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TO: Directors & Members **FROM: Rob Vandenheuvel, General Manager**

MPC FRIDAY MARKET UPDATE

CHICAGO CHEDDAR CHEESE			**CHICAGO AA BUTTER**			**NON-FAT DRY MILK**		
Blocks	*- $.0425*	$2.3850	Weekly Change	*+$.0800*	$2.0000	**Week Ending 3/21 & 3/22**		
Barrels	*- $.0200*	$2.2900	Weekly Average	*+$.0630*	$1.9700	Calif. Plants	$2.0332	12,751,885
						Nat'l Plants	$2.0892	16,787,532
Weekly Average, Cheddar Cheese			**DRY WHEY**			***Prior Week Ending 3/14 & 3/15***		
Blocks	*+$.0010*	$2.4160	**Dairy Market News**	w/e 03/28/14	$.6450	*Calif. Plants*	*$2.0490*	*11,707,965*
Barrels	*+$.0305*	$2.3355	**National Plants**	w/e 03/22/14	$.6546	*Nat'l Plants*	*$2.0984*	*16,344,887*

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FRED DOUMA'S PRICE PROJECTIONS…

Mar '14 Final:	**Quota cwt. $24.18**	**Overbase cwt. $22.49**	**Cls. 4a cwt. $23.41**	**Cls. 4b cwt. $22.16**
Last Week:	**Quota cwt. $24.15**	**Overbase cwt. $22.46**	**Cls. 4a cwt. $23.33**	**Cls. 4b cwt. $22.16**

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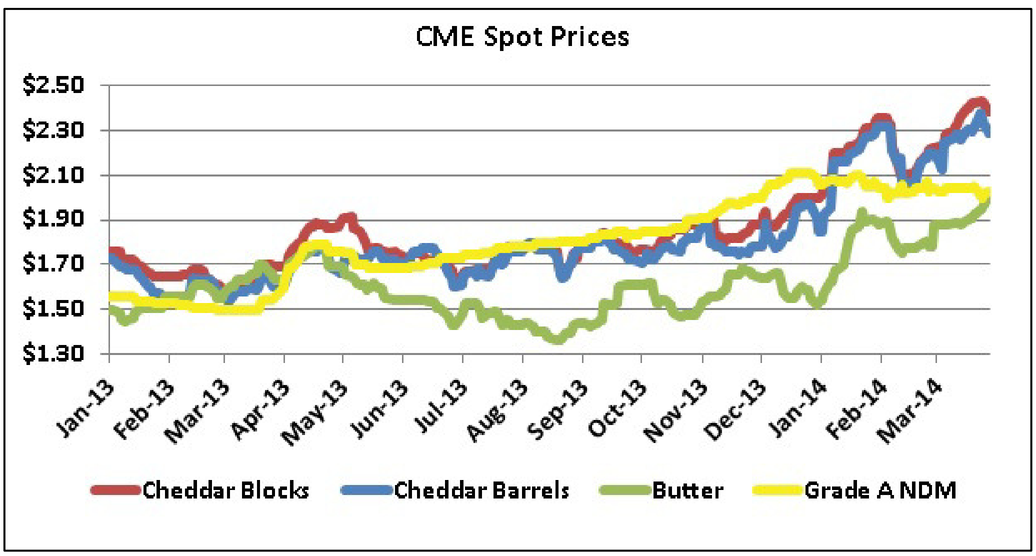
MARKET COMMENTARY: *(By Sarina Sharp, Daily Dairy Report, sarina@dailydairyreport.com)*

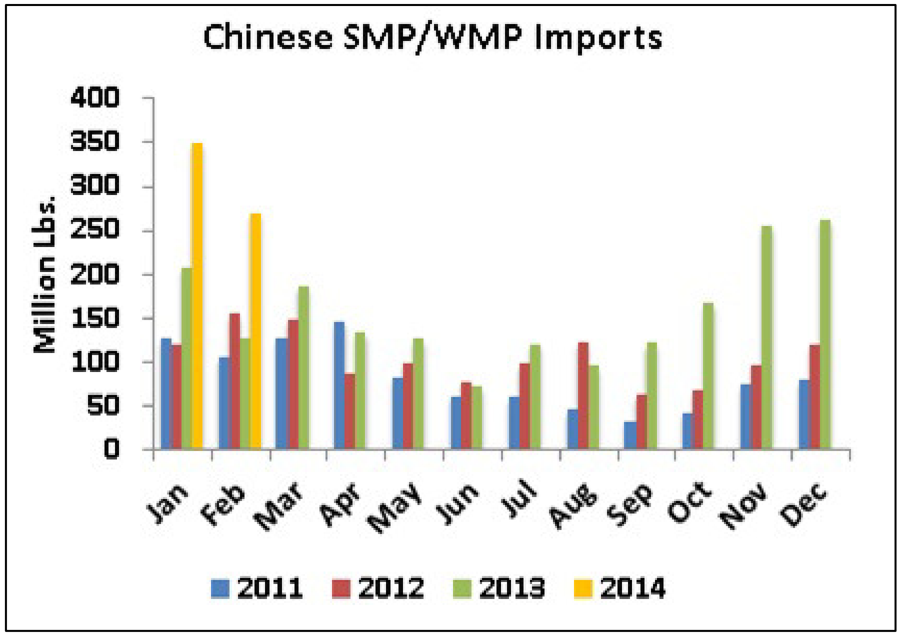
Milk & Dairy Markets



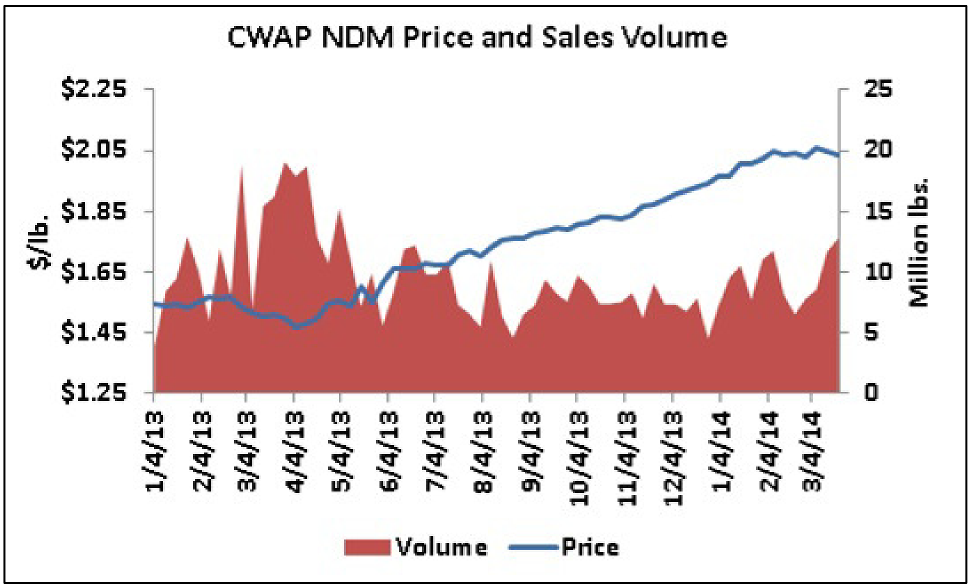
CME spot Cheddar blocks and barrels both logged new record highs on Monday. Blocks reached $2.4325/lb. and barrels climbed to $2.3775. But they could not hold there. After gaining 7¢ on Monday, barrels lost 9¢ over the rest of the week. Blocks shed a penny on Wednesday, another on Thursday and 2¢ on Friday, settling at $2.385. And, after five weeks of silence, sellers finally parted with a few loads at the exchange. A total of five loads of blocks changed hands this week. Despite fears that the first leak in cheese prices could open the floodgates and lead to an all-out collapse, the markets absorbed the change in tone without frenzy. Nearby Class III contracts actually strengthened this week; April futures added 76¢ and now hold a 29¢ premium to April Class IV futures. Class III contracts for the second half of the year put in a mixed performance relative to last week's settlements.

Spot nonfat dry milk (NDM) prices tumbled Monday and Tuesday, and these losses more than offset gains later in the week. NDM settled at $2.03, a penny lower than last Friday. Spot butter prices climbed every day this week and on Friday butter traded at $2.00/lb., a price not seen since September 2011. This was 8¢ higher than last week's closing price. With exports still booming and Easter looming, demand for butter remains strong. For the most part, Class IV futures ended this week a little higher than the last.

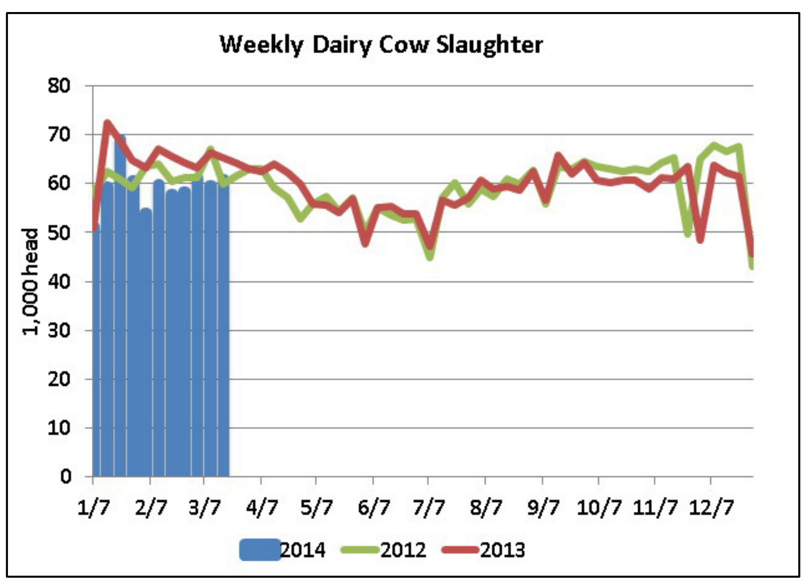
While U.S. dairy product prices are holding at very high levels, dairy markets abroad are falling. Milk powder prices have been particularly weak. Skim milk powder (SMP) prices have fallen 3.5% in Oceania and 1.7% in Western Europe over the past two weeks, according to *Dairy Market News*. The whole milk powder (WMP) market is even weaker. WMP prices dropped 4% in Oceania and 2.2% in Europe over the same period. The U.S. will face stiffer competition for exports in the months to come.



China continues to import huge volumes of milk powder. While February imports fell short of the astounding volumes China purchased in January, they were robust by any other measure. Combined WMP/SMP imports totaled 122,779 metric tons (MT) or 270.7 million lbs. This is 23% lower than in January but more than twice as large as February 2013. In fact, despite the fact that February is a shorter month, this is the second largest import total on record. The data suggests that China has not slowed its milk powder purchases, even as prices rose. But last month's shipments were probably negotiated months ago, at lower prices. Both China and Mexico have reportedly let off the gas now that U.S. milk powder prices have held above $2.00.



The California Weighted Average Price (CWAP) for NDM dropped for the third time in four weeks. Last week it averaged $2.0332/lb. Sales increased to 12.75 million lbs., the first time that sales have topped 12 million lbs. in nine months. The uptick in sales may indicate a shift in buyer preferences from SMP back to NDM rather than an increase in the global appetite for milk powder. *Dairy Market News* reports that most buyers expect prices to continue to fall and are only securing enough milk powder to satisfy immediate needs.



Weekly dairy cow slaughter totaled 60,825 head. This is a very large slaughter figure given the excellent margins available today. However, it was 6.9% lower than the same week a year ago. So far this year, dairy cow slaughter is 8.5% lower than in the first three months of 2013.

Grain Markets

Grain prices climbed this week. Nearby corn futures added 13¢ and closed at $4.92 per bushel. The market anxiously awaits the quarterly Grain Stocks and Prospective Plantings reports, which will be released on Monday. Over the past few years the Grain Stocks report has been particularly difficult to predict, and the market could swing dramatically in either direction on Monday. Corn exports remain large and ethanol margins are very strong. Dry weather has hampered the wheat crop in the Plains, and so corn prices followed wheat higher this week.

Nearby soybean futures added nearly 30¢ this week. May futures reached new contract highs on Wednesday. November soybean futures also climbed, further incentivizing farmers to plant more soybeans and less corn this year. Those new crop supplies cannot come soon enough. Soybean stocks remain tight and soybean crushing margins are excellent, so crushers are not slowing their processing schedules despite the looming soybean shortage.

DTN reports that China has rerouted 20 cargoes of soybeans to the U.S. Soybean crushing margins have tumbled in China, as buyers booked more soybeans and soybean meal than they needed. So there are ships carrying soybeans from Brazil to the U.S., even as the last few ships bring U.S. soybeans to China. These imports will certainly help, but more are required to bring U.S. soybean supplies in line with flourishing demand.

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THE NEW "MARGIN PROTECTION PROGRAM," PART ONE – AN INTRO: *(By Rob Vandenheuvel)*
The ink is now dry on the new five-year Farm Bill; it's the law of the land. However, as we've written in previous issues of this newsletter, there are many details that still need to be ironed out in the "rule-making" process at the U.S. Department of Agriculture (USDA). Major issues remain that were left somewhat vague in the bill language, and in the coming months, USDA will be providing clarity on those issues.

But that doesn't mean we have to sit on our hands. There were many details in the bill that *were* spelled out, and there's no reason we shouldn't be delving into those details immediately. First, we need to determine what we know from the bill language, and what still needs to be clarified by USDA. Here are some of the things we know for certain from the bill:

- The Milk Income Loss Contract (MILC), Dairy Price Support and Dairy Export Incentive Programs are either repealed or will soon be repealed (MILC is temporarily extended until the Margin Protection Program is in place).

- The replacement program – the Margin Protection Program – provides direct payments to participating dairy farmers when the margin between the U.S. All-Milk Price and a National Average Feed Cost (which is clearly defined in the bill language) goes below certain pre-defined levels.

- The amount of milk that a dairy can enroll in the new program is based on the highest annual production for your dairy in 2011, 2012 or 2013. For the life of the five-year Farm Bill, the only increases allowed to your facility's production history are based on the overall national increases in milk production.

- Each dairy facility is treated as a separate entity, just as the MILC program was handled.

- The cost of participating in the program is $100 per year, plus any premiums due for dairies that "buy up" additional protection. The premiums are also known, as they are locked in for the five-year Farm Bill.

- There are two tiers of premiums: a lower premium on the first 4,000,000 lbs of milk and higher one for all milk above that (however, what qualifies that first 4,000,000 lbs is not yet known...more on that in a future article).

Coverage Level	Premium on first 4M lbs	Premium on >4M lbs
$4.00	$0.000	$0.000
$4.50	$0.010	$0.020
$5.00	$0.025	$0.040
$5.50	$0.040	$0.100
$6.00	$0.055	$0.155
$6.50	$0.090	$0.290
$7.00	$0.217	$0.830
$7.50	$0.300	$1.060
$8.00	$0.475	$1.360

- Payments are generated when the average margin in a two month period (Jan-Feb, Mar-Apr, etc.) is below the margin your dairy selected for the program. (i.e., you elected to "buy up" the program to cover a $6.00 per cwt margin, and the average margin in Jan-Feb 2014 was $5.50 – you would receive $.50 per cwt on the milk you were able to protect).

So what are some of the issues that still need to be clarified by USDA? I'm sure I've missed a few, but those issues include:

- When the Margin Protection Program officially begins (there is reference to a September 1st deadline, but it's not clear if the program starts then or signups begin then).

- What the enrollment period is for dairies.

- Whether the program is operated on a calendar year basis or fiscal year basis (like the Oct 1 – Sept 30 calendar for the MILC program).

- Exactly how "new producers" will be defined.

- How a dairy that changes locations will be treated.

- How much of your production will be eligible for the lower premium.

- How your premiums will be paid.

- Whether you actually have to produce the milk in order to be eligible for the payouts.

In the coming weeks, we'll be exploring these issues in more detail, particularly those that are clearly spelled out in the bill language (although we'll certainly be discussing some of the "to-be-determined issues" as well). As we go through this process (and I'm not sure how many "parts" there will be to this series), **if you have a question about the program that we're not answering, shoot me an email me at rob@milkproducers.org**, and we'll see if we can provide clarification. In a perfect world, we'd probably wait until USDA releases the final rules so we have all the information. But at some point in the not-too-distant future, dairy farmers will be asked to decide whether or not to participate in this program, and it's important that you all make that decision with as many of the facts as possible.