

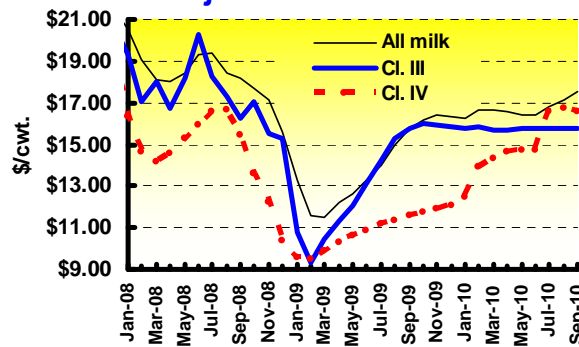


Dairy Market Report

Executive Summary

- ➔ Commercial disappearance (including exports) in November through January: skim solids down 4.6%, milk fat down 0.7%.
- ➔ Cheese and butter prices both up from our last report—as of March 30th: blocks were up 12¢ to \$1.29/lb., barrels were up 12¢ to \$1.29¼; butter was up 1¼¢ to \$1.18/lb.
- ➔ Outlook: Futures show “optimism” that many cows will stop milking by fall. CWT is expected to speed that process.

Projected Milk Prices



Based on futures as of 3/30/2009.

Market Outlook

As prices fell through the fall, many buyers held off, waiting for prices to bottom out. Recent demand is a mix of real consumption and the refilling of pipelines after the bottom was reached to take advantage of low milk and dairy product prices. USDA projects a decline in export demand for skim solids equal to 4% of U.S. production, but only a 0.7% decline in production. Yet milk futures prices for much of the year are up substantially, in apparent anticipation of more substantial supply reductions, including a large and successful herd retirement by the Cooperatives Working Together program, as well as a considerable increase in consumer demand in response to low prices.

Beyond that, USDA projections do not assume action by the voluntary, dairy farmer-funded supply management cooperative, **Cooperatives Working Together**. CWT announced that it had reached its minimum sign-up target of 67 percent of U.S. farmer milk marketings. These were two-year commitments of 10¢ per hundredweight, which will allow CWT flexibility to address current record low milk prices. (For more information about the CWT program, see www.cwt.coop.) As noted above, the futures markets already seem to anticipate substantial action by CWT. As a result, producers can already take advantage of this optimism and the CWT program to price their fall milk through the futures market.

The **Milk Income Loss Contract (MILC)** payment for March will be at least \$1.917 per cwt., and will probably be closer to \$2.05, based on the feed cost adjuster that is part of the MILC formula. February's rate was finalized at \$1.5135 when the revised feed price numbers were published on March 30; this was 17¢ higher, thanks to the feed cost adjuster. Based on the April Class I price, which was announced on March 20, the April MILC rate will be at least \$1.4985; this is projected to be feed cost-adjusted up by a dime or two. For producers whose volume data is properly reported, USDA promises prompt payment once the final rates are known. We now project an average MILC payment rate of \$1.22 per cwt. for the 6 months ending with July. (See table.)

Another cause for longer-term optimism is Secretary Vilsack's decision to use 200 million pounds of nonfat dry milk from USDA inventories in nutrition programs. So far, these have been designed to narrowly target nutritional needs and minimize commercial displacement. **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	17.33	1.5135
March	12.68	17.23	2.0487
April	13.61	16.94	1.4985
May	14.37	16.94	1.1587
June	15.20	16.94	0.7829
July	16.19	16.94	0.3371
August	17.35	17.05	0.0000
September	18.44	17.03	0.0000
FY 2010			
October '09	19.08	17.21	0.0000
November	19.38	17.21	0.0000
December	19.32	17.21	0.0000
January '10	19.28	17.39	0.0000
February	19.21	17.39	0.0000
March	19.25	17.39	0.0000
April	19.09	17.53	0.0000
May	19.10	17.53	0.0000
June	19.18	17.61	0.0000
July	19.15	17.61	0.0000
August	19.57	17.56	0.0000
September	20.09	17.56	0.0000

Projections based on futures as of 3/30/2009

The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Production v. last year:

- Dec. Cheese ↑ 1.0%
- Dec. Butter ↑ 3.5%
- Dec. NDM+SMP ↑ 5.5%
- Dec. Whey ↓ 2.4%
- Feb. Milk/day ↑ 0.6%

	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	11.60

March all-milk = \$11.50

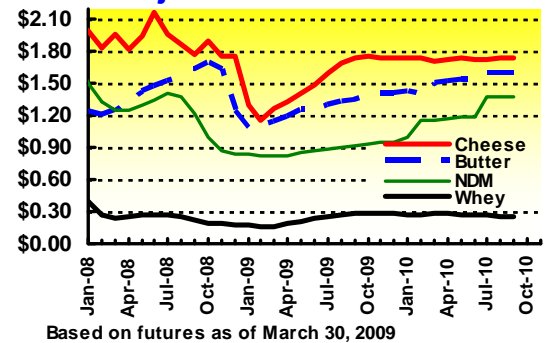
Cheese and Whey

Total U.S. [cheese production](#) (excluding cottage cheese) was 821 million lbs. in January, up 1.0% from a year ago, and average daily production was up about 4.4% from December. American types totaled 353 million lbs. in January, up 5.8% from last year, but down 1.7% from December on an average daily basis. Italian types were 345 million lbs., down 2.0% from last year and down 4.0% from December on an average daily basis.

from our last report, to \$1.17 and \$1.17¼, respectively. Class III futures prices have risen on expectations of large supply reductions, including a herd buyout by the Cooperatives Working Together program. (See graph; see page 4.)

March 30 futures project cheese

Projected Product Prices



Based on futures as of March 30, 2009

high value-added specialty cheeses, worth an average of \$3.11/lb. in 2008.

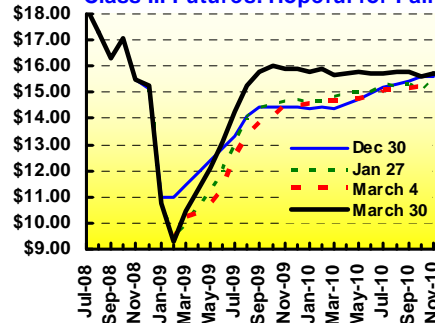
Natural American cheese [stocks](#) were 577 million lbs. as March began, up 13% from a year ago, and up 26 million pounds from February's beginning stocks. Stock of other cheese, including Italian and Swiss, began March at 315 million lbs., up 10% from a year ago, and up 2 million pounds from February 1.

Total cheese stocks are up 11% from a year ago, and up 28 million pounds from February 1.

For the three months ending January 2008, [commercial disappearance](#) of American cheese was 1.06 billion lbs., up 1.9% from a year ago; other cheese was 1.52 billion lbs., down 4.0% from last year. The total was down 1.7%.

As of March 30, [CME](#) block and barrel cheese prices are up 12¢

Class III Futures: Hopeful for Fall



prices to average \$1.54 over the next six months (April through September), \$1.52 for all of 2009, and \$1.73 for 2010.

U.S. cheese [exports](#) in January were 18 million pounds, down 22% from a year ago, and equal to 2.2% of U.S. production. Imports were down 27% from a year ago to 26 million pounds. Net imports were 7.6 million lbs, down 38% from a year ago, and still very low, by recent historical standards. There is a good deal of specialization in our cheese trade. Our exports are typically commodity cheeses, with an average value of \$1.97/lb. in 2008; while our imports tend to be

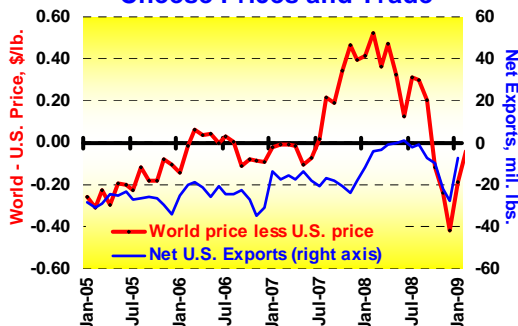
The [retail price](#) of cheddar cheese was \$4.92 in February (up 7% from last year). Processed cheese averaged \$4.05 at retail in February, up a penny from a year ago.

[Production](#) of dry [whey](#) for food was 83 million lbs. in January 2008, down 2% from a year ago. (See box.)

The manufacturers' [price](#) of whey was 17¢ per lb. the week of March 21, according to NASS' survey. WPC-34 prices are near 55¢, per USDA's [Dairy Market News](#). The [CME](#) dry whey futures project average whey prices of 24¢ for the next 6 months, and 23¢ for all of 2009. The international whey price is up to about 24¢ per lb. **dmr**

U.S. cheese imports are worth 1½ times as much per pound as our exports.

Cheese Prices and Trade



Whey Products

Product	January Production		February 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2008
Whey, food	83.0	-2.4	57.4	-8.7
Whey, feed	5.5	-19.1	2.2	-55.8
WPC25-50	21.8	4.2	20.3	-6.7
WPC50-90	12.4	4.1	13.0	29.7
WPI90+	3.7	14.3	n/a	n/a
Total	126.4	-1.2%	93.0	-6.8%

Butter

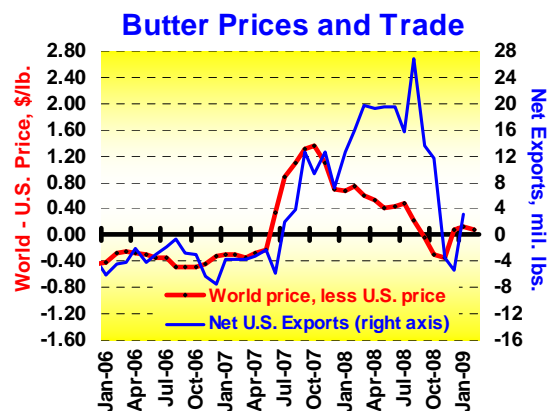
January U.S. [butter production](#) was 175 million lbs., up 3.5% from a year ago, and up 12% from December, on an average daily basis. March 1 [stocks](#) were 206 million lbs., 2% less than a year ago, but up 30 million lbs. from February 1.

[Commercial disappearance](#) (including exports) of butter in the three months ending with January was 454 million lbs., down 1% from a year ago. Disappearance of all milkfat was down 0.7% for the same three months.

The [retail](#) butter price was \$3.03

per lb. in February 2009, down 1% from 2008. The [CME](#) butter price was up 1¼¢ to \$1.18 on March 30. Futures project NASS butter at \$1.28 for the six months through September, \$1.26 for all 2009, and \$1.54 for 2010.

The U.S. was a [net butter exporter](#) in January of 3.1 million lbs. Still, after being net exporters of about butter containing 2% of U.S. butter-fat production in 2008, we will likely be net importers in 2009, as U.S. butter prices have risen above both the Oceania price (about 84¢ per lb., according to USDA's [interna-](#)



[tional](#) report) and the European price (about \$1.13). **dmr**

Dry Milk Powders

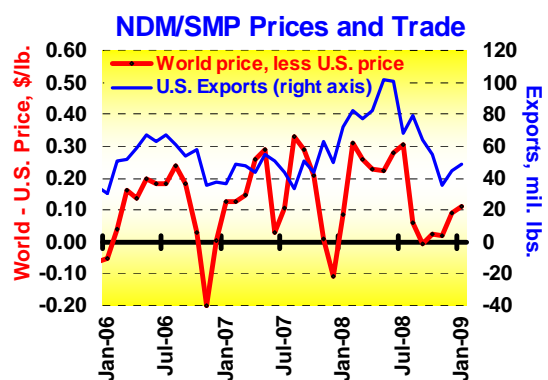
U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 174 million lbs. in January, up 5½% from a year ago. February 1 manufacturers' stocks of (only) nonfat dry milk were 203½ million lbs., up 22% from last year, and up 3 million pounds from January 1.

Since our last report, the [CME](#) price of grade A nonfat dry milk was up 1¼¢ to 84½¢ per lb., and extra grade remains unchanged at 85¢ on April 4; this is about 3¢ above the average surveyed U.S. manufacturers' [price](#) for the week of March 21. USDA has pur-

chased 205 million pounds of nonfat dry milk under the price support program, and last week announced plans to use 200 million pounds for school feeding, food banks, and other nutrition assistance programs. (See page 1.)

In January 2008 exports of nonfat dry milk and skim milk powders were 48 million pounds, down 32% from last January's total. We expect further declines in 2009, due to weaker demand and revived production in other exporting countries.

Overall U.S. [commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified



"skim milk powders") in the three months ending January was 303 million lbs., up 6% from a year ago, according to USDA. For the same quarter, average daily commercial disappearance of all skim solids was down 4.6%. **dmr**

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in January was up 3.4% from last year, to 307 million lbs.

January reported [ice cream production](#) was down 7% from a year ago to 83 million gallons. Ice cream mix production was 46 million gallons, down 6%.

The [retail](#) ice cream price was \$4.35 per ½-gallon in February, up

8% from last year.

January [fluid milk sales](#) were up 0.3% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 8%, to \$3.58. February's retail price was \$3.32, down 14% from a year ago. **dmr**

U.S. Fluid Milk Sales

Product	January 2009		Year: 2008	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,317	-1.3	15,145	-4.3
Flavored Whole Milk	46	-4.0	596	-11.4
Organic Whole Milk	32	-2.6	388	23.0
Reduced Fat Milk (2%)	1,631	3.2	18,325	1.6
Low Fat Milk (1%)	605	4.2	6,693	1.9
Fat-Free Milk (Skim)	718	1.3	8,169	0.5
Flavored Fat-Reduced	359	-1.4	3,731	1.0
Organic Fat-Reduced	104	-4.7	1,288	19.7
Buttermilk	73	37.0	564	7.1
Total (including "Other")	4,894	1.5	55,141	0.1
Total (calendar adjusted)	4,824	0.3	54,978	-0.1

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. [milk production](#) in February was 14.7 billion lbs., a daily average that was up 0.6% from a year ago. Average daily milk per cow was up 0.5%. The herd was 11,000 cows (0.1%) larger than a year ago. USDA now projects a decline in average daily production of 0.5% in 2009. This does not include the anticipated herd reduction by CWT. (See page 1.) This will help define the speed of the recovery.

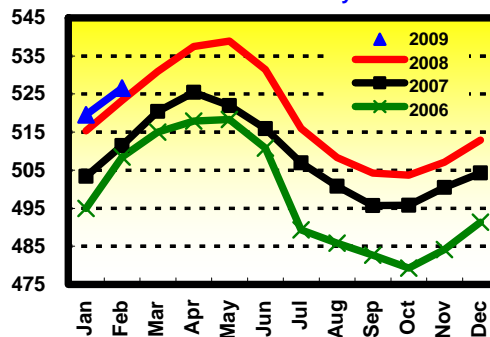
February's [Class III](#) price was announced at \$9.31 per hundredweight, down \$1.47 from January, and down \$7.72 from a year ago. As we said last month, this is the lowest since April 2003. Class III [futures](#) prices for the next six months (April through September) averaged \$13.64 per hundredweight on March 30, and they project averages of \$13.35 for 2009 and \$15.74 for 2010. March is projected at about \$10.50. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The February [Class IV price](#) was \$9.45, down another 14¢ from February, and down \$5.22 from a year ago. As noted last month, this is the lowest Class IV price since the current formulas were put into place in February 2000. [Futures](#) markets project Class IV milk to average about \$11.00 for the next six months, \$10.90 for 2009, and \$15.35

for 2010. April is projected at about \$9.65. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

February component prices were:

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



\$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) 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 \$1.16. February's Class II price was down 16¢ per hundredweight, to \$10.25. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. April is projected at about

\$10.40.

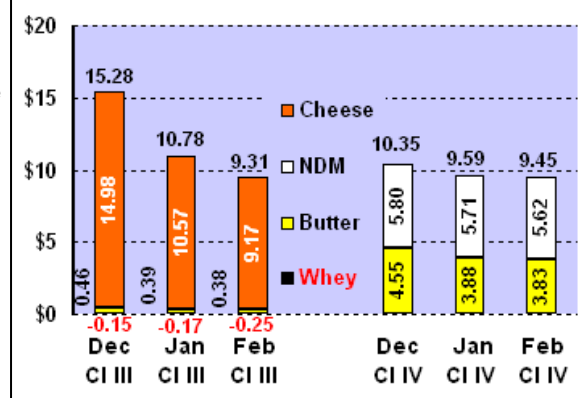
April's Class I base price is \$10.36, based on butter and powder values. This is up 93¢ from March. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

February's revised [all-milk price](#) was \$11.60, and March's was \$11.50, the lowest all-milk price since August 2003. April is projected to be up to \$12.20. The futures markets project the all-milk price to average \$14.00 in 2009 and \$16.90 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 \$3.86 and \$9.04 per bushel, respectively. Soy prices are projected lower in the fall, and corn higher.

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

Class Price Breakdown



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