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

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.0675*	$1.4975
Barrels	*+$.0650*	$1.4400

Weekly Average

Blocks	*+$.1062*	$1.4875
Barrels	*+$.0835*	$1.4385

CHICAGO AA BUTTER

Weekly Change	*+$.0050*	$1.5000
Weekly Average	*+$.0051*	$1.4970

DRY WHEY

WEST MSTLY AVG	w/e 4/2/10	$.4000
NASS	w/e 4/3/10	$.3822

NON-FAT DRY MILK
Week Ending 4/2 & 4/3

Calif. Plants	$1.0501	16,164,760
NASS Plants	$1.0657	21,474,008

CHEESE MARKET COMMENTS: It was another week of surprising price increases on the CME, supported by light trading. Yesterday, block prices reached $1.51 per lb, but gave up some of the gain today. The pattern for the past few weeks has been buyers presenting bids for cheese and sellers sitting on their hands. It's Puzzling. According to *Dairy Market News (DMN)* analysts, more buyers are working from inventories until prices recede – or if inventories are too low, buying only for immediate needs. CME's class III futures market is a non-believer; that $15.08 per cwt futures milk price for September, mentioned in last week's discussion, moved up only $.02 per cwt after five days of trading which ended with block and barrel prices up by $.08 per lb. DMN says "experienced cheese traders" would not be surprised to see a sharp price correction on the CME **before summer**. Another non-believer are the folks in USDA who evaluate changes in supply and demand by looking first at how much milk is expected to be produced this year compared to last year. This week's update resulted in a second increase in their estimate of milk production for the year, and a second reduction in their projected prices. They now show class III prices averaging only $3.00 per cwt higher than 2009's average, and class IV prices averaging only $2.50 per cwt higher. That's another wake-up call for producers and lenders; if that's going to happen, the milk production side of the U.S. dairy industry a year from now is likely to be considerably smaller than it is presently. Those projections are "static," based mainly on the recent uptick in number of cows producing milk. One likely result of those price **projections** is that many producers won't be around to handle that many cows – and real prices will wind up higher. [One problem with observations like the one just made is that the sequence of events needs to happen in the right order; if that doesn't happen, the whole concept falls apart.]

BUTTER MARKET COMMENTS: Prices were fairly steady on the CME this week. The balance between supply and demand continues to look about even. Seasonal increases in milk production and cream availability are being handled readily – and manufacturers of cream cheese and ice cream are beginning to be more active. Butter futures prices continue to point to higher cash prices through the year. That's not a guarantee, that's market opinion.

POWDER MARKET COMMENTS: The weekly average prices reported to NASS for current sales of nonfat dry milk last week, and to CDFA for all sales, continued to edge upward, with fairly good volume. DMN reports that U.S. manufacturers do not seem concerned with current inventory levels. Current production is trending slightly higher, in line with daily milk production. The April 6th internet auction of milk powders for sales from June through December reflected a strong surge in demand for both whole milk and nonfat powders, each increasing on average by more than $.30 per lb above last month's results. The price for skim milk powder to be shipped in June was $1.74 per lb. DMN reports that spot prices for nfdm, at least in the eastern part of the U.S., responded immediately, but by a lot less than what Fonterra managed to get for June. DMN also reports that New Zealand is basically sold out, but dairy powders are being offered by U.S. and European sellers, with relatively little buying interest being shown. That difference is precisely what Fonterra gave as one of the main reasons why they developed their auction. Expect U.S. prices to begin to move upward, but more slowly than and not nearly as high as what the auction generated. Why? The NASS prices reflect current sales only (although they can include sales whose prices were set along with pre-determined adjusters), and California's prices are mainly for product that Fonterra eventually markets for Dairy America.

WHEY PRODUCTS MARKET COMMENTS: Prices for dry whey on the spot market were steady, and the weekly average price reported to NASS for sales last week was slightly higher than the week before, the first such increase in about two months. The average of the West's "mostly" price was again unchanged. DMN reports that buyers are looking for discounts, but not finding many offers. Comparisons of production of dry whey and whey protein concentrates for February indicate that sales were somewhat lower than production. Prices for WPC (34% protein) were unchanged. Production in February shifted a bit from the lower protein content products to the more concentrated products. Lactose prices are mixed, and wonderfully high for manufacturers. Good products, with good demand.

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FRED DOUMA'S PRICE PROJECTIONS…

Apr 09 Est:	**Quota cwt. $ 14.41**	**Overbase cwt. $12.71**	**Cls. 4a cwt. $13.14**	**Cls. 4b cwt. $12.79**
Last Week:	**Quota cwt. $ 14.15**	**Overbase cwt. $12.45**	**Cls. 4a cwt. $12.98**	**Cls. 4b cwt. $12.31**

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PRICES ON FONTERRA'S INTERNATIONAL AUCTION MOVE SHARPLY HIGHER: *(By J. Kaczor)* The increases were across the board: comparing the prior "spot" month (May) to the current spot month (June), the increase in winning prices were $1.87 per lb for regular whole milk powder (up $.39 per lb), $1.74 for low and medium heat skim milk powder (up $.46 per lb), and $2.26 per lb average for regular and premium anhydrous milkfat (up $.44 per lb). Fonterra's first public comment, by Paul Grave, *g*DT's Trade Manager, was short and to the point: "*Demand across all products was very strong. Prices reflected tightening supply as the Australasian production season draws to a close.*"

The price for whole milk powder has now climbed back to where it was in June 2007, while it was on its way to the all time peak of $2.25 per lb that was reached that October. Scary coincidence, isn't it? Prices for the second and third three month delivery periods were slightly lower for whole milk powder and anhydrous milkfat. Prices for skim milk powder were higher in the second period and lower in the third, finishing at $1.56 per lb.

Grave's comment about the prices reflecting local supply need some thought. Surely Fonterra is aware that whole milk powder production is beginning its run up in Europe and skim milk powder and nonfat dry milk is expected to be readily available in Europe and the U.S. Perhaps he was merely stating a fact, and no implications about future supplies or prices was intended. For me, I'm satisfied that global demand appears to be coming back, and it would certainly be nice to see U.S. exporters begin to get their fair share of the business – provided they do not find ways to insulate the prices they receive for those sales from affecting producers' milk price formulas.

PRODUCERS PACK THE ROOM TO HEAR MORE INFO ON THE DAIRY PRICE STABILIZATION PROGRAM: *(By Rob Vandenheuvel)* This past Tuesday at the Maddox Dairy in Riverdale, CA, a standing-room-only crowd of about 200 producers came to hear Congressman Jim Costa (D-Fresno) and others talk about a bill being drafted that would implement the Dairy Price Stabilization Program (DPSP). The feedback at the meeting was very positive, and it was crystal clear that the producers in attendance want to see Congress get much more active in supporting long-term solutions for the industry, including the Dairy Price Stabilization Program.

This newsletter has devoted a lot of space over the past three years talking about the DPSP (and its predecessor, the Growth Management Plan) over the past year. We've looked at the proposal from many different angles in articles that we've written. But with the idea now about to emerge on the national stage in Congress, I thought it would worth it to reprint an article from our November 20, 2009 issue:

The Dairy Price Stabilization Program
Bringing It Back To Basics
By Rob Vandenheuvel

Since the Spring of 2007, Milk Producers Council has been publicly advocating for a program that would give dairies an incentive to manage their growth in milk production. The program has been called several things – Refundable Assessment, Growth Management Plan, and Dairy Price Stabilization Program – but the concept remained the same.

The basic idea is that given the system of pooling we have in the U.S. where producers are paid the same for the last gallon of milk produced as the first, dairies have an inherent incentive to produce as much as possible, regardless of the market demand for dairy products. This reality means that anytime we have balance in supply and demand (which results in a profitable price), every dairy across the U.S. has the incentive to produce as much milk as possible to "chase" that profit. And given how good our industry has gotten in ramping up milk production, the response to profitable prices is an immediate and rapid increase in production. Since we have no effective tool to get supply back in line with demand, we go through month after month of devastating losses, which eventually result in the necessary production decreases that get our milk supply back in line with demand. This drives the milk price back up and starts the whole process over again. That's the "boom" and "bust" you've been feeling over the last ten years, getting progressively worse with each "bust."

That's where the Dairy Price Stabilization Program comes in. It's a tool that our industry can use to maintain a better supply/demand balance. While MPC has spent considerable time and effort presenting the program to groups around the country and writing articles in our newsletter, my worry is that some of our readers still don't fully understand the basic concept of the program. So in an effort to bring everyone up to speed, I'd like to bring the discussion back to basics and explain the fundamental structure of the program.

Each quarter, two numbers would be announced:

- An "allowable year-over-year growth" in milk production that any dairy can take advantage of without consequence. *(The legislation being drafted allows 3 percent year-over-year growth under most circumstances)*
- A "market access fee" that must be paid by any dairy that wishes to exceed the "allowable growth." *(Based on analysis by Cornell University, the legislation per outlines a set of triggers that would adjust the market access fee based on the economic conditions of the industry. The market access fee in the bill ranges from $0.03 - $0.50 per hundredweight.)* **All the market access fees collected would be distributed as a "dividend" to the dairies that did not exceed their "allowable growth."**

The program would be overseen by a producer board of directors.

And that's it. The rest is up to each individual dairy. Under this program, every dairy across the U.S. would ask the same question: *Do I want to expand my share of the market, and pay a market access fee during the first year of my new expanded production? Or do I want to continue with my current share of the market, and collect my portion of the market access fees that are collected?* **It's that simple.**

This is the point where folks start to ask more questions, and MPC has spent the last three years answering those questions. We've posted a number of frequently asked questions on a website started by the groups that have supported the program (www.stabledairies.com). For those of you that want to explore the program further, I'd encourage you to go to that website. But for the rest of you, the program is really that simple. **It's about providing incentives, not government mandates**. It maintains the individual choice by each dairyman, but allows our industry to grow in a more rational manner. And it gives our industry a tool to respond to sudden drops in market demand without putting our producer sector through another 2009, with equity losses to the tune of $1 billion per month for much of the year.

DAIRIES WORKING TOWARDS CDQAP CERTIFICATIONS NEED TO CALL SOON TO SET UP APPOINTMENT: *(By Rob Vandenheuvel)* Over the last six months, a number of dairies throughout the state have attended California Dairy Quality Assurance Program (CDQAP) certification courses, with the goal of becoming CDQAP-certified and receiving a 50 percent reduction in their annual fees to the water board. The final step in that process is an on-site evaluation by George Salsa, the official third-party evaluator for CDQAP. To set up an appointment with George, you need to call his office at (530) 574-0524. George's office will schedule an appointment with you and provide the checklist you'll need to conduct the evaluation.

George will be conducting these evaluations in the Central Valley throughout the spring and summer. For dairies in Southern California, George has scheduled the week of May 24 – 29 to conduct those evaluations. As a reminder, the dairymen must cover the cost of these evaluations, which is $550 per dairy.

If anyone has any questions, please contact the MPC office at (909) 628-6018.

POSSIBLE BALLOT INITIATIVE SUSPENDING AB32 CURRENTLY COLLECTING SIGNATURES: *(By Rob Vandenheuvel)* The "California Jobs Initiative" is currently collecting signatures, with the hope of being on the November 2010 ballot. This initiative would suspend the provisions of AB32 – the "global warming" legislation that was passed in 2006 – until the unemployment rate in California is at or below 5.5 percent for four consecutive quarters.

The deadline for collecting signatures for this ballot initiative is Thursday, April 15th. If you are interested in supporting this measure by signing a petition, please go to http://www.jobs2010ca.com/take-action/download-petition/, download and sign the petition, and mail it to the address on the bottom of the petition. If you are not able to download the petition, you can call MPC at (909) 628-6018, and we can help get you the petition.