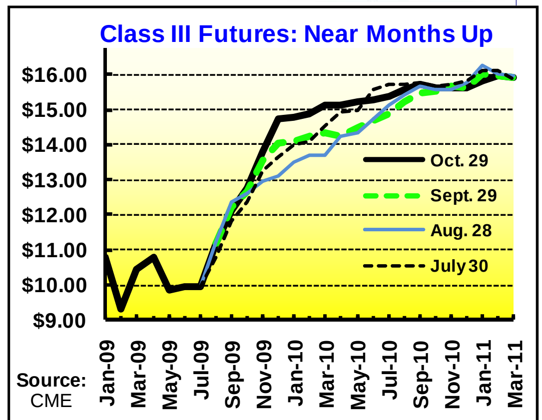
October 2009
National Milk Producers Federation
Volume 12, Number 10

Dairy Market Report

Executive Summary

- Cheese, butter prices up from our last report:
  - blocks up 9¾¢ to $1.51/lb., as of Oct. 30th
  - barrels up 12¾¢ to $1.48¾/lb.
  - butter up 17½¢ to $1.41/lb.
- Commercial disappearance of milkfat down 2.5% in three mos. ending August; skim solids up 1.0%.
- Outlook: *Shrinking herd, stable domestic demand, and modest export recovery should sustain the six-month price outlook; their continuation will be the key to long-term outlook.*



Market Outlook

Domestic demand has been up modestly this year as consumers responded to lower prices. As prices rise again, this could soften, presenting challenges to dairy marketers. Two other keys to the price outlook for 2010 are the shrinking U.S. dairy herd and a revived export demand.

September's U.S. milking herd was 197,000 cows (2.1 %) smaller than a year ago. Even as milk and feed prices promise to approach break-even levels, the debt burden from the last 10 months of ruinous margins will continue to drive producers out of business. The silver lining of this is that it will help sustain rising prices over the next six months. Since our last report, the Cooperatives Working Together (CWT) program invited and received bids for yet another round of herd retirements, the third begun in 2009; they have already accepted bids to retire 26,000 cows in 154 herds. By the end of the year, CWT will have removed more than 250,000 cows through herd retirement in less than 14 months. This is a major factor in the overall U.S. herd reduction to date.

Net dairy exports are still well below a year ago; but after a crash last fall, they have been rising steadily since the beginning of the year.

USDA's 3-month increase in support prices will expire at midnight on Halloween, although products made before that will be eligible for the higher prices as late as the end of the year.

The Milk Income Loss Contract payment rates for October and November are the final rates, if feed costs don't turn out higher than expected. Higher feeds costs are raising the trigger price for months after November, but after a small payout for December, no other payments are projected through Fiscal Year 2011. dmr

MILC Payment Rates and Projections			
Year	Boston Class I Actual	Boston Class I Target	Payment Rate
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	17.14	1.5863
May	14.22	17.48	1.4673
June	13.33	17.42	1.8411
July	13.51	16.94	1.5435
August	13.29	16.94	1.6425
September	14.18	*16.94*	*1.2420*
FY 2010			
October '09	15.60	*16.94*	*0.6030*
November	16.11	*16.94*	*0.3735*
December	*16.91*	*17.04*	*0.0576*
January '10	*17.87*	*17.24*	*0.0000*
February	*18.14*	*17.25*	*0.0000*
March	*18.23*	*17.25*	*0.0000*
April	*18.45*	*17.39*	*0.0000*
May	*18.49*	*17.39*	*0.0000*
June	*18.58*	*17.51*	*0.0000*
July	*18.62*	*17.51*	*0.0000*
August	*18.72*	*17.62*	*0.0000*
September	*18.90*	*17.62*	*0.0000*
FY 2011			
October '10	*19.06*	*17.75*	*0.0000*
November	*19.01*	*17.75*	*0.0000*
December	*18.99*	*17.75*	*0.0000*
January '11	*19.01*	*17.92*	*0.0000*
February	*19.18*	*17.92*	*0.0000*
March	*19.32*	*17.92*	*0.0000*
April	*19.30*	*18.02*	*0.0000*
May	*19.29*	*18.02*	*0.0000*
June	*19.21*	*18.12*	*0.0000*
July	*18.90*	*18.12*	*0.0000*
August	*19.06*	*17.98*	*0.0000*
September	*19.18*	*17.98*	*0.0000*

Projections based on futures as of 10/29/2009

The Dairy Market Report is created for Dairy Management Inc.

The Nutshell

Production v. last year:

- August Cheese ⬆ 2.6%
- August Butter ⬇ 13.6%
- Aug. NDM+SMP ⬇ 18.0%
- August Whey ⬆ 2.5%
- Sept. Milk ⬇ 0.7%

NASS	Sept.	Oct.
Cheddar	1.35	1.41
Whey	0.30	0.32
Butter	1.18	1.22
NDM	0.97	1.03

Milk	Sept.	Oct.
Cl. III	12.11	12.82
Cl. IV	11.15	11.86
All	12.90	13.80

Cheese and Whey

"WPC-34 prices are up to about 78¢ per lb."

Total U.S. **cheese** production (excluding cottage cheese) was 850 million lbs. in August, up 2.6% from a year ago; up 1.0% from July. American types totaled 345 million lbs. in August, up 1.6% from last year and down 2.0% from July, on an average daily basis. Italian types were 350 million lbs., up 3.9% from last year and up 0.1% from July. For the year to date, cheese production is up 1.7%.

USDA-reported stocks of American cheese opened October at 607 million pounds, up 10% from last year, and down 13 million pounds from September 1. October's opening stocks of other cheese, including Swiss, were 363 million pounds, up 27% from a year ago, and down 2 million pounds from September. October 1 total cheese stocks were 971 million pounds, up 16% from last year and down 14 million pounds from September 1. This compares to a 10-year average 35 million pound September drawdown of total cheese stocks.

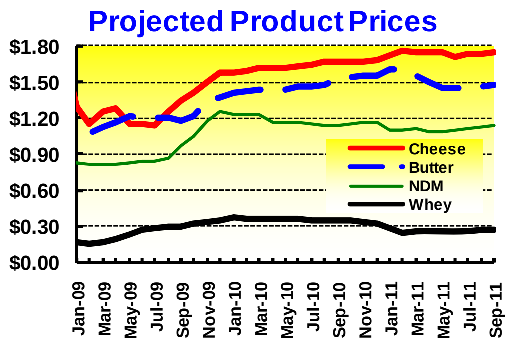
Commercial disappearance for American cheese was 1.05 billion pounds in the three months ending with August, up 2.9% from a year ago. Disappearance of other cheese was up 2.3% to 1.53 billion pounds, and total cheese was up 2.6%.

As of October 30, the CME block cheese price was up 9¾¢ per pound from our last report, to $1.51; the barrel price was up 12¾¢, to $1.48¾. Class III (cheese milk) futures prices have again risen in near months, and held steady further out. (See graph, p. 1.)

October 29 futures project cheese prices to average $1.58 over the next six months (November through April), $1.29 for all of 2009, and $1.64 for 2010.

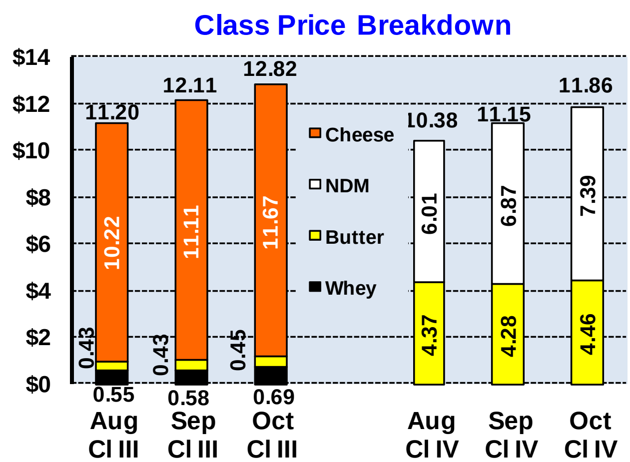
U.S. cheese exports in August were 20 million pounds, down 24% from a year ago, but still more than 2% of U.S. cheese production. Imports were up 3% from a year ago to 28 million pounds, but below historical averages. Net imports were 8 million lbs.

The retail price of cheddar cheese was $4.61 in September (down 4% from last year). Processed cheese averaged $3.82 at retail in September, down 7% from a year ago.



Based on futures as of October 29, 2009

Production of dry **whey** for food was 87 million lbs. in August 2009, up 2½% from a year ago. Production of all whey products was also up 2½%. (See box.)



The manufacturers' price of whey was up to 33¢ per lb. the week of October 24, according to NASS' survey. WPC-34 prices are also up, to about 78¢, per USDA's *Dairy Market News*. The CME dry whey futures project average whey prices of 36¢ for the next 6 months, 26¢ for all of 2009, and 35¢ for 2010. The whey price is about 49¢ per lb. in Europe. **dmr**

Whey Products

Product	August Production		September 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2008
Whey, food	87.0	2.5	50.4	-10.8
Whey, feed	5.2	19.5	2.7	-59.2
WPC25-51	22.9	-6.9	24.1	-6.9
WPC50-91	11.8	15.1	11.7	-7.7
WPI90+	4.7	10.8	n/a	n/a
Total	***131.6***	***2.5%***	***88.9***	***-12.5%***

Butter

August U.S. butter production was 100 million lbs., down 14% from a year ago and down 12% from July. Year-to-date production is down 1.2%. October 1 stocks were 230 million pounds, up 23% from a year ago and down nearly 30 million lbs. from September.

Commercial disappearance for butter (including exports) in the quarter ending with August was 349 million lbs., down 13.6% from a year ago; disappearance of all milkfat was down 2.5%.

The retail butter price was $2.81 per lb. in September 2009, up 3¢ from last month and down 9% from 2008. The CME butter price was up 17½¢ since our last report to $1.41 on October 30. Futures project NASS butter at $1.40 for the six months through April, $1.20 for all 2009, $1.48 for 2010.

U.S. net butter imports in August were 3.5 million lbs., compared to net *exports* of 26.8 million lbs. last August.

As of October 23, USDA had awarded DEIP bonuses for 33.8 million of the 47 million pounds of the supported exports allowed under WTO rules for the July-June marketing year. World butter prices are up substantially: butter in Oceania is about $1.42 per lb., according to USDA's international report, and European prices of about $2.10. **dmr**

Dry Milk Powders

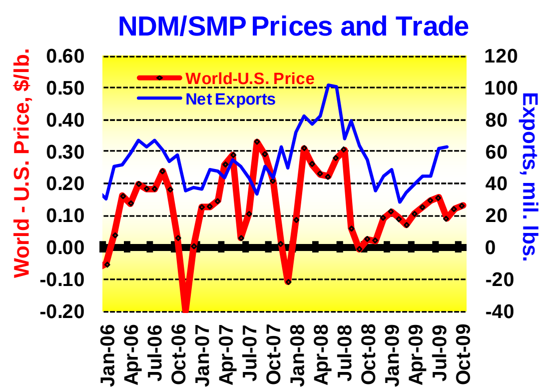
U.S. nonfat dry milk production, including protein-standardized "skim milk powders" was 116 million lbs. in August, down 18% from a year ago. September 1 manufacturers' stocks of (only) nonfat dry milk were 142 million lbs., down 17% from last year, and down 31 million pounds from August 1.

Since our last report, the CME price of extra grade nonfat dry milk was up 12¢ to $1.27 per lb., and grade A was up 18½¢ to $1.33½, on October 30; this compares to the average surveyed U.S. manufacturers' price of $1.03 for the week of October 24.

In August 2009 exports of nonfat dry milk and skim milk powders were 63 million pounds. This is down 21% from last August's total, but these exports have been growing steadily since February.

There have still been no DEIP awards for nonfat dry milk since September 3, as world prices are above U.S. prices. Skim milk powder is $1.34 in Oceania and $1.43 in Western Europe, according to USDA.

USDA purchases of nonfat dry milk under the price support program have essentially stopped, as the market price has risen well above support. There is no indication that the temporary increase in the support price to 92¢ per pound will be continued after October. Without action by USDA, the support price will default to 80¢. Commercial disappearance of nonfat dry milk (including exports, but excluding modified "skim milk powders") was 401 million lbs. in the three months ending August, up 16% from a year ago; and all skim solids were up 1.0%. **dmr**



Yogurt, Ice Cream, and Fluid Milk

U.S. yogurt production in August was up 8% from last year, to 329 million lbs; year-to-date was up 7%.

August's reported ice cream production was up 1% from a year ago, to 117 million gallons, and down 0.6% for the year to date. Ice cream mix production was 65 million gallons, up 0.2% from a year ago, and down 0.2% for the year to date.

The retail ice cream price was $4.24 per ½-gallon in September, down 4% from last year.

Fluid milk sales for July were up 1.0% from a year ago (calendar-adjusted), when the retail price of whole milk was down 23%. September's retail price was $2.98, down 21% from a year ago. **dmr**

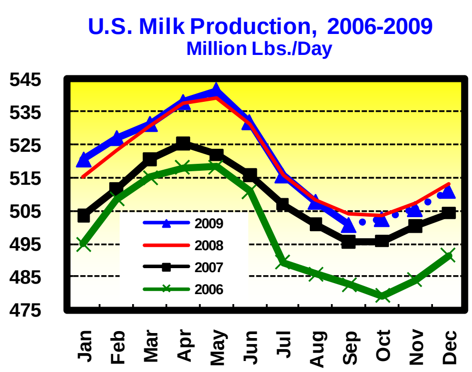
U.S. Fluid Milk Sales

	August 2009		2009 to date	
Product	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,266	0.0	9,990	-0.5
Flavored Whole Milk	47	-1.7	382	-1.8
Organic Whole Milk	29	-11.1	243	-1.8
Reduced Fat Milk (2%)	1,566	1.2	12,282	1.7
Low Fat Milk (1%)	560	2.1	4,492	2.4
Fat-Free Milk (Skim)	676	-0.9	5,399	-0.5
Flavored Fat-Reduced	254	9.7	2,401	4.2
Organic Fat-Reduced	104	-2.8	810	-3.4
Buttermilk	40	-0.3	418	15.3
Total (including "Other")	**4,551**	**0.8**	**36,481**	**0.9**
Total (calendar adjusted)	**4,611**	**1.0**	**36,491**	**1.3**

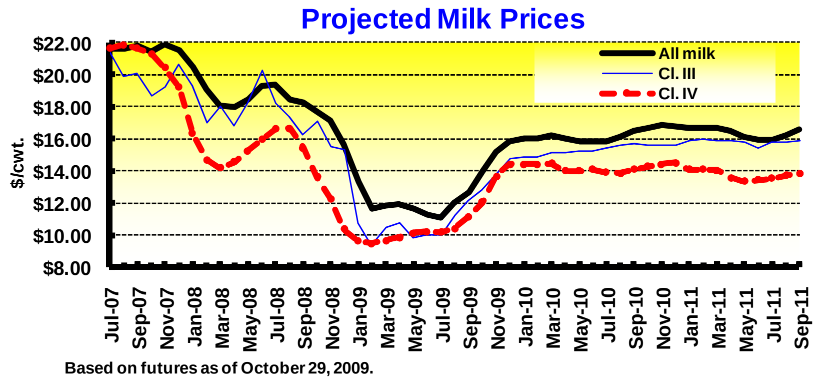
Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. milk production in September was 15.0 billion lbs., down 0.7% from a year ago. Milk per cow was up 1.5%, but ***the herd was 197,000 cows (2.1%) smaller than a year ago***. This trend should continue through the end of the year, as CWT's removals continue to accelerate the exit of farmers weakened financially by the extreme milk-feed price squeeze this year. CWT retirement rounds show up very clearly in a graph of USDA's weekly dairy cow slaughter data (right). We project a 1% reduction in the last quarter of the year.



October's Class III price was announced at $12.82, down $4.24 from last year; September's Class III price was $12.11 per hundredweight, down $4.17 from a year ago. Class III futures prices for the next six months (November through April) averaged $14.75 per hundredweight on October 29, and they project averages of $11.31 for 2009 and $15.32 for 2010. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.



The October Class IV price was $11.86, down $1.76 from last year. September's price was $11.15, down $4.30 from a year ago. Futures markets project Class IV milk to average about $14.22 for the next six months, $10.85 for 2009, and $14.20 for 2010. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

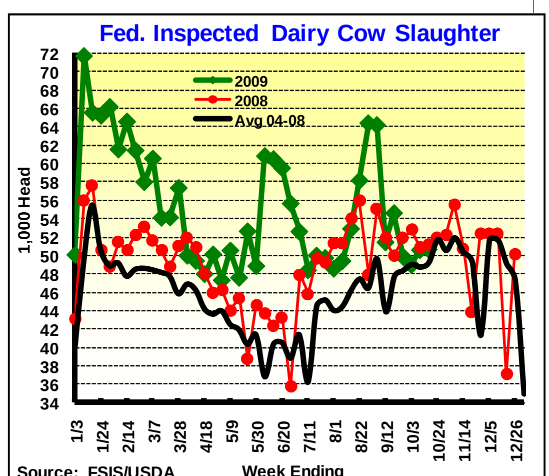
October component prices were: $1.2752 per lb. (up a nickel from September) for butterfat in Class III, Class IV, and producer milk; $2.5584 (up 13¢) for protein in Class III and producer milk; $0.8506 (up 6¢) for total nonfat solids in Class IV milk; and $0.1228 (up 2¢) for other solids in Class III and producer milk.

The Class II price was up 15¢ in September, to $11.01, then up 92¢ in October to $11.93. This is the minimum price for pooled milk used to make soft dairy products and in most food processing.

November's Class I base price was announced at $12.86, up 51¢, based on rising cheese 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 Federal order.

October's all-milk price was $13.80, up 90¢ from September. The futures markets project the all-milk price to average $12.70 in 2009 and $15.90 in 2010.

Feed costs are up on uncertainty about this fall's late harvest: near month corn and soy futures are $3.79 (up 38¢ since our last report) and $9.85 (up 68¢) per bushel. Futures markets project 2009 averages for corn at $3.80 ($4.10 in 2010) and soybeans at $10.10 ($9.80 in 2010). **dmr**



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