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

MPC FRIDAY MARKET UPDATE

CHICAGO MERCANTILE EXCHANGE

Blocks	*+$.0650*	$1.4800
Barrels	*+$.0400*	$1.5050

Weekly Average

Blocks	*+$.0533*	$1.4663
Barrels	*+$.0463*	$1.4913

CHICAGO AA BUTTER

Weekly Change	*-$.0575*	$1.4675
Weekly Average	*+$.0824*	$1.4844

DRY WHEY

WEST MSTLY AVG	w/e 1/15/10	$.4075
NASS	w/e 1/16/10	$.3902

NON-FAT DRY MILK
Week Ending 1/15 & 1/16

Calif. Plants	$1.3035	7,869,822
NASS Plants	$1.2879	11,152,575

CHEESE MARKET COMMENTS: Prices on the CME advanced again this week, supported with little trading and the occasional bid to buy at a price higher than the last action. *Dairy Market News* (DMN) reports that current sales are good, but buyers are looking for reasons why prices are moving as they have. USDA's report on the amount of cheese in cold storage at the end of December, released today shows why those questions are being asked; it continues to look like more cheese is being produced than is presently needed or wanted, and this is the time of year when even more milk and cream will likely be available. Thirteen percent more total cheese was on hand than a year ago (9% more American), and the comparisons to September and October levels were not good. Tuesday's report on December milk production (see article below) was not obviously supportive of price increases but those increases happened anyway. Higher prices are being bid, no one is objecting in a meaningful way, and most are wondering why it is happening. Futures prices, however, are reacting – by moving lower, to a closer relationship with their underlying support which is the spot cheese prices. Exports could be increasing, but not likely be enough to explain the recent price movements. One possible stabilizing note is that prices reported to NASS for sales made last week for blocks and barrels are fairly close to where the spot prices are – only because the lagging block prices have finally worked down close to where barrel prices have been residing.

BUTTER MARKET COMMENTS: The amount of butterfat products in cold storage at the end of December was quite positive and should support what remains of last week's price increase on the CME. The stored amount at the end of December was lower than the prior month, a relatively rare happening. The total decrease of $.0575 per lb on the CME was spread fairly evenly over the four trading days this week, and futures prices for butter fell steadily. Butter production is increasing, as expected, and sales are reported to be good.

POWDER MARKET COMMENTS: The nonfat powder market continues to befuddle market watchers. The news from overseas is generally supportive of possible future price increases but the NFDM futures prices on the CME are falling and DMN commentators say the domestic market is softening and the export market is slow. DMN reports that some NFDM is being offered for resale – a sign that some buyers may have gotten ahead of themselves. Weakening NFDM prices are said to be also affecting prices for U.S. whole milk and buttermilk powders. International prices have come down from ridiculous levels and are now, according to DMN, close to the present NASS and CWAP prices. (Why ridiculous? Prices f.o.b. docks in Europe had been reported to be well above $2.00 per lb, but with slow or no sales.) The milk supply in Australia is more than 5% lower than a weak last year and is not likely to recover, New Zealand's powder production is said to be devoted mostly to whole milk powder, and the report from Europe is that the regulators do not intend to do anything with that huge amount of powder that is in storage that could affect producers' milk prices over there. It's possible that Fonterra's announcement that skim milk powder will be added to their monthly internet auction in March is causing those who quote non-representative prices to become serious. As for international sales – New Zealand and Australia are doing quite nicely, and have been through the entire period where U.S. sales first bloomed and then faded. Prices reported for sales of nonfat dry milk last week were lower for both major reporting agencies, on very low volume.

WHEY PRODUCTS MARKET COMMENTS: The market for dry whey and whey protein concentrate (34% protein) are reported to be firm, with prices rising in the Mid-west and steady in the West. Sellers report little resistance to the prices currently being offered. Exports for both products continue to be strong. Is it possible that cheese is being manufactured only to generate whey? Anything is possible when cheese manufacturers have a margin that virtually guarantees cost coverage plus a neat return on investment. Milk prices be damned, they say. The West's "mostly" price for dry whey held steady for a third week.

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FRED DOUMA'S PRICE PROJECTIONS…

Jan 22 Est:	**Quota cwt. $ 15.52**	**Overbase cwt. $13.82**	**Cls. 4a cwt. $14.90**	**Cls. 4b cwt. $12.67**
Last week:	**Quota cwt. $ 15.54**	**Overbase cwt. $13.84**	**Cls. 4a cwt. $14.81**	**Cls. 4b cwt. $12.52**

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DECEMBER MILK PRODUCTION CONTINUES RECENT TREND DOWNWARD; MORE QUESTIONS REMAIN: *(By J. Kaczor)* At first glance USDA's report on December milk production looks very positive for future milk prices. Milk production was lower than a year earlier for a sixth straight month, and the number of dairy cows was lower than the month before for a twelfth straight month. In December there were 252,000 fewer cows being milked and milk production was 0.9% lower than last December. The table below reports the amount of milk produced and the number of cows for each of the ten largest milk producing states, and recaps the figures for the most productive twenty-three states and for the U.S. The cow numbers in the table reflect thousands, the milk numbers reflect millions of lbs, and the percentage difference in milk produced and the number of cows is measured against December 2008.

	December 2009			
	Milk		***Cows***	
	2009	**Pct Diff**	**2009**	**Change**
California	3,281	-4.6%	1,840	-76
Wisconsin	2,140	+4.3	1,259	+4
New York	1,022	-0.3	610	-15
Idaho	1,012	+0.4	550	-4
Pennsylvania	872	+0.7	538	-10
Minnesota	774	+3.2	469	+2
Texas	738	+0.1	411	-19
Michigan	671	+2.1	354	--
New Mexico	641	-3.2	318	-17
Washington	473	+1.9	243	-1
Top 10	11,624	+0.3%	6,592	-136
Top 23	14,614	-0.8%	8,313	-206
Total U.S.	15,756	-0.9%	9,082	-252

Of the top twenty-three states, only three were reported to have more dairy cows this December than a year ago and two others had the same number as last year. Conversely, only three were reported to have less production per cow than last December; they were California, Colorado, and Missouri.

Last year, the monthly increase in production per cow fell off sharply in July and continued to show relatively weak gains through this June, after which the combination of favorable weather in the Mid-west, and then falling feed costs, and then the prospect of higher milk prices contributed to sizable increases in productivity. The increase in November and December averaged a pound of milk per day per cow above the previous year.

In a discussion in the December 24th edition of this *Update* on what may lie ahead in the way of milk production, it was noted that the pace of decline in milk cow numbers was tapering off. December's figures support that trend. The numbers from July to December (in 1,000's) are: -144, -169, -200, - 230, -248, -252. CWT's herd removal programs are credited for much of this, although most observers would agree that, even had CWT not acted, the impact of the milk price depression, high feed costs, loss of equity, and tight credit by themselves, would have likely brought about similar results. It has in the past; you can look it up. The question about what lies ahead still needs one or two more months of milk production data for an answered. However, except for CWT's herd removal programs, it does look like producers may have stopped extra culling mid year and may have begun to rebuild herds in November. This is contrary to what USDA's December *Outlook* foresaw; their forecast was for the U.S. dairy herd to average less than nine million cows in all four quarters of 2010. That now looks like quite a reach. December ended with only 12,000 fewer cows than in October, 82,000 above the 9 million mark. It looks like CWT's removal of 25,000 cows in November and December was swamped by individual producers' responses to what they see as an opportunity.

There is reason for optimism. Usage of milk for the higher priced classes of usage continues to increase at or above the rate of the increase in U.S. population, and prices for basic dairy commodities have risen well above where they were early last year. If the herd size stabilizes as it appears it may, the U.S. dairy industry should have enough product to meet an expected increase in demand for exports (and an inevitable tightening of supply for the domestic market, and a corresponding increase in milk prices). One important missing ingredient for success in this scenario is for National Milk, CWT, and USDEC to get going with an expansive, coordinated, not necessarily targeted, robust Export Assistance Program – a better version of the one they set aside a year ago. What's your bet on that happening – and if it doesn't happen what's your guess on what will happen to milk prices once again?

MPC CONTINUES TO WORK HARD TO PROMOTE THE DAIRY PRICE STABILIZATION PROGRAM: *(By Rob Vandenheuvel)* Last week, MPC President Syp Vander Dussen wrote an extensive article about the current state of the industry and our need to develop a tool to help us deal with extreme milk price volatility *(the article can be read at: http://www.milkproducerscouncil.org/friday_updates.htm)*. In his article, Syp urged each of you to contact your cooperative and trade association and demand that they support the DPSP.

I echo Syp's comments that all of us need to be active, and Milk Producers Council is no exception. We have spent a lot of time, energy and resources over the past three years promoting a national plan to address volatility, and those efforts continue. In the past couple months, MPC has been working with numerous groups from California and throughout the country, and we are seeing a lot of progress in building a strong national coalition that can help move the DPSP from "concept" to "reality." At this point, it's premature to report on the details of those discussions, but rest assured that MPC is continuing to work hard to build national consensus.

In addition, I participated in a panel discussion on "milk price volatility" at the IDFA Annual Forum this past Tuesday. This forum is attended by hundreds of individuals, many of whom are leaders in either the producer and processor sectors. The panel I participated on focused on whether our industry needs to do a better job of managing our milk production, or whether the risk management tools already available to producers are able to adequately offset that price risk.

While most of our outreach efforts over the past three years have been to urge our fellow producer groups to support the DPSP, the more fundamental opponent to the plan is the processing sector. Many in that sector argue that the risk management tools currently available to dairy farmers make any type of Growth Management Plan unnecessary. While I believe that every dairymen should understand what risk management tools are available, those options should be "in addition to," not "instead of" a growth management plan. Those tools represent an "individual" solution, not an "industry" solution.

We need an industry tool for maintaining better supply/demand balance. We can either do that by handing our future to the buyers of our milk and letting them dictate who produces milk and how much they produce, or we can implement the DPSP and maintain producer control over our production. In a future issue of this newsletter, I'll go into more depth about this debate: "risk management vs. supply management," so stay tuned.