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TO: Directors & Members  FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHEESE MARKET COMMENTS: Buyers, brokers, and retailers are busy assessing their needs for cheeses of all kinds. The kind of cheese that moves prices is cheddar blocks for California and blocks and barrels for just about everyone else. Production lines are back on regular schedules, orders should be coming in, and those important packaging operations are trying to cope as well as they can in trying fill more orders than they really can. It’s a normal post holiday time for the cheese industry. Dairy Market News folks say that aged cheddar is in short supply; that could help explain why inventories of American cheese were growing so much – it was a plan coming together. Well, maybe. Sales are reported to be going well. The economy is beginning to recover in a meaningful sense. CWT continues to approve subsidized exports of cheese. Average prices on the CME have now increased three weeks; both styles closed the week up about $.10 per lb since November 12th. November’s prices for cheese milk: California at $13.14 per cwt; federal orders at $15.44 per cwt. Most of the difference is explained by use of slightly different time periods used for the market prices.

BUTTER MARKET COMMENTS: USDA’s report on the amount of butter produced in October, released yesterday, was neither surprising nor discouraging; the increase over September was about 8 million lbs, and the previously reported end of month inventory was almost 22 million lbs lower than September’s. Combined, those reports represent what should be a strong case for firm butter prices going forward. Last week’s comment began with an observation that there was nothing to suggest that butter prices should continue to fall beyond the $.565 per lb drop that already had occurred over a seven week period. On Monday, someone with “old crop” butter to sell had a different opinion; an offer at $.14 per lb lower than the previous closing price was left on the table and the price fell by that amount. The butter offered likely was sold later, off the market, at who knows what price. Did the value of butter in storage really lose $14 million in a single day from a single action? The price has since recovered $.08 of the Monday loss, through a combination of offers, bids, and sales. Folks, this is not how a well informed, organized, public market for a common product should operate. Do I hear calls for limits on daily price movements, similar to those for many other commodities?

POWDER MARKET COMMENTS: The market for buttermilk powder is described as weak, and prices have moved down to the point where the normal premium to nonfat dry milk prices is no longer there. Production should increase in line with higher butter production. The market for whole milk powder is steady; U.S. prices f.o.b. plants throughout the country remains a little higher than this week’s winning bids, f.o.b. ports in New Zealand, in Fonterra’s auction. Prices for nonfat dry milk continue to improve. California and national prices have now clawed their way back to the $1.20 per lb level. Weekly sales reported by California plants continue to lag below production. November’s prices for milk used for butter/powder: California at $16.34 per cwt; federal orders at $16.68 per cwt. Much of the difference is explained by use of different rules for reporting sales.

WHEY PRODUCTS MARKET COMMENTS: It’s good to be able to say this week’s report about all things having to do with whey proteins is still good. DMN reports production of whey protein concentrates and dry
whey may be lower than normal, in part because of heavier uses of condensed whey and in part because cheese
production in November may have been lower than normal because sharp price movements kept buyers away
from the market. The weekly sales reports for NASS, reflect continuing strong demand, but show no sign of
escalating much beyond current levels which are lower than, but in reasonable relationship to, prices reported for
exports in Western Europe.

FRED DOUMA’S PRICE PROJECTIONS...

<table>
<thead>
<tr>
<th></th>
<th>Quota cwt.</th>
<th>Overbase cwt.</th>
<th>Cls. 4a cwt.</th>
<th>Cls. 4b cwt.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 3 Est:</td>
<td>$16.08</td>
<td>$14.38</td>
<td>$14.87</td>
<td>$13.23</td>
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</table>

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WHAT A DIFFERENCE TWO WEEKS MAKES: (By Rob Vandenheuvel) Two weeks ago, I published an
article in this newsletter about the need for dairy organizations to join in the effort to stop the extension of the
ethanol tax subsidies. As I noted in that article, the $.45 per gallon “blenders tax credit” that is available to
oil/gas companies that blend ethanol with their fuel and the $.54 per gallon tariff on imported ethanol are both set
to expire on December 31, 2010, and supporters of ethanol would need an act of Congress to extend them into
next year. If you missed that article, it’s available at: http://www.milkproducerscouncil.org/111910_ethanol.htm.

At the time, there was very little, if any, noticeable activity on the part of the dairy industry to join in this effort to
stop the subsidies, even though these policies play a potentially huge role in the cost of feeding our cows. Milk
Producers Council reached out to a developing coalition who’s main focus is to allow these subsidies to expire.
The coalition is made up of radically diverse groups – from conservatives (such as FreedomWorks, a group that largely supports the Tea Party movement) to liberals (such as MoveOn.org), and from pro-ag groups (such as the National Chicken Council and the National Meat Association) to environmental groups (such as the Natural Resources Defense Council). While these groups are often at odds on various issues, they have found common
ground on the important issue of whether or not our nation’s taxpayers should be subsidizing an ethanol policy
that serves little, if any, legitimate public benefit.

Milk Producers Council proudly joined this coalition, as did a number of dairy groups from throughout the
western United States. Those dairy groups include:

- California Dairies, Inc.
- California Dairy Campaign
- Dairy Producers of New Mexico
- Dairy Producers of Utah
- Idaho Dairymen’s Association
- International Dairy Foods Association (our nation’s processors)
- Milk Producers Council
- Oregon Dairy Farmers Association
- Washington State Dairy Federation

The letter and full list of signers can be found at: http://www.milkproducerscouncil.org/ethanolletter.pdf.

At the same time, former Vice President Al Gore came out publicly with comments against extending the ethanol
subsidies. At an energy conference in Europe, Reuters news service reported that Gore said, “It is not a good policy to have these massive subsidies for first-generation ethanol.” He went on to state that “one of the reasons I made that mistake is that I paid particular attention to the farmers in my home state of Tennessee, and I had a certain fondness for the farmers in the state of Iowa because I was about to run for president.” It’s amazing to see
the honesty of a former politician once he no longer has to be elected.

Obviously, the combination of these clear messages has gotten through to Congress. This past Tuesday, a bi-
partisan group of 17 U.S. Senators co-signed a letter to the U.S. Senate Leadership asking that the ethanol
blenders tax credit and the import tariff on ethanol be allowed to expire on December 31st. That letter can be

However, this is not the end of the story. As I mentioned in the article two weeks ago, the ethanol and corn
lobbies are extremely motivated in their effort to extend these generous taxpayer giveaways. Tomorrow
(Saturday, December 4th), the U.S. Senate is expected to consider a proposal to approve a scaled back ethanol
blenders tax credit ($.36 per gallon instead of $.45 per gallon), along with a continuation of the full $.54 per
gallon import tariff. Hopefully the message coming from the diverse coalition mentioned above will continue to
be recognized by the Senators as a clear message that it’s time that we stop the use of taxpayer dollars to subsidize the indefensible fuel-before-food policy that is at the core of our nation’s ethanol policy.

MPC and our fellow coalition partners will continue to fight hard for the expiration of these ethanol subsidies. With Congress expected to continue their lame duck session for up to two more weeks, the political forces behind our nation’s ethanol industry will continue to try and find legislative opportunities to extend these subsidies. It will take a focused effort on the part of the broad coalition and all other interested parties to successfully stop this “fleecing of America.” So stay tuned…

OCTOBER’S MILK PRODUCTION FULLY ACCOUNTED FOR: (By J. Kaczor) While the table shown below is not a full accounting of October’s milk production, it does show how the additional 330 million lbs produced in October (over September) was used. The numbers in the table, taken from USDA’s report this week on October’s dairy product production, represent 1,000 lbs of product. Actually, almost one half of the additional milk that was produced in October can be accounted for if we assume October’s Class I usage for the U.S. was the same on per day basis as September’s. The rest of the usage is mostly explained by three words: cheese, butter, and powder.

USDA’s report on dairy product production also reports end of month inventories for a number of the major products. They, along with the earlier report on the amount of cheese and butter in cold storage for the month, are listed in the two columns on the right side of the table.

Changes in end of month inventories are important indicators of how sales of a product are doing relative to how much product has been produced during the month. In making this comparison, it’s important to note the pronounced seasonal changes in the amount of milk that is produced, and the resulting effect on production of certain “market clearing” products. Equally important are seasonal patterns of usage of most major dairy products, which are sometimes even more pronounced than milk production changes.

That being said, the report card for dairy product usage in October, indicated from the above table, is very good. Of the seven product categories for which end of month inventories are available, only two showed less “disappearance” during the month than was produced during the month, and both shortfalls were minimal. Production of Cheddar cheese (in the American cheese category) jumped by almost 16 million lbs above September’s level (+6.0%) while shipments during the month increased by about 14 million lbs. Production of whole milk powder jumped by 1.3 million lbs (+22.9%) while shipments increased by 1 million lbs. Sales of Swiss cheese (not shown separately in the table) also fell a bit short of production. September’s results were similar – sales of all product categories except American cheese outpaced production.

About cheese production, prices matter and so do basic longer term considerations such as changes in total industry capacity, individual plant’s scales of economy, and what each segment of the market foresees in regard to how they may be affected by the dreaded political and economic unknowns which we all read and hear about almost daily. Prices on the CME, after fluctuating earlier in the year, were rising from mid June through mid October, which could explain the strong increases in production during that period compared to two years earlier. The total amount of cheese in storage increased almost in step with the production increases. It will be interesting to see what the sharp price corrections since then, which were said to have created deep concern among buyers and sellers, may have on production levels through the end of the year and beyond.
PRICES ARE MIXED, TO HIGHER, IN FONterra’S DECEMBER 2ND AUCTION: (By J. Kaczor)

There are worries over what appears to be an on-coming mid season drought in New Zealand which has shown to substantially affect milk production, and existing weather issues in Australia which have brought this season’s milk production back down to where it was a year earlier. Despite those concerns, Fonterra’s timely update of estimated volumes of products to be available for auction over the next twelve months were increased for the major product groups currently offered. The exception was UHT buttermilk powder, which is offered in very small quantities. The table shown here reports the winning prices bid this week, and compares them to the winning prices for the previous two auctions. All prices are per lb of product. The products covered are regular WMP, low and medium heat SMP (average prices), UHT buttermilk powder, and premium grade AMF in drums.

After falling slightly on November 16th, prices for whole milk powder regained all that was lost then, and are mostly higher than where they were a month ago. The trend for the eight 1st contracts from a September recovery point is slightly downward. A similar pattern is seen for SMP: prices for the “spot” month rising from August then tapering off since. Prices for UHT BMP continue to reflect a small premium to SMP but, because of the very small volume offered in that category, no conclusions should be drawn regarding its supply or demand. Prices for AMF have been steadily rising since their general recovery in September, and are now at their high points for the past year.

<table>
<thead>
<tr>
<th>Products</th>
<th>1st Contract</th>
<th>2nd Contract</th>
<th>3rd Contract</th>
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<tbody>
<tr>
<td>Whole Milk Powder</td>
<td>$1.576</td>
<td>$1.610</td>
<td>$1.587</td>
</tr>
<tr>
<td>&gt; Nov 16th</td>
<td>+$.020</td>
<td>+$.063</td>
<td>+$.045</td>
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<tr>
<td>&gt; Nov 2nd</td>
<td>-$.007</td>
<td>+$.029</td>
<td>+$.092</td>
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<tr>
<td>Skim Milk Powder</td>
<td>$1.314</td>
<td>$1.417</td>
<td>$1.563</td>
</tr>
<tr>
<td>&gt; Nov 16th</td>
<td>-$.024</td>
<td>+$.004</td>
<td>n/a</td>
</tr>
<tr>
<td>&gt; Nov 2nd</td>
<td>-$.006</td>
<td>+$.061</td>
<td>+$.055</td>
</tr>
<tr>
<td>Buttermilk Powder</td>
<td>$1.338</td>
<td>$1.427</td>
<td>---</td>
</tr>
<tr>
<td>&gt; Nov 16th</td>
<td>-$.075</td>
<td>+$.023</td>
<td>n/a</td>
</tr>
<tr>
<td>&gt; Nov 2nd</td>
<td>+$.016</td>
<td>-$.006</td>
<td>n/a</td>
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<tr>
<td>Anhydrous Milkfat</td>
<td>$2.440</td>
<td>$2.435</td>
<td>$2.481</td>
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<tr>
<td>&gt; Nov 16th</td>
<td>+$.006</td>
<td>+$.001</td>
<td>+$.047</td>
</tr>
<tr>
<td>&gt; Nov 2nd</td>
<td>-$.041</td>
<td>-$.046</td>
<td>n/a</td>
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</table>

In addition to updating volumes to be offered over the next twelve months, changes are also made from auction to auction. The volume of UHT BMP offered this time was cut in half, to an insignificant amount. The volumes offered for each of the other three products were higher in total, higher for the month of first delivery (February), and lower for the contracts covering shipments of products from March through August.

NOVEMBER CARES COLUMN PUBLISHED ON OUR WEBSITE: (By Rob Vandenheuvel) The November “Dairy Cares Report” has been posted at: [http://www.milkproducerscouncil.org/cares.htm](http://www.milkproducerscouncil.org/cares.htm). This month’s column focuses on an industry effort to cut down the costs that Central Valley dairies must pay to install “groundwater monitoring wells” over the next several years.

This effort has been written about in this newsletter and other trade publications throughout California. As dairymen in the Central Valley know very well, under the 2007 General Order approved by the Central Valley Regional Water Board, dairies will be required to install groundwater monitoring wells. This requirement, which would cost the dairies tens of thousands of dollars in installation costs (not to mention the thousands of dollars in ongoing sampling and reporting costs), is in the process of being phased in, with dozens of dairies already required to install them.

However, through industry efforts in working with the Central Valley Water Board, an alternative option has been made available. Central Valley dairies should have received a packet of information on the new “Central Valley Dairy Representative Monitoring Program.” This program provides the opportunity for dairies to participate in a regional groundwater monitoring program in lieu of installing multiple groundwater wells on each individual dairy. Participation in the program is completely optional, but for the many dairies that have not had to install a groundwater monitoring well yet, this program is an affordable alternative.

The deadline for signing up for cooperative effort is December 27th, so any interested dairies should review the material you received in the mail as soon as possible. MPC members that have any questions should contact Betsy Hunter (661-205-6721) or the MPC office (909-628-6018).