Milk Producers Council
5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328
801 S. MOUNT VERNON AVENUE – BAKERSFIELD, CA 93306 – (661) 833-2549
E-mail: mpc@milkproducers.org Website: www.MilkProducersCouncil.org

DATE: November 06, 2009 PAGES: 4
TO: DIRECTORS & MEMBERS FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Barrels</th>
</tr>
</thead>
<tbody>
<tr>
<td>+$.0500</td>
<td>+$.0375</td>
</tr>
<tr>
<td>$1.5600</td>
<td>$1.5250</td>
</tr>
</tbody>
</table>

Weekly Average

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Barrels</th>
</tr>
</thead>
<tbody>
<tr>
<td>+$.0305</td>
<td>+$.0120</td>
</tr>
<tr>
<td>$1.5335</td>
<td>$1.5035</td>
</tr>
</tbody>
</table>

CHICAGO AA BUTTER

Weekly Change

+$.0900

Weekly Average

+$.0690

NON-FAT DRY MILK

Week Ending 10/30 & 10/31

<table>
<thead>
<tr>
<th>Calif. Plants</th>
<th>NASS Plants</th>
</tr>
</thead>
<tbody>
<tr>
<td>$.9639</td>
<td>$1.0190</td>
</tr>
<tr>
<td>19,193,095</td>
<td>14,795,611</td>
</tr>
</tbody>
</table>

DRY WHEY

WEST MSTLY AVG w/e 11/5/09

$.3550

NASS w/e 10/31/09

$.3402

CHEESE MARKET COMMENTS: This week, cheese prices on the CME continued to advance as some manufacturers seemed to continue to test the current market. Offerings of block cheese have been quickly purchased, and prices hold or move higher. Dairy Market News (DMN) reporters are hearing that demand is steady to good for most varieties, although there is less activity on barrel cheese for processing into various cheese products, and prices have not been as strong as those for blocks. The report that stocks of cheese at the end of September were 136 million lbs higher than a year earlier apparently is being overshadowed by what’s happening currently, which is that sales of cheese are higher than production. Production of all cheese in September was 4 million lbs less than in August and stocks fell by 14 million lbs. After a small drop on Monday, block prices increased through the rest of the week, closing $.05 per lb higher for the week; barrel prices closed $.0475 per lb.

BUTTER MARKET COMMENTS: Once prices on the CME punched through the $1.27 per lb price level that had been blocking higher prices, butter prices have been boiling hot. This week, $.09 per lb was added to the value, with $.075 of it happening today, most of it from bids. Production of butter in September decreased for the sixth straight month; the last time that happened was in 2003. September’s production was 127 million lbs less than last September. DEIP-supported exports has given a great boost to current sales, but domestic market (except for food service generally, and high-end dining particularly) sales are looking good. The recent price increases may be a bit too much too soon (+$.26 per lb in three weeks), and buyers may begin to recalculate their needs and willingness to pay the price. Also, that cheap butter being sought by European brokers is not getting cheaper. The likelihood of those brokers securing commitments from U.S. manufacturers while the supply-demand for butter is so tight, is not high.

POWDER MARKET COMMENTS: DMN reporters say the market for nonfat dry milk is firm, and buyers are beginning to hold back, trying to spot a point where supply and demand will be better balanced. Stocks held by manufacturers at the end of September were 30 millions lbs lower than a year ago and 11 million lbs lower than a month ago, which is about in line with the change in production. Prices for the two major price series were lower last week and the volumes were higher, likely reflecting end of month shipments of DEIP subsidized exports. The “mostly” and full range prices are higher. Production of skim milk powder in September, the product most wanted for exporting, was 26 million lbs lower than a year ago but slightly above August’s output. The support price for nfdm reverted to $.80 per lb on November 1st, after a three month temporary increase to $.92 per lb. Prices for dry buttermilk and whole milk powder also are higher, as demand appears to be strong. Much of the September’s fluid buttermilk was sold in condensed form rather than dried.

WHEY PRODUCTS MARKET COMMENTS: The current supply and demand for whey-based products seems to be fairly balanced, as production of dry whey and whey protein concentrate is keeping pace with cheese.
production and current sales are keeping inventories about unchanged. Prices continue to increase for all products. The average of the West’s “mostly” price range this week added another half-cent and is now at $.355 per lb. The NASS price for sales last week rose to $.3402 per lb on heavy sales.

***

FRED DOUMA’S PRICE PROJECTIONS...

Nov 06 Est: Quota cwt. $14.47 Overbase cwt. $12.77 Cls. 4a cwt. $12.43 Cls. 4b cwt. $13.59

October Final: Quota cwt. $13.60 Overbase cwt. $11.90 Cls. 4a cwt. $11.51 Cls. 4b cwt. $12.69

***

USAGE OF HIGHER CLASS PRODUCTS HOLD IN SEPTEMBER; SURPLUS GOES TO BUTTER/POWDER: (By J. Kaczor) When USDA issued its estimate that milk production in September was 717 million lbs less than the amount that was produced in August (about 7 million lbs per day), it was anticipated there would be proportionate reductions in the amounts of butter, powder, and cheese produced during the month. For that to actually happen, usages for all other products (principally fluid milk for Class 1 usage) would have had to remain unchanged on a per day basis. But the world is not perfect; the report of milk production is an estimate and the reports of milk usage are sometimes incorrect or incomplete, and the anticipated results instead sometime turn out to be big surprises. But the numbers so far for September do come close to what was anticipated.

The 7 million lbs of milk per day lower production for September totals to about 210 million lbs for the month. That volume relates to the following amounts of butter, powder, and cheese:

1. 21 million lbs of cheese; or
2. 9 million lbs of butter and 27 million lbs of nonfat powders

USDA’s report shows that most of the lower usage of milk came from the butter/powder category. There were 6.2 million fewer lbs of butter and 17 million fewer lbs of nonfat powders produced during September compared to August – about two-thirds of the decrease in milk production. There were 4 million fewer lbs of cheese produced – about one-fifth of the daily milk production decrease. All in all, a fairly good balance.

One of the largest and most important category of usages, representing about 37% of all usage nationally, fluid milk classified as Class 1, has not yet been compiled for the U.S., although year-to-date figures showed a positive comparison to the same period in 2008. One pleasant surprise was the report that yogurt production continues to show substantial increases over year earlier levels. Would you believe 371 million lbs of yogurt was produced in September, 42 million more lbs than in August? Often overlooked, yogurt (a Class 2 usage) contains an average of about 1.0% butterfat and 12% nonfat solids. Other Class 2 usage products showing per day production increases were cottage cheese and sour cream, while mixes for frozen dairy products showed an expected seasonal decrease. The stage is set for what is hoped will be more of the same for the October reports – which would be less milk per day than September and continuing strong Class 1 and 2 usages.

MILK PRICING HEARING ON MONDAY TO INCLUDE SEVERAL PROPOSALS: (By Rob Vandenheuvel) As you’ve read in recent articles, the California Department of Food and Agriculture will be holding a hearing next Monday (November 9th) to consider changes to the pricing formulas for all five classes of milk. Last week, I wrote in detail about the proposal being made by Milk Producers Council. For those of you who missed last week’s article, you can read it at: http://www.milkproducerscouncil.org/updates/103009.pdf.

In addition to the two original proposals that I’ve already written about (submitted by the Alliance of Western Milk Producers and Western United Dairymen), and MPC’s proposal, there were four other proposals submitted to CDFA. Those four proposals are listed below, along with some of the analysis provided by CDFA staff.

Proposal by the Dairy Institute (representing many of California’s milk processors)
The main trade association in the state representing processors proposed a $0.20 per hundredweight increase on all classes of milk. That increase would be effective for three months (January – March 2010). Included in the proposal is a trigger that could eliminate the price increase in any of those three months. The trigger works like
The price increase for January 2010 will be cancelled if the Class 4a or 4b price exceeds $13.00 per cwt in November 2009.

The price increase for February 2010 will be cancelled if the Class 4a or 4b price exceeds $13.00 per cwt in December 2009.

The price increase for March 2010 will be cancelled if the Class 4a or 4b price exceeds $13.00 per cwt in January 2010.

Proposal by California Dairy Campaign
California Dairy Campaign, a producer trade association based in Turlock, CA, proposed several changes to the Class 1 (fluid), 4a (butter/powder) and 4b (cheese) formulas. Below are the changes they propose (taken from their alternative proposal language):

- Incorporate the producers’ Cost of Production (COP) into the Class 1 price formula.
- Utilize the higher of the Commodity Reference Price (CRP) or the Cost of Production (COP) to establish a price floor that will prevent the Class 1 price from dropping below the COP.
- Utilize the full Cost of Production (COP) including allowances from the Statewide Cost Comparison Summary.
- Adjust the Class 4a and 4b price formula to establish a variable make allowance. The variable make allowance would increase or decrease the fixed base make allowance depending on the relationship between the COP and the end product values from the commodity reference price (CRP).
- Include the higher of the commodity prices or the USDA support price in pricing formulas to prevent minimum prices from dropping below the intended federal support level.

CDFA staff analyzed the various proposals to determine what effect they would have if they were in place the past five years. According to CDFA staff, California Dairy Campaign’s proposal would have generated an increase in the pool price of $1.32 per cwt from October 2008-September 2009. Over the past five years, CDFA estimates the proposal would have generated an average increase of $0.10 per cwt from October 2004-September 2009.

Proposal by California Dairy Women Association
The California Dairy Women Association, based in Turlock, CA, proposed a temporary 12-month pricing formula that incorporates the average Cost of Production as published by CDFA with a 2009 production base into the Class 1, 2, 3, 4a, and 4b pricing formula.

CDFA also analyzed this proposal, and found that it would have generated an increase in the pool price of $3.96 per cwt from October 2008-September 2009. However, over the last five years, the proposal would have generated an average decrease of $1.47 per cwt from October 2004-September 2009.

Proposal by California Dairies, Inc.
Finally, there was a proposal by California Dairies, Inc. (CDI) to increase the make allowance and the f.o.b. price adjuster in the Class 4a (butter/powder) formula. In submitting their proposal to CDFA, CDI wrote:

The release of the Department's latest Manufacturing Cost Exhibit on October 1, 2009 provides ample evidence to suggest the manufacturing cost allowances for butter and nonfat dry milk should be increased. Given the current status of the dairy industry, we had not planned on making a proposal for higher manufacturing cost allowances until a later date. However, the submission of the petition by Western United Dairymen and the subsequent announcement by the Department to consider a wide variety of topics affecting any of the classes of milk has forced CDI to take the position of proposing higher manufacturing cost allowances at this hearing instead of waiting for a later and more appropriate date. In addition, we are also proposing an increase in the butter f.o.b. price adjuster to reflect the latest current butter sales information that has been provided to the Department by California butter manufacturers.
An increase in the make allowance and f.o.b. price adjuster would result in a decrease in the Class 4a price, as well as a decrease in the Class 2 and 3 prices (which are tied directly to the Class 4a price). CDFA’s analysis of the proposal found that CDI’s proposal would decrease the Class 2, 3 and 4a prices by $0.38 per cwt, and would decrease the overall pool price by approximately $0.16 per cwt.

All of these proposals have been posted to CDFA’s website, as well as the analysis provided by CDFA’s economists. For those of you who are interested, you can find this material in the “CDFA Hearing Matrix” at: [http://www.cdfa.ca.gov/dairy/dairy_hearings_matrix.html](http://www.cdfa.ca.gov/dairy/dairy_hearings_matrix.html). As I mentioned in last week’s newsletter, the hearing is scheduled to begin at 8:30 am next Monday (November 9th). The hearing will be in the CDFA auditorium at 1220 N Street in Sacramento. Hope to see some of you there!

UPDATE ON ENVIRONMENTAL CERTIFICATION FOR CALIFORNIA DAIRIES:  (By Rob Vandenheuvel)  As I’ve mentioned in several previous articles, the California State Water Resources Control Board (SWRCB) allows dairies to become environmentally certified and receive a 50 percent discount in their annual fees. I have been working with a number of you who are interested in taking part in the process, which includes a 6-hour Class as well as an on-site evaluation by a third party.

This week, it was discovered by the folks that run the California Dairy Quality Assurance Program (CDQAP) these certifications needed to be completed by September 30th in order to take advantage of the fee reduction for this year. Apparently, this is a policy established by the SWRCB that was not known to folks within the industry. Unfortunately, that means that any certification that occurred or will occur after September 30, 2009 won’t be eligible for a fee reduction until the next billing cycle, which will be at the end of 2010.

In light of this new information, the previously-scheduled certification evaluations in Southern California that were slated to occur during the week of November 16, 2009, as well as the classes that were slated for later this month, will be postponed until next spring. Given the state of the industry, the sentiment I’ve gotten from most dairymen is that they would prefer to wait until next year to complete the certification process, particularly since it carries a cost of $500 per dairy and the financial benefit to certification won’t be realized until late 2010.

I have gotten a commitment from the CDQAP staff that they will travel to Southern California in the spring to facilitate getting the dairies environmentally certified. So for those of you interested in becoming environmentally certified and taking advantage of the 50% break in fees, stay tuned.

OCTOBER CARES COLUMN POSTED TO OUR WEBSITE:  (By Rob Vandenheuvel)  The most recent Dairy Cares column has been posted to the MPC website. This month’s column is entitled, “Dairy farmers making important progress in telling story of responsible animal care.” You can find the full column by visiting our website at: [http://www.milkproducerscouncil.org/cares.htm](http://www.milkproducerscouncil.org/cares.htm).

LAUREN BEYENHOF, DAUGHTER OF DARYL AND ELLEN KOOPS, PASSES AWAY AT THE AGE OF 29: (By Rob Vandenheuvel)  This past Tuesday, Lauren Beyenhof, daughter of MPC board member Daryl and Ellen Koops, passed away at the age of 29. Lauren was known by many of us, growing up in the Chino dairy community. She was diagnosed with Cystic Fibrosis at birth and lived her twenty-nine years to the fullest as a woman of God. Lauren was married to Brad Beyenhof in 2003 and lived in the San Diego area. Her memorial service will be held at 2 p.m. tomorrow (November 7th) at New Life Presbyterian Church (5333 Lake Murray Blvd., La Mesa, CA 91942). Our thoughts and prayers are extended to the Koops family.

MPC’S MONTHLY BOARD MEETING TO BE HELD NEXT THURSDAY IN BAKERSFIELD:  (By Rob Vandenheuvel)  Next Thursday (November 12th), the MPC board will be gathering at the Kern County Farm Bureau office for our November board meeting. As always, members and prospective members are strongly encouraged to attend. The meeting will start at 11 am, and lunch will be served. For those interested in attending the meeting, please contact Debi at (909) 628-6018 so that she can make lunch accommodations.