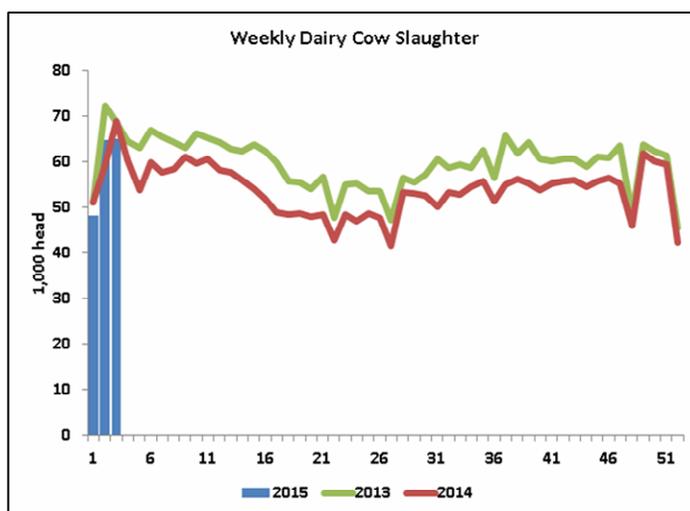
This was New Zealand's best December for SMP exports since record-keeping began in 1988. New Zealand managed to increase SMP exports to China in December relative to a year ago, and they replaced waning Chinese demand for WMP with extraordinary growth in sales to secondary markets, including the United Arab Emirates, Algeria and Malaysia among others.

As Sara Dorland noted in Friday's *Daily Dairy Report*, "New Zealand's heady exports and concerns about possible milk production declines provided context for Fonterra's reduction of Global Dairy Trade volumes for the remainder of the 2014-15 season. Likely this news caused shorts

(those expecting prices to head lower) in the futures market to begin covering positions adding to upside momentum. Further, those caught off guard by the rapid rise in U.S. dairy spot and futures markets could be stepping back from sales as they rethink what this latest news could mean for near-term markets. New Zealand may have jumped out ahead of the United States and Europe to market product well in advance of expected strong flushes from both regions."

If New Zealand's big export volumes were at least partially due to demand growth, then a rally in the U.S. dairy markets may be justified. But if New Zealand has simply front-loaded sales, using attractive pricing to convince buyers to step in earlier than they might have otherwise, then there is little reason for U.S. dairy product prices to remain high. Super-levees and low pay prices have crimped milk-flows in Europe for now, but producers there will be unfettered in April when quota ends. Surplus milk will surely flow to driers as long as Russia refuses to accept European cheese. The U.S. is also likely to produce massive volumes of milk powder as it heads toward the spring flush with the largest cow herd in six years. Domestic milk powder inventories could grow considerably this year, which would pressure U.S. dairy product prices.

After signs of life in the dairy futures markets, producers are faced with a very difficult decision. They can use this rally to lock in prices near or perhaps below the cost of production to protect themselves from the risk that this week's strength is fleeting. Or they can hope that there are further issues overseas or other unforeseen circumstances that allow for a continued rally in U.S. dairy markets.



For the week ending January 17, dairy cow slaughter totaled 65,244 head. This is a very large figure and it comes on the heels of heavy slaughter the previous week. However, year-to-year comparisons in early January are skewed by pent-up holiday volumes. For the year-to-date, slaughter is down 0.7% from 2014. However, it is likely to exceed 2014 levels in coming weeks.

Grain Markets

Corn futures dropped every day this week and fell below recent well-established trading ranges. March futures settled at \$3.70/bushel, down 17¢ from last Friday. March soybeans fell to \$9.61, down 13¢. Improved weather and rising production forecasts in Brazil and Argentina have weighed on both markets. After a strong harvest in the U.S. and the prospect for the same in the Southern Hemisphere, the soybean market in particular is likely to come under continued pressure as global stocks grow considerably relative to last year.

Author's Note: If you'd like to hear more from Sara Dorland, whose excellent work was quoted at length in today's report, please take the opportunity to hear her speak at the World Ag Expo in Tulare in two weeks.

AN EXPERT'S PERSPECTIVE – THE WASHINGTON STATE DAIRY LAWSUIT: *(By Kevin Abernathy, Director of Regulatory Affairs)* Two weeks ago, we reported the very scary news coming out of a Washington State courtroom that a judge had ruled that dairy manure could be classified as waste, and therefore be subject to Federal anti-dumping laws (<http://www.milkproducerscouncil.org/updates/011615.pdf>).

This week, I'd like to bring you a perspective from an expert in this field – Gary H. Baise. Gary is an Illinois farmer and trial attorney at the law firm Olsson Frank Weeda Terman Matz PC, specializing in agricultural and environmental trial issues in state and federal courts. But of equal-or-more interest is the fact that earlier in his career, Gary served as the first Chief of Staff to the first U.S. Environmental Protection Agency (EPA) Administrator and subsequently became director of the EPA's Office of Legislation.

Below is Gary's initial perspective on the Judge's ruling in this case against "Cow Palace, LLC", a dairy in Washington's Yakima Valley. You can find the original of this article on the "Defending Agriculture" blog published at: <http://farmfutures.com/blogs-blockbuster-defeat-agriculture-9383>.

Blockbuster defeat for agriculture

By Gary Baise

On Jan. 14, 2015, a U.S. District Court judge ruled that dairy manure is a "solid waste," like garbage, under EPA's Resource Conservation Recovery Act.

The judge said conditions existed at the Washington State Cow Palace dairy which may cause or contribute to eminent and substantial endangerment to citizens drinking water and that the storage of dairy manure in lagoons constituted "open dumping" under RCRA.

RCRA does not allow solid waste management practices for disposal of solid waste which will constitute open dumping. It defines an open dump as any facility or site where solid waste is disposed of which is not a sanitary landfill.

The Court asked "Whether Defendants' Manure Can be Characterized as a 'Solid Waste' Under RCRA." The definition of solid waste includes "any garbage, refuse...and other discarded material, including solid, liquid, semisolid or contained gaseous material resulting from...agricultural operations..."

The Court focused on the term "discarded material." The Court relied on ordinary meaning of discarded material and defined it as "to cast aside; reject; abandon; give up." (Most producers probably never think of fertilizer or manure if over applied as abandoned or discarded.)

The Court reviewed whether dairy manure could be considered a solid waste under RCRA when it is “over-applied” to fields and managed and stored in ways which allow it to leak into soil and add nitrates to the groundwater. The Court said that manure that is over-applied or leaks is no longer useful or beneficial as a fertilizer and is discarded as a solid waste.

The Court recognized that RCRA clearly exempts agricultural manures when they are returned to the soil as fertilizers or soil conditioners. (Two court cases say manure or agricultural residues are not solid wastes or discarded.)

The Court concluded that Cow Palace defendants “...excessively over-applied manure to their agricultural fields...” The Court further said “...they [Cow Palace and others] are discarding the manure under RCRA. Because the excess manure is not 'returned to the soil as fertilizers” it is not exempt from RCRA's provisions. (Apparently the Court does not understand soil structure or soil texture and its buildup.)

As to the Cow Palace's lagoons, the Court said manure leaking from a lagoon is not a natural expected consequence of the manure's use or intended use “...but rather a consequence of the poorly designed temporary storage features of the lagoons.”

The Court concluded because the manure is knowingly being abandoned to the underlying soil, it is being “discarded”. The Court found that manure leaking from the lagoon and accumulating in the soil did lead to indisputable evidence that will lead to dangerous accumulations of nitrates in the soil and these nitrates will eventually reach drinking water aquifers.

A 111-page opinion by a U.S. District Court judge includes factual background and what the experts on both sides of the issue had to say. The plaintiffs tried to discredit, with some success, and disallow Cow Palace's experts' opinions'. They failed.

The lawsuit followed earlier actions taken by the U.S. Environmental Protection Agency which resulted in an Administrative Consent Order against the dairy. The study conducted by EPA on groundwater contamination was determined previously by NRCS to be deeply flawed; however, it was accepted by the court into the record. (No one from NRCS was apparently called to do an affidavit to help the dairy.)

Two environmental nonprofit corporations brought this case. Community Association for the Restoration of the Environment claims to serve as an advocate to protect and restore economic, social and environmental resources in the Northwest.

The second plaintiff, Center for Food Safety, is a nonprofit in Washington, D.C., and claims it is protecting the environment and human health “...from harmful food production technologies, including the negative impacts of industrial agricultural technologies.”

It is curious that the Washington State Department of Health did not act if there is manure contaminating groundwater or why EPA did not bring an action against the dairy. Both allegedly protect public health and eliminate imminent endangerments. Two non-profits brought this action and their experts apparently were better than the dairy's experts.

One dairy has gone out of business due to this case.

This is a blockbuster decision for animal and tillage agriculture. USDA and state departments of agriculture better figure out quickly how to help producers and the courts with the facts or we will see more operations go out of business!