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DATE: February 22, 2008 PAGES: 3
TO: DIRECTORS & MEMBERS FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Weekly Change</th>
<th>Weekly Average</th>
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<tbody>
<tr>
<td>+$0.0225</td>
<td>+$0.0300</td>
<td>$2.0725</td>
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CHICAGO AA BUTTER

<table>
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<tr>
<td>-$0.0250</td>
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Week Ending 2/15 & 2/16

BARRELS

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<th>Weekly Average</th>
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<tr>
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NON-FAT DRY MILK

<table>
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<th>Calif. Plants</th>
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<td>$1.2919</td>
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CHEESE MARKET COMMENTS:

They're back! Cheese prices on the CME are again above $2.00 per lb. USDA market reporters say that some of their contacts are mystified over the strength of prices, their unpredictability, and their volatility. Others believe the reason could be the recent increases in exports. Keeping in mind the fact that only cheddar cheese is traded on the Exchange, that explanation is plausible. Over the October-December period, cheddar production decreased by a total of about 9 million lbs and cheddar exports increased by about 9.5 million lbs. Add to the equation the fact that cheddar imports are down slightly and we get a picture of a tighter supply/demand situation and lower inventories. A similar pattern is true for all cheeses: the combination of higher recent sales and lower recent imports exceed the recent increases in U.S. production. Even though the increases in exports represent a very small percentage of cheese production, these recent numbers show that they play a very important role in helping to maintain strong milk prices. The drop in imports is explained by the very weak and ever weakening U.S. dollar.

BUTTER MARKET COMMENTS:

The pattern of production and sales for butter in October and November resembled the pattern for all cheese during that period, and prices on the CME hung around the $1.35 level. But domestic sales in December fell sharply and, based on what is happening to prices currently, it appears that January and February sales also may be weak. The good export volume in December was not enough to offset the domestic slump. Meanwhile, the entire world knows that U.S. surplus cream moves to the churns and there is plenty surplus now and more is on the way. For the 5th straight week prices on the CME are below where they were last year – and are approaching 2006's levels.

NONFAT DRY MILK:

High heat nfdm is presently in short supply and is being priced about 15 cents higher than low and medium heat powder. That ends the good news. For the rest, production of nfdm and its counterpart, skim milk powder, continues to sharply increase because of the surplus milk, and sales are not keeping up. Prices continue their way downward, and an 18 cent difference between the western area and central area spot prices gives an idea of how eager western plants are to lower their inventories. The graph of prices reported by California plants, prepared by Rob VandenHeuvel, gives as clear a picture as can be gotten of the record high prices of last year –

[Graph of California Plant NFDM Prices]

Weekly Averages Reported by California Department of Food and Agriculture
and gives an indication of what may lie in the immediate future. That red line you see is not a lightening bolt; it’s the path of your future Class 1, 2, 3, and 4a prices. Inventories are very high, compared to recent years, not historically, and sales by U.S. exporters continue to lag behind their international competitors. (Last year the U.S. was the only major nfdm exporting country to not take advantage of Australia's severe shortage of product. New Zealand on the other hand, had an exceptional year.)

**WHEY MARKET COMMENTS:** Prices for dry whey and all whey-derived products continue to move lower. Export volume for the entire product line continues to be strong. Production generally falls in line with the production of cheese so we know that supplies are not excessive. The reason for inventory increases is the loss of domestic sales that started when prices skyrocketed last year. Recent sales volumes reported to NASS by U.S. plants total far less than current production. The average of the western "mostly" price this week is $.2375.

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**FRED DOUMA’S PRICE PROJECTIONS…**

Feb 22 Est:  
Quota cwt. $18.64  
Overbase cwt. $16.94  
Cls. 4a cwt. $14.57  
Cls. 4b cwt. $17.53

Last Week:  
Quota cwt. $18.83  
Overbase cwt. $17.13  
Cls. 4a cwt. $15.23  
Cls. 4b cwt. $17.56

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**2007'S 4TH QUARTER PRODUCTION AND SALES SUPPORT STRONG 4B PRICES:** (By J. Kaczor) The amount of milk that was produced in the U.S. in the October through December period tested the ability of milk plants to efficiently handle it. October's milk production was 3.6% higher than a year earlier, followed by a 3.4% increase in November and a 2.7% increase in December.

The cheese industry continued along the path that first appeared in early June, when plants adjusted their operations to the point where production corresponded to expected sales. That resulted in a gradual reduction in the amount of cheese that had to be stored, and caused buyers to wonder about the availability of product later in the year. Prices responded as expected and, except for periodic price downdrafts, have continued very strong. 4th quarter cheese production was 37 million lbs higher than in 2006, but higher sales absorbed it all. At the end of December the amount of all cheese in storage was equivalent to about 29 days of production. Cheddar cheese in storage was about 41 days worth of production. Contributing to the good record was a relatively high volume of exports. About 20 million more lbs of cheese was exported in the 4th quarter of 2007 than a year earlier.

The rest of this report is not as positive. Production of butter during the quarter was 25 million lbs above a year earlier. Sales were strong during the quarter with exports contributing an additional 30.5 million lbs. But inventories ended the year about 50% higher than December 2006 levels. As of December 31st, butter in storage represented 34 days of production, 10 more days than the end of last year. January's report was released today: an additional 32 million lbs were added to the December figure. Buyers apparently foresee no shortage of butter supplies and are postponing sales until a time best suitable for them. Butter prices are very weak.

Production and sales of dry whey increased by similar amounts during the quarter, but a mid-year sales slump caused inventories to reach a level 50% above a year-earlier by year end, and have not improved since then. During the quarter, sales kept pace with the increase in production, helped by an increase in exports of 13 million lbs. Prices have fallen from their July record highs to where they are now below last year’ levels. International demand remains strong, but competition and buyer resistance to higher prices does not bode well for the prospect of higher whey prices anytime soon.

The situation for nonfat dry milk could be described as a wreck. Plants are doing a great job in handling the milk and condensed skim that is available. 51 million more lbs of nonfat and skim milk powders were produced during the quarter than a year earlier. But even with a surprising increase in export sales of 26 million lbs during the period, the year-end inventory was about 33% higher than the previous December, representing about 46 days of production. Exports for the year were about 10% lower than 2006 exports, despite an unexpected worldwide...
shortage. The prospects for a recovery of export sales to somewhere above the 2006 level look fairly good because of another unexpected world-wide shortage, but competition for the sales is expected to be strong and price recovery, much less price strength, is not certain.

To summarize the situation, the caption at the head of this article says it all. For California, the 4b price looks good at least for a time. All other classes of usage should be sharply down. The prospects for strong domestic sales at this point do not appear to be strong. While there are opportunities for increases in exports, the price situation for exported dry whey and nonfat dry milk at the present time does not look good. What is needed is fewer cows and less milk, but that likely won't happen without some assistance -- natural, man-made, or from a Higher Source.

SOME POSITIVE NEWS ON THE LEGAL FRONT – CIVIL SUIT AGAINST MENDES CALF RANCH THROWN OUT BY APPELLATE COURT: (By Rob VandenHeuvel) Last Friday, a California appellate judge rejected a civil lawsuit brought forward by animal rights extremists against Mendes Calf Ranch in Tipton, CA. The lawsuit alleged that the calf pens utilized by Mendes Calf Ranch did not provide the calves with an “adequate exercise area.”

Victor Mendes, owner and operator of Mendes Calf Ranch and an MPC member, has been battling this group in the courts since 2006. The trial judge that originally heard the case in ’06 dismissed the lawsuit, which brought it to this appellate court which reaffirmed the original trial judge’s decision last Friday. At a time when animal rights extremists are having a field day in the media (see: Westland/Hallmark), it’s refreshing to know that the law is still capable of seeing through the legal “games” these groups play in an effort to push their extremist, anti-dairy agendas.

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