

Milk Producers Council

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0650 \$2.1400
Barrels +\$.0900 \$2.1000

Weekly Average

Blocks +\$.1109 \$2.1294
Barrels +\$.0980 \$2.0700

CHICAGO AA BUTTER

Weekly Change -\$0.0050 \$1.4175

Weekly Average

-\$0.0075 \$1.4225

NASS DRY WHEY

w/e 9/01/07 \$.5503

NON-FAT POWDER

Grade A & Extra Grade
California Weekly Average Price

Week Ending	Price	Volume
August 24	\$2.0367	7,447,939
August 31	\$2.0680	7,877,746

CHEESE MARKET COMMENTS: The cheese industry seems to be in the middle of a "perfect storm." Over the past several months, cheese manufacturers have apparently been controlling output relative to demand. This has resulted in steady increases in production, very little increases in inventories, and has apparently sent the speculators out to pasture. **The market currently is very strong**, as is witnessed by the price increases reported above. Last week's price spread between barrels and blocks (7.5 cents per lb) narrowed this week, with barrel increases outpacing blocks. Buyers are said to be looking for opportunities to drag prices down, but there doesn't seem to be any at this time. The pattern of prices on the CME, which earlier in the year appeared to be on the verge of following 2004's crash from its high of \$2.20 per lb, is no longer looking for a precedent -- it is now setting its own.

BUTTER MARKET COMMENTS: Considering USDA's publication this Wednesday of the unseasonable increase in July's butter production, and the earlier publication of rising inventories, the butter market responded with remarkable stubbornness this week. The 1 cent decrease on Thursday was a welcome surprise; it could have been a sharp movement downward. There are continuing reports of increased exports to Western Europe, but no volumes have been reported. **The fundamentals for butter are not strong at this point!**

NONFAT DRY MILK: Are games being played with nonfat dry milk sales reports? Price reports for nfdm for last week's sales show the national average NASS price decreasing by about 2.25 cents and the California plant average price increasing by more than 3 cents, and is now above the national average. A look at the California pattern of sales and average price, compared to the national pattern of sales and average price, suggests that **Dairy America may be temporarily shifting exports of nfdm to its member plants outside of California -- or is simply deferring sales for the export market until after a decision is made by CDFA on whether to prohibit reporting of long-term contracted sales.** The affect of either of these two actions would result in the patterns that we have been seeing now for several weeks. Dairy America would like CDFA to believe that there is no need to stop reporting sales whose prices are out-of-date, and it appears that they may have found a way to make it appear that that is the case. CDFA staff have said they have the ability to ascertain **the name on every invoice** that is included in Dairy America's reports. They should do that. If either of the two possible deceptions outlined above is found, the hearing panel should note that in their findings, and discard the recent price patterns from consideration.

WHEY MARKET COMMENTS: The slide in prices for dry whey continues. The latest average of the West's "mostly" price series is now \$.4575, down \$.0275 per lb. USDA's comments on the market is that buyers continue to press and probe for lower prices. Interest from buyers for the export market is said to be growing. Whey inventories have grown, but only represent about 18 days of production. The worldwide need for dairy proteins is

still there, but something strange is happening out there.

FRED DOUMA'S PRICE PROJECTIONS...

Sept 07 EST: Quota cwt. \$22.21 Overbase cwt. \$20.51 Cls. 4a cwt. \$21.72 Cls. 4b cwt. \$20.40

POST-HEARING BRIEFS ON THE NONFAT DRY MILK ISSUE HAVE BEEN FILED (by J. Kaczor)

Considering that there were a total of 4 different proposals submitted in the hearing, and considering just how important it is to have CDFA prohibit the reporting of "stale" sales of nonfat dry milk in order to prevent another give-away to the exporters at the expense of California producers, it is surprising that **only 2 briefs were filed**. MPC filed its brief on Tuesday. CDI filed the other one. You can read them by going to CDFA's website: http://www.cdfa.ca.gov/dairy/dairy_hearing_posthearingbriefsAug2007.htm.

AT LOOK AT JULY'S MILK PRODUCTION AND USAGES: (J. Kaczor) The following table compares milk production and major commodity production for the U.S. and California for July 2006 and 2007. All production figures represent 1,000 lbs. Percentage changes are compared to figures for July of the prior year.

		<u>U.S</u>	<u>Pct.</u> <u>Change</u>	<u>California</u>	<u>Pct.</u> <u>Change</u>
<u>Milk Production</u>					
	2006	15,168,000	+1.5	3,122,000	-0.3
	2007	15,736,000	+3.7	3,453,000	+10.6
<u>Milk Usage</u>					
Cheese	2006	775,398	+3.9	175,483	+0.4
	2007	795,387	+2.6	195,827	+11.6
Cheddar Cheese	2006	265,953	+5.8	40,344	-1.9
	2007	253,396	-4.7	40,476	+0.3
Dry Whey	2006	90,663	+1.4	8,582	-13.9
	2007	90,561	-0.1	7,331	-14.6
Whey Protein Conc.	2006	34,108	+8.7	n/a	
	2007	35,704	-6.7	n/a	
Nonfat & Skim pwd.	2006	119,494	-15.2	54,558	-8.6
	2007	140,359	+17.9	64,297	+17.8
Butter	2006	94,729	-3.3	26,008	-17.4
	2007	115,397	+21.8	39,960	+10.7

The first point that stands out in this table is the year-to-year comparisons for California; the summer of 2006 was noted for the intense heat throughout the state, heat-stressed cows, and reduced production per cow. The percentage increase is misleading; 2007's milk production is **averaging** only 3.3% more per year over the past 3 years. But the change in usage of the 2007 milk supply is interesting in that it seems to be evenly allocated to butter-powder and cheese facilities, whereas butter-powder took a big hit in 2006. Considering the huge jump in total cheese production this year, there is definitely a continuing move away from dry whey, and **possibly** into

concentrated whey products. (CDFA does not publish figures for the concentrated products. CDFAs staff have much to do in the way of analyzing what happens to **all** the whey that is produced in the state, before the October 10th hearing on the 4b price formula.) The other notable points about the California figures is, first, **California cheese production is now within one-half a percent of Wisconsin's total**, and, second, the production of cheddar continues to decrease. In July, cheddar accounted for only 20% of the state's total cheese production. That means that no more than about 10% of California's cheese sales (block cheddar) is used to determine the minimum milk price used to produce all cheese in the state. The federal order formula for cheese milk, on the other hand, uses block and barrel prices.

On the national level, one of the major questions should be what's happening to most of the whey this year.

SANTA ANA REGIONAL WATER BOARD APPROVES NEW DAIRY PERMIT *(By Rob VandenHeuvel)*

Today, the Santa Ana Regional Water Quality Control Board approved a new general permit for all dairies operating in both the Chino/Ontario area and in the San Jacinto region. Milk Producers Council has spent countless hours working with the Regional Board, and those efforts are apparent in the dramatic improvements we've seen from the first draft of the permit to the final version approved today. There are some new items in the permit that producers may not be familiar with, but MPC is ready and able to assist our members in understanding these new requirements and helping to comply with them. Keep an eye out in next week's newsletter for more details on the permit and as always, if you have any questions, please call Rob VandenHeuvel at (909) 628-6018.

CENTRAL VALLEY AIR DISTRICT ACTIVELY INSPECTING DAIRIES *(By Betsy Hunter, MPC Central Valley Area Representative)*

The San Joaquin Valley Air Pollution Control District is actively inspecting dairies up and down the Central Valley. Up until now, the Air District has attempted to be more flexible since the air regulations are relatively new to the Central Valley dairies. But the Air District now feels that dairies have had sufficient time to be educated and informed of the air rules. The grace period for flexibility in the eyes of the Air District is over and dairies are being treated as any other source. This includes substantial fines if you are operating without the appropriate permits.

Each producer needs to review your air permit and be sure that all of your "emission sources" are listed on your permit. The most common oversights thus far are emergency backup generators. These generators need to be listed on your "Permit to Operate" (PTO). Collect your Air District paperwork and review it. If you think you might be missing something, please contact Betsy Hunter at (909) 628-6018 and she can review the paperwork with you.

When you are notified that your farm will be inspected, have your air permit handy and be prepared to supply the inspector with cow numbers. The figures the Air District is looking for are the cow numbers reported on your PTO: Total Milking Cows, Dry Cows, Heifers (15-24 months old), Heifers (7-14 months old), Heifers (4-6 months old), and Calves (under 3 months old).

LOOKING DEEPER INTO LAST MONTH'S VICTORY OVER ANTI-DAIRY ACTIVISTS *(By J.P. Cativiela, CARES)*

The new San Joaquin Valley air quality regulations (passed summer of 2006) definitely impose more costs, labor and paperwork on dairy producers. However, these rules were a balanced attempt to reduce emissions without putting dairy producers out of business. Known as Rule 4570, these regulations were built on a foundation of scientific and economic research, a year-long public process, and tough negotiations on all sides. This required a lot of effort by CARES coalition members, including Milk Producers Council.

Before the ink was dry, anti-dairy activists sued the air district, asking a judge to throw out the balanced rules and replace them with Draconian measures, such as enclosed barns and mandatory biogas digesters. **So it was very good news on August 10 of this year when a Fresno County judge told them no – tossing out their lawsuit, and thoroughly rejecting the anti-dairy group's claims. We can only hope this will end the activists' baseless attacks on the nation's toughest dairy air regulations.**

This is an example of the dairy industry working together and addressing an issue comprehensively and from beginning to end. When it was necessary to litigate, the coalition did so, not to avoid regulation but to ensure it was fair and science-based. Dairy groups didn't just say they supported science – they invested in a program to find the answers, and made sure regulatory agencies shared in the financing and oversight of the research effort. We communicated diligently and effectively with the news media and opinion leaders throughout the process, to make sure that decision-makers could “connect the dots” on the important scientific and economic issues. Then our coalition worked through the California Dairy Quality Assurance Program to conduct outreach to producers so they knew about the regulations and how to comply – one of the most successful regulatory outreach efforts in the air district's history.

And finally, we returned to court one more time – this time side-by-side with the air district – to successfully defend this reasonable regulatory strategy. The CARES coalition will continue to monitor implementation of Rule 4570 and to vigilantly defend regulations that are both economically and environmentally sustainable.

IMMIGRATION PLAN BLOCKED TEMPORARILY, AG-JOBS BILL STILL THE ONLY LONG-TERM SOLUTION *(By Rob VandenHeuvel)* Last week, a federal judge in San Francisco temporarily blocked the Department of Homeland Security's plans to implement a new “no-match” rule that would force employers to terminate any employee who has a discrepancy with their Social Security Number that they cannot clear up within 90 days. Implementation of this new rule was postponed until the matter can be fully discussed at a court hearing on October 1. While this delay provides employers with additional time to prepare for the new rule, it does not diminish the fact that the only way to truly address this issue is for Congress to pass the Agricultural Job Opportunities, Benefits and Security Act (the “AgJOBS Bill”). Senators Diane Feinstein and Barbara Boxer have been pushing this legislation, but they need to hear from their constituents. Please call both of these Senators' offices and voice your support for the AgJOBS legislation. Senator Feinstein's office: (202) 224-3841; Senator Boxer's office: (202) 224-3553.

End