DMS
Dairy Marketing Services

Check Letter

www.dairymarketingservices.com

December 2014

Northeast Settlement Sign-Up Period Announced

As you know, Dairy Marketing Services (DMS) and Dairy Farmers of America (DFA) have recently reached a settlement in the class action lawsuit in the Northeast. This outcome allows us to fulfill a commitment to producers to resolve pending litigation, remove a source of distraction for our leadership and avoid additional legal fees.

It has been determined by the court that current and former DMS producers meeting certain criteria may be eligible to receive a portion of the settlement funds. Eligible producers, who produced and marketed Grade A milk in Federal Milk Marketing Order 1 may have received a claims form in the mail earlier this month. As part of the claims process, you have been asked to submit your production volume that was sold to, or sold through, DMS any time from January 1, 2002 to December 12, 2014.

We are in the process of gathering the production information for the time period stated above, and we will be sending this information to producers who are located and producing milk in FMMO 1 in early January we have recently been informed that the market administrator is seeking a delay to the form submission deadline and is awaiting final confirmation from the court system. Should there be a change in deadlines, a new claims form will be sent to you giving you more time to submit the claim.

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CME Markets Remain Weak for 2015

U.S. milk production increased 3.8 percent for October. Production has increased at levels greater than 2.5 percent year-over-year for the past four months. This strength in U.S. milk production, in conjunction with strong milk production globally, has pressured CME futures to new lows for the 2015 contracts. The Central New York zone Target Blend contract for 2015 is indicating $17.91 per hundredweight, in the Boston zone. However, using the Risk Management's feed index, margins would be approximately $9.47 for 2015 based on this Target Blend price. These margins are still above average as compared to the previous five years – meaning many producers can still lock into profitable milk price levels for 2015 using a milk price forward contract.

As manufacturers complete the inventory build for Christmas and the Super Bowl, market analysts anticipate prices to weaken. This is expected in part due to increasing inventories, and with U.S. prices significantly higher than global prices, the wide gap between these prices. This wide price difference has already led to a slow-down in exports of U.S. products and is expected to continue for the near term. Global buyers have an opportunity to purchase less expensive products from other large dairy producing countries, or may be opportunistic in waiting to make their purchases, watching for U.S. prices to decline to world levels.

After lower exports for nonfat dry milk (NFDM) and whey in September, October's exports rebounded slightly. NFDM exports were 85 million pounds, nearly 15 million pounds higher than September. Cheese and butter exports continued to trend lower from the previous month. Year-to-date exports account for 15.9 percent of the total U.S. milk solids production; however, that is not expected to increase through the remainder of the year.

Declining exports and increasing milk production are leading to higher inventories of dairy products. NFDM inventories are 195 million pounds, more than 80 million pounds higher than last year. Cheese and butter inventories remain lower than a year ago, although growing due to the stronger milk production throughout the country.

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Important Updates...

CME Markets Remain Weak for 2015 Continued

Despite the weaker picture for U.S. dairy prices at this time, there are several factors to watch for in the upcoming year. Global milk prices have been weaker for several months, giving the signal to other milk producing countries to slow milk production. Fonterra recently reduced their milk price to pay to its members. Weather remains a wild card globally, as El Nino continues to be discussed as a potential threat to New Zealand and Australia. Moreover, last year's harsh winter conditions led to milk production issues in regions of the United States. The California drought remains a concern that should be monitored.

The 2015 CME Class III milk futures average is at the lowest level in four years, while the CME Class IV milk futures average is comparable to the market in 2012. At the same time, feed costs remain low, leaving the Risk Management feed index for the year at $8.44, the second lowest level in the past five years.

Northeast Settlement Sign-Up Period Announced Continued

If you marketed milk through another organization(s) prior to DMS and believe that production meets eligibility criteria, you should also include those pounds on your claims form as well. It is our understanding that if you plan to participate in the settlement, you must submit your claim directly to Rust Consultants, the court-appointed administrator of the claims process. Rust Consultants will not be charging producers for its services. We are not aware of any other firms appointed by the courts and encourage you to use caution if you are solicited by other firms, especially those seeking a portion of any settlement you may receive.

For more information on this matter, you can visit www.NortheastDairyClass.com or call Rust Consultants at 1-855-460-1533.

Milk Marketing Dynamics Update

As 2014 comes to an end, we continue to experience operational challenges in the Northeast milk shed. As we reported earlier this year, 2014 has been an exciting and yet challenging year for marketing milk in the Northeast and across the entire United States.

Our marketing area continues to show the continued effects of a high milk price cycle, coupled with a decrease in demand from consumers. Almost all product categories are showing demand weakness. Milk processors and manufacturers are mentioning that the current price cycle is having an impact on demand and their inventory practices.

In addition to these milk marketing dynamics, the holiday season is historically known for dramatic swings as the highest demand for fluid milk takes place immediately before the holiday and is then followed by reduced consumer demand. As a result, many customers schedule downtime during the holiday season to give their staff time off. These plant closings require changes in milk placements. As such, the holiday season has offered new challenges with weakened purchasing across the U.S.

As we go forward, we will continue to keep you informed on the marketing conditions and our efforts to minimize the impact for our producers.