Milk Producers Council

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TO: DIRECTORS & MEMBERS **FROM: John Kaczor**

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE
Blocks +$.0825 $2.0800
Barrels +$.0500 $2.0300

Weekly Average
Blocks +$.0810 $2.0490
Barrels +$.0605 $2.0205

CHICAGO AA BUTTER
Weekly Change +$.0300 $1.5000
Weekly Average +$.0310 $1.4880

DRY WHEY
NASS w/e 5/10/08 $.2638 **WEST MSTLY AVG** w/e 5/15/08 $.2800

NON-FAT DRY MILK
Week Ending 5/08 & 5/09

Calif. Plants	$1.2841	14,577,589
NASS Plants	$1.3094	19,461,373

CHEESE MARKET COMMENTS: Weekly average prices for blocks and barrels on the CME this week again rose above $2.00 per lb. – for the 6th time in the past 11 months. Lower production and continuing exports explain this remarkable strength. The pattern for the past year has been for prices to remain above the $2.00 level for a week or so and then to fall back to around the $1.80 level for 6 to 8 weeks and then move back up. Production of cheddar has been easing down for some time, but the recent shortages are fully explained by the closing of the Corona plant. Production increases in other states are beginning to make up that difference. Recent export volume, representing little more than 2% of U.S. production, is not believed to be a significant contributor to the strength in cheddar cheese prices.

BUTTER MARKET COMMENTS: The continuing high production and rising inventories of butter appear to be less of an issue than questions about adequate supplies later this year. While the pattern of butter prices on the CME from March to the present is very similar to last year's pattern, when prices peaked in June, the reasons for this year's strength are very different. Last year, domestic butter sales were very strong through May, and then export sales began to rise in response to shortages overseas. This year, domestic sales are flat and strong export sales fully explain the current market strength.

NONFAT POWDERS: The continuing heavy exports of nfdm and skim milk powders finally may be having an affect on domestic prices. The national average price for nfdm last week rose by more than 3 cents per lb. The recent monthly average volume has been at about 100 million lbs – and does not include sales affected by long-term contracts or sales of skim milk powder. The California plant average price increased by about a half cent. The western spot market, reported by DMN, this week ranged from $1.29 per lb to $1.40 per lb. Production of nfdm in California should begin to level off as the major milk supply management programs begin to take effect.

WHEY MARKET COMMENTS: Questions continue to be asked about what happened to the whey products market. Exports of dry whey continue well below last year's levels and domestic sales are said to be only "fair." It's not a matter of too much supply because production of the full line of whey products has been following the moderate production pattern of cheese. Prices for dry whey, whey protein concentrates, and lactose are at, nearing, or below where they were last year at this time.

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FRED DOUMA'S PRICE PROJECTIONS…

May 16 Est.	**Quota cwt. $18.29**	**Overbase cwt. $16.59**	**Cls. 4a cwt. $15.05**	**Cls. 4b cwt. $18.33**
Last Week:	**Quota cwt. $18.05**	**Overbase cwt. $16.35**	**Cls. 4a cwt. $14.78**	**Cls. 4b cwt. $17.99**

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FLUID MILK USAGE IN MARCH: 3.4% LOWER THAN LAST YEAR: *(By J. Kaczor)* In last week's article on usage of March's milk production, it was noted that USDA had not yet assembled their estimate of Class 1 usage. Today's Dairy Market News reports a decrease of 3.4% compared to March 2007. This is the third straight month where Class 1 usage has decreased. The average retail price for fluid milk in March, reported by the U.S. Bureau of Labor Statistics, was $.78 per gallon above last March.

CONGRESS PASSES A "VETO-PROOF" FARM BILL: *(By Rob VandenHeuvel)* This past week, both the House of Representatives and the Senate approved a five-year Farm Bill that will cost taxpayers about $300 billion. This bill, which sets our federal farm policies for the next five years, now goes to President George W. Bush, who has indicated that he will veto the legislation. This veto, however, will be short-lived as both the House and Senate have more than enough support for the bill to override the president's veto.

This Farm Bill is quite frankly a big "zero" for dairy. Yes, there are some funds in the bill that could help dairies as we comply with environmental regulations, but in terms of making real policy improvements, the bill is amazingly silent. It does nothing to address the rapid rise in feed costs – in fact, the bill extends the ethanol tariff (a tariff that was scheduled to expire this year), which prevents most foreign ethanol from being imported into the U.S., forcing more of our domestically-grown corn into fuel tanks and away from cows!

The bill also does nothing to address the steep volatility we've seen in our milk price. The only two programs to address the price of milk are the MILC program (which as you know is skewed to smaller dairies outside the Western U.S.) and the "price support program", which even after some reforms will remain at $9.90 per cwt. – can Congress really call that a "price support" when many say it costs $16+ per cwt. to produce milk?

Factoring in the lack of any meaningful dairy policy changes, and the harmful provisions in the bill – such as the ethanol tariff extension and the "forward contracting" this bill would allow in Federal Orders – Milk Producers Council strongly opposed the bill (http://www.MilkProducersCouncil.org/051408feinstein.pdf). Unfortunately, there was more than enough support in Congress to approve it and send it to the President, but it was very important that MPC and other dairy groups express our opposition to the bill, particularly since the National Milk Producers Federation, a group that represents much of the milk produced throughout the U.S., officially supported the legislation.

With the Farm Bill now behind us, our focus once again turns to other vitally important Federal issues such as our need for an adequate labor force on the dairies and the grossly misguided ethanol policies in the U.S. We look forward to continuing to work with our Congressional Delegation as Congress hopefully addresses both of these items.

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