Milk Producers Council
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DATE: January 4, 2008 PAGES: 4
TO: DIRECTORS & MEMBERS FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Weekly Average</th>
<th>Non-Fat Dry Milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>+$.1225</td>
<td>$2.1525</td>
<td>Calif. Plants $1.6350 11,441,983</td>
</tr>
<tr>
<td>+$.1100</td>
<td>$2.0900</td>
<td>NASS Plants $1.6440 13,361,128</td>
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Weekly Average

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Weekly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>+$.0958</td>
<td>$2.1008</td>
</tr>
<tr>
<td>+$.0750</td>
<td>$2.0283</td>
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DRY WHEY

<table>
<thead>
<tr>
<th>NASS w/e 12/29/07 $ .4431</th>
<th>WEST MSTLY AVG w/e 01/03/08 $.4200</th>
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CHEESE MARKET COMMENTS: Dairy Market News (DMN) reports that recent cheese production up to and including the holiday weeks has been heavier than the plants would like. With lower nfdm and condensed skim prices, vat fortification is again profitable, and offers to cheese plants are apparently too good to pass up. DMN reports that commercial sales of cheese for the January to October period exceeded production. Exports accounted for a small part of the strong sales, and there are some expectations that international sales at recent levels may continue over the next few months. Prices on the CME this week moved sharply higher and blocks are again within a nickel of their all-time high. The cheese market presently is the only bright spot on the dairy product landscape.

BUTTER MARKET COMMENTS: Production of butter over the past several weeks has been very heavy and sales are said to be below expectations. Inventories are rapidly building. Prices on the CME are falling. International prices also continue downward. The low end of the European price this week is almost 80 cents per lb off its June high. That should signal the end of non-subsidized exports, although DMN reports some manufacturers expect some of those sales to continue. At the moment, there simply is much more butter being produced in the U.S. than can be easily sold, traded, or given away.

NONFAT DRY MILK: Prices reported this week by California plants (which includes all domestic and export sales) and by NASS (which includes only currently priced sales) each fell by more than 20 cents per lb. Both price series have now fallen by about 45 cents in less than 3 months. Some spot market sales this week in the West are reported to be as low as $1.45 per lb. We will attempt to get an explanation for what is happening from CDFA and for what is expected from Dairy America. DMN reports that production is heavy and sales are down. That is somewhat normal for this time of year. But what about existing contracts? Buyers and brokers are said to be reluctant to commit to future prices and would rather wait until signs of stability appear. This looks similar to what happened over the past 4 months with dry whey. It appears that Inventories at California plants may have increased by as much as 70 million lbs over the past 6 months. One year ago, this week, nfdm prices broke above the $1.00 per lb level.

WHEY MARKET COMMENTS: DMN reports that trading activity has been slow over the past 2 holiday weeks, production is heavy, the market is described as weak, and inventories are rising. The western "mostly" price this week is 42 cents, down 1.5 cents; the NASS price for last week edged down by a fraction of a cent. International prices have now come down by 50%, following the U.S. pattern, and continuing heavy exports are expected to continue to help stabilize this market. Prices for concentrated whey and lactose continue to be weak. Buyers, sellers, and brokers are attempting to agree on future contracts, but agreement on price levels appears to be difficult.
FRED DOUMA’S PRICE PROJECTIONS...

Jan 04 Est: Quota cwt. $20.44 Overbase cwt. $18.74 Cls. 4a cwt. $16.20 Cls. 4b cwt. $19.44
Last week: Quota cwt. $20.78 Overbase cwt. $19.08 Cls. 4a cwt. $19.16 Cls. 4b cwt. $18.58

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WHEY REVIEW COMMITTEE GETS UNDERWAY: (By Rob VandenHeuvel) Last Friday, the Whey Review Committee held its first meeting. This special committee was set up by CDFA in response to the lash back from producers over the recent decision to replace the market-oriented whey calculation in the 4b (cheese) formula (which added about $0.94 per cwt to the 4b formula in November) with a fixed value of $0.25 per cwt.

Geoffrey Vanden Heuvel was appointed to this committee as MPC’s representative. The committee, which is made up of producer, processor and co-op representatives, used their first meeting to outline the goals and missions of the committee. The three main goals of the committee are to:

- Provide a recommendation on whey pricing within the context of the current 4b (cheese) pricing formula and its structure.
- Demonstrate a common understanding of producer and processor costs and issues.
- Provide recommendations on other pricing areas that the committee determines should be addressed.

The committee intends to provide its recommendations to Secretary A.G. Kawamura by March 31, 2008. The next meeting is Monday, February 4th at 9:30 am at the California Farm Bureau office in Sacramento. These meetings are open to the public, and producers are strongly encouraged to attend if possible.

THE RAIN IS COMING (OR MAY BE ALREADY HERE)!: (By Rob VandenHeuvel) With severe weather and heavy rain expected throughout California this weekend, dairymen are encouraged to take whatever precautions possible to prepare for the sudden influx of storm water. **Specific to Southern California, staff from the Santa Ana Regional Water Board is expected to be visiting the Chino/Ontario area this weekend to assess how dairies manage their wastewater in a heavy storm situation.** The Regional Water Board is encouraging dairies to utilize their lagoon pumps and make room for the additional storm water. If you have any questions or concerns, please give me a call on my cell at (909) 992-9529. Or if you’re in the Central Valley and have any problems, give Betsy a call at (661) 205-6721.

ON A RELATED NOTE, January 15th is the deadline for dairies in the Chino/Ontario and San Jacinto regions to submit their Annual Report of Waste Discharge with the Regional Water Board. This report includes:

1. A two-page “Annual Report of Waste Discharge” which summarizes your dairy facility and the amount of manure you produced last year.
2. Manure manifests for each location your manure was exported to.
3. A one-page summary of the weekly inspection logs that all dairies must maintain (note: you do not send in the full inspection log – that must be maintained on your dairy and provided to Regional Water Board staff upon request)

You should have received these forms from the Regional Water Board in December. If any members need assistance in filling out this paperwork, please contact the MPC office at (909) 628-6018.

2007 IN A FLASHBACK: (By J. Kaczor) Almost all reporters do it. It's customary to look back at what's happened over the past year and 2007 definitely is a year worth talking about. The issues and events that affected California producers last year that are worth noting are too many to cover in detail. A simple list and some capsule comments are offered here as a reminder of the good, the not so good, and the other.

- From initial depressed levels, milk and dairy product prices rise to record levels
- Production costs continue to increase: feed and energy lead the way
• Price volatility: unimaginable increases and decreases disrupt buyers and sellers; speculators benefit
• Farm bill proposals and promises: nothing gained, nothing lost, except an opportunity to reduce price volatility
• Federal order hearings: 2 completed and implemented, 3 others completed and under review
• California hearings: CDFA's interpretation of Code standards are considered radical & are questioned
• California producers are told to bear the full risk of long-term contracted powder sales, and to expect a disconnection with milk prices for butter, powder, and cheese in federal order areas
• Environmental issues: new air and water quality regulations burden producers statewide
• Dairy CARES and CDQAP provide invaluable assistance to producers on environmental issues
• McKinsey Report: $3 million worth of advice left on the table
• Special study committees review the quota system and whey valuations
• National scandal: illegal nonfat dry milk price reporting costs producers millions; lawsuit to follow?
• Old plant closures and new plant openings mean more competition for California dairy industry
• World Trade Organization negotiations stall and collapse, but talks continue; bi-lateral agreements proliferate
• Government Accountability Office reports CME prices can be manipulated, but says CME oversight improves
• Inter-state competition: less bulk milk but more packaged milk coming into State; producers & handlers lose
• Cooperatives Working Together has best year so far
• Milk production in California is at surplus levels on a seasonal and spot basis, and more is coming
• Industry meeting convenes to find answers to lack of adequate plant capacity

And where was Milk Producers Council when all of this was happening? Good question. You can be assured that MPC's management, staff, board of directors, and members were fully informed active participants throughout the year on every one of the above matters that were of importance to California producers. Major efforts and activities included development and promotion of the Growth Management Plan which is designed to significantly reduce milk price volatility, detailed analysis by Geoffrey Vanden Heuvel of the costs and benefits of the quota system, analysis and discussion of many aspects of the McKinsey Report, participation in two major price hearings, hands-on participation in helping to develop reasonable positions regarding environmental regulations affecting producers, and suggestions offered on how to improve the California hearing process. Our continuing comments, analysis, and editorials on issues and events are intended to educate and stimulate thoughtful industry responses. MPC is proud to have excellent relations with other California producer organizations. Where appropriate, we offer praise and encouragement to people and organizations and, where necessary, we offer constructive criticism. Can you believe we have even criticized Dairy America?

**DAIRY PRODUCT PRODUCTION IN NOVEMBER:** *(By J. Kaczor)* Following is a summary of today's NASS report on the major dairy products that were produced from November's milk supply. The comparisons are to November 2006.

<table>
<thead>
<tr>
<th>Product</th>
<th>National</th>
<th>California</th>
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<tbody>
<tr>
<td>Total Milk</td>
<td>+3.2%</td>
<td>+5.5%</td>
</tr>
<tr>
<td>All Cheese</td>
<td>+ 1.2</td>
<td>- 2.1</td>
</tr>
<tr>
<td>Cheddar Cheese</td>
<td>+ 2.2</td>
<td>- 9.4</td>
</tr>
<tr>
<td>Butter</td>
<td>+11.7</td>
<td>+19.9</td>
</tr>
<tr>
<td>Skim Powders</td>
<td>+14.1</td>
<td>+ 4.7</td>
</tr>
<tr>
<td>Dry Whey</td>
<td>+ 9.0</td>
<td>- 1.1</td>
</tr>
<tr>
<td>Whey Protein Conc.</td>
<td>- 2.6</td>
<td>n/a</td>
</tr>
<tr>
<td>Condensed Milk</td>
<td>- 1.6</td>
<td>+25.9</td>
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California's decrease in cheese production is likely because of the Corona plant's closure. The small increase in
skim powders (nonfat dry milk and skim milk powder) may be explained by usage of the amount of condensed and evaporated milks that have been produced -- some of which is shipped out-of-state for disposal.

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MPC expresses its condolences to board member Mark Stiefel, whose father passed away last month at the age of 89. Our thoughts and prayers are with Mark and his family.

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MPC BOARD MEETING: The next MPC board meeting is being held Tuesday, January 8th at 11:00 a.m. at the Kern County Farm Bureau in Bakersfield. All MPC members are welcome to attend. If you have any questions or to RSVP, please call Debi at (909) 628-6018.

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