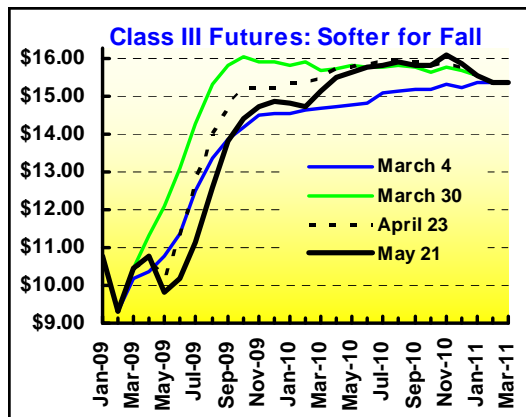




# Dairy Market Report

## Executive Summary

- ➔ Average daily commercial disappearance (including exports) in January through March: skim solids down 1.8%, milk fat down 2.0%.
- ➔ Cheese prices little changed, butter prices up from our last report—as of May 29<sup>th</sup>:
  - blocks were unchanged at \$1.15¼/lb.,
  - barrels were up ½¢ to \$1.10;
  - butter was up 3½¢ to \$1.26½/lb.
- ➔ Outlook: *Futures say prosperity is around the corner: when will it arrive?*



## Market Outlook

Current prices for cheese and powder remain close to support levels. Futures prices continue to promise prosperity around the corner, but it hasn't showed its face yet. Supply is adjusting slowly, with an assist from the CWT program, but the markets seem to be expecting a strong demand rebound that may depend too heavily on economic recovery in the rest of the world. However, economic news remains bad in major importers of U.S. dairy products: the Mexican economy shrunk at an annualized rate of 21% in the first quarter, and the Japanese economy shrunk at a 15% rate. The value of first quarter dairy exports to the Philippines, Indonesia, China, and Korea has dropped by about two-thirds from a year ago. However, even if strong futures prices reflect something other than fundamentals, they do offer concrete opportunities for farmers to lock in prices well above current levels.

The dairy farmer-funded **Cooperatives Working Together** program announced that it had accepted bids to retire 102,898 cows, producing about 2 billion pounds of milk, from the U.S. dairy herd. This includes 82,105 cows from Western states. Details are available on the program's website ([www.cwt.coop](http://www.cwt.coop)). The announcement checked a decline in the cash cheese prices, and briefly boosted the Class III futures. Even before this announcement, though, both the March announcement that the CWT program would go forward for another two years and the April request for bids had already raised prices and price expectations; so the impact of this round cannot be measured only by its immediate impact. Another round is expected, when CWT staff determine the time is right.

The **Milk Income Loss Contract** payment for June will be at least \$1.62 per cwt., and will be higher if June feed costs are as high as now projected. With futures prices falling for milk and rising for feed, we now project an average MILC payment rate of \$1.45 per cwt. for the 9 months ending November, including an average 23¢ added for the feed cost adjustor. (See table.)

USDA has been active in the dairy markets in other ways, as well. An allocation and invitation for bids under the Dairy Export Incentive Program, the sellback of 4.6 million pounds of price support butter, and offers to acquire cheese in exchange for stimulus money or price support powder were all announced this month. **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	17.14	2.0056
April	13.61	17.17	1.6010
May	14.22	17.20	1.3391
June	13.33	17.61	1.9239
July	13.91	17.61	1.6625
August	14.37	17.73	1.5119
September	15.68	17.70	0.9088
FY 2010			
October '09	16.89	17.87	0.4447
November	17.60	17.87	0.1222
December	18.10	17.88	0.0000
January '10	18.31	18.05	0.0000
February	18.43	18.04	0.0000
March	18.32	18.04	0.0000
April	18.57	18.14	0.0000
May	19.02	18.14	0.0000
June	19.08	18.23	0.0000
July	19.27	18.23	0.0000
August	19.57	18.03	0.0000
September	20.09	18.02	0.0000

Projections based on futures as of 5/28/2009

The Dairy Market Report is created for Dairy Management Inc.



### The Nutshell

#### Production v. last year:

- March Cheese **↑ 4.3%**
- March Butter **↓ 4.4%**
- Mar. NDM+SMP **↓ 5.7%**
- March Whey **↓ 3.7%**
- March Milk **↓ 0.1%**

	Mar.	April
NASS		
Cheddar	1.26	1.28
Whey	0.17	0.19
Butter	1.13	1.17
NDM	0.82	0.82
Milk	Mar.	April
Cl. III	10.44	10.78
Cl. IV	9.64	9.82
All	11.80	12.00

**Cheese and Whey**

Total U.S. **cheese production** (excluding cottage cheese) was 871 million lbs. in March, up 4.3% from a year ago; average daily production was up 2% from February. American types totaled 359 million lbs. in March, up 5.9% from last year and up 1% from February, on an average daily basis. Italian types were 363 million lbs., up 1% from last year and up 2½% from February on an average daily basis.

Natural American cheese **stocks** were 586 million lbs. as May began, up 8% from a year ago, and up 24½ million pounds from April's beginning stocks. Stock of other cheese, including Italian and Swiss, began May at 328 million lbs., up 5% from a year ago, and down 5 million pounds from April 1. Total cheese stocks are up 7% from a year ago, and up 19½ million pounds from April 1.

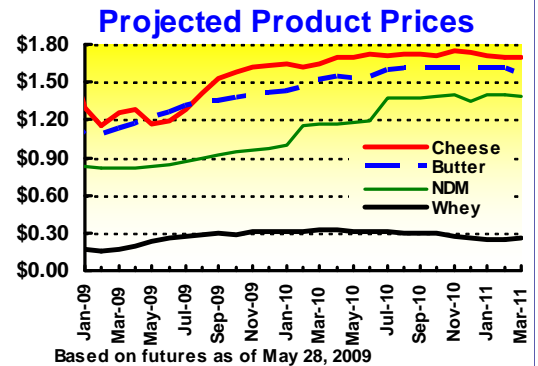
For the three months ending March 2009, **commercial disappearance** of American cheese was 1.03 billion lbs., up 4.9% from a year ago on an average daily basis; other cheese was 1.48 billion lbs., down 0.6% from last year. The total was up 1.6%.

As of May 29, the **CME** block cheese prices was even with our last report, to \$1.15¼; the barrel price was ¾¢, to \$1.10. Class III futures prices have softened, although projected fall prices remain well above current prices. (See graphs on pages 1, 4.)

May 28 futures project cheese prices to average \$1.43 over the

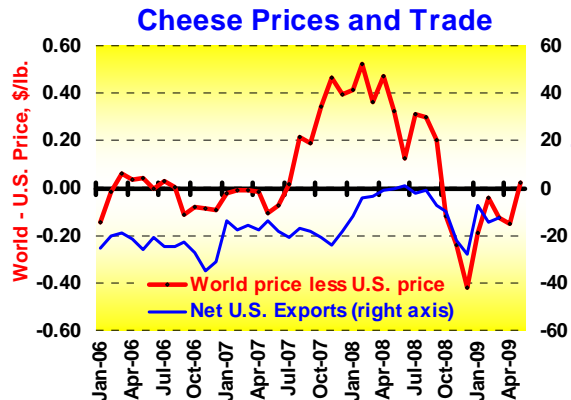
next six months (June through November), \$1.37 for all of 2009, and \$1.70 for 2010.

U.S. cheese **exports** in March were 17½ million pounds, down 33% from a year ago, and equal to 2% of U.S. production. Imports were up 1% from a year ago to 30 million pounds. Net imports were 12 million lbs, up 250% from a year ago, but still well below re-



**Production** of dry **whey** for food was 89 million lbs. in March 2008, down 4% from a year ago. Production of all whey products was down 5%. (See box.)

*“Futures prices offer concrete opportunities to lock in prices well above current levels.”*



The manufacturers' **price** of whey was 24¢ per lb. the week of May 23, according to NASS' survey. WPC-34 prices remain near 56¢, per USDA's **Dairy Market News**. The **CME** dry whey futures project average whey prices of 28¢ for the next 6

cent historical averages. Cheese imports have been relatively consistent in recent years; variation in exports has been responsible for most of the variation in net cheese trade, and these exports have tended to respond to relative prices. (See graph.)

The **retail price** of cheddar cheese was \$4.76 in April (up 4% from last year). Processed cheese averaged \$3.78 at retail in April, down 3% from a year ago.

months, and 24¢ for all of 2009. The whey price is about 25½¢ per lb. in Europe. **djr**

Whey Products				
Product	March Production		April 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2008
Whey, food	88.8	-3.7	51.3	-21.6
Whey, feed	3.5	-38.7	2.0	-42.3
WPC25-51	22.1	-6.6	21.6	-18.5
WPC50-91	11.7	-3.6	14.9	7.1
WPI90+	4.5	44.0	n/a	n/a
<b>Total</b>	<b>130.6</b>	<b>-4.6%</b>	<b>89.9</b>	<b>-17.8%</b>

## Butter

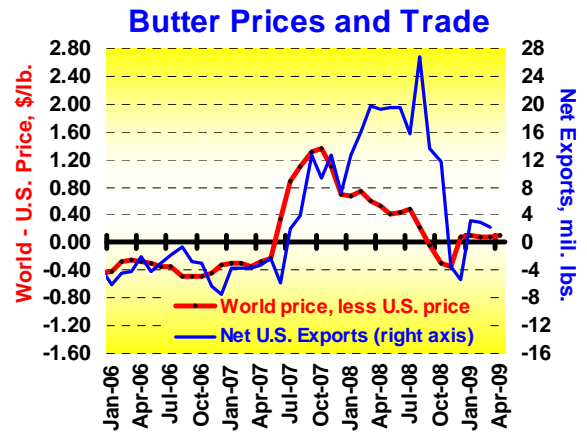
March U.S. [butter production](#) was 145 million lbs., down 4.4% from a year ago and down 10% from February, on an average daily basis. May 1 [stocks](#) were 243 million lbs., 3% less than a year ago, but up 40 million lbs. from April 1.

[Commercial disappearance](#) (including exports) of butter in the three months ending with March was 373 million lbs., down 5.5% from a year ago, on an average daily basis. Daily disappearance of all milkfat was down 2.0% for the same three months.

The [retail](#) butter price was \$2.70

per lb. in April 2009, down 15% from 2008. The [CME](#) butter price was up 3½¢ to \$1.26½ on May 29. Futures project NASS butter at \$1.34 for the six months through November, \$1.26 for all 2009, and \$1.55 for 2010.

The U.S. was a [net butter exporter](#) in March of 2.1 million lbs. Butter exports will be bumped up with DEIP assistance to 22 million pounds in the next few months, but will otherwise remain low, given large European stocks (including 170 million pounds in EU intervention stocks) and low prices in Oceania (about 87¢ per lb., according



to USDA's [international](#) report, compared to European prices up to about \$1.36). **dmr**

## Dry Milk Powders

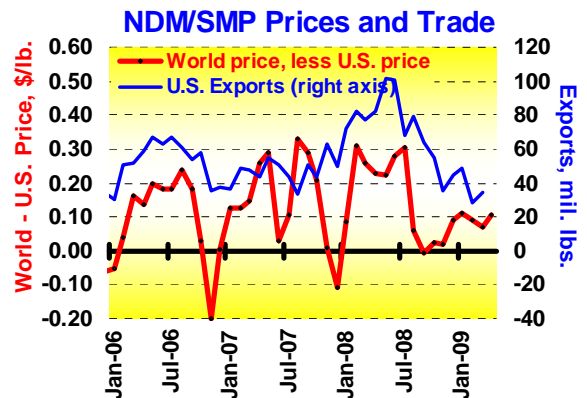
U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 160 million lbs. in March, down 5.7% from a year ago. April 1 manufacturers' stocks of (only) nonfat dry milk were 186 million lbs., up 22% from last year, and down 3 million pounds from March 1.

Since our last report, the [CME](#) price of grade A nonfat dry milk was up 3½¢ to 90¢ per lb., and extra grade was up 2½¢ to 87½¢ on May 29; this compares to the the average surveyed U.S. manufacturers' [price](#) of 83¢ for the week of May 23. USDA purchases of

nonfat dry milk under the price support program have slowed considerably, and are expected to slow further, as the DEIP program is exercised. (See page 1.)

In March 2008 exports of nonfat dry milk and skim milk powders were 35 million pounds, down 55% from last March's total. This will be bumped up by the DEIP program, which provides bonuses for up to 150 million pounds of nonfat dry milk exports.

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



months ending March was 369 million lbs., down 0.6% 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 1.8%. **dmr**

## Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in March was up 15% from last year, to 366 million lbs.

March reported [ice cream production](#) was down 0.3% from a year ago to 110 million gallons, and down 3.4% for the year to date. Ice cream mix production was 63 million gallons, up 3.4% from a year ago, and down 1.2% for the year to date.

The [retail](#) ice cream price was

\$4.37 per ½-gallon in April, up 4% from last year.

March [fluid milk sales](#) were up 2.6% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 18%, to \$3.12. April's retail price was \$3.08, down 19% from a year ago.

Organic milk sales are down 5% in the first quarter. These have suffered with the current recession and as many conventional bottlers have adopted rBST-free policies. **dmr**

### U.S. Fluid Milk Sales

Product	March 2009		2009 to date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,276	0.1	3,755	-1.8
Flavored Whole Milk	55	14.1	148	1.7
Organic Whole Milk	33	2.9	93	-0.6
Reduced Fat Milk (2%)	1,570	2.4	4,638	1.5
Low Fat Milk (1%)	597	4.6	1,740	2.5
Fat-Free Milk (Skim)	697	0.3	2,056	-0.7
Flavored Fat-Reduced	380	14.8	1,089	5.1
Organic Fat-Reduced	111	2.5	309	-5.9
Buttermilk	65	21.3	193	25.2
<b>Total (including "Other")</b>	<b>4,792</b>	<b>2.8</b>	<b>14,048</b>	<b>0.6</b>
<b>Total (calendar adjusted)</b>	<b>4,845</b>	<b>2.6</b>	<b>14,031</b>	<b>1.6</b>

Source: USDA/AMS, Dairy Market News

## Milk and Feed

U.S. [milk production](#) in April was 16.1 billion lbs., down 0.1% from a year ago. Per revisions to the March numbers, this is the first year-over-year decline in average daily production since July 2004. Milk per cow was up 0.2%, but the herd was 23,000 cows (0.25%) smaller than a year ago. USDA still projects a decline in average daily production of 0.9% in 2009.

April's [Class III](#) price was announced at \$10.78 per hundredweight, up 34¢ from March, and down \$5.98 from a year ago. Class III [futures](#) prices for the next six months (June through November) averaged \$12.89 per hundredweight on May 28, and they project averages of \$11.96 for 2009 and \$15.63 for 2010. May is projected at about \$9.90. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

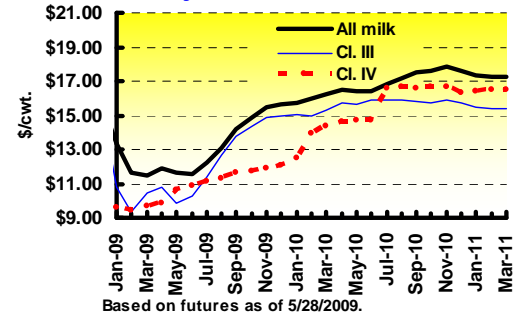
The April [Class IV price](#) was \$9.82, up 18¢ from March, and down \$4.74 from a year ago. [Futures](#) markets project Class IV milk to average about \$11.42 for the next six months, \$10.76 for 2009, and \$15.35 for 2010. May is projected at about \$10.10. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

April component prices were: \$1.2049 per lb. (up 4½¢ from March) for butterfat in Class III, Class IV, and producer milk; \$2.2009 (up a third of a cent from March) for pro-

tein in Class III and producer milk; \$0.6452 (up a quarter-penny) for total non-fat solids in Class IV milk; and *negative* \$0.0043 (up 3¢) for other solids in Class III and producer milk. May butterfat is projected at \$1.26.

April's Class II price was up 13¢ per

## Projected Milk Prices



on a [Federal order](#).

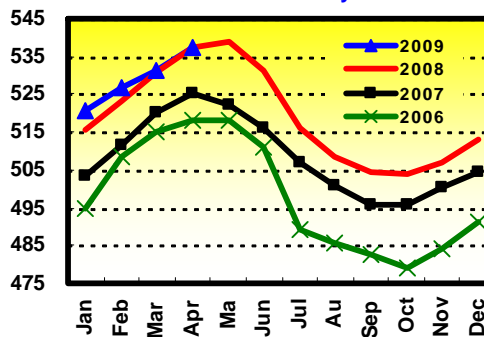
April's [all-milk price](#) was \$12.00, up 20¢ from March. May is projected to be down again to \$11.50. The futures markets project the all-milk price to average \$13.10 in 2009 (a month ago, they projected \$13.40) and \$16.80 in 2010. The markets continue to be optimistic about a recovery this fall.

Anticipated [feed costs](#) for 2009 are up: near month [corn](#) and [soy](#) futures are \$4.29 and **\$11.79** per bushel, respectively. We project alfalfa prices to average between \$130 and \$140 per ton in 2009.

dmr

## U.S. Milk Production, 2006-2009

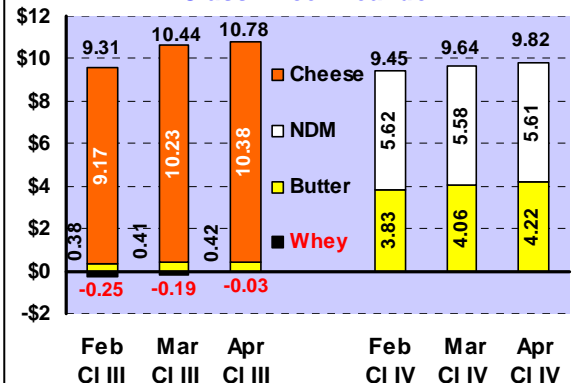
Million Lbs./Day



hundredweight, to \$10.49. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. May is projected at about \$10.70.

June's Class I base price is \$10.08, based on butter and powder values. This is down 89¢ from May. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled

## Class Price Breakdown



Contact: Roger Cryan,  
National Milk Producers  
Federation  
[rcryan@nmpf.org](mailto:rcryan@nmpf.org)  
[www.nmpf.org](http://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.