

Milk Producers Council

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DATE: November 16, 2007
TO: DIRECTORS & MEMBERS

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MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks +\$.0950 \$2.1500
Barrels +\$.0275 \$2.0300

CHICAGO AA BUTTER

Weekly Change -\$.0100 \$1.3750
Weekly Average +\$.0265 \$1.3785

NON-FAT DRY MILK

Week Ending 11/09 & 10

Calif. Plants \$1.9066 5,015,479
NASS Plants \$1.9212 12,191,452

Weekly Average

Blocks +\$.0670 \$2.0990
Barrels +\$.0450 \$2.0090

DRY WHEY

NASS w/e 11/08/07 \$.4387 WEST MSTLY AVG w/e 11/16/07 \$.4400

FRED DOUMA'S PRICE PROJECTIONS...

Nov 16 Est: Quota cwt. \$21.93 Overbase cwt. \$20.23 Cls. 4a cwt. \$20.72 Cls. 4b cwt. \$19.77

CHEESE MARKET COMMENTS: The strong short-term rush to belatedly fill cheese orders continued this week. Prices for blocks and barrels again advanced nicely. Those buyers who had the foresight earlier this year to maintain adequate inventories are now reaping a tidy and well-earned profit. The big story so far this year continues to be the moderate production of all cheese in the U.S. and **the continuing decrease in production of cheddar**. Since cheddar is the only cheese product traded on the CME, that market is becoming thinner by the month and more open to abrupt, and possibly sharp changes in direction caused by those who have an interest in having that happen. Because of the risk of losses on inventory, production of cheese, at present price levels, is not expected to move sharply upward. That opportunity lies ahead, possibly not before the end of the holiday/sports sales season.

BUTTER MARKET COMMENTS: Seasonal sales are good, as expected. Cream supplies are in balance, with the surplus from reduced ice cream production being used for seasonal commercial usage. Prices are firm. Some plants and brokers may still be filling orders for export, taking advantage of the present \$1.20 per lb price advantage between the U.S. and Western Europe. Exports in September trimmed U.S. butter stocks by about 3 days' equivalent of production, but stocks are still about 30% larger than a year ago. If exports continue through the end of the year at September's volume, and if production does not go crazy over the next several months, butter prices could find good support in the \$1.30 per lb area.

NONFAT DRY MILK: Prices on the low end of the western spot market fell another 2 cents this week, and USDA now calls it a buyers market. Ouch. Production is heavy, plant inventories are growing, plants are operating at capacity and more milk is on the way, and buyers are holding back and now have a reason for doing so. The low end of the western "mostly" price is now the same as the CME price, \$1.85 per lb. The CWAP price, shown above, fell by 14 cents last week, with minimal volume, and the national (NASS) price fell by 14.5 cents, with fair volume. It appears that sudden changes may have been made to pricing formulas or sales patterns, because indexed prices cannot change by those amounts in a single week. The sudden price weakness may be related to the loss of the Algerian contract to Western Europe. If that is the case, Western Europe should be out of the picture for additional exports next year, and that should be a positive note for future nfdm prices. But there still is something not quite right about nfdm pricing patterns. For example, California plant prices in September averaged about \$2.05 per lb and have held about there until this week's announced drop. Meanwhile, the Commerce Department reported September's export prices averaged about \$1.64 per lb. There doesn't seem to be much room for \$2.00 per lb exports in that equation, does there?

WHEY MARKET COMMENTS: It's back. Demand for whey is again reported to be greater than supply. Prices continue to steadily advance, without the excessive exuberance that was present earlier this year. Prices appear to be well supported at current levels -- and should continue to be so long as the huge export demand (53% of production at last count) continues. Current production is easily clearing the market. The average of the western "mostly" price advanced another cent this week. On the other hand, prices for all other whey-based products continue to be weak. USDA reports that lactose buyers may be interested at present bargain-basement prices, which are now close to where they were a year ago.

OCTOBER MILK PRODUCTION INCREASES 3.5%: *(By J. Kaczor)* One message in this month's report seems to be that if plants in the West had a problem handling the milk that was available in September, it was also a problem in October and is likely to be a problem in November.

Spurred by 62,000 more cows and 46 more lbs per cow, U.S. milk production in October increased by 3.5% above last October. In comparison, September's increase over a year earlier was 2.6%. The results for individual States in the West and Midwest that have been mentioned before are:

Western U.S.	Arizona	+13.0%
	California	+ 5.8
	Idaho	+ 6.2
	New Mexico	+ 1.5
	<u>Texas</u>	<u>+ 5.5</u>
Mid-Western U.S.	Michigan	+ 7.6
	Wisconsin	+ 4.3

The total amount of milk produced by the 5 Western states listed above is 325 million lbs more than last October. That's 38 million gallons for the month, or 1.2 million gallons per day. Michigan and Wisconsin contributed another .47 million gallons per day. USDA's report on butter and cheese stocks in cold storage on October 31st will be published next Wednesday. Those figures should indicate how much of the additional butter and nonfat dry milk that was produced from this additional milk was sold during the month. Prices for butter in October bottomed out at about \$1.30 per lb and cheese prices held at about \$1.85 per lb. Both product lines are now well above those levels.

CONGRATULATIONS TO BRAD SCOTT FOR HIS APPOINTMENT TO THE NATIONAL DAIRY BOARD! *(By Rob VandenHeuvel and excerpts from USDA press release)* Last month, MPC board member Brad Scott was appointed to the National Dairy Promotion and Research Board. This board, which is composed of 36 dairy farmers representing various areas of the United States, administers a coordinated program of promotion, research and nutrition education to increase demand for U.S.-produced dairy products. For a full list of the appointees to the board, please see USDA's press release at: <http://www.ams.usda.gov/news/211-07.htm>.

This is a tremendous honor for Brad, and Milk Producers Council is proud to have one of our board members representing California dairy producers in this prestigious group of national dairy leaders. Congratulations Brad!

ENVIRONMENTAL CREDITS – A NEW FRONTIER FOR THE DAIRY INDUSTRY *(By Rob VandenHeuvel)* As the California dairy industry continues to evolve, producers are constantly approached about new business opportunities beyond cows and milk. One example is generating valuable carbon credits by reducing your dairy's carbon emissions. The trading of environmental credits is a fairly new concept for most dairy producers, but its application to the industry could grow exponentially in the near future.

First, an oversimplified explanation of carbon credits: when a business implements a new management practice or installs new equipment that reduces the carbon emissions coming off that facility, and that new practice or new equipment is above and beyond what is required by law or regulation, that business owner can be issued a carbon credit, which can then be traded and sold in the private market to other businesses who may need to offset their own increased carbon emission.

Specific to the dairy industry, there is growing discussion about the generation of carbon credits by capturing methane gas coming off manure and the wastewater lagoons. A number of private companies have already begun visiting dairymen and presenting their proposals for capturing that methane and generating those carbon credits.

As we continue to learn more about these opportunities, Milk Producers Council would like to assist our members in finding the best opportunity for each dairy's individual needs. No single technology or arrangement will be appropriate for every dairy, and not every dairyman is willing to finance these projects by forfeiting their increasingly-valuable carbon credits.

If any dairies have questions or want to learn more about these opportunities, please feel free to call me at (909) 628-6018.

ENVIRONMENTAL GROUP SUES FRESNO COUNTY OVER RECENT DAIRY PERMITTING ORDINANCE *(By Rob VandenHeuvel)* Today, environmental groups filed a lawsuit against Fresno County over the recent approval of an ordinance outlining the permitting process for new and expanding dairies in the county. These groups – which fundamentally oppose dairies and rile up their supporters by blaming cows for the existence of asthma and other health problems – are now hoping to block this new ordinance by claiming that the county failed to adequately examine the environmental impacts of the new permitting rules. The interesting thing to note is that these new rules – which were approved by the county last month – represent the first time that Fresno County dairies must apply for a “conditional use permit” and subject their dairy plans to environmental review, something most would assume the environmentalists would support.

So that should make us wonder: Are these groups interested in reasonable, balanced dairy permitting rules? Or are these groups interested in a cow-free California? **I guess they figure we don't need dairies ...they all buy their milk at the store.**

Below is a press release issued today by Community Alliance for Responsible Environmental Stewardship (CARES), which Milk Producers Council is a member of.



Activist Lawsuit Only Stalls Progress

*Fresno County dairies already required to undergo environmental review;
Central Valley dairies most regulated in nation*

Contact: J.P. Cativiela, 916-441-3318

November 16, 2007

FRESNO – A lawsuit filed today by environmental activists will only stall environmental progress in the county, representatives of Fresno County agriculture and the dairy industry said.

Activist groups announced they are suing the county over its enactment of a tough new dairy ordinance because the county did not perform an Environmental Impact Report on the ordinance itself.

“This is a truly unfortunate development for all the people of Fresno County,” said Ryan Jacobsen, Executive Director of Fresno County Farm Bureau. “County planners and the Board of Supervisors put substantial time and effort and conducted numerous public hearings to develop this ordinance. All stakeholder views were considered, hours of public hearings were held and the ordinance was redrafted several times to address concerns from all stakeholders. But because they did not get the ordinance drafted exactly to their specifications, activist groups have chosen to waste taxpayer dollars by dragging the matter through the courts.”

The new dairy ordinance, adopted by Fresno County supervisors on October 23, requires all new dairy projects to apply for and receive a conditional use permit before beginning operation. No such permits were required by the

county prior to the adoption of the ordinance. The new process will require each permit applicant to prepare a thorough environmental assessment and comply with county land use regulations, including substantial buffer zones to urban areas and other sensitive zones.

All dairies must also comply with regulations of the Central Valley Regional Water Quality Control Board and San Joaquin Valley Unified Air Pollution Control District.

“There is simply no question that Central Valley dairies are the most heavily regulated in the nation, and suggestions to the contrary are simply unfounded,” said Bill Van Dam, Chairman of the Community Alliance for Responsible Environmental Stewardship (CARES). “The lawsuit will achieve nothing except possible delays in implementing these tough new requirements. We are mystified as to why activists would want to delay or stop implementation of more stringent environmental requirements.”

In the last several years, Fresno County agriculture has adopted significant, strong measures to reduce air pollution. These include adopting conservation practices to reduce emissions of fugitive dust, tougher requirements for engine emissions, new regulations for livestock operations and many others.

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