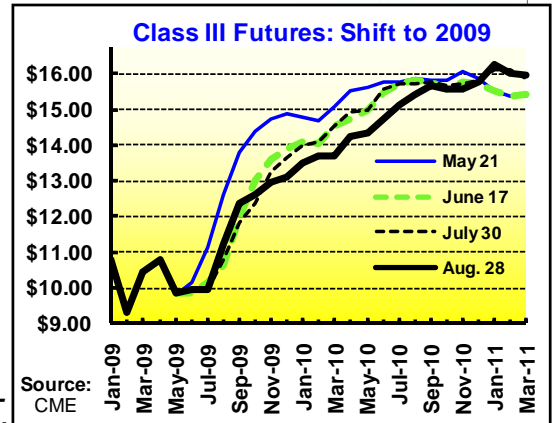




Dairy Market Report

Executive Summary

- ➔ Cheese, butter prices mixed from our last report:
 - blocks up 15¼¢ at \$1.37¾/lb., as of Aug. 28th
 - barrels up 15¢ to \$1.34/lb.
 - butter down 7½¢ to \$1.17/lb.
- ➔ Commercial disappearance of milkfat up 0.8% in three mos. ending June; skim solids down 1.6%.
- ➔ Outlook: Higher support levels back higher market prices, but may dull future recovery.



Market Outlook

USDA raised support prices for 3 months, beginning with August. Support sales have actually slowed in recent weeks, as manufacturers work to

move powder made in August into the price support pipeline. CCC will still pay only 80¢ for July-made powder; but will pay 92¢ for powder made in August. USDA will buy powder or cheese up to 60

days old under the price support program; this means they will offer the higher prices right up to the end of the year for product made in October. This will smooth the impact of the planned reversion to the lower prices.

Modestly tighter U.S. milk supplies and, especially, price support increases have bumped up current dairy prices. However, futures markets now expect a weaker revival through the winter, partly because this modest short-term recovery is expected to slow farm "exits". The industry's dilemma is that farm closings are nearly the only way that U.S. milk supply responds to low prices: as a result, the same direct support that saves farms also slows the supply adjustment to reduced demand. Stocks of cheese and butter remain high, with buyers filling their holiday requirements early; and school openings may be further masking softness in the current markets. The result is a likely surge of cheese sales to CCC at the temporary higher price this fall. As we've said before, it will take a substantial further reduction in global herd numbers and a continuation of worldwide demand growth to return most dairy farmers to profitability.

To that end, the [Cooperatives Working Together](#) (CWT) program announced the preliminary results of its second round of herd retirements begun in 2009: the removal of nearly 87,000 cows producing 1.8 billion pounds of milk per year began in early August. This makes a total planned removal from the herd so far in 2009 of 240,000 cows producing 4.7 billion pounds of milk per year, including the cows announced late in 2008, but removed in early 2009.

The [Milk Income Loss Contract](#) payment rates projected above for July, August, and September are almost certainly final, as the feed cost adjuster is not expected to have an impact. This will give an average of \$1.60 for the 8 months in FY09 with a payment; about 50% of milk produced in those months was eligible for payments. Producers subject to the MILC cap who want to change their start month to (or from) October, have until September 14. **dmr**

| | CCC Support Prices/lb. | |
|---------|------------------------|----------------------|
| | Before Aug. 1. | Aug., Oct., or Sept. |
| NDM | \$0.80 | \$0.92 |
| Blocks | \$1.13 | \$1.31 |
| Barrels | \$1.10 | \$1.28 |
| Butter | \$1.05 | \$1.05 |

| 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 | 17.42 | 1.8411 |
| July | 13.51 | 16.94 | 1.5435 |
| August | 13.29 | 16.94 | 1.6425 |
| September | 14.18 | 16.94 | 1.2420 |
| FY 2010 | | | |
| October '09 | 15.40 | 16.94 | 0.6909 |
| November | 15.85 | 16.94 | 0.4884 |
| December | 16.20 | 16.94 | 0.3316 |
| January '10 | 16.39 | 16.94 | 0.2454 |
| February | 16.72 | 16.94 | 0.0991 |
| March | 16.98 | 16.94 | 0.0000 |
| April | 17.04 | 16.94 | 0.0000 |
| May | 17.46 | 16.94 | 0.0000 |
| June | 17.67 | 16.94 | 0.0000 |
| July | 18.02 | 16.94 | 0.0000 |
| August | 18.43 | 16.94 | 0.0000 |
| September | 18.73 | 16.94 | 0.0000 |

Projections based on futures as of 8/28/2009

The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Production v. last year:

- June Cheese **↑ 2.0%**
- June Butter **↑ 7.5%**
- Apr. NDM+SMP **↓ 5.0%**
- June Whey **↓ 2.0%**
- July Milk **↑ 0.0%**

| | June | July |
|---------|-------|-------|
| NASS | | |
| Cheddar | 1.15 | 1.13 |
| Whey | 0.27 | 0.29 |
| Butter | 1.21 | 1.20 |
| NDM | 0.85 | 0.84 |
| Milk | June | July |
| Cl. III | 9.97 | 9.97 |
| Cl. IV | 10.22 | 10.15 |
| All | 11.30 | 11.30 |

Cheese and Whey

Cheese stocks are the largest reported in nearly 25 years.

Total U.S. [cheese production](#) (excluding cottage cheese) was 833 million lbs. in June, up 2.0% from a year ago; average daily production was nearly unchanged from May. American types totaled 353 million lbs. in June, up 4.8% from last year and down 0.5% from May, on an average daily basis. Italian types were 343 million lbs., up 2.0% from last year and up 1.4% from May on an average daily basis. For the year to date, cheese production is up 1.4%.

pounds from July. Cheese stocks are the largest since 1985, when there was a massive accumulation of price support cheese in government warehouses. This month's figures, by contrast, include no government stocks.

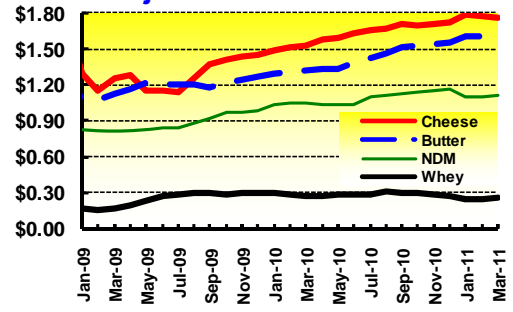
[Commercial disappearance](#) for American cheese was 1.02 billion pounds in the three months ending with June, up 5.0% from a year ago. Disappearance of other cheese was up 2.8% to 1.52 billion pounds, and total cheese was up 3.6%.

As of August 28, the [CME](#) block cheese price was up 15¼¢ per pound from our last report, to \$1.37¾; the barrel price was up 15¢, to \$1.34. Class III (cheese milk) futures prices have held or risen in near months, but dipped further out (See graphs, pp. 1, 4.)

August 28 futures project cheese prices to average \$1.45 over the next six months (September through February), \$1.28 for all of 2009, and \$1.63 for 2010.

U.S. [cheese exports](#) in June were 20½ million pounds, down 24% from a year ago, but still equal to 2½% of U.S. cheese production. Imports were up 29% from a year ago to 33 million pounds. So, net imports were 13 million lbs; this compares to June 2008, in which the U.S. was a small net cheese exporter (by volume) for the only month in recent memory. Still, this June's net exports are only about half of historical averages,

Projected Product Prices



Based on futures as of August 28, 2009

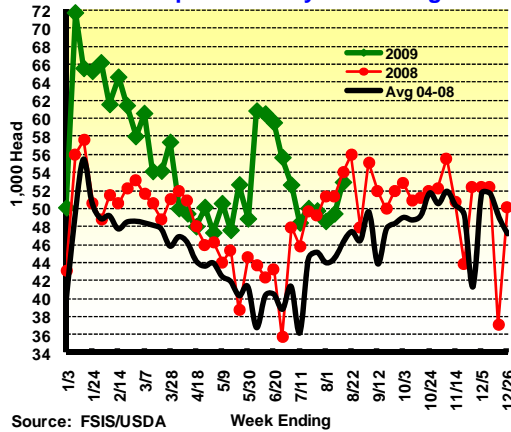
with the difference being substantial sustained export volumes. (See graph.)

The [retail price](#) of cheddar cheese was \$4.56 in July (down 3% from last year). Processed cheese averaged \$3.88 at retail in July, down 7% from a year ago.

[Production](#) of dry [whey](#) for food was 88 million lbs. in June 2009, down 2% from a year ago. Production of all whey products was also down 2%. (See box.)

The manufacturers' [price](#) of whey was 29¢ per lb. the week of August 22, according to NASS' survey. WPC-34 prices are also up, to about 64¢, per USDA's [Dairy Market News](#). The [CME](#) dry whey futures project average whey prices of 29¢ for the next 6 months, 25¢ for all of 2009, and 29¢ for 2010. The whey price is about 32¢ per lb. in Europe. **dmr**

Fed. Inspected Dairy Cow Slaughter

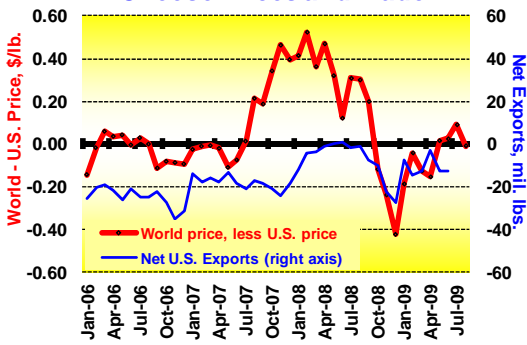


Source: FSIS/USDA

USDA-reported [stocks](#) of American cheese opened August at 626 million pounds, up 8% from last year, and up 3 million pounds from July 1. August's opening stocks of other cheese, including Swiss, were 356 million pounds, up 10% from a year ago, and up 7 million pounds from July. August 1 total

cheese stocks were 983 million pounds, up 9% from last year and up 10 million

Cheese Prices and Trade



| Whey Products | | | | |
|---------------|-----------------|---------------|---------------------|---------------|
| Product | June Production | | July 1 Maker Stocks | |
| | Mil. lbs. | Change v 2008 | Mil. lbs. | Change v 2008 |
| Whey, food | 87.6 | -2.0 | 47.2 | -17.6 |
| Whey, feed | 4.4 | -22.4 | 1.7 | -70.3 |
| WPC25-51 | 22.1 | -5.5 | 22.4 | -30.8 |
| WPC50-91 | 11.7 | 4.5 | 14.3 | -2.7 |
| WPI90+ | 4.5 | 28.0 | n/a | n/a |
| Total | 130.3 | -2.1% | 85.7 | -22.3% |

Butter

June U.S. [butter production](#) was 125 million lbs., up 7.5% from a year ago and down 7.0% from May, on an average daily basis. August 1 [stocks](#) were 264 million pounds, up 7% from a year ago and up a million pounds from July.

[Commercial disappearance](#) for butter (including exports) in the quarter ending with June, was down 1.9% from a year ago and disappearance of all milkfat was up 0.8%.

The [retail](#) butter price was \$2.92 per lb. in July 2009, up 2¢ from last month and down 8% from 2008.

Dry Milk Powders

U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 161 million lbs. in June, down 5.0% from a year ago. July 1 manufacturers' stocks of (only) nonfat dry milk were 194 million lbs., up 41% from last year, and up 5 million pounds from June 1.

Since our last report, the [CME](#) price of extra grade nonfat dry milk was up 7½¢ to 95¢ per lb., and grade A was up 10½¢ to 99½¢, on August 28; this compares to the average surveyed U.S. manufacturers' [price](#) of 88¢ for the week of August 22.

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

The [CME](#) butter price was down 7¾¢ to \$1.16¾ on August 28. Futures project NASS butter at \$1.25 for the six months through February, \$1.18 for all 2009, \$1.42 for 2010.

The U.S. was a [net butter importer](#) in June of 2,346,400 lbs.; last June, net exports were 19.5 million lbs.

USDA awarded DEIP bonuses for 11 million pounds of butter in the first 26 days of August. Butter in Oceania is about 96¢ per lb., according to USDA's [international](#) report, compared to European prices of about \$1.50. **dmr**

45 million pounds, down 55% from last June's total.

As of August 26, the DEIP program has awarded bonuses for 32 million pounds of nonfat dry milk exports in Fiscal Year 2010 (which began July 1), with about 118 million pounds left in the FY10 allowance under world trading rules.

USDA purchases of nonfat dry milk under the price support program have come to a near stop, at less than 3 million pounds in the first 26 days of August. This apparent slowdown comes partly from the cancelled sales of powder made before August 1, for which CCC will pay only 80¢. The process of manufacturing, grading, and bidding powder made after July 31

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in June was up 12% from last year, to 334½ million lbs; year-to-date was up 7%.

June's reported [ice cream production](#) was again down 1.3% from a year ago, to 133 million gallons, and down 1.0% for the year to date. Ice cream mix production was 75 million gallons, up 0.6% from a year ago, and down 0.4%

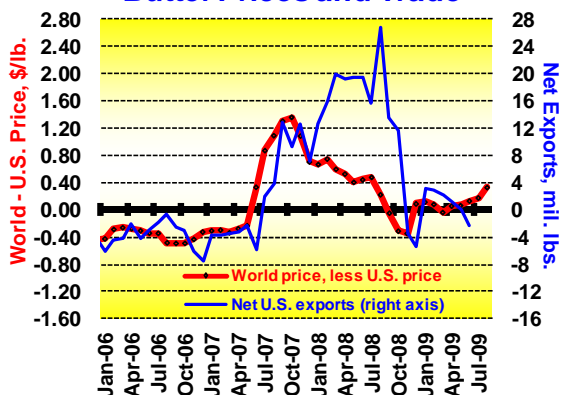
for the year to date.

The [retail](#) ice cream price was \$4.19 per ½-gallon in July, up ½% from last year.

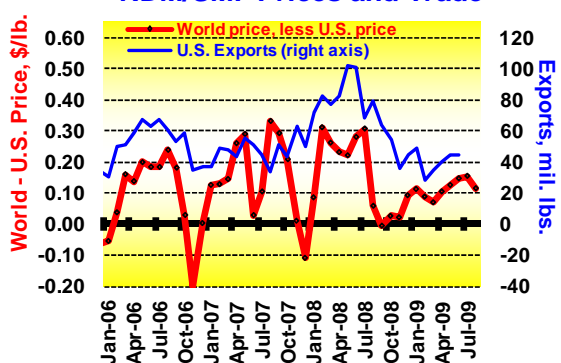
[Fluid milk sales](#) for May were up 0.5% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 20%. July's retail price was \$2.99, down 24½% from a year ago.

dmr

Butter Prices and Trade



NDM/SMP Prices and Trade



takes time, and sales at the new 92¢ price have only just begun. (See page 1.)

Nevertheless, the announcement seems to have sped the anticipated fall run-up of the ndm price.

[Commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") were 364 million lbs. in the three months ending June, down 13% from a year ago; and all skim solids was down 1.6%. **dmr**

U.S. Fluid Milk Sales

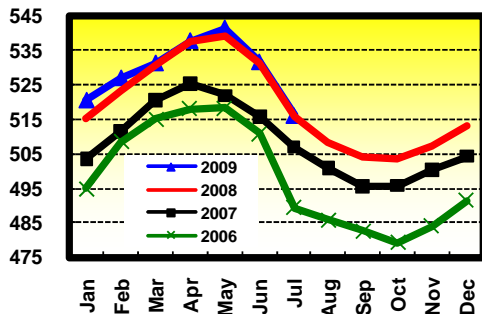
| Product | June 2009 | | 2009 to date | |
|----------------------------------|--------------|------------|---------------|------------|
| | Mil. lbs. | % | Mil. lbs. | % |
| Whole Milk | 1,235 | 2.4 | 7,445 | -1.0 |
| Flavored Whole Milk | 46 | 2.1 | 287 | -2.0 |
| Organic Whole Milk | 31 | 1.3 | 182 | -1.6 |
| Reduced Fat Milk (2%) | 1,499 | 4.4 | 9,161 | 1.5 |
| Low Fat Milk (1%) | 525 | 4.5 | 3,406 | 2.3 |
| Fat-Free Milk (Skim) | 654 | 1.9 | 4,058 | -0.6 |
| Flavored Fat-Reduced | 192 | 12.6 | 1,998 | 3.5 |
| Organic Fat-Reduced | 101 | 1.1 | 604 | -4.8 |
| Buttermilk | 39 | -2.3 | 337 | 19.4 |
| Total (including "Other") | 4,327 | 3.6 | 27,527 | 0.6 |
| Total (calendar adjusted) | 4,269 | 0.5 | 27,513 | 1.2 |

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. [milk production](#) in July was 16.0 billion lbs., nearly unchanged from a year ago. Milk per cow was up 1.6%, but the herd was 145,000 cows (1.6%) smaller than a year

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



ago. This decline will get bigger: the second CWT retirement round in 2009 is expected to take nearly 87,000 cows out of production by the end of August. Production has been up 0.3% in the first 7 months of 2009, on an average daily basis; but USDA continues to project a 2.0% decline in the last 5 months. This apparent inconsistency is not unreasonable, given the increasing fre-

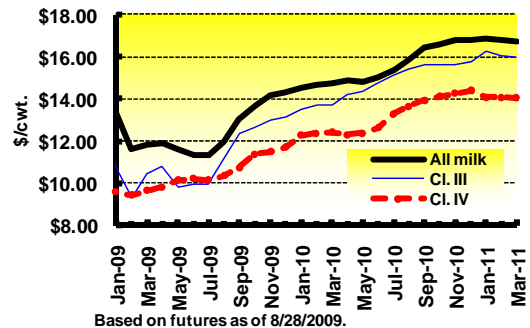
quency of dairy farm closings being reported in the press. There must, after all, come a time when a large number of producers can no longer continue to lose so much money every month.

July's [Class III](#) price was announced at \$9.97 per hundredweight, even with June, and **down \$8.27** from a year ago. Class III [futures](#) prices for the next six months (September through February) averaged \$13.05 per hundredweight on August 28, and they project averages of \$11.12 for 2009 and \$14.80 (compared to \$15.10 last month) for 2010. August is projected at about \$11.20. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The July [Class IV price](#) was \$10.15, down 7¢ from July, and down \$6.45 from a year ago. [Futures](#) markets project Class IV milk to average about \$11.70 for the next six months, \$10.40 for 2009, and \$13.20 for 2010. August is projected at about \$10.35. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

July component prices were: \$1.2438 per lb. (down a penny from June) for butterfat in Class III, Class IV, and producer milk; \$1.6970 (down 3¢) for protein in Class III and producer milk; \$0.6677 (down less than half a penny) for total nonfat solids in Class IV milk; and \$0.0949 (up 2¢) for other solids in Class III

Projected Milk Prices



Based on futures as of 8/28/2009.

and producer milk; the other solids value is positive for the first time since last November. August butterfat is projected at \$1.25.

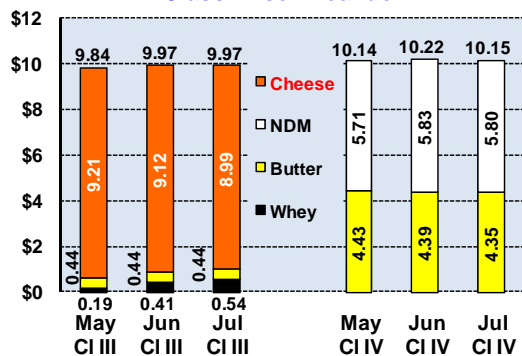
July's Class II price was up 8¢ per hundredweight again, to \$10.87. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. August is projected at about \$10.90.

September's [Class I](#) base price was announced at \$10.93, up 89¢, based on rising cheese values. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

July's [all-milk price](#) was \$11.30, even with June. August is projected to be about \$12.00. The futures markets project the all-milk price to average about \$12.60 in 2009 and \$15.60 in 2010.

Feed costs are down, but falling slower than expected: near month [corn](#) and [soy](#) futures are \$3.21 and \$11.87 per bushel. Futures markets project 2009 averages for corn at \$3.65 (\$3.60 in 2010) and soybeans at \$10.40 (\$9.85 in 2010). **dmr**

Class Price Breakdown



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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.