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DATE: August 1, 2014 **PAGES: 4**
TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE		
Blocks	+*$.0300*	$2.0000
Barrels	+*$.0475*	$2.0000
Weekly Average, Cheddar Cheese		
Blocks	- *$.0300*	$1.9810
Barrels	- *$.0585*	$1.9660

CHICAGO AA BUTTER		
Weekly Change	- *$.1900*	$2.4000
Weekly Average	- *$.1030*	$2.4810
DRY WHEY		
Dairy Market News	w/e 08/01/14	$.6700
National Plants	w/e 07/26/14	$.6886

NON-FAT DRY MILK		
Week Ending 7/25 & 7/26		
Calif. Plants	$1.7887	13,973,399
Nat'l Plants	$1.8371	19,346,335
Prior Week Ending 7/18 & 7/19		
Calif. Plants	*$1.8109*	*11,116,613*
Nat'l Plants	*$1.8694*	*18,913,681*

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FRED DOUMA'S PRICE PROJECTIONS…

August 1 Est:	**Quota cwt. $22.64**	**Overbase cwt. $20.94**	**Cls. 4a cwt. $23.22**	**Cls. 4b cwt. $18.71**
July '14 Final:	**Quota cwt. $22.75**	**Overbase cwt. $21.05**	**Cls. 4a cwt. $23.58**	**Cls. 4b cwt. $18.69**

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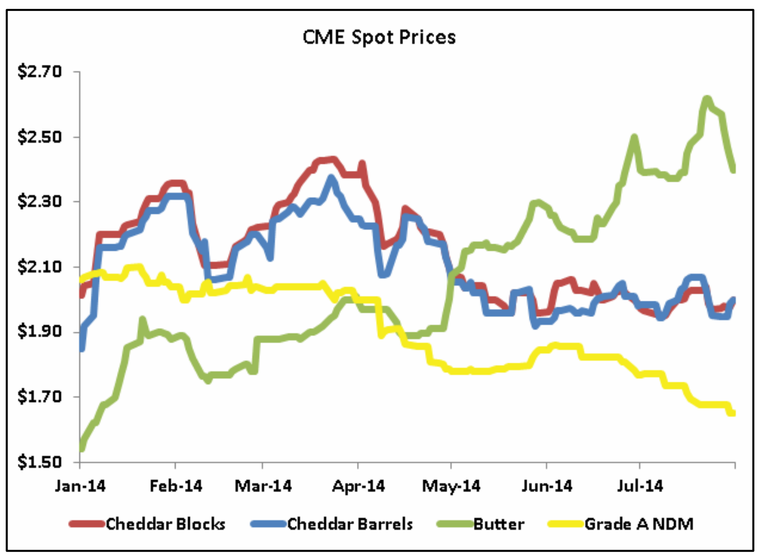
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

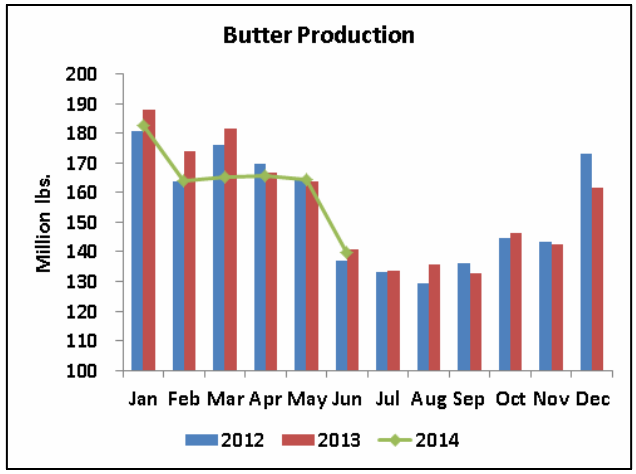
Milk & Dairy Markets

The spot cheese market continues to gravitate toward the $2 mark. Cheddar blocks and barrels both settled there Friday, climbing 3¢ and 4.75¢, respectively, after testing the waters in the mid-$1.90 range. Class III futures rallied, with the October contract leading the way, up 92¢. USDA announced the July Class III price at $21.60, up 24¢ from June and $4.22 greater than last year. California 4b milk slipped to $18.69, down 65¢ compared to June. Last July, 4b milk was $15.65/cwt.



After a meteoric rise, the butter market fizzled this week. The collapse matched the impressive velocity of the initial rally. Spot butter fell 19¢ to a still lofty $2.40/lb. Nonfat dry milk (NDM) dropped 2.5¢ to $1.65 after a long pause at $1.675. Class IV futures were mostly lower. August tumbled 48¢ this week, but losses among the other contracts were smaller and a few months even managed to move slightly higher. At $23.78, the July Class IV price was 65¢ higher than June and up $4.88 from last July. California 4a milk narrowed the gap with Class IV, rising $1.01 to $23.58. This is $4.97 higher than last year.

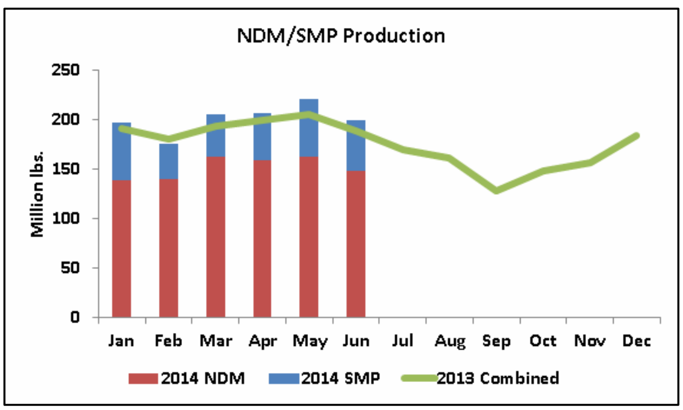
As the calendar turns from July to August, most Americans sweat through the hottest week of the year. But while parts of California and Idaho sweltered, most of the country enjoyed fall-like weather. This July was the coolest on record for the U.S., and heat stress is simply not a factor in the Midwest and Northeast. In the western half of the country, the heat impact has been relatively short-lived, thanks to the welcome respite of cool nighttime temperatures or a string of less stifling days. Milk production is declining as it always does at this time of year, but the seasonal drop-off is not as steep as usual. *Dairy Market News* reports that even in the South and West, where triple digit highs have reduced production per cow, total milk volumes are higher than last year due to increased cow numbers.



Strong global milk production and falling dairy product prices prompted both Fonterra and Westland to lower their forecast of farm gate milk prices in New Zealand. Fonterra now expects to pay NZ$6 per kilogram (kg) of milk solids in the 2014-15 season which began last month. This is NZ$1/kg lower than their estimate a month ago, a decline of 14.3%. Adjusting the latest pay-price for currency and components gives a Class III equivalent of $17.52/cwt. Currently, July 2014 through June 2015 futures average $19.54/cwt. U.S. prices will have to move lower if we hope to compete in the export market.

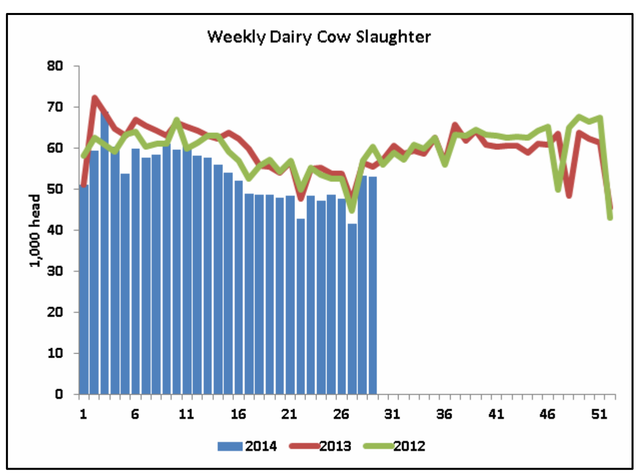
Fonterra noted that strong global output, rising inventories in China and falling demand from emerging markets prompted the decline in its forecast. China has clearly tapped the brakes on its import program and has been taking steps to rebuild consumer confidence in domestic dairy products. But those efforts were undermined this week after Chinese officials seized 26,455 pounds of yogurt candy tainted with melamine. With this unfortunate reminder of the 2008 melamine scandal, consumers will continue to favor imports. Once China has made a dent in its inventories, it will likely resume overseas purchases in order to satisfy the demand for milk powder with a better reputation for food safety.

According to USDA's monthly Dairy Products report, output of every major dairy product – butter, cheese, milk powder and whey – declined from May to June by more than the historical average. Butter production totaled 139.9 million pounds, down 12.1% from May on a daily average basis and down 0.2% from last June. Ice cream and dip makers pulled cream away from butter churns over the past couple months, but *Dairy Market News* reports that demand from competing manufacturers is beginning to wane. This could allow butter manufacturers to increase churn rates in anticipation of holiday demand. However, domestic butter supplies are still expected to be quite scarce this fall.



Cheese output totaled 916.4 million pounds in June, up 0.5% from last year but down 2.1% from May. Cheese makers continue to favor Italian varieties to satisfy the world's growing appetite for pizza. While Cheddar production fell 1.3% from last year, mozzarella output climbed 6.1%.

At 229.4 million pounds, NDM production was down 9.4% from May. However, it exceeded last year by 13.1%. This was more than enough to offset declines in skim milk powder (SMP) output, and combined production of NDM and SMP was 5.6% greater than in June 2013. Manufacturers stocks of NDM climbed to 229.4 million pounds, up 3.8% from May but incrementally lower than last year.



Dairy producers culled 53,063 head in the week ending July 19. This was down 4.5% from the same week last year. So far this year, dairy cow slaughter is 10.4% lower than in 2013. In the first half of the year, beef and dairy cow slaughter was 13% lower than in January through June of 2013.

A dearth of slaughter cows prompted Cargill to close the doors at its Milwaukee, Wisconsin, facility today. The plant has the capacity to process up to 1,400 cows each day. The closure highlights the biological limitations of the beef industry as it seeks to expand the cattle herd, which has dropped to its lowest level since 1951. Cargill idled a plant in Plainview, Texas, early last year, and National Beef shuttered its Brawley, California, operations in May. California's cattle inventory has fallen 16% over the past four months as feedlots sent cattle eastward.

Grain Markets

Corn futures fell 14% in July, marking the largest monthly drop since September 2011. Corn prices settled a dime lower this week. Nearby soybean futures gained a few cents, but the November contract lost 25¢. August weather will be critical for crop development, particularly for soybeans, but crop analysts are already calling for record yields. If rains fall as promised over the next couple weeks, prices are likely to fall as well.

Dried distillers grains (DDGs) prices plunged this week in the wake of China's latest ploy to use rigorous inspections to halt grain imports. While feed buyers are celebrating the impact this will have on the price of DDGs and competing feedstuffs, the DDG market should serve as a cautionary tale to producers of any commodity that is overly dependent on a single buyer.

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THE "CALIFORNIA DISCOUNT" NEARING $3.00 IN JULY! *(By Rob Vandenheuvel)* July was another month of a generous "California Discount" on the milk purchased by our state's cheese manufacturers. The table below compares the California Class 4b price (for milk sold to CA cheese manufacturers) to the Federal Order Class III price (benchmark price for milk sold to cheese manufacturers around the country). Since 2010, the gap represents more than **$1.4 Billion** in forgone revenue that never made it into the California pool. What does that mean for the average CA dairy? If you're a 1,000-cow dairy producing 65 lbs of milk/cow/day, this $1.4 Billion represents **more than $830,000 since 2010 to your dairy alone!**

The "California Discount" for our State's Cheese Manufacturers		
	July '14	**2010 – Jul '14**
California Class 4b Price	**$18.69**	**$16.01**
FMMO Class III Price	**$21.60**	**$17.75**
Discount	**($2.91)**	**($1.74)**
The California Discount: More than $1.4 Billion since January 2010.		

How about just last month? A $2.91 per hundredweight discount is enormous, even if it is *"only"* on 45% of your milk (which is about how much of the California milk supply is sold to cheese manufacturers). When the final overbase payments are made for milk produced in July, **that sample 1,000-cow dairy should expect to receive about $26,000 less from the overbase pool because of the California discount!**

We need to restore balance between our prices and the prices paid for comparable milk sold all over the U.S. Those efforts are underway, but **producers must continue to pressure their leaders for change.** The status quo is unacceptable, **and only you as dairy producers pay the price of inaction.**

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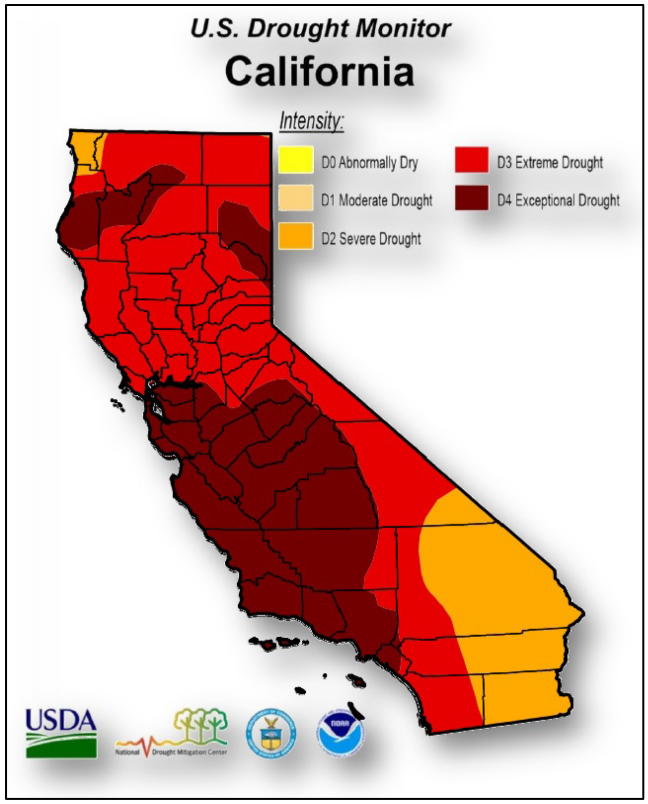
JULY DAIRY CARES REPORT: BEARING THE BRUNT OF THE ENDURING DROUGHT: *(By Rob Vandenheuvel)* The most recent "Dairy Cares Report" highlights some of the impacts the drought has had on local agriculture. The report (which is also posted at: http://www.milkproducerscouncil.org/cares.htm) has been copied below.

California agriculture expected to bear brunt of economic damage caused by enduring drought

By Dairy Cares (http://www.dairycares.com)

In April, the U.S. Drought Monitor reported that every inch of California was experiencing at least some degree of drought, ranging from "moderate" to "exceptional." The finding was a first in the program's 15-year history of tracking such conditions in the Golden State.

Today, the Drought Monitor still shows California – from north to south and east to west – in the throes of an extraordinary drought (see right). Unfortunately the map is a lot redder as of July 22, with nearly 82 percent of the state now experiencing "extreme" or "exceptional" drought conditions.



Hardest hit by drought is the highly productive Central Valley, home to a variety of world-class farming operations, including the vast majority of the state's 1,496 family-owned dairies. Farmers are wrestling with tough planning decisions, such as which crops to grow, the number of acres to plant, expected crop yield and quantity, and simply whether there's even enough water to put a crop in the ground.

A recent study released by the UC Davis Center for Watershed Sciences stresses the economic hardship in store for California's economy, particularly the agricultural sector. According to the study, the 2014 drought will cost the state economy $2.2 billion, with $1.5 billion in direct costs to the agricultural community. That represents a net revenue loss of about 3 percent of the state's total agricultural value.

Other key findings from the UC Davis study on the effects of the 2014 drought on California agriculture include:

- The loss of 17,100 seasonal and part-time agricultural jobs, which represents 3.8 percent of farm unemployment;
- The removal of 428,000 acres, or 5 percent, of irrigated cropland from food production in the Central Valley, Central Coast and Southern California; and
- Statewide dairy and livestock losses from reduced pasture and high hay and silage costs, representing $203 million in lost revenue.

Dairy families continue to be good water stewards

Despite the grim water and economic outlook facing all Californians, dairy families are accustomed to doing more with less, having long been leaders in water conservation, efficiency and recycling. Dairy families have steadily and dramatically reduced the amount of water they use to produce each gallon of milk. In fact, dairy farmers have reduced the overall water footprint of a glass of milk by 65 percent since 1944. In other words, producing a glass of milk today uses about a third of the water it did during the Franklin Roosevelt administration. (Source: Capper, et al. (2009). Journal of Animal Science.)

Dairy families are also utilizing the latest and best science and educational tools available to them through the award-winning California Dairy Quality Assurance Program (CDQAP). In June and July, CDQAP hosted free drought assistance workshops to dairy farmers throughout the Central Valley. Expert presenters from UC Cooperative Extension and California State University systems provided helpful information on deficit irrigation techniques, extension of limited feed resources and implementation of nutrient management during drought conditions. CDQAP also launched a "Drought Info Page" (http://goo.gl/2qIScK) earlier this year that includes resources to help dairy farmers manage issues on the farm related to drought conditions.

California dairy families are working to be water-wise, and recognize that water is a precious, finite resource to be used responsibly. As millions of families continue to enjoy affordable, nutritious and delicious dairy foods, they can do so with confidence that the family farmers producing these products are making every effort to conserve, recycle and protect the water resources upon which we all depend.