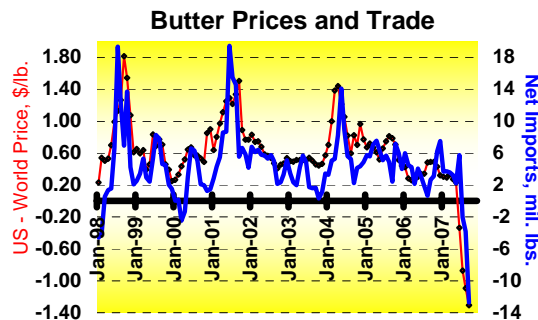


Dairy Market Report



Executive Summary

- ➔ U.S. skim solids commercial disappearance up 1.7% for July-September; fat up 1.3%.
- ➔ November 1 cheese stocks down 2%, butter stocks up 24%, from last year.
- ➔ Cheese near record highs: December 6 blocks up 18¾¢ to \$2.19¼/lb., barrels up 24¢ to \$2.16, butter up 1½¢ to \$1.32½/lb., from our last report.
- ➔ October milk production up 3.5%.
- ➔ Outlook: *Weaker domestic demand. Price strength in 2008 depends on continued export growth, as production responds to high*



Market Outlook

The Dairy Market Report
is created for
Dairy Management Inc.



The Nutshell

Production v. last year:

- Oct. Cheese ↑ 1.6%
- Oct. Butter ↑ 9.1%
- Oct. NDM/SMP ↑ 21.6%
- Oct. Whey ↑ 1.6%
- October Milk ↑ 3.5%

Prices:

	Oct.	Nov.
NASS		
Cheddar	1.92	1.97
Whey	0.42	0.43
Butter	1.29	1.29
NDM	2.06	1.96
Milk	Oct.	Nov.
Cl. III	18.70	19.22
Cl. IV	21.31	20.40
All	21.40	21.60

Milk production is slowly gathering steam after eight months of high milk prices, and without intervention, growth could accelerate through 2008. For now production is growing despite only modest growth in the herd. Even as feed prices have risen by as much as \$2 to \$3 dollars per hundredweight of milk, and despite reduced use of rBST, farmers are boosting per-cow production to take advantage of record milk prices.

At the same time, domestic demand is also responding to high prices. Flat to slightly lower sales of fluid milk and cheese are better than should be expected with retail milk prices up by a quarter and wholesale cheese at record highs.

Nevertheless, sales are down, and production is rising. In the past, this would mean a crash is coming. But not today.

Today a larger world market is relying on U.S. dairy products and, for now, this is turning the logic of domestic supply and demand upside-down: the U.S. supply is growing, U.S. demand is stagnant, but prices stay up.

For example, domestic demand for butterfat was flat in the third quarter. Commercial disappearance of butterfat rose 1.3%, or 22 million pounds, but three quarters of this increase, 16½ million pounds of butterfat, was contained in increased butter exports (including butteroil, anhydrous milkfat, and such). Butter imports fell by nearly 10 million pounds; so net exports increased by over 30 million pounds, equal to more than 24 million pounds of butterfat. Take away this improvement in butter trade, and U.S. demand is down 0.1% for the quarter.

More than 10% of commercial disappearance of skim solids consists of exports, especially dry ingredients. Without these sales, this supply would overwhelm the domestic market for a time.

Customers world-wide are pushing back on this year's record product prices, so prices must be lower next year. Still, we see a strong, export-assisted price outlook for 2008, even as U.S. production expands to meet world demand. *dmr*

Cheese and Whey

In October, total U.S. **cheese production** (excluding cottage cheese) was 825 million lbs., up 1.6% from a year ago. Of this, American types totaled 325 million lbs., up 1.2%, and Italian types were 346 million lb., up 1.8%. (Total cheese production in September was 775 million, down 1.6%, including 301 million pounds of American cheese and 330 million of Italian.) For the year to date, total cheese production was up 1.4%.

Natural American cheese **stocks** were 520 million lbs. on November 1, down 3% from October and also down 3% from a year ago. Stocks of other cheese, including Swiss, began November at 273 million lbs., up 3% from October and down 1% from last year. Total cheese stocks are down 2% from a year ago.

For the three months ending September 2007, **commercial disappearance** of American cheese was 971 million lbs., down 4.7% from a year ago; other cheese was 1.57 billion lbs., up 6.2% from last year. The total was up 1.7%.

CME prices reached record levels in late November, and were still

well up from our last report on December 6: 40 -lb. blocks up 18¼¢ to \$2.19½ per lb.; 500-lb. barrels up 24¢ to \$2.16. Futures markets project a cheddar cheese price averaging

\$1.77 in the six months ending June, \$1.74 in 2007, and \$1.72 in 2008.

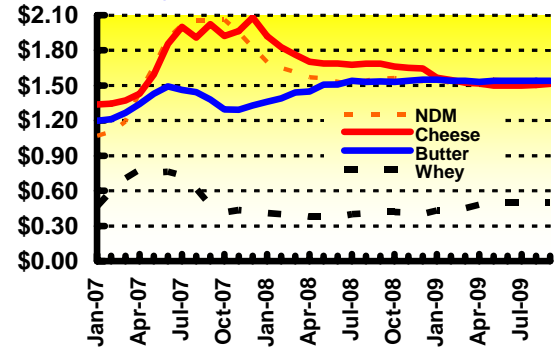
The **retail prices** in October 2007 were \$4.52 per lb. for cheddar cheese (up 6½% from last year); and \$4.16 for American processed cheese (up 14½%).

Total **production** of dry **whey** was 89 million lbs. in October, up 1.6% from a year ago, and up 2.2% for the year to date. (See box.)

Whey and WPC prices have fallen back into protein parity with one another, but far below parity with nonfat dry milk. The manufacturers' **price** of whey was 45¢ per lb. the week of November 24, according to NASS' survey. WPC-34 prices are down again, to about \$1.26 (compare with nonfat dry milk prices near \$2.00), and Western sweet whey is up to about 44¢, per [Dairy Market News](#).

The **CME** dry whey futures market projects whey prices between 39¢ and

Projected Product Prices



Based on futures as of December 5, 2007

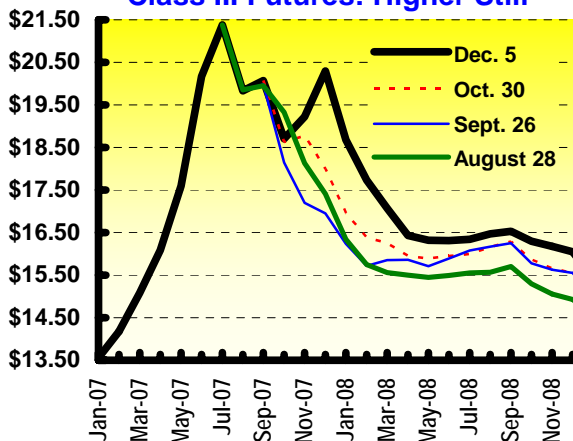
42¢ throughout 2008. The international whey price is about 45¢ per lb.

World cheddar cheese prices are above \$2.30 per lb. U.S. cheese remains competitive in receptive overseas markets.

dmr

Whey and WPC prices have fallen well below protein parity with nonfat dry milk.

Class III Futures: Higher Still



Whey Products				
Product	September Production		October 1 Maker Stocks	
	Mil. lbs.	Change v 2006	Mil. lbs.	Change v 2006
Whey, food	82.1	1.6	61.9	55.6
Whey, feed	5.3	45.2	6.6	234.6
WPC25-50	21.4	-16.6	18.8	-1.2
WPC50-90	10.3	-8.7	8.1	-9.4
WPI90+	3.0	19.9	n/a	n/a
Total	122.1	-1.1	95.4	41.6
Product	October Production		November 1 Maker Stocks	
	Mil. lbs.	Change v 2006	Mil. lbs.	Change v 2006
Whey, food	84.7	0.5	56.3	61.1
Whey, feed	4.1	30.0	6.2	411.5
WPC25-50	21.8	-8.4	18.4	8.5
WPC50-90	10.7	-0.6	9.3	-11.0
WPI90+	3.1	9.6	n/a	n/a
Total	124.4	-0.3	90.2	41.9

Butter

October U.S. [butter production](#) was 130 million lbs., up 9% from a year ago; September was 112 million pounds, up 7%; and 2007 to date is up 5½%.

U.S. butter [stocks](#) started November at 195 million lbs., up 24% from a year ago, and the largest U.S. November stocks in at least a decade.

[Commercial disappearance](#) of butter in the quarter ending with September was 374 million lbs.,

up 1.8% from a year ago.

October's [retail](#) butter price averaged \$3.10 per lb., up 4% from last October. The [CME](#) butter price was up 1½¢ to \$1.32½ on December 6. Futures project butter to average \$1.44 for the six months through June, \$1.35 in 2007, and \$1.49 in 2008.

With world butter prices still near \$1.70 per lb., U.S. [net butter exports](#) rose to 12.7 mil. lbs. in September. The table at right shows

the tariffs on U.S. butter in the world's five leading butter importers.. **dmr**

Tariffs of Leading Butter Importers

	All Imports	Tariffs on U.S. Butter
(Mil. lbs., 2006)		
Russia	247.0	5%
EU-27	181.8	<i>In quota:</i> 63¢/lb. <i>Out of quota:</i> \$1.29-\$1.54
Mexico	107.3	0%
Egypt	103.5	2% - 10%
S. Arabia	94.8	5%

Source: US Dairy Export Council (www.usdec.org)
EU tariffs converted to dollars as of 12/4/2007.

Dry Milk Powders

U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 120 million lbs. in October, up 22% from a year ago; and down 2½% for the year to date, to 1.25 billion lbs.

November 1 manufacturers' stocks of (only) nonfat dry milk were 121 million lbs., up 245% from last year, but normal for November.

The [CME](#) prices of extra grade and grade A nonfat dry milk were \$1.85 (down 8¢ from our last report) on December 6, a few cents below the average surveyed U.S.

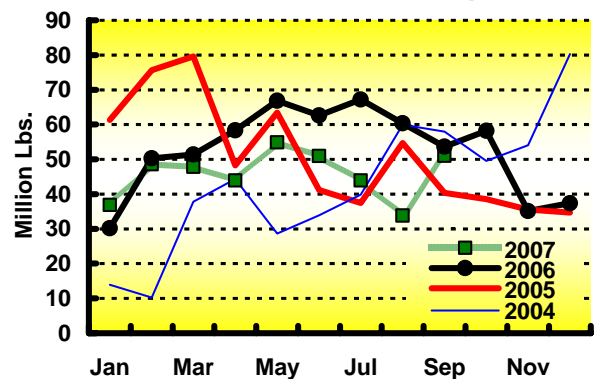
manufacturers' [price](#) of \$1.89 the week of November 24.

Skim powder prices are about \$2.15 in Oceania, but near \$1.75 in Europe. U.S. exports picked up in September, and dry milk and whey exports equaled 10% of U.S. skim solids production.

Overall U.S. [commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") in the three months ending September was 305 million lbs., up 1.8% from a year ago, according to USDA. For the same quarter,

commercial disappearance of all skim solids was up 1.7%. **dmr**

U.S. Skim Milk Powder Exports



Source: USDA/FAS

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) was 297 million lbs. in October, up 8½% from last year; September production was up 9.4% to 316 million lbs.; and 2007 to date production was up 6½%.

October [ice cream production](#) was up 3½% from a year ago to 100 million gallons. Ice cream mix production was 37 million gallons, up 2%. For 2007 to date, ice cream and ice cream mix produc-

tion is up 1.4%. October's [retail](#) ice cream price was \$3.94 per ½-gallon, up 2% from last year.

[Fluid milk sales](#) for September were down a calendar-adjusted 1.4%, but [retail](#) prices were 26% higher. October's retail whole milk price was \$3.84 per gallon, up 25% from last year. **dmr**

U.S. Fluid Milk Sales

Product	September 2007		Year-to-Date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,222	-10.4	11,900	-3.6
Flavored Whole Milk	52	-10.4	501	-5.7
Organic Whole Milk	26	33.9	229	29.3
Reduced Fat Milk (2%)	1,462	-3.0	13,359	0.5
Low Fat Milk (1%)	544	-1.4	4,869	2.5
Fat-Free Milk (Skim)	657	-4.7	6,061	0.8
Flavored Fat-Reduced	357	-5.1	2,664	-0.7
Organic Fat-Reduced	94	34.0	792	33.7
Buttermilk	40	-2.4	385	0.8
Total (including "Other")	4,467	-4.9	40,860	-0.1
Total (calendar adjusted)	4,567	-1.4	40,861	-0.1

Source: USDA/AMS, Dairy Market News

Milk: Production and Prices

U.S. [milk production](#) was 15.38 billion lbs. in October, up 3.5% from a year ago, from 0.6% more cows and 2.8% more milk per cow. Of 23 states with USDA-reported monthly production, seventeen showed year-over-year growth, including Arizona (up 13.0%), Michigan (7.6%), and Idaho (6.2%). Six states were down or flat, including Kentucky (-5.0%) and Missouri (-9.1%). California production was up 5.8% on 3.0% more milk per cow from 2.7% more cows. Wisconsin production was up 4.3%.

USDA projects 2007 growth at 1.9%, and 2.6% for 2008. We still project 2007 production growth of about 2%, based on year-to-year increases of about 2½% for the rest of the year.

November's Class III price was announced at \$19.22 per hundredweight, up 50% from a year ago, and October's was \$18.70. Futures project December Class III at \$20.30.

Class III [futures](#) prices for the next six months (January through June)

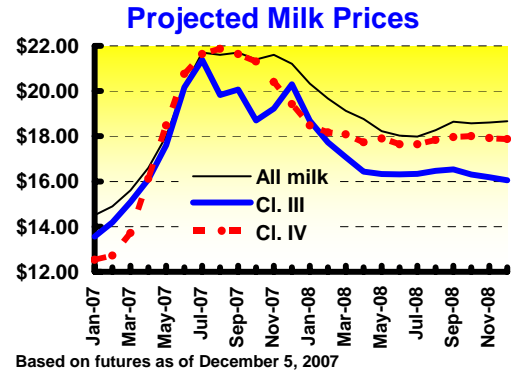
averaged \$17.09 per hundredweight on December 5, and project an average of \$18.02 for all of 2007 and \$16.70 for 2008. USDA [forecasts](#) a 2007 average of \$17.85, and \$16.20 in 2008. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The November Class IV price was \$20.40 per hundredweight, up 68% from a year ago. December's Class IV is projected near \$19.40.

[Futures](#) markets project Class IV milk to average about \$18.00 for the next six months, \$18.40 for all of 2007 and \$17.95 for 2008. USDA forecasts the Class IV price to average \$18.55 in 2007, and \$17.85 in 2008. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

November component prices were as follows: \$1.4077 per lb. (about even with October) for butterfat in Class III, Class IV, and producer milk; \$4.3081 (up 14¢) for protein in Class III and producer milk; \$1.7812 (down a dime) for total nonfat solids in Class IV milk; and \$0.2461 (up 2¢) for other solids in Class III and producer milk.

November's Class II price was up 17¢ to \$22.07 per hundredweight. This is the minimum price for pooled

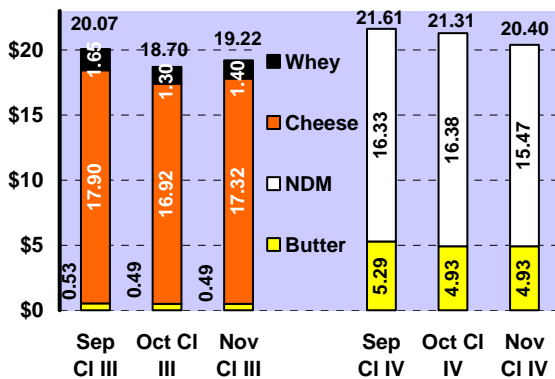


milk used to make soft dairy products and in most food processing. December's Class II price is projected near \$21.40.

The December Class I base price was down another \$1.41 from November to \$20.04, but 61% above last year and still based on butter/powder values. The January price is projected to be up modestly. The Class I base price plus the Class I location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

November's [all-milk price](#) was \$21.60, down 20¢ from October and just 10¢ below September's record. This is 55% above last year. Based on futures prices, the next six months are projected at about \$19.00, all of 2007 at \$19.08, and 2008 at \$18.74. USDA still projects the all-milk [price](#) to average \$19.00 in 2007, and \$18.15 in 2008. **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.