DATE: September 14, 2007
TO: DIRECTORS & MEMBERS

FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

<table>
<thead>
<tr>
<th></th>
<th>Weekly Average</th>
<th>Grade A &amp; Extra Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>-$0.1500</td>
<td>$1.9900</td>
</tr>
<tr>
<td>Barrels</td>
<td>-$0.1100</td>
<td>$1.9900</td>
</tr>
</tbody>
</table>

CHICAGO AA BUTTER

Weekly Change: -$0.0450 $1.3725

NON-FAT POWDER

Grade A & Extra Grade
California Weekly Average Price

<table>
<thead>
<tr>
<th>Week Ending</th>
<th>Price</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 31</td>
<td>$2.0680</td>
<td>7,877,746</td>
</tr>
<tr>
<td>September 07</td>
<td>$2.0549</td>
<td>8,358,378</td>
</tr>
</tbody>
</table>

Weekly Average

<table>
<thead>
<tr>
<th></th>
<th>Weekly Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blocks</td>
<td>-$0.0290</td>
</tr>
<tr>
<td>Barrels</td>
<td>+$.0190</td>
</tr>
</tbody>
</table>

NASS DRY WHEY

w/e 9/08/07 $0.5052

CHEESE MARKET COMMENTS: It was a wild week on the CME for cheddar cheese. Block prices increased each of the 1st 3 days, and then plunged. The price drops on Thursday and Friday totaled 17.5 cents per lb; barrels dropped 14.5 cents. The net decrease for blocks was 15 cents, but the weekly average decrease was only 2.84 cents. The weakness clearly was not expected: USDA was reporting as recently as Wednesday that the market remains "firm," demand is "steady," and offerings are "limited." Double-digit price decreases on the CME for single days are (thankfully) rare, and are usually followed by a period of stability. The weekend should give buyers and sellers time to evaluate these changes. Regardless of their assessment, next week, buyers whose prices are based on the previous week's prices are expected to delay their purchases until the weekly average prices work through the system. Let's hope that this week reflects no more than a healthy market adjustment, and not something more serious. **There were no reports to suggest that the market fundamentals have changed:** production is steady, usage is steady, inventories are steady. But, things do happen.

BUTTER MARKET COMMENTS: Our comments last week about the weakness in the butter market appears to have been correct. Two recent reports by USDA may be what is spooking butter buyers. The un-seasonal increase in butter production in July was a big surprise, and that increase contributed to a further increase in the amount of butter in storage. Prices on the CME this week decreased **every day.** The total decrease amounted to 4.5 cents per lb; sales were fairly heavy, totaling 27; most of the price movement was caused by uncovered offers. The weekly average price is now close to where it was a year ago. If butter production levels off (the report for August will not be released until October 4th), prices should start to move upward once again. Presently, buyers appear to be confident that supplies will be available when they place their orders, so there is no need for them to maneuver for position.

NONFAT DRY MILK: Prices are steady, holding between the $2.00 and $2.10 per lb levels. NFDM exports during July were reported to be 15% below last July; sales volume in August reported by California plants is running about 20% below last August, even though production is running about double last year's output. Very curious. The average price for exported nfdm in July was $1.66 per pound, where as the average price reported by California plants was about $1.94 per pound. Inventories, anyone?

WHEY MARKET COMMENTS: Not much different to report from the past 10 or so weeks; the market is weak, despite the fact that more than one-half of the total amount produced in the U.S. this year, through July, was exported. The market is there, but buyers seem to believe they know a bit more about the future than sellers. Apparently dry whey production is currently greater than usage, and inventories are growing. U.S. inventories in July were higher than last July, but did not seem to be excessive. Everyone involved seems to be looking for that elusive price bottom.
FRED DOUMA’S PRICE PROJECTIONS…
Sept 14 EST: Quota cwt. $21.82   Overbase cwt. $20.13   Cls. 4a cwt. $21.65   Cls. 4b cwt. $19.69

PRICES AT RECORD HIGHS:  (by John Kaczor) CDFA's announcement of October's Class 1 prices, $23.54 per cwt for northern California and $23.81 for southern California, were the highest on record. That's the good news. The bad news (or perhaps more appropriately, the realistic news) is that this may be as high as they go. The commodity bases used for these prices (CME cheese, dry whey, and California NFDM) are now generally lower where they were during the two weeks used in the price formulas. The August Class 4a price was also a record high, but could move a bit higher, if nonfat dry milk prices hold about where they now are. The August Class 4b price, which fell by $1.13 per cwt from its record high in July, could recover if block cheddar cheese and dry whey prices stabilize.

Even though California producers are still having to cope with extremely high costs for feed and other operating costs, 2007 is shaping up to be a pretty good year. The outlook from August and September is certainly more pleasant than what it was in December and January. In order to have a chance to maintain anything close to current prices, a correction to the present procedures for reporting stale prices for current nonfat dry milk sales (the August 28th hearing), and a sensible decision on how to deal with the dry whey component in the Class 4b formula (the October 10th hearing), are needed.

NEW REQUIREMENTS FOR SOUTHERN CALIFORNIA DAIRIES (By Rob VandenHeuvel) As this newsletter reported last week, a new general permit applying to all dairies operating in the Santa Ana region (Chino/Ontario and San Jacinto areas) was approved last week by the Regional Water Quality Control Board. This new permit contains many items that dairies are already familiar with, such as having an “engineered waste management plan” for every facility. However, there are some new items in the 2007 general permit (effective from now until September 2012) that our members may not be aware of. Here are a couple of the major items:

- If you apply manure or wastewater to cropland that you operate or own, you will need to develop a “Nutrient Management Plan” (NMP) sometime before September of 2008.
- Any stockpiles of manure outside of your corrals will need to be removed from the facility within 6 months.
- If you have more than 700 cows on your dairy (both milk cows and dry cows) and transfer your manure or wastewater to any other party, you will need to analyze your manure once a year for its nutrient contents and provide that analysis to anyone who receives your manure.
- You will need to keep a written record of weekly inspections of your facility and include a summary of these inspections in your annual report to the Regional Water Board.
- If your dairy has a pond, you will need to install a pole in your pond with a mark on the pole showing the maximum level of the pond. As part of your weekly inspections, you will need to record the amount of “freeboard” – the difference between the level of your pond and maximum level the pond can hold.

MPC will be working with the Regional Water Quality Control Board to help educate our members in complying with these new regulations. In the meantime, if you have any questions about the new permit requirements, please call Rob VandenHeuvel at (909) 628-6018.

MPC THANKS KERN COUNTY SUPERVISORS FOR ADOPTING RESPONSIBLE PUBLIC POLICY (By Rob VandenHeuvel) In response to E. coli concerns, the Kern County Board of Supervisors this week unanimously approved a resolution endorsing a state-administered regulation of the leafy greens industry. This agreement, which was developed after an E. coli outbreak was linked to California spinach in 2006, regulates farming practices (such as manure application) for leafy green products, such as spinach and lettuce. The Board of Supervisors deserves thanks for working with the dairy and farming industries and implementing this responsible and appropriate public policy despite pressure from some groups to overreact and broadly ban manure application on many of Kern County’s crops.

End