April 2008

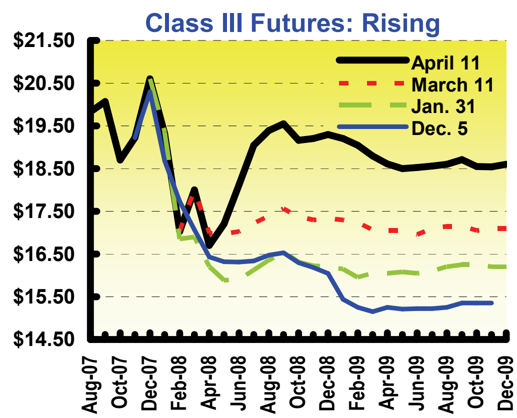
National Milk Producers Federation

Volume 11, Number 3

Dairy Market Report

Executive Summary

- U.S. skim solids commercial disappearance up 4.7% in 3 mos. ending January 2008; fat up 4.1%.
- Cheese stocks started March 2008 down 8%, butter stocks up 8%, from last year.
- February 2008 daily milk production up 1.9%: 1.2% more cows each made 0.9% more a day.
- Cheese prices continue their up and down. April 11th, blocks were up 2½¢ to $1.83½/lb., barrels up 4¾¢ to $1.75; butter up 4½¢ to $1.39/lb., from our last report.



Market Outlook

Milk production growth shows signs of slowing, despite record replacement numbers. High feed prices are driving aggressive culling and more conservative feeding practices, which are reducing milk per cow growth.

Domestic demand continued to grow near the trend rate in 2007; but there are strong indications of an economic downturn which could curtail this growth in 2008. However, the falling dollar has helped the U.S. capture a growing share of strong global dairy demand. Check-off funded export and ingredient promotion programs, as well as the export assistance elements of the voluntary Cooperatives Working Together (CWT) program, have encouraged U.S. manufacturers to pursue overseas markets in recent years. This preparation has paid off now that U.S. dairy prices, especially for butter and cheese, have become more competitive in world markets.

The biggest long-term challenge for the industry may be feed costs. This year's record grain prices could continue indefinitely. Global economic growth has certainly contributed to this: millions of new middle class Asians, Latin Americans, and Africans demand an improved diet including meat and dairy products. This boosts milk demand, but through animal feeding, also multiplies grain use, compared to a grain-based diet.

However, it is clear that the rapid push by many governments to expand biofuel use is also having a major impact on grain prices. The U.S. and the European Union, in particular, have aggressive targets for expanding biofuels use over the next decade. U.S. corn use for fuel has grown from less than a billion bushels 5 years ago to nearly 4 billion bushels (24% of U.S. corn production) in the current marketing year, and according to FAPRI projections,will grow to 5.4 billion bushels (35% of corn production) in 2017/18 simply to satisfy the legal mandate of last fall's Energy Act. Also according to FAPRI, this mandate will define U.S. ethanol use and set corn prices over the next decade and beyond, and will consume more corn than the total in international trade (among all countries).

The E.U. is projected to use another 3 billions of ethanol from various sources by 2017; but E.U. policy will have its biggest direct impact on oilseed prices: a mandate for 10% of transportation fuel to be biofuels by 2020 will be met largely through biodiesel use. Additional biofuel mandates have been set in Canada and Australia. Some poorer countries, such as China, have begun to reverse their promotion of biofuels, in order to devote grains and oils to food and feed over fuel, but their consumers (or taxpayers) will suffer the same high prices driven by biofuel mandates in the wealthier countries. dmr

The Dairy Market Report is created for Dairy Management Inc.

The Nutshell

Daily **production v. last year:**

- Feb. Cheese ⬆ 1.1%
- Feb. Butter ⬆ 5.6%
- Feb. NDM/SMP ⬆35.7%
- Feb. Whey ⬇ 5.4%
- Feb. Milk ⬆1.9%

Prices:

NASS	Feb.	Mar.
Cheddar	1.84	1.96
Whey	0.27	0.24
Butter	1.20	1.25
NDM	1.33	1.25
Milk	**Feb.**	**Mar.**
Cl. III	17.03	18.00
Cl. IV	14.67	14.17
All	19.10	18.30

Cheese and Whey

Total U.S. **cheese** production (excluding cottage cheese) was 784 million lbs. in February, up 4.8% from a year ago (up only 1.1% after adjusting for Leap Day) and down 3.5% from January. Of this, American types totaled 319 million lbs., up 4.5% from last year (up 0.9% adjusted), and down 4.4% from January. Italian types were 335 million lb., up 4.8% from last year (1.2% adjusted) and down 4.8% from January.

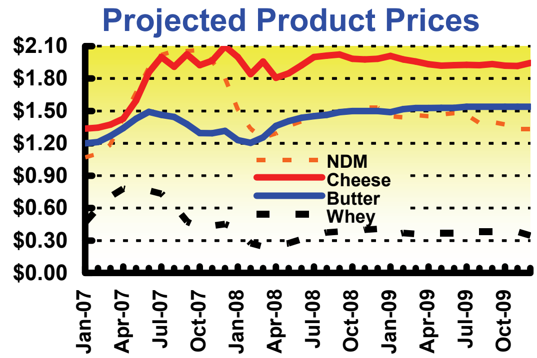
Natural American cheese stocks were 518 million lbs. as March began, down 8% from a year ago. Stocks of other cheese, including Swiss, began March at 287 million lbs., down 8% from last year. Total cheese stocks are down 8% from a year ago, and up 3% from February 1.

"U.S. cheese exports in January and February are nearly doubled from a year ago."

For the three months ending January 2008, commercial disappearance of American cheese was 1.04 billion lbs., up 5.0% from a year ago; other cheese was 1.58 billion lbs., up 2.2% from last year. The total was up 3.3%.

CME cheese prices remained high, and were back up from last month's report. On April 11, blocks were up to $1.83½ per pound, and barrels were $1.75. The Class III futures markets show a rising expectation of high prices through the end of 2009. (See graph on page 1.) This CME contract is cash-settled against the USDA's announced Class III milk price, which is a product price-based value for cheese milk. This makes it an effective futures proxy for the cheese price, as reflected in the graph at right.

April 11 futures markets project the NASS cheese price to average nearly $2.00 over the next 6 months (May through October), and for all of 2008 and 2009. High world prices have helped support these high domestic prices.



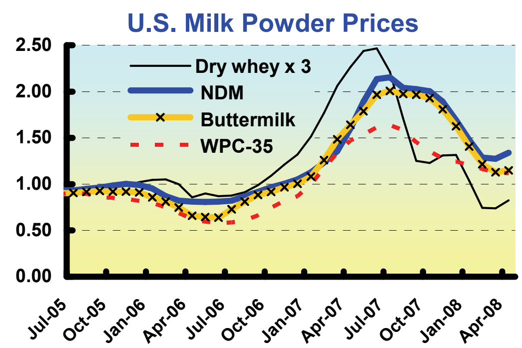
Based on futures as of April 11, 2008

U.S. cheese exports in January and February were over 47 million pounds, up two-thirds from a year ago and equal to 3% of U.S. production. These exports have been attracted by world prices approaching $2.30 per lb.

The retail prices in February 2007 were $4.61 per lb. for cheddar cheese (up 15% from last year); and $4.06 for American processed cheese (up 10%).

Total production of dry **whey** for food was 83.9 million lbs. in February 2008, down 2% from a year ago. (See box.)

The manufacturers' price of whey was 26¢ per lb. the week of April 5, according to NASS' survey. WPC-34 prices are just above $1.10, compared to nonfat dry milk spot prices just below $1.35, and Western sweet whey is back up to about 28¢, per Dairy Market News. (See graph below.) The CME dry whey futures project average whey prices of 34¢ in 2008, compared to a 60¢ average in 2007. The international whey price is also about 30¢ per lb. **dmr**



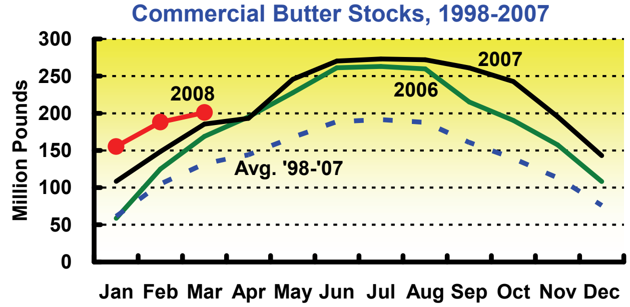
Source: Dairy Market News, USDA

Whey Products

Product	February Production		March 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2007
Whey, food	83.9	-2.0	56.6	50.7
Whey, feed	4.1	-10.7	2.4	41.3
WPC25-50	21.8	14.6	21.2	41.3
WPC50-90	11.4	9.4	10.6	4.3
WPI90+	2.9	4.8	n/a	n/a
Total	***124.1***	***1.4%***	***90.7***	***41.0%***

Butter

Commercial Butter Stocks, 1998-2007



Source: USDA/NASS (beginning stocks)

February U.S. butter production was 147 million lbs., up 9% from a year ago (or 6%, adjusted for Leap Day). U.S. stocks began March at 201 million lbs., up 8% from last year, and still above the seasonal average. (See graph.)

Commercial disappearance of butter in the three months ending with January was 457 million lbs., up 6.9% from a year ago. Disappearance of all milkfat was up 4.1% for the same three months.

The retail butter price averaged $3.06 per lb. in February 2008, up 1.7% from 2007.

The CME butter price was up 4½¢ to $1.39 on April 11. Futures project NASS butter at $1.46 for the six months through October, $1.40 for all 2008, and $1.53 for 2009. World prices remain about 40¢ to 60¢ above U.S. prices, encouraging continued U.S. net butter exports, which totaled 58 million pounds in July through January. **dmr**

Dry Milk Powders

U.S. nonfat dry milk production, including protein-standardized "skim milk powders" was 153 million lbs. in February, up 41% from a year ago (36% adjusted for Leap Day).

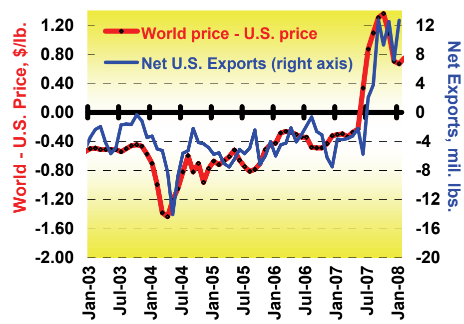
March 1 manufacturers' stocks of (only) nonfat dry milk were 150 million lbs., up 1% from last year.

The CME prices of extra grade and grade A nonfat dry milk were $1.30 (unchanged from our last report) on April 11, 5¢ above the average surveyed U.S. manufacturers' price of $1.25 the week of April 5.

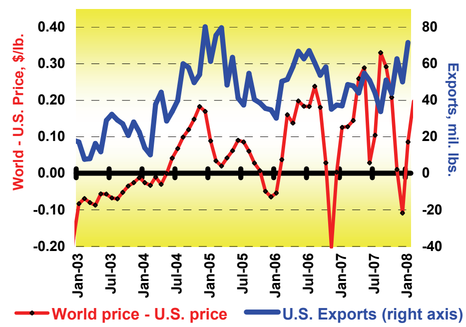
Skim powder prices are around $1.60 in both Oceania and Western Europe, per USDA. Exports have been heavy, reflecting U.S. powders' competitive pricing. (See graph.)

Overall U.S. commercial disappearance of nonfat dry milk (including exports, but excluding modified "skim milk powders") in the three months ending January was 296 million lbs., up 14% from a year ago, according to USDA. For the same quarter, commercial disappearance of all skim solids was up 4.7%. **dmr**

Butter Prices and Trade



NDM/SMP Prices and Trade



Yogurt, Ice Cream, and Fluid Milk

U.S. yogurt production was 298 million lbs. in February, up 4.5% from last year (up 0.9% adjusted for Leap Day), and up 0.5% from January.

February ice cream production was up 0.6% from a year ago to 95 million gallons. (Adjusted for Leap Day, this was down 2.9%) Ice cream mix production was 36 million gallons, down 1.2% (or down 4.6% adjusted). For the year to date, ice cream production was down 2% and mix was down 3%. February's retail ice cream price was $4.04 per ½-gallon, up 0.5% from last year.

February fluid milk sales fell only 1.9% from a year ago (calendar-adjusted), as the retail price of whole milk rose 25% to $3.87 per gallon. **dmr**

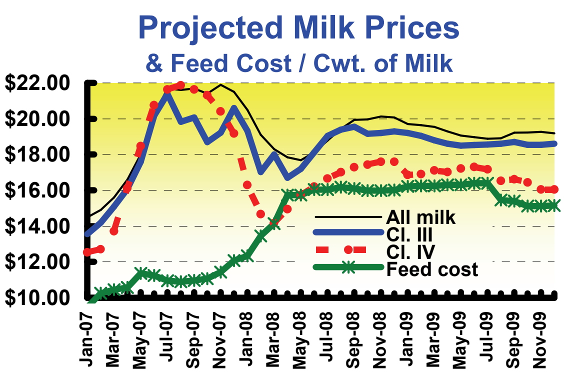
U.S. Fluid Milk Sales

	February 2008		Year to Date	
Product	**Mil. lbs.**	**%**	**Mil. lbs.**	**%**
Whole Milk	1,219	-3.6	2,553	-5.4
Flavored Whole Milk	49	-8.3	97	-17.5
Organic Whole Milk	30	31.5	63	30.3
Reduced Fat Milk (2%)	1,458	3.7	3,038	1.9
Low Fat Milk (1%)	549	5.4	1,129	2.9
Fat-Free Milk (Skim)	668	3.8	1,376	1.4
Flavored Fat-Reduced	342	3.7	705	0.9
Organic Fat-Reduced	115	46.7	225	35.3
Buttermilk	48	13.8	101	17.6
Total (including "Other")	**4,489**	**2.7**	**9,313**	**0.4**
Total (calendar adjusted)	**4,287**	**-1.9**	**9,098**	**-1.4**

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. milk production was 15.11 billion lbs. in February, up 5.5% from 2007. February 2008 had an extra day, though, so average daily production was up only 1.9% from a year ago, based on 1.2% more cows and only 0.7% more milk per cow. The herd growth shows momentum from the last year of good milk returns. Feed costs are soaring, though, and the slower growth of milk per cow reflects producers cutting rations. USDA projects 2.4% growth for 2008. We project lower growth, as high feed costs undercut lower milk prices.



Based on futures as of 4/11/2008; non-feed costs not shown.

March's Class III price was announced at $18.00 per hundredweight, up 97¢ from February, and up $2.91 from a year ago. April will be down again to about $16.60. Class III futures prices for the next six months (May through October) averaged $18.75 per hundredweight on April 11, and project averages of $18.50 for 2008 and $18.75 for 2009. USDA forecasts $16.80 in 2008. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The March Class IV price was $14.17 per hundredweight, down 50¢ from February, but up 46¢ from a year ago. April's Class IV is projected up again to about $14.60. Futures markets project Class IV milk to average about $16.70 for the next six months, $16.30 for 2008 and $16.80 for 2009. USDA forecasts $15.65 in 2008. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

March component prices: $1.3604 per lb. (up 6¢ from February) for butterfat in Class III, Class IV, and producer milk; $4.3331 (up 32¢) for protein in Class III and producer milk; $1.0833 (down 8¢) for total nonfat solids in Class IV milk; and $0.0493 (down 3¢) for other solids in Class III and producer milk.

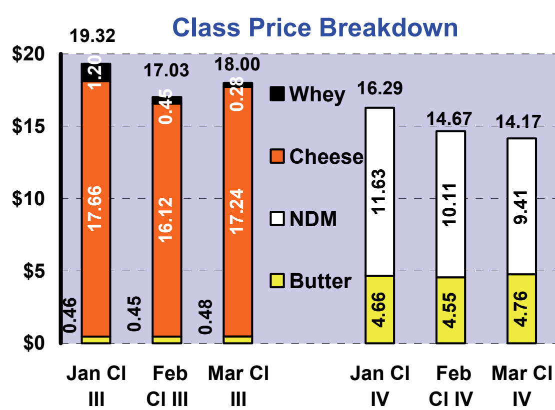
March's Class II price was down $2.83 to $15.63 per hundredweight. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. April is projected near $15.35.

The April Class I base price was up $1.91 to $18.61, but $3.61 above last year and based on cheese/whey values. May's Class I base price should be about $16.50. 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.

March's all-milk price was $18.30, down 80¢ from February, and down $3.60 from November's record, but up $2.70 from a year ago. Futures project the next six months at $19.00, 2008 at $19.15, and 2009 at $19.25.

Feed costs promise to afflict the dairy farmer's bottom line indefinitely. March's $11.90/bu. NASS soybean price was another record, $1.90 higher than the pre-2008 record of $10. Futures prices for soybeans are consistently between $12.20 and $13.50 over the next two years. March's corn price of $4.83/bu. topped the August 1996 record by 40¢; and corn futures project new records approaching $6.00/bu. this summer. If feed and dairy futures are right, they project the milk-feed price ratio as low as 1.8 in May, despite an all-milk price above $17.

This afflicted bottom line is expected to damp milk production, and maintain high milk prices. dmr



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