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

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.0500*	$1.3400
Barrels	*+$.0525*	$1.3625

Weekly Average

Blocks	*+$.0480*	$1.3330
Barrels	*+$.0400*	$1.3080

CHICAGO AA BUTTER

Weekly Change	*-$.0100*	$1.2200
Weekly Average	*-$.0180*	$1.2200

DRY WHEY

WEST MSTLY AVG	w/e 08/13/09	$.3200
NASS	w/e 08/08/09	$.2889

NON-FAT DRY MILK
Week Ending 8/07 & 8/08

Calif. Plants	$.8522	12,923,062
NASS Plants	$.8715	21,532,555

CHEESE MARKET COMMENTS: Prices in the CME continued to increase this week, finishing well above their current support levels. It's still too early to see what the ultimate affect of the temporary support price levels will be. *Dairy Market News* (DMN) analysts note the relatively large amount of cheese in cold storage that was reported at the end of June (by manufacturers and customers), but also are seeing current active trading at increasingly higher prices on the CME spot market by buyers needing product for current orders. USDA's DEIP cheese volume is not having a noticeable affect on market prices because of the small volume allocated to it, and the few bids that have been submitted for export bonuses. Current cheese prices on the CME are now $.26 to $.28 per lb higher than they were just one month ago! These increases, once they are reflected in milk price formulas, should amount to about $2.80 per cwt of milk.

BUTTER MARKET COMMENTS: Butter continues to be the "odd man out" in the upbeat dairy commodity grouping. Prior to USDA's announcement of the higher support prices for cheese and nonfat dry milk, butter was on of the few commodities showing decent price increases, presumably reflecting the combination of lower production levels and steady sales. But, despite heavy trading on the CME, butter prices have been slowly slipping lower. DEIP approved bids thus far total 12 million lbs, but weak food service sales (principally summer resort customers) have cut into commercial sales. DMN analysts expect butter production for the mid-summer months to be sharply lower, reflecting less milk from fewer cows, and summer's heat and humidity affecting lower butterfat content in milk. Generally speaking, supply and demand for butter in the U.S. appears to be fairly balanced.

POWDER MARKET COMMENTS: Prices for sales made last week, reported above, for the two major price series increased by about $.03 per lb. Earlier this week USDA notified the industry that the new support prices apply only to product that is manufactured during the August-October period, and offers of that product will be accepted up to 60 days after manufacture. So nfdm sales over the next four or five months should reflect a combination of inventoried product and some current production offered commercially, for DEIP bonuses, and for exporting, with the majority of current production designated for sales to the CCC. Some DEIP volume is included in the California plant average price (reflecting the sales price plus the bonus to the manufacturer). Total DEIP approved exports thus far total 64 million lbs, with another 87 million lbs still eligible for bonuses. Prices for nfdm on the CME have reached $.9975 for grade A and $.95 per lb for extra-grade. The West's "mostly" average this week is $.9325 per lb.

WHEY MARKET COMMENTS: Prices for dry whey are now above where they were at this time of year in 2005, 2006, and 2008. Export volume, through June, continues to be higher than last year's levels and inventories, reported last week, represent no more than two weeks of production. However, DMN again reports that commercial buyers, at least, are showing resistance to current prices although sales continue to be steady. Exports of whey protein concentrate and dry lactose are also running well above last year's levels, and prices for WPC (34% protein) in August should be above where they were in 2006 and last year. The continuing price increases for WPC and nonfat dry milk could induce further price strength for dry whey, despite buyer resistance.

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FRED DOUMA'S PRICE PROJECTIONS…

August 14 Est:	**Quota cwt. $ 12.22**	**Overbase cwt. $10.53**	**Cls. 4a cwt. $10.53**	**Cls. 4b cwt. $11.22**
Last Week:	**Quota cwt. $ 12.18**	**Overbase cwt. $10.49**	**Cls. 4a cwt. $10.70**	**Cls. 4b cwt. $11.00**

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SOME WIN, SOME LOSE: THE ROAD TO MILK PRICE RECOVERY: (By J. Kaczor) The last three herd removal programs completed by Cooperatives Working Together (CWT) in the past eighteen months removed a total of 176 thousand cows from the U.S. milking herd, and last week's announcement that another 80 thousand cows are signed up for removal by December gives dairy producers real hope. In fact, these mass cow removals are **the industry's only real hope for rebalancing the short term supply of milk with its short term demand.** In addition, USDA's Dairy Export Incentive Program (DEIP) re-activated this May after a five year rest, has shown that offering competitive prices to international customers does work, and may help to keep product inventories from growing even more, although the extent to which the assisted exports of nonfat dry milk compete with unassisted exports can not be determined.

As impressive as CWT's herd removal programs are, USDA's monthly report of milk production, dairy cows, and production per cow show that CWT is climbing a slope that is made slippery by the number of heifers being added by producers who have the means to look forward to the time when milk prices recover and profits return. In the first six months of this year, USDA reported that the number of dairy cows that were culled was 198,400 more than were culled during the same period a year earlier. During this period CWT removed approximately 140 thousand cows and individual producers eliminated, by one means or another, 58,400 more. But USDA reported that the U.S. milking herd in June was only 87 thousand smaller than it was a year earlier. That simple comparison suggests that had no herd expansions occurred during this period the industry would already be two-thirds of the way to its goal (as expressed by some experts) to a net reduction of 300 thousand cows.

This comment and look at where the industry might have been is not intended to be a criticism of anyone who has added cows during this period for any reason. While this industry is heavily regulated, individuals have the right to do what is best for them. **The point intended is that the kind of price depression that is presently being felt by all producers should not have to happen,** is difficult and costly to correct, and can be avoided in the future by putting into place a set of incentives for producers to manage their **individual** output in a manner so that the **collective** industry output is sufficient, but not more so, than what can be efficiently and profitably marketed. You guessed it, this is another reference to some form of an intelligent Growth Management Plan.