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DATE: May 29, 2015 **PAGES: 3**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	*+$.0450*	$1.6950
Barrels	*+$.0500*	$1.6700
Weekly Average, Cheddar Cheese		
Blocks	*+$.0333*	$1.6713
Barrels	*+$.0163*	$1.6338

CHICAGO AA BUTTER		
Weekly Change	*+$.1150*	$2.0050
Weekly Average	*- $.0051*	$1.9119
DRY WHEY		
Dairy Market News	w/e 05/29/15	$.4250
National Plants	w/e 05/23/15	$.4401

NON-FAT DRY MILK		
Week Ending 5/22 & 5/23		
Calif. Plants	$0.9557	12,532,189
Nat'l Plants	$0.9477	20,046,097
Prior Week Ending 5/15 & 5/16		
Calif. Plants	*$0.9651*	*11,582,244*
Nat'l Plants	*$0.9557*	*20,531,068*

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FRED DOUMA'S PRICE PROJECTIONS…

May 29 Final:	**Quota cwt. $15.89**	**Overbase cwt. $14.20**	**Cls. 4a cwt. $13.90**	**Cls. 4b cwt. $14.65**
Last Week:	**Quota cwt. $15.88**	**Overbase cwt. $14.18**	**Cls. 4a cwt. $13.86**	**Cls. 4b cwt. $14.65**

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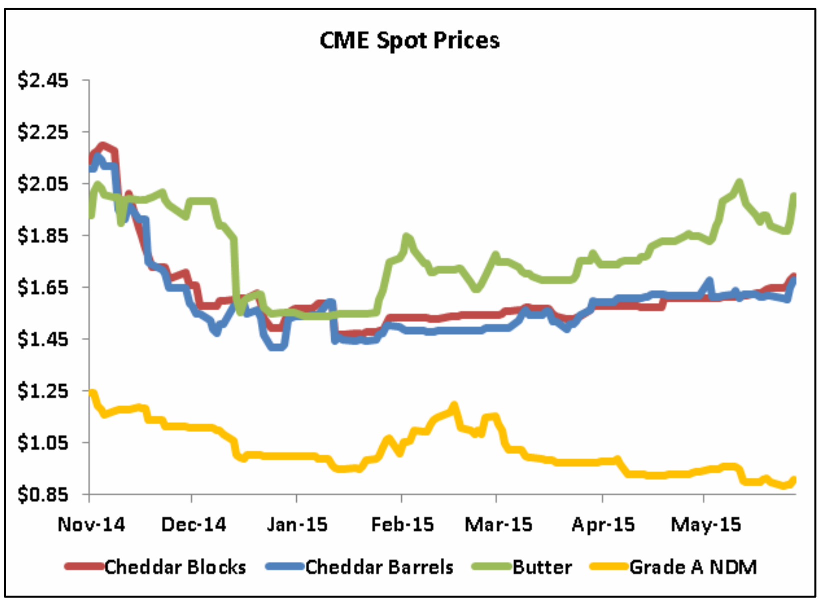
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

Milk & Dairy Markets

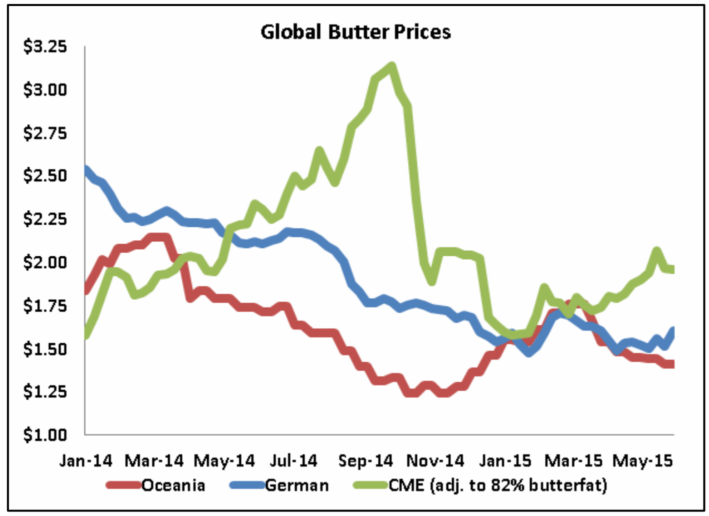
After simmering for a couple weeks, the butter market is boiling once again. CME spot butter surged to $2.005/lb., up 11.5¢ from last Friday. Traders exchanged 17 loads during this holiday-shortened week. There are concerns that butter supplies will be insufficient to meet fall demand. But export volumes are likely to languish. Prices in Oceania and Western Europe are 40¢ to 50¢ lower than the CME spot markets.



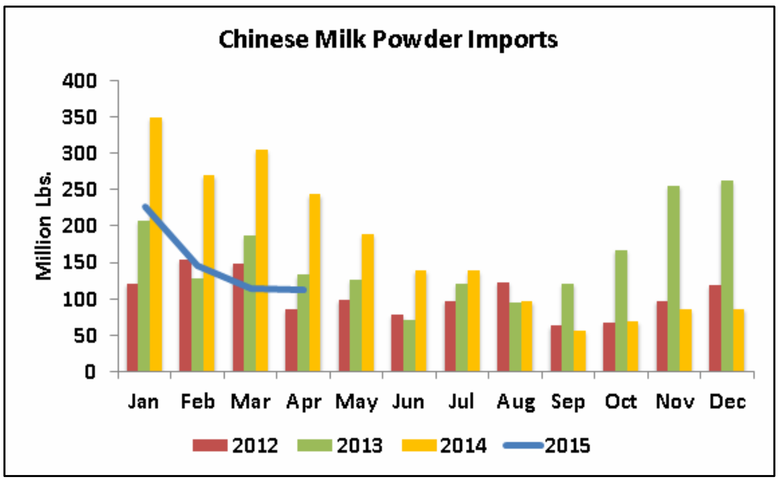
The other dairy product markets also moved higher, although they did so in less dramatic fashion. Cheddar blocks climbed 4.5¢ to $1.695 and barrels gained 5¢, rising to $1.68 after 31 trades. Grade A nonfat dry milk (NDM) rallied to 90.75¢, up 0.75¢ on the week.

With the spot market on the run, nearby futures had no choice but to climb as well. Most Class III and IV contracts posted double digit gains, and the July Class III contract rose 77¢. However, the trade is clearly concerned about the rally's stamina, particularly in the Class IV space. Deferred contracts moved lower and in some cases sharply so. February and March Class IV futures lost more than 40¢ this week. Futures trading volumes have slipped as many participants watch from the sidelines, trying to decipher the market's thrusts and feints.

The temperature is climbing in the West, and milk production is falling there, but in the Midwest and Northeast output continues to rise. Milk is abundant, particularly after a long weekend that ushered in the summer holidays for many students. Midwest cheesemakers can buy surplus milk at a $6 or $7/cwt. discount, with occasional purchases as much as $10 below Class. If the cheese market is able to rally even as manufacturers push facilities to capacity, demand must be formidable indeed. *Dairy Market News* confirms, “Presently most manufacturers have come to accept the staying power of demand and that underlies the overall confidence exhibited by maintaining cheese production as the generally preferred outlet for seasonally high milk volumes.”

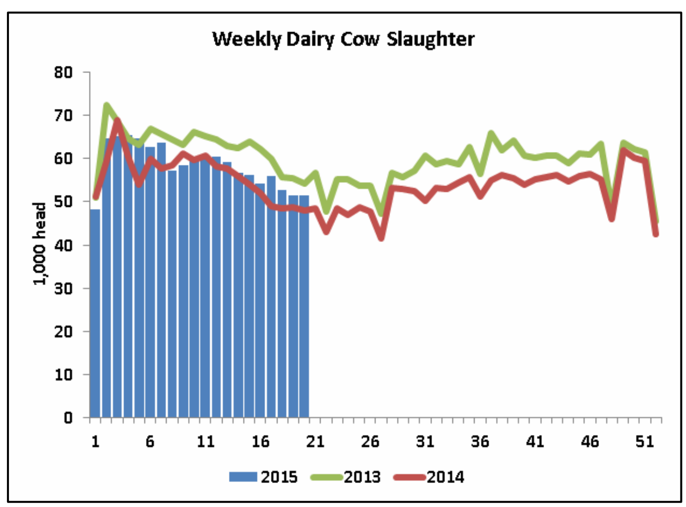


While cheese plants are running hard, there is plenty of milk leftover for driers. With inventories mounting, manufacturers are hoping that China will soon ramp up its milk powder imports, but they were likely disappointed with the latest trade data. Although Chinese imports of skim milk powder (SMP) in April were 29% greater than March on a daily average basis, they were 13% lower than a year ago. More importantly, Chinese imports of whole milk powder (WMP) fell 65% from last year and were 11% lower than March. Combined imports of SMP and WMP totaled 111.6 million pounds, down 54% from last year. Seasonal trends suggest they will continue to wane through summer. However, as the *Daily Dairy Report* noted earlier this week, “China’s dairy imports in April were not a complete loss.” Chinese milk and cream imports rose 6% from year-ago levels.



After the dairy boom in 2014, many producers worried that 2015 would be an excruciating bust. Milk prices have fallen significantly from last year’s sky-high levels, but they are much better than previously feared. Dairy producers in regions with particularly high feed costs are struggling to stretch their milk checks to cover all their expenses, but in many areas there is simply no incentive to reduce milkflows, and margins are improving as feed costs slip. National average margins in March and April were low enough to warrant a payment of 49.5¢ for the 261 producers who paid for the highest possible coverage under the new Margin Protection Program, but indemnity payments are unlikely in May and June.

Dairy cow slaughter totaled 51,574 head in the week ending May 16. Although this is 7.7% higher than the same week a year ago, it is not large enough to reduce the size of the milking herd. So far this year, the cull rate is 4.1% ahead of last year’s pace.



<u>Grain Markets</u>

July corn futures settled Friday at $3.515 per bushel, down nearly a dime this week. The December contract was within a nickel of scoring new contract lows. Flooding has been a major issue in Texas, and farmers in Kansas and Missouri are struggling to get work done in their soggy fields, but conditions are nearly ideal in the major corn states. There are months of uncertainty between now and harvest, so the market is vulnerable to a rally at the first sign of inclement weather. But for now the trade is expecting a very large crop, and grain is already plentiful.

Soybean futures closed a little higher than last week. The market jumped on Friday after the Environmental Protection Agency finally released requirements for ethanol and biodiesel blending under the Renewable Fuel Standards mandate. The new rules require that energy makers blend 1.7 billion gallons of biomass diesel into the fuel supply in 2015. Judging by the market's response, this was clearly larger than anticipated. However, the biofuel industry exceeded these levels in each of the past two years, and soybeans are much more abundant today. The industry was likely to produce at least this much biomass diesel even without the mandate. The biofuel rally may be short-lived and further gains in the soy complex seem unlikely. The South American crop is huge, the Brazilian real is weakening, and farmers in South America are selling aggressively.

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AN UPDATE ON THE MARGIN PROTECTION PROGRAM: *(By Rob Vandenheuvel)* Today, USDA released the latest milk price and feed cost data for the Margin Protection Program (MPP), the new safety net program created under the 2014 Farm Bill approved by Congress.

There is a one month lag on getting final milk price / feed cost data, so the announcement today gets us through April. In short, here is the data USDA has announced for January – April:

	January 2015	February 2015	March 2015	April 2015
National Average Milk Price	$17.60	$16.80	$16.60	$16.50
Estimated National Feed Cost	$9.26	$9.14	$9.07	$9.02
Margin	$8.34	$7.66	$7.53	$7.48
Two-Month Margin	**$8.00/cwt**		**$7.51/cwt**	

For those of you who signed up for this program, you'll recall that you had to choose a margin protection level between $4 and $8 per cwt, with an escalating premium due for coverage above the basic $4 margin level. Many of the dairies in California who opted to enroll at a higher margin level and pay a premium likely opted for the $5 or $6 per cwt levels. That means that the announced national margins would have to be below that $5 or $6 level in a two month period to trigger any payments. As you can see from the data above, that has not yet been the case in the first four months of the program.

This is not unexpected, as the MPP is designed to trigger in primarily during national catastrophic periods of low milk prices, escalated feed costs, or a combination of the two. It's also based solely on national average prices/costs, not specific to any one region or individualized for each dairy. While California producers have seen our Overbase milk price drop below $14 per cwt for the past three months, the rest of the country has been experiencing higher average prices ***(A great point for CDFA to be reminded of in next week's hearing!)***. Further, national average feed costs have remained steady in 2015. So while California producers have some real challenges in 2015 due to a steeply-discounted milk price and higher relative feed costs than our Midwest colleagues, the national MPP program is still showing milk-price-over-feed-cost margins of $7.50/cwt. As you can see from Sarina's report above, there were 261 producers in the U.S. who opted for the $8/cwt margin level protection and received some level of payment in the first four months of the program, but it's fair to assume those were small non-Western U.S. dairies (the first 4 million lbs of milk per year enrolled by each dairy has a substantially reduced premium, making the max $8 coverage much more affordable).

As a side note, for any of you who enrolled at a margin level that required a premium (>$4/cwt.), you will want to make sure you do not owe any remaining balance of that premium. The deadline for the balance of any unpaid premium is next Monday (June 1st), so hopefully your local FSA office has been in touch with you regarding the payment of that balance. If not, I'd encourage you to reach out to the FSA office or MPC members can always contact our office with any questions or assistance you may need.