

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

DATE: December 14, 2007
TO: DIRECTORS & MEMBERS

PAGES: 2
FROM: John Kaczor

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks -\$.2625 \$1.9300
Barrels -\$.1625 \$1.9975

CHICAGO AA BUTTER

Weekly Change +\$.0050 \$1.3350
Weekly Average +\$.0085 \$1.3320

NON-FAT DRY MILK

Week Ending 12/07 & 12/08

Calif. Plants \$1.8139 5,174,612
NASS Plants \$1.8397 11,736,840

Weekly Average

Blocks -\$.1510 \$2.0135
Barrels -\$.0305 \$2.1015

DRY WHEY

NASS w/e 12/08/07 \$.4552 WEST MSTLY AVG w/e 12/13/07 \$.4425

CHEESE MARKET COMMENTS: Block cheese prices on the CME suffered their second largest weekly drop this year -- and the second largest in 3 years. After 4 weeks of wild price swings, it looks like buyers are having the last word: right now they have enough cheese on hand, maybe at any price. That was expected and that's o.k. The market is unsettled. Time is needed to allow manufacturers and buyers to get a sense of how well the holiday sales have been and to look to their post-holiday needs. The wide difference between current prices and the weekly average is expected to affect sales next week. We may see if the support in the \$1.80 per lb area that was evident earlier this year is still there. It should be; **there is no evidence that the strong market fundamentals for cheese have changed.**

BUTTER MARKET COMMENTS: Butter prices this week were steady to slightly higher on the CME. That is a very positive sign, but really does not reflect the underlying weakness in the butter market. Production of butter is heavy, and the holiday sales season is all but over.

NONFAT DRY MILK: Sales have slowed, production continues to increase, and prices continue to slip downward. This is a market that is out of sync. More domestic buyers now appear to be willing to fill their needs in the spot market rather than commit themselves in an uncertain market. More product is reported to be backing up and re-sold, and inventories are building. Exports for the January-October period are about 19% **lower** than last year, but October's report contained a big surprise: the average price for the 43.8 million lbs exported was **\$1.96 per lb**, up \$.30 from September's average. Because the CMAP and NASS prices began their sharp downward movements in late October, the report on November's exports should show if prices set under fixed price contracts for exports ever do exceed domestic prices.

WHEY MARKET COMMENTS: This market is steady, sales are steady, and prices are steady. Sales volume is still mostly export-based. USDA reports that domestic usage is slow and buyers are delaying making future commitments. Inventories continue to edge upward. California producers should note that whey prices no longer will affect the price level for the 45% of California milk used to produce cheese, although a committee is being put together to study the issue. Credit for the decision to remove the whey component from the cheese milk formula goes to those "slash and burn" CDFA program regulators in Sacramento.

FRED DOUMA'S PRICE PROJECTIONS...

Dec 14 Est: Quota cwt. \$20.82 Overbase cwt. \$19.12 Cls. 4a cwt. \$19.11 Cls. 4b cwt. \$18.67
Last week: Quota cwt. \$20.96 Overbase cwt. \$19.26 Cls. 4a cwt. \$19.09 Cls. 4b cwt. \$18.97

CDFA ANNOUNCES SPECIAL COMMITTEE TO ADDRESS WHEY VALUATION (By Rob VandenHeuvel) This week, CDFA Secretary A.G. Kawamura announced the formation of a “special committee” to address the task of finding an appropriate whey value calculation in the class 4b (cheese) formula. The letter sent by Secretary Kawamura said the committee would “review all possible approaches to developing a whey pricing system that reflects world markets while not creating severe negative impacts on cheese processors.”

This announcement comes after you – the dairy producers throughout California – banded together in a letter-writing campaign expressing your strong disagreement with the recent decision, which will immediately transfer *millions of dollars* from California producers to the cheese manufacturers.

The letter also announced that CDFA would not be changing their hearing results, despite a “request for reconsideration” filed by attorneys for Western United Dairymen and publicly supported by MPC. Obviously, it would seem fair and appropriate to delay any huge, unjustified transfer of wealth from producers to processors until *after* the “special committee” is able to delve more deeply into the issue. But as we’ve seen before, “fair and appropriate” isn’t always the name of this game.

Milk Producers Council is excited about the opportunities this committee could present – if it is managed correctly. In order for this committee to be successful, both sides need to come to the table and work in good faith. MPC has nominated three individuals for inclusion on this committee. Our organization has a long history of bringing new and innovative solutions to the table when it comes to difficult milk pricing problems. I encourage you to read MPC’s nomination letter, which is posted on our homepage: <http://www.MilkProducersCouncil.org>.

On a related note...Producers and processors will also be gathering next week to discuss the outlook for dairy processing plant capacity in California. On Wednesday, December 19th, Western United Dairymen and the Dairy Institute of California will be hosting an open forum to shed some light on the concerns and challenges we face in California with regard to our ability to process our raw milk. If any producers are interested in attending this forum, these are the details:

WHEN: December 19, 2007 – 10:00 a.m.
WHERE: Centre Plaza at the Doubletree Hotel, Pistache/Ginkgo Rooms
1150 9th Street, Modesto, CA

REVIEW OF INTERNATIONAL SALES: (By J. Kaczor) The review of international sales of nonfat dry milk, promised last week, will be incorporated into a review of exports of other major dairy products, and will be included in next week's *Update*.

End