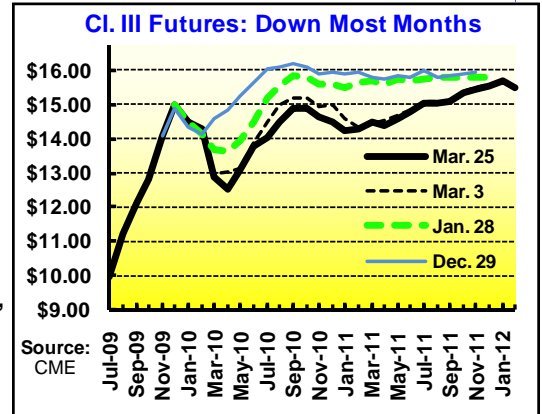




Dairy Market Report

Executive Summary

- ➔ Cheese, butter prices down from our last report:
 - blocks up ½¢ to \$1.32½/lb., as of Mar. 26th
 - barrels up 3¢ to \$1.31¼/lb.
 - butter up 6¢ to \$1.49/lb.
 - NASS powder near \$1.04/lb.
- ➔ Outlook: Continued growth in milk production is reversing last fall's price gains. Margins are projected to be the third-lowest of the decade in 2010, higher only than 2008 and 2009.



Market Outlook

Dairy cash markets are up from a month ago but milk futures are down for most months. Demand is lackluster: exports are back up, but to nowhere near the levels of 2008. Milk production was up in February and cow numbers were up for a second month. As a result of these fundamentals, the U.S. market is burdened with large cheese stocks. Total cheese stocks were 100 million pounds above their trend level at the beginning of the year, and remained 45 million above trend in March. To speed this clearance of stocks, Cooperatives Working Together (CWT) has reactivated its export assistance program for cheddar cheese to markets targeted for the double purpose of clearing domestic cheese supplies and developing long-term overseas markets.

Projected Milk Income Loss Contract payment rates (right) average 18¢/cwt. in May and June; payments in out months are projected to be less likely, with lower feed cost projections. Dairy prices are near historical averages, but thanks to the new 'normal' feed prices, milk-feed margins are projected to be the third-lowest of the decade, higher only than 2008 and 2009; and MILC payments will be small, because it only partly accounts for high feed costs. By contrast, MILC payments were substantial in 2001-2004, when margins were higher because both milk and feed costs were low. **dmr**

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	16.47	16.94	0.2115
May	16.60	16.94	0.1512
June	16.99	16.94	0.0000
July	17.52	16.94	0.0000
August	17.79	16.94	0.0000
September	17.88	16.94	0.0000
FY 2011			
October '10	18.16	16.94	0.0000
November	18.25	16.94	0.0000
December	18.38	16.94	0.0000
January '11	18.07	17.09	0.0000
February	17.64	17.10	0.0000
March	17.62	17.10	0.0000
April	17.80	17.21	0.0000
May	17.74	17.21	0.0000
June	17.88	17.30	0.0000
July	18.11	17.30	0.0000
August	18.34	17.26	0.0000
September	18.39	17.25	0.0000

Projections based on futures as of 3/25/2010

The Dairy Market Report is created for Dairy Management Inc.



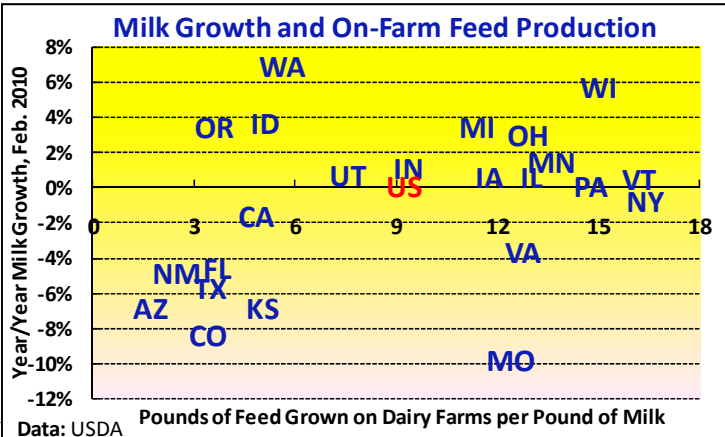
The Nutshell

Production v. last year:

- Jan. Cheese ↑ 2.2%
- Jan. Butter ↓ 7.2%
- Jan. NDM+SMP ↓ 15.0%
- Jan. Whey ↑ 11.3%
- February Milk ↑ 0.1%

Prices:

	Jan.	Feb.
NASS		
Cheddar	1.54	1.51
Whey	0.39	0.39
Butter	1.36	1.36
NDM	1.19	1.08
Milk	Jan.	Jan.
CI. III	14.50	14.28
CI. IV	13.85	12.90
All	16.10	15.90



Data: USDA

<<The chart at left shows February's milk production growth and the amount of feed grown on dairy farms by state. Many (mostly) Western states whose large dairies are dependent on newly-expensive purchased feed are losing farms and production; while Eastern and Midwestern states whose dairies grow much of their own feed are growing.

Cheese and Whey

As reported last month, 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. American types totaled 348 million lbs. in January, down 1.6% from last year and down 0.5% from December. Italian types were 363 million lbs., up 4.4% from last year and down 2.7% from December.

USDA-reported **stocks** of American cheese opened March at 597 million pounds, up 10% from last year, and up 9 million pounds from February 1. March's opening stocks of other cheese, including Swiss, were 387 million pounds, up 10% from a year ago, and up 1 million pounds from February. March 1 total cheese stocks were 984 million pounds, up 10% from last year and up 10½ million pounds from February 1, just over half the 10-year average stock growth of 18 mil. lbs. during February.

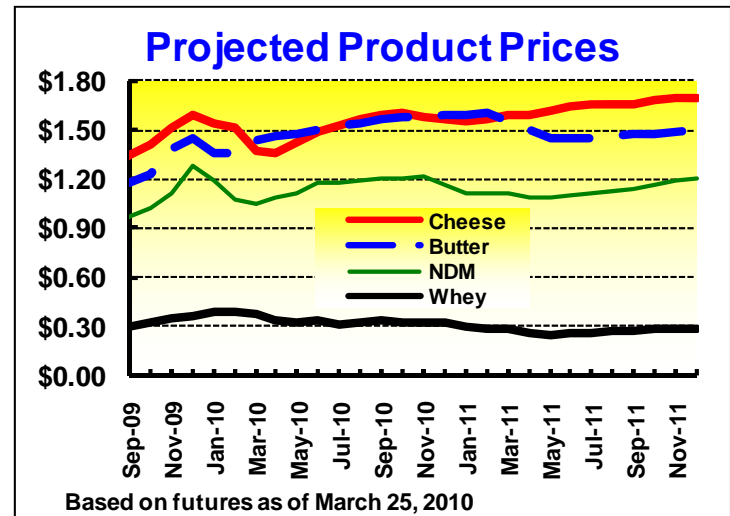
Commercial disappearance figures through January will be updated by USDA on March 30 and reported here next month.

As of March 26, the **CME** block cheese price was up a half-penny per pound from our last report, to \$1.32½; the barrel price was up 3¢, to \$1.31¼. Class III (cheese milk) futures prices have fallen in most contract months. (See graph, p. 1.)

March 25 futures project cheese prices to average \$1.46 over the next six months (April through September), \$1.51 for all of 2010, and \$1.64 for 2011.

U.S. cheese **exports** in January were 21 million pounds, up 16% from a year ago, and about 2½% of U.S. cheese production. Im-

U.S. was a net exporter in January for only the fourth month in at least 20 years.



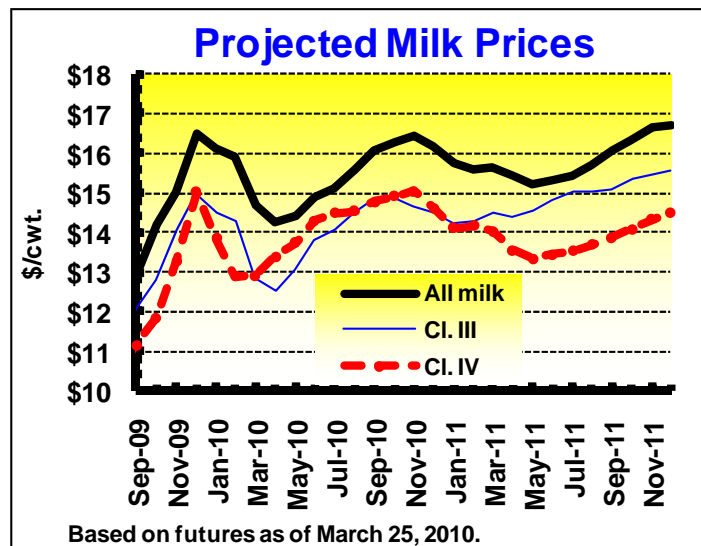
ports were down 25% from a year ago to 19 million pounds. As a result, the U.S. was a net exporter in January for the first time in over two years, and other than the spring of 2008, for the first time in at least 2 decades. Net exports were 1.8 million pounds.

The **retail price** of cheddar cheese was \$4.61 in February (down 6% from last year). Processed cheese averaged \$3.94 at retail in February, down 3% from a year ago.

As reported last month, **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%.

The manufacturers' **price** of whey was up a couple pennies from last month, at about 37¢ per lb. the week of March 20, according to NASS' survey. WPC-34 prices were also little changed, around 91¢, per USDA's *Dairy Market News*. The **CME** dry whey futures project average whey prices of 33¢ for the next 6 months, 34¢ for all of 2010, and 28¢ for 2011. The whey price is down slightly to about 44¢ per lb. in Western Europe. **dmr**



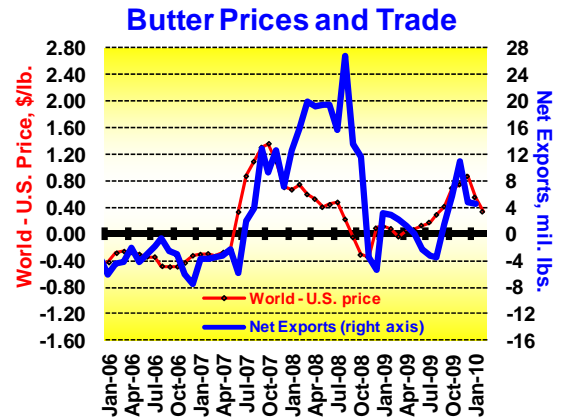
Butter

As reported last month, January U.S. [butter production](#) was 162 million lbs., down 7% from a year ago, but up 7½% from January (151 million lbs.) March 1 [stocks](#) were 198 million pounds, down 3% from a year ago, but up 30 million lbs. from February, about equal to the 10-year average stock increase during February.

[Commercial disappearance](#) (including exports) of butter through January will be published by USDA on March 30 and reported here next month. It was down 9% from a year ago in the quarter ending with last December; and all milkfat was down 3.3%.

The [retail](#) butter price was \$2.84 per lb. in February 2010, up 6¢ from the previous month and down 6% from 2009. The [CME](#) butter price was up 6¢ since our last report, to \$1.49 on March 26. Futures project NASS butter at \$1.49 for the six months through September, \$1.50 for all 2010 and \$1.50 for 2011.

U.S. [net butter exports](#) in January were 4½ million lbs, compared with next exports of 3 million lbs. a year ago. World butter prices are up, and still higher than U.S. prices: butter is about \$1.81 in Europe, and about \$1.72 in Oceania, according to USDA's [international](#) report **dmr**



Dry Milk Powders

As reported last month, U.S. [non-fat 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.

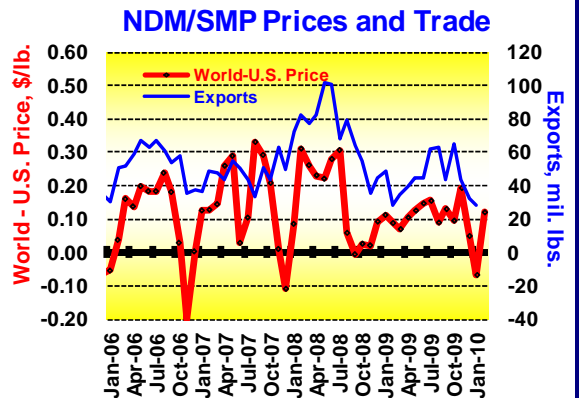
Since our last report, the [CME](#) price of extra grade nonfat dry milk was unchanged at \$1.12 and grade A was up 3¢, to \$1.15 per lb., on March 26; this compares to the average surveyed U.S. manufacturers' [price](#) of \$1.04 for the week of March 20.

In January 2010 exports of nonfat

dry milk and skim milk powders were 29 million pounds, down 41% from last January's total, but nearly 20% of U.S. powder production that month.

Skim milk powder was last reported by [USDA](#) at about \$1.30 in Oceania and about \$1.28 Western Europe, and firming for now.

[Commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") was down 4.2% from a year ago in the three months ending with December, and all skim solids was up 0.1%. Figures through January will be published by USDA on March 30 and reported here next month. **dmr**



Yogurt, Ice Cream, and Fluid Milk

As reported last month, U.S. [yo-gurt production](#) in January was up 10% from last year, [ice cream production](#) was down 2%, and ice cream mix production was up 2% from a year ago.

The [retail](#) ice cream price was \$4.39 per ½-gallon in February, up

1% from last year.

[Fluid milk sales](#) for January were up 0.3% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 9%. February's retail price was \$3.20, down 3½% from a year ago. **dmr**

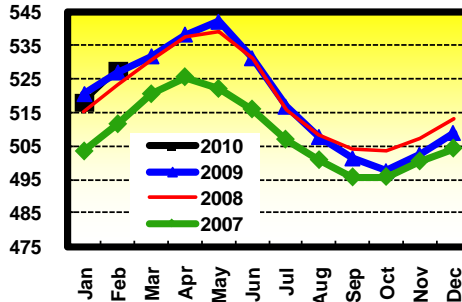
Product	January 2010		2009 Total	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,235	-6.1	14,956	-1.1
Flavored Whole Milk	44	-5.4	581	-2.5
Organic Whole Milk	33	5.9	371	-2.3
Reduced Fat Milk (2%)	1,636	0.4	18,669	2.0
Low Fat Milk (1%)	620	2.7	6,895	3.2
Fat-Free Milk (Skim)	701	-2.3	8,128	-0.5
Flavored Fat-Reduced	361	0.6	3,855	3.3
Organic Fat-Reduced	106	3.5	1,231	-2.7
Buttermilk	39	-47.1	590	4.8
Total (including "Other")	4,781	-2.2	55,486	0.8
Total (calendar adjusted)	4,833	0.3	55,484	1.1

Source: USDA/AMS, Dairy Market News

Milk and Feed

U.S. [milk production](#) in February was 14.77 billion lbs., **up 0.1%** from a year ago. Milk per cow was up 2.3%, which more than offset the herd reduction of 201,000 cows (2.2%) since a year ago, driven in part by CWT [removals](#). However, the herd grew by another 3,000 cows from this January, the second consecutive monthly increase. USDA now [projects](#) milk production to be up the same 0.1% for all of 2010.

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



used to make soft dairy products and in most food processing. March is projected at \$14.50.

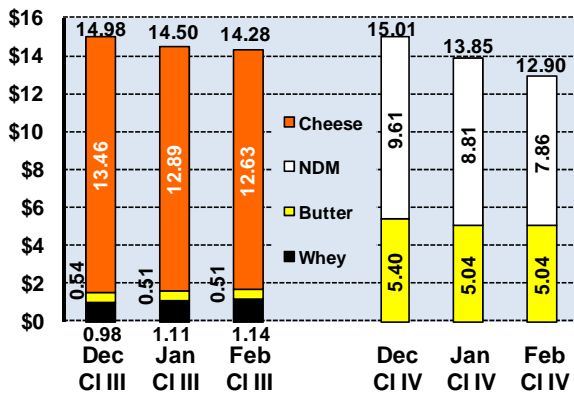
April's [Class I](#) base price was announced at \$13.22, down \$1.12, based on falling powder and cheese prices. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a [Federal order](#).

March's [all-milk price](#) is projected at \$14.90, down \$1.00¢ from February. The futures markets project the all-milk price to average \$14.95 for the next 6 months, \$15.60 in 2010 and \$15.90 in 2011.

Feed costs: corn and soy are down: near month [corn](#) and [soy](#) futures are \$3.56 (down 20¢ since our last report) and \$9.52 (down 2¢) per bushel on March 26. Futures markets project 2010 averages for corn at \$3.70 (\$4.00 in 2011) and soybeans at \$9.40 in 2010 and 2011.

dmr

Class Price Breakdown



pooled on Federal orders.

The February [Class IV price](#) was \$12.90, down 95¢ from January, but up \$3.45 from last year's low of \$9.45. March is projected at about \$12.90 again. [Futures](#) markets project Class IV milk to average about \$13.90 for the next six months, \$14.10 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.

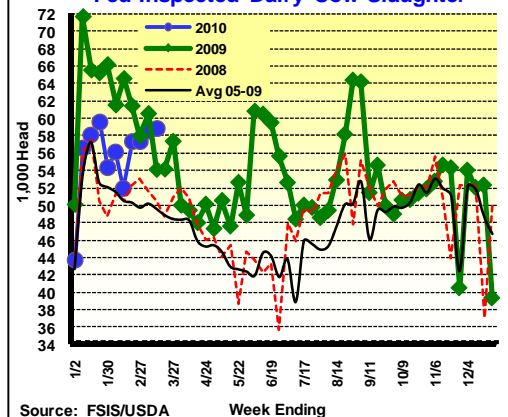
February component prices were: \$1.4404 per lb. (essentially unchanged from January) for

February's [Class III](#) price was announced at \$14.28, down 22¢ from January, but up \$4.97 from last year's low of \$9.31. March is projected at \$12.85. Class III [futures](#) prices for the next six months (April through September) averaged \$13.47 per hundredweight on March 25, and they project averages of \$14.05 for 2010 and \$14.85 for 2011. The Class III price is the minimum price paid for cheese milk

butterfat in Class III, Class IV, and producer milk; \$2.7066 (down 8½¢) for protein in Class III and producer milk; \$0.9043 (down 11¢) for total nonfat solids in Class IV milk; and \$0.1992 (up a half-penny) for other solids in Class III and producer milk.

The Class II price was up 43¢ in February, to \$15.65. This is the minimum price for pooled milk

Fed Inspected Dairy Cow Slaughter



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