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DATE: December 21, 2007 PAGES: 3
TO: DIRECTORS & MEMBERS MERRY CHRISTMAS!!! FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

<table>
<thead>
<tr>
<th>Blocks</th>
<th>Change</th>
<th>Weekly Average</th>
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<tbody>
<tr>
<td>+$.0200</td>
<td>$1.9500</td>
<td></td>
</tr>
<tr>
<td>-.0975</td>
<td>$1.9000</td>
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CHICAGO AA BUTTER

<table>
<thead>
<tr>
<th>Weekly Change</th>
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<tbody>
<tr>
<td>-.0125 $1.3225</td>
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<tr>
<td>-.0020 $1.3300</td>
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NON-FAT DRY MILK

<table>
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<tr>
<th>Calif. Plants</th>
<th>$1.7685 7,983,077</th>
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<tbody>
<tr>
<td>NASS Plants</td>
<td>$1.8235 12,895,052</td>
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Weekly Average

<table>
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<th>Blocks</th>
<th>Change</th>
<th>Weekly Average</th>
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<tbody>
<tr>
<td>-.1645 $1.8490</td>
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<tr>
<td>-.2540 $1.8475</td>
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DRY WHEY

| NASS w/e 12/15/07 $0.4584 |
| WEST MSTRY AVG w/e 12/20/07 $0.4350 |

CHEESE MARKET COMMENTS:
Block prices on the CME today recovered all of what was lost earlier in the week, and barrels recovered almost one-half of what was lost in Tuesday's record drop. Prices for both styles finished the week at or above $1.90 per lb, and the block/barrel price spread is close to normal. Neither manufacturers nor buyers want to carry more product than can be disposed of on a timely basis – and there seems to be a common goal to minimize year-end inventories. Expect more cheese to be produced next year than this year, but not much more. The cheese market, nationally and internationally, at this time appears to be in good shape. Cheese in cold storage at the end of November was virtually unchanged from last month and last November – an excellent report card. Let's hope next week's short year-ending sessions will not upset what looks like a good plan.

BUTTER MARKET COMMENTS:  The market for butter continues to be surprisingly steady. USDA reports that retail sales so far seem to be going well. But much higher U.S. production and higher inventories are just around the corner. Once the recent welcome "windfall" exports fall back to close to normal levels, U.S. prices are expected to weaken. Butter in cold storage at the end of November was 53 million lbs less than October (a normal change, driven by the holiday sales pattern), but was 33% higher than last November. Internationally, the butter market appears to be fairly well balanced.

NONFAT DRY MILK: There is no good news to report for this market. Export volume continues to lag behind last year, and there are reports that international prices are being forced down by offers from "other suppliers." (That means us.) The California plant price average has now fallen 31.4 cents in 9 weeks, and is now 20 cents below the October average export price and 5.5 cents below the weekly national average price. In other words, snafu! Unlike its butter counterpart, the international picture for nfdm appears to be weak because the recent high prices have resulted in buyer pushback and interest in alternative ingredients, including whey products, dry buttermilk, and soy protein products.

WHEY MARKET COMMENTS: Whey prices are weak and it's beginning to look like they will continue that way for some time. The west "mostly" and NASS averages this week held fairly steady. International prices have fallen to about 36 cents and international production of whey is expected to increase over the coming months. 36 cents is more than fair for one of the highest quality dairy protein products available anywhere. Buyers are said to be bargaining hard, and waiting until next month to make significant commitments. WPC prices also continue their movement downward. Bottom feeders are said to be finding prices for the product of last resort, whey permeate, to be just right for their needs.

FRED DOUMA'S PRICE PROJECTIONS...

Dec 21 Est: Quota cwt. $20.62 Overbase cwt. $18.92 Cls. 4a cwt. $18.72 Cls. 4b cwt. $18.50
Last week:  Quota cwt. $20.82 Overbase cwt. $19.12 Cls. 4a cwt. $19.11 Cls. 4b cwt. $18.67

**
CDFA ANNOUNCES MAKEUP OF NEW WHEY COMMITTEE:  (By Rob VandenHeuvel) This week, CDFA Secretary A.G. Kawamura announced the 14 individuals who will make up the new special committee exploring how the class 4b (cheese) formula should value whey. The committee will include:

- Andrew Branagh – cheesemaker
- Scott Hofferber – cheesemaker
- John Jeter – cheesemaker
- Mike McCully – cheesemaker
- Joe Paris – cheesemaker
- Sue Taylor – cheesemaker
- Bill Schiek – representing cheesemakers
- Scott Magneson – dairy producer
- Tony Mendes – dairy producer
- Ray Souza – dairy producer
- Sean Tollenaar – dairy producer
- Geoffrey Vanden Heuvel – dairy producer
- Bill Van Dam – representing cooperative
- Tom Wegner – representing cooperative

The first meeting of this new committee will be on **Friday, December 28th from 10:00 am – 2:30 pm at the CDFA auditorium in Sacramento.** The meetings are open to the public, and all producers are certainly encouraged to attend. For more information on this committee and its members, you can read CDFA’s announcement at: [http://www.cdfa.ca.gov/dairy/pdf/notices/WheyReviewCommitteeLetterDec182007.pdf](http://www.cdfa.ca.gov/dairy/pdf/notices/WheyReviewCommitteeLetterDec182007.pdf).

On a similar note, the decision by CDFA has received much attention, not only by California producers, but by producer groups throughout the U.S. Last week, National Milk Producers Federation (NMPF) sent a letter to Secretary Kawamura regarding the recent decision. Here are a few excerpts:

“This [decision] will lead to wild swings in the differences among California minimum prices, Federal order minimum prices, and competitive prices in unregulated markets, and disorder milk marketing in California and across the country.”

“A fixed whey value in the Class 4b price formula offers no accommodation with the rest of the country and will ultimately disrupt milk marketing in all states, including California. Shifting differences among regional milk prices will result from the new formula, and lead to surges of milk in response: first into, then out of, California. This will destabilize milk marketing across the country, but within California most of all.”

“NMPF urges CDFA to reconsider this decision, abandon the fixed whey value, and adopt a Class 4b milk price formula that moves in parallel with the Federal order Class III milk price. The long-term viability of both the California and Federal pricing systems depends upon their effective coordination.”

If you’d like to read the full letter, you can see it on our website at [http://www.MilkProducersCouncil.org/121207nmpf.pdf](http://www.MilkProducersCouncil.org/121207nmpf.pdf).

THE PREDICTABLE, THE UNFORTUNATE, THE SCARY:  (By Sybrand Vander Dussen) As bad as milk prices were in 2006, this year is that good. Although excessive government subsidizing of ethanol plants which use feed corn has driven our feed prices to record highs, twenty-dollar milk soothes even that. This is a heady time in the dairy industry. Instead of wondering how long our equity would continue to convert to bank loans, or how long we could hold on after equity was consumed, we are now in a position to pay down those loans, perform deferred maintenance, replace equipment, and update areas in our operations. This is very good; it keeps money rolling and many, many other businesses benefit along with us.

Another perhaps unfortunate reaction is that we are trying to produce as much milk as possible. 2x to 3x, broader use of rbst, better feed, and keeping every cow that walks, is the industry’s response.

**This was predictable** because our industry has experienced sharp up and down price cycles before and we have learned to make as much milk [money] as possible when prices are up, in order to weather the next downturn.
History has shown this to be a common, and probably appropriate, reaction. **This is perhaps unfortunate** because once again, we are producing at max with no thought as to market demand. Presently approximately 11% of this nation's total milk production is sold offshore; the weak dollar has placed dairy products in an economically desirable position. That and several other factors have milk valued at the level it is now.

**The scary part** is that milk prices are not influenced by our cost. There exists a total disconnect between the two. When our costs were $10-$12/cwt, and the support price at $9.90, it was obvious that we could survive tough times for an extended period. Now, our **true costs** are north of $16/cwt. With a $9.90 support, our downside exposure is potentially dramatic, swift, merciless, and if not corrected quickly, catastrophic. (“**True cost**” is when all prepaid and earlier-bought feed is gone.)

Again and again, we see and subject ourselves to the results of our overproduction. It is incumbent on every producer to make as much milk as possible because pooling insulates the individual from feeling the true lower value of any excess production by spreading it to the whole industry. Therefore, the ones who do not do all they can to increase production when prices are high are the “losers.”

This fatal flaw can be corrected; we have the CWT Program, which is a wonderful tool to remove excess production, but it tends to correct a wreck, not prevent one. Another option is the **Growth Management Plan**. MPC gave it all it had to gain traction within the industry, to little avail. Of the many groups that we had the opportunity to present the plan to, **all were in favor of it**. The problem was, and remains, that industry leadership did not ignite a passion for it, and it died on the vine. Worst of all was that National Milk Producers Federation, originator of the CWT, had no interest in even hearing about the program, and instead used their efforts to push through an expanded MILC and a return of forward contracting in the present evolving farm bill, both of which, long-term, are damaging to our industry.

So there you have my views! Enjoy the holidays because sometime next year we will have hell to pay.

**CALIFORNIA MILK PRODUCTION UP 5.5%:** *(By John Kaczor)* Fueled by **more cows**, **more production per cow**, and **outstanding milk prices**, U.S. milk production in November posted another sizable increase, 3.2% above last November, California’s increase was 5.5%.

Western States continued to lead the way, with an average increase of about 6%. Six of the seven states that increased production by more than 5% were located in the west. The U.S. milking herd was 64,000 larger than last November; California added 47,000. At this point, it may be worthwhile taking another look at the comment immediately above. “Predictable,” “perhaps Unfortunate” and “scary.” Yes, yes and yes.

**ATTENTION CENTRAL VALLEY MEMBERS - FINAL WEEK FOR SUBMITTING YOUR WDR REPORTS:** *(By Rob VandenHeuvel)* Only one week remains for our Central Valley members to file their initial paperwork with the Central Valley Regional Water Quality Control Board. The deadline for filing the “Preliminary Dairy Facility Assessment” is December 31st. Betsy Hunter, MPC’s Central Valley Representative, has been very active in assisting our members, and she can help you too! There is quite a bit of data to collect for these reports, so please get in touch with Betsy ASAP. She can be reached at 661-205-6721.

**REPORT ON DAIRY PRODUCT EXPORTS:** *(By John Kaczor)* Due to space limitations this report will be included in next weeks Update.

*Milk Producers Council would like to wish you and your family a blessed Christmas!*