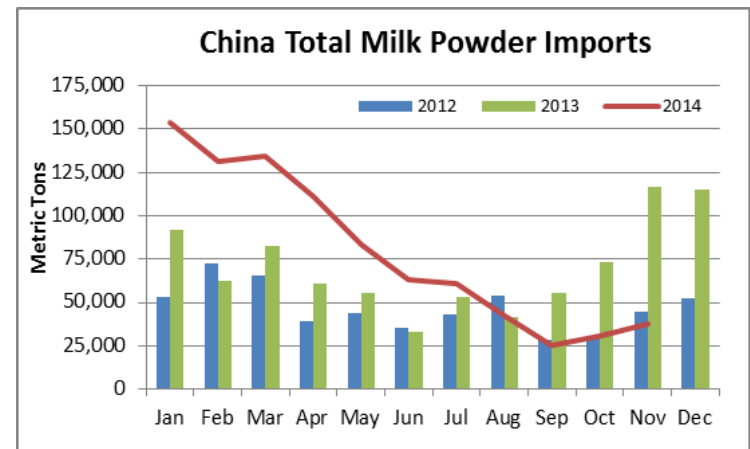


US Dairy Commodity Price Forecast Snapshot

16 January 2015

- ❑ U.S. dairy markets FINALLY join the global downturn which began in Q2 2014. World still producing too much milk; large dairy importers remain largely out of market.
 - ❑ After shedding more than 33% of its value last October, Chicago Mercantile Exchange (CME) butter prices made another major leg lower during December, declining from just under \$2.00 per pound (lb) to the mid-\$1.50s (\$3,417MT) where it has remained in a tight range for nearly a month. CME Block cheddar prices have done the same, making a swift 23.5% decline last November from the beginning to the end of the month and as of this week, fell as low as \$1.47/lb (\$3,240MT), a level not seen since March 2012. And nonfat dry milk prices have continued grinding lower over the past few months with CME Grade A settling at \$0.95 this week, its lowest since August 2009.
 - ❑ U.S. dairy farmers have yet to feel the pain of this downturn, but will soon. January 2015 Class prices for Class III and IV milk should settle near \$16.00 and \$13.50, respectively, to be paid in February. **These prices are down an average of more than \$8.00 per hundredweight (or 36%) from the recent highs just a few months ago. CME milk futures are projecting things to get worse for producers before they get better.**
 - ❑ Though milk prices have collapsed for the world's dairy farmers, milk production has remained strong to date. Fonterra is reporting season-to-date (Jun-Dec) milksolids collection is 3.8% higher, EU-28 Aug-Oct '15 is up an average of 4.1% and U.S. Sep-Nov '15 production is 3.7% higher than prior year. Even [Chinese dairy farmers have been dumping milk](#) recently as processors have limited the amount of milk they will accept due to high inventories and slackening demand. (*click link for story*)

- ❑ Outside the U.S., global dairy prices are showing signs of bottoming and even slight recovery. Global Dairy Trade prices for Fonterra Contract 2 whole and skim milk powder are up 6.4% and 10% from the near term bottom set in November. But that only represents a recovery of just \$135MT and \$220MT (\$.10/lb), respectively, which pales in comparison to the \$2,845 and \$2,860MT (\$1.30/lb) declines from peak to trough in 2014. Dutch Dairy Board quotations all saw slight increases this week. Dutch SMP had not posted a weekly gain since **last June**.
- ❑ We are keeping our eyes on the rally in GDT butterfat over the past couple of months and its potential spillover to the rest of the world. Fonterra Contract 2 anhydrous milkfat (AMF) prices have spiked 53% higher (\$1,545MT, \$.70/lb) since bottoming out in October and Fonterra unsalted 82% butter is up 41% (\$1,050MT, \$.48/lb) since early November. This has led to some follow through gains on the EU butter price (Eurex futures up 8% since start of year) and a [surprisingly strong U.S. export announcement](#) to begin 2015.
- ❑ Even though downside risk becomes more limited now that the market is at multi-year lows, the **HighGround Dairy forecast continues to reflect a bearish sentiment in 2015**. Year-over-year global milk production should continue building through the first half of 2015 though the rate of growth will decline as on-farm margins plummet.
- ❑ With the largest dairy importers remaining out of the market (China & Russia) along with other major importing countries flush with recent purchases in Q4, HighGround does NOT see a change in the bear market until the milk supply is drastically cut and inventories begin to erode.

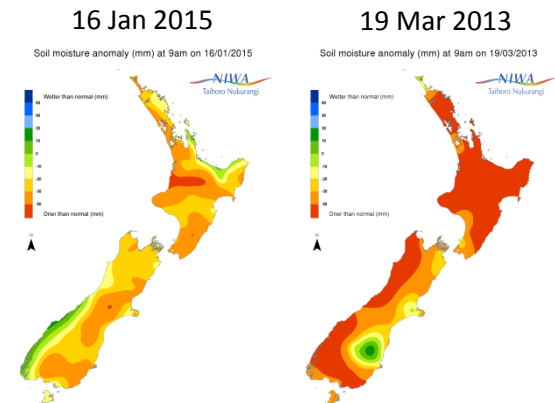


Source: China Customs/GTIS

Upside Risks

After a five year bull market in global dairy prices (2010-2014) capped off by record on-farm margins for producers in 2014, it seems pretty clear 2015 will be a bear. That said, there always seems to be surprises:

- ❑ **Weather:** New Zealand has gotten pretty dry over the past month as they reach the peak of their summer season. Forecasts are calling for rain but earlier systems this summer have under-delivered. The heat and dryness seems to be impacting the South Island much more than the North this season which was not the case during the 2013 drought. (see soil moisture graphs at right) The drought would encourage an early culling of the NZ milking herd that is likely already on an accelerated schedule due to extremely low 2014/15 milk prices.
- ❑ **GDT Showing Signs of Recovery, Does It Have More Legs?:** Butterfat prices have soared over the past two months and milk powders are staging a modest recovery as well. Fonterra just issued yet another decent decline to their GDT WMP volume forecast over the next two months. Perhaps the threat of reduced supply from the Southern Hemisphere and increased demand will continue to keep the recent uptrend intact.
- ❑ **China, Russia: Where Are You?:** The abrupt demand or policy shift from the two largest dairy product importers in the world have dealt a severe blow to dairy farmers and cooperatives. While the likelihood of China returning to 2013/14 milk powder import volumes or Russia reversing its ban on dairy imports from the EU any time soon appears slim, either of these countries have the ability to change the course of the global dairy market.



Downside Risks

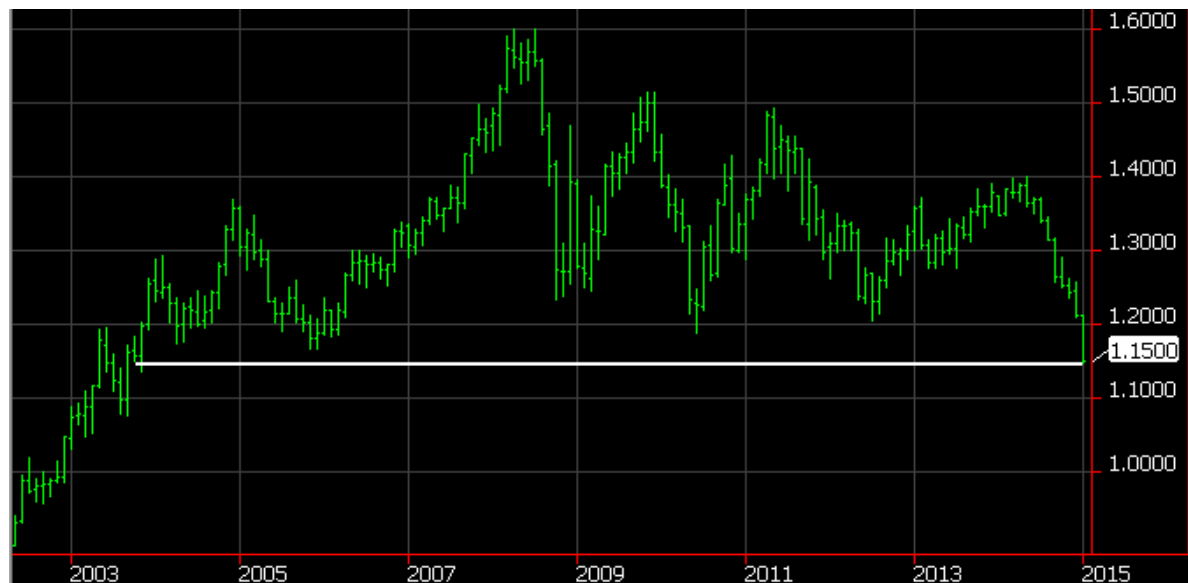
With global dairy prices at lows not seen since the 2009 Global Financial Crisis, the downside is likely limited from here. EU SMP Intervention prices are not far away (€1,698MT) which is now the only government support price for powder in the world. But the question we look to seek an answer for is how long this bear market will last? Is this a different kind of bear market that will turn quickly or will it follow history and carry a long tail?

- ❑ **Persistent Milk Production Growth Carrying into 2015:** The difficult part about a price collapse like the one seen in the U.S. over the past few months is that the signals back to the farmer to produce less milk are delayed. This cycle tends to take upwards of six months to see a noticeable change in farmers' habits to increase culling or changing rations to deal with low incomes. With seasonal inventories building ahead of normal for most U.S. dairy commodities, it may take some time to slow the growth engine. Oceania is likely closer to this turn during the tail end of their production season and EU will likely be behind them, but it may take until the second half of the year until global milk production falls below prior year levels. And if inventories remain strong until then it may take a reduction in those volumes in order to generate an actual change in the bear trend.

- ❑ **US Has Lost Export Market Share, At What Price Do They Get It Back?** As expected, once the U.S. became uncompetitive within the global marketplace in Q3, market share would erode - and it has - substantially. While there is chatter and announcements of butter exports in the near term, the skim milk powder (nonfat dry milk in U.S.) market will remain extremely competitive. U.S. prices will likely need to dip below the rest of the world and hold there for some time in order to generate substantial export business. That said, CME prices have been moving sharply lower over the past few weeks in an effort to move product.

Downside Risks, continued..

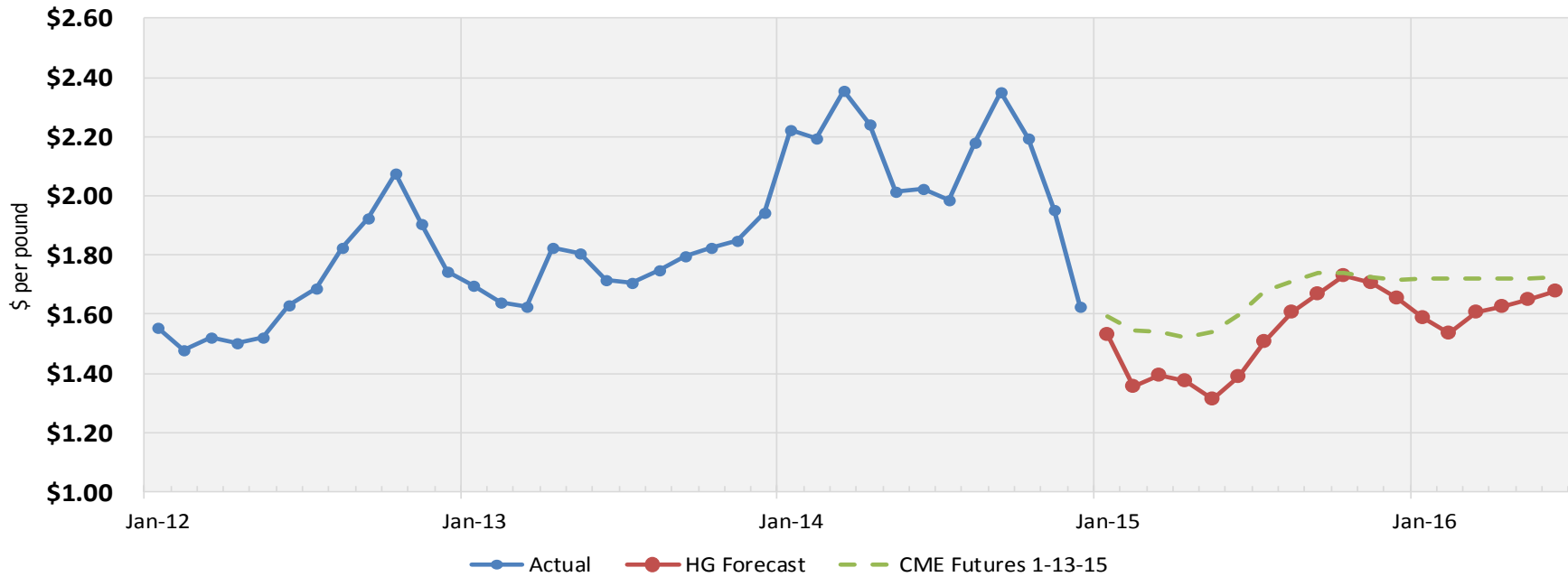
- ❑ **Euro Currency at 11+ Year Lows vs. US Dollar:** Since topping in May, the Euro has fallen nearly 25% against the US dollar and fallen to levels not seen since November 2003! A struggling Eurozone has traders ([and governments](#)) believing a European Central Bank “stimulus” program is imminent. What does this mean for dairy? Europe will offer many of the world’s dairy importing countries increased purchasing power for their products. With the recent increase in value of the US Dollar against many of the world’s currencies, buying from the US is now a fairly expensive endeavor. This may be the biggest reason the U.S. dairy market remains a bear throughout 2015.



US CME Block Cheese Forecast



CME Block Cheese Price Forecast

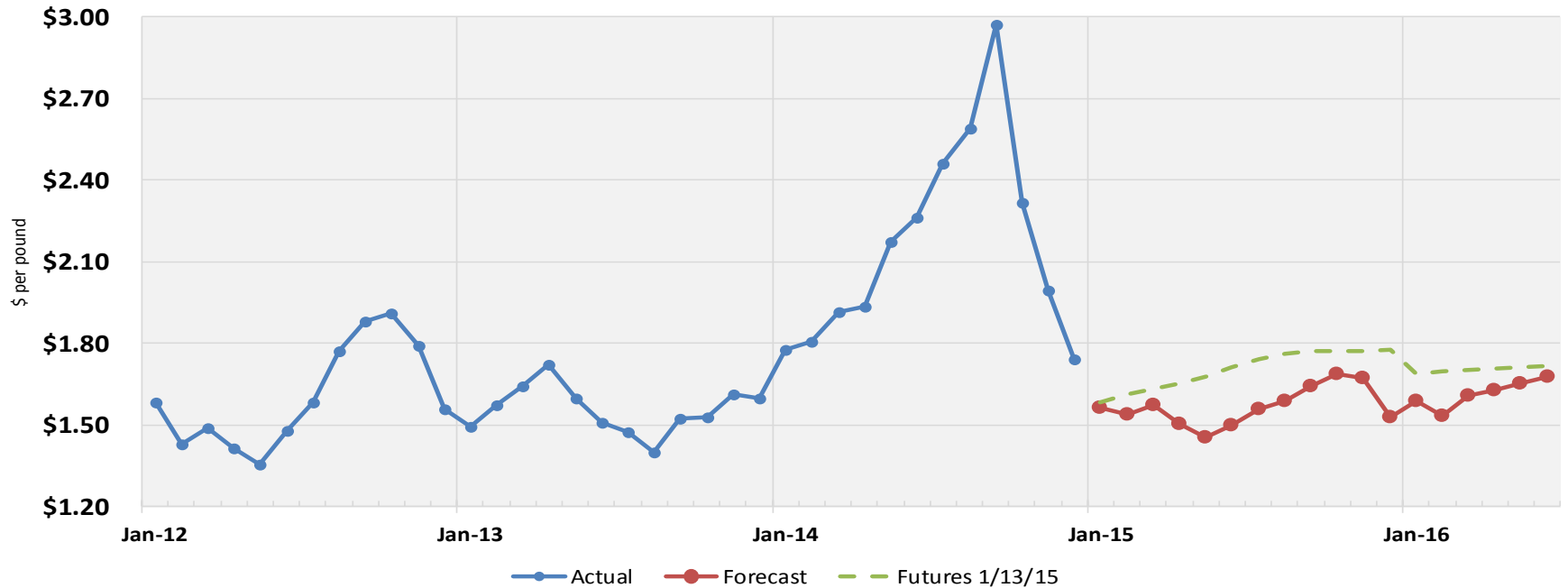


Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Avg
2012	\$ 1.5546	\$ 1.4793	\$ 1.5193	\$ 1.5039	\$ 1.5234	\$ 1.6313	\$ 1.6855	\$ 1.8262	\$ 1.9245	\$ 2.0757	\$ 1.9073	\$ 1.7448	\$ 1.6980
2013	\$ 1.6965	\$ 1.6420	\$ 1.6240	\$ 1.8225	\$ 1.8052	\$ 1.7140	\$ 1.7072	\$ 1.7493	\$ 1.7956	\$ 1.8236	\$ 1.8473	\$ 1.9431	\$ 1.7642
2014	\$ 2.2227	\$ 2.1945	\$ 2.3554	\$ 2.2439	\$ 2.0155	\$ 2.0237	\$ 1.9870	\$ 2.1820	\$ 2.3499	\$ 2.1932	\$ 1.9513	\$ 1.6276	\$ 2.1122
2015	\$ 1.5324	\$ 1.3547	\$ 1.3933	\$ 1.3754	\$ 1.3117	\$ 1.3871	\$ 1.5092	\$ 1.6075	\$ 1.6669	\$ 1.7320	\$ 1.7047	\$ 1.6559	\$ 1.5192
H1 2015 Avg:						\$ 1.3924	H2 2015 Avg:						\$ 1.6460
2016	\$ 1.5863	\$ 1.5336	\$ 1.6074	\$ 1.6278	\$ 1.6503	\$ 1.6791							
Forecasted	H1 2016 Avg:					\$ 1.6141							

US CME Butter Market Forecast



CME Butter Price Forecast



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Ave.
2012	\$ 1.5831	\$ 1.4273	\$ 1.4895	\$ 1.4136	\$ 1.3531	\$ 1.4774	\$ 1.5831	\$ 1.7687	\$ 1.8803	\$ 1.9086	\$ 1.7910	\$ 1.5590	\$ 1.6029
2013	\$ 1.4933	\$ 1.5713	\$ 1.6421	\$ 1.7197	\$ 1.5997	\$ 1.5105	\$ 1.4751	\$ 1.4013	\$ 1.5142	\$ 1.5388	\$ 1.6126	\$ 1.5963	\$ 1.5562
2014	\$ 1.7756	\$ 1.8047	\$ 1.9145	\$ 1.9357	\$ 2.1713	\$ 2.2630	\$ 2.4624	\$ 2.5913	\$ 2.9740	\$ 2.3184	\$ 1.9968	\$ 1.7436	\$ 2.1626
2015	\$ 1.5650	\$ 1.5358	\$ 1.5742	\$ 1.5010	\$ 1.4531	\$ 1.4961	\$ 1.5563	\$ 1.5875	\$ 1.6422	\$ 1.6846	\$ 1.6710	\$ 1.5297	\$ 1.5664
H1 2015 Avg:						H2 2015 Avg:						\$ 1.5209	\$ 1.6119
2016	\$ 1.5523	\$ 1.5469	\$ 1.6234	\$ 1.6087	\$ 1.6369	\$ 1.6591							
Forecasted		H1 2016 Avg:						\$ 1.6046					

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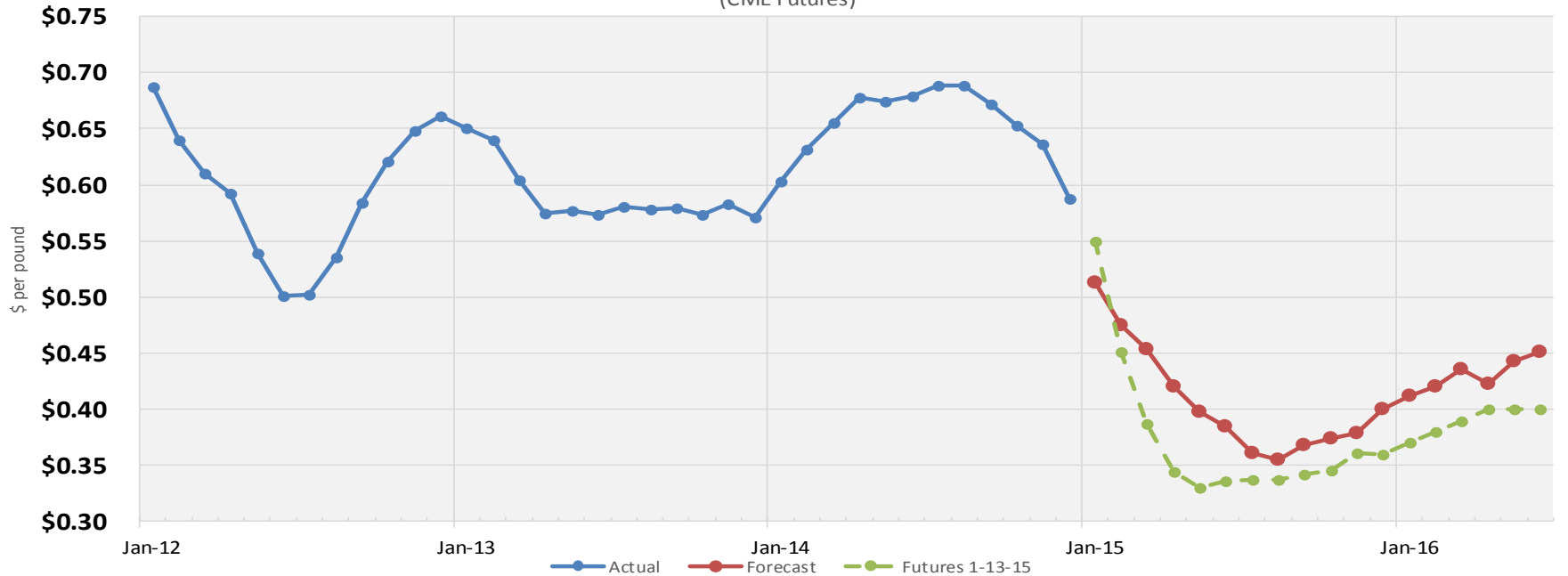
16 January 2015

US Dry Whey Market Forecast



USDA-AMS Announced Dry Whey Price Forecast

(CME Futures)



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Ave.
2012	\$0.6876	\$0.6400	\$0.6107	\$0.5921	\$0.5389	\$0.5013	\$0.5023	\$0.5352	\$0.5846	\$0.6205	\$0.6480	\$0.6610	\$0.5935
2013	\$0.6503	\$0.6393	\$0.6048	\$0.5741	\$0.5765	\$0.5738	\$0.5804	\$0.5778	\$0.5791	\$0.5731	\$0.5831	\$0.5706	\$0.5902
2014	\$0.6025	\$0.6314	\$0.6554	\$0.6774	\$0.6745	\$0.6789	\$0.6890	\$0.6880	\$0.6725	\$0.6525	\$0.6365	\$0.5871	\$0.6538
2015	\$0.5124	\$0.4753	\$0.4531	\$0.4202	\$0.3981	\$0.3842	\$0.3612	\$0.3549	\$0.3684	\$0.3736	\$0.3789	\$0.4001	\$0.4067
H1 2015 Avg:						H2 2015 Avg:						\$0.4406	\$0.3729
2016	\$0.4123	\$0.4198	\$0.4358	\$0.4221	\$0.4433	\$0.4508							
Forecasted					H1 2016 Avg:						\$0.4307		

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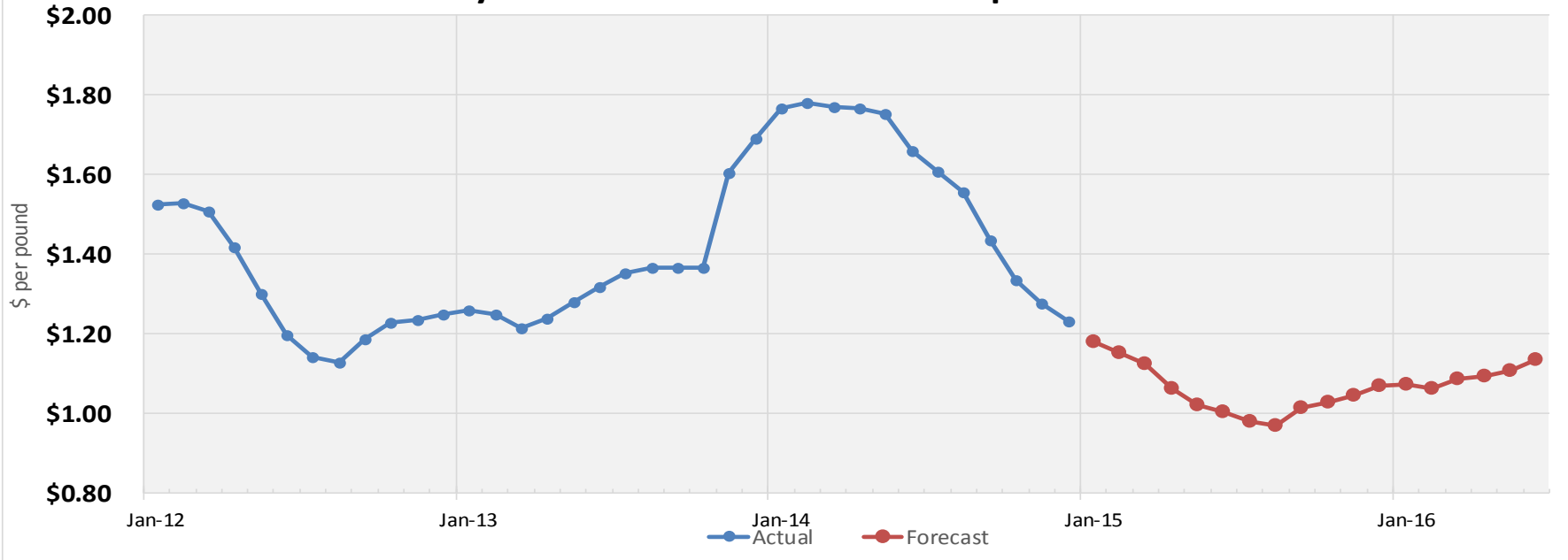
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16 January 2015

US WPC-34 Market Forecast



USDA Central & West Whey Protein Concentrate 34% Midpoint Price Forecast



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Ave.
2012	\$ 1.5239	\$ 1.5271	\$ 1.5091	\$ 1.4195	\$ 1.3010	\$ 1.1977	\$ 1.1401	\$ 1.1272	\$ 1.1862	\$ 1.2283	\$ 1.2358	\$ 1.2483	\$ 1.3037
2013	\$ 1.2606	\$ 1.2472	\$ 1.2150	\$ 1.2378	\$ 1.2786	\$ 1.3172	\$ 1.3518	\$ 1.3670	\$ 1.3670	\$ 1.3670	\$ 1.6046	\$ 1.6908	\$ 1.3587
2014	\$ 1.7663	\$ 1.7799	\$ 1.7694	\$ 1.7682	\$ 1.7530	\$ 1.6612	\$ 1.6089	\$ 1.5549	\$ 1.4355	\$ 1.3358	\$ 1.2751	\$ 1.2326	\$ 1.5784
2015	\$ 1.1805	\$ 1.1523	\$ 1.1251	\$ 1.0631	\$ 1.0212	\$ 1.0044	\$ 0.9801	\$ 0.9678	\$ 1.0126	\$ 1.0267	\$ 1.0452	\$ 1.0698	\$ 1.0541
H1 2015 Avg:						\$ 1.0911	H2 2015 Avg:						\$ 1.0170
2016	\$ 1.0738	\$ 1.0614	\$ 1.0869	\$ 1.0948	\$ 1.1087	\$ 1.1366							
Forecasted						H1 2016 Avg:		\$ 1.0937					

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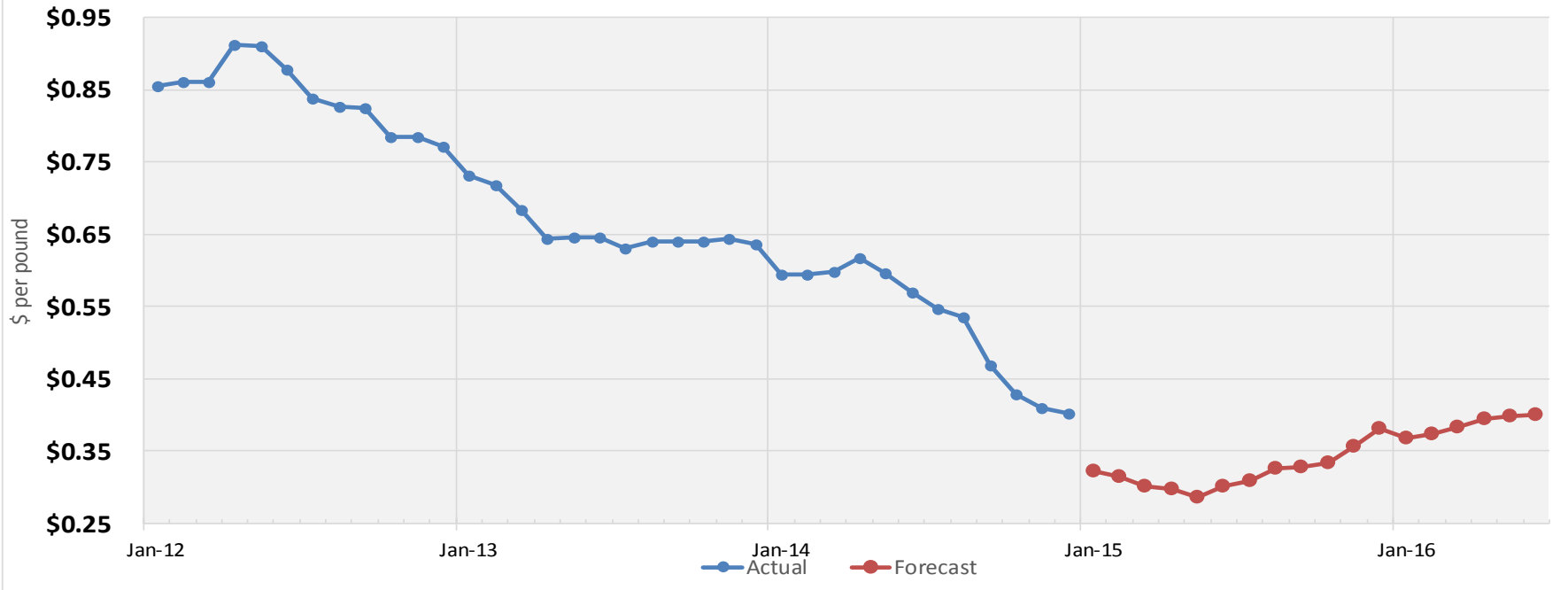
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16 January 2015

US Lactose Market Forecast



USDA Central & West Lactose Midpoint Price Forecast



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Ave.
2012	\$0.8552	\$0.8600	\$0.8600	\$0.9126	\$0.9100	\$0.8783	\$0.8383	\$0.8261	\$0.8250	\$0.7850	\$0.7850	\$0.7718	\$0.8423
2013	\$0.7314	\$0.7187	\$0.6838	\$0.6439	\$0.6450	\$0.6450	\$0.6310	\$0.6393	\$0.6393	\$0.6393	\$0.6430	\$0.6362	\$0.6580
2014	\$0.5952	\$0.5950	\$0.5983	\$0.6175	\$0.5959	\$0.5699	\$0.5473	\$0.5349	\$0.4693	\$0.4218	\$0.4050	\$0.3880	\$0.5282
2015	\$0.3215	\$0.3141	\$0.3019	\$0.2972	\$0.2867	\$0.3005	\$0.3095	\$0.3254	\$0.3272	\$0.3345	\$0.3569	\$0.3811	\$0.3214
H1 2015 Avg:						\$0.3037	H2 2015 Avg:						\$0.3391
2016	\$0.3675	\$0.3741	\$0.3823	\$0.3941	\$0.3985	\$0.4012							
Forecasted	H1 2016 Avg:					\$0.3863							

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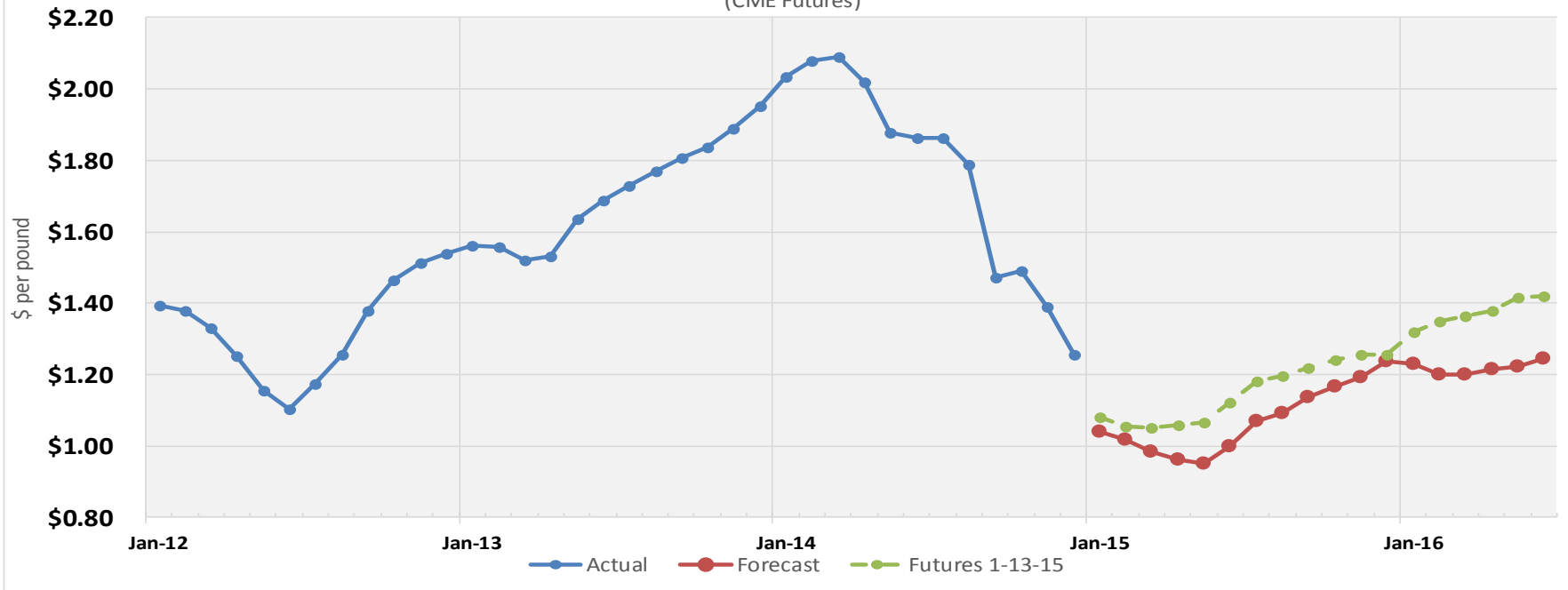
16 January 2015

US NDM Market Forecast



USDA-AMS Announced Nonfat Dry Milk Price Forecast

(CME Futures)



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Ave.
2012	\$ 1.3942	\$ 1.3792	\$ 1.3310	\$ 1.2514	\$ 1.1551	\$ 1.1023	\$ 1.1744	\$ 1.2543	\$ 1.3768	\$ 1.4636	\$ 1.5143	\$ 1.5384	\$ 1.3279
2013	\$ 1.5601	\$ 1.5559	\$ 1.5208	\$ 1.5312	\$ 1.6374	\$ 1.6878	\$ 1.7272	\$ 1.7706	\$ 1.8085	\$ 1.8366	\$ 1.8892	\$ 1.9537	\$ 1.7066
2014	\$ 2.0335	\$ 2.0783	\$ 2.0897	\$ 2.0191	\$ 1.8768	\$ 1.8633	\$ 1.8617	\$ 1.7887	\$ 1.4718	\$ 1.4900	\$ 1.3902	\$ 1.2554	\$ 1.7682
2015	\$ 1.0412	\$ 1.0158	\$ 0.9836	\$ 0.9631	\$ 0.9502	\$ 0.9976	\$ 1.0679	\$ 1.0921	\$ 1.1369	\$ 1.1678	\$ 1.1920	\$ 1.2361	\$ 1.0704
H1 2015 Avg:						\$ 0.9919	H2 2015 Avg:						\$ 1.1488
2016	\$ 1.2297	\$ 1.1997	\$ 1.2013	\$ 1.2148	\$ 1.2214	\$ 1.2463							
Forecasted		H1 2016 Avg:				\$ 1.2189							

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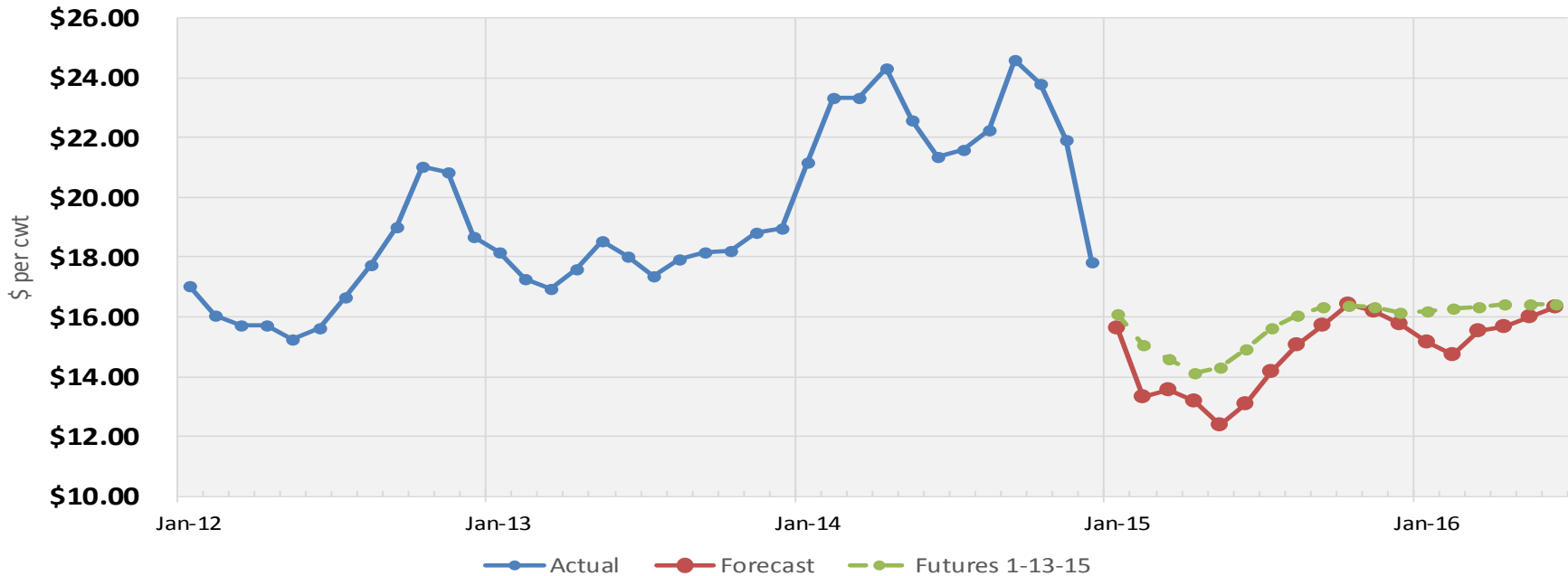
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16 January 2015

US Class III Milk Forecast



Class III Milk Price Forecast



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Ave.
2012	\$ 17.05	\$ 16.06	\$ 15.72	\$ 15.72	\$ 15.23	\$ 15.63	\$ 16.68	\$ 17.73	\$ 19.00	\$ 21.02	\$ 20.83	\$ 18.66	\$ 17.44
2013	\$ 18.14	\$ 17.25	\$ 16.93	\$ 17.59	\$ 18.52	\$ 18.02	\$ 17.38	\$ 17.91	\$ 18.14	\$ 18.22	\$ 18.83	\$ 18.95	\$ 17.99
2014	\$ 21.15	\$ 23.35	\$ 23.33	\$ 24.31	\$ 22.57	\$ 21.36	\$ 21.60	\$ 22.25	\$ 24.60	\$ 23.82	\$ 21.94	\$ 17.82	\$ 22.34
2015	\$ 15.61	\$ 13.30	\$ 13.56	\$ 13.16	\$ 12.40	\$ 13.06	\$ 14.16	\$ 15.06	\$ 15.73	\$ 16.41	\$ 16.17	\$ 15.76	\$ 14.53
H1 2015 Avg:						\$ 13.52	H2 2015 Avg:						\$ 15.55
2016	\$ 15.17	\$ 14.71	\$ 15.54	\$ 15.65	\$ 16.01	\$ 16.34							
Forecasted		H1 2016 Avg:				\$ 15.57							

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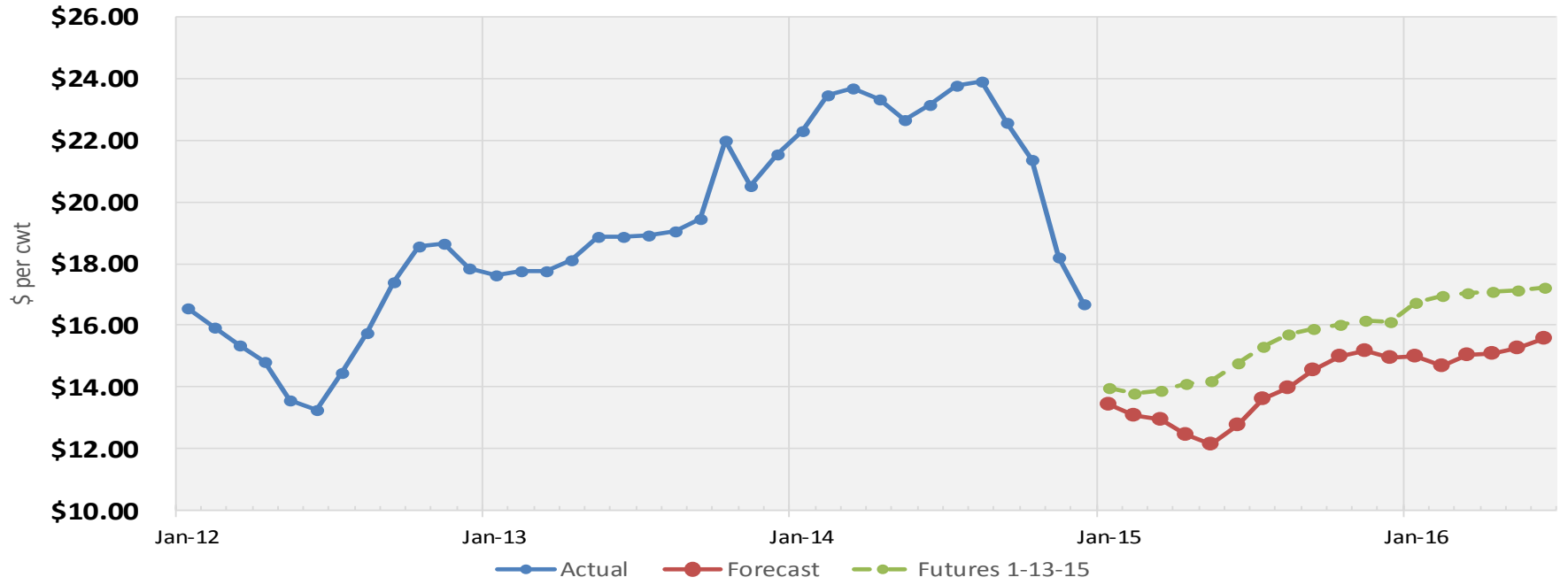
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16 January 2015

US Class IV Milk Forecast



Class IV Milk Price Forecast



Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann Ave.
2012	\$ 16.56	\$ 15.92	\$ 15.35	\$ 14.80	\$ 13.55	\$ 13.24	\$ 14.45	\$ 15.76	\$ 17.41	\$ 18.54	\$ 18.66	\$ 17.83	\$ 16.01
2013	\$ 17.63	\$ 17.75	\$ 17.75	\$ 18.10	\$ 18.89	\$ 18.88	\$ 18.90	\$ 19.07	\$ 19.43	\$ 20.17	\$ 20.52	\$ 21.54	\$ 19.05
2014	\$ 22.29	\$ 23.46	\$ 23.66	\$ 23.34	\$ 22.65	\$ 23.13	\$ 23.78	\$ 23.89	\$ 22.58	\$ 21.35	\$ 18.21	\$ 16.70	\$ 22.09
2015	\$ 13.42	\$ 13.07	\$ 12.96	\$ 12.47	\$ 12.16	\$ 12.75	\$ 13.61	\$ 13.95	\$ 14.57	\$ 15.01	\$ 15.16	\$ 14.94	\$ 13.67
H1 2015 Avg:						\$ 12.81	H2 2015 Avg:						\$ 14.54
2016	\$ 14.98	\$ 14.70	\$ 15.04	\$ 15.09	\$ 15.27	\$ 15.58							
Forecasted		H1 2016 Avg:				\$ 15.11							

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- Detailed monthly analysis on critical US reports including Milk Production, Cold Storage, Dairy Products, etc.
- US dairy commodity price forecasts

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- Support and resistance levels along with short and long term trends identified using a variety of mathematical technical indicators
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