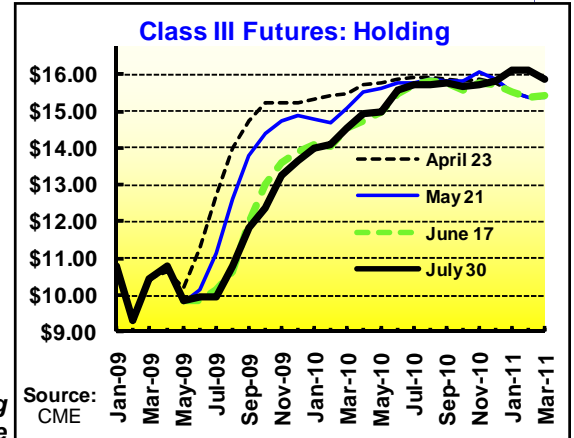




Dairy Market Report

Executive Summary

- ➔ Cheese, butter prices up from our last report:
 - blocks up 9³/₄¢ at \$1.22¹/₂/lb., as of July 30th
 - barrels up 12¢ to \$1.19/lb.
 - butter up 4¢ to \$1.24¹/₂/lb.
- ➔ Commercial disappearance of milkfat up 1.4% in three mos. ending May; skim solids down 1.2%.
- ➔ Outlook: *Modest price increases may hold. Break-even prices will come only after large-scale herd reductions, and profits after global rebound.*



Market Outlook

Dairy markets have stirred, inspired by ongoing actions by USDA and CWT. Despite large stocks, cheese and butter prices have risen above support levels, and near month futures reflect some optimism that these increases will hold and continue through the fall. And that future recovery did not recede over the last month, as it has all year. (See graph, above.) Nevertheless, dairy prices remain low. It will take a substantial further reduction in herd numbers—in the U.S. and abroad—to return market prices to breakeven levels for most producers, even with easing feed costs; and only a global economic rebound will restore overseas demand growth and profitable prices.

To that end, the [Cooperatives Working Together \(CWT\)](#) program completed its retirement of 101,000 dairy cows (producing about 2 billion lbs./year) in early July, and promptly announced a new round of bids, due July 24. The growing dairy farm crisis is expected to drive another large herd retirement round, even with bidding limited to a maximum of \$5.25 per cwt. of annual production. Low milk-feed margins have historically driven a reduction in the milking herd over the following year; low margins are projected well into 2010, with impacts on the herd through 2011. (See graph, below.)

MILC Payment Rates and Projections			
Year	Boston Class I		Payment Rate
	Actual	Target	
FY 2009			
October '08	18.78	18.48	0.0000
November	20.58	18.10	0.0000
December	18.68	17.76	0.0000
January '09	18.99	17.98	0.0000
February	13.97	17.33	1.5135
March	12.68	17.14	2.0056
April	13.61	17.14	1.5863
May	14.22	17.48	1.4673
June	13.33	17.35	1.8111
July	13.51	17.45	1.7742
August	13.29	16.94	1.6425
September	14.51	16.94	1.0926
FY 2010			
October '09	14.88	16.94	0.9251
November	15.54	16.94	0.6305
December	16.37	16.94	0.2559
January '10	16.89	16.94	0.0239
February	17.25	16.94	0.0000
March	17.41	16.94	0.0000
April	17.78	16.94	0.0000
May	18.21	16.94	0.0000
June	18.34	16.94	0.0000
July	18.85	16.94	0.0000
August	19.57	16.94	0.0000
September	20.09	16.94	0.0000

Projections based on futures as of 7/30/2009

The Milk Income Loss Contract payment rate for June and July will be in the neighborhood of \$1.80/cwt.; anticipated MILC payouts are falling as feed costs fall and dairy futures rise. Based on futures prices, we project an average MILC payment rate of \$1.23 per cwt. for the twelve months ending January 2009. (See table.) **dmr**



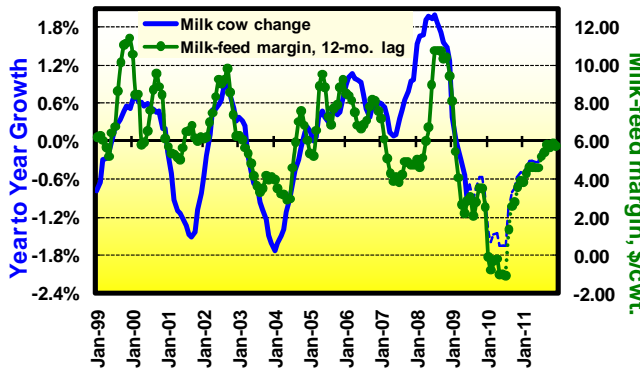
The Nutshell

Production v. last year:

- May Cheese **↑ 2.6%**
- May Butter **↓ 0.3%**
- Apr. NDM+SMP **↓ 0.7%**
- May Whey **↓ 11.5%**
- June Milk **↓ 0.2%**

	May	June
NASS Cheddar	1.16	1.15
Whey	0.23	0.27
Butter	1.22	1.21
NDM	0.83	0.85
Milk	May	June
Cl. III	9.84	9.97
Cl. IV	10.14	10.22
All	11.60	11.40

Lagged Milk-Feed Margin & U.S. Herd Growth



Data sources: USDA/NASS, CME; NMPF projections

Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 861 million lbs. in May, up 2.6% from a year ago; average daily production was down 1.4% from April. American types totaled 366 million lbs. in May, up 3.9% from last year and up 1% from April, on an average daily basis. Italian types were 350 million lbs., up 0.3% from last year and down 3.3% from April on an average daily basis. For the year to date, cheese production is up 1.3%.

Cheese stocks remain large and continue to build. USDA-reported **stocks** of American cheese opened July at 623 million pounds, up 7% from last year, and up 12 million pounds from June 1. July's opening stocks of other cheese, including Swiss, were 348 million pounds, up 9% from a year ago, and nearly unchanged from June. July 1 total cheese stocks were 971 million pounds, up 8% from last year and up 13 million pounds from June. This is the largest total since early 1985, when massive herd buyout and diversion programs were undertaken to manage milk supplies.

Commercial disappearance for American cheese was 1.04 billion

pounds in the three months ending with May, up 5.9% from a year ago. Disappearance of other cheese was up 2.4% to 1.53 billion pounds, and total cheese was up 3.8%.

As of July 30, the **CME** block cheese price was up 9¼¢ per pound from our last report, to \$1.22½; the barrel price was up 12¢, to \$1.19. Class III (cheese milk) futures prices have held at last month's level. (See graphs on pages 1, 4.)

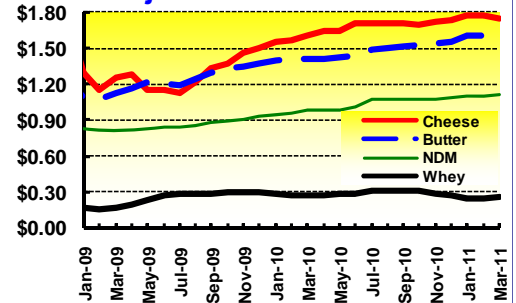
July 30 futures project cheese prices to average \$1.46 over the next six months (August through January), \$1.27 for all of 2009, and \$1.67 for 2010.

U.S. cheese **exports** in May were 17½ million pounds, down 36% from a year ago, and equal to 2% of U.S. production. Imports were up 11% from a year ago to 30 million pounds. Net imports, then, were 13 million lbs, (compared with net imports of about 2 thousand pounds a year ago). This is about half of historical averages. (See graph.)

The **retail price** of cheddar cheese was \$4.72 in June (up 4% from last year). Processed cheese averaged \$3.90 at retail in June, down 1% from a year ago.

Production of dry **whey** for food was 91 million lbs. in

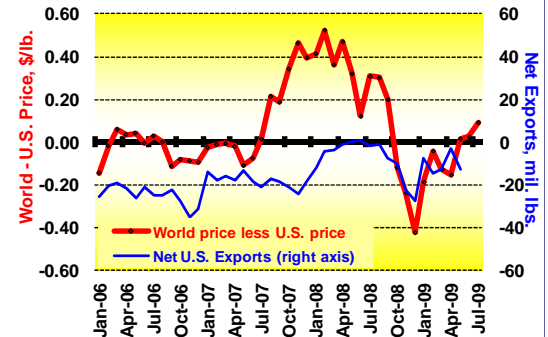
Projected Product Prices



Based on futures as of July 30, 2009

May 2008, down 2.1% from a year ago. Production of all whey products was down 4%. (See box.)

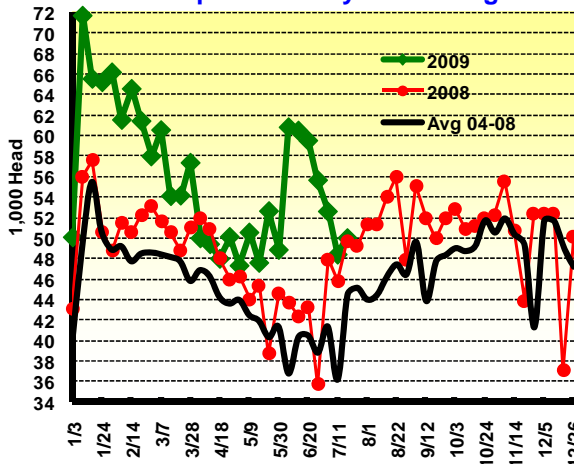
Cheese Prices and Trade



The manufacturers' **price** of whey was 29¢ per lb. the week of July 18, according to NASS' survey. WPC-34 prices are also up, to about 62¢, per USDA's **Dairy Market News**. The **CME** dry whey futures project average whey prices of 29¢ for the next 6 months, and 25¢ for all of 2009. The whey price is about 30¢ per lb. in Europe. **dmr**

Cheese stocks are the largest reported in nearly 25 years.

Fed. Inspected Dairy Cow Slaughter



Source: FSIS/USDA

Whey Products

Product	May Production		June 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2008
Whey, food	91.4	-2.1	47.5	-11.5
Whey, feed	3.9	-31.3	1.6	-69.2
WPC25-51	22.6	-11.2	22.1	-26.0
WPC50-91	11.3	-2.1	14.1	-7.2
WPI90+	4.1	20.9	n/a	n/a
Total	133.3	-4.4%	85.2	-17.9%

Butter

May U.S. [butter production](#) was 139 million lbs., down 0.3% from a year ago and down 5.3% from April, on an average daily basis. July 1 [stocks](#) were 266 million pounds, up 3% from a year ago and up 13 million pounds from June.

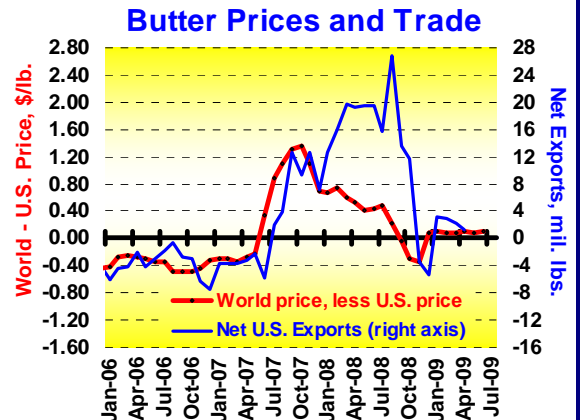
[Commercial disappearance](#) for butter (including exports) in the quarter ending with May, was nearly even with the same period a year ago, and disappearance of all milkfat was up 1.4%.

The [retail](#) butter price was \$2.91 per lb. in June 2009, up 13¢ from

last month and down 6% from 2008. The [CME](#) butter price was up 4 to \$1.24½ on July 30. Futures project NASS butter at \$1.33 for the six months through January, \$1.22 for all 2009, and \$1.47 for 2010.

The U.S. was a [net butter exporter](#) in May of 23,600 lbs.; last May, net exports were 19.5 million lbs.

USDA awarded DEIP bonuses for just over 4 million pounds of butter in June, but none in July. Beginning July 28, USDA is accepting bids for DEIP bonuses for [butter](#) and [cheese](#) beginning July 28, replacing fixed bonuses.



Butter in Oceania is about 88¢ per lb., according to USDA's [international](#) report, compared to European prices of about \$1.42. **dmr**

Dry Milk Powders

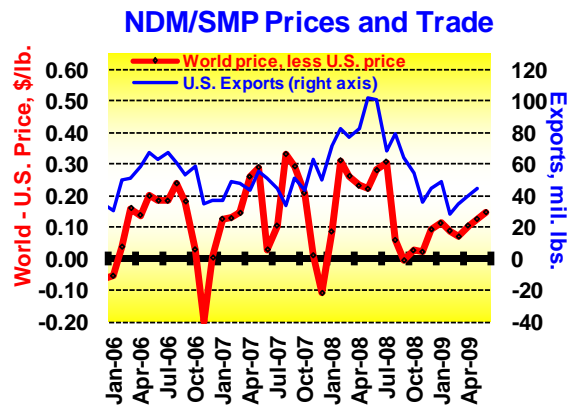
U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 176 million lbs. in May, down 0.7% from a year ago. June 1 manufacturers' stocks of (only) nonfat dry milk were 189 million lbs., up 44% from last year, and up 14 million pounds from May 1.

Since our last report, the [CME](#) price of extra grade nonfat dry milk was unchanged at 87½¢ per lb., and grade A was down a penny to 89¢, on July 30; this compares to the average surveyed U.S. manufacturers' [price](#) of 84¢ for the week of July 18.

In May 2009 exports of nonfat dry milk and skim milk powders were

45 million pounds, down 56% from last May's total.

The DEIP program awarded bonuses for 44 million pounds of nonfat dry milk exports in Fiscal Year 2009 (which ended June 30), with about 106 million pounds left in the allocation. Another 3 million pounds have been awarded since, out of a new allocation of 106 million pounds for FY 2010. USDA purchases of nonfat dry milk under the price support program have slowed considerably, totaling just over 8 million pounds in the month ending July 30 and less than 1 million pounds in the week ending the same date. Price support purchases now total 277 million pounds since October 1.



[Commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") were 367 million lbs. in the three months ending May, down 13% from a year ago; and all skim solids was down 1.2%. **dmr**

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in May was up 5% from last year, to 325½ million lbs; year-to-date was up 6%.

May's reported [ice cream production](#) was down 1.3% from a year ago to 118 million gallons, and down 1.4% for the year to date. Ice cream mix production was 67 million gallons, down 1.5% from a year ago, and down 0.7% for the

year to date.

The [retail](#) ice cream price was \$4.25 per ½-gallon in June, up 4½% from last year.

[Fluid milk sales](#) for April were up 0.4% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 18%. June's retail price was \$3.01, down 20% from a year ago.

dmr

U.S. Fluid Milk Sales

Product	May 2009		2009 to date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,225	-3.4	6,210	-1.6
Flavored Whole Milk	46	-14.3	241	-2.7
Organic Whole Milk	30	-4.4	151	-2.2
Reduced Fat Milk (2%)	1,509	-1.8	7,663	1.0
Low Fat Milk (1%)	574	0.4	2,881	1.9
Fat-Free Milk (Skim)	675	-2.8	3,404	-1.1
Flavored Fat-Reduced	352	2.5	1,806	2.6
Organic Fat-Reduced	97	-7.7	503	-5.9
Buttermilk	48	6.8	299	22.9
Total (including "Other")	4,563	-2.1	23,201	0.1
Total (calendar adjusted)	4,613	0.4	23,244	1.3

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. [milk production](#) in June was 15.9 billion lbs., down 0.2% from a year ago. Milk per cow was up 0.8%, but the herd was 86,000 cows (0.9%) smaller than a year ago. This is largely accounted for by the CWT retirement round that was mostly completed in June. For the first half, production was up 0.3%, on an average daily basis; but USDA projects a 2.0% decline in 2009's second half.

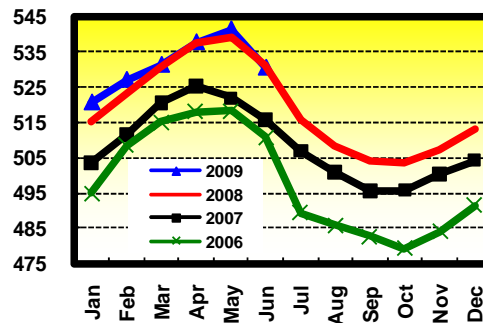
June's [Class III](#) price was announced at \$9.97 per hundredweight, up 13¢ from May, and **down \$10.28** from a year ago. Class III [futures](#) prices for the next six months (August through January) averaged \$12.65 per hundredweight on July 27, and they project averages of \$11.08 for 2009 and \$15.20 for 2010. July is projected at about \$10.20. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The June [Class IV price](#) was \$10.22, up 8¢ from May, and down \$5.70 from a year ago. [Futures](#) markets project Class IV milk to average about \$11.84 for the next six months, \$10.72 for 2009, and \$15.35 for 2010. July is projected at about \$10.10. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

June component prices were: \$1.2544 per lb. (down a penny from May) for butterfat in Class III, Class

IV, and producer milk; \$1.7283 (down 2¢) for protein in Class III and producer milk; \$0.6715 (up a penny) for total non-fat solids in Class IV milk; and \$0.0723 (up 4¢) for other solids in Class III and producer milk; the other solids value is positive for the first time since

U.S. Milk Production, 2006-2009
Million Lbs./Day

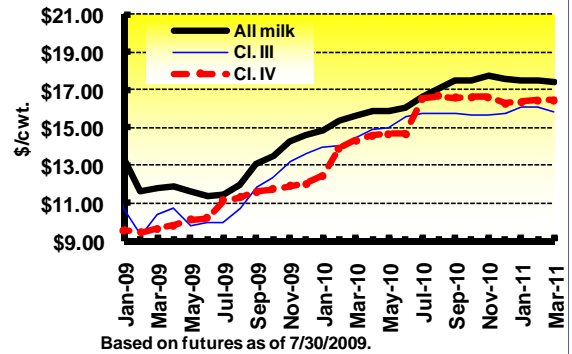


last October. July butterfat is projected at \$1.25.

June's Class II price was up 8¢ per hundredweight, to \$10.79. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. July is projected at about \$10.90.

August's [Class I](#) base price was announced at \$10.04, down 22¢, based on butter and powder values. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk

Projected Milk Prices

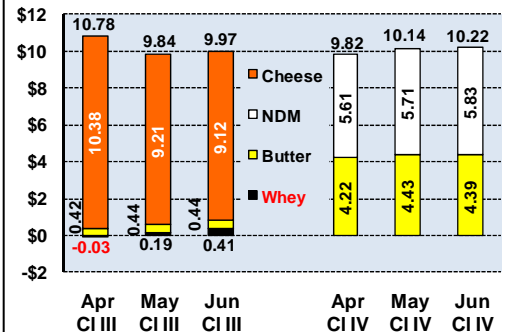


pooled on a [Federal order](#).

June's [all-milk price](#) was \$11.40, down 20¢ from May. July is projected to be about \$11.50. The futures markets project the all-milk price to average about \$12.60 in 2009 and \$16.50 in 2010. Last month's expectations of a slow recovery through the fall and higher prices in 2010 are holding.

Feed costs have eased, but remain high, by historical standards: near month [corn](#) and [soy](#) futures are \$3.32 and \$11.28 per bushel, respectively. Futures markets project annual averages for corn at \$3.60 and soybeans at \$10.10. **dmr**

Class Price Breakdown



Contact: Roger Cryan,
National Milk Producers
Federation
rcryan@nmpf.org
www.nmpf.org



Dairy Management Inc.™ and state, regional, and international organizations work together to drive demand for dairy products on behalf of America's dairy farmers, through the programs of the American Dairy Association®, the National Dairy Council®, and the U.S. Dairy Export Council®.



The National Milk Producers Federation (NMPF) is a farm commodity organization representing most of the dairy marketing cooperatives serving the U.S.