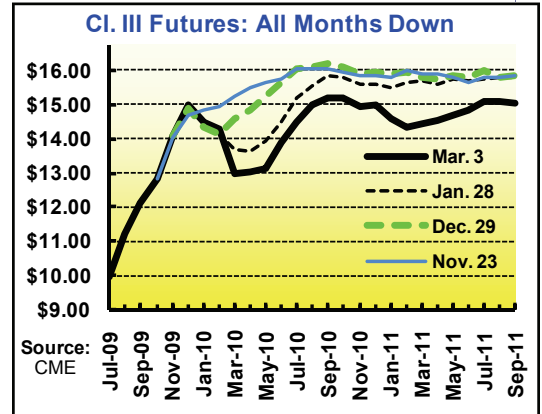




Dairy Market Report

Executive Summary

- ➔ Cheese, butter prices down from our last report:
 - blocks down 18½¢ to \$1.32/lb., as of Mar. 3rd
 - barrels down 23¼¢ to \$1.28¼/lb.
 - butter up 10¢ to \$1.43/lb.
 - NASS powder near \$1.07/lb.
- ➔ Commercial disappearance of milkfat down 3.3% from year ago, in 3 mos. ending December; skim solids up 0.1%.
- ➔ Outlook: Recovery is faltering, as cow numbers grow and demand growth lags.



Market Outlook

Dairy markets continue to decline. Cash prices are down from a month ago and milk futures are down for all months. Demand is lackluster: exports are back up, but to nowhere near the levels of 2008. Milk production was down slightly in January, but milk cows were up for the first time in over a year. Optimism for 2010 may have been its own undoing; rosy projections for 2010 relied on the milk supply falling in response to the huge losses dairy farmers faced in 2009. But many farmers built equity and reduced debt during 2007 and 2008, and so went into 2009 in a good position to weather a bad year. They have hung on in anticipation of a strong recovery in 2010; but they are not in nearly so a good position to weather a bad 2010. Milk prices are modestly higher, but feed costs remain high, too. Those producers who buy their feed and were squeezed in 2008 could be squeezed again in 2010 and 2011 by milk-feed margins better than they faced in 2009, but as tight at those in mid-2002 to mid-2003. If markets don't pick up, this squeeze will find some of these producers at the end of their credit.

The USDA is planning to sell much of its stock of nonfat milk powder for animal feed, with the cash proceeds to be used to fulfill USDA's commitment to deliver dairy products to feed the hungry.

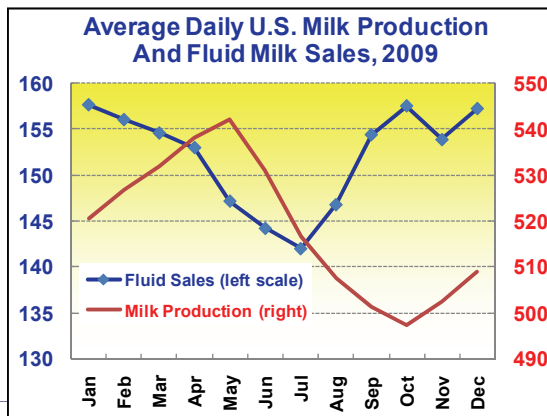
MILC Payment Rates and Projections			
Year	Boston Class I		Payment Rate
	Actual	Target	
FY 2010			
October '09	15.60	16.94	0.6030
November	16.11	16.94	0.3735
December	17.24	16.94	0.0000
January '10	18.28	16.94	0.0000
February	18.09	16.94	0.0000
March	17.59	16.94	0.0000
April	16.58	17.02	0.1988
May	16.49	17.02	0.2374
June	16.71	17.18	0.2137
July	17.07	17.18	0.0522
August	17.71	17.29	0.0000
September	18.26	17.27	0.0000
FY 2011			
October '10	18.51	17.36	0.0000
November	18.56	17.36	0.0000
December	18.37	17.37	0.0000
January '11	18.35	17.51	0.0000
February	18.03	17.52	0.0000
March	17.75	17.52	0.0000
April	17.76	17.62	0.0000
May	17.88	17.62	0.0000
June	18.03	17.70	0.0000
July	18.18	17.70	0.0000
August	18.42	17.62	0.0000
September	18.47	17.61	0.0000

Projections based on futures as of 3/3/2010

to feed the hungry.

*The Milk Income Loss Contract payment rate (above) is projected to average about 18¢ per cwt. in April through July, due to the weakening dairy markets and high feed costs. **DMR***

<<The chart at left shows the seasonality of U.S. milk production and bottled milk sales. This is the variation that causes substantial balancing problems for bottlers and their suppliers, especially in the Southeast.



The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Production v. last year:

- Jan. Cheese ↑ 2.2%
- Jan. Butter ↓ 7.2%
- Jan. NDM+SMP ↓ 15.0%
- Jan. Whey ↑ 11.3%
- January Milk ↓ 0.6%

Prices:

NASS	Dec.	Jan.
Cheddar	1.60	1.54
Whey	0.37	0.39
Butter	1.45	1.36
NDM	1.29	1.19
Milk	Dec.	Jan.
CI. III	14.98	14.50
CI. IV	15.01	13.85
All	16.50	16.10
February All-milk: \$15.90		

Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 842 million lbs. in January, up 2.2% from a year ago; down 2.3% from December (862 million lbs.) American types totaled 348 million lbs. in January, down 1.6% from last year and down 0.5% from December (349 million lbs.) Italian types were 363 million lbs., up 4.4% from last year and down 2.7% from December (373 million lbs.) For all of 2009, cheese production was up 1.7%, American types were up 2.4% and Italian types were up 1.5%.

USDA-reported **stocks** of American cheese opened February at 595 million pounds, up 12% from last year, and up 10 million pounds from January 1. February's opening stocks of other cheese, including Swiss, were 385 million pounds, up 10½% from a year ago, and up 4 million pounds from January. February 1 total cheese stocks were 981 million pounds, up 11% from last year and up 14 million pounds from January 1, about a third of the 10-year average stock growth of 39 mil. lbs. during January.

Commercial disappearance for American cheese was 1.04 billion lbs. in the three month ending with December, down 2.5% from a year ago. Other cheese was 1.63 billion lbs., up 5.1%, and total cheese was up 2%. For all of 2009, commercial disappearance of all cheese was up 1.8%.

As of March 3, the **CME** block cheese price was down 18½¢ per pound from our last report, to \$1.32; the barrel price was down 23¾¢, to \$1.28¼. Class III

(cheese milk) futures prices have fallen substantially in all contract months. (See graph, p. 1.)

March 3 futures project cheese prices to average \$1.50 over the next six months (March through August), \$1.55 for all of 2010, and \$1.64 for 2011.

U.S. cheese **exports** in December were 27 million pounds, up 38% from a year ago, and more than 3% of U.S. cheese production. Imports were down 21% from a

from last year). Processed cheese averaged \$3.87 at retail in January, down 6% from a year ago.

Production of dry **whey** for food was 82 million lbs. in January 2010, up 11% from a year ago.

Production of all whey products was up 6.7%. (See box.)

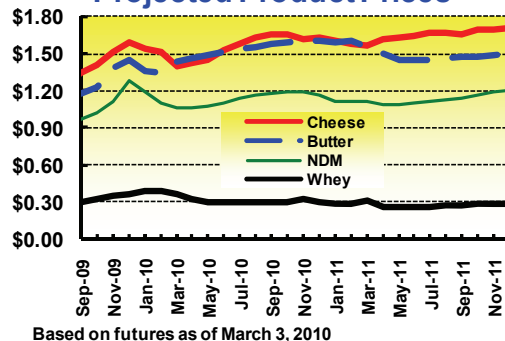
The manufacturers' **price** of whey was little changed from last month, at about 39¢ per lb. the week of February 20, according to NASS' survey. WPC-34 prices were also about even, around 93¢, per USDA's **Dairy Market News**. The **CME** dry whey futures project

year ago to 35 million pounds. Net imports were 8 million lbs, down 70% from a year ago.

The **retail price** of cheddar cheese was \$4.72 in January (down 6%

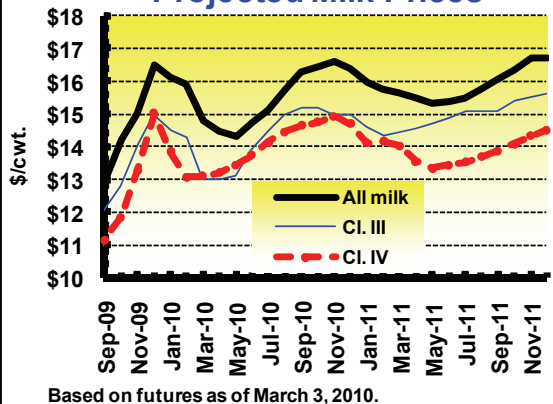
average whey prices of 31¢ for the next 6 months, 32¢ for all of 2010, and 28¢ for 2011. The whey price is down slightly to about 45¢ per lb. in Western Europe. **dmr**

Projected Product Prices



Based on futures as of March 3, 2010

Projected Milk Prices



Based on futures as of March 3, 2010.

“Net imports of cheese were 8 million pounds in December, down 70% from a year ago.”

Whey Products

Product	December Production		January Production		February 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009
Whey, food	80.2	-7.0	82.0	11.3	43.8	-19.1
Whey, feed	5.0	1.2	3.5	-36.3	1.5	-30.6
WPC25-51	21.1	-8.7	20.2	-7.1	21.0	2.6
WPC50-91	14.2	10.2	14.6	17.5	16.4	26.1
WPI90+	4.4	8.5	4.7	23.1	10.4	54.7
Total	124.9	-4.8%	125.0	6.7%	93.1	-3.6%

Butter

January U.S. [butter production](#) was 162 million lbs., down 7% from a year ago, but up 7½% from December (151 million lbs.) Production was down 4.6% for all of 2009. February 1 [stocks](#) were 170 million pounds, down 4% from a year ago, but up 37 million lbs. from January, compared with the 10-year average increase of nearly 50 million lbs.

[Commercial disappearance](#) for butter (including exports) in the quarter ending with December was 467 million lbs., down 9% from a year ago; disappearance of all milkfat was down 3.3%. For all of 2009,

butter disappearance was down 8.6% and milkfat disappearance was down 2.4%.

The [retail](#) butter price was \$2.78 per lb. in January 2010, up 11¢ from the previous month and down 12% from 2009. The [CME](#) butter price was up 10¢ since our last report, to \$1.43 on March 3. Futures project NASS butter at \$1.50 for the six months through August, \$1.51 for all 2010 and \$1.50 for 2011.

U.S. [net butter exports](#) in December were 4 million lbs, compared with next [imports](#) of 5 million lbs. a year ago. World butter prices are down,

Dry Milk Powders

U.S. [nonfat dry milk production](#), including protein-standardized “skim milk powders” was 148½ million lbs. in January, down 14% from a year ago. February 1 manufacturers’ stocks of (only) nonfat dry milk were 138 million lbs., down 32% from last year, and up 6½ million pounds from January 1. For all of 2009, nonfat dry milk production was down 2%; production of standardized skim milk powders was down 41%, reflecting the weaker export market; and the sum of the two was down 9.8%.

Since our last report, the [CME](#) price of extra grade nonfat dry milk was down 12¢ and grade A was

down 7¢, both to \$1.12 per lb., on March 3; this compares to the average surveyed U.S. manufacturers’ [price](#) of \$1.07 for the week of February 20.

In December 2009 exports of nonfat dry milk and skim milk powders were 32 million pounds, down 29% from last December’s total, and 22% of U.S. powder production. For all 2009, these exports were 549 million lbs., skim equivalent of 3.2% of U.S. milk output.

These exports seem to have picked up in early 2010, as U.S. sellers cut prices to clear out stocks. Skim milk powder was last reported by [USDA](#) at about \$1.30 in Oceania and about \$1.24 Western Europe, and firming.

[Commercial disappearance](#) of nonfat

Yogurt, Ice Cream, and Fluid Milk

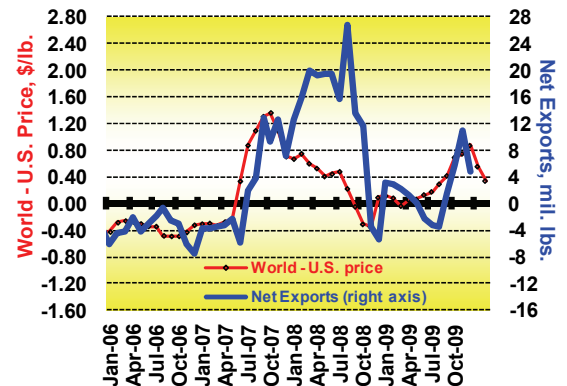
U.S. [yogurt production](#) in January was up 10% from last year, to 337 million lbs. For all 2009, production was up 7% to 3.85 billion pounds.

January’s reported [ice cream production](#) was down 2% from a year ago, to 80 million gallons, and down 1% for all 2009 to 1.96 billion gallons. January ice cream mix production was 47 million gallons, up 2% from a year ago; 2009

production was down 1% to 704 million pounds. The [retail](#) ice cream price was \$4.48 per ½-gallon in January, up 1% from last year.

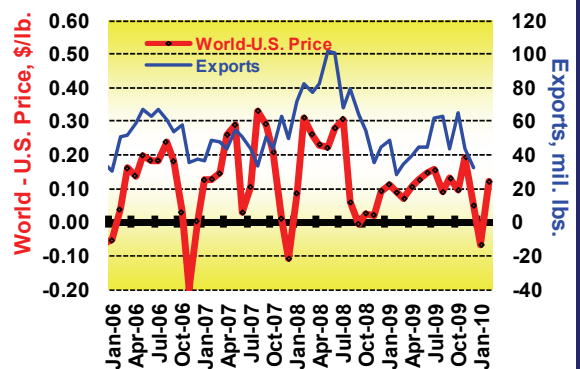
[Fluid milk sales](#) for December were up 0.6% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 16%. For all of 2009, sales were up 1.1%, adjusted for the calendar; **and organic sales were down**. January’s retail price was \$3.24, down 9% from a year ago. **dmr**

Butter Prices and Trade



but still higher than U.S. prices: butter is about \$1.74 in Europe, and about \$1.65 in Oceania, according to USDA’s [international](#) report **dmr**

NDM/SMP Prices and Trade



dry milk (including exports, but excluding modified “skim milk powders”) was 253 million lbs. in the three months ending with December, down 4.2% from a year ago. Disappearance for all skim solids was up 0.1%. For all 2009, nonfat dry milk disappearance was down 5.7% and skim solids disappearance was down 1.2% **dmr**

U.S. Fluid Milk Sales

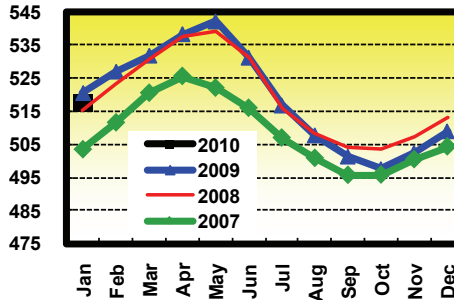
Product	December 2009		2009 Total	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,294	-3.2	14,956	-1.1
Flavored Whole Milk	51	0.1	581	-2.5
Organic Whole Milk	33	-10.2	371	-2.3
Reduced Fat Milk (2%)	1,677	3.3	18,669	2.0
Low Fat Milk (1%)	602	4.4	6,895	3.2
Fat-Free Milk (Skim)	693	0.1	8,128	-0.5
Flavored Fat-Reduced	311	3.2	3,855	3.3
Organic Fat-Reduced	104	-6.8	1,231	-2.7
Buttermilk	45	-42.7	590	4.8
Total (including “Other”)	4,874	-0.1	55,486	0.8
Total (calendar adjusted)	4,862	0.6	55,484	1.1

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. [milk production](#) in January was 16.04 billion lbs., down 0.6% from a year ago. Milk per cow was up 1.9%, but the herd was 227,000 cows (2.4%) smaller than a year ago, thanks in large part to CWT [removals](#). However, the herd grew by 3,000 cows from December; this is the first month-over-month increase in the national milking herd in 13 months. USDA [projects](#) milk production to be down 0.2% for all of 2010.

U.S. Milk Production, 2007-2010
Million Lbs./Day

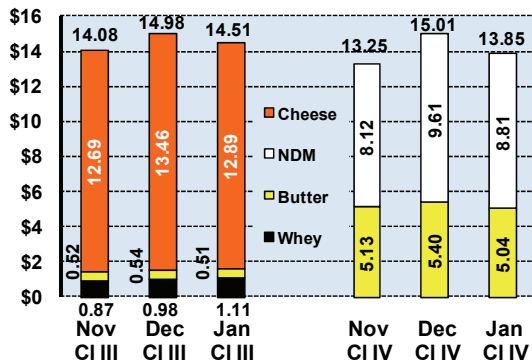


March's [Class I](#) base price was announced at \$14.34, down 50¢, based on falling powder and cheese prices. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

February's [all-milk price](#) was \$15.90, down 20¢ from January's revised figure. The futures markets project the all-milk price to average \$14.85 for the next 6 months, \$15.50 in 2010 and \$15.90 in 2011, both down over 40¢ from last month's projections.

Feed costs: corn and soy are up: near month [corn](#) and [soy](#) futures are \$3.76 (up 18¢ since our last report) and \$9.54 (up 40¢) per bushel on March 3. Futures markets project 2010 averages for corn at \$3.90 (\$4.30 in 2011) and soybeans at \$9.60 in 2010 and 2011. **dmr**

Class Price Breakdown



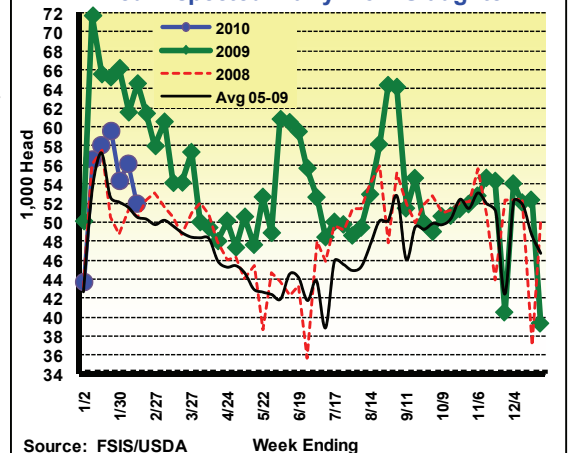
January's [Class III](#) price was announced at \$14.50, down 48¢ from December, but up \$3.72 from last year. February is projected at \$14.25. Class III [futures](#) prices for the next six months (March through August) averaged \$13.75 per hundredweight on March 3, and they project averages of \$14.30 for 2010 and \$14.94 for 2011. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The January [Class IV price](#) was \$13.85, down \$1.16 from December, but up \$4.26 from last year. February is projected at \$13.10. [Futures](#) markets project Class IV milk to average about \$13.65 for the next six months, \$14.00 for 2010, and \$13.90 for 2011. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

January component prices were: \$1.4405 per lb. (down 10¢ from December) for butterfat in Class III, Class IV, and producer milk; \$2.7916 (down 8¢) for protein in Class III and producer milk; \$1.0148 (down 9¢) for total nonfat solids in Class IV milk; and \$0.1946 (up 2¢) for other solids in Class III and producer milk.

The Class II price was up 97¢ in January, to \$15.22. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. February is projected at \$15.65.

Fed Inspected Dairy Cow Slaughter



Source: FSIS/USDA

Contact: Roger Cryan,
National Milk Producers
Federation
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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.