November 2008

National Milk Producers Federation

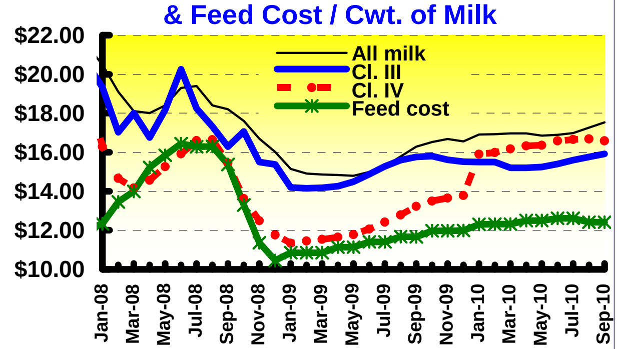
Volume 11, Number 9

Dairy Market Report

Executive Summary

- Commercial disappearance (including exports): skim solids up 0.8% in July though September, milk fat up 2.8%.
- Cheese prices up, butter prices down, from our last report: November 25th blocks were up 12½¢ to $1.80¼/lb., barrels up 8¼¢ to $1.76¾; butter down 21¾¢ to $1.53¼/lb.
- Outlook: *Lagging world demand and growing export competition drive down world prices; U.S. pressed to match.*

Projected Milk Prices
& Feed Cost / Cwt. of Milk



Based on futures as of 11/25/2008; non-feed costs not shown.

Market Outlook

"May you live in interesting times" goes the curse. Even in such interesting times as these, dairy market forecasting depends upon supply and demand; but we now must look at the supply and demand, not only in the United States, but around the world.

Regarding supply, U.S. October milk production was up a modest 1.2%; we project growth of 0.25% to 0.75% in 2009. A major factor in slowing production growth over the next year or two will be the financial crisis. Most agricultural lenders are healthy, and have profited from lending to farmers. They even have money to lend, especially operating loans to their regular customers. However, medium- to long-term financing has become hard to come by. This is not because their lending standards have changed, they say, but because conditions have changed. That is, a new farm or an expansion that penciled out as profitable 18 months ago is now a loser, with interest rates nearly doubled and prices projected to be less favorable.

However, other key international suppliers, which had been stymied in recent years, have revived. European markets are in surplus. New Zealand production fell 3% in the 2007-8 marketing year (which is June through May on the bottom of the world), but is projected to grow by 8% in the 2008-9 marketing year. This 2.7 billion pound increase would only move New Zealand back toward its recent trend line, but is equal to 1.4% of U.S. production and about 2% of world dairy trade. These supplies are stiff competition for U.S. products in Asian markets, where demand growth has been so strong in recent years...

..which brings us to demand. The melamine contamination of Chinese milk has put the Chinese off their dairy products: substantial reductions in dairy product demand have been reported by grocers operating in China, and the Chinese government is predictably limiting the opportunities that the scare could provide foreign suppliers, by imposing restrictive (even harsh) standards on imports. The scandal and the slowing world economy are contributing to a demand slow-down throughout the developing world, where dairy is not yet an ingrained habit. A modest boost in U.S. demand as prices fall will not make up for these lost exports.

So world dairy prices continue to fall. U.S. and world powder prices have fallen to around 90¢ per pound. Exports are down, as product from Oceania replaces U.S. product in the world market; and some 70 million pounds have instead been sold to the USDA price support program. USDA can sell this powder back into the market, but not for less than 88¢ per pound, per the last Farm Bill. World butter prices have dipped toward $1.15 per pound; but Cooperatives Working Together has kept the U.S. price higher by supporting the export of 80 million pounds of butter (and equivalent) in the second half of 2008. U.S. cheese prices are also hanging well above world levels, due to domestic market dynamics.

In 2009, the international economic crisis will define demand. The U.S. supply may ease, but other, low-cost exporters are growing. Eventually, U.S. and world prices will have to converge, potentially tempered by U.S. policy and the cooperative action of dairy farmers. dmr

The Dairy Market Report is created for Dairy Management Inc.

The Nutshell

Production v. last year:

- Sept. Cheese ⬆ 2.3%
- Sept. Butter ⬆ 7.4%
- Sept. NDM/SMP ⬆ 19.5%
- Sept. Whey ⬇ 5.1%
- October Milk ⬆ 1.2%

NASS	Sept.	Oct.
Cheddar	1.78	1.91
Whey	0.22	0.19
Butter	1.64	1.70
NDM	1.21	1.00

Milk	Sept.	Oct.
Cl. III	16.28	17.06
Cl. IV	15.45	13.62
All	18.20	17.60

Cheese and Whey

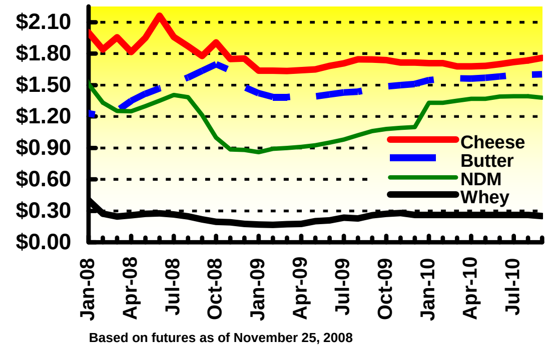
Total U.S. **cheese** production (excluding cottage cheese) was 795 million lbs. in September, up 2.3% from a year ago, and average daily production was about even with August. American types totaled 317 million lbs. in September, up 5.7% from last year, and down 3.3% from August on an average daily basis. Italian types were 333 million lbs., up 0.3% from last year and up 3.9% from August on an average daily basis.

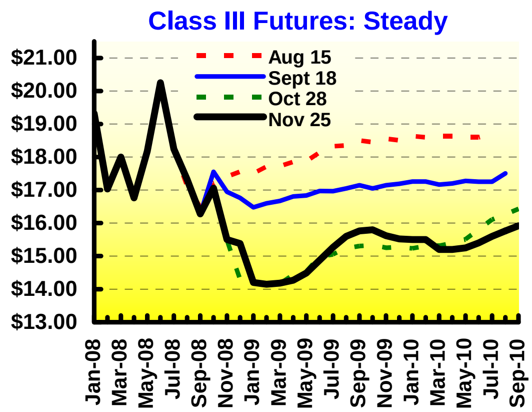
Natural American cheese stocks were 540 million lbs. as November began, up 3% from a year ago, and down 9 million pounds from October's beginning stocks. November's beginning stocks of other cheese, including Swiss, were 283 million lbs., down 1% from a year ago, and down 1½ million pounds from October 1. Total cheese stocks are up 2% from a year ago, and down 11 million pounds from October 1.

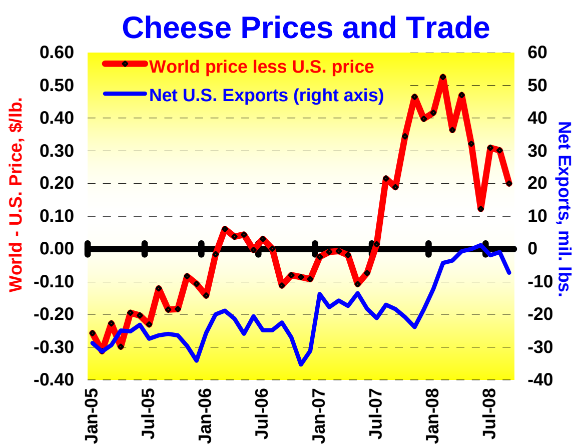
"For the three months ending September 2008, commercial disappearance of all cheese was up 1.1%."

For the three months ending September 2008, commercial disappearance of American cheese was 1.03 billion million lbs., up 6.5% from a year ago; other cheese was 1.54 billion lbs., down 2.3% from last year. The total was up 1.1%.

As of November 25, CME block cheese prices are $1.80¼, up 12½¢ from our last report. Barrels are $1.76¾, up 8¼¢. Class III futures markets are about where they were a month ago. (See graph) November 25 futures project cheese prices to average $1.66 over the next six months (December through May), $1.90 for all of 2008, and $1.69 for all of 2009, about even with last month's projections.







U.S. cheese exports in September were 24 million pounds, up 34% from a year ago, and equivalent to 3.0% of U.S. production. Imports were down 14% from a year ago to 31 million pounds.

The retail price of cheddar cheese was $5.02½ in October (up 11% from last year). Processed cheese averaged $4.01 at retail in October, down 4% from a year ago.

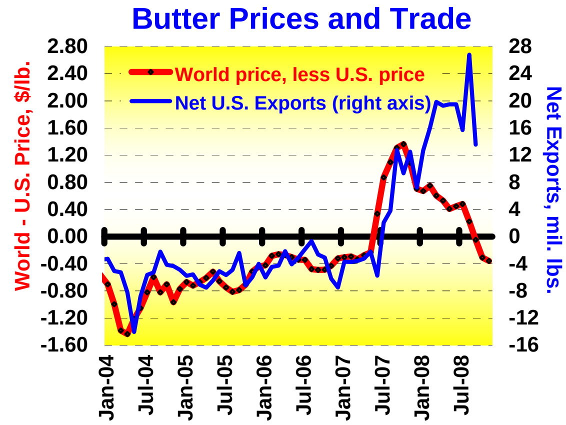
Total production of dry **whey** for food was 79 million lbs. in September 2008, down 5% from a year ago. (See box.)

The manufacturers' price of whey was 19¢ per lb. the week of November 15, according to NASS' survey. WPC-34 prices have been steady, at about 40¢, per USDA's *Dairy Market News*. The CME dry whey futures project average whey prices of 18¢ for the next 6 months, and 22¢ for all of 2009. The international whey price is about 24¢ per lb., per *Dairy Market News.* **dmr**

Whey Products

Product	September Production		October 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2007
Whey, food	78.7	-5.1	59.7	-5.8
Whey, feed	4.5	-15.5	6.2	-24.1
WPC25-50	23.3	11.4	22.6	21.1
WPC50-90	10.2	-2.9	11.6	41.9
WPI90+	3.5	9.9	n/a	n/a
Total	***120.1***	***-2.1%***	***100.1***	***1.7%***

Butter



September U.S. butter production was 121 million lbs., up 7.4% from a year ago, and up 8% from August, on an average daily basis. November 1 stocks were 149 million lbs., 24% less than a year ago, and down 37 million lbs. from October.

Commercial disappearance (including exports) of butter in the three months ending with September was 425 million lbs., up 13% from a year ago. Disappearance of all milkfat was up 2.8% for the same three months.

The retail butter price was $3.26 per lb. in October 2008, up 5% from 2007.

The CME butter price was down 21¾¢ to $1.53¼ on November 25. Futures project NASS butter at $1.41 for the six months through May, $1.46 for all 2008, and $1.43 for 2009.

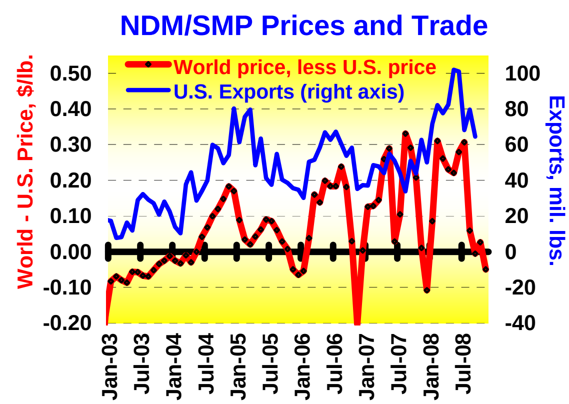
Net butter exports were 13.5 million pounds in September, and have totaled 163 million pounds - 13% of production - in the year to date. These exports continue to be supported by export assistance from the CWT program, which has committed to provide export assistance for 56 million pounds of butter and 23 million pounds of anhydrous milkfat in 2008, mostly since June. This is helping maintain a price premium in the U.S. market: in mid-November, USDA reports, international butter spot prices were about $1.25 at a time that U.S. domestic prices remained above $1.60. dmr

Dry Milk Powders

U.S. nonfat dry milk production, including protein-standardized “skim milk powders” was 125 million lbs. in September, up 19½% from a year ago. October 1 manufacturers’ stocks of (only) nonfat dry milk were 143 million lbs., up 20% from last year, and down 11 million pounds from September 1.

The CME prices of grade A and extra grade nonfat dry milk were down 9¾¢ to 90¼¢, on November 25, about 4½¢ above the average surveyed U.S. manufacturers’ price of 87¢ the week of November 15. Large volumes are being sold into the price support program at 80¢ per pound. (See page 1.)

In September 2008 exports of nonfat dry milk and skim milk powders were 64 million pounds, 26% higher than last September’s total. For the year through September, exports of nonfat dry milk and skim milk powder have equaled more than half of U.S. powder 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 322 million lbs., up 7% from a year ago, according to USDA. For the same quarter, average daily commercial disappearance of all skim solids was up 1%. dmr



Yogurt, Ice Cream, and Fluid Milk

U.S. yogurt production in September was down 0.1% from last year, to 310 million lbs. For the year to date, it is up only 1.6%.

September ice cream production was up 6% from a year ago to 108 million gallons. Ice cream mix production was 41 million gallons, up 7½%. For the year to date, ice cream production is down 1% and mix is down 2½%. The retail ice cream price was $4.38 per ½-gallon in October, up 11% from last year.

September fluid milk sales were up 0.3% from a year ago (calendar-adjusted), when the retail price of whole milk was down 2%, to $3.77. October’s retail price was $3.66, down 5% from a year ago. dmr

U.S. Fluid Milk Sales

	September 2008		Year to Date	
Product	**Mil. lbs.**	**%**	**Mil. lbs.**	**%**
Whole Milk	1,238	1.2	11,289	-5.2
Flavored Whole Milk	51	-0.8	441	-12.0
Organic Whole Milk	33	25.8	285	26.5
Reduced Fat Milk (2%)	1,522	4.0	13,607	1.8
Low Fat Milk (1%)	577	5.9	4,968	2.0
Fat-Free Milk (Skim)	681	3.6	6,106	0.7
Flavored Fat-Reduced	385	7.8	2,690	0.9
Organic Fat-Reduced	110	20.0	965	23.9
Buttermilk	39	-3.8	402	4.4
Total (including “Other”)	**4,643**	**4.0**	**40,851**	**0.0**
Total (calendar adjusted)	**4,581**	**0.3**	**40,670**	**-0.5**

Source: USDA/AMS, Dairy Market News

Milk and Feed

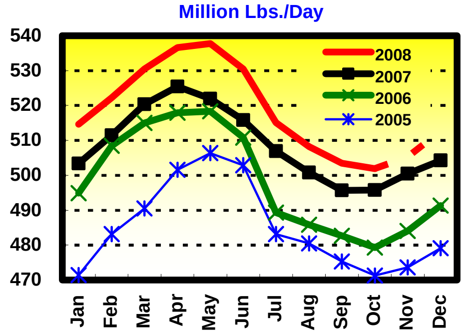
U.S. [milk production] in October was 15.6 billion lbs., up 1.2% from a year ago. This may be the slowing most forecasters are now anticipating, based on the falling milk prices and feed costs (which are down from summer peaks, but still well above recent years). We project 1% growth in the fourth quarter, and 2.2% for the full year. USDA's projected 1.2% growth for 2009 average daily production seems high.

Bidding for the sixth herd retirement round under the CWT program ended on November 24, and a number of cows to be determined will be retired early in 2009.

October's Class III price was announced at $17.06 per hundredweight, up 78¢ from September, and down $1.64 from a year ago. This was the first month to which the new make allowances and butterfat yield factor were applied. The change in formula accounted for 35¢ of the decrease. November will be down again to about $15.70. Class III futures prices for the next six months (December through May) averaged $14.45 per hundredweight on November 25, and they project averages of $17.46 for 2008 and $14.98 for 2009. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The October Class IV price was $13.62 per hundredweight, down $1.83 from September, and down $7.69 from a year ago. Again, October was the first month with the new formulas, and these accounted for 25¢ of the month's decrease in Class I. November's Class IV is projected to be down another $1.30 to about $12.30. Futures markets project Class IV milk to average about $11.60 for the next six months, $14.80 for 2008 and $12.40 (compared to $13.00, $14.90, and $16.40 in our last three reports) for 2009. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

U.S. Milk Production, 2005-2008
Million Lbs./Day



October component prices: $1.8507 per lb. (up 3¢ from September) for butterfat in Class III, Class IV, and producer milk; $3.5490 (up 28¢) for protein in Class III and producer milk; $0.8226 (down 22¢) for total nonfat solids in Class IV milk; and *negative* $0.0047 (down 3¢) for other solids in Class III and producer milk; this is negative for the first time in over 5 years, reflecting the collapse of the whey price. November butterfat is projected at $1.79. These prices are all based on USDA's revised make allowances and butterfat yield factor.

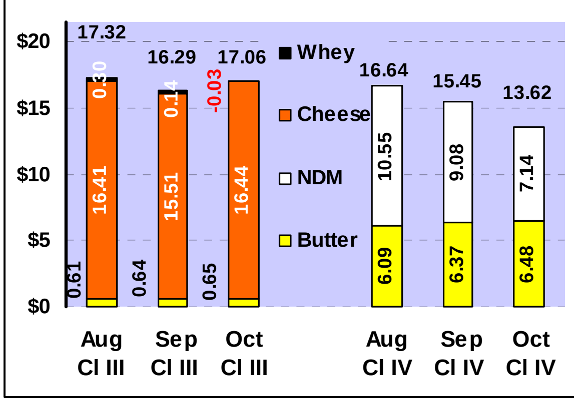
October's Class II price was down 98¢ to $16.60 per hundredweight. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. November is projected down to about $14.50.

December's Class I base price is $15.43, based on 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].

October's [all-milk price] was $17.60, down 60¢ from September and down $3.80 from a year ago. We project November's all-milk price at $16.70. Futures project the next six months at $15.10, 2008 at $18.30, and 2009 at $15.55.

Anticipated ***feed costs*** are still high, but well below the peaks of this summer. Near month corn futures are $3.53 per bushel, and soybean futures are $8.83 per bushel. Based on current futures, no MILC payments are projected in 2009 or 2010, although that could change with modest price swings. **dmr**

Class Price Breakdown



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