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

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*- $.0050*	$1.1325
Barrels	*+$.0250*	$1.0800

Weekly Average

Blocks	*- $.0110*	$1.1325
Barrels	*- $.0010*	$1.0660

CHICAGO AA BUTTER

Weekly Change	*+$.0250*	$1.2650
Weekly Average	*+$.0165*	$1.2520

DRY WHEY

WEST MSTLY AVG	w/e 05/14/09	$.2600
NASS	w/e 05/09/09	$.2301

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

Calif. Plants	$.8105	17,125,533
NASS Plants	$.8275	20,215,308

CHEESE MARKET COMMENTS: CWT's announcement that a record number of cows may be removed through its next herd removal program surprisingly didn't have a noticeable effect on cheese prices this week on the CME. Barrel prices did move up $.025 per lb, but still ended the week $.02 per lb below the price support level. Blocks lost a half penny. The price spread between blocks and barrels is now within a reasonable range. The big news for the week is the huge number of carloads of product that changed hands: 49 before the CWT announcement and 49 more on Thursday and Friday. That work is not finished. The CME market is thin and fickle; it sometimes over-reacts, and sometimes it just sits there. Right now, it looks like it's hosting a fight between sellers who are slinging carloads of cheese at buyers who are happily hauling them off. The lack of price movement this week actually may be a continuing reaction to the recent report that cheese production increased by so much in March. Buyers, look to your needs. Memorial Day, Fourth of July, summer picnics, backyard barbeques – all require Cheddar cheese.

BUTTER MARKET COMMENTS: Despite reports that domestic butter sales are only fair to average, export sales have all but vanished, and butter production is seasonally high (although lower than a year ago, through March); butter prices continue to increase week by week. This week, another $.025 per lb was added to the price on the CME. *Dairy Market News* (DMN) reporters say most of their contacts do not seem concerned about the steady rise in prices. Cream supply is well-balanced: plenty is moving into ice cream operations, and milk production is approaching its seasonal low period which offsets the closing of most schools for the summer.

POWDER MARKET COMMENTS: According to DMN, demand for nfdm is brisk and the market tone is firm. Production is steady and sales to the CCC continue to wind down. CWT's announcement that a significant reduction in milk output should be expected by mid-summer should also mark the beginning of the end of nfdm sales at support price levels – and it wouldn't be much of a stretch to see more rescissions of offers that have already been made to the CCC. Once those sales stop, a veritable anchor holding down nfdm prices in the West should be released, to allow prices to at least drift higher. That could even narrow the difference between the national price and the California plant average. Talk about side benefits. Prices for buttermilk powder are reported to be very strong and should continue to rise in anticipation of lower production, in line with lower production of butter.

WHEY MARKET COMMENTS: Demand for dry whey for export continues to be strong, and domestic demand is reported to be at least steady. Production has been trending down, and the current balance between supply and demand is pointing to continuing price increases. No, nothing like the 2007-2008 price bubble, but fair prices, well above the cost of producing the product. Prices for whey protein concentrate are reported to be steady, as some buyers continue to resist paying higher prices. More manufacturers are reported to be considering shifting some of their plant capacity to the production of dry whey. The West's "mostly" average price has recovered to $.26 per lb.

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FRED DOUMA'S PRICE PROJECTIONS…

May 15 Est:	**Quota cwt. $ 11.45**	**Overbase cwt. $ 9.75**	**Cls. 4a cwt. $ 9.99**	**Cls. 4b cwt. $ 9.54**
Last week:	**Quota cwt. $ 11.44**	**Overbase cwt. $ 9.74**	**Cls. 4a cwt. $ 9.94**	**Cls. 4b cwt. $ 9.56**

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A WEEK WORTH TALKING ABOUT: *(By J. Kaczor)* The news of interest to milk producers this week ranged **from strongly negative** (exports of dairy products in March), **to mixed** (Fonterra's May 12th internet auction results), **to strongly positive** to a point verging on disbelief (CWT's announcement of the number of cows to be removed from production). Here's what we have to digest.

- On Tuesday, USDA's Foreign Agricultural Service reported dairy product exports during the month of March. The numbers were in line with the downward trends that began late last year, when the effects of the tightening of credit availability around the world and the weakness in most major and emerging economies combined to sharply lower demand for virtually all commodities – dairy and non-dairy alike. The following table includes dairy commodities that we have been following. The numbers for exports are millions of lbs. The percentage changes are comparisons to the same periods a year earlier.

	March 2009		**January - March**
Product	*Lbs Exported*	*Pct Change*	*Pct Change*
Dry Whey	44.5	+23.4	+19
Whey Protein Concentrate	14.1	-20.9	-13
Cheese (all types)	17.4	-32.6	-26
Nonfat Dry Milk & SMP	34.7	-55.2	-52
Cheddar Cheese	1.3	-77.9	-56
Butter & Butterfat Products	3.3	-84.2	-87

  Dry whey was the clear exception to the general scarcity of buyers. Last year, increases in exports of cheese and butterfat products helped keep supplies for the U.S. market in balance until late November. Heavy exports of nonfat dry milk and skim milk powder helped until September but offers to the CCC at the support price began to be made in early October and have continued since. It's important to keep in mind the reason for last year's boom in U.S. export volume was a windfall that resulted from the combination of factors: a very weak U.S. dollar, product shortages from normal suppliers, and buyer over-reaction. Unfortunately, product shortages and buyer over-reaction are not expected to recur this year, and few U.S. manufacturers and marketers have yet to show an ability to compete internationally without having a significant price advantage.

- Fonterra's latest monthly auction also occurred on Tuesday, and contained two pieces of good news: there were a record number of bidders participating, which Fonterra takes as a sign that the auction process is approaching the level of importance hoped for, and the winning price for regular whole milk powder of commodity quality for the first delivery month (July) increased for the third month in a row, by close to $.02 per lb. However, prices for the following six months of delivery decreased from prices that were bid in April. The average price for all products and all delivery months, extending out to January, fell by 4.1%. Fonterra attributes those results to the uncertainty surrounding current global economic conditions, and said they expect prices to continue to "cycle around current levels" until – well, until economic conditions become less uncertain.

- On Wednesday, CWT announced it had "tentatively" accepted 388 of 538 bids from producers wanting to stop producing milk for at least a year. The number of cows involved is about 103,000, making it the largest yet. This result is extraordinary because of the substantial increase in the national culling rate that had begun last November which, in combination with CWT's winter herd removal program that was completed in early February, had taken the U.S. dairy herd in March to a level below where it was a year earlier. The "tentative" part of the announcement reflects CWT's experience that some bids for some reasons are rejected because of what is found during the on-farm audits that are part of the approval process.

Regardless of the final number of cows that are removed, this action amounts to a very big and very favorable development for U.S. dairy producers. How big? By the time the last herd is removed from production, which should be in early August, **about 150,000,000 lbs of milk per month** will no longer be available to butter, powder, and cheese plants. Converted to product lbs, that's equivalent to some combination of about 6.5 million lbs of monthly butter production, 12.5 million lbs of monthly powder production, and 15 million lbs of monthly cheese production. **At the least, this reduction should mark the end of the current round of nfdm sales to the CCC.** If this herd removal program doesn't do all that is expected of it, CWT said they have the resources and the willingness to do it again this year. [Note to producers: be thoughtful about entering into fixed priced contracts with your milkplant or coop until you have a reasonably good sense and some good advice about what could happen to milk prices this year. Among other things, that means do not rely upon projections made by any source inside USDA because of their track record of almost always looking back instead of forward.]

THIS WAS ALSO A BIG WEEK FOR THE GROWTH MANAGEMENT PLAN: *(By Rob Vandenheuvel)* This week brought some very big developments in our continuing efforts to build national support for a program like the Growth Management Plan (GMP).

As I've reported in this newsletter in recent weeks, the Holstein Association USA has taken the concept of the Growth Management Plan, added some additional detail and unveiled it as the "Dairy Price Stabilization Program" (DPSP). A summary of the DPSP can be found on their website at: http://www.holsteinusa.com/association/dairyprice.html. Like the GMP, this program would create a tangible, financial incentive for dairies to manage their milk production. This simple incentive would give dairymen a reason to manage how much milk is going into their tanks – something that most dairymen across the country have no incentive to do.

The involvement of the Holstein Association in this discussion is a tremendously positive development, as they represent 30,000 members from every dairy area throughout the U.S. **At the MPC board meeting this past Tuesday, our board voted unanimously to support the efforts of the Holstein Association and work together to build national support for the DPSP**.

Another huge development this week was the announcement by National Milk Producers Federation that they are setting up a task force that will, among other things, examine proposals like the Dairy Price Stabilization Program. NMPF is a national leader in the dairy industry, and having them engaged in this debate is a huge step forward. If you haven't already seen their press release, you can find it on their website: http://www.nmpf.org/latest_news/press_releases/task_force051109.

According to a letter this week from DFA President and CEO Rick Smith to his members, the DFA corporate board is also setting up a task force to look at "supply management/price stabilization programs and policies." As the largest cooperative in the U.S., DFA carries tremendous power in our industry. With that power comes tremendous responsibility. It is extremely encouraging to see them actively involved in exploring these proposals that would address the fundamental problem of milk price volatility.

And finally, today a group of producers from the northeast U.S. – Dairy Farmers Working Together – formally announced their support for the Dairy Price Stabilization Program. You can read the press release on their website: http://www.dfwt.org.

Across the country, the long-term future of the dairy industry is being mapped out as we speak, and California's industry leaders need to be engaged in this process. Every producer in California ought to be calling their co-op and trade association leadership and asking them what they are doing to address the single largest threat to this industry – massive boom/bust volatility in our milk price. **Our leadership needs to hear from you, the producers.**