

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0600 \$2.0500
Barrels +\$.0525 \$1.9900

CHICAGO AA BUTTER

Weekly Change -\$.0175 \$1.2025
Weekly Average -\$.0195 \$1.2020

NON-FAT DRY MILK

Week Ending 2/08 & 2/09

Calif. Plants	\$1.3581	7,957,342
NASS Plants	\$1.3773	17,494,998

Weekly Average

Blocks +\$.0755 \$2.0060
Barrels +\$.0535 \$1.9485

DRY WHEY

NASS w/e 2/09/08 \$.2731 WEST MSTLY AVG w/e 2/14/08 \$.2475

CHEESE MARKET COMMENTS: Prices on the CME this week continued moving up. Blocks on Thursday rose to \$2.05 per lb, and held steady today. Barrels also made a nice move. USDA market watchers say that no one is claiming they know the reason for this price strength. Buyers are said to be delaying making commitments because of the price fluctuations, and the absence of a clear market direction. Most cheese makers, according to USDA, continue to control their output to correspond with expected sales. There is some concern that these higher prices may discourage additional export interest.

BUTTER MARKET COMMENTS: Prices eased down a bit again this week on the CME. Considering the amount of butter being produced and the growth of stocks, \$1.20 butter is not bad. It's interesting that the butter futures prices are about 20 cents higher than current cash prices, 4 months out. At current prices, additional orders for export are expected, which may be what is holding things steady for a while.

NONFAT DRY MILK: Prices continue to fall in a very weak market. The California plant average fell almost 10 cents; the NASS price fell by about 2.25 cents. Unusual price differences between the 2 reports can be explained by the week-to-week changes in the mix of domestic sales and export sales contained in the California report. Recent volume differences between the two suggest that export sales by California plants this year have started on the low side. A difference of 20 cents per lb between the western and central regions on the low end of this week's "mostly" price range is not a sign of a stable and prosperous market.

WHEY MARKET COMMENTS: Domestic demand, which started to sag last year as prices skyrocketed, is starting to firm up, according to USDA this week. Current spot prices are more than 60 cents per lb below last June's record high. It remains to be seen just how much of the business that moved away from wholesome dry whey will return. Export interest continues to be strong, and why not?

FRED DOUMA'S PRICE PROJECTIONS...

Feb 15 Est:	Quota cwt. \$18.83	Overbase cwt. \$17.13	Cls. 4a cwt. \$15.23	Cls. 4b cwt. \$17.56
Last Week:	Quota cwt. \$18.82	Overbase cwt. \$17.12	Cls. 4a cwt. \$15.57	Cls. 4b cwt. \$17.35

EXPORT UPDATE: (By J. Kaczor) Following is a recap of U.S. exports of major dairy commodities reported for November, December, and the year 2007. The volumes in the table represent millions of pounds. The prices are per pound.

**Exports of Major Dairy Products for Recent Months and for the Year 2007
With Comparisons to Year-Earlier Numbers**

	<u>December 2007</u>	<u>November 2007</u>	<u>Year 2007</u>
Butter & Anhydrous BF			
Current Volume	13.231	15.224	85.577
<i>Average Price</i>	<i>\$1.22</i>	<i>\$1.45</i>	<i>\$1.26</i>
Prior Year Volume	0.778	1.241	24.588
<i>Average Price</i>	<i>\$.99</i>	<i>\$.98</i>	<i>\$.80</i>
Nonfat Dry Milk			
Current Volume	50.085	62.690	568.350
<i>Average Price</i>	<i>\$1.85</i>	<i>\$1.97</i>	<i>\$1.47</i>
Prior Year Volume	37.353	35.104	631.837
<i>Average Price</i>	<i>\$.96</i>	<i>\$.96</i>	<i>\$.93</i>
Cheese			
Current Volume	22.577	21.104	219.207
<i>Average Price</i>	<i>\$1.90</i>	<i>\$1.89</i>	<i>\$1.77</i>
Prior Year Volume	14.023	15.749	156.577
<i>Average Price</i>	<i>\$1.59</i>	<i>\$1.66</i>	<i>\$1.56</i>
Dry Whey			
Current Volume	39.862	45.148	584.295
<i>Average Price</i>	<i>\$.60</i>	<i>\$.58</i>	<i>\$.51</i>
Prior Year Volume	39.087	37.451	500.146
<i>Average Price</i>	<i>\$.35</i>	<i>\$.39</i>	<i>\$.32</i>
Whey Protein Concentrate			
Current Volume	18.136	18.560	205.978
<i>Average Price</i>	<i>\$1.29</i>	<i>\$1.11</i>	<i>\$1.14</i>
Prior Year Volume	14.471	12.064	144.674
<i>Average Price</i>	<i>\$.86</i>	<i>\$.76</i>	<i>\$.73</i>

The products included in this table were selected because their prices, directly or indirectly, affect milk prices throughout the country by their inclusion in milk price formulas in California and federal orders. The volume of these products leaving the country is important because it reduces the domestic supply, which should help to increase their value. Anhydrous butterfat and whey protein concentrate volume play an indirect role in the sense that their volume affects the amount of butter and dry whey that is produced.

All in all, it was a very good year for U.S. exports of dairy products. Butter and cheese were the principal volume beneficiaries of last year's milk supply downturn in Western Europe and Australia, although **prices for the full line of products increased sharply during the year.** While shipments are still occurring, it is not clear if new orders for butter and cheese are currently being made. However, the following article covers a situation that may play out well for U.S. exporters this year.

Next week the "scorecard" for high milk price prospects in 2008 will be updated with December's dairy product production, sales, and inventories.

ANOTHER DROUGHT IN A MAJOR EXPORTING COUNTRY; WILL IT HELP U.S. EXPORTS? (By J. Kaczor) It happened unusually fast. Weather conditions in New Zealand, which had been good from July through December, began to turn bad for dairy farmers about 6 weeks ago (hot and dry), are now considered very bad, "a serious drought." USDA's January 4th report on New Zealand, which covered the preceding 2 weeks, said "milk is running between 2-3% ahead of last season and is holding steady," and grazing areas were in pretty good condition. This week's report says milk production is "well below" comparable periods a year ago, and major adjustments by producers are being made. So, even though the Australian dairy industry has almost fully recovered from its drought, it now looks like **the second half of the season** (through this June) for that major dairy product exporting region **could show a net reduction in milk supply compared to last year.** Stocks of butter, powder, and cheese in New Zealand and Australia are reported to be fully committed to regular customers, with little or no spot sales being made and no new contracts being sought. (In fact, Australia purchased about 3 million lbs of cheese from the U.S. in the past 2 months.)

That bodes well for U.S. dairy product exporting interests: a 6-month window of opportunity has opened. However, the flip side of this pretty picture is that **milk production in Western Europe this year is above projections** and exporters there are actively looking to fill the void created by the droughts in southern Asia. While the prospects for U.S. **export volumes** have improved in the near term the competition with Europe may keep **export prices** for nonfat dry milk and dry whey from improving very much. U.S. exports of nonfat dry milk to central and south Asia and western Africa should have an edge over Europe because of the Dairy America/Fonterra contract, but Fonterra seems to have shown a remarkable ability to service higher-priced customers with products sourced from New Zealand. We will watch and hope for the best.

JANUARY MILK PRODUCTION; ON TRACK TO BREAK ALL-TIME RECORD: (By J. Kaczor) According to the report released today by USDA, milk producers milked a net total of 97,000 more cows this January than last. The percentage increase in milk production was 1.9%, or 304 million lbs. Production per cow was up by 15 lbs. Total production for the month was a January high. Bad weather in parts of the U.S. was a factor this year and last. The all-time monthly U.S. record for milk production occurred last March with an increase of only 1% above the previous March, and it looks like that record could be reset this year.

California added 45,000 cows; production per cow was up by 20 lbs; total production increased by 121 million lbs. Except for a spot of heavy rain, the weather in the southwest has been conducive to good milk production. But feed prices have not been, and milk prices are heading south. Four weeks ago, for the 1st time in quite a while, the weekly number of dairy cows culled in the California/Arizona region was higher than the same period a year earlier, and has stayed higher for 3 weeks. That looks like a good plan.

[The next three articles were not meant to be any kind of "series", but after writing them I noticed a theme. Water, air and animal rights – the latest trifecta for the anti-dairy community.]

ENVIRONMENTALISTS FILE LAWSUIT AGAINST CENTRAL VALLEY REGIONAL WATER BOARD: (By Rob Vandenheuvel) It is no secret that California has become an increasingly difficult place to do business. And for the 1,600+ dairy families in the Central Valley, the past six months has been an eye-opening experience with the launch of the new regulations coming from the Regional Water Board. But just in case you were wondering if all this regulation has appeased the anti-dairy groups in California, today they demonstrated that they have absolutely no shame.

Today, a group of anti-dairy extremists filed a lawsuit against the Central Valley Regional Water Quality Control Board. The lawsuit alleges that the new regulations that Central Valley dairies have already begun implementing are not adequate and fail to protect California's water quality. Central California is already one of the most heavily regulated areas in the country for dairies to operate, with dairy families forced to spend tens of thousands of dollars to comply and countless hours filing paperwork. It is obvious to any rational observer that these environmental groups will not be content until every last dairy is driven out of California. But hey, why should they care about where the cows are...they buy their milk from the store!

MPC, through CARES, was an active industry advocate in the development of the current water regulations, and will continue to closely monitor the situation. This afternoon, CARES released a press statement in response to the lawsuit. The statement can be seen on our website: <http://www.milkproducerscouncil.org/021508cares.pdf>. We will update our readers as this story developments.

FEDERAL JUDGE DELAYS RULING IN VANDERHAM CASE PENDING EPA ACTION: *(By Rob Vandenheuvel)* As this newsletter reported earlier this month, EPA issued a “proposed rule” that would correct an error on their part which ultimately resulted in a federal judge ruling in favor of an environmental group in their legal case against C&R Vanderham Dairy. The case has to do with air quality permits and legislation approved by the California legislature in 2004.

With EPA’s “proposed rule” making its way through the administrative process, the Judge in Vanderham case has put the issue on hold. This is a very positive development – not only for the Vanderhams, but for virtually the entire California dairy industry, which has been left vulnerable to lawsuits due to this error on the part of EPA.

MPC JOINS FELLOW CALIFORNIA AG GROUPS IN FIGHTING EXTREME ANIMAL RIGHTS ACTIVISTS: *(By Rob Vandenheuvel)* Milk Producers Council has joined a growing number of agricultural groups in forming the “Californians for Sound Farm Animal Agriculture.” This group has been formed to combat the efforts by extreme animal rights activists to restrict and ban many modern farming practices. They are currently in the process of gathering signatures to ban the use of calf hutches, pig crates and chicken cages. These groups would like nothing more than to shut down modern agriculture in California, and MPC is excited to be part of an industry coalition aimed at protecting the sound agricultural practices that dairies engage in today. This ag coalition is fairly new, and as more details emerge on their efforts and activities, we will keep you updated.

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