

Milk Producers Council

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TO: DIRECTORS & MEMBERS

HAPPY THANKSGIVING!

FROM: John Kaczor

MPC FRIDAY MARKET UPDATE SPECIAL WEDNESDAY THANKSGIVING EDITION

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0500 \$2.2000
Barrels +\$.0500 \$2.0800

CHICAGO AA BUTTER

Weekly Change -\$.0025 \$1.3725
Weekly Average -\$.0043 \$1.3742

NON-FAT DRY MILK

Week Ending 11/16

Calif. Plants \$1.8962 10,377,820
NASS Plants N/A

Weekly Average

Blocks +\$.0843 \$2.1833
Barrels +\$.0510 \$2.0600

DRY WHEY

NASS w/e 11/15/07 N/A WEST MSTLY AVG w/e 11/21/07 \$.4425

CHEESE MARKET COMMENTS: Prices on the CME continued to increase in this shortened trading week. The \$2.20 price for blocks equals the all-time high that was reached in early 2004. USDA reports that higher than normal export sales are occurring, which is helping to keep inventories steady. Once the holiday orders are filled, prices are expected to settle lower. The first correction is expected to be a narrowing of the 12-cent spread between blocks and barrels. However, there appears to be solid support in the \$1.80 per lb area.

BUTTER MARKET COMMENTS: Sales are reported to be strong, supported by the continuing surge in sales to Western Europe. Prices on the CME edged down this week, but are considered to have good short-term support at current levels. Plant capacity this week is expected to be fully committed. Butter inventories at the end of October fell a bit more than the normal because of the export sales, but are still 25% higher than a year earlier.

NONFAT DRY MILK: The spot market prices eased down again this week, and the California plant average fell more than one cent per lb. Still no reasonable explanation for the sharp price decreases over the past several weeks. USDA says only that sales have slowed, but that doesn't explain the almost instantaneous sharp changes in this huge commodity market that is said to be dominated by large, long-term, contracted sales. Too bad for those who wanted price transparency. Could it simply be a matter of whacking inventory values?

WHEY MARKET COMMENTS: Prices this week continue to be described as steady, and the western "mostly" price edged up a quarter cent. Inventories are reported to be in balance. Excellent. However, prices for whey protein concentrates continue to be weak. WPC buyers are said to be cautiously considering volume and price commitments for 2008.

FRED DOUMA'S PRICE PROJECTIONS...

| | | | | |
|---------------|--------------------|-----------------------|----------------------|----------------------|
| Nov 21 Final: | Quota cwt. \$21.95 | Overbase cwt. \$20.25 | Cls. 4a cwt. \$20.82 | Cls. 4b cwt. \$19.74 |
| Last Week: | Quota cwt. \$21.93 | Overbase cwt. \$20.23 | Cls. 4a cwt. \$20.72 | Cls. 4b cwt. \$19.77 |

BUTTER AND CHEESE INVENTORIES: (By J. Kaczor) USDA reported today on the amount of butter and cheese inventories on hand at the end of October. The news on cheese stocks continues to be very positive.

- The amount of all styles of cheese in October was 1% below a month earlier, and 2% below a year earlier. Perhaps more significantly, the estimated amount of **cheddar cheese** in storage was 3% below September's level, and 2% below a year earlier. As they have for more than 6 months, manufacturers continued to maintain production to fill current sales orders and no more. The supply/demand balance continued to be

close, and prices reflected that tightness.

- While the amount of butter in storage continued higher than last year, it looks like the difference has decreased by more than 10 million lbs, which suggests that those exports to Western Europe were continuing through October.

USDA will release October's dairy product production numbers on December 3rd.

CDFA RELEASES 4a, 4b, PRICE FORMULA CHANGES: *(By J. Kaczor)* Milk prices in California will incur a significant negative impact, effective December 1st, from a combination of increases in manufacturing and transportation cost allowances for butter, powder and cheese manufacturers, and the removal of the whey factor from the formula for determining the price for cheese milk in California. These changes result from the public hearing that was held in Sacramento on October 10th and 11th. **The estimated effect per month on Pool revenue from the price formula changes is \$17.5 million. The estimated effect per month on a 1,000 cow dairy is \$10,300.**

In arriving at its decision, CDFA's hearing panel made it very clear that they knew what they were doing by saying that there ". . . is sufficient reason to justify the increasing spread between Class 4b and Class III prices." The difference between the California Class 4b and federal order Class III prices in October was already \$1.05 per cwt. Had the new formula been in effect, the difference would have been (and will be in the future) close to \$1.79 per cwt.

MANAGER'S NOTE (By Rob VandenHeuvel) Looking at John's figures above, this is a big hit on California dairy producers and we obviously strongly disagree with the panel's findings. MPC will be examining CDFA's report and will provide further analysis of this decision in next week's Friday newsletter.

Finally, attached is the November CARES Newsletter.

Have a wonderful Thanksgiving Day!



Dairy CARES Report

November 2007

www.dairycares.com

‘First wave’ nearly past, but more to come

It has been a busy season for dairy producers in California’s Central Valley. Besides the usual rush of harvest-related activity, producers are coming to grips with the most significant change in dairy environmental regulations in the state’s history. Among the “firsts”:

- November 3 was the first deadline for collecting and submitting water samples from domestic and irrigation supply wells for testing under the new “General Order Waste Discharge Requirements” (WDRs).
- For the first time, dairies must submit an Existing Conditions Report and Preliminary Dairy Facility Assessment as part of the new regulations **by December 31, 2007**.
- The California Dairy Quality Assurance Program has just completed its most extensive outreach effort ever, conducting 21 producer workshops in 10 counties between October 4 and November 15, with nearly 1,100 dairy producers and 250 dairy consultants attending to learn about the regulations and receive helpful information and tools.

California dairy producers are rising to the challenge, setting a new standard for the most environmentally sustainable dairy practices anywhere. New regulations require much more thorough and precise attention to dairy environmental management. California dairies are moving rapidly into a future where manure nutrients are tracked carefully through the system of manure collection and storage, application to crops, and harvest, to ensure that a balance is maintained and groundwater resources are protected. The system includes ongoing monitoring to keep track of water quality trends in and around the dairy. Finally, careful documentation of water storage needs and water use management will now be a part of every dairy operation in the Central Valley.

Various CARES coalition members have worked diligently in cooperation with the CDQAP to offer help to dairy producers in meeting the initial deadlines (November 3, 2007 for sampling and December 31, 2007 for PDFAs and Existing Conditions Report). Yet, even after these first deadlines are met, immediate action will be needed to prepare for the “next wave.” The first set of annual reports is due by July 1, 2008, and they will require more detailed information about land application areas, sampling and analysis plans, and even remediation schedules for some types of interim facility modifications necessary to prevent backflows or improve storage capacity or nutrient balance. There is a lot of work to be done, but dairy industry groups and individual producers deserve kudos for what they’ve done so far to keep California’s dairy industry the most environmentally sustainable anywhere.

CARES is a statewide coalition supporting economic and environmental sustainability for California’s dairy industry. CARES members include the Alliance of Western Milk Producers, Bank of the West, California Dairies Inc., California Dairy Campaign, Crystal Cream & Butter, Dairy Farmers of America-California, Dairy Institute of California, Hilmar Cheese Co., Joseph Gallo Farms, Land O’ Lakes, Milk Producers Council, Saputo Cheese, Turlock Dairy & Refrigeration, Western United Dairywomen, and others. For information about CARES, visit our web site at www.dairycares.com, write dairycares@aol.com or call 916-441-3318.