Milk Producers Council
5370 SCHAEFER AVE. SUITE A - CHINO, CA 91710 - (909) 628-6018 - Fax (909) 591-7328
E-mail: mpc@milkproducers.org Website: www.MilkProducersCouncil.org

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TO: DIRECTORS & MEMBERS FROM: John Kaczor

MPC FRIDAY MARKET UPDATE – SPECIAL WEDNESDAY EDITION

CHICAGO MERCANTILE EXCHANGE

CHICAGO AA BUTTER

NON-FAT DRY MILK

Week Ending 11/21 & 11/22

Weekly Average

NASS Plants \( \$ .8374 \) 17,198,174

NASS w/e 11/22/08 N/A WEST MSTLY AVG w/e 11/26/08 \( \$ .1600 \)

WEST MSTLY AVG

Bars \(+ \$ .0325 \) $1.8025

DRY WHEY

Week Ending 11/21 & 11/22

Weekly Average

Barrels \(+ \$ .0500 \) $1.7900

Weekly Average \(+ \$ .0407 \) $1.7942

Weekly Change \(- \$ .0900 \) $1.5000

Weekly Average \(- \$ .0818 \) $1.5342

CHEESE MARKET COMMENTS: Prices for blocks and barrels moved higher again this week on the CME. For the second week in a row, no sales were recorded – all increases resulted from progressively higher bids, none of which were filled. Last week, that was called “very unusual.” That makes this week’s result “very, very unusual.” The short term consensus seems to be that demand is a bit higher than supply, and current price levels are justified. But last week’s comment about an orderly cheese market sitting on a shaky foundation still seems to sum things up. Domestic cheese usage in the first half of 2009 is expected to be, at best, unchanged from this year’s level. So, the supply side of the equation – production – should continue to be the key factor in determining cheese price levels, as it has been for the past eighteen months. Exports and imports of cheese are too small to affect prices, and why should international price levels, which are now much lower than U.S. prices, even be considered? Keep focused on the U.S. milk supply and hope that cheese manufacturers maintain their control.

BUTTER MARKET COMMENTS: Butter prices on the CME continue their steady decline from their 2008 peak that was reached a little more than a month ago. No sales, just uncovered offers to sell lower – the opposite of what is happening with cheese. Sales are reported to be weaker than normal for this time of year, which was expected. Buyers appear to have no concern about shortages of product, and Dairy Market News reports indicate that discounts are fairly common and terms are negotiable. Butter price decreases in the late Fall are common; the question now is how far will they fall. Exports of butter this year played a key role in the clearing butter from the U.S. market, and stimulated the $0.55 per lb price increase from March through October. However, it appears that exports of non-subsidized butter have virtually disappeared, and September’s exports were lower than a year earlier. The futures market sees butter prices in March to be another $0.12 per lb lower than today's close.

NONFAT POWDER MARKET: Prices continue to weaken as more powder goes into CCC warehouses and major international sellers reduce prices accordingly. DMN reports that nfdfm is available for exporting from Europe and New Zealand, and they are not likely to be undersold. CWT appears ready to test that belief as they finalize plans to subsidize skim milk powder sales. It looks like the U.S. powder industry has found itself in a very deep hole that has slippery sides. International sales volumes are expected to pick up a bit as prices are now well below $1.00 per lb, but that will almost certainly lead to more long-term fixed priced contracts at horrible prices.

WHEY MARKET COMMENTS: Prices for dry whey are reported to be holding at recent levels, and increasing a bit for whey protein concentrate. Some sales of DW in the west were reported to be as low as $0.10 per lb. Why even produce it when you lose $0.10 or more per lb? Isn’t that discouraging? Production of both products continues to be in line with cheese production.

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FRED DOUMA’S PRICE PROJECTIONS...

Nov 26 Final:  Quota cwt.  $16.09  Overbase cwt.  $14.39  Cls. 4a cwt.  $12.10  Cls. 4b cwt.  $15.14
Last week:  Quota cwt.  $16.09  Overbase cwt.  $14.39  Cls. 4a cwt.  $12.16  Cls. 4b cwt.  $15.12

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OCTOBER MILK PRODUCTION REFLECTS HIGHER COSTS AND LOWER EXPECTATIONS:
(by: J. Kaczor)  USDA lowered September’s milk production estimate by just enough to trim 0.1 percentage point (to 1.6%) from the increase that was reported a month ago.  Last week’s report for October was even better.  The estimated number of cows was only 88,000 more than were on hand in October 2007, the smallest increase so far this year.  The estimated amount of milk produced in October was 1.2% higher than a year earlier, also the smallest increase for the year, and production per cow (PPC) was lower than last October – the first time this year that monthly PPC showed a decrease.  The trend in cow numbers since July is following the 2006 pattern, which ultimately lead to a net decrease in herd size seven months later.  (CWT’s 2006 herd retirement program helped reach that goal.)

The top ten milk producing states did not change their order.  Even after showing a decrease of 0.9%, California’s output continues to be number one, in a class by itself, more than 50% greater than Wisconsin’s output.  The four states with the largest monthly increase were Colorado (+5.6%), Idaho (+6.2%), Kansas (+10.7%), and Texas (+14.4%).  California’s production has now decreased three out of the last four months, when compared to year-earlier levels.

A SPECIAL THANKS TO OUR 2008 ASSOCIATE MEMBERS:  (By Rob VandenHeuvel)  While a majority of the funding for Milk Producers Council comes from the dairy families we represent, MPC is proud to have strong support from other businesses and individuals that have an interest in maintaining a vibrant dairy industry in California.  These Associate Members recognize the value MPC brings to the California dairy industry and their financial support plays an integral role helping us be a strong voice our members.  A special thanks on behalf of the MPC board of directors, members and staff goes out to:

**Platinum Associate Members:**
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Stiles Animal Removal Inc.
Wells Fargo Bank
Wiechelman & Associates

Thanks again to all of our Associate Members for your support!

SALEM CHRISTIAN HOMES WOULD LIKE TO THANK THOSE WHO ATTENDED THE FUNDRAISING AUCTION:  (By Rob VandenHeuvel)  As we mentioned in a previous newsletter, Salem Christian Homes held their Annual Livestock Auction in Chino on November 20th.  The auction was very successful and they asked that I pass along their thanks and appreciation to those of you who were able to attend this important fundraising event.

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