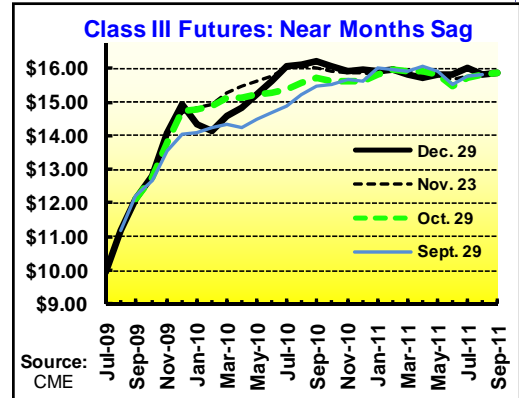


# Dairy Market Report



## Executive Summary

- ➔ Cheese, butter prices down from our last report:
  - blocks down 20¢ to \$1.45/lb., as of Dec. 30<sup>th</sup>
  - barrels down 8¢ to \$1.43/lb.
  - butter down 20<sup>3</sup>/<sub>4</sub>¢ to \$1.32<sup>3</sup>/<sub>4</sub>/lb.
- ➔ Commercial disappearance of milkfat down 3.4% from a year ago in three mos. ending Oct.; skim solids unchanged.
- ➔ Outlook: *Herd retirements continue to drive modest reductions in milk output. Exports are up, as they must be to sustain demand growth and price recovery.*



## Market Outlook

*Dairy prices dipped in December as the holiday buying season wound down.*

U.S. milk production was down as the result of substantial herd reductions, including the latest round of the [Cooperatives Working Together \(CWT\)](#), which was slated to take 26,000 cows out of production. However, November production was down a modest 1.0% from a year earlier. This was a new kind of bad year, with margins squeezed as much by high feed costs as low milk prices; the result, as we've discussed before, was less impact on smaller feed-producing dairy farms and more impact on large feed-buying operations. We're still learning how that will play out in the milk supply. Another factor will be how lenders deal with producers as they apply for their spring operating loans. This may involve more pressure to hedge milk and feed prices.

The market has probably reached its level for the short-term; for the medium- to long-term, demand growth, including exports, will remain the key to continued recovery. U.S. exports of both butter and skim powders grew in October, taking advantage of premiums in world markets.

The USDA announced the rules for the new "[Dairy Economic Loss Assistance Payment Program](#)" (DELAP), which will divide the \$290 million provided by Congress for emergency direct payments to dairy farmers. It will pay farmers 32¢ per cwt. on roughly the amount of milk produced in February through July of 2009 that was eligible for MILC payments.

The [Milk Income Loss Contract](#) payment rate for December and January are expected to be zero. No payments are projected for future months, although rising feed costs and weaker dairy futures are narrowing the gap between projected prices and the MILC targets. Stay tuned. **dmr**

MILC Payment Rates and Projections			
Year	Boston Class I		Payment Rate
	Actual	Target	
FY 2010			
October '09	15.60	16.94	0.6030
November	16.11	16.94	0.3735
December	17.24	16.98	0.0000
January '10	18.28	17.67	0.0000
February	18.06	17.67	0.0000
March	18.17	17.67	0.0000
April	18.27	17.84	0.0000
May	18.17	17.84	0.0000
June	18.52	17.97	0.0000
July	18.94	17.97	0.0000
August	19.36	18.04	0.0000
September	19.49	18.03	0.0000
FY 2011			
October '10	19.59	18.11	0.0000
November	19.51	18.11	0.0000
December	19.34	18.11	0.0000
January '11	19.34	18.25	0.0000
February	19.30	18.26	0.0000
March	19.34	18.26	0.0000
April	19.24	18.35	0.0000
May	19.15	18.35	0.0000
June	19.20	18.43	0.0000
July	19.19	18.43	0.0000
August	19.35	18.32	0.0000
September	19.23	18.32	0.0000

Projections based on futures as of 12/29/2009

The Dairy Market Report is created for Dairy Management Inc.



### The Nutshell

#### Production v. last year:

- Oct. Cheese **↑ 1.3%**
- Oct. Butter **↓ 14.3%**
- Oct. NDM+SMP **↓ 26.6%**
- Oct. Whey **↑ 1.1%**
- October Milk **↓ 1.0%**

#### Prices:

	Oct.	Nov.
NASS Cheddar	1.41	1.52
Whey	0.32	0.35
Butter	1.22	1.38
NDM Milk	1.03	1.11
Cl. III	12.82	14.08
Cl. IV	11.86	13.25
All	14.20	15.30

**December all-milk: \$16.30**

## Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 861 million lbs. in October, up 1.3% from a year ago; down 1.1% from September on an average daily basis.

American types totaled 347 million lbs. in October, up 1.2% from last year and down 1.0% from September, on an average daily basis. Italian types were 361 million lbs., up 3.6% from last year and down 0.4% from September on an average daily basis. For the year to date, cheese production is up 1.9%.

USDA-reported **stocks** of American cheese opened December at 583 million pounds, up 11% from last year, and up 3 million pounds from November 1. December's opening stocks of other cheese, including Swiss, were 379 million pounds, up 30% from a year ago, and down 11 million pounds from November. December 1 total cheese stocks were 961 million pounds, up 17% from last year and down 8 million pounds from November 1. This compares to a 10-year average 25 million pound November drawdown of total cheese stocks.

**Commercial disappearance** for American cheese was 1.06 billion pounds in the three months ending with October, up 1.8% from a year ago. Disappearance of other cheese was up 3.3% to 1.63 billion pounds, and total cheese was up 2.7%.

As of December 30, the **CME**

block cheese price was down 20¢ per pound from our last report, to \$1.45; the barrel price was down 8¢, to \$1.43. Class III (cheese

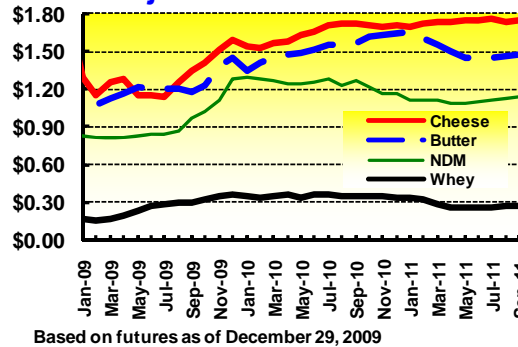
from a year ago to 31 million pounds. Net imports were 10 million lbs.

The **retail price** of cheddar cheese was \$4.42½ in November (down 13% from last year). Processed cheese averaged \$3.84 at retail in November, down 6% from a year ago.

**Production** of dry **whey** for food was 84 million lbs. in October 2009, up 1% from a year ago. Production of all whey products was up 1%. (See box.)

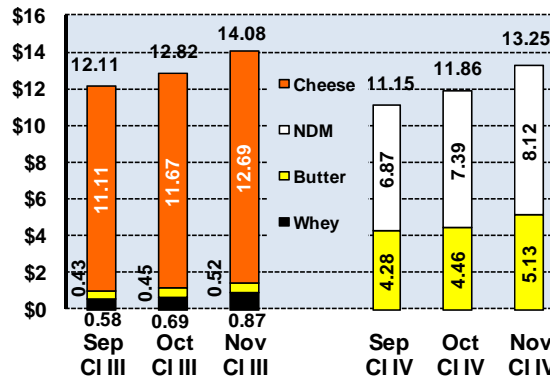
The manufacturers' **price** of whey was up to 37¢ per lb. the week of December 19, according to NASS' survey. WPC-34 prices are also up, to about 87¢, per USDA's **Dairy Market News**. The **CME** dry whey futures project average whey prices of 35¢ for the next 6 months, 26¢ for all of 2009, and 35¢ for 2010. The whey price is still about 45¢ per lb. in Europe. **dmr**

### Projected Product Prices



milk) futures prices have sagged in near months, and held steady in out months. (See graph, p. 1.)

### Class Price Breakdown



December 29 futures project cheese prices to average \$1.59 over the next six months (January through June), \$1.30 for all of 2009, and \$1.65 for 2010.

U.S. cheese **exports** in October were 20 million pounds, down 5% from a year ago, but still 2.4% of U.S. cheese production. Imports were down 3%

### Whey Products

Product	October Production		November 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2008
Whey, food	84.5	0.9	44.0	-24.1
Whey, feed	4.2	4.5	1.5	-68.3
WPC25-51	20.9	-12.3	21.7	12.6
WPC50-91	14.8	23.2	13.8	5.3
WPI90+	4.7	4.4	n/a	n/a
<b>Total</b>	<b>129.0</b>	<b>0.8%</b>	<b>81.1</b>	<b>-14.9%</b>

Commercial disappearance of total cheese was up 2.7% in the three months ending with October.

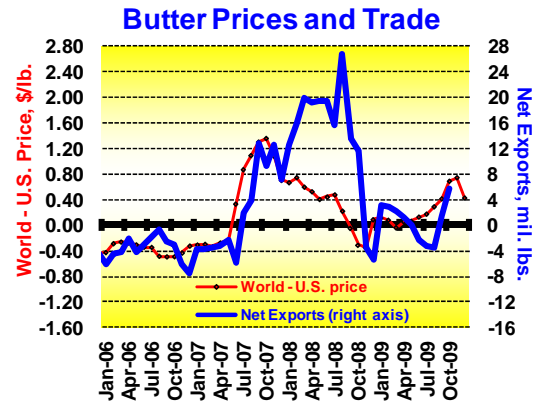
## Butter

October U.S. [butter production](#) was 112 million lbs., down 14% from a year ago and up 14½% from September on an average daily basis. Year-to-date production is down 4.2%. December 1 [stocks](#) were 142 million pounds, up 19% from a year ago and down 48 million lbs. from November, compared with a 10-year average drawdown of 36 million lbs.

[Commercial disappearance](#) for butter (including exports) in the quarter ending with October was 378 million lbs., down 19% from a year ago; disappearance of all milkfat was down 3.4%.

The [retail](#) butter price was \$2.61 per lb. in November 2009, down 17¢ from last month and down 16% from 2008. The [CME](#) butter price was down 20¢ since our last report to \$1.32¼ on December 30. Futures project NASS butter at \$1.45 for the six months through June, \$1.21 for all 2009, \$1.52 for 2010.

There have been no DEIP awards for butter since October, but 33 million pounds were awarded in August through October. Partly as a result of this, U.S. [net butter exports](#) in October were 5.8 million lbs., the largest figure since last October. World butter prices are up substantially: butter



is about \$2.20 in Europe, and about \$1.80 in Oceania, according to USDA's [international](#) report **dmr**

## Dry Milk Powders

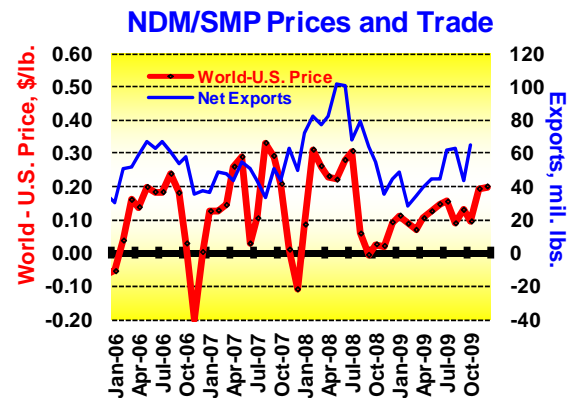
U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 102 million lbs. in October, down 27% from a year ago. November 1 manufacturers' stocks of (only) nonfat dry milk were 90 million lbs., down 47% from last year, and down 31 million pounds from October 1.

Since our last report, the [CME](#) price of extra grade nonfat dry milk was unchanged at \$1.40 per lb., and grade A was up 3¢ to \$1.40, on December 30; this compares to the average surveyed U.S. manufacturers' [price](#) of \$1.29 for the week of December 19.

In October 2009 exports of nonfat dry milk and skim milk powders were 64½ million pounds. This is up 19% from last October's total; this is the highest total since August 2008.

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 Oceania and about \$1.35 Western Europe, according to [USDA](#).

[Commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") was 306 million lbs. in the three months ending October, up 12% from a year ago.



Commercial disappearance for all skim solids was nearly unchanged from a year ago. **dmr**

## Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in October was up 4% from last year, to 315 million lbs; year-to-date was up 7%.

October's reported [ice cream production](#) was down 0.8% from a year ago, to 100 million gallons, and down 0.4% for the year to date. Ice cream mix production was 55 million gallons, up 1.1% from a year ago, and unchanged

for the year to date.

The [retail](#) ice cream price was \$4.43 per ½-gallon in November, 1% higher than last year.

[Fluid milk sales](#) for October were up 0.2% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 17%. November's retail price was \$3.03, down 19% from a year ago. **dmr**

### U.S. Fluid Milk Sales

Product	October 2009		2009 to date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,268	-1.6	12,476	-0.7
Flavored Whole Milk	51	-6.8	479	-3.2
Organic Whole Milk	32	-2.3	307	-1.9
Reduced Fat Milk (2%)	1,623	2.9	15,442	1.7
Low Fat Milk (1%)	621	4.6	5,708	2.7
Fat-Free Milk (Skim)	704	-0.2	6,773	-0.5
Flavored Fat-Reduced	405	-1.9	3,196	3.0
Organic Fat-Reduced	106	-1.8	1,023	-2.9
Buttermilk	42	4.9	498	13.1
Total (including "Other")	4,883	0.8	45,995	0.8
Total (calendar adjusted)	4,813	0.2	45,929	1.1

Source: USDA/AMS, Dairy Market News

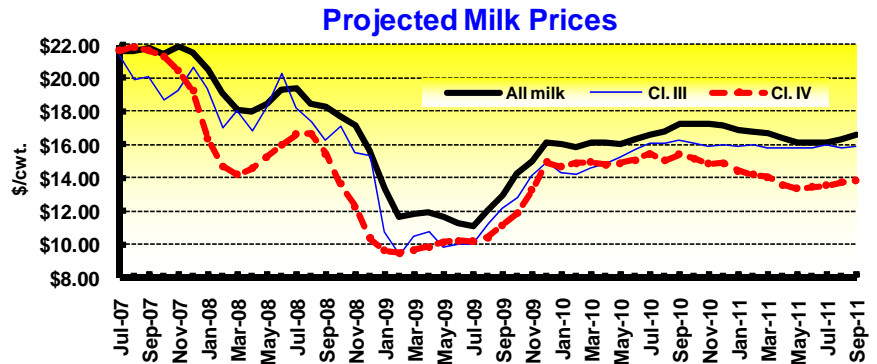
## Milk and Feed

U.S. [milk production](#) in November was 15.1 billion lbs., down 1.0% from a year ago. Milk per cow was up 1.7% as feed prices eased, but **the herd was 242,000 cows (2.6%) smaller than a year ago**, thanks in large part to CWT [removals](#). We project a 1.1% reduction in the last quarter of the year.

Milk prices may have found their level for the next six months or more. Futures markets project little movement through the first half of 2010.

November's [Class III](#) price was announced at \$14.08, up \$1.26 from October, but down \$1.43 from last year. December is projected at \$14.90. [Class III futures](#) prices for the next six months (January through June) averaged \$14.80 per hundred-weight on December 30, and they project averages of \$11.35 for 2009 and \$15.42 for 2010. The [Class III](#) price is the minimum price paid for cheese milk pooled on Federal orders.

The November [Class IV price](#) was \$13.25, up \$1.39 from October, and up \$1.00 from last year. December is projected at \$14.90. [Futures](#) markets project [Class IV](#) milk to average about \$14.85 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.



Based on futures as of December 29, 2009.

November component prices were: \$1.4656 per lb. (up 19¢ from October) for butterfat in [Class III](#), [Class IV](#), and producer milk; \$2.6991 (up

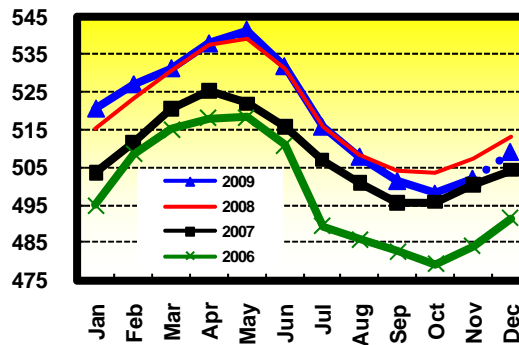
to make soft dairy products and in most food processing. December is projected at \$14.15.

January's [Class I](#) base price was announced at \$15.03, up \$1.04, based on rising 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 [Federal order](#).

December's [all-milk price](#) was \$16.30, up \$1.00 from November and the highest since November 2008. The futures markets project the all-milk price to average \$12.75 in 2009 and \$16.50 in 2010.

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

Million Lbs./Day



14¢) for protein in [Class III](#) and producer milk; \$0.9348 (up 8¢) for total nonfat solids in [Class IV](#) milk; and \$0.1524 (up 3¢) for other solids in [Class III](#) and producer milk.

The [Class II](#) price was up \$1.31 in November, to \$13.24. This is the minimum price for pooled milk used

**Feed costs:** corn is up, soy is little changed: near month [corn](#) and [soy](#) futures are \$4.17 (up 41¢ since our last report) and \$10.38 (up 8¢) per bushel. Futures markets project 2010 averages for corn at \$4.33 (\$4.58 in 2011) and soybeans at \$10.42 (\$10.24 in 2011). **dmr**

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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.