

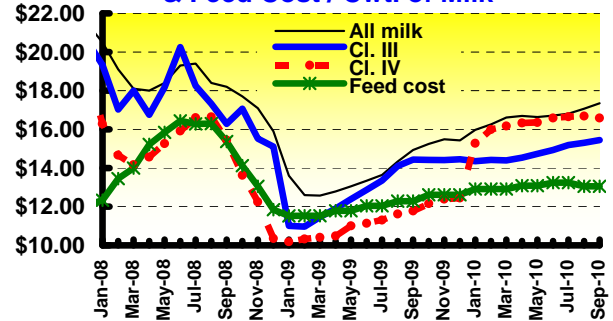


# Dairy Market Report

## Executive Summary

- ➔ Commercial disappearance (including exports): skim solids down 0.2% in August though October, milk fat up 2.3%.
- ➔ Cheese and butter prices way down, from our last report: December 30<sup>th</sup> blocks were down 62¢ to \$1.18¼/lb., barrels down 52¢ to \$1.24¼; butter down 39¼¢ to \$1.14/lb.
- ➔ Outlook: U.S. prices falling toward those of the weak world market.

## Projected Milk Prices & Feed Cost / Cwt. of Milk



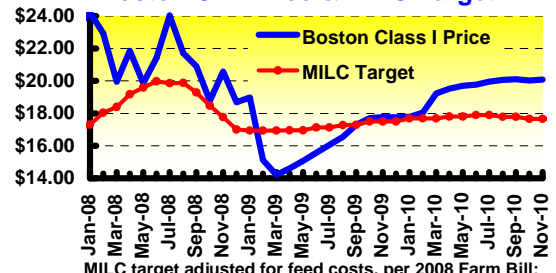
Based on futures as of 12/30/2008; non-feed costs not shown.

## Market Outlook

The weak dairy price outlook moved from theory to reality since last month's report. There was a consensus that milk prices would be lower in 2009, but the speed and timing of the decline were in doubt. That doubt was substantially removed when a big trader knocked the cheddar cheese prices down by about 20¢ on December 11. This began a 60¢ slide in the block price that has made clear how painful 2009 will be for dairy farmers and how wrenching the "correction" of supply will be.

It has also become clear that the Milk Income Loss Contract program will begin paying out to farmers for their February milk production. As of December 30, we project an average MILC payment rate of 78¢ per hundredweight over the 7 months beginning with February. Note also that futures markets project feed costs high enough to trigger the feed cost adjustor by June or earlier. (See table.) USDA issued its rule for the MILC program and began accepting signups on December 22. Beginning this year, producers with over \$500,000 in non-farm adjusted gross income will not be eligible for MILC payments; but there are no limits on farm income, which has been more broadly defined to include on-farm processing, farm-related services, etc. Farmers who sign up by the end of February may choose to receive payments beginning with February.

## Boston Cl. I Price & MILC Target



MILC target adjusted for feed costs, per 2008 Farm Bill; Projections from futures prices as of 12/30/2008.

CWT exhausted its allotment of export assistance money for 2008, but is positioned to start anew in 2009. The U.S. dairy industry's biggest challenge for 2009 is the weakening of its competitive position in sagging world export markets; and the international economic crisis will define demand. U.S. supply may ease, but other, low-cost exporters are growing or recovering from recent production declines. Eventually, U.S. and world prices will have to converge, potentially tempered by U.S. policy and the cooperative action of dairy farmers. However, the price support program, while helpful, is an imperfect substitute for a strong export market; and private efforts can also be helpful, but are necessarily limited by their budgets, especially in such a weak market. **dmr**

The Dairy Market Report is created for Dairy Management Inc.



## The Nutshell

### Production v. last year:

- Oct. Cheese ↑ 2.0%
- Oct. Butter ↓ 0.3%
- Oct. NDM/SMP ↑ 14.2%
- Oct. Whey ↓ 4.2%
- November Milk ↑ 1.1%

NASS	Oct.	Nov.
Cheddar	1.91	1.75
Whey	0.19	0.19
Butter	1.70	1.64
NDM	1.00	0.87
Milk	Oct.	Nov.
Cl. III	17.06	15.51
Cl. IV	13.62	12.25
All	17.70	17.10

December all milk: 15.90

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	17.68	0.0000
January '09	18.99	16.94	0.0000
February	15.12	16.94	0.8199
March	14.21	16.94	1.2278
April	14.60	16.96	1.0588
May	15.07	16.96	0.8494
June	15.57	17.13	0.7030
July	16.06	17.13	0.4789
August	16.56	17.28	0.3252
September	17.29	17.28	0.0000

Projections based on futures as of 12/30/2008

## Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 842 million lbs. in October, up 2.0% from a year ago, and average daily production was up about 2.3% from September. For 2008 to date, production is up 1.5%. American types totaled 342 million lbs. in October, up 6.5% from last year, and up 4.4% from September on an average daily basis. Italian types were 343 million lbs., down 1.4% from last year and down 0.5% from September on an average daily basis.

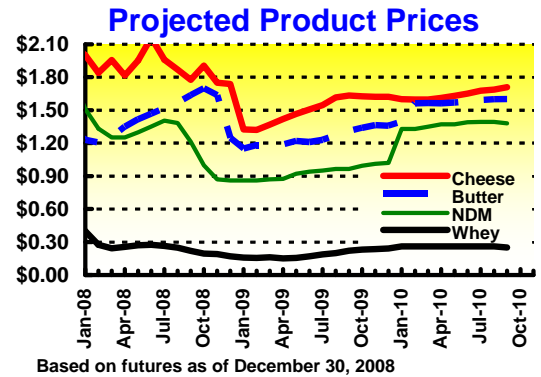
Natural American cheese **stocks** were 529 million lbs. as December began, up 2% from a year ago, and down 11 million pounds from November's beginning stocks. December's beginning stocks of other cheese, including Italian and Swiss, were 292 million lbs., up 1% from a year ago, and **up 3** million pounds from November 1. Total cheese stocks are up 2% from a year ago, and down 8 million pounds from November 1.

For the three months ending October 2008, **commercial disappearance** of American cheese was 1.04 billion million lbs., up 6.1% from a year ago; other cheese was 1.58 billion lbs., down 1.6%

from last year. The total was up 1.4%.

This year has seen an apparent weakening of the market for mozzarella, as pizza sales stagnate and pizza makers have skimped on high-priced cheese.

As of December 30, **CME** block cheese prices are down 62¢, to \$1.18¼, from our last report. Bar-



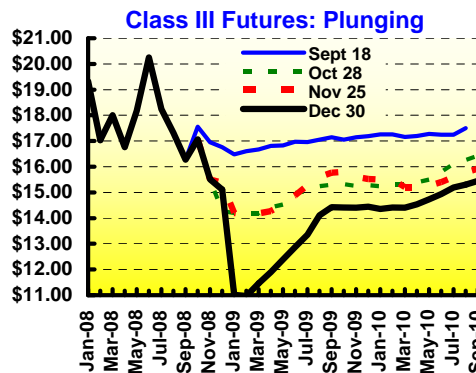
were 10 million lbs.

The **retail price** of cheddar cheese was \$5.10 in November (up 14% from last year). Processed cheese averaged \$4.08 at retail in November, up 5% from a year ago.

Total **production** of dry **whey** for food was 81 million lbs. in October 2008, down 4% from a year ago. (See box.)

The manufacturers' **price** of whey was 18¢ per lb. the week of December 20, according to NASS' survey.

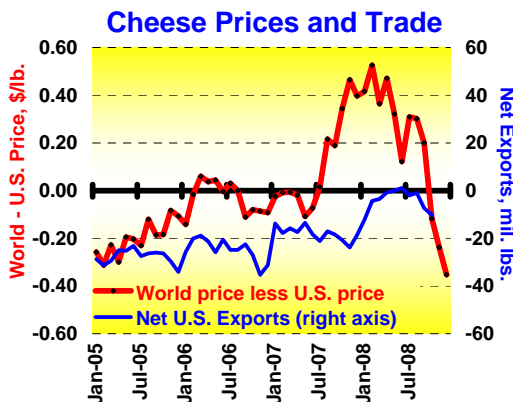
WPC-34 prices are higher, at about 45¢, per USDA's **Dairy Market News**. The **CME** dry whey futures project average whey prices of 16¢ for the next 6 months, and 19¢ for all of 2009. The international whey price is about 22¢ per lb. **dmr**



rels are \$1.24¾, down 52¢. Class III futures prices for the first half of 2009 have followed cash cheese prices down. (See graph) December 30 futures project cheese prices to average \$1.40 over the next six months (January through June), \$1.89 for all of 2008, and \$1.51 for all of 2009, down 18¢ from last month's projections.

U.S. cheese **exports** in October were 22 million pounds, up 7% from a year ago, and equivalent to 2.6% of U.S. production. Imports were down 22% from a year ago to 32 million pounds. Net imports

*"This year has seen an apparent weakening of the market for mozzarella, as pizza sales stagnate and pizza makers have skimped on high-priced cheese."*



### Whey Products

Product	October Production		November 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2007
Whey, food	81.1	-4.2	56.7	-1.0
Whey, feed	4.0	-3.3	3.9	-36.4
WPC25-50	24.7	15.4	19.2	4.1
WPC50-90	12.1	10.6	12.3	31.2
WPI90+	3.7	12.5	n/a	n/a
<b>Total</b>	<b>125.6</b>	<b>0.9%</b>	<b>92.1</b>	<b>1.0%</b>

## Butter

October U.S. [butter production](#) was 130 million lbs., down 0.3% from a year ago, and up 4% from September, on an average daily basis. December 1 [stocks](#) were 120 million lbs., 16% less than a year ago, and down 29 million lbs. from November.

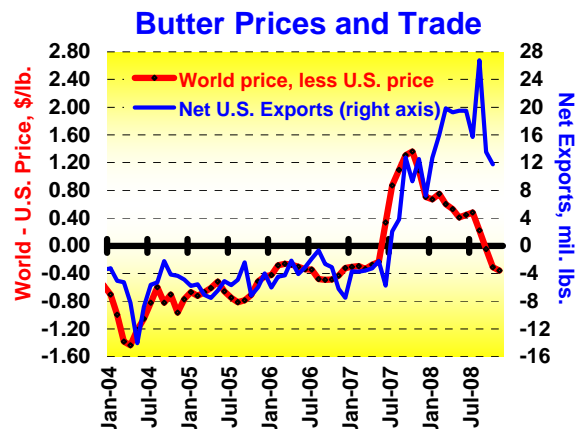
[Commercial disappearance](#) (including exports) of butter in the three months ending with October was 468 million lbs., up 7½% from a year ago. Disappearance of all milkfat was up 2.3% for the same three months.

The [retail](#) butter price was \$3.12 per lb. in November 2008, up 5% from 2007. The [CME](#) butter price

was down 39¼¢ to \$1.14 on December 30. Futures project NASS butter at \$1.19 for the six months through June, \$1.44 for all 2008, and \$1.25 for 2009.

[Net butter exports](#) were 11.7 million pounds in October, and have totaled 175 million pounds for the year to date - 13% of butter production and 2½% of the butterfat in U.S. milk production. NMPF's Co-operatives Working Together program committed to assist the export of butter and anhydrous milkfat equal to about 45% of this total in 2008.

The price premium in the U.S. market is gone as U.S. butter prices



declined to world levels: the U.S. spot price was midway between the Oceania price of 97¢ and the European price of \$1.36 (according to USDA's [international](#) report). **dmr**

## Dry Milk Powders

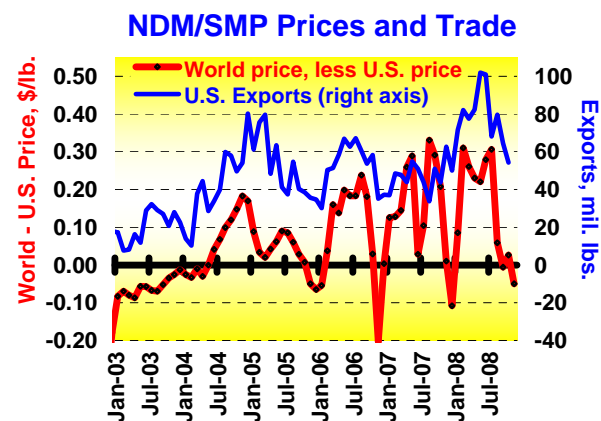
U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 139 million lbs. in October, up 14% from a year ago. November 1 manufacturers' stocks of (only) nonfat dry milk were 145 million lbs., up 16% from last year, and up 3 million pounds from October 1.

The [CME](#) prices of grade A and extra grade nonfat dry milk were down 4¾¢ to 85½¢, on December 30, about 1½¢ above the average surveyed U.S. manufacturers' [price](#) of 84¢ the week of December 20. In the last 12 weeks, 108

million pounds of nonfat dry milk have been sold to USDA under the price support program at 80¢ per lb.

In October 2008 exports of nonfat dry milk and skim milk powders were 54 million pounds, 24% higher than last October's total. For the year through October, exports of nonfat dry milk and skim milk powder have equaled 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 October was 282 million lbs., down 4.2%

from a year ago, according to USDA. For the same quarter, average daily commercial disappearance of all skim solids was down 0.2%. **dmr**



## Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in October was down 3.1% from last year, to 292 million lbs. For the year to date, it is up only 1.1%.

October [ice cream production](#) was down 3% from a year ago to 98 million gallons. Ice cream mix production was 37 million gallons, down 1%. For the year to date, ice cream production is down 1% and mix is down 2%. The [retail](#) ice

cream price was \$4.40 per ½-gallon in November, up 4% from last year.

October [fluid milk sales](#) were up 0.7% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 5%, to \$3.66. November's retail price was \$3.73, down 4% from a year ago. **dmr**

Product	October 2008		Year to Date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,290	-1.2	12,579	-4.8
Flavored Whole Milk	55	-15.7	496	-12.4
Organic Whole Milk	34	11.1	318	24.7
Reduced Fat Milk (2%)	1,587	1.2	15,193	1.7
Low Fat Milk (1%)	595	2.5	5,563	2.0
Fat-Free Milk (Skim)	705	0.6	6,812	0.7
Flavored Fat-Reduced	413	2.9	3,103	1.2
Organic Fat-Reduced	110	8.9	1,075	22.2
Buttermilk	40	-9.6	441	3.0
Total (including "Other")	4,851	0.6	45,701	0.0
Total (calendar adjusted)	4,812	0.7	45,482	-0.3

Source: USDA/AMS, Dairy Market News

## Milk and Feed

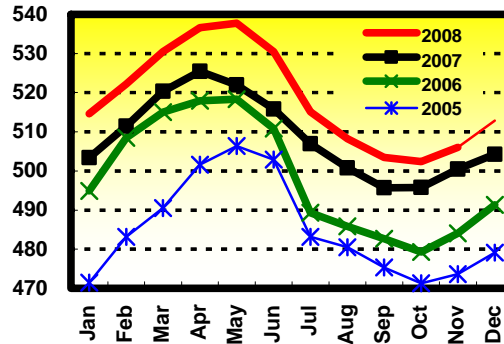
U.S. [milk production](#) in November was 15.2 billion lbs., up 1.1% from a year ago. This reflects the gradual slowing of milk production. We project 1.4% growth in December, and 2.2% for the full year. USDA's projected 0.9% growth for 2009 average daily production still seems high. Many producers who grow their own feed have not been greatly affected by high cash feed prices, which has dulled the theoretical impact of weak margins in most of 2008. However, this month the CWT program selected 184 herds for its sixth round of retirements; these include some 61,000 cows producing 1.2 billion pounds of milk per year. All these cows should be out of production before the end of January.

November's Class III price was announced at \$15.51 per hundredweight, down \$1.55 from October, and down \$3.71 from a year ago. December will be about \$15.50 again. Class III [futures](#) prices for the next six months (January through June) averaged \$11.77 per hundredweight on December 30, and they project averages of \$17.42 for 2008 and \$12.98 for 2009. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The November Class IV price was \$12.25 per hundredweight, down \$1.37 from October, and *down \$8.15 from a year ago*. December's Class IV is projected to be down another \$1.85 to about \$10.40. [Futures](#) markets project Class IV milk to average

about \$10.60 for the next six months, \$14.65 for 2008 and \$11.27 (compared to \$12.40, \$13.00, \$14.90, and \$16.40 in our last four 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



November component prices: \$1.7730 per lb. (down 8¢ from October) for butterfat in Class III, Class IV, and producer milk; \$3.1301 (down 42¢) for protein in Class III and producer milk; \$0.6953 (down 13¢) for total nonfat solids in Class IV milk; and *negative* \$0.0099 (down ½¢) for other solids in Class III and producer milk. December butterfat is projected at \$1.30. These prices are all based on USDA's revised make allowances and butterfat yield factor.

November's Class II price was down \$2.15 to \$14.45 per hundredweight. This is the minimum price for

pooled milk used to make soft dairy products and in most food processing. December is projected down to about \$11.20.

January's Class I base price is \$15.74, 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](#).

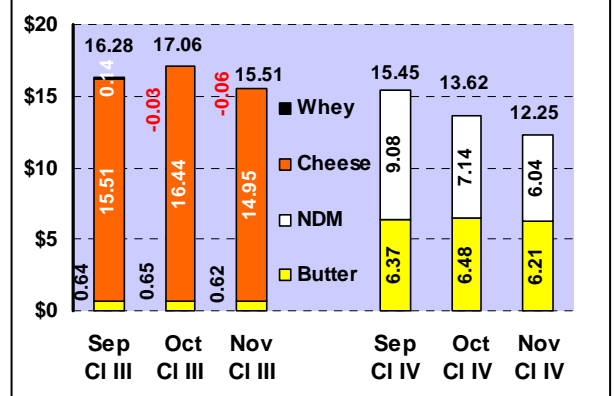
December's [all-milk price](#) was \$15.90, down \$1.20 from November and down \$5.60 from a year ago. We project January's all-milk price at \$13.60. Futures project the next six months at \$13.00, 2008 at \$18.30, and 2009 at \$13.90.

Anticipated **feed costs** are creeping back up. Near month corn and soy [futures](#) are near \$4 and \$9.50 per bushel, respectively, and rise in out months.

Based on current futures, substantial **MILC payments** are now projected through early 2009. (See page 1.)

**dmr**

**Class Price Breakdown**



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