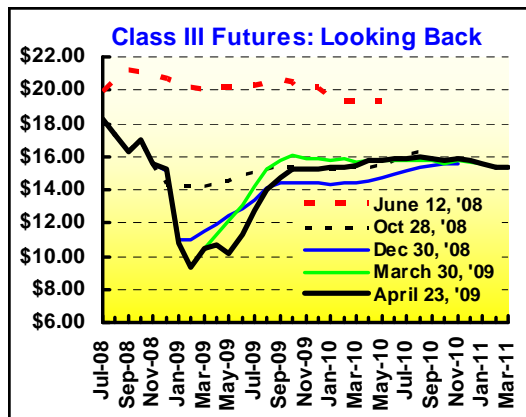




Dairy Market Report

Executive Summary

- ➔ Commercial disappearance (including exports) in December though February: skim solids down 3.4%, milk fat down 2.2%.
- ➔ Cheese prices down, butter prices up from our last report—as of April 29th: blocks were down 13¾¢ to \$1.15¼/lb., barrels were down 20½¢ to \$1.09¼; butter was up 5¢ to \$1.23/lb.
- ➔ Outlook: Futures show “optimism” that many cows will stop milking by fall. CWT is expected to speed that process.



Market Outlook

Current prices have dipped, but futures prices have retained some strength several months out and beyond. This makes it cheaper to hedge summer and fall dairy prices by buying and storing dairy products than by using the futures markets; so dairy product users are hedging by putting products in their warehouses. This buying has helped keep prices above government support levels; however, the resulting inventories don't show up in USDA numbers.

Bullish expectations in the futures markets reflect optimism that supply will come into closer balance with decreased demand. This rests largely on the anticipated producer supply response, to be assisted by the most recently announced round of herd buyout by the **Cooperatives Working Together** program. The dairy farmer-funded program announced its next herd retirement, with farmer bids due by May 1. Producers are encouraged to consult a bid calculator on the website (www.cwt.coop) to estimate per hundredweight bids that will cover the difference between the market value and slaughter value of their cows. With 67 percent of U.S. farmer milk marketings signed up through the end of 2010 at 10¢ per cwt., CWT has considerable resources to carry out their programs, most of which will be focused on correcting the supply-demand imbalance in 2009, through one or more rounds of herd retirements. This is a truly unprecedented producer self-help program for a major farm commodity, and has only been made possible by dairy farmers' long tradition of cooperative organization and action. We note again, producers can already take advantage of CWT-driven optimism by pricing their fall milk through the futures market.

The **Milk Income Loss Contract** payment for May will be at least \$1.224 per cwt., and may be higher if May feed costs are higher than now projected. USDA software glitches delayed some payments this month, but should not do so in the future. With falling futures, we now project an average MILC payment rate of \$1.36 per cwt. for the 7 months ending with August. (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	17.33	1.5135
March	12.68	17.23	2.0487
April	13.61	16.94	1.4985
May	14.22	16.94	1.2240
June	13.68	16.94	1.4692
July	14.02	16.94	1.3132
August	15.26	16.94	0.7551
September	16.64	16.94	0.1334
FY 2010			
October '09	17.54	17.03	0.0000
November	18.15	17.03	0.0000
December	18.27	17.04	0.0000
January '10	18.27	17.23	0.0000
February	18.36	17.23	0.0000
March	18.43	17.23	0.0000
April	18.58	17.36	0.0000
May	18.79	17.36	0.0000
June	18.83	17.48	0.0000
July	19.08	17.48	0.0000
August	19.57	17.41	0.0000
September	20.09	17.40	0.0000

Projections based on futures as of 4/28/2009

The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Daily Production v. last year:

- Feb. Cheese ↑ 1.4%
- Feb. Butter ↑ 2.6%
- Feb. NDM+SMP 0.0%
- Feb. Whey ↓ 3.7%
- Mar. Milk ↓ 0.3%

NASS	Feb.	Mar.
Ched-	1.15	1.26
Whey	0.16	0.17
Butter	1.08	1.13
NDM	0.82	0.82
Milk	Feb.	Mar.
Cl. III	9.31	10.44
Cl. IV	9.45	9.64
All	11.60	11.50

Cheese and Whey

Total U.S. [cheese production](#) (excluding cottage cheese) was 769 million lbs. in February, up 1.4% from a year ago on an average daily basis; average daily production was up 8.4% from January. American types totaled 319 million lbs. in February, up 3.6% from last year and nearly unchanged from January, on an average daily basis. Italian types were 320 million lbs., down 1.0% from last year and down 1.9% from January on an average daily basis.

Natural American cheese [stocks](#) were 562 million lbs. as April began, up 7% from a year ago, and up 2 million pounds from March's beginning stocks. Stock of other cheese, including Italian and Swiss, began April at 331 million lbs., up 11% from a year ago, and up 16 million pounds from March 1. Total cheese stocks are up 8% from a year ago, and up 17 million pounds from March 1.

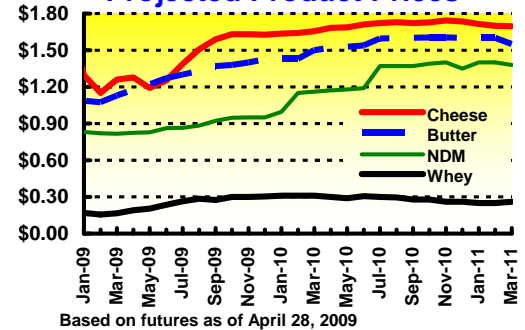
For the three months ending February 2009, [commercial disappearance](#) of American cheese was 1.02 billion lbs., up 2.1% from a year ago on an average daily basis; other cheese was 1.48 billion lbs., down 3.2% from last year.

The total was down 1.1%.

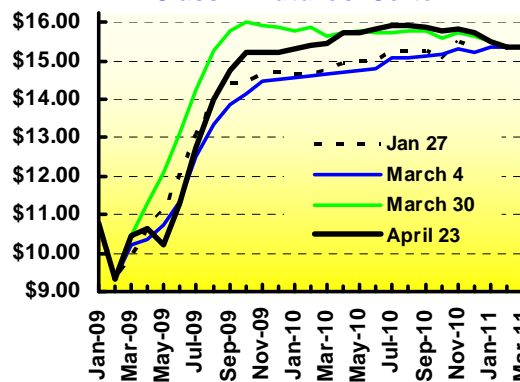
As of April 29, the [CME](#) block cheese prices was down 13¼¢ from our last report, to \$1.15¼; the barrel price was down 20½¢, to \$1.09¼, respectively. Class III futures prices have softened, although projected fall prices remain well above current prices. (See graph; see page 4.)

Projected fall Class III prices remain well above current levels.

Projected Product Prices



Class III Futures: Softer



April 23 futures project cheese prices to average \$1.46 over the next six months (May through October), \$1.42 for all of 2009, and \$1.72 for 2010.

U.S. cheese [exports](#) in February were 18½ million pounds, down 22% from a year ago, and equal to 2.4% of U.S. production. Imports were up 18% from a year ago to 33 million pounds. Net imports were 15 million lbs, up 242% from a year ago; this is approaching recent historical averages.

The [retail price](#) of cheddar cheese was \$4.76 in March (up 4% from last

year). Processed cheese averaged \$3.88½ at retail in March, down 3% from a year ago.

[Production](#) of dry [whey](#) for food was 78 million lbs. in February 2008, down 4% from a year ago on an average daily basis. Average daily production of all whey products was down 2%. (See box for unadjusted figures.)

The manufacturers' [price](#) of whey was 20¢ per lb. the week of April 18, according to NASS' survey. WPC-34 prices remain 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 24¢ for all of 2009. The international whey price is still about 24¢ per lb. **dmr**

Cheese Prices and Trade



Whey Products

Product	February Production		March 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2008
Whey, food	77.9	-7.1	54.2	-4.2
Whey, feed	4.8	14.5	2.5	11.3
WPC25-50	20.1	-8.0	19.7	-9.4
WPC50-90	11.0	-4.0	14.9	29.3
WPI90+	3.7	28.4	n/a	n/a
Total	117.5	-5.4%	91.3	-0.9%

Butter

February U.S. [butter production](#) was 145 million lbs., up 2.6% from a year ago and up 8% from January, on an average daily basis. April 1 [stocks](#) were 215 million lbs., 4% less than a year ago, but up 10 million lbs. from March 1.

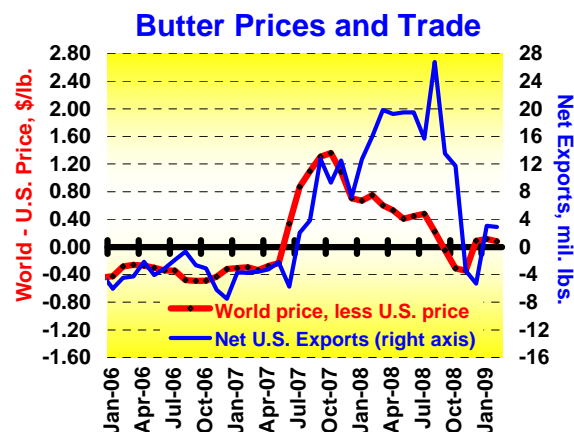
[Commercial disappearance](#) (including exports) of butter in the three months ending with February was 400 million lbs., up 2.7% from a year ago, on an average daily basis. Disappearance of all milkfat was down 1.1% for the same three months.

The [retail](#) butter price was \$2.91

per lb. in March 2009, down 2% from 2008. The [CME](#) butter price was up 5¢ to \$1.23 on April 29. Futures project NASS butter at \$1.30 for the six months through October, \$1.25 for all 2009, and \$1.54 for 2010.

The U.S. was a [net butter exporter](#) in February of 2.9 million lbs. Butter exports will remain low, given large European stocks and low prices in Oceania (about 82¢ per lb., according to USDA's [international](#) report, compared to European prices up to about \$1.27).

dmr



Dry Milk Powders

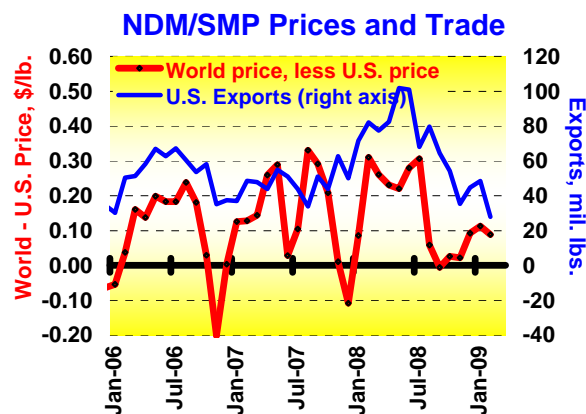
U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 146 million lbs. in February, down ½% from a year ago, on an average daily basis. March 1 manufacturers' stocks of (only) nonfat dry milk were 189 million lbs., up 18½% from last year, and down 15 million pounds from February 1.

Since our last report, the [CME](#) price of grade A nonfat dry milk was up 2¢ to 86½¢ per lb., and extra grade remains unchanged at 85¢ on April 24; this is again about 3¢ above the average surveyed U.S. manufacturers' [price](#) for the

week of April 18. USDA has purchased nearly 230 million pounds of nonfat dry milk under the price support program, although these purchases are slowing.

In February 2008 exports of nonfat dry milk and skim milk powders were 28 million pounds, down 66% from last February's total. We expect further declines in 2009, as the government remains a more attractive outlet for most manufacturers at current international prices.

Overall U.S. [commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") in the three



months ending February was 338 million lbs., up 5.6% from a year ago on an average daily basis, according to USDA. For the same quarter, average daily commercial disappearance of all skim solids was down 2.3%. **dmr**

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in February was up 4½% from last year on an average daily basis, to 302 million lbs.

February reported [ice cream production](#) was down 1% from a year ago (on an average daily basis) to 90 million gallons. Ice cream mix production was 51 million gallons, up 1%, on an average daily basis.

The [retail](#) ice cream price was

\$4.16½ per ½-gallon in March, up 2% from last year.

February [fluid milk sales](#) were up 2.1% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 14%, to \$3.32. March's retail price was \$3.12, down 18% from a year ago. **dmr**

U.S. Fluid Milk Sales

Product	February		2009 to date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,165	-4.5	2,482	-2.8
Flavored Whole Milk	46	-5.0	93	-4.5
Organic Whole Milk	29	-2.5	60	-2.5
Reduced Fat Milk (2%)	1,440	-1.2	3,071	1.1
Low Fat Milk (1%)	540	-1.5	1,145	1.4
Fat-Free Milk (Skim)	642	-3.9	1,360	-1.2
Flavored Fat-Reduced	350	2.5	709	0.5
Organic Fat-Reduced	98	-15.0	202	-10.0
Buttermilk	55	16.2	129	27.2
Total (including "Other")	4,375	-2.5	9,269	-0.5
Total (calendar adjusted)	4,375	2.1	9,199	1.1

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. [milk production](#) in March was 16.4 billion lbs., down 0.3% from a year ago. This is the first year-over-year decline in average daily production since June 2004. Milk per cow was down 0.2%. The herd was 8,000 cows (0.1%) smaller than a year ago. USDA now projects a decline in average daily production of 0.9% in 2009; this estimate now includes some consideration of the announced herd reduction by CWT. (See page 1.)

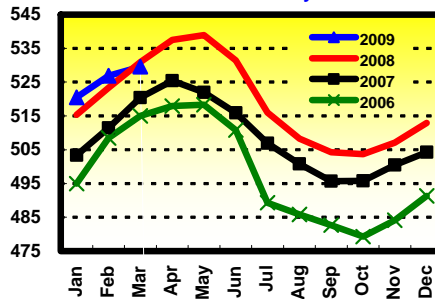
March's [Class III](#) price was announced at \$10.44 per hundredweight, up \$1.13 from February, and down \$7.56 from a year ago. Class III [futures](#) prices for the next six months (May through October) averaged \$12.67 per hundredweight on April 28, and they project averages of \$12.26 for 2009 and \$15.58 for 2010. April is projected at about \$10.75. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The March [Class IV price](#) was \$9.64, up 19¢ from February, and down \$4.53 from a year ago. [Futures](#) markets project Class IV milk to average about \$11.21 for the next six months, \$10.81 for 2009, and \$15.35 for 2010. April is projected at about \$9.80. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

March component prices were: \$1.1594 per lb. (up 6½¢ from February) for butterfat in Class III, Class

IV, and producer milk; \$2.1973 (up 28¢ from February) for protein in Class III and producer milk; \$0.6423 (down a half-penny) for total nonfat solids in Class IV milk; and *negative* \$0.0339 (up a penny) for other solids in Class III and producer milk. April butterfat is projected at \$1.22.

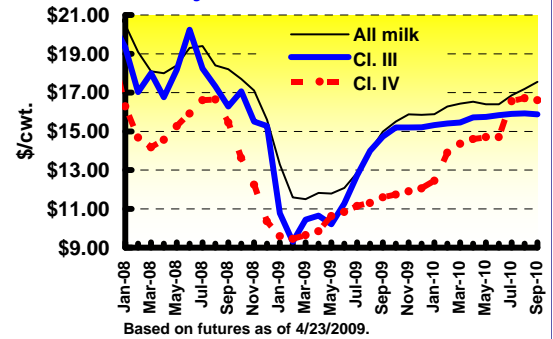
U.S. Milk Production, 2006-2009
Million Lbs./Day



March's Class II price was up 11¢ per hundredweight, to \$10.36. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. May is projected at about \$10.50.

May's Class I base price is \$10.97, based on butter and powder values. This is up 61¢ from April. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a

Projected Milk Prices



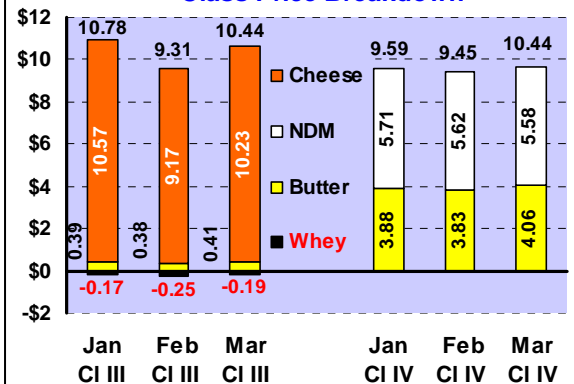
Federal order.

March's [all-milk price](#) was \$11.50, the lowest all-milk price since September 2003. April is projected to be up to \$11.80. The futures markets project the all-milk price to average \$13.40 in 2009 (a month ago, they projected \$14.00) 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 \$3.75 and \$9.89 per bushel, respectively. We project alfalfa prices to average between \$130 and \$140 per ton in 2009.

dmr

Class Price Breakdown



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



Dairy Management Inc.™ and state, regional, and international organizations work together to drive demand for dairy products on behalf of America's dairy farmers, through the programs of the American Dairy Association®, the National Dairy Council®, and the U.S. Dairy Export Council®.



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