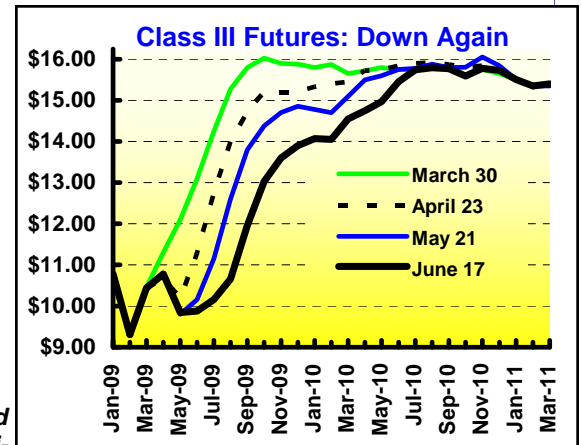




Dairy Market Report

Executive Summary

- ➔ Cheese, butter prices down from our last report—as of June 18th:
 - blocks down 2½¢ at \$1.12¾/lb.,
 - barrels down 3¢ to \$1.07;
 - butter down 6¢ to \$1.20½/lb.
- ➔ Futures reflect fading hopes for fast rebound.
- ➔ Outlook: Prices will rise modestly as supply shrinks; “high” prices will wait for demand growth from global economic recovery.



Market Outlook

The dairy market situation is little changed from last month, except for the dawning realization that the underlying price outlook is worse than many had believed. A few months ago, futures markets signaled that a price recovery was at hand. (See graph above). However, that recovery has been receding like a mirage: the same October Class III milk futures that closed at \$16.45 on March 27 are now at \$13.03. It is now becoming clear that recovery will be more gradual. Current dairy prices remain low, and near futures continue to fall. The [Cooperatives Working Together \(CWT\)](#) program expects to complete its retirement of 100,000 dairy cows and their 2 billion pounds of annual milk production by early July. Such measures as the private CWT program, and government programs like dairy product price support, the Dairy Export Incentive Program (DEIP), and the Milk Income Loss Contract program, are all providing meaningful price and income assistance to dairy farmers who are facing historically low milk-feed price relationships. May’s milk-feed price ratio of 1.47 was the lowest since the calculation was revised in 1984, and June’s could be even lower. Corn prices remain high, above \$4 per bushel, and soy prices this summer appear to be second only to last year’s record levels. Supply is not falling much in response: May’s milk production was actually up slightly from a year ago. This is delaying the modest and gradual supply-driven price recovery that should be expected to happen in the fall and winter. Even this recovery, when it comes, can be expected to reach no higher than about break-even on producer operating costs, especially with the high feed prices. It will take a global economic (and dairy demand) recovery to drive high prices again.

The [Milk Income Loss Contract](#) payment rate for June and July could approach March’s record of \$2.0056, as milk prices have dropped and feed costs have risen. We project an average MILC payment rate of \$1.31 per cwt. for the all of 2009, and 29¢ for the first half of 2010. (See table.) **dmr**

MILC Payment Rates and Projections			
Year	Boston Class I		Payment Rate
	Actual	Target	
FY 2009			
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	17.14	1.5863
May	14.22	17.60	1.5202
June	13.33	17.45	1.8552
July	13.47	17.45	1.7922
August	14.32	17.55	1.4517
September	14.51	17.51	1.3498
FY 2010			
October '09	14.95	17.69	1.2331
November	16.10	17.69	0.7135
December	16.80	17.69	0.4027
January '10	17.17	17.88	0.3204
February	17.37	17.88	0.2286
March	17.39	17.88	0.2196
April	17.80	18.00	0.0918
May	18.07	18.00	0.0000
June	18.29	18.11	0.0000
July	18.74	18.11	0.0000
August	19.57	17.93	0.0000
September	20.09	17.92	0.0000

Projections based on futures as of 6/17/2009

The Dairy Market Report is created for Dairy Management Inc.



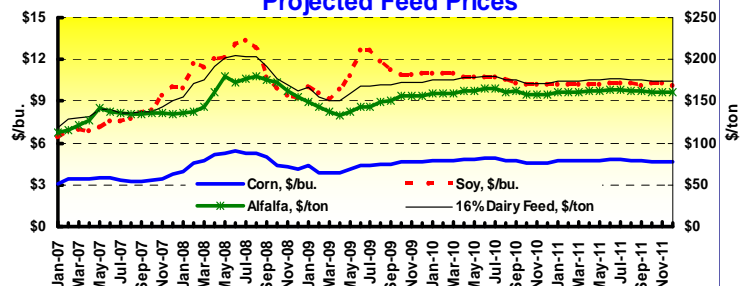
The Nutshell

Production v. last year:

- April Cheese ↑ 3.2%
- April Butter ↓ 3.9%
- Apr. NDM+SMP ↓ 4.3%
- April Whey ↓ 4.6%
- May Milk ↑ 0.1%

	April	May
NASS		
Cheddar	1.28	1.16
Whey	0.19	0.23
Butter	1.17	1.22
NDM	0.82	0.83
Milk		
Cl. III	10.78	9.84
Cl. IV	9.82	10.14
All	11.90	11.70

Projected Feed Prices



Projections are based on futures as of 6/17/2009.

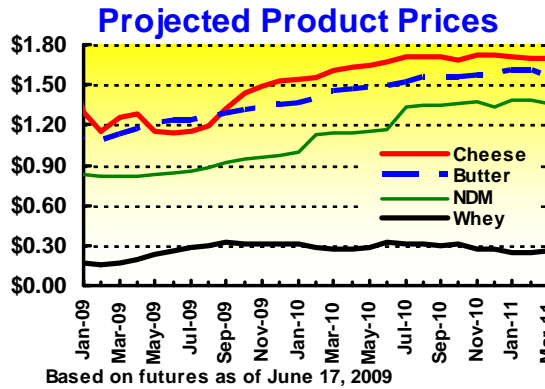
Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 846 million lbs. in April, up 3.2% from a year ago; average daily production was up 0.4% from March. American types totaled 351 million lbs. in April, up 3.2% from last year and up 1% from March, on an average daily basis. Italian types were 350 million lbs., up 0.3% from last year and down 0.3% from March on an average daily basis.

Cheese stocks are said to be building. USDA's figures will be announced in the **Cold Storage report** on June 22.

April **commercial disappearance** figures for cheese will be released around June 25. The total for all cheese was up 1.6% in the quarter ending with March.

As of June 18, the **CME** block cheese price was down 2½¢ per pound from our last report, to



\$1.12¢; the barrel price was down 3¢, to \$1.07. Class III (cheese milk) futures prices have softened, but projected fall prices are still

year ago, but far below recent historical averages, in response to the U.S. world price relationship. (See graph.)

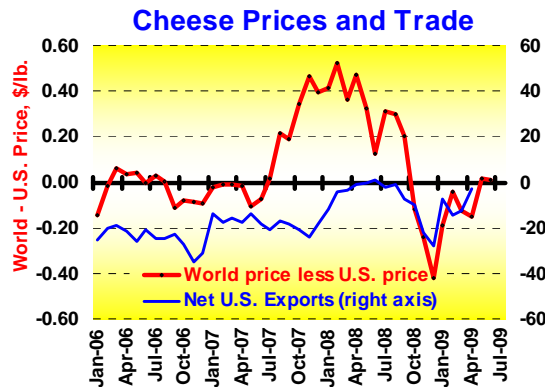
The **retail price** of cheddar cheese was \$4.60 in May (up 5% from last year). Processed cheese averaged \$3.92 at retail in May, down 1% from a year ago.

Production of dry **whey** for food was 89 million lbs. in April 2008, down 4.6% from a year ago.

Production of all whey products was down 7%. (See box.)

The manufacturers' **price** of whey was 26¢ per lb. the week of June 6, 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 30¢ for the

next 6 months, and 25¢ for all of 2009. The whey price is about 27¢ per lb. in Europe. **dmr**

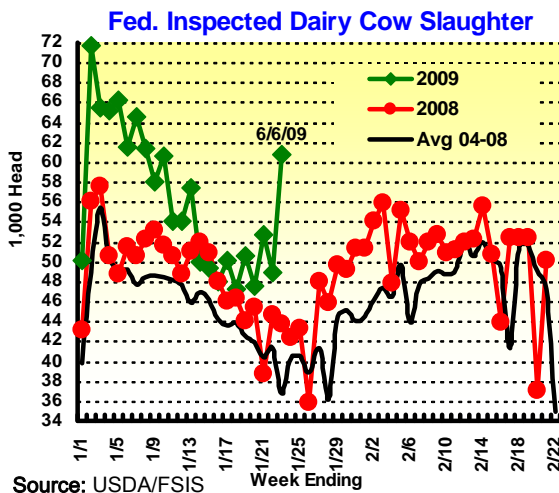


well above current prices. (See graphs on pages 1, 4.)

June 17 futures project cheese prices to average \$1.35 over the next six months (July through December), \$1.28 for all of 2009, and \$1.66 for 2010.

U.S. cheese **exports** in April were 18½ million pounds, down 36% from a year ago, and equal to 2% of U.S. production. Imports were down 28% from a year ago to 21½ million pounds. Net imports, then, were 3 million lbs, up 293% from a

"In March, October Class III futures were above \$16.00. Today they are about \$13.00."



Whey Products				
Product	April Production		May 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2008
Whey, food	89.1	-4.6	47.4	-11.2
Whey, feed	3.7	-29.8	1.3	-63.6
WPC25-51	20.8	-16.2	20.5	-26.0
WPC50-91	11.1	-3.3	14.2	-1.1
WPI90+	4.1	28.3	n/a	n/a
Total	128.7	-6.8%	83.4	-15.8%

Butter

April U.S. [butter production](#) was 144 million lbs., down 3.9% from a year ago and up 1.1% from March, on an average daily basis. June 1 [stocks](#) will be published on June 22.

April [commercial disappearance](#) figures for butter (including exports) will be published about June 25. In the quarter ending with March, butter disappearance was down 5.5% from a year ago, on an average daily basis, and daily disappearance of all milkfat was down 2.0%.

The [retail](#) butter price was \$2.78

Dry Milk Powders

U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 164 million lbs. in April, down 4.3% from a year ago. May 1 manufacturers' stocks of (only) nonfat dry milk were 178 million lbs., up 24% from last year, and down 10 million pounds from April 1. The "skim milk powders" production falls with exports. (See graph.)

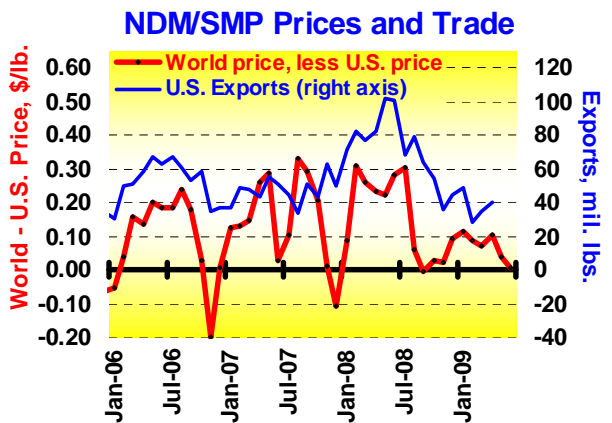
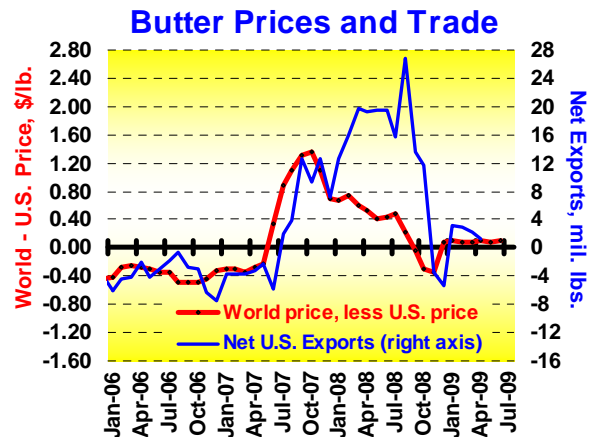
Since our last report, the [CME](#) price of grade A and extra grade nonfat dry milk were unchanged at 90¢ and 87½¢ per lb., respectively, on June 18; this compares to the average surveyed U.S. manufacturers' [price](#) of 84¢ for the

per lb. in May 2009, down 15% from 2008. The [CME](#) butter price was down 6¢ to \$1.20½ on June 18. Futures project NASS butter at \$1.29 for the six months through December, \$1.22 for all 2009, and \$1.50 for 2010.

The U.S. was a [net butter exporter](#) in April of 1.3 million lbs. USDA announced fixed DEIP bonus rates at 20.4¢ per pound for butter and 29.5¢ per pound for anhydrous milkfat, butteroil and ghee. Butter in Oceania is about 84¢ per lb., according to USDA's [international](#) report, compared to European prices of about \$1.34. **dmr**

week of June 6.

In April 2009 exports of nonfat dry milk and skim milk powders were 39.6 million pounds, down 52% from last April's total. The DEIP program has awarded 16.9 million pounds through June 17, with about 134 million pounds left in the allocation, and only two weeks left to fill it. USDA purchases of nonfat dry milk under the price support program totaled nearly 7 million pounds in the week ending June 12 and another 7 million pounds in the first three days of the following week, picking up in light of the slow pace of DEIP bid acceptances. Price support purchases now total



257 million pounds since October 1.

April [commercial disappearance](#) figures of nonfat dry milk (including exports, but excluding modified "skim milk powders") will be issued by USDA about June 25. In the three months ending March, disappearance of nonfat dry milk was down 0.6% from a year ago on an average daily basis, and all skim solids was down 1.8%. **dmr**

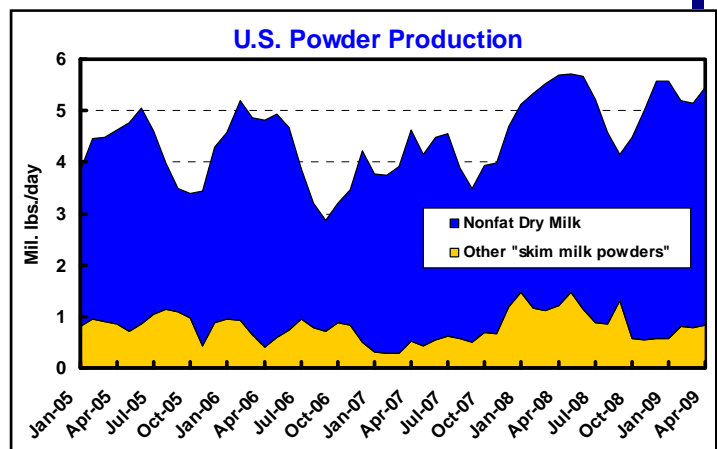
Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in April was up 9% from last year, to 329 million lbs; year-to-date was up 6%.

April's reported [ice cream production](#) was up 1.4% from a year ago to 116 million gallons, and down 1.4% for the year to date. Ice cream mix production was 65 million gallons, up 1.0% from a year ago, and down 0.5% for the year to date.

The [retail](#) ice cream price was \$4.28 per ½-gallon in May, up 5% from last year.

[Fluid milk sales](#) for March were up 2.6% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 18%, to \$3.12. May's retail price was \$3.07, down 18% from a year ago. **dmr**



Milk and Feed

U.S. [milk production](#) in May was 16.7 billion lbs., up 0.1% from a year ago. Milk per cow was up 0.6%, but the herd was 43,000 cows (0.4%) smaller than a year ago. This is a surprisingly small supply response in the face of an extremely poor bottom line for dairy farmers. USDA projects a decline in average daily production of 1.0% in 2009.

May's [Class III](#) price was announced at \$9.84 per hundredweight, down 94¢ from April, and down \$8.34 from a year ago. Class III [futures](#) prices for the next six months (July through December) averaged \$12.22 per hundredweight on June 17, and they project averages of \$11.20 for 2009 and \$15.19 for 2010. June is projected at about \$9.90. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

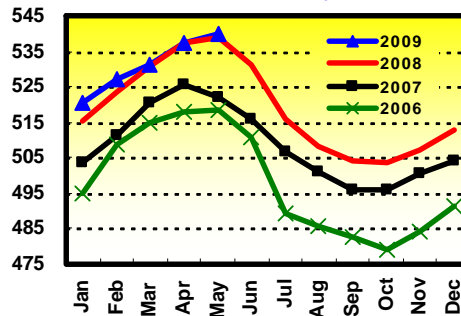
The May [Class IV price](#) was \$10.14, up 32¢ from April, and down \$5.12 from a year ago. [Futures](#) markets project Class IV milk to average about \$11.62 for the next six months, \$10.77 for 2009, and \$15.35 for 2010. June is projected at about \$10.30. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

May component prices were: \$1.2648 per lb. (up 6¢ from April) for butterfat in Class III, Class IV, and producer milk; \$1.7454 (down 46¢) for protein in Class III and producer milk; \$0.6574 (up a penny) for total

nonfat solids in Class IV milk; and \$0.0336 (up 4¢) for other solids in Class III and producer milk; the other solids value is positive for the first time since last September. June butterfat is projected at \$1.29.

May's Class II price was up 22¢ per hundredweight, to \$10.71. This is the minimum price for pooled

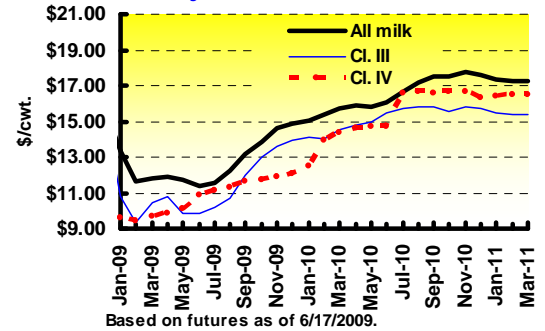
U.S. Milk Production, 2006-2009
Million Lbs./Day



milk used to make soft dairy products and in most food processing. June is projected at about \$10.90.

July's [Class I](#) base price is projected to be about \$10.20 when it is announced on June 19, based on butter and powder 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 [Fed-](#)

Projected Milk Prices



Based on futures as of 6/17/2009.

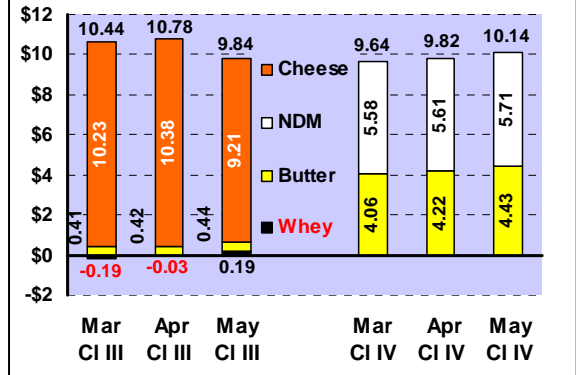
[eral order.](#)

May's [all-milk price](#) was \$11.70, down 20¢ from April. June is projected to be down again to \$11.30. The futures markets project the all-milk price to average \$12.65 in 2009 and \$16.49 in 2010. The markets' optimism is fading regarding a vigorous fall recovery.

Anticipated [feed costs](#) for 2009 are up again: near month [corn](#) and [soy](#) futures are \$4.08 and **\$12.06** per bushel, respectively. We project alfalfa to average \$125 to \$135 per ton in 2009. The futures markets project annual averages for corn at \$4.11 and soybeans at \$10.60.

dmr

Class Price Breakdown



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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.