

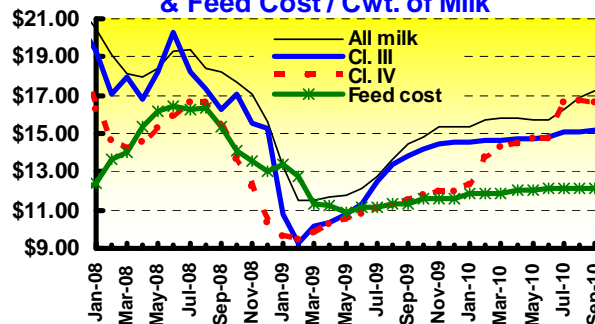


Dairy Market Report

Executive Summary

- ➔ Commercial disappearance (including exports) in October through December: skim solids down 2.2%, milk fat up 0.5%.
- ➔ Cheese and butter prices both up from our last report: March 4th: blocks were up 7¢ to \$1.17/lb., barrels were up 7¼¢ to \$1.17¾; butter was up 6¢ to \$1.16¼/lb.
- ➔ Outlook: Recent price increases were fleeting. Time until real recovery depends on speed of supply adjustment.

Projected Milk Prices & Feed Cost / Cwt. of Milk



Based on futures as of 3/4/2009; non-feed costs not shown.

Market Outlook

February's bounce in cheese prices seems to have had no other source than optimism over the Cooperatives Working Together program and short-run market dynamics. Cheese prices have already declined toward support, and USDA is prepared for potential sales of cheese to the price support program, to go along with 187 million pounds of nonfat dry milk and 5 million pounds of butter already contracted. Milk prices are their lowest since spring 2003; but the corn price then was \$2.34/bu. Ultimately, the U.S. dairy market must adjust to the loss of as much as 5% of overall dairy demand, with the rapid decline of U.S. export markets. USDA now projects U.S. milk production to decline 0.3% in 2009. This is a fraction of the reduction needed to balance supply with this substantially weaker demand.

However, that USDA forecast does not include the potential impact of the voluntary, farmer-funded supply management cooperative, **Cooperatives Working Together**. CWT recently announced final figures for its most recent herd retirement: 186 herds in 33 states, consisting of 50,630 cows, were retired in December, January, and February, representing 976 million pounds of milk. The National Milk Producers Federation, which manages CWT, is pursuing a new, two-year commitment from CWT participants, in order to commit the resources to "remove as many cows as possible, as soon as possible." The success of this extension could substantially speed a milk price recovery, but it remains contingent on participation by 67% of U.S. farm milk, all paying 10¢/cwt. Without the program, this analyst believes that futures markets projections of a fall recovery are too optimistic. (For more information about the CWT program, see www.cwt.coop.)

The **Milk Income Loss Contract (MILC)** program still looks to peak in March at \$1.92/cwt. (or higher), after a projected \$1.63 for February. These rates won't be final until the revised corn, soy, and alfalfa prices for those months are announced on March 30 and April 30, respectively. The projected February rate includes about 30¢ extra, based on preliminary estimated feed costs; and the March rate is a confirmed minimum payment rate, with no feed cost adjustment now projected. The final February rate could change in either direction when finalized (but will be no less than \$1.31); an increase in the final March rate looks unlikely (but possible). We now project an average MILC payment rate of \$1.25 per cwt. over the last 8 months of the fiscal year. (See table.) **dmr**

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	17.58	1.6259
March	12.68	16.94	1.9170
April	13.22	16.94	1.6750
May	13.53	16.94	1.5343
June	13.89	16.94	1.3723
July	14.47	16.94	1.1125
August	15.54	16.94	0.6305
September	16.48	16.94	0.2065
FY 2010			
October '09	17.07	16.94	0.0000
November	17.42	16.94	0.0000
December	17.77	16.94	0.0000
January '10	17.86	16.99	0.0000
February	17.89	17.00	0.0000
March	17.94	17.00	0.0000
April	17.99	17.11	0.0000
May	18.05	17.11	0.0000
June	18.10	17.21	0.0000
July	18.15	17.21	0.0000
August	19.68	17.20	0.0000
September	20.10	17.20	0.0000

Projections based on futures as of 3/4/2009

The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Production v. last year:

- Dec. Cheese ↑ 1.1%
- Dec. Butter ↑ 10.1%
- Dec. NDM+SMP ↑ 18.7%
- Dec. Whey ↓ 6.7%
- January Milk ↑ 0.8%

	Jan.	Feb.
NASS Cheddar	1.30	1.15
Whey	0.17	0.16
Butter	1.09	1.08
NDM	0.83	0.82
Milk		
Cl. III	10.78	9.31
Cl. IV	9.59	9.45
All	13.30	11.50

Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 857 million lbs. in December, up 1.1% from a year ago, and average daily production was up about 0.6% from November. Production was up 1.4% for all of 2008. American types totaled 359 million lbs. in December, up 6.8% from last year, and up 2.6% from November on an average daily basis. Italian types were 359 million lbs., up 0.1% from last year and up 3.3% from November on an average daily basis.

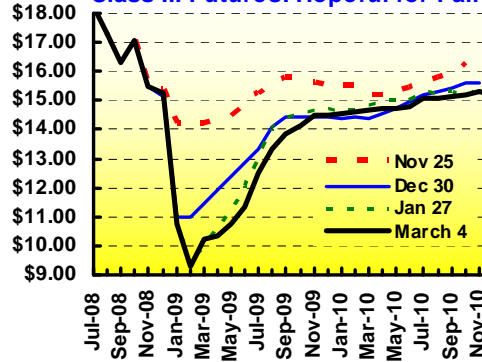
Natural American cheese **stocks** were 540 million lbs. as February began, up 9% from a year ago, and up 1.4 million pounds from January's beginning stocks. Stock of other cheese, including Italian and Swiss, began February at 323 million lbs., up 12½% from a year ago, and up 9 million pounds from January 1. Total cheese stocks are up 10% from a year ago, and up 10 million pounds from January 1.

For the three months ending December 2008, **commercial disappearance** of American cheese was 1.07 billion lbs., up 4.4% from a year ago; other cheese was 1.55 billion lbs., down 3.5% from last

year. The total was up 0.4%.

As of March 4, **CME** block cheese prices are up 7¢, to \$1.17, from our last report. Barrels are \$1.17¾, up 7¾¢. Class III futures prices for the middle of the year are down again, but markets remain hopeful for late fall through 2010. (See graph)

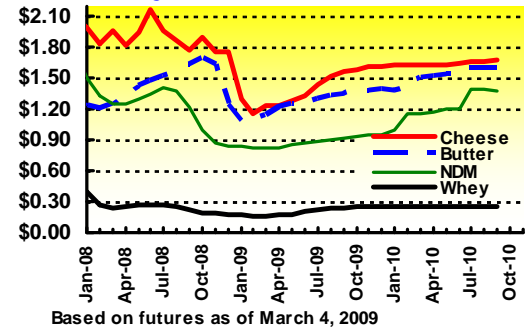
Class III Futures: Hopeful for Fall



March 4 futures project cheese prices to average \$1.34 over the next six months (March through August), \$1.41 for all of 2009, and \$1.65 for 2010. These reflect, in part, the expectation that the CWT program will act to reduce the milk supply. (See p. 1.) In the absence of such CWT action, we expect prices to remain low longer than the futures project.

U.S. cheese **exports** in December were 20 million pounds, down 13% from a year ago, and equal to 2.3% of U.S. production. Imports were up 15% from a year ago to 47 million

Projected Product Prices



Based on futures as of March 4, 2009

pounds. Net imports were 28 million lbs, largest in two years.

The **retail price** of cheddar cheese was \$5.01 in January (up 8% from last year). Processed cheese averaged \$4.12 at retail in January, up 3% from a year ago.

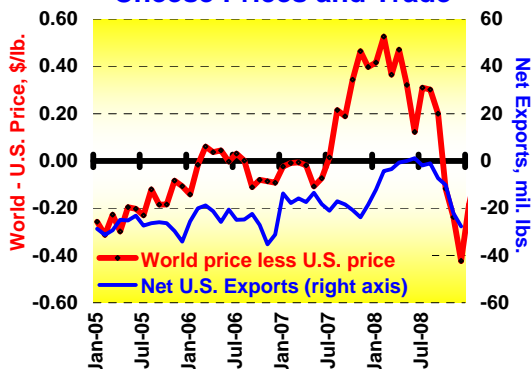
Production of dry **whey** for food was 86 million lbs. in December 2008, down 7% from a year ago. (See box.)

The manufacturers' **price** of whey was 16¢ per lb. the week of February 21, according to NASS' survey. WPC-34 prices remain near 53¢, per USDA's **Dairy Market News**. The **CME** dry whey futures project average whey prices of 20¢ for the next 6 months, and 21¢ for all of 2009. The international whey price is about 20¢ per lb. **dmr**

Whey Products

Product	December Production		January 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2008
Whey, food	86.4	-6.7	62.9	0.6
Whey, feed	4.9	-4.4	2.6	-49.4
WPC25-50	23.6	7.2	24.5	22.9
WPC50-90	12.8	-3.8	12.7	34.1
WPI90+	3.2	-12.1	n/a	n/a
Total	130.9	-4.2%	102.7	5.7%

Cheese Prices and Trade



“Net cheese imports were 28 million lbs., the largest in 2 years.”

Butter

December U.S. [butter production](#) was 156 million lbs., up 10.1% from a year ago, and up 13% from November, on an average daily basis. February 1 [stocks](#) were 178 million lbs., 5% less than a year ago, but up 59 million lbs. from January 1.

[Commercial disappearance](#) (including exports) of butter in the three months ending with December was 509 million lbs., up 2% from a year ago. Disappearance of all milkfat was up 0.5% for the same three months.

The [retail](#) butter price was \$3.16

Dry Milk Powders

U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 173 million lbs. in December, up 19% from a year ago. January 1 manufacturers' stocks of (only) nonfat dry milk were 206 million lbs., up 26% from last year, and up 17 million pounds from December 1.

The [CME](#) price of grade A nonfat dry milk was up a quarter-penny to 83¼¢ per lb., and extra grade is unchanged at 85¢ on March 4; this is about 4¢ above the average surveyed U.S. manufacturers' [price](#) for the week of February 21. Some 187 million pounds of nonfat

per lb. in January 2009, up 3% from 2008. The [CME](#) butter price was up 6¢ to \$1.16¼ on March 4. Futures project NASS butter at \$1.25 for the six months through August, \$1.26 for all 2009, and \$1.54 for 2010.

The U.S. was a [net butter importer](#) in December of 5.3 million lbs. For all of 2008, the U.S. exported a net of 166 million pounds, containing 2% of U.S. butterfat production; we are likely to be net importers in 2009.

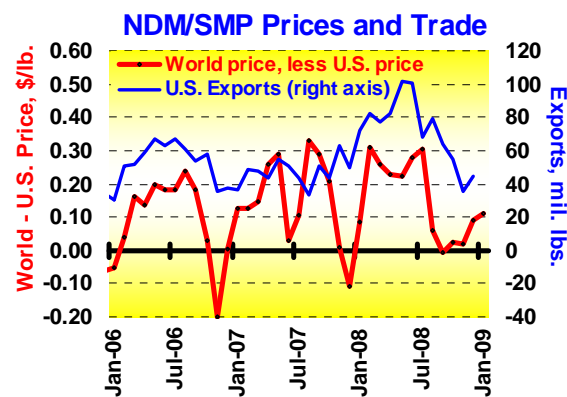
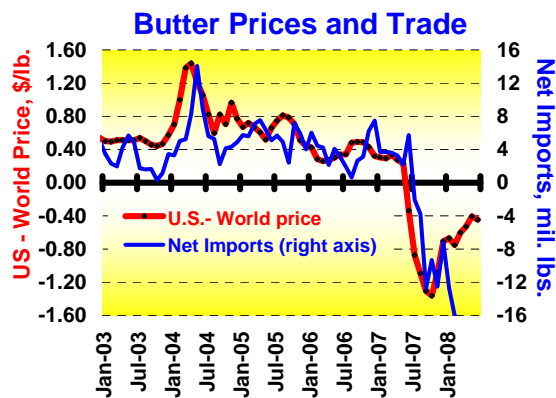
U.S. butter prices remain between the Oceania price (now about 84¢

dry milk have been sold to USDA under the price support program since early November, all at 80¢ per lb.

In December 2008 exports of nonfat dry milk and skim milk powders were 45 million pounds, 11% below than last December's total. For the year, exports were up 52% to 863 million pounds, and equal to 5% of U.S. skim solids production. We expect further declines in 2009, as the economic crisis has undercut overseas demand.

Overall U.S. [commercial disappearance](#) of nonfat dry milk (including

per lb.) and the European price (about \$1.21, according to USDA's [international](#) report). **Jmr**



exports, but excluding modified "skim milk powders") in the three months ending December was 259 million lbs., down 2% from a year ago, according to USDA. For the same quarter, average daily commercial disappearance of all skim solids was down 2.2%. **Jmr**

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in December was up 3.4% from last year, to 286 million lbs. For all of 2008, it was up only 1.0%, after averaging 8.3% growth over the previous 10 years.

December reported [ice cream production](#) was up 3% from a year ago to 78 million gallons. Ice cream mix production was 44 million gallons, up 6½%. For all of

2008, ice cream production is down 0.4% and mix is down 1.4%. The [retail](#) ice cream price was \$4.44 per ½-gallon in January, up 7% from last year.

December [fluid milk sales](#) were up 1.3% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 5%, to \$3.68. January's retail price was \$3.58, down 8% from a year ago. **Jmr**

U.S. Fluid Milk Sales

Product	December 2008		Year to Date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,341	1.1	15,145	-4.3
Flavored Whole Milk	51	-3.8	596	-11.4
Organic Whole Milk	39	28.0	388	23.0
Reduced Fat Milk (2%)	1,624	3.6	18,325	1.6
Low Fat Milk (1%)	577	3.5	6,693	1.9
Fat-Free Milk (Skim)	692	1.1	8,169	0.5
Flavored Fat-Reduced	302	6.3	3,731	1.0
Organic Fat-Reduced	111	17.9	1,288	19.7
Buttermilk	79	56.7	564	7.1
Total (including "Other")	4,885	3.6	55,141	0.1
Total (calendar adjusted)	4,839	1.3	54,978	-0.1

Source: USDA/AMS, Dairy Market News

Milk and Feed

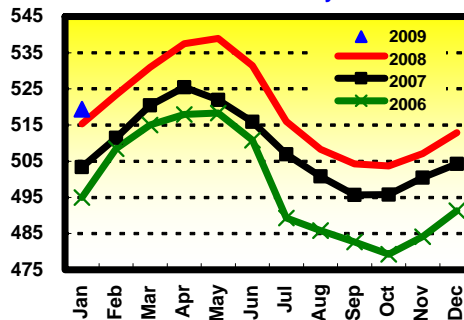
U.S. [milk production](#) in January was 16.1 billion lbs., up 0.8% from a year ago. Milk per cow was up only 0.2%, as low milk-feed margins discouraged intensive feeding. The herd was 44,000 cows (0.5%) larger than a year ago. USDA now projects a decline in average daily production of 0.6% in 2009, a fraction of the reduction that will be necessary to balance falling export demand, not including action by the CWT. (See page 1.) This promises to be a long and painful year for dairy farmers, with the end of pain depending upon the speed of supply adjustment.

January's Class III price was announced at \$10.78 per hundredweight, down \$4.50 from December, and down \$8.54 from a year ago. February's Class III price was [announced](#) at \$9.31, down \$7.72 from a year ago and **the lowest since March 2003**. Class III [futures](#) prices for the next six months (March through August) averaged \$11.42 per hundredweight on March 4, and they project averages of \$12.13 for 2009 and \$14.92 for 2010. March is projected at \$10.20. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The January [Class IV price](#) was \$9.59 per hundredweight, down 76¢ from December, and down \$6.70 from a year ago. February's Class IV was \$9.45, down another 14¢ from January, and down \$5.22 from a year ago. **This is the lowest Class IV price since the current formulas were put into place in January 2000.** [Futures](#) markets pro-

ject Class IV milk to average about \$10.61 for the next six months, \$10.82 for 2009, and \$15.33 for 2010. March is projected at about \$9.80. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

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



February component prices were: \$1.0941 per lb. (down a penny from January) for butterfat in Class III, Class IV, and producer milk; \$1.9139 (down 45¢ from January, and *down \$1.73 from December*) for protein in Class III and producer milk; \$0.6472 (down a penny) for total nonfat solids in Class IV milk; and *negative* \$0.0437 (down a penny) for other solids in Class III and producer milk. March butterfat is projected at \$1.17.

January's Class II price was down 80¢ to \$10.41 per hundredweight, and February was down another 16¢ to \$10.25. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. March

is projected at about \$10.30.

March's Class I base price is \$9.43, based on butter and powder values. **This is the lowest Class I base price since the current formulas were introduced in January 2000.**

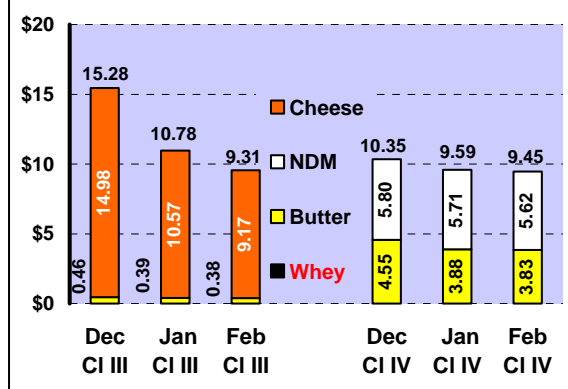
The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

January's [all-milk price](#) was \$13.30, and February's was \$11.50, **the lowest all-milk price since July 2003**. March is projected to be as low. The futures markets project the all-milk price to average \$13.20 in 2009 and \$16.40 in 2010. The markets continue to be optimistic about a recovery this fall.

Anticipated **feed costs** for 2009 remain high: near month [corn](#) and [soy](#) futures are \$3.55 and \$8.75 per bushel, respectively; overall feed costs are projected to remain at or above current prices indefinitely.

Substantial **MILC payments** are now projected through the summer. (See page 1.) **dmr**

Class Price Breakdown



Contact: Roger Cryan,
National Milk Producers
Federation
rcryan@nmpf.org
www.nmpf.org



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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.