November 2009

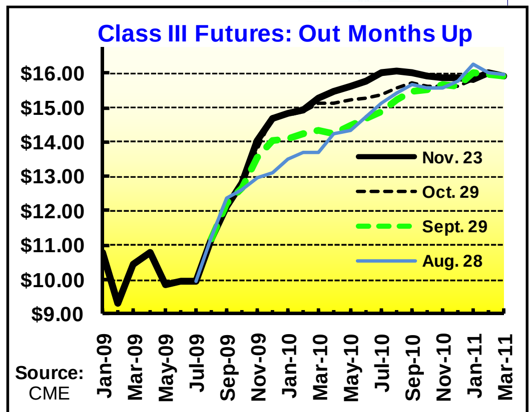
National Milk Producers Federation

Volume 12, Number 11

Dairy Market Report

Executive Summary

- Cheese, butter prices up from our last report:
  - blocks up 14¢ to $1.65/lb., as of Nov. 25th
  - barrels up 3¼¢ to $1.51/lb.
  - butter up 11½¢ to $1.52½/lb.
- Commercial disappearance of milkfat down 3.1% in three mos. ending Sept.; skim solids down 0.2%.
- Outlook: *Herd retirements continue, so milk production is down again; exports are modest, but world markets are tight overall, offering some promise for a sustained price recovery.*



Market Outlook

Dairy prices have been rising for several months, as the U.S. dairy herd shrinks. As importantly, overseas supply has not grown, since dairy farmers around the world suffered during 2009.

U.S. milk production was down 1.1% in October from a year ago; this is the result of substantial herd reductions, with more to come from the ongoing round of CWT herd retirements. By the end of the year, the U.S. milking herd is expected to be a quarter-million cows smaller than it was last July. This is a strong signal for higher dairy prices in early 2010.

Just as important, though, is that dairy farmers around the world also suffered from the very low prices of the last year, and supplies are tighter all over. U.S. exports did not grow in September, despite premiums in world markets, but these markets are driving U.S. prices as much as domestic supply and demand.

These factors start to answer some of the doubts about the current price rally, and suggest a speedy rebound if we have the typical early December price dip.

With some assurance now that U.S. supply is under control, sustained and growing exports will be the key to U.S. prices keeping up with the higher world prices.

The Cooperatives Working Together (CWT) program's latest round of herd retirements is well under way, with the first of 154 accepted herds retired in early November.

The Milk Income Loss Contract payment rate for December will be zero or small, depending on feed costs. No other payments are now projected through Fiscal Year 2011, as milk prices recover and feed costs remain at "only" 1½ times to double their prices of two or three years ago. **dmr**

MILC Payment Rates and Projections

Year	Boston Class I Actual	Boston Class I Target	Payment Rate
FY 2010			
October '09	15.60	*16.94*	*0.6030*
November	16.11	*16.94*	*0.3735*
December	17.24	*17.02*	*0.0000*
January '10	*17.94*	*17.28*	*0.0000*
February	*18.39*	*17.28*	*0.0000*
March	*18.52*	*17.28*	*0.0000*
April	*18.71*	*17.44*	*0.0000*
May	*18.73*	*17.44*	*0.0000*
June	*18.92*	*17.58*	*0.0000*
July	*19.05*	*17.58*	*0.0000*
August	*19.37*	*17.70*	*0.0000*
September	*19.49*	*17.69*	*0.0000*
FY 2011			
October '10	*19.45*	*17.81*	*0.0000*
November	*19.35*	*17.81*	*0.0000*
December	*19.23*	*17.81*	*0.0000*
January '11	*19.23*	*17.97*	*0.0000*
February	*19.20*	*17.97*	*0.0000*
March	*19.40*	*17.97*	*0.0000*
April	*19.32*	*18.07*	*0.0000*
May	*19.27*	*18.07*	*0.0000*
June	*19.20*	*18.15*	*0.0000*
July	*19.13*	*18.15*	*0.0000*
August	*19.16*	*18.09*	*0.0000*
September	*19.19*	*18.09*	*0.0000*

Projections based on futures as of 11/24/2009

The Dairy Market Report is created for Dairy Management Inc.

The Nutshell

Production v. last year:

- Sept. Cheese ⬆ 4.4%
- Sept. Butter ⬇ 21.9%
- Sep. NDM+SMP ⬇ 19.9%
- Sept. Whey ⬆ 2.8%
- October Milk ⬇ 1.1%

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

> *"Total cheese stocks are up 17% from a year ago; but new cheese supplies are tight."*

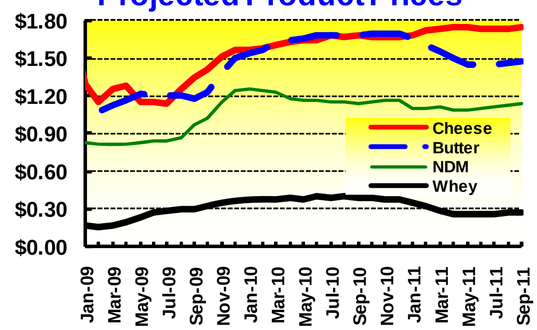
Total U.S. **cheese** production (excluding cottage cheese) was 845 million lbs. in September, up 4.4% from a year ago; up 2.9% from August on an average daily basis. American types totaled 341 million lbs. in September, up 6.4% from last year and up 2.2% from August, on an average daily basis. Italian types were 351 million lbs., up 3.4% from last year and up 3.7% from August on an average daily basis. For the year to date, cheese production is up 2.0%.

USDA-reported stocks of American cheese opened November at 580 million pounds, up 7% from last year, and down 16 million pounds from October 1. November's opening stocks of other cheese, including Swiss, were 389 million pounds, up 35% from a year ago, and up a million pounds from October. November 1 total cheese stocks were 968 million pounds, up 17% from last year and down 16 million pounds from October 1. This compares to a 10-year average 33 million pound October drawdown of total cheese stocks. The heavy stock numbers are weighted toward older products, while supplies of new cheese are reported to be tight.

Commercial disappearance for American cheese was 1.05 billion pounds in the three months ending with September, up 1.7% from a year ago. Disappearance of other cheese was up 0.2% to 1.55 billion pounds, and total cheese was up 0.8%.

As of November 25, the CME block cheese price was up 14¢ per pound from our last report, to $1.65; the barrel price was up 3¼¢, to $1.51. Class III (cheese milk) futures prices have risen in out months, and held steady in near months. (See graph, p. 1.)

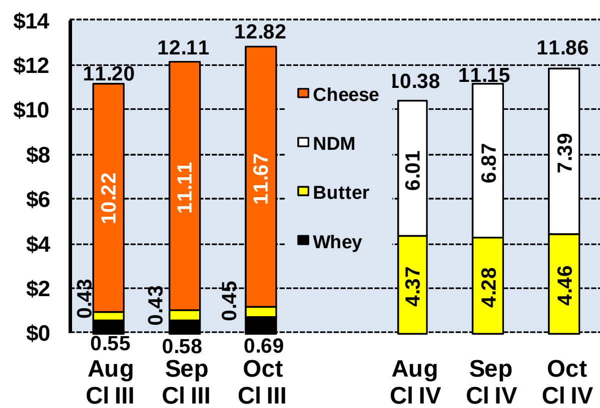
Projected Product Prices



Based on futures as of November 23, 2009

November 23 futures project cheese prices to average $1.60 over the next six months (December through May), $1.29 for all of 2009, and $1.64 for 2010.

Class Price Breakdown



U.S. cheese exports in September were 19 million pounds, down 18% from a year ago, but still more than 2% of U.S. cheese production. Imports were down 10% from a year ago to 28 million pounds. Net imports were 8 million lbs.

The retail price of cheddar cheese was $4.55 in October (down 11% from last year). Processed cheese averaged $3.88 at retail in October, down 3% from a year ago.

Production of dry **whey** for food was 84 million lbs. in September 2009, up 3% from a year ago. Production of all whey products was up 2%. (See box.)

The manufacturers' price of whey was up to 35¢ per lb. the week of November 14, according to NASS' survey. WPC-34 prices are also up, to about 83¢, per USDA's *Dairy Market News*. The CME dry whey futures project average whey prices of 38¢ for the next 6 months, 26¢ for all of 2009, and 38¢ for 2010. The whey price is about 45¢ per lb. in Europe. **dmr**

Whey Products

Product	September Production		October 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2008
Whey, food	83.9	2.8	48.7	-20.4
Whey, feed	3.0	-30.2	2.1	-69.5
WPC25-51	21.1	-7.0	24.7	4.7
WPC50-91	13.4	29.7	14.4	15.0
WPI90+	4.6	7.8	n/a	n/a
Total	***126.1***	***2.3%***	***90.0***	***-13.7%***

Butter

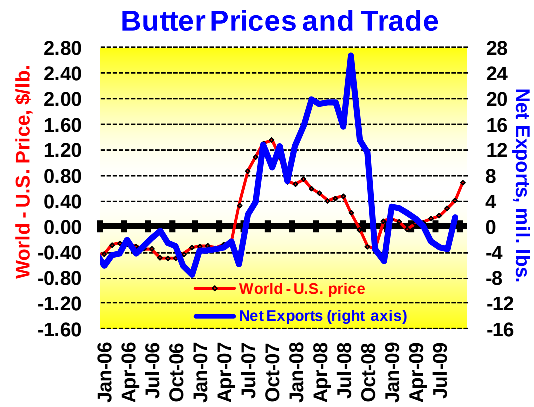
September U.S. butter production was 95 million lbs., down 22% from a year ago and down 3% from August on an average daily basis. Year-to-date production is down 3.2%. November 1 stocks were 195 million pounds, up 31% from a year ago and down 33 million lbs. from October, compared with a 10-year average drawdown of 22 million lbs.

Commercial disappearance for butter (including exports) in the quarter ending with September was 353 million lbs., down 17% from a year ago; disappearance of all milkfat was down 3.1%.

The retail butter price was $2.78 per lb. in October 2009, down 3¢ from last month and down 15% from 2008. The CME butter price was up 11½¢ since our last report to $1.52½ on November 25. Futures project NASS butter at $1.59 for the six months through May, $1.21 for all 2009, $1.65 for 2010.

U.S. net butter exports in September were 1.4 million lbs., compared to net exports of 13.5 million lbs. last September. There have been no DEIP awards for butter since October.

World butter prices are up substantially, and ewll abo: butter in Oceania is about $1.64 per lb., according to USDA's international report, and



European prices are about $2.20. dmr

Dry Milk Powders

U.S. nonfat dry milk production, including protein-standardized "skim milk powders" was 100 million lbs. in September, down 20% from a year ago. October 1 manufacturers' stocks of (only) nonfat dry milk were 122 million lbs., down 25% from last year, and down 20 million pounds from September 1.

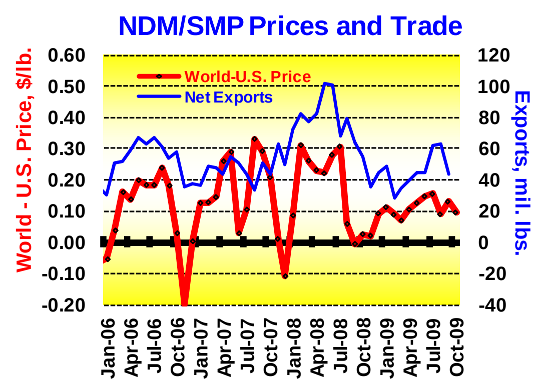
Since our last report, the CME price of extra grade nonfat dry milk was up 13¢ to $1.40 per lb., and grade A was up 6½¢ to $1.40, on November 25; this compares to the average surveyed U.S. manufacturers' price of $1.11 for the week of November 14.

In September 2009 exports of nonfat dry milk and skim milk powders were 44 million pounds. This is down 32% from last September's total; perhaps more importantly, they are down from the previous month for the first time since February.

There have been no DEIP awards for nonfat dry milk since September 3, with world prices above U.S. prices. Skim milk powder is about $1.50 in both Oceania and Western Europe, according to USDA.

The temporary increase in the support price ended with October, and the support price has reverted to 80¢.

Commercial disappearance of nonfat



dry milk (including exports, but excluding modified "skim milk powders") was 350 million lbs. in the three months ending September, up 12% from a year ago; and all skim solids were down 0.2%. dmr

Yogurt, Ice Cream, and Fluid Milk

U.S. yogurt production in September was up 12% from last year, to 371 million lbs; year-to-date was up 7½%.

September's reported ice cream production was down 0.4% from a year ago, to 107 million gallons, and down 0.6% for the year to date. Ice cream mix production was 59 million gallons, up 0.9% from a year ago, and down 0.1% for the year to date.

The retail ice cream price was $4.62 per ½-gallon in October, 5% than last year.

Fluid milk sales for September were up 1.1% from a year ago (calendar-adjusted), when the retail price of whole milk was down 21%. October's retail price was $3.05, down 17% from a year ago. dmr

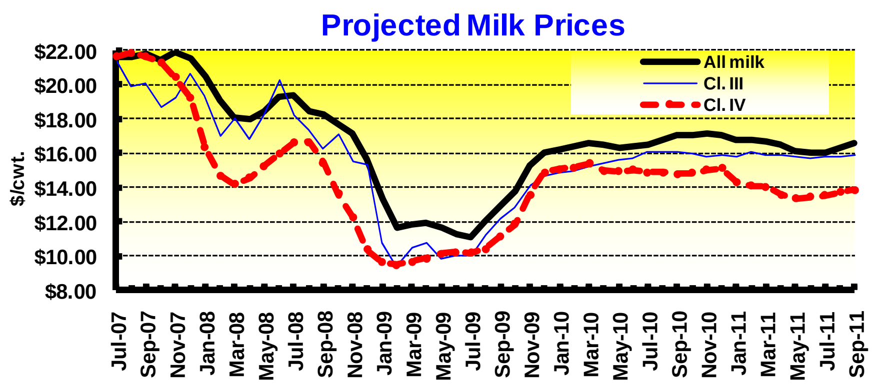
U.S. Fluid Milk Sales

Product	September 2009 Mil. lbs.	%	2009 to date Mil. lbs.	%
Whole Milk	1,218	-1.5	11,208	-0.5
Flavored Whole Milk	46	-9.5	428	-2.7
Organic Whole Milk	32	-1.0	274	-1.9
Reduced Fat Milk (2%)	1,529	0.5	13,810	1.6
Low Fat Milk (1%)	594	3.2	5,086	2.5
Fat-Free Milk (Skim)	670	-1.6	6,069	-0.6
Flavored Fat-Reduced	390	1.4	2,791	3.8
Organic Fat-Reduced	107	0.1	917	-3.1
Buttermilk	39	0.6	457	13.9
Total (including "Other")	**4,632**	**-0.1**	**41,112**	**0.8**
Total (calendar adjusted)	**4,626**	**1.1**	**41,116**	**1.3**

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. milk production in October was 15.4 billion lbs., down 1.1% from a year ago. Milk per cow was up 1.3%, but ***the herd was 226,000 cows (2.4%) smaller than a year ago***. CWT's removals have accounted for most of this reduction and the most recent round will take another 25,000 cows before the end of the year. We project a 1.2% reduction in the last quarter of the year.

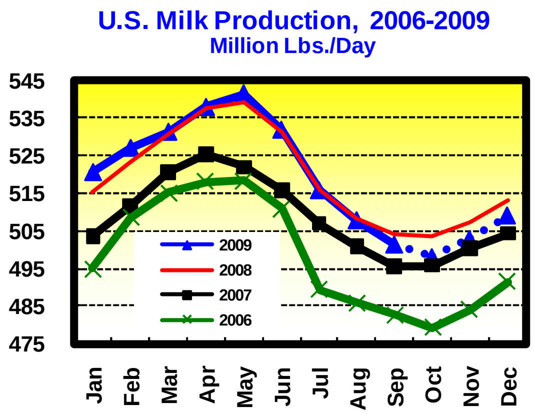


Based on futures as of November 24, 2009.

October's Class III price was announced at $12.82, up 71¢ from September, but down $4.24 from last year. November is projected at $14.10. Class III futures prices for the next six months (December through May) averaged $15.12 per hundredweight on November 24, and they project averages of $11.33 for 2009 and $15.62 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, up 71¢ from September, but down $1.76 from last year. November is projected at $13.20. Futures markets project Class IV milk to average about $15.06 for the next six months, $10.90 for 2009, and $15.00 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 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.

December's Class I base price was announced at $13.99, up $1.13, 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 October, as reported last month. The futures markets project the all-milk price to average $12.70 in 2009 and $16.65 in 2010.

Feed costs: corn is even, soy is up again: near month corn and soy futures are $3.76 (down 3¢ since our last report) and $10.46 (up 61¢) per bushel. Futures markets project 2010 averages for corn at $4.10 ($4.41 in 2011) and soybeans at $10.49 ($10.39 in 2011). **dmr**

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