

Brock Dairy Report

June 13, 2014

Market Update:

This week's issue is basically a mid-year review of the dairy industry market conditions. Most everyone we assume is pleased, however some of the upper Midwest producers were challenged during the winter with weather conditions. Cheese buyers may not have liked the price of their products for several weeks while the wholesale price exceeded \$2.10 per pound. Both of these issues have resolved themselves with spring and now summer soon to start and the cheese market back to a more tolerable price level.

The true story for the dairy industry so far this year is the near repeat performance taking place in the dairy export market. The world remains hungry for protein, and right now the U.S. dairy industry is doing its very best to participate and meet some of that demand. Below, as per the Dairy Export Council reports, our Top 10 buyers are strong buyers, and the total product mix is impressive as well.

The incredible run we are experiencing in dairy exports over the past roughly 20 months is likely contributing to the other proteins (globally) that are available being in short supply and high-priced. This week, USDA reduced their forecast for third and fourth quarter Total Red Meat and Poultry production estimates, primarily due to less growth taking place in poultry. Our point is, less production of meat protein has caused demand to shift to another protein. It also causes the consumer to pay a higher price for that meat protein. The dairy industry has benefited from this and will for another eight to twelve months.

Regarding protein, whether here in the U.S. or globally, protein supply is going through the same phase we are just ending in the grain market. To explain, the boom in ethanol caused demand to exceed the supply of corn. Finally in 2013 the corn crop was good, but just average. But now this year's corn crop appears to have potential for a well-above average yield that will cause stocks to further improve. The commodity that remains in shortage is soybeans and we believe that by fall, soybean supplies will become much improved.

In other words, supply is close to catching up with demand in the grain market...and now it is time for the protein market supplies to catch up. We know the beef market has a long way to go to improve supplies. However, pork and poultry sees nearly the same positive market conditions as the dairy industry does right now. What that means is, at this moment expansion across all three of those livestock sectors is minimal, but it won't be long before the temptation to grow by dairy, poultry and pork will occur.

This event we are describing is part of a cyclical occurrence and given commodities are historically cyclical, no one should be surprised by this outlook. The point we want to make is this next part of this cyclical event may take 2-4 years to fully phase-in.

A monster corn crop this year could speed up the process of livestock expansion. If it does not, then corn exports could recover further, and livestock expansion then occurs somewhere else. It is safe to say, expansion in livestock will occur both here and globally to some degree.

To close this week, July through December CME Class III will close the week near \$20.20, a good value for all dairy producers. This is especially true for the dairy feeding near spot feed values vs. corn bought last year or on a margin. For now, we will maintain our 20% forward sale. The weather forecasts appears favorable for crops and a cool summer should be good for cows in the Upper Midwest.

U.S. Dairy Exports, Top 10 Markets

Jan. - Apr. 2014 vs. one year ago

	Jan. - Apr. 2014	vs. one year ago
Mexico	\$536.8	+27%
Southeast Asia	\$510.0	+39%
Middle East/North Africa	\$331.8	+60%
China	\$258.3	+91%
Canada	\$197.7	+12%
Japan	\$145.5	+33%
South Korea	\$128.5	+47%
Oceania	\$117.0	+25%
South America	\$78.2	-8%
Caribbean	\$67.6	+11%

Source: US Dairy Export Council, million \$

U.S. Exports as a % of Production

Jan.—Apr. 2014 vs. one yr. ago

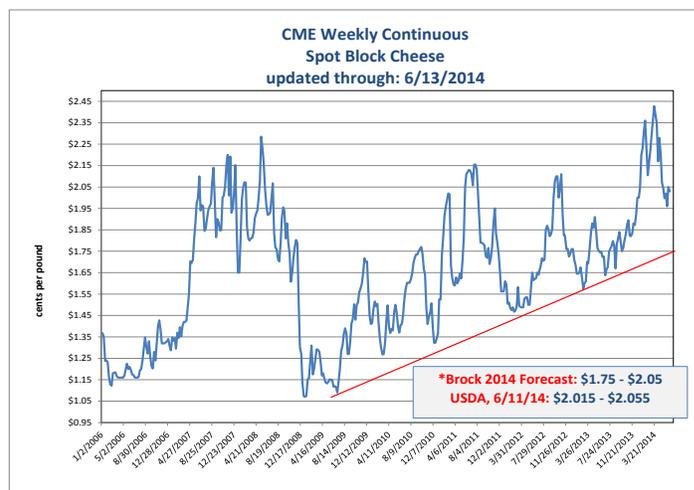
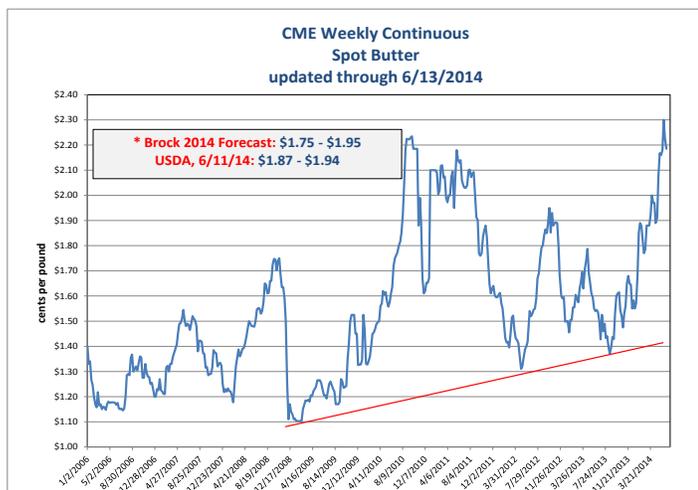
	Jan.—Apr. 2014	vs. one yr. ago
NDM/SMP	50%	46%
Total cheese	7.9%	5.8%
Butterfat	13.2%	5.8%
Dry sweet whey	66%	46%
Lactose	69%	76%
Total milk solids	16.2%	13.7%

Cash Dairy Products

USDA elevated their price range forecasts this week for cheese and butter, no change for milk powder or whey. Their prices came up to nearly match our high-end forecasts. While we did not predict cheese going to \$2.40, neither did USDA or to our knowledge, anyone else. What we want to point out is we hardly believe cheese prices will trade relatively close to the four-cent range USDA is suggesting. In other words, we could see cheese move above our \$2.05 high-side estimate and below USDA's low side estimate of \$2.015. Come on, where is the fun of commodity volatility in a four cent range, even for cheese? As a footnote and anecdotally, it is our opinion the specialty cheese market here in Wisconsin may have benefited from favorable weather these last few weeks and have cows on grass to capture enough milk to do what they do - make outstanding Wisconsin cheese. The weather was uncertain that pasture conditions would improve to an optimum condition, but it appears mother nature has accommodated, just in time.

We believe wholesale milk powder is a bit undervalued at current prices. It is possible, there is some margin hedging taking place on the processor side of the market. If so, it explains some of the Class III support and powder weakness. We also believe the demand for dairy protein should remain strong for another six to eight months.

There is risk of losses as well as profits when trading futures and options.



Current Market Prices

Commodity	This Week	2 Weeks Ago	Change
Supreme S. Cen. KS Alfalfa (ton)	\$240.00	\$240.00	unch
Tulare-Visalia Supreme Ca. Alfalfa	\$325.00	\$320.00	\$5.00
Whole cottonseed (ton, Memphis)	\$455.00	\$455.00	unch
FOB, California	\$535.00	\$523.50	\$11.50
Corn Gluten Meal (60 percent, ton, IL)	\$725.00	\$757.50	-\$32.50
Distillers Dried Grain (ton, Centr. IL)	\$187.50	\$225.00	-\$37.50
Soybean Meal (48% Illinois (Tues.))	\$514.00	\$524.70	-\$10.70
Canola Meal/San Joaquin Valley Truck	\$425.00	\$425.00	unch

Source: United States Department of Agriculture, NASS, AMS

Current Dairy Market Prices

Commodity	This Week	2 Weeks Ago	Change
CME Block Cheese (avg. to Wed.)	\$2.05	\$2.01	\$0.04
CME Barrel Cheese (avg. to Wed.)	\$1.966	\$2.12	-\$0.154
CME Butter (avg. to Wed.)	\$2.202	\$2.275	-\$0.073
Nearby Class III Futures (Wed.)	\$21.31	\$22.57	-\$0.26
Nearby Class IV Futures (Wed.)	\$22.75	\$22.75	unch
Dry Whey- FOB Central	\$0.6625	\$0.665	-\$0.0025
Non-Fat Dry Milk-California Manufacturing Plants	\$1.845	\$1.772	-\$0.0725

USDA-ERS FORECASTS

	II-2014	III-2014	IV-2014
Commercial Use (billion lbs.)	48.5	49.7	51.0
Class III Price Range Estimate	22.70-23.00	18.95-19.55	17.65-18.55
Class IV Price Range Estimate	22.70-23.10	20.30-21.00	18.60-19.60

Current Milk Market Positions

Milk Coverage* 20%, July-December, 2014...Class III

* does not include processor fee

On The Feed-Purchasing Side

Corn:

Buy hand to mouth.

Soybean Meal: Covered 50% of a mixture of feed proteins (wheat midd's, corn gluten feed, soy meal or canola) for May and June in the cash market.

Cottonseed: Hand to mouth.

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